

MARKETAXESS HOLDINGS INC

Form 10-Q/A

August 12, 2005

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**UNITED STATES SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549**

**Form 10-Q/A**

**(Mark One)**

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES  
EXCHANGE ACT OF 1934**

**For the quarterly period ended March 31, 2005**

**TRANSITION REPORT PURSUANT TO SECTION 13 or 15(d) OF THE SECURITIES  
EXCHANGE ACT OF 1934**

**For the transition period from to  
Commission File Number 0-50670**

**MARKETAXESS HOLDINGS INC.**

*(Exact name of registrant as specified in its charter)*

**Delaware**

*(State of incorporation)*

**52-2230784**

*(IRS Employer Identification No.)*

**140 Broadway, 42nd Floor New York, New York**

*(Address of principal executive offices)*

**10005**

*(Zip Code)*

**(212) 813-6000**

**(Registrant's telephone number, including area code)**

**SECURITIES REGISTERED PURSUANT TO SECTION 12(b) OF THE ACT:**

**None**

**SECURITIES REGISTERED PURSUANT TO SECTION 12(g) OF THE ACT:**

**Common Stock, par value \$0.003 per share**

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant is an accelerated filer (as defined by Exchange Act Rule 12b-2) Yes  No

At May 12, 2005, the number of shares of the registrant's common stock outstanding was 23,037,835.

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**EXPLANATORY NOTE**

The purpose of this amendment on Form 10-Q/A to the Quarterly Report on Form 10-Q of MarketAxess Holdings Inc. for the three months ended March 31, 2005 is to restate the Consolidated Financial Statements as of and for the year ended December 31, 2004 and as of March 31, 2005 as described in Note 2 to the Consolidated Financial Statements. The purpose of the restatement is to correct certain misapplications of Statement of Financial Accounting Standards No. 109, Accounting for Income Taxes, that the Company identified relating to the recording of deferred income taxes.

During 2005, the Company retained new tax advisors who assisted with the preparation of the 2004 tax returns. In reconciling the 2004 tax returns to the Provision (benefit) for income taxes on the 2004 Consolidated Statements of Operations, the Company identified that for the year ended December 31, 2004, the tax benefit of \$41.3 million, the net income of \$58.6 million and the related Deferred tax asset of \$41.4 million had each been overstated by \$1.1 million. Furthermore, as of March 31, 2005, the Deferred tax asset of \$39.4 million and accumulated deficit of \$96.5 million had each been overstated by \$1.1 million.

Although the Company does not consider the overstatement of \$1.1 million to be material for any quarter in 2004 or for the full year of 2004, the Company has revised its 2004 Consolidated Financial Statements and its Consolidated Financial Statements for the three months ended March 31, 2005 because the impact of these revisions would have been material to the Company's Consolidated Financial Statements for the second quarter of 2005 if posted as adjustments in that quarter.

**Table of Contents****PART I Financial Information****Item 1. Financial Statements**

**MARKETAXESS HOLDINGS INC.  
CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION**

	<b>March 31, 2005 (Unaudited) (Restated)</b>	<b>December 31, 2004 (Restated)</b>
	<b>(In thousands, except share and per share amounts)</b>	
<b>ASSETS</b>		
Cash and cash equivalents	\$ 57,042	\$ 97,652
Short-term investments, at market value		5,797
Securities		
Available-for-sale	27,885	
Held-to-maturity	13,940	
Securities and cash provided as collateral	3,779	3,799
Accounts receivable, net of allowance of \$236 and \$270 as of March 31, 2005 and December 31, 2004 including receivables from related parties of \$7,715 and \$7,225, respectively	14,554	14,375
Furniture, equipment and leasehold improvements, net of accumulated depreciation and amortization	4,956	5,079
Software development costs, net	5,397	5,587
Prepaid expenses	3,148	2,801
Deferred tax assets, net	38,347	40,351
Other assets	205	205
<b>Total assets</b>	<b>\$ 169,253</b>	<b>\$ 175,646</b>
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>		
Liabilities		
Accrued employee compensation	\$ 3,122	\$ 11,803
Deferred license revenue	2,003	2,804
Accounts payable, accrued expenses, and other liabilities, including payables to a related party of \$0 and \$530 as of March 31, 2005 and December 31, 2004, respectively	5,379	5,821
<b>Total liabilities</b>	<b>10,504</b>	<b>20,428</b>
Commitments and Contingencies (Note 12)		
Stockholders equity		
Preferred stock, \$0.001 par value, 5,000,000 shares authorized in 2005 and 2004, 0 outstanding in 2005 and 2004		
Common stock voting, \$0.003 par value, 110,000,000 shares authorized in 2005 and 2004, 23,032,141 shares issued and outstanding in 2005 and 22,846,579 shares issued and outstanding in 2004	69	69
	13	13

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Common stock non voting, \$0.003 par value, 10,000,000 authorized in 2005 and 2004 and 4,401,330 issued and outstanding in 2005 and 2004		
Warrants, 5,007,969 authorized, issued and outstanding in 2005 and 2004	24,047	24,047
Additional paid-in capital	236,323	233,110
Unearned compensation	(2,603)	
Receivable for common stock subscribed	(1,042)	(1,042)
Accumulated deficit	(97,580)	(100,637)
Accumulated other comprehensive loss	(478)	(342)
<b>Total stockholders equity</b>	158,749	155,218
<b>Total liabilities and stockholders equity</b>	\$ 169,253	\$ 175,646

The accompanying notes are an integral part of these consolidated financial statements.

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**MARKETAXESS HOLDINGS INC.  
CONSOLIDATED STATEMENTS OF OPERATIONS**

	<b>Three Months Ended March 31,</b>	
	<b>2005</b>	<b>2004</b>
	<b>(Unaudited)</b>	<b>(Unaudited)</b>
	<b>(In thousands, except share and per share amounts)</b>	
<b>Revenues</b>		
Commissions		
U.S. high-grade, including \$7,140 and \$6,505 from related parties for March 31, 2005 and 2004, respectively	\$ 12,518	\$ 11,424
European high-grade, including \$2,386 and \$2,611 from related parties for March 31, 2005 and 2004, respectively	4,401	4,521
Other, including \$1,165 and \$1,434 from related parties for March 31, 2005 and 2004, respectively	1,734	1,804
Total commissions	18,653	17,749
Information and user access fees, including \$212 and \$72 from related parties for March 31, 2005 and 2004, respectively	1,035	489
License fees	780	582
Interest income, including \$201 and \$90 from related parties for March 31, 2005 and 2004, respectively	600	154
Other, including \$102 and \$124 from related parties for March 31, 2005 and 2004, respectively	240	198
<b>Total revenues</b>	<b>21,308</b>	<b>19,172</b>
<b>Expenses</b>		
Employee compensation and benefits	9,244	8,165
Depreciation and amortization	1,008	746
Technology and communications	1,842	1,592
Professional and consulting fees	1,894	946
Warrant-related expense		2,524
Marketing and advertising	693	625
Moneyline revenue share to related party	(50)	464
General and administrative, including \$8 and \$3 to related parties for March 31, 2005 and 2004, respectively	1,304	1,102
<b>Total expenses</b>	<b>15,935</b>	<b>16,164</b>
Income before income taxes	5,373	3,008
Provision for income taxes	2,316	92
<b>Net income</b>	<b>\$ 3,057</b>	<b>\$ 2,916</b>
Net income per common share		
Basic	\$ 0.11	\$ 0.02
Diluted	\$ 0.09	\$ 0.02

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Weighted-average shares used to compute net income per common share

Basic	27,427,508	3,295,931
Diluted	35,482,963	3,295,931

The accompanying notes are an integral part of these consolidated financial statements.



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**MARKETAXESS HOLDINGS INC.  
CONSOLIDATED STATEMENTS OF CASH FLOWS**

	<b>Three Months Ended March 31,</b>	
	<b>2005</b>	<b>2004</b>
	<b>(Unaudited)</b>	<b>(Unaudited)</b>
	<b>(In thousands)</b>	
<b>Cash flows from operating activities</b>		
Net income	\$ 3,057	\$ 2,916
Adjustments to reconcile net income to net cash used in operating activities		
Depreciation and amortization	1,008	746
Warrant-related expense		2,524
Amortization of earned compensation	162	13
Issuance of stock options to directors and non-employees	27	2
Compensation expense related to stock option issuance	400	525
Other comprehensive (loss)	(136)	(33)
Deferred taxes	2,004	
Provision for bad debts	25	
Changes in operating assets and liabilities:		
(Increase) in accounts receivable, including increases of \$490 and \$604 from related parties for quarters ended March 31, 2005 and 2004, respectively	(205)	(2,320)
Decrease in prepaid expenses	(347)	(431)
Decrease in other assets		(695)
Decrease in accrued employee compensation	(8,681)	(6,310)
(Decrease) increase in deferred license revenue	(801)	213
Decrease in accounts payable, accrued expenses and other liabilities, including \$0 and a decrease of \$32 to related parties for March 31, 2005, and 2004, respectively	(440)	(966)
<b>Net cash used in operating activities</b>	<b>(3,927)</b>	<b>(3,816)</b>
<b>Cash flows from investing activities</b>		
Short-term investments		
Proceeds from maturities	5,797	16,555
Purchases		(18,536)
Securities available-for-sale		
Purchases	(27,885)	
Securities held-to-maturity		
Proceeds from maturities	21,500	
Purchases	(35,440)	
Securities and cash provided as collateral	20	6
Purchase of furniture, equipment and leasehold improvements	(142)	(455)
Capitalization of software development costs	(554)	(1,386)
<b>Net cash used in investing activities</b>	<b>(36,704)</b>	<b>(3,816)</b>
<b>Cash flows from financing activities</b>		
Proceeds from the exercise of stock options	21	2

<b>Net cash provided by financing activities</b>	21	2
<b>Cash and cash equivalents</b>		
Net decrease for the period	(40,610)	(7,630)
Beginning of period	97,652	20,591
<b>End of period</b>	<b>\$ 57,042</b>	<b>\$ 12,961</b>

The accompanying notes are an integral part of these consolidated financial statements.

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**MARKETAXESS HOLDINGS INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS    Unaudited**  
**(in thousands, except share and per share amounts)**

**1. Organization and Principal Business Activity**

MarketAxess Holdings Inc. (the Company) was incorporated in the State of Delaware on April 11, 2000. Through its subsidiaries, the Company operates an electronic, multi-dealer to client platform primarily for the trading of U.S. and European high-grade corporate bonds and sovereign and corporate bonds issued by entities domiciled in an emerging markets country. The Company facilitates transactions between its broker-dealer and institutional investor clients. The Company's broker-dealer clients are: ABN Amro, Banc of America Securities, Barclays, Bear Stearns, BNP Paribas, Citigroup, Credit Suisse First Boston, Deutsche Bank, DZ Bank AG, First Tennessee National, Goldman Sachs, HSBC, ING Financial Markets, JPMorgan, Lehman Brothers, Merrill Lynch, Morgan Stanley, The Royal Bank of Scotland, Santander Investment Securities, Société Générale, UBS and Wachovia.

The Company's stockholder broker-dealer clients include ABN Amro, Banc of America Securities, Bear Stearns, BNP Paribas, Credit Suisse First Boston, Deutsche Bank, JPMorgan, Lehman Brothers and UBS. All of these broker-dealer clients constitute related parties of the Company (together, the Stockholder Broker-Dealer Clients). In addition, Moneyline Telerate (Moneyline), which provided certain software development services to the Company and had a revenue-sharing agreement with the Company, is also considered a related party. In February 2005, the Company ceased using the technology platform that was covered under the Moneyline revenue-sharing agreement.

The Company's U.S. subsidiary, MarketAxess Corporation, is a registered broker-dealer with the U.S. Securities and Exchange Commission (SEC) and is a member of the National Association of Securities Dealers, Inc. (NASD). The Company also has two international subsidiaries: MarketAxess Europe Limited (MarketAxess Europe), which is a registered dealer with the Financial Services Authority (FSA) in the United Kingdom (U.K.), and MarketAxess Leasing Limited (collectively with MarketAxess Europe, the U.K. Subsidiaries). In May 2003, the Company incorporated a Canadian subsidiary, MarketAxess Canada Limited. This entity has not been funded and is not currently active.

**2. Significant Accounting Policies*****Restatement***

The Company has restated its Consolidated Financial Statements as of and for the year ended December 31, 2004. The Consolidated Financial Statements as of March 31, 2005 have been restated to include the effect of the restatement recorded at December 31, 2004. The Company has identified certain misapplications of Statement of Financial Accounting Standards No. 109, Accounting for Income Taxes, relating to the recording of deferred income taxes.

During 2005, the Company retained new tax advisors who assisted with the preparation of the 2004 tax returns. In reconciling the 2004 tax returns to the Provision (benefit) for income tax on the 2004 Consolidated Statements of Operations the Company identified that for the year ended December 31, 2004, the tax benefit of \$41,330, the net income of \$58,646 and the related Deferred income tax asset of \$41,410 had each been overstated by \$1,059. Furthermore, as of March 31, 2005, the Deferred tax asset of \$39,406 and accumulated deficit of \$96,521 had each been overstated by \$1,059.

Although the Company does not consider the overstatement of \$1,059 to be material for any quarter or for the full year of 2004, the Company has revised its 2004 Consolidated Financial Statements and its Consolidated Financial Statements as of March 31, 2005 because the impact of these revisions would have been material to the second quarter of 2005 if posted as adjustments in that quarter.

The \$1,059 overstatement primarily resulted from the incorrect recording of deferred tax assets in respect of compensation expense for incentive stock options, alternative minimum tax credits and other items identified in the preparation of the 2004 tax return. The net deferred tax asset as of December 31, 2004 of \$41,410 and March 31, 2005 of \$39,406, respectively, had been overstated by \$1,059.

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**MARKETAXESS HOLDINGS INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS Unaudited (Continued)**  
**(in thousands, except share and per share amounts)**

The effect of the restatement resulted in the following changes:

	As of March 31, 2005		As of December 31, 2004	
	As previously		As previously	
	Reported	Restated	Reported	Restated
	(Unaudited)		(In thousands, except per share amounts)	
	(In thousands)			
Consolidated Statements of Financial Condition:				
Deferred income taxes	\$ 39,406	\$ 38,347	\$ 41,410	\$ 40,351
Accumulated Deficit	(96,521)	(97,580)	(99,578)	(100,637)
Statement of Operations:				
Benefit for income taxes	N/A	N/A	(\$ 41,330)	(\$ 40,271)
Net income	N/A	N/A	58,646	57,587
Net income per common share				
Basic	N/A	N/A	\$ 6.90	\$ 6.76
Diluted	N/A	N/A	\$ 1.91	\$ 1.88

**Basis of Presentation**

The consolidated financial statements include the accounts of the Company and its subsidiaries, MarketAxess Corporation, MarketAxess Europe and MarketAxess Leasing Limited. All intercompany transactions and balances have been eliminated.

The accompanying unaudited interim consolidated financial statements as of March 31, 2005 and for the three months ended March 31, 2005 and 2004 and notes thereto are prepared in accordance with accounting principles generally accepted in the U.S. In the opinion of management, they reflect all adjustments (consisting only of normal and recurring adjustments) necessary for a fair statement of the Company's financial position, results of operations and cash flows. Interim results are not necessarily indicative of results expected for the full year or for any future period.

Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the U.S. have been condensed or omitted pursuant to the instructions to Form 10-Q and Article 10 of Regulation S-X of the SEC. However, in the opinion of management, the accompanying consolidated financial statements include all adjustments, consisting only of normal recurring adjustments, necessary for a fair statement of the financial position of MarketAxess Holdings Inc., the results of its operations and its cash flows for the periods indicated. This report should be read in conjunction with our consolidated financial statements and footnotes therein included in our annual report on Form 10-K/A for the year ended December 31, 2004.

**Short-Term Investments**

Short-term investments consist of U.S. government obligations with maturities greater than three months and less than one year at the time of purchase and are reported at fair value. Short-term investment purchases and sales are recorded on the trade date.

**Table of Contents*****Securities Available-for-Sale and Held-to-Maturity***

The Company has classified certain of its marketable securities as available-for-sale securities. Unrealized marketable securities gains and losses are reflected as a net amount in Accumulated other comprehensive loss on the Consolidated Statements of Financial Condition. Realized gains and losses are recorded on the Consolidated Statements of Operations in Other income or expense. For the purpose of computing realized gains and losses, cost is on a specific identification basis.

The Company has classified certain of its marketable securities as held-to-maturity as the Company has the intent and ability to hold these securities to maturity. The securities are carried at amortized cost using the specific identification method. Interest income is recorded using an effective interest rate, with the associated premium or discount amortized to interest income.

The Company assesses whether an other-than-temporary impairment loss on securities has occurred due to declines in fair value or other market conditions. Declines in fair value that are considered other than temporary are recorded as charges in the Consolidated Statements of Operations.

***Depreciation and Amortization***

Fixed assets are carried at cost less accumulated depreciation. The Company uses the straight-line method of depreciation over three years.

Leasehold improvements are stated at cost and are amortized using the straight-line method over the lesser of the life of the improvement or the remaining term of the lease.

***Software Development Costs***

In accordance with Statement of Position ( SOP ) No. 98-1, Accounting for the Costs of Computer Software Developed or Obtained for Internal Use, the Company capitalizes certain costs associated with the development of internal use software at the point at which the conceptual formulation, design and testing of possible software project alternatives have been completed. The Company capitalizes employee compensation and related benefits incurred during the preliminary software project stage. Once the product is ready for its intended use, such costs are amortized on a straight-line basis over three years. The Company reviews the amounts capitalized for impairment whenever events or changes in circumstances indicate that the carrying amounts of the assets may not be recoverable.

***Stock-Based Compensation for Employees***

The Company accounts for stock-based employee compensation plans in accordance with Accounting Principles Board Opinion ( APB ) No. 25, Accounting for Stock Issued to Employees ( APB No. 25 ), as permitted by Statement of Financial Standards ( SFAS ) No. 123, Accounting for Stock-Based Compensation . In accordance with APB No. 25, compensation expense is recognized for stock awards that have intrinsic value on the date of grant. Unearned compensation is amortized and charged to income over the vesting period.

Had compensation expense for the Company s plans been determined based on the fair value at the grant dates for awards to employees under the plans, consistent with SFAS No. 123(R), the Company s Net income for the periods presented would have been decreased to the pro forma amounts as indicated below:

	<b>Three Months Ended March</b>	
	<b>31,</b>	
	<b>2005</b>	<b>2004</b>
Net income		
As reported	\$ 3,057	\$ 2,916
Compensation expense, after related tax effects	(337)	(501)
Pro forma	\$ 2,720	\$ 2,415
Basic net income per common share	\$ 0.11	\$ 0.02
Diluted net income per common share	\$ 0.09	\$ 0.02
Basic net income (loss) per common share pro forma	\$ 0.10	\$ (0.13)
Diluted net income (loss) per common share pro forma	\$ 0.08	\$ (0.13)



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**MARKETAXESS HOLDINGS INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS Unaudited (Continued)**  
**(in thousands, except share and per share amounts)**

In calculating the fair market value of the options granted, the following assumptions were used:

	<b>Three Months Ended March</b>	
	<b>31,</b>	
	<b>2005</b>	<b>2004</b>
Weighted-Average Grant Date Fair Market Value of Common Stock	\$ 14.37	\$ 16.52
Dividend Yield	0.00%	0.00%
Weighted-Average Expected Life (years)	3.00	3.00
Weighted-Average Risk-Free Interest Rate	3.70%	2.10%
Weighted-Average Expected Volatility	22.27%	33.18%

Starting in January 2006, the Company expects to adopt SFAS No. 123(R), *Share-Based Payment*, ( SFAS No. 123(R) ), which requires previously granted but unvested awards to be recorded as an expense on a prorated basis over the remaining vesting period. See *Recent Accounting Pronouncements* below.

During the quarter ending March 31, 2005, the Company issued 180,000 shares of restricted stock to employees. Of this amount, 129,500 and 50,500 shares were issued to senior management and to senior employees, respectively. During the three months ended March 31, 2005, the Company cancelled 1,000 shares of restricted stock. At March 31, 2005, 179,000 shares of restricted stock remain outstanding to employees. At the date of issue, the Company's common stock had a fair value of \$15.60 per share. The restricted shares issued to senior management vest over a five-year period and the restricted shares issued to senior employees vest over a three-year period. The restricted shares issued to senior management can achieve accelerated vesting if certain Company performance goals are achieved.

On a monthly basis the Company amortizes as earned compensation the fair value of the restricted stock grants over the appropriate vesting periods. For the three months ended March 31, 2005, the Company recognized \$162 of amortization expense that is included in Employee compensation and benefits on the Consolidated Statements of Operations.

***Revenue Recognition***

The majority of our revenues are derived from commissions for trades executed on our platform that are billed to our broker-dealer clients on a monthly basis. We also derive revenues from information and user access fees, license fees, and other income.

Commissions are generally calculated as a percentage of notional dollar volume of bonds traded on the platform and vary based on the type and maturity of the bond traded. Under the transaction fee plans, bonds that are more actively traded or that have shorter maturities are generally charged lower commissions, while bonds that are less actively traded or that have longer maturities generally command higher commissions.

***Income Taxes***

Income taxes are accounted for using the asset and liability method in accordance with SFAS No. 109, *Accounting for Income Taxes* ( SFAS No. 109 ). Deferred income taxes reflect the net tax effects of temporary differences between the financial reporting and tax bases of assets and liabilities and are measured using the enacted tax rates and laws that will be in effect when such differences are expected to reverse. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. A valuation allowance is recognized against deferred tax assets if it is more likely than not that such assets will not be realized in future years.

***Earnings Per Share***

Basic earnings per share ( EPS ) is calculated by dividing the net income (loss) available to common stockholders, which includes the effect of dividends accrued on the redeemable convertible preferred stock, by the weighted average number of common shares outstanding. Common shares outstanding includes common stock and restricted stock units for which no future service is required as a condition to the delivery of the underlying common stock. Diluted EPS includes the determinants of basic EPS and, in addition, reflects the dilutive effect of the redeemable convertible

preferred shares and the common stock deliverable pursuant to in-the-money stock options and warrants outstanding.



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**MARKETAXESS HOLDINGS INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS Unaudited (Continued)**  
**(in thousands, except share and per share amounts)**

**Recent Accounting Pronouncements**

In December 2004, the FASB issued SFAS No. 123(R), Share-Based Payment, which is a revision of SFAS No. 123, Accounting for Stock-Based Compensation, and supersedes APB Opinion No. 25, Accounting for Stock Issued to Employees, and requires that the cost resulting from all share-based payment transactions be recognized in the financial statements. This statement establishes fair value as the measurement objective in accounting for share-based payment arrangements and requires all entities to apply a fair-value based measurement method in accounting for share-based payment transactions with employees, with limited exceptions. SFAS No. 123(R) requires all share-based payments to employees, including grants of employee stock options and restricted stock, to be recognized in the income statement based on their fair values and previously granted but unvested awards to be recorded as an expense on a prorated basis over the remaining vesting period. Pro forma disclosure is no longer an alternative. The new standard will be effective for public entities in the first annual period beginning after June 15, 2005. The Company will apply the modified prospective application, without restatement, commencing January 1, 2006. The Company expects the adoption of SFAS No. 123(R) will have a material impact on the Company's Consolidated Statements of Operations.

**Reclassifications**

Certain reclassifications have been made to the prior periods' financial statements in order to conform to the current periods' presentation. Such reclassifications had no effect on previously reported Net income.

**3. Net Capital Requirements and Customer Protection Requirements**

The Company's U.S. subsidiary, MarketAxess Corporation, maintains a registration as a U.S. securities broker-dealer. Pursuant to the Uniform Net Capital Rule under the Securities Exchange Act of 1934, MarketAxess Corporation is required to maintain minimum net capital, as defined, equal to the greater of \$5 or 6 2/3% of aggregate indebtedness. A summary of MarketAxess Corporation's capital requirements is as follows:

	<b>March 31,</b> <b>2005</b>	<b>As of</b> <b>December 31,</b> <b>2004</b>
Net capital	\$ 23,922	\$ 19,391
Required net capital	363	864
Excess amount over required net capital	\$ 23,559	\$ 18,527
Ratio of aggregate indebtedness to net capital	0.23 to 1	0.67 to 1

MarketAxess Corporation claims exemption from SEC Rule 15c3-3, as it does not hold customer securities or funds on account, as defined.

MarketAxess Europe is subject to certain financial resource requirements of the FSA. A summary of these financial resource requirements is as follows:

	<b>March 31,</b> <b>2005</b>	<b>As of</b> <b>December 31,</b> <b>2004</b>
Financial resources	\$12,015	\$ 12,488
Resource requirement	3,919	4,393
Excess financial resources	\$ 8,096	\$ 8,095

MarketAxess Corporation and MarketAxess Europe Limited are subject to U.S. and U.K. regulations as broker-dealers which prohibit repayment of borrowings from the Company or affiliates, paying cash dividends, making loans to the Company or affiliates or otherwise entering into transactions that result in a significant reduction in regulatory net capital or financial resources, respectively, without prior notification to or approval from such broker-dealer's principal regulator.

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**MARKETAXESS HOLDINGS INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS Unaudited (Continued)**  
**(in thousands, except share and per share amounts)**

**4. Securities**

In January 2005, the Company entered into investment advisory agreements with two of its stockholder broker-dealer clients. See Related Parties below.

The following is a summary of the Company's Securities as of March 31, 2005:

	<b>Amortized cost</b>	<b>As of March 31, 2005</b>		<b>Fair value</b>
		<b>Gross unrealized gains</b>	<b>Gross unrealized losses</b>	
<b>Available-for-sale securities</b>				
Federal agency issues and municipal securities	\$19,569	\$	\$ (68)	\$19,501
Corporate Bonds	8,428		(44)	8,384
Total available-for-sale securities	\$27,997	\$	\$(112)	\$27,885
<b>Held-to-maturity securities</b>				
Commercial Paper	\$13,940	\$	\$	\$13,940
Total held-to-maturity securities	\$13,940	\$	\$	\$13,940

**5. Furniture, Equipment and Leasehold Improvements**

Furniture, equipment and leasehold improvements, net, are comprised of the following:

	<b>March 31, 2005</b>	<b>As of December 31, 2004</b>
Computer and related equipment	\$ 10,916	\$ 10,825
Office hardware	2,934	2,921
Furniture and fixtures	1,420	1,377
Accumulated depreciation	(11,409)	(11,203)
Total furniture and equipment, net	3,861	3,920
Leasehold improvements	2,207	2,212
Accumulated amortization	(1,112)	(1,053)
Total leasehold improvements, net	1,095	1,159
Total furniture, equipment and leasehold improvements, net	\$ 4,956	\$ 5,079

**6. Software Development Costs**

Software development costs, net, are comprised of the following:

	<b>March 31, 2005</b>	<b>As of December 31, 2004</b>
--	---------------------------	--

Software development costs	\$ 7,006	\$ 16,704
Accumulated amortization	(1,609)	(11,117)
Total software development costs, net	\$ 5,397	\$ 5,587

The Company accounts for software development costs under the provisions of SOP No. 98-1. During the three months ended March 31, 2005, software development costs totaling \$554 were capitalized. Non-capitalized software costs and routine maintenance costs are expensed as incurred and are included in Employee compensation and benefits, Technology and communications and Professional and consulting fees on the Consolidated Statements of Operations.

In March 2005, the Company removed from its books and records capitalized software development with a cost of \$10,252 that is no longer in use. Since this software was fully amortized, there was no effect on the Consolidated Statements of Operations.

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**MARKETAXESS HOLDINGS INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS Unaudited (Continued)**  
**(in thousands, except share and per share amounts)**

**7. Income Taxes**

The Company prepares a consolidated tax return with its U.S. subsidiary, MarketAxess Corporation.

The Company's provision for income taxes, included in the Consolidated Statements of Operations as determined in accordance with SFAS No. 109, is as follows:

	<b>Three Months Ended March 31,</b>	
	<b>2005</b>	<b>2004</b>
Current:		
Federal	\$	\$83
State and local	120	9
Foreign	35	
Current provision for income taxes	155	92
Deferred:		
Federal	1,267	
State and local	404	
Foreign	490	
Deferred income taxes	2,161	
Provision for income taxes	\$2,316	\$92

The difference between the Company's reported provision for income taxes and the amount computed by multiplying pre-tax income by federal statutory rates is as follows:

	<b>Three Months Ended March 31,</b>	
	<b>2005</b>	<b>2004</b>
Federal tax at statutory rate	\$1,826	\$ 1,342
Permanent differences	52	49
State and local taxes net of federal benefit	534	479
Foreign taxes	(37)	
Alternative minimum taxes	80	83
Change in valuation allowance	(45)	(1,861)
Tax credits	(79)	
Other	(15)	
Provision for federal income taxes	\$2,316	\$ 92

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**MARKETAXESS HOLDINGS INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS Unaudited (Continued)**  
**(in thousands, except share and per share amounts)**

The following is a summary of the Company's gross deferred tax asset, reduced to a net deferred tax asset by a valuation allowance:

	<b>March 31, 2005 (Restated)</b>	<b>As of December 31, 2004 (Restated)</b>
Deferred tax assets:		
Net operating loss carryforwards		
U.S.	\$ 39,331	\$ 41,164
Foreign	3,259	3,801
Depreciation	477	590
Deferred option compensation expense	959	769
Warrant expense	10,959	10,959
Allowance for doubtful accounts	111	123
Unrealized losses on securities available-for-sale and foreign exchange	211	
Restructuring charges	1,279	1,301
Charitable contributions carryforwards	70	49
Goodwill and other intangible assets	428	428
Tax credits	1,783	1,786
Total deferred tax assets	58,867	60,970
Valuation allowance	(18,091)	(18,136)
Net deferred tax assets	40,776	42,832
Deferred tax liability:		
Capitalized software development costs	(2,429)	(2,483)
Deferred tax assets, net	\$ 38,347	\$ 40,351

The roll forward of the valuation allowance is as follows:

	<b>March 31, 2005</b>	<b>As of December 31, 2004</b>
Valuation allowance at beginning of period	\$ 18,136	\$ 64,252
Decrease in valuation allowance attributable to:		
Net operating losses and temporary differences		
U.S.	(45)	(41,095)
Foreign		(5,021)
Valuation allowance at end of period	\$ 18,091	\$ 18,136

As of March 31, 2005, the Company had net operating loss carryforwards for income tax purposes of \$97,114. The U.S. net operating loss carryforwards as of March 31, 2005 totaling \$86,251 will begin to expire in 2018 and the U.K. net operating loss carryforwards as of March 31, 2005 totaling \$10,863 do not expire. In 2001, MarketAxess

Corporation had an ownership change within the meaning of Section 382 of the Internal Revenue Code ( Section 382 ). As a result of Section 382 and pertinent tax provisions, the utilization of \$32,839 and \$39,114 on a tax basis and book basis, respectively, of the Company s net operating loss carryforwards existing at the date of the ownership change is subject to significant limitations. In addition, the Company s net operating loss carryforwards may be subject to additional annual limitations if there is a 50% or greater change in the Company s ownership, as determined over a rolling three-year period.

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**MARKETAXESS HOLDINGS INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS Unaudited (Continued)**  
**(in thousands, except share and per share amounts)**

**8. Accumulated Other Comprehensive Loss**

The Accumulated other comprehensive loss is comprised of cumulative currency translation adjustments and unrealized losses on Available-for-sale securities. Amounts presented for the three months ending March 31, 2005 are net of income taxes. Cumulative currency translation adjustments result from operations for which the functional currency is a currency other than the U.S. dollar. These items are reflected as a component of Stockholders' equity in the Consolidated Statements of Financial Condition. The following table presents the summary of Accumulated other comprehensive loss for the period presented:

	<b>March 31, 2005</b>	<b>As of December 31, 2004</b>
Accumulated other comprehensive income (loss), beginning of period	\$(342)	\$ 19
Cumulative currency translation adjustments, net of taxes	(76)	(361)
Unrealized losses on Available-for-sale securities, net of taxes	(60)	
Accumulated other comprehensive loss, end of period	\$(478)	\$ (342)

**9. Related Parties**

As of and for the periods then ended, the Company had the following balances and transactions with the Stockholder Broker-Dealer Clients or their affiliates:

	<b>March 31, 2005</b>	<b>As of December 31, 2004</b>
Cash and cash equivalents	\$47,757	\$ 86,711
Accounts receivable	7,715	7,225
Accounts payable, accrued expenses and other liabilities		530

	<b>Three months ended March 31,</b>	
	<b>2005</b>	<b>2004</b>
Commissions	\$10,691	\$10,550
Information and user access fees	212	72
Interest income	201	90
Other income	102	124
General and administrative	8	

Securities provided as collateral totaled \$3,779 and \$3,799 as of March 31, 2005 and December 31, 2004, respectively. Of these amounts, \$3,279 and \$3,299, respectively, were U.S. government obligations on deposit with a related party in its role as a custodian. The remaining \$500 is provided as collateral with a third party clearing broker for each respective period.

Two Stockholder Broker-Dealer Clients acted in an investment advisory and custodial capacity for the Company. As of March 31, 2005, the securities under management by these parties had a market value of \$50,185 and are included in the Consolidated Statements of Financial Condition as \$8,361 in Cash and cash equivalents, \$27,885 in Available-for-sale securities and \$13,940 in Held-to-maturity securities. For the three months ended March 31, 2005, investment advisory fees paid to these Stockholder Broker-Dealer Clients were \$5 and are included in General and administrative expenses in the Consolidated Statements of Operations. Also included in General and administrative



expenses in the Consolidated Statement of Operations for the three months ended March 31, 2005 and 2004 is \$3 in bank fees paid to a related party for each period.

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**MARKETAXESS HOLDINGS INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS Unaudited (Continued)**  
**(in thousands, except share and per share amounts)**

**10. Stock Option Plans**

The Company's stock option activity for employees, officers and directors is summarized as follows:

	<b>Shares</b>	<b>Weighted-Average Exercise Price</b>
Outstanding at December 31, 2004	4,907,582	\$ 5.17
Granted	951,000	\$ 14.37
Cancelled	(31,220)	\$ 15.98
Exercised	(6,562)	\$ 3.16
Outstanding at March 31, 2005	5,820,800	\$ 6.61

The following table summarizes information regarding the stock options granted:

<b>Range of Exercise Prices</b>	<b>As of March 31, 2005</b>				
	<b>Options Outstanding</b>			<b>Options Exercisable</b>	
	<b>Outstanding</b>	<b>Weighted-Average Remaining Contractual Life</b>		<b>Number Exercisable</b>	<b>Weighted-Average Exercise Price</b>
\$2.10 - \$5.00	3,830,101	7.15	\$ 2.82	3,191,748	\$ 2.85
\$5.01 - \$10.00	108,584	9.12	\$ 8.77	30,197	\$ 7.92
\$10.01 - \$15.00	1,108,694	9.13	\$ 13.10	288,079	\$ 13.93
\$15.01 - \$19.60	773,421	9.67	\$ 15.82		\$

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**MARKETAXESS HOLDINGS INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS Unaudited (Continued)**  
(in thousands, except share and per share amounts)

**11. Earnings Per Share**

SFAS No. 128, Earnings Per Share, requires the presentation of basic and diluted EPS in the Consolidated Statements of Operations. Basic EPS is computed by dividing the net income (loss) attributable to common stock, which includes the effect of dividends, accrued on the redeemable convertible preferred stock, by the weighted-average number of shares of common stock outstanding for the period. Diluted EPS is computed using the same method as basic EPS, but in the denominator, shares of common stock outstanding reflect the potential dilution that could occur if convertible securities or other contracts to issue common stock were converted into or exercised for common stock. In November 2004, at the completion of our initial public offering, the redeemable convertible preferred stock and convertible preferred stock was converted into 13,899,683 shares of common stock and 4,266,310 shares of non-voting common stock and are included in the computation of diluted EPS for three months ended March 31, 2005.

Basic and diluted earnings per common share were as follows:

	<b>Three Months Ended March 31,</b>	
	<b>2005</b>	<b>2004</b>
<b>Basic EPS</b>		
Net income	\$ 3,057	\$ 2,916
Less: preferred stock dividends		2,848
Net income attributable to common stock	\$ 3,057	\$ 68
Weighted-average common shares outstanding	27,428	3,296
Net income per common share	\$ 0.11	\$ .02
<b>Diluted EPS</b>		
Net income	\$ 3,057	\$ 2,916
Net income attributable to common stock	\$ 3,057	\$ 2,916
Weighted-average common shares outstanding and common stock equivalents	35,483	3,296
Net income per common share	\$ 0.09	\$ .02

At March 31, 2004, the conversion of 18,122,659 shares of redeemable convertible preferred stock, 4,931,580 warrants and 3,510,981 stock options were not included in the computation of diluted earnings per share because their effect would have been anti-dilutive.

**12. Commitments and Contingencies**

The Company leases office space under non-cancelable lease agreements expiring at various dates through 2011. These leases are subject to escalation based on certain costs incurred by the landlord.

Minimum rental commitments under such leases, net of sublease income and restated for the foreign exchange rate at March 31, 2005, are as follows:

<b>Year Ended December 31,</b>	<b>Minimum Rentals</b>
Remaining 2005	\$ 1,615
2006	2,270
2007	2,246
2008	2,246
2009	2,246
Thereafter through 2011	5,772

The rental expense for the three months ended March 31, 2005 and 2004 was \$391 and \$393, respectively, which is included in General and administrative expenses in the Consolidated Statements of Operations.

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**MARKETAXESS HOLDINGS INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS Unaudited (Continued)**  
**(in thousands, except share and per share amounts)**

The Company has entered into sublease agreements for two of its properties. The following table summarizes information regarding the sublease provisions:

<b>Location</b>	<b>Commencement Date</b>	<b>Termination Date</b>	<b>Sublease Rental</b>	<b>Sublease Loss Provision as of:</b>	
				<b>March 31, 2005</b>	<b>December 31, 2004</b>
New York, NY	February 1, 2002	April 30, 2006	\$ 71	\$	\$
	May 1, 2006	April 14, 2011	77	1,295	1,344
London, U.K	May 9, 2002	March 25, 2010	38		

As provided for in the London sublease agreement, the sublessee has exercised its early termination option and as provided for in the agreement will pay the Company's U.K. subsidiary an early termination fee of approximately \$225 in May 2005. The Company is not anticipating subleasing the space but will occupy the space.

The Company is contingently obligated for standby letters of credit that were issued to landlords for office space. The Company uses a U.S. government obligation as collateral for these standby letters of credit and for the Company's foreign currency forward contracts. In addition, \$500 is provided as collateral with a clearing broker. This collateral is included with Securities and cash provided as collateral on the Consolidated Statements of Financial Condition that had a fair market value as of March 31, 2005 and December 31, 2004 of \$3,779 and \$3,799, respectively.

**13. Supplemental Cash Flow Disclosure of Non-Cash Activities**

The following is a description of non-cash activity:

	<b>Three Months Ended March 31,</b>	
	<b>2005</b>	<b>2004</b>
Accrued and undeclared dividends on redeemable convertible preferred stock	\$	\$ 2,848
Warrant-related expense		2,524
Stock option issuance to directors and non-employees	27	2

**Table of Contents****Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations**  
**Forward-Looking Statements**

*This report contains certain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements may be identified by words such as expects, intends, anticipates, plans, believes, seeks, estimates, will, or words of similar meaning and include, but are not limited to, statements regarding the outlook for our future business and financial performance. Forward-looking statements are based on management's current expectations and assumptions, which are subject to inherent uncertainties, risks and changes in circumstances that are difficult to predict. It is routine for our internal projections and expectations to change as the year or each quarter in the year progresses, and therefore it should be clearly understood that the internal projections and beliefs upon which we base our expectations may change prior to the end of each quarter or the year. Although these expectations may change, we are under no obligation to revise or update any forward-looking statements contained in this report. Our company policy is generally to provide our expectations only once per quarter, and not to update that information until the next quarter. Actual future events or results may differ materially from those contained in the projections or forward-looking statements. Factors that could cause or contribute to such differences include those discussed below and elsewhere in this report, particularly in the section captioned Management's Discussion and Analysis of Financial Condition and Results of Operations Risk Factors That May Affect Future Results.*

**Executive Overview**

MarketAxess operates one of the leading platforms for the electronic trading of corporate bonds and certain other types of fixed-income securities. Through our platform, 571 active institutional investor client firms (firms that executed at least one trade through our electronic trading platform between April 2004 and March 2005) can access the aggregate liquidity provided by the collective interest of our 22 broker-dealer clients in buying or selling bonds through our platform. Our active institutional investor clients include investment advisers, mutual funds, insurance companies, public and private pension funds, bank portfolios and hedge funds. We also provide data and analytical tools that help our clients make trading decisions and we facilitate the trading process by electronically communicating order information between trading counterparties.

Our multi-dealer trading platform allows our institutional investor clients to simultaneously request competing, executable bids or offers from our broker-dealer clients and execute trades with the broker-dealer of their choice from among those that choose to respond. We offer our broker-dealer clients a solution that enables them to efficiently reach our institutional investor clients for the distribution and trading of bonds. In addition to U.S. high-grade corporate bonds and European high-grade corporate bonds, we also offer our clients the ability to trade emerging markets bonds, which we define as sovereign and corporate bonds issued by entities domiciled in an emerging markets country, including both investment-grade and non-investment grade debt.

The majority of our revenues are derived from commissions for trades executed on our platform that are billed to our broker-dealer clients on a monthly basis. We also derive revenues from information and user access fees, license fees and other income. Our expenses consist of employee compensation and benefits, depreciation and amortization, technology and communication expenses, professional and consulting fees, marketing and advertising and other general and administrative expenses.

We seek to grow and diversify our revenues by capitalizing on our status as the operator of a leading platform for the electronic trading of corporate bonds and certain other types of fixed-income securities. The key elements of our strategy are:

- to innovate and efficiently add new functionality and product offerings to the MarketAxess platform which we believe will help us increase our market share with existing clients, as well as expand our client base. For example, the Company has recently announced its intention to develop a multi-dealer system to provide electronic credit derivatives trading services between dealers and institutional investors, initially focused on credit default swap indices, which the Company believes will further its efforts to increase its penetration of the hedge fund client segment;

to leverage our technology, as well as our strong broker-dealer and institutional investor relationships, to deploy our electronic trading platform into additional product and client segments within the fixed-income securities markets;

to continue building our existing service offerings so that our electronic trading platform is fully integrated into the workflow of our broker-dealer and institutional investor clients and to continue to add functionality to allow our clients to achieve a fully automated end-to-end straight-through processing solution (automation from trade initiation to settlement);

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to add new content and analytical capabilities to Corporate BondTicker in order to improve the value of the information we provide to our clients; and

to continue to supplement our internal growth by entering into strategic alliances, or acquiring businesses or technologies that will enable us to enter new markets, provide new products or services, or otherwise enhance the value of our platform to our clients.

## **Critical Factors Affecting Our Industry and Our Company**

### ***Economic, Political and Market Factors***

The global fixed-income securities industry is risky and volatile and is directly affected by a number of economic, political and market factors that may result in declining trading volume. These factors could have a material adverse effect on our business, financial condition and results of operations. These factors include: the current interest rate environment, including the volatility of interest rates and investors' forecasts of future interest rates; the level of corporate bond credit spreads and credit spread volatility; and adverse market conditions, including unforeseen market closures or other disruptions in trading. Any one or more of these factors may contribute to reduced trading activity in the fixed-income securities markets generally. Our revenues and profitability are likely to decline during periods of stagnant economic conditions or low trading volume in the U.S. and global fixed-income securities markets.

### ***Competitive Landscape***

The global fixed-income securities industry generally, and the electronic financial services markets in which we operate in particular, are highly competitive, and we expect competition to intensify in the future. We will continue to compete with bond trading conducted directly between broker-dealers and their institutional investor clients over the telephone or electronically. In addition, our current and prospective competitors are numerous and include: other multi-dealer trading companies; market data and information vendors; securities and futures exchanges; inter-dealer brokerage firms; and electronic communications networks not currently in the securities business. We believe that we compete favorably with respect to: the liquidity provided on our platform; the magnitude and frequency of price improvement enabled by our platform; the quality and speed of execution; total transaction costs; technology capabilities, including the ease of use of our trading platform; and the range of our products and services.

### ***Regulatory Environment***

Our industry has been and is subject to continuous regulatory changes and may become subject to new regulations or changes in the interpretation or enforcement of existing regulations, which could have a material adverse effect on our business, financial condition and results of operations.

### ***Rapid Technological Changes***

We must continue to enhance and improve our electronic trading platform. The electronic financial services industry is characterized by increasingly complex systems and infrastructures and new business models. If new industry standards and practices emerge, our existing technology, systems and electronic trading platform may become obsolete or our existing business may be harmed. Our future success will depend on our ability to: enhance our existing products and services; develop and/or license new products and technologies that address the increasingly sophisticated and varied needs of our broker-dealer and institutional investor clients and prospective clients; and respond to technological advances and emerging industry standards and practices on a cost-effective and timely basis.

## **Trends in Our Business**

The majority of our revenues are derived from commissions for transactions executed on our platform. We believe that there are five key variables that impact the notional value of transactions on our platform and the amount of commissions earned by us:

the number of institutional investor clients that participate on the platform and their willingness to originate transactions through the platform;

the number of broker-dealer clients on the platform and the competitiveness of the prices they provide to the institutional investor clients;



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the number of markets for which we make trading available to our clients;

the overall level of activity in these markets; and

the level of commissions that we collect for trades executed through the platform.

While we believe that overall corporate bond market trading volume is affected more by volatility in the corporate bond market than by the absolute levels of interest rates or the direction of interest rate changes, we have limited experience with periods of rising interest rates. If interest rates continue to rise, it is possible that our trading volumes will continue to be adversely impacted. Because a significant percentage of our revenue is tied directly to the volume of securities traded on our platform, it is likely that a general decline in trading volumes, regardless of the cause of such decline, would reduce our revenues and have a significant negative impact on our future profitability.

***Commission Revenue Trends***

Commissions are generally calculated as a percentage of notional dollar volume of bonds traded on our platform and vary based on the type and the maturity of the bond traded.

Our standard fee schedule for U.S. high-grade corporate bonds was revised in August 2003 to provide lower average transaction commissions for dealers who transact higher U.S. high-grade volumes through our platform, while at the same time providing us with an element of fixed commissions over the two-year term of the plans. One of the new plans that is well suited for our most active broker-dealer clients includes a fee cap that limits the potential growth in U.S. high-grade revenue. The fee caps were set to take effect at volume levels significantly above those being transacted at the time the new transaction fee plans were introduced. Most of our broker-dealer clients have entered into fee arrangements with respect to the trading of U.S. high-grade corporate bonds that include both a fixed component and a variable component. During periods of decreased or increased volume transacted on our system by those clients in this product, the variable portion of the fee arrangement will result in decreased or increased revenue, but the fixed portion of the fees will not be affected.

We currently expect, during the second quarter of 2005, to introduce a new fee plan primarily for secondary market transactions in U.S. high-grade corporate bonds executed on our electronic trading platform. The new plan will incorporate higher fixed monthly fees and lower variable fees for our broker-dealer clients than the existing U.S. high-grade corporate transaction fee plans and is designed to provide an added incentive to our broker-dealer and institutional investor clients to increase the volume of transactions effected on our platform. The combination of higher fixed and lower variable fees in the new plan results in higher revenue to the Company at lower volume levels but will limit revenue growth in the future for U.S. high-grade corporate bond trading as volume levels increase. The new fee plan has a two-year term and will supersede the fee agreements, described above, that we entered into with many of our broker-dealer clients during the third quarter of 2003. The existing agreements had been scheduled to expire during the third quarter of 2005.

For European high-grade corporate bond trades, broker-dealer transaction fees vary based on the type of bond traded. Different fee schedules apply to fixed rate and floating rate bonds. Within the schedule for fixed rate bonds, the fee varies depending on whether the bond is a corporate or a sovereign issue. For corporate bonds, the fee also varies depending on the maturity of the issue. This fee schedule applies a tiered fee structure, which reduces the fee per trade upon the attainment of certain specified amounts of monthly commissions generated by a particular broker-dealer and does not carry a fixed monthly fee or fee cap.

Commissions for other products generally vary based on the type and the maturity of the bond traded. The commission rates are generally set at levels that are based upon those charged by inter-dealer brokers in the respective markets, average bid-offer spreads in the products we serve and transaction costs through alternative channels including the telephone.

We anticipate that some reduction in average fees per million may occur in the future. Consequently, past trends in commissions are not necessarily indicative of future commissions.

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### ***Other Revenue Trends***

In addition to the commissions discussed above, we have also earned revenue from certain fees paid by institutional investor and broker-dealer clients and income earned on investments.

Institutional investor clients trading U.S. high-grade corporate bonds are charged a monthly user access fee for the use of our platform. The fee, billed quarterly, is charged to the client based on the number of the client's users. To encourage institutional investor clients to execute trades on our U.S. high-grade corporate bond platform, we reduce these information and user access fees for such clients once minimum quarterly trading volumes are attained.

We charge information services fees for Corporate BondTicker to our broker-dealer clients, institutional investor clients and data-only subscribers. Corporate BondTicker combines National Association of Securities Dealers, Inc. ( NASD ) Trade Reporting and Compliance Engine ( TRACE ) data with MarketAxess data and analytical tools to provide a comprehensive set of corporate bond information. The information services fee is a flat monthly fee, based on the level of service. We also generate information service fees from the sale of bulk data to certain institutional investor clients and data only subscribers. We anticipate that revenues other than commissions will grow as we expand our data and information services offerings.

We intend to continue to diversify our revenue base. As we continue to expand our service offerings, we believe that there will be more opportunities for us to generate revenues from all of our trading and information services clients.

### ***Expense Trends***

We anticipate expense growth in the future, notably in employee compensation and benefits, professional and consulting fees and general and administrative expenses now that we are a public company, but we believe that operating leverage can be achieved by increasing volumes in existing products and adding new products without substantial additions to our infrastructure.

As a public company, we are subject to the requirements of the Sarbanes-Oxley Act of 2002, which requires us to incur significant expenditures in the near term to establish systems and hire and train personnel to comply with these requirements. In addition, as a public company, we are required, pursuant to SFAS No. 123 (R), Share-Based Payment ( SFAS No. 123 (R) ), which will be effective on January 1, 2006, to record compensation expense based on the fair value of options issued to employees. Currently, we are only required to record compensation expense to the extent that the fair value of our common stock exceeds the exercise price of the options on the measurement date.

### ***Recent Developments***

The Company restated its Consolidated Financial Statements as of and for the year ended December 31, 2004. The Company identified certain misapplications of Statement of Financial Accounting Standards No. 109, Accounting for Income Taxes, relating to the recording of deferred income taxes.

During 2005, the Company retained new tax advisors who assisted with the preparation of the 2004 tax returns. In reconciling the 2004 tax returns to the Provision (benefit) for income taxes on the 2004 Consolidated Statements of Operations, the Company identified that for the year ended December 31, 2004, the tax benefit of \$41.3 million, the net income of \$58.6 million and the related Deferred tax asset of \$41.4 million had each been overstated by \$1.1 million. Furthermore, as of March 31, 2005, the Deferred tax asset of \$39.4 million and accumulated deficit of \$96.5 million had each been overstated by \$1.1 million.

Although the Company does not consider the overstatement of \$1.1 million to be material for any quarter in 2004 or for the full year of 2004, the Company has revised its 2004 Consolidated Financial Statements and its Consolidated Financial Statements for the three months ended March 31, 2005 because the impact of these revisions would have been material to the Company's Consolidated Financial Statements for the second quarter of 2005 if posted as adjustments in that quarter.

The \$1.1 million overstatement primarily resulted from the incorrect recording of deferred tax assets in respect of compensation expense for incentive stock options, alternative minimum tax credits and other items identified in the preparation of the tax return. The net Deferred tax asset as of December 31, 2004 of \$41.4 million and as of March 31, 2005 of \$39.4 million, respectively, had each been overstated by \$1.1 million.

**Table of Contents****Results of Operations****Three Months Ended March 31, 2005 Compared to Three Months Ended March 31, 2004***Overview*

For the three months ended March 31, 2005, Income before taxes increased by \$2.4 million to \$5.4 million compared to Income before taxes of \$3.0 million for the three months ended March 31, 2004. Net income increased by \$0.2 million to \$3.1 million compared to Net income of \$2.9 million for the three months ended March 31, 2004.

Total revenues increased by \$2.1 million or 11.1% to \$21.3 million for the three months ended March 31, 2005 from \$19.2 million for the three months ended March 31, 2004. This increase in total revenues was primarily due to the growth in the total volume of bonds traded on our platform, which grew 18.9 % to \$89.2 billion for the three months ended March 31, 2005 from \$75.0 billion for the comparable period in 2004.

Total expenses for the first quarter of 2005 declined 1.4% to \$15.9 million, compared to \$16.2 million in the first quarter of 2004. Employee compensation and benefits increased to \$9.2 million, compared to \$8.2 million in the first quarter of 2004, as a result of new hires, deepening organizational strength and lower wage capitalization relating to software development. Professional and consulting fees increased to \$1.9 million, compared to \$0.9 million in the first quarter of 2004, largely due to increased costs associated with being a public company. These increases were offset by the lack of warrant-related expense. The warrant program concluded in the first quarter of 2004 and accounted for \$2.5 million of expense during that period.

*Revenues*

Our revenues for the three months ended March 31, 2005 and March 31, 2004, and the resulting dollar and percentage change, are as follows:

	Three months ended March 31, 2005		2004		\$ Change	% Change
	\$	% of Revenues	\$	% of Revenues		
<b>Revenues</b>						
Commissions						
U.S. high-grade	\$12,518	58.8%	\$11,424	59.6%	\$1,094	9.6%
European high-grade	4,401	20.6	4,521	23.6	(120)	(2.7)
Other	1,734	8.1	1,804	9.4	(70)	(3.9)
Total commissions	18,653	87.5	17,749	92.6	904	5.1
Information and user access fees	1,035	4.9	489	2.6	546	111.7
License fees	780	3.7	582	3.0	198	34.0
Interest income	600	2.8	154	0.8	446	289.6
Other	240	1.1	198	1.0	42	21.2
Total revenues	\$21,308	100.0%	\$19,172	100.0%	\$2,136	11.1%

We have historically earned most of our commissions and most of our revenues from the nine clients (ABN Amro, BNP Paribas, Banc of America, Bear Stearns, Credit Suisse First Boston, Deutsche Bank, JPMorgan, Lehman Brothers and UBS) that are (or whose affiliates are) our stockholders. Affiliates of most of our broker-dealer clients are also among our institutional investor clients. A table detailing the amount of revenues generated by our nine broker-dealer clients that are also stockholders (ABN Amro, Banc of America Securities, Bear Stearns, BNP Paribas, Credit Suisse First Boston, Deutsche Bank, JPMorgan, Lehman Brothers and UBS), and their respective affiliates, as well as the corresponding percentage of total revenues, is provided below for the three months ended March 31, 2005 and 2004:



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	<b>Three months ended March 31,</b>	
	<b>2005</b>	<b>2004</b>
	<b>(\$ in thousands)</b>	
Total revenues generated by broker-dealer client stockholders and their respective affiliates		
Commissions	\$ 10,691	\$ 10,550
Information and user access fees.	212	72
Interest income	201	90
Other	102	124
Total revenues generated by broker-dealer client stockholders and their respective affiliates	<b>\$ 11,206</b>	<b>\$ 10,836</b>
Percentage of total revenues generated by broker-dealer client stockholders and their respective affiliates		
Commissions	57.3%	59.4%
Information and user access fees	20.6%	20.0%
Interest income	33.6%	58.6%
Other	42.6%	62.8%
Percentage of total revenues generated by broker-dealer client stockholders and their respective affiliates	52.7%	56.5%

*Commissions.* Commissions are generally calculated as a percentage of the notional dollar volume of bonds traded on our platform and vary based on the type and the maturity of the bond traded. Under our transaction fee plans, bonds that are more actively traded or that have shorter maturities are generally charged lower commissions, while bonds that are less actively traded or that have longer maturities generally command higher commissions.

Total commissions increased by \$0.9 million or 5.1% to \$18.7 million for the three months ended March 31, 2005 from \$17.7 million for the comparable period in 2004. This increase was primarily due to increases in the amount of U.S. high-grade commissions, offset in part by decreases in European high-grade commissions and Other commissions. U.S. high-grade commissions increased by \$1.1 million or 9.6% to \$12.5 million for the three months ended March 31, 2005 from \$11.4 million for the comparable period in 2004. European high-grade commissions decreased by \$0.1 million or 2.7% to \$4.4 million from \$4.5 million for the comparable period in 2004. Other commissions also decreased by \$0.1 million or 3.9% to \$1.7 million from \$1.8 million for the comparable period in 2004. These net increases were primarily due to an increase in transaction volume from \$75.0 billion for the three months ended March 31, 2004 to \$89.2 billion for the three months ended March 31, 2005 generated by new and existing clients, offset by an 11.8% reduction in the average commission per million from \$237 per million for the three months ended March 31, 2004 to \$209 per million for the three months ended March 31, 2005. This decrease in the average commission per million was primarily attributable to: a change in the mix of business resulting in an increase in the volume of transactions that have lower fees per million in accordance with our standard fee schedules; and an increase in the percentage of trades executed on the platform with shorter maturities, which generally generate lower commissions per million. The fixed monthly U.S. high-grade fees amounted to \$4.8 million for the three months ended March 31, 2005 as compared to \$4.6 million for the three months ended March 31, 2004.

U.S. Treasury securities have not been traded over our platform since February 2005, when our strategic alliance with BrokerTec USA, L.L.C. ended.

Our trading volume and average fees per million traded for the three months ended March 31, 2005 and 2004 are as follows:

	<b>Three months ended March</b>	
	<b>2005</b>	<b>31,</b> <b>2004</b>
<b>Trading Volume Data (in billions)</b>		
U.S. high-grade	\$ 54.8	\$ 45.0
European high-grade	22.9	23.6
Other	11.5	6.4
Total	\$ 89.2	\$ 75.0

	<b>Three months ended March</b>	
	<b>2005</b>	<b>31,</b> <b>2004</b>
<b>Commissions (in thousands)</b>		
U.S. high-grade	\$12,518	\$11,424
European high-grade	4,401	4,521
Other	1,734	1,804
Total	\$18,653	\$17,749

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	<b>Three months ended March 31,</b>	
	<b>2005</b>	<b>2004</b>
<b>Average Fee Per Million Traded</b>		
U.S. high-grade	\$ 229	\$ 253
European high-grade	\$ 192	\$ 191
Other	\$ 150	\$ 284
For All Products	\$ 209	\$ 237
Number of U.S. Trading Days	61	63
Number of U.K. Trading Days	62	63

For volume reporting purposes, transactions in foreign currencies are converted to U.S. dollars at the exchange rates prevailing on the day the transactions were executed.

The following table shows the extent to which the changes in revenue for the three months ended March 31, 2005 were attributable to increases in volumes, reductions in the average level of commissions charged and other factors not related to commission revenues:

	<b>Change from Prior Three Months Three Months Ended March 31, 2005 (in thousands)</b>
Volume increases	\$ 3,360
Average fee reductions	(2,457)
Other	1,233
Total revenue increase	\$ 2,136

Our active institutional investor clients and broker-dealer clients as of March 31, 2005 and March 31, 2004 are as follows:

	<b>As of March 31,</b>	
	<b>2005</b>	<b>2004</b>
Institutional Investor Clients U.S.	385	328
Europe	186	150
Total	571	478
Broker-Dealer Clients	22	19

*Information and User Access Fees.* Information and user access fees consist of: fees charged for Corporate BondTicker to our broker-dealer clients, institutional investor clients and data-only subscribers; and monthly access fees charged to institutional investor clients for the use of our platform. Information and user access fees increased by \$0.5 million or 111.7% to \$1.0 million for the three months ended March 31, 2005 from \$0.5 million for the three months ended March 31, 2004. This increase was primarily due to an increase in the number of subscribers to our Corporate BondTicker service.

*License Fees.* License fees consist of fees received from broker-dealer clients for access to our trading platform through a non-exclusive and non-transferable license. The license fee is a one-time fee and is recognized in the first three months of the agreement in the estimated amount of the set-up costs that we incur and the remaining amount is amortized over the initial term of the agreement, which is generally three years. License fees increased by \$0.2 million or 34.0% to \$0.8 million for the three months ended March 31, 2005 from \$0.6 million for the three months ended March 31, 2004. This increase was attributable to the addition of three new broker-dealer clients.

License fees decreased by \$0.5 million or 37.6% from \$1.3 million for the three months ended December 31, 2004 as we accrued for the three new dealer license fees during the three months ended December 31, 2004 compared to one new dealer license fee during the three months ended March 31, 2005.

*Interest Income.* Interest income consists of income earned on our investments. Interest income increased by \$0.4 million or 289.6% to \$0.6 million for the three months ended March 31, 2005 from \$0.2 million for the comparable period in 2004. This increase was due to higher Cash and cash equivalents balances and a rise in interest rates during the three months ended March 31, 2005 as compared to the comparable period in 2004.

*Other.* Other revenues consist of telecommunications line charges to broker-dealer clients and other miscellaneous revenues. Other revenues were \$0.2 million for the three months ended March 31, 2005 and 2004.



**Table of Contents***Expenses*

Our expenses for the three months ended March 31, 2005 and March 31, 2004, and the resulting dollar and percentage change, are as follows:

	Three months ended March 31, 2005		2004		\$ Change	% Change
	\$	% of Revenues	\$	% of Revenues		
<b>Expenses</b>						
Employee compensation and benefits	\$ 9,244	43.4%	\$ 8,165	42.6%	\$ 1,079	13.2%
Depreciation and amortization	1,008	4.7	746	3.9	262	35.1
Technology and communications	1,842	8.6	1,592	8.3	250	15.7
Professional and consulting fees	1,894	8.9	946	4.9	948	100.2
Warrant-related expense			2,524	13.2	(2,524)	
Marketing and advertising	693	3.3	625	3.3	68	10.9
Moneyline revenue share	(50)		464	2.4	(514)	(110.8)
General and administrative	1,304	6.1	1,102	5.7	202	18.3
Total expenses	\$ 15,935	75.0%	\$ 16,164	84.3%	\$ (229)	(1.4)%

*Employee Compensation and Benefits.* Employee compensation and benefits is comprised of salaries, incentive compensation and related employee benefits and payroll taxes. Employee compensation and benefits increased by \$1.1 million or 13.2% to \$9.2 million for the three months ended March 31, 2005 from \$8.2 million for the three months ended March 31, 2004. This increase was primarily due to the addition of new employees to support our growth, deepening of our organizational strengths and the lower rate of wage capitalization relating to software development. The total number of employees increased to 173 as of March 31, 2005 from 168 as of March 31, 2004.

*Depreciation and Amortization.* Depreciation and amortization expense results from the depreciation of fixed assets, which consist of computer hardware, furniture and fixtures, and the amortization of software, capitalized software development costs and leasehold improvements. Depreciation and amortization expense increased by \$0.3 million or 35.1% to \$1.0 million for the three months ended March 31, 2005 from \$0.7 million for the three months ended March 31, 2004. For the three months ended March 31, 2005, we capitalized \$0.6 million of software development costs as compared to \$1.4 million for the comparable period in 2004. For the three months ended March 31, 2005, we capitalized \$0.1 million of equipment costs related to our new disaster recovery facility that we anticipate being in production during the second quarter of 2005. In November 2004, we determined that our trading platform software, developed by us with input from Moneyline, a stockholder, would be retired by March 31, 2005. Therefore, we accelerated amortization of this software and recorded additional amortization in the amount of \$0.3 million during the first quarter of 2005.

*Technology and Communications.* Technology and communications expense consists primarily of costs for our network connections, data center hosting costs and data feeds provided by outside vendors or service providers. Technology and communications expense increased by \$0.3 million or 15.7% to \$1.8 million for the three months ended March 31, 2005 from \$1.6 million for the three months ended March 31, 2004. This increase was attributable to increased cost relating to market data and production telecommunications.

*Professional and Consulting Fees.* Professional and consulting fees consist of fees paid for accounting and legal fees, information technology and non-information technology consultants costs. Professional and consulting fees increased by \$0.9 million or 100.2% to \$1.9 million for the three months ended March 31, 2005 from \$0.9 million for the three months ended March 31, 2004. This increase was primarily due to additional legal, accounting, consulting and insurance expenses associated with becoming a public company as well as increased information technology consultant costs.

*Warrant-related Expense.* Warrant-related expense is the expense associated with the allocation of shares of our common stock issuable pursuant to a warrant issued to six of our broker-dealer clients at the time they made an equity investment in MarketAxess Holdings Inc. In the three months ended March 31, 2004, we incurred warrant-related expense of \$2.5 million. As the final share allocations under the warrant program ended on March 1, 2004, there was no warrant-related expense for the three months ended March 31, 2005. We will no longer record any expense related to this warrant.

*Marketing and Advertising.* Marketing and advertising expense consists primarily of print and other advertising expenses we incur to promote our products and services. This expense also includes costs associated with attending or exhibiting at industry-sponsored

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seminars, conferences and conventions. Also included in this expense are travel and entertainment expenses incurred by our sales force to promote our trading platform and information services. Marketing and advertising expense increased by \$0.1 million or 10.9% to \$0.7 million for the three months ended March 31, 2005 from \$0.6 million for the three months ended March 31, 2004. This increase was primarily due to expenses we incurred for print and other advertising used to promote our electronic trading platform.

*Moneyline Revenue Share.* Moneyline revenue share expense consists of expenses incurred pursuant to our agreement with Moneyline Telerate. Moneyline revenue share expense decreased by \$0.5 million to a benefit of \$0.05 million for the three months ended March 31, 2005 due to the reversal of a prior period over accrual. The Moneyline revenue share expense ended in February 2005, as we migrated away from the Moneyline technology platform to our new internally-developed platform.

*General and Administrative.* General and administrative expense consists primarily of occupancy and utilities, general travel and entertainment, staff training, board of directors costs and various state franchise and U.K. value-added taxes. General and administrative expense increased by \$0.2 million or 18.3% to \$1.3 million for the three months ended March 31, 2005 from \$1.1 million for the comparable period in 2004. This increase was due to an increase in occupancy expenses, board of directors expenses and franchise tax payments in 2004.

*Provision for Income Tax*

A net operating loss carryforward enables a company to apply net operating losses incurred during a current period against a future period's profits in order to reduce tax liability in those future periods. In periods when a company is generating operating losses, its net operating loss carryforward will increase. The tax effect of the net operating loss carryforwards is recorded as a deferred tax asset. If the company does not believe that it is more likely than not that it will be able to utilize the net operating loss carryforwards, it records a valuation allowance against the deferred tax asset.

As of March 31, 2005, the Company had net operating loss carryforwards for income tax purposes of \$97.1 million. The U.S. net operating loss carryforwards as of March 31, 2005 totaling \$86.3 million will begin to expire in 2018 and the U.K. net operating loss carryforwards as of March 31, 2005 totaling \$10.9 million do not expire. As of March 31, 2005 the Company had recorded a gross deferred tax asset of \$58.8 million, reduced to a net deferred tax asset of \$38.3 million by a valuation allowance of \$18.1 million and a deferred tax liability for capitalized software development costs of \$2.4 million.

For the three months ended March 31, 2005, we recorded an income tax provision of \$2.3 million. The provision consists principally of \$1.8 million in federal taxes, \$0.5 million in state and local taxes, \$0.08 million in federal alternative minimum taxes, a reduction in the valuation allowance of \$0.05 million and other credits of \$0.09 million.

For the three months ended March 31, 2004, we recorded an income tax provision of \$0.1 million. The provision consists principally of \$1.3 million in federal taxes, \$0.5 million in state and local taxes and a reduction in the valuation allowance of \$1.8 million.

For the three months ended March 31, 2005 and 2004, with the exception of the payment of certain state and local taxes, the provision for income taxes was a non-cash expense since the Company had available the net operating loss carryforward and tax credits detailed above to offset the cash payment of taxes.

We cannot predict the timing of the reversal of certain of the temporary differences (defined as the tax effect of the difference between the financial reporting basis and the tax reporting basis of certain balance sheet items). Therefore, the timing of the reversal of the temporary differences may result in charges to the provision for income taxes and may affect our future earnings. Additionally, our consolidated effective tax rate can vary from period to period depending on, among other factors, the geographic and business mix of our earnings.

**Critical Accounting Policies and Estimates**

There have been no significant changes to our critical accounting policies and estimates during the three months ended March 31, 2005, as compared to those we disclosed in Management's Discussion and Analysis of Financial Condition and Results of Operations included in our Annual Report on Form 10-K/A for the year ended December 31, 2004, except for Securities available-for-sale and Securities held-for-maturity, which are described below.

**Table of Contents*****Securities Available-for-Sale and Held-to-Maturity***

The Company has classified certain of its marketable securities as available-for-sale securities. Unrealized marketable securities gains and losses are reflected as a net amount in Accumulated other comprehensive loss on the Consolidated Statements of Financial Condition. Realized gains and losses are recorded on the Consolidated Statements of Operations in Other income or expense. For the purpose of computing realized gains and losses, cost is on a specific identification basis.

The Company has classified certain of its marketable securities as held-to-maturity securities as the Company has the intent and ability to hold these securities to maturity. The securities are carried at amortized cost using the specific identification method. Interest income is recorded using an effective interest rate, with the associated premium or discount amortized to interest income.

The Company assesses whether an other-than-temporary impairment loss on securities has occurred due to declines in fair value or other market conditions. Declines in fair value that are considered other than temporary are recorded as charges in the Consolidated Statements of Operations.

**Segment Results**

As an electronic, multi-dealer to client platform for trading fixed-income securities, our operations constitute a single business segment pursuant to SFAS No. 131, Disclosures about Segments of an Enterprise and Related Information. Because of the highly integrated nature of the financial markets in which we compete and the integration of our worldwide business activities, we believe that results by geographic region, products or types of clients are not necessarily meaningful in understanding our business.

**Liquidity and Capital Resources**

Our cash flows for the periods presented below were as follows:

	<b>Three months ended March 31,</b>	
	<b>2005</b>	<b>2004</b>
	<b>(In thousands)</b>	
Net cash (used in) operating activities	\$ (3,927)	\$(3,816)
Net cash (used in) investing activities	(36,704)	(3,816)
Net cash provided by financing activities	21	2
Net decrease for the period	\$(40,610)	\$(7,630)

***Operating Activities***

Net cash used in operating activities was \$3.9 million and \$3.8 million for the three months ended March 31, 2005 and 2004, respectively.

Net cash used in operating activities of \$3.9 million for the three months ended March 31, 2005 consisted of net income of \$3.1 million, adjusted for non-cash charges, primarily consisting of \$2.0 million of deferred taxes, charges of \$1.0 million for depreciation and amortization and \$0.4 million for compensation expense related to stock option issuance. These non-cash charges were offset by a decrease in cash used for working capital of \$10.4 million, primarily as a result of the payment of annual incentive bonuses in January 2005 of \$8.7 million.

Net cash used in operating activities of \$3.8 million for the three months ended March 31, 2004 consisted of net income of \$2.9 million, adjusted for non-cash charges, primarily consisting of charges of \$0.7 million for depreciation and amortization, \$0.5 million for compensation expense related to stock option issuance and \$2.5 million for warrant-related expense. These non-cash charges were offset by a decrease in cash used for working capital of \$10.4 million, primarily as a result of the payment of annual incentive bonuses in January 2004 of \$6.3 million and an increase in accounts receivable of \$ 2.3 million.

***Investing Activities***

Net cash used in investing activities was \$36.7 million and \$3.8 million for the three months ended March 31, 2005 and 2004, respectively.

Net cash used in investing activities of \$36.7 million for the three months ended March 31, 2005 consisted of investment of our proceeds from our initial public offering into \$27.9 million in Securities available-for-sale and \$13.9 million in Securities held-to-maturity, proceeds from maturities of \$5.8 from short-term investments, purchases of furniture, equipment and leasehold improvements of \$0.1 million and capitalization of software development costs of \$0.6 million.

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Net cash used in investing activities of \$3.8 million for the three months ended March 31, 2004 consisted of net purchases of short-term investments of \$2.0 million, purchases of furniture, equipment and leasehold improvements of \$0.5 million and capitalization of software development costs of \$1.3 million.

### ***Financing Activities***

Net cash provided by financing activities was \$0.021 million and \$0.002 million for the three months ended March 31, 2005 and 2004, respectively. Financing activities in 2005 and 2004 primarily consisted of proceeds from the exercise of stock options.

Past trends of cash flows are not necessarily indicative of future cash flow levels. A decrease in cash flows may have a material adverse effect on our liquidity, business and financial condition.

### ***Other Factors Influencing Liquidity and Capital Resources***

Commissions, information and access fees, and general operating expenses are the key factors that influence our cash flow. At March 31, 2005, we had Cash and cash equivalents of \$57.0 million, a decrease of \$40.6 million compared to December 31, 2004. The decrease in Cash and cash equivalents is primarily the result of the investment of cash totaling approximately \$41.0 million by our investment advisors. As of March 31, 2005, Cash and cash equivalents represented 33.7% of our total assets, compared to 55.6% at December 31, 2004.

We are dependent on our broker-dealer clients, nine of which are also our stockholders, who are not restricted from buying and selling fixed-income securities, directly or through their own proprietary or third-party platforms, with institutional investors. None of our broker-dealer clients is contractually or otherwise obligated to continue to use our electronic trading platform. The loss of, or a significant reduction in the use of our electronic platform by, our broker-dealer clients could reduce our cash flows, affect our liquidity and have a material adverse effect on our business, financial condition and results of operations.

We believe that our current resources are adequate to meet our liquidity needs and capital expenditure requirements for at least the next 12 months. However, our future liquidity and capital requirements will depend on a number of factors, including expenses associated with product development and expansion and new business opportunities that are intended to further diversify our revenue stream. We may also acquire or invest in technologies, business ventures or products that are complementary to our business. In the event we require any additional financing, it will take the form of equity or debt financing. Any additional equity offerings will result in dilution to our stockholders. Any debt financings may involve restrictive covenants with respect to dividends, issuances of additional capital and other financial and operational matters related to our business.

Our two major operating subsidiaries, MarketAxess Corporation and MarketAxess Europe Limited, are registered broker-dealers in the U.S. and the U.K., respectively. As such, they are subject to minimum regulatory capital requirements imposed by their respective market regulators that are intended to ensure general financial soundness and liquidity based on certain minimum capital requirements. The U.S. and the U.K. regulations prohibit a registered broker-dealer from repaying borrowings from its parent or affiliates, paying cash dividends, making loans to its parent or affiliates or otherwise entering into transactions that result in a significant reduction in its regulatory net capital position without prior notification to or approval from its principal regulator. The capital structures of our broker-dealer subsidiaries are designed to provide each with capital and liquidity consistent with its business and regulatory requirements. As of March 31, 2005, MarketAxess Corporation had net capital of \$23.9 million, which was \$23.6 million in excess of its required minimum net capital of \$0.3 million. MarketAxess Europe Limited had financial resources, as defined by the FSA, of \$12.0 million, which was \$8.1 million in excess of its required financial resources of \$3.9 million.

In the ordinary course of business, we enter into contracts that contain a variety of representations, warranties and general indemnifications. Our maximum exposure from any claims under these arrangements is unknown, as this would involve claims that have not yet occurred. However, based on past experience, we expect the risk of loss to be remote.

### ***Effects of Inflation***

Because the majority of our assets are liquid in nature, they are not significantly affected by inflation. However, the rate of inflation may affect our expenses, such as employee compensation, office leasing costs and communications expenses, which may not be readily recoverable in the prices of our services. To the extent inflation results in rising

interest rates and has other adverse effects on the securities markets, it may adversely affect our financial position and results of operations.

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**Risk Factors That May Affect Future Results**  
**Risks Related to the Potential Conflicts of Interest With Our Broker-Dealer Clients**  
**Who Are Also Our Stockholders**

*We are dependent on our broker-dealer clients, nine of which are also our stockholders, who are not restricted from buying and selling fixed-income securities, directly or through their own proprietary or third-party platforms, with institutional investors.*

We rely on our broker-dealer clients to provide product and liquidity on our electronic trading platform by posting bond prices on our platform for bonds in their inventory and responding to institutional investor client inquiries. Although each broker-dealer client is currently a party to an agreement with us, the obligations of each broker-dealer under these agreements are minimal. None of these agreements is exclusive and broker-dealers may terminate such agreements and/or enter into, and in some cases have entered into, similar agreements with our competitors. For example, some of our broker-dealer clients are also clients of Thompson TradeWeb, a multi-dealer to institutional investor trading platform that operates an online corporate bond trading platform.

Our broker-dealer clients buy and sell fixed-income securities directly with their clients through traditional bond trading methods, including telephone conversations, e-mail messaging and other electronic means of communication. Currently, the preponderance of trading of U.S. high-grade corporate bonds still occurs using traditional bond trading methods. Most of our broker-dealer and institutional investor clients are involved in other ventures, including other electronic trading platforms or other distribution channels, as trading participants and/or as equity holders, and such ventures or newly created ventures may compete with us and our electronic trading platform now and in the future.

Some of our broker-dealer clients have developed electronic trading networks or have announced their intention to explore the development of electronic trading networks. These competing trading platforms may offer some features that we do not currently offer. Furthermore, our broker-dealer clients have made, and may in the future continue to make, investments in businesses that directly or indirectly compete with us, including, either individually or collectively, organizing or investing in a separate company similar to us for the purpose of competing with us or pursuing corporate opportunities that might be attractive to us. Accordingly, there can be no assurance that such broker-dealers' primary commitments will not be to one of our competitors.

Any reduction in the use of our electronic trading platform by our broker-dealer clients would reduce the number of different bond issues and the volume of trading in those bond issues on our platform, which could, in turn, reduce the use of our platform by our institutional investor clients. The occurrence of any of the foregoing may have a material adverse effect on our business, financial condition and results of operations.

*We derive a significant percentage of our total revenues, and an even greater percentage of our commissions, from broker-dealer clients who are also our stockholders.*

We have historically earned a substantial portion of our commissions from the nine broker-dealer clients that are our stockholders. For the three months ended March 31, 2005, \$10.7 million or 57.3% of our commissions, and for the three months ended March 31, 2004, \$10.6 million or 59.4% of our commissions, were generated by these nine broker-dealer clients. None of our broker-dealer clients is contractually or otherwise obligated to continue to use our electronic trading platform. Reduced involvement of these broker-dealer clients due to their loss of a right to designate a member of our Board of Directors or the potential reduction in the level of their equity ownership if these entities should sell shares of our common stock, may cause them to reduce or discontinue their use of our electronic trading platform and other services, which could negatively impact the use of our platform by our institutional investor clients. The loss of, or a significant reduction of, participation on our platform by these broker-dealer clients may have a material adverse effect on our business, financial condition and results of operations.

*Nine of our broker-dealer clients or their affiliates own, in the aggregate, approximately 45.0% of our outstanding common stock and on a beneficial ownership basis own, in the aggregate, a majority of our common stock. These broker-dealer clients have strategic interests that differ from those of our other stockholders.*

As of March 31, 2005, nine of our broker-dealer clients or their affiliates owned, in the aggregate, approximately 45.0% of our outstanding common stock and on a beneficial ownership basis owned, in the aggregate, a majority of our common stock. These broker-dealer clients have strategic interests that are different from ours and those of our other stockholders. For example, in their capacity as broker-dealer clients, they would presumably favor lower



commissions and/or commission caps. Furthermore, as stockholders in other consortia that have developed competitive electronic trading networks or have announced their intention to

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explore the development of competitive electronic trading networks, they may decide to direct some or all of their electronic trading business to one or more of our competitors. While these actions, if taken, would presumably reduce our revenues and our market capitalization and, therefore, the value of their ownership position in us, there can be no assurance that they will not decide to take such actions for their own strategic reasons.

We are not a party to any voting agreement with any of our stockholders and are not aware of any voting agreements among our broker-dealer clients; however, they may enter into a voting agreement in the future or otherwise vote in a similar manner. To the extent that all of these broker-dealer clients or their affiliates vote similarly, they will be able to determine decisions requiring approval by our stockholders. As a result, they or their affiliates may be able to:

- control the composition of our Board of Directors through their ability to nominate directors and vote their shares to elect them;

- control our management and policies; and

- determine the outcome of significant corporate transactions, including changes in control that may be beneficial to other stockholders.

As a result of these factors, we may be less likely to pursue relationships with strategic partners who are not stockholders of ours, which could impede our ability to expand our business and strengthen our competitive position. Furthermore, these factors could also limit stockholder value by preventing a change in control or sale of MarketAxess.

***Future sales of shares by our broker-dealer clients who are also our stockholders could cause the market price of our common stock to drop significantly and/or limit our ability to utilize certain income tax benefits.***

All of the shares of common stock and non-voting common stock owned by our broker-dealer clients are subject to a lock-up agreement with the underwriters of our initial public offering, pursuant to which such shares may not be sold for a period of 180 days following the date of the pricing of our initial public offering, November 4, 2004. Subject to compliance with the federal securities laws, all of these shares became available for resale in the public market on May 4, 2005, which is 180 days after the effective date of our initial public offering, November 5, 2004, subject, in the case of affiliates of MarketAxess, to volume limitations on resale.

In addition, to the extent any future sales of common stock by our broker-dealer clients result in an ownership change within Section 382, we may not be able to realize certain income tax benefits resulting from our net operating loss carryforwards existing at the date of such ownership change. For more information regarding these potential income tax benefits and our net operating loss carryforwards, see Management's Discussion and Analysis of Financial Condition and Results of Operations Revenues and Expenses Income Taxes.

### **Risks Related to Our Business**

***We face substantial competition that could reduce our market share and harm our financial performance.***

The fixed-income securities industry generally, and the electronic financial services markets in which we operate in particular, are highly competitive, and we expect competition to intensify in the future. We will continue to compete with bond trading conducted directly between broker-dealers and their institutional investor clients over the telephone or electronically. In addition, our current and prospective competitors are numerous and include:

- other multi-dealer trading companies;

- market data and information vendors;

- securities and futures exchanges;

- inter-dealer brokerage firms;

- electronic communications networks;



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technology, software, information and media or other companies that have existing commercial relationships with broker-dealers or institutional investors; and

other electronic marketplaces that are not currently in the securities business.

Many of our current and potential competitors are more established and substantially larger than we are, and have substantially greater market presence, as well as greater financial, engineering, technical, marketing and other resources. These competitors may aggressively reduce their pricing to enter into market segments in which we have a leadership position today, potentially subsidizing any losses with profits from trading in other fixed-income or equity securities. In addition, many of our competitors offer a wider range of services, have broader name recognition and have larger customer bases than we do. Some of them may be able to respond more quickly to new or evolving opportunities, technologies and customer requirements than we can and may be able to undertake more extensive promotional activities.

Any combination of our competitors may enter into joint ventures or consortia to provide services similar to those provided by us. Current and new competitors can launch new platforms at a relatively low cost. Others may acquire the capabilities necessary to compete with us through acquisitions. We expect that we will potentially compete with a variety of companies with respect to each product or service we offer. If we are not able to compete successfully in the future, our business, financial condition and results of operations would be adversely affected.

***We have experienced losses and may incur losses in the future.***

Our accumulated losses at March 31, 2005 were \$97.6 million. We expect that our expenses will increase in the near term as we continue to expand our business and in order to meet the requirements related to being a public company. We cannot predict whether we will be able to sustain profitability and we may incur losses in future periods. If we are not able to sustain profitability, our stock price may decline.

***Neither the sustainability of our current level of business nor our historical growth can be assured. Even if we do experience growth, we cannot assure you that we will grow profitably.***

The use of our electronic trading platform is relatively new. The success of our business strategy depends, in part, on our ability to maintain and expand the network of broker-dealer and institutional investor clients that use our electronic trading platform. Our business strategy also depends on increasing the use of our platform by these clients. Individuals at broker-dealers or institutional investors may have conflicting interests, which may discourage their use of our platform.

Our growth is also dependent on our ability to diversify our revenue base. We currently derive a majority of our revenues from secondary trading in U.S. high-grade corporate bonds. Our trading volume for U.S. high-grade corporate bonds has remained relatively constant during the year ended December 31, 2004 and our commissions from such trading have also remained relatively constant during the year. Our long-term business strategy is dependent on expanding our service offerings and increasing our revenues from other fixed-income products and other sources. We cannot assure you that our efforts will be successful or result in increased revenues or continued profitability.

Our plans to pursue other opportunities for revenue growth are at an early stage, and we cannot assure you that our plans will be successful or that we will actually proceed with them as described.

***Because we have a limited operating history, it is difficult to evaluate our business and prospects.***

MarketAxess was formed in April 2000 and pilot trading on our electronic trading platform began in October 2000, with the commercial launch of the platform in January 2001. As a result, we have only a limited operating history from which you can evaluate our business and our prospects. We will encounter risks and difficulties frequently experienced by early-stage companies in rapidly evolving industries, such as the electronic financial services industry. These risks and difficulties include, but are not limited to, our ability to:

attract and retain broker-dealers and institutional investors on a cost-effective basis;

expand and enhance reliable and cost-effective product and service offerings to our clients;

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respond effectively to competitive pressures;

diversify our sources of revenues;

maintain adequate control of our expenses;

operate, support, expand and develop our operations, website, software, communications and other systems;

manage growth in personnel and operations;

increase awareness of our brand or market positioning;

expand our sales and marketing programs; and

respond to regulatory changes or demands.

If we are unsuccessful in addressing these risks or in executing our business strategy, our business, financial condition and results of operations may suffer.

***The cap we instituted on one of our pricing plans relating to commissions and fees paid by broker-dealers on our U.S. high-grade corporate bond trading platform could limit our revenues.***

For the three months ended March 31, 2005, \$12.5 million or 58.8% of our revenues, and for the three months ended March 31, 2004, \$11.4 million or 59.6% of our revenues, came from the commissions paid directly by broker-dealer clients for secondary trading of U.S. high-grade corporate bonds on our electronic trading platform. In 2003 we offered our broker-dealer clients the opportunity to switch to one of two new transaction fee plans for secondary U.S. high-grade corporate bond trading, each of which includes a fixed monthly fee component and a variable fee per trade component. For one of these new transaction fee plans, the aggregate amount of transaction fees payable by a broker-dealer client for U.S. high-grade corporate bond trading is capped on a monthly and an annual basis. Currently, one of our broker-dealer clients has selected the pricing plan that includes the fee cap. While the fee cap is designed to encourage our broker-dealer clients to be more active on our electronic trading platform, the fee cap limits the maximum amount of commissions payable to us by our most active broker-dealer clients, which could limit our revenues and constrain our growth and profitability.

***Our proposed new fee plan primarily for secondary market transactions in U.S. high-grade corporate bonds executed on our electronic trading platform, which we intend to implement during the second quarter 2005, is untested.***

We currently expect, during the second quarter of 2005, to introduce a new fee plan primarily for secondary market transactions in U.S. high-grade corporate bonds executed on our electronic trading platform. The new plan incorporates higher fixed monthly fees and lower variable fees for our broker-dealer clients and is designed to provide an added incentive to our broker-dealer and institutional investor clients to increase the volume of transactions effected on our platform. The new fee plan has a two-year term and supersedes the fee agreements that we entered into with many of our broker-dealer clients during the third quarter of 2003. These agreements had been scheduled to expire during the third quarter of 2005.

We cannot assure you that the new fee plan will result in an increase in the volume of transactions effected on our platform or that our revenues will increase as a result of the plan's implementation. Resistance to the new fee plan by our broker-dealer or institutional investor clients could have a material adverse effect on our business, financial condition and results of operations.

***Decreases in trading volumes in the fixed-income markets generally or on our platform could harm our business and profitability.***

We have experienced decreases in overall trading volume in certain periods, including specifically during the three months ended June 30, 2004, and may experience decreases in trading volume in the future. Declines in the overall volume of fixed-income securities trading and in market liquidity generally, as well as declines in interest rate

volatility, result in lower revenues from commissions for trades executed on our electronic trading platform and fees generated from related activities.

Likewise, decreases in our share of the segments of the fixed-income trading markets in which we operate, or shifts in trading volume to segments of clients which we have not penetrated, could result in lower trading volume on our platform and, consequently,

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lower commissions and other revenue. During periods of increased volatility in credit markets, the use of electronic trading platforms by market participants may decrease dramatically as institutional investors may seek to obtain additional information during the trade process through conversations with broker-dealers. In addition, during rapidly moving markets, broker-dealers may be less likely to post prices electronically.

A decline in trading volumes on our platform for any reason may have a material adverse effect on our business, financial condition and results of operations because our commissions are largely variable but a significant portion of our costs is fixed.

***If we experience significant fluctuations in our operating results or fail to meet revenues and earnings expectations, our stock price may fall rapidly and without advance notice.***

Due to our limited operating history, our evolving business model and the unpredictability of our industry, we may experience significant fluctuations in our operating results. We base our current and future expense levels and our investment plans on estimates of future revenues and future rate of growth. Our expenses and investments are, to a large extent, fixed and we expect that these expenses will increase in the future. We may not be able to adjust our spending quickly enough if our revenues fall short of our expectations.

Our revenues and operating results may also fluctuate due to other factors, including:

our ability to retain existing broker-dealer and institutional investor clients and attract new broker-dealer and institutional investor clients;

our ability to drive an increase in use of our electronic trading platform by new and existing broker-dealer and institutional investor clients;

changes in our pricing policies, including our introduction during 2003 of a fee arrangement with our broker-dealer clients relating to U.S. high-grade corporate bond trading that includes a cap and our planned introduction during the second quarter of 2005 of a new fee plan primarily for secondary market transactions in U.S. high-grade corporate bonds executed on our trading platform;

the introduction of new features on our electronic trading platform;

the rate of expansion and effectiveness of our sales force;

new product and service introductions by our competitors;

fluctuations in overall market trading volume;

technical difficulties or interruptions in our service;

general economic conditions in our geographic markets;

additional investment in our services or operations; and

regulatory compliance costs.

As a result, our operating results may fluctuate significantly on a quarterly basis, which could result in decreases in our stock price.

***We may not be able to introduce enhanced versions of our electronic trading platform, new services and/or service enhancements in a timely or acceptable manner, which could harm our competitive position***

Our business environment is characterized by rapid technological change, changing and increasingly sophisticated client demands and evolving industry standards. Our future will depend on our ability to develop and introduce new features to, and new versions of, our electronic trading platform. The success of new features and versions depends on several factors, including the timely completion, introduction and market acceptance of the feature or version. In

addition, the market for our electronic trading platform may be limited if prospective clients require customized features or functions that we are unable or unwilling to provide. If we are unable to anticipate



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and respond to the demand for new services, products and technologies and develop new features and enhanced versions of our electronic trading platform that achieve widespread levels of market acceptance on a timely and cost-effective basis, it could have a material adverse effect on our business, financial condition and results of operations.

***As we enter new markets, we may not be able to successfully attract clients and adapt our technology and marketing strategy for use in those markets.***

Our strategy includes leveraging our electronic trading platform to enter new markets. We cannot assure you that we will be able to successfully adapt our proprietary software and technology for use in other markets. Even if we do adapt our software and technology, we cannot assure you that we will be able to attract clients and compete successfully in any such new markets. We cannot assure you that our marketing efforts or our pursuit of any of these opportunities will be successful. If these efforts are not successful, we may realize less than expected earnings, which in turn could result in a decrease in the market value of our common stock. Furthermore, these efforts may divert management attention or inefficiently utilize our resources.

***Rapid technological changes may render our technology obsolete or decrease the attractiveness of our products and services to our broker-dealer and institutional investor clients.***

We must continue to enhance and improve our electronic trading platform. The electronic financial services industry is characterized by increasingly complex systems and infrastructures and new business models. If new industry standards and practices emerge, our existing technology, systems and electronic trading platform may become obsolete or our existing business may be harmed. Our future success will depend on our ability to:

enhance our existing products and services;

develop and/or license new products and technologies that address the increasingly sophisticated and varied needs of our broker-dealer and institutional investor clients and prospective clients; and

respond to technological advances and emerging industry standards and practices on a cost-effective and timely basis.

Developing our electronic trading platform and other technology entails significant technical and business risks. We may use new technologies ineffectively or we may fail to adapt our electronic trading platform, information databases and network infrastructure to broker-dealer or institutional investor client requirements or emerging industry standards. For example, our electronic trading platform functionality that allows searches and inquiries on bond pricing and availability is a critical part of our service, and it may become out-of-date or insufficient from our broker-dealer or institutional investor clients' perspective and in relation to the inquiry functionality of our competitors' systems. If we face material delays in introducing new services, products and enhancements, our broker-dealer and institutional investor clients may forego the use of our products and use those of our competitors.

Further, the adoption of new Internet, networking or telecommunications technologies may require us to devote substantial resources to modify and adapt our services. We cannot assure you that we will be able to successfully implement new technologies or adapt our proprietary technology and transaction-processing systems to client requirements or emerging industry standards. We cannot assure you that we will be able to respond in a timely manner to changing market conditions or client requirements.

***We depend on third-party suppliers for key products and services.***

We rely on a number of third parties to supply elements of our trading, information and other systems, as well as computers and other equipment, and related support and maintenance. We cannot assure you that any of these providers will be able to continue to provide these services in an efficient, cost-effective manner, if at all, or that they will be able to adequately expand their services to meet our needs. If we are unable to make alternative arrangements for the supply of critical products or services in the event of a malfunction of a product or an interruption in or the cessation of service by an existing service provider, our business, financial condition and results of operations could be materially adversely affected.

In particular, we depend on a third-party vendor for our corporate bond reference database. Disruptions in the services provided by that third party to us, including as a result of their inability or unwillingness to continue to

license products that are critical to the success of our business, could have a material adverse effect on our business, financial condition and results of operations.

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We also rely, and expect in the future to continue to rely, on third parties for various computer and communications systems, such as telephone companies, online service providers, data processors, and software and hardware vendors. Other third parties provide, for instance, our data center, telecommunications access lines and significant computer systems and software licensing, support and maintenance services. Any interruption in these or other third-party services or a deterioration in their performance could impair the quality of our service. We cannot be certain of the financial viability of all of the third parties on which we rely.

We license software from third parties, much of which is integral to our electronic trading platform and our business. We also hire contractors to assist in the development, quality assurance testing and maintenance of our electronic trading platform and other systems. Continued access to these licensors and contractors on favorable contract terms or access to alternative software and information technology contractors is important to our operations. Adverse changes in any of these relationships could have a material adverse effect on our business, financial condition and results of operations.

We attempt to negotiate favorable pricing, service, confidentiality and intellectual property ownership or licensing and other terms in our contracts with our service providers. These contracts usually have multi-year terms. However, there is no guarantee that these contracts will not terminate and that we will be able to negotiate successor agreements or agreements with alternate service providers on competitive terms. Further, the existing agreements may bind us for a period of time to terms and technology that become obsolete as our industry and our competitors advance their own operations and contracts.

***Our success depends on maintaining the integrity of our electronic trading platform, systems and infrastructure; our computer systems may suffer failures, capacity constraints and business interruptions that could increase our operating costs and cause us to lose clients.***

In order to be successful, we must provide reliable, real-time access to our electronic trading platform for our broker-dealer and institutional investor clients. If our electronic trading platform is hampered by slow delivery times, unreliable service or insufficient capacity, our broker-dealer and institutional investor clients may decide to stop using our platform, which would have a material adverse effect on our business, financial condition and results of operations.

As our operations grow in both size and scope, we will need to improve and upgrade our electronic trading platform and infrastructure to accommodate potential increases in order message volume and trading volume, the trading practices of new and existing clients, regulatory changes and the development of new and enhanced trading platform features, functionalities and ancillary products and services. The expansion of our electronic trading platform and infrastructure has required, and will continue to require, substantial financial, operational and technical resources. These resources will typically need to be committed well in advance of any actual increase in trading volumes and order messages. We cannot assure you that our estimates of future trading volumes and order messages will be accurate or that our systems will always be able to accommodate actual trading volumes and order messages without failure or degradation of performance. Furthermore, we use new technologies to upgrade our established systems, and the development of these new technologies also entails technical, financial and business risks. We cannot assure you that we will successfully implement new technologies or adapt our existing electronic trading platform, technology and systems to the requirements of our broker-dealer and institutional investor clients or to emerging industry standards. The inability of our electronic trading platform to accommodate increasing trading volume and order messages would also constrain our ability to expand our business.

We cannot assure you that we will not experience systems failures. Our electronic trading platform, computer and communication systems and other operations are vulnerable to damage, interruption or failure as a result of, among other things:

irregular or heavy use of our electronic trading platform during peak trading times or at times of unusual market volatility;

power or telecommunications failures, hardware failures or software errors;

human error;

computer viruses, acts of vandalism or sabotage (and resulting potential lapses in security), both internal and external;

natural disasters, fires, floods or other acts of God;

acts of war or terrorism or other armed hostility; and

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loss of support services from third parties, including those to whom we outsource aspects of our computer infrastructure critical to our business.

In the event that any of our systems, or those of our third-party providers, fail or operate slowly, it may cause any one or more of the following to occur:

unanticipated disruptions in service to our clients;

slower response times or delays in our clients' trade execution;

incomplete or inaccurate accounting, recording or processing of trades;

financial losses and liabilities to clients;

litigation or other claims against us, including formal complaints to industry regulatory organizations; and regulatory inquiries, proceedings or sanctions.

Any system failure that causes an interruption in service or decreases the responsiveness of our service, including failures caused by client error or misuse of our systems, could damage our reputation, business and brand name and lead our broker-dealer and institutional investor clients to decrease or cease their use of our electronic trading platform.

In these circumstances, our redundant systems or disaster recovery plans may not be adequate. Similarly, although many of our contracts with our service providers require them to have disaster recovery plans, we cannot be certain that these will be adequate or implemented properly. In addition, our business interruption insurance may not adequately compensate us for losses that may occur.

We also cannot assure you that we have sufficient personnel to properly respond to system problems. We internally support and maintain many of our computer systems and networks, including those underlying our electronic trading platform. Our failure to monitor or maintain these systems and networks or, if necessary, to find a replacement for this technology in a timely and cost-effective manner would have a material adverse effect on our business, financial condition and results of operations.

***If our security measures are breached and unauthorized access is obtained to our electronic trading platform, broker-dealers and institutional investors may become hesitant to use, or reduce or stop their use of, our trading platform.***

Our electronic trading platform involves the storage and transmission of our clients' proprietary information. The secure transmission of confidential information over public networks is a critical element of our operations. Security breaches could expose us to a risk of loss of this information, litigation and possible liability. If our security measures are breached as a result of third-party action, employee error, malfeasance or otherwise, and, as a result, someone obtains unauthorized access to trading or other confidential information, our reputation could be damaged, our business may suffer and we could incur significant liability. Because techniques used to obtain unauthorized access or to sabotage computer systems change frequently and generally are not recognized until launched against a target, we may be unable to anticipate these techniques or to implement adequate preventive measures. If an actual, threatened or perceived breach of our security occurs, the market perception of the effectiveness of our security measures could be harmed and could cause our broker-dealer and institutional investor clients to reduce or stop their use of our electronic trading platform. We may be required to expend significant resources to protect against the threat of security breaches or to alleviate problems, including reputational harm and litigation, caused by any breaches. Although we intend to continue to implement industry-standard security measures, we cannot assure you that those measures will be sufficient.

***We may not be able to protect our intellectual property rights or technology effectively, which would allow competitors to duplicate or replicate our electronic trading platform. This could adversely affect our ability to compete.***

Intellectual property is critical to our success and ability to compete, and if we fail to protect our intellectual property rights adequately, our competitors might gain access to our technology. We rely primarily on a combination of patent, copyright, trademark and trade secret laws in the United States and other jurisdictions, as well as license agreements, third-party non-disclosure and other agreements and other contractual provisions and technical measures to protect our intellectual property rights. We attempt to negotiate beneficial intellectual property ownership provisions in our contracts and also require employees, consultants, advisors and collaborators to enter into confidentiality agreements in order to protect the confidentiality of our proprietary information. We have

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filed five patent applications covering aspects of our technology and/or business but can make no assurances that any such patents will be issued or, if issued, will protect our business and processes from competition. Additionally, laws and our contractual terms may not be sufficient to protect our technology from use or theft by third parties. For instance, a third party might reverse engineer or otherwise obtain and use our technology without our permission and without our knowledge, thereby infringing our rights and allowing competitors to duplicate or replicate our products. Furthermore, we cannot assure you that these protections will be adequate to prevent our competitors from independently developing technologies that are substantially equivalent or superior to our technology.

We may have legal or contractual rights that we could assert against illegal use of our intellectual property rights, but lawsuits claiming infringement or misappropriation are complex and expensive, and the outcome would not be certain. In addition, the laws of some countries in which we now or in the future provide our services may not protect software and intellectual property rights to the same extent as the laws of the United States.

***Defending against intellectual property infringement or other claims could be expensive and disruptive to our business. If we are found to infringe the proprietary rights of others, we could be required to redesign our products, pay royalties or enter into license agreements with third parties.***

In the technology industry, there is frequent litigation based on allegations of infringement or other violations of intellectual property rights. As the number of participants in our market and the number of patents and other intellectual property registrations increase, the possibility of an intellectual property claim against us grows. Although we have never been the subject of a material intellectual property dispute, we cannot assure you that a third party will not assert in the future that our technology or the manner in which we operate our business violates its intellectual property rights. From time to time, in the ordinary course of our business, we may become subject to legal proceedings and claims relating to the intellectual property rights of others, and we expect that third parties may assert intellectual property claims against us, particularly as we expand the complexity and scope of our business, the number of electronic trading platforms increases and the functionality of these platforms further overlaps. Any claims, whether with or without merit, could:

- be expensive and time-consuming to defend;

- prevent us from operating our business, or portions of our business;

- cause us to cease developing, licensing or using all or any part of our electronic trading platform that incorporates the challenged intellectual property;

- require us to redesign our products or services, which may not be feasible;

- result in significant monetary liability;

- divert management's attention and resources; and

- require us to pay royalties or enter into licensing agreements in order to obtain the right to use necessary technologies, which may not be possible on commercially reasonable terms.

We cannot assure you that third parties will not assert infringement claims against us in the future with respect to our electronic trading platform or any of our other current or future products or services or that any such assertion will not require us to cease providing such services or products, try to redesign our products or services, enter into royalty arrangements, if available, or engage in litigation that could be costly to us. Any of these events could have a material adverse effect on our business, financial condition and results of operations.

***If we are unable to enter into additional marketing and strategic alliances or if our current strategic alliances are not successful, we may not maintain the current level of trading or generate increased trading on our trading platform.***

During 2003, we entered into a strategic alliance with Charles River Development ( CRD ), an order management system provider to institutional investor firms. Order management systems help institutional investors manage the

workflow involved in the trade process. By allowing us to connect our electronic trading platform to our clients CRD-supplied order management systems using an interface based on industry-standard messaging protocols, our strategic alliance with CRD is intended, among other things, to reduce the steps involved in trade execution and eliminate redundant manual processes in the trade lifecycle.



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From time to time, we may enter into additional strategic alliances that will enable us to enter new markets, provide products or services that we do not currently offer or otherwise enhance the value of our platform to our clients.

Entering into ventures and alliances entails risks, including:

difficulties in developing and expanding the business of newly formed ventures;

exercising influence over the activities of ventures in which we do not have a controlling interest; and

potential conflicts with or among our venture or alliance partners.

We cannot assure you that we will be able to enter into new strategic alliances on terms that are favorable to us, or at all. These arrangements, if entered into, may not generate the expected number of new clients or increased trading volume we are seeking. Unsuccessful ventures or alliances could have a material adverse effect on our business, financial condition and results of operations.

***If we acquire or invest in other businesses, products or technologies, we may be unable to integrate them with our business, our financial performance may be impaired or we may not realize the anticipated financial and strategic goals for any such transactions.***

If appropriate opportunities present themselves, we may acquire or make investments in businesses, products or technologies that we believe are strategic. We may not be able to identify, negotiate or finance any future acquisition or investment successfully. Even if we do succeed in acquiring or investing in a business, product or technology, such acquisitions and investments involve a number of risks, including:

we may find that the acquired company or assets do not further our business strategy, or that we overpaid for the company or assets, or the economic conditions underlying our acquisition decision may change;

we may have difficulty integrating the acquired technologies or products with our existing electronic trading platform, products and services;

we may have difficulty integrating the operations and personnel of the acquired business, or retaining the key personnel of the acquired business;

there may be client confusion if our services overlap with those of the acquired company;

our ongoing business and management's attention may be disrupted or diverted by transition or integration issues and the complexity of managing geographically or culturally diverse enterprises;

we may have difficulty maintaining uniform standards, controls, procedures and policies across locations;

an acquisition may result in litigation from terminated employees or third parties; and

we may experience significant problems or liabilities associated with product quality, technology and legal contingencies.

These factors could have a material adverse effect on our business, financial condition, results of operations and cash flows, particularly in the case of a larger acquisition or multiple acquisitions in a short period of time. From time to time, we may enter into negotiations for acquisitions or investments that are not ultimately consummated. Such negotiations could result in significant diversion of management time, as well as out-of-pocket costs.

The consideration paid in connection with an investment or acquisition also affects our financial results. If we were to proceed with one or more significant acquisitions in which the consideration included cash, we could be required to use a substantial portion of our available cash to consummate any acquisition. To the extent we issue shares of capital stock or other rights to purchase capital stock, including options or other rights, existing stockholders may be diluted and earnings per share may decrease. In addition, acquisitions may result in the incurrence of debt, large one-time

write-offs, such as of acquired in-process research and development

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costs, and restructuring charges. They may also result in goodwill and other intangible assets that are subject to impairment tests, which could result in future impairment charges.

***We are dependent on our management team, and the loss of any key member of this team may prevent us from implementing our business plan in a timely manner.***

Our success depends largely upon the continued services of our executive officers and other key personnel, particularly Richard M. McVey, our President, Chief Executive Officer and Chairman of our Board of Directors. The terms of Mr. McVey's employment agreement with us do not require him to continue to work for us and allow him to terminate his employment at any time, subject to certain notice requirements and forfeiture of non-vested equity options. Any loss or interruption of Mr. McVey's services or that of one or more of our other executive officers or key personnel could result in our inability to manage our operations effectively and/or pursue our business strategy.

***Because competition for our employees is intense, we may not be able to attract and retain the highly skilled employees we need to support our business.***

We strive to provide high-quality services that will allow us to establish and maintain long-term relationships with our broker-dealer and institutional investor clients. Our ability to provide these services and maintain these relationships, as well as our ability to execute our business plan generally, depends in large part upon our employees. We must attract and retain highly qualified personnel. Competition for these personnel is intense, especially for software engineers with extensive experience in designing and developing software and Internet-related services, hardware engineers, technicians, product managers and senior sales executives.

The market for qualified personnel has grown more competitive in recent periods as electronic commerce has experienced growth. Domestic and international labor markets have tightened in concert with the continuing recovery in general economic conditions. Many of the companies with which we compete for experienced personnel have greater resources than we have and are longer established in the marketplace. In addition, in making employment decisions, particularly in the Internet, high-technology and financial services industries, job candidates often consider the total compensation package offered, including the value of the stock options they are to receive in connection with their employment. Significant volatility in the price of our common stock may adversely affect our ability to attract or retain key employees. Furthermore, proposed changes to accounting principles generally accepted in the United States relating to the expensing of stock options may discourage us from granting the size or type of stock option awards that job candidates may require to join our company.

We cannot assure you that we will be successful in our efforts to recruit and retain the required personnel. The failure to attract new personnel or to retain and motivate our current personnel may have a material adverse effect on our business, financial condition and results of operations.

***Our business is subject to increasingly extensive government and other regulation and our relationships with our broker-dealer clients may subject us to increasing regulatory scrutiny.***

The financial industry is extensively regulated by many governmental agencies and self-regulatory organizations, including the U.S. Securities and Exchange Commission ( SEC ) and the National Association of Securities Dealers, Inc. ( NASD ). As a matter of public policy, these regulatory bodies are responsible for safeguarding the integrity of the securities and other financial markets and protecting the interests of investors in those markets. These regulatory bodies have broad powers to promulgate and interpret, investigate and sanction non-compliance with their laws, rules and regulations.

Most aspects of our broker-dealer subsidiaries are highly regulated, including:

the way we deal with our clients;

our capital requirements;

our financial and regulatory reporting practices;

required record-keeping and record retention procedures;

the licensing of our employees; and

the conduct of our directors, officers, employees and affiliates.

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We cannot assure you that we and/or our directors, officers and employees will be able to fully comply with these laws, rules and regulations. If we fail to comply with any of these laws, rules or regulations, we may be subject to censure, fines, cease-and-desist orders, suspension of our business, suspensions of personnel or other sanctions, including revocation of our membership in the NASD and registration as a broker-dealer.

Changes in laws or regulations or in governmental policies, including the rules relating to the maintenance of specific levels of net capital applicable to our broker-dealer subsidiaries, could have a material adverse effect on our business, financial condition and results of operations. Our industry has been and is subject to continuous regulatory changes and may become subject to new regulations or changes in the interpretation or enforcement of existing regulations, which could require us to incur significant compliance costs or cause the development of affected markets to become impractical. In addition, as we expand our business into new markets, it is likely that we will be subject to additional laws, rules and regulations. We cannot predict the extent to which any future regulatory changes may adversely affect our business and operations.

Our disclosed trading system has not been subjected to regulation as an alternative trading system under Regulation ATS. A determination by the SEC to treat our trading platform as an alternative trading system subject to Regulation ATS would subject us to additional reporting obligations and other limitations on the conduct of our business, many of which could be material.

As an enterprise founded and historically controlled by broker-dealer competitors, we may be subject to ongoing regulatory scrutiny of our business to a degree that is not likely to be experienced by some of our competitors. In November 2000, we received a Civil Investigative Demand from the U.S. Department of Justice in connection with the Antitrust Division's investigation of electronic bond and other consortia trading systems. After compliance with all information requests, we received notice from the U.S. Department of Justice in December 2004 that the investigation had been officially closed. As the use of our electronic trading platform grows and represents a greater share of the trading volume of fixed-income securities, the risk that other regulatory investigations could commence in the future increases. Additionally, the involvement of individuals affiliated with certain of our broker-dealer clients on our Board of Directors and as stockholders may subject us to increased regulatory scrutiny of our business. At any time, the outcome of investigations and other regulatory scrutiny could lead to compulsory changes to our business model, conduct or practices, or our relationships with our broker-dealer clients, or additional governmental scrutiny or private lawsuits against us, any of which could materially harm our revenues, impair our ability to provide access to the broadest range of fixed-income securities and impact our ability to grow and compete effectively, particularly as we implement new initiatives designed to enhance our competitive position.

The activities and consequences described above may result in significant distractions to our management and could have a material adverse effect on our business, financial condition and results of operations.

***We expect to continue to expand our operations outside of the United States; however, we may face special economic and regulatory challenges that we may not be able to meet.***

We operate an electronic trading platform in Europe and we plan to further expand our operations throughout Europe and other regions. There are certain risks inherent in doing business in international markets, particularly in the financial services industry, which is heavily regulated in many jurisdictions outside the United States. These risks include:

less developed technological infrastructures and generally higher costs, which could result in lower client acceptance of our services or clients having difficulty accessing our trading platform;

difficulty in obtaining the necessary regulatory approvals for planned expansion, if at all, and the possibility that any approvals that are obtained may impose restrictions on the operation of our business;

the inability to manage and coordinate the various regulatory requirements of multiple jurisdictions that are constantly evolving and subject to unexpected change;

difficulties in staffing and managing foreign operations;

fluctuations in exchange rates;

reduced or no protection for intellectual property rights;

seasonal reductions in business activity; and

potentially adverse tax consequences.

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Our inability to manage these risks effectively could adversely affect our business and limit our ability to expand our international operations, which could have a material adverse effect on our business, financial condition and results of operations.

***We cannot predict our future capital needs or our ability to obtain additional financing if we need it.***

Our business is dependent upon the availability of adequate funding and regulatory capital under applicable regulatory requirements. Historically, we have satisfied these needs primarily through equity financing from certain of our broker-dealer clients, our acquisition of Trading Edge, Inc., internally generated funds and, most recently, our initial public offering. Although we believe that our available cash resources are sufficient to meet our presently anticipated liquidity needs and capital expenditure requirements for at least the next 12 months, we may in the future need to raise additional funds to, among other things:

support more rapid growth of our business;

develop new or enhanced services and products;

respond to competitive pressures;

acquire complementary companies or technologies;

enter into strategic alliances;

increase the regulatory net capital necessary to support our operations; or

respond to unanticipated capital requirements.

We may not be able to obtain additional financing, if needed, in amounts or on terms acceptable to us, if at all. Our existing investors, including our broker-dealer clients and their affiliates, have no obligation to make further investments in us, and we do not anticipate that they will do so. If sufficient funds are not available or are not available on terms acceptable to us, our ability to fund our expansion, take advantage of acquisition opportunities, develop or enhance our services or products, or otherwise respond to competitive pressures would be significantly limited. These limitations could have a material adverse effect on our business, financial condition and results of operations.

***The requirements of being a public company may strain our resources, divert management's attention and affect our ability to attract and retain qualified board members.***

As a public company, we are subject to the reporting requirements of the Securities Exchange Act, the Sarbanes-Oxley Act of 2002 and NASDAQ rules promulgated in response to the Sarbanes-Oxley Act. The requirements of these rules and regulations have increased our legal and financial compliance costs, made some activities more difficult, time-consuming or costly and may place undue strain on our systems and resources. The Securities Exchange Act requires, among other things, that we file annual, quarterly and current reports with respect to our business and financial condition. The Sarbanes-Oxley Act requires, among other things, that we maintain effective disclosure controls and procedures and internal controls for financial reporting. In order to maintain and improve the effectiveness of our disclosure controls and procedures and internal control over financial reporting, significant resources and management oversight will be required. As a result, management's attention may be diverted from other business concerns, which could have a material adverse effect on our business, financial condition and results of operations.

These rules and regulations could also make it more difficult for us to attract and retain qualified independent members of our Board of Directors. Additionally, we expect these rules and regulations to make it more difficult and more expensive for us to obtain director and officer liability insurance. We may be required to accept reduced coverage or incur substantially higher costs to obtain coverage. NASDAQ rules also require that a majority of our Board of Directors and all of certain sub-committees of the Board of





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Directors consist of independent directors. We cannot assure you that our Board of Directors will continue to include a majority of independent directors to comply with the requirements of these rules.

***We are subject to the risks of litigation and securities laws liability.***

Many aspects of our business, and the businesses of our clients, involve substantial risks of liability. Dissatisfied clients may make claims regarding quality of trade execution, improperly settled trades, mismanagement or even fraud against their service providers. We and our clients may become subject to these claims as the result of failures or malfunctions of our electronic trading platform and services provided by us. We could incur significant legal expenses defending claims, even those without merit. An adverse resolution of any lawsuits or claims against us could have a material adverse effect on our business, financial condition and results of operations.

**Risks Related to Our Industry**

***If the use of electronic trading platforms does not continue to increase, we will not be able to achieve our business objectives.***

The success of our business plan depends on our ability to create an electronic trading platform for a wide range of fixed-income products. Historically, fixed-income securities markets operated through telephone communications between institutional investors and broker-dealers. The utilization of our products and services depends on the acceptance, adoption and growth of electronic means of trading securities. We cannot assure you that the growth and acceptance of electronic means of trading securities will continue.

***Weak economic conditions in the United States and in the other countries and geographic areas in which we offer our services may negatively impact our business.***

In recent years, the United States and other international markets in which we offer our services have experienced a significant economic downturn. In addition, the United States and other countries in which we offer our services have recently suffered acts of war or terrorism or other armed hostilities. These or similar acts have in the past increased or prolonged, and may in the future increase or prolong, negative economic conditions. An economic downturn may impact our ability to maintain profitability by negatively affecting demand for our services.

***Economic, political and market factors beyond our control could reduce demand for our services and harm our business, and our profitability could suffer.***

The global financial services business is, by its nature, risky and volatile and is directly affected by many national and international factors that are beyond our control. Any one of these factors may cause a substantial decline in the U.S. and global financial services markets, resulting in reduced trading volume. These events could have a material adverse effect on our business, financial condition and results of operations. These factors include:

economic and political conditions in the United States and elsewhere;

adverse market conditions, including unforeseen market closures or other disruptions in trading;

concerns over inflation and weakening consumer confidence levels;

the availability of cash for investment by mutual funds and other wholesale and retail investors;

the level and volatility of interest and foreign currency exchange rates; and

legislative and regulatory changes.

Any one or more of these factors may contribute to reduced activity and prices in the securities markets generally. Our revenues and profitability are likely to decline significantly during periods of stagnant economic conditions or low trading volume in the U.S. and global financial markets.

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**Item 3. *Quantitative and Qualitative Disclosures About Market Risk***

Market risk is the risk of loss resulting from adverse changes in market rates and prices, such as interest rates and foreign currency exchange rates.

***Interest Rate Risk***

Interest rate risk represents our exposure to interest rate changes with respect to the money market instruments and U.S. Treasury obligations in which we invest. We do not maintain an inventory of bonds that are traded on our platform, nor, with limited exceptions, do we act as principal to the bond transactions completed on our platform.

Our interest income from money market instruments, U.S. Treasury obligations and various securities was \$0.9 million for the three months ended March 31, 2005. Fluctuations in interest income are attributable to changes in our cash balances or holdings of U.S. Treasury securities and fluctuations in interest rates received on those balances or securities.

***Derivative Risk***

Our limited derivative risk stems from our activities in the foreign currency forward contract market. We use this market to mitigate our U.S. dollar versus Pound Sterling exposure that arises from the activities of our U.K. subsidiaries. As of March 31, 2005, the notional value of our foreign currency forward contracts was \$14.1 million with an unrealized loss of \$0.26 million. We do not speculate in any derivative instruments.

**Item 4. *Controls and Procedures***

(a) *Evaluation of Disclosure Controls and Procedures.* Our management, including the Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures, as that term is defined in Rule 13a-15(e) promulgated under the Securities Exchange Act of 1934, as amended (the Exchange Act), as of March 31, 2005. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the disclosure controls and procedures are effective to ensure that information required to be disclosed by MarketAxess in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms, and to ensure that information is accumulated and communicated to our management, including the Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

As described in Note 2 to the Consolidated Financial Statements included in our Annual Report on Form 10-K/A for the year ended December 31, 2004 and in Note 2 to the Consolidated Financial Statements included in this Quarterly Report on Form 10-Q/A, we have restated our previously issued financial statements as of and for the year ended December 31, 2004 and as of March 31, 2005 to reflect the correction of an error related to the recording of deferred income taxes.

*Impact of the Restatement on Internal Control over Financial Reporting.* Our management considered the deficiency in internal control over financial reporting which resulted in the decision to restate our previously issued financial statements as disclosed in Note 2 to the Consolidated Financial Statements included in our Annual Report on Form 10-K/A for the year ended December 31, 2004 and in Note 2 to the Consolidated Financial Statements included in this Quarterly Report on Form 10-Q/A. We reviewed and analyzed the Securities and Exchange Commission's Staff Accounting Bulletin (SAB) No. 99, Materiality, Accounting Principles Board Opinion No. 28, Interim Financial Reporting, paragraph 29 and SAB Topic 5 F, Accounting Changes Not Retroactively Applied Due to Immateriality. As part of the analysis, our management considered the impact of the restatement adjustment on the financial statements of prior interim or annual periods taken as a whole, and our management determined to restate our previously issued financial statements because the cumulative impact of the error, although not material to any such prior interim or annual period, would have been material to the current year's reported net earnings, if recorded in the current period. Based on our review and analysis including the foregoing, our management also concluded that the deficiency in internal control over financial reporting that resulted in the restatement of the prior period financial statements did not constitute a material weakness. This control deficiency has been reported to the Audit Committee by our management in accordance with Section 302 of the Sarbanes-Oxley Act of 2002.

(b) *Changes in Internal Controls.* There were no changes in our internal controls over financial reporting during the quarter ended March 31, 2005 identified in connection with the evaluation thereof by our management, including the Chief Executive Officer and Chief Financial Officer, that materially affected, or are reasonably likely to materially

affect, our internal controls over financial reporting.

**Table of Contents****PART II Other Information****Item 1. Legal Proceedings**

We are not currently a party to any material legal proceedings. We may be subject to various claims and legal actions arising in the ordinary course of business.

**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds*****Recent Sales of Unregistered Securities***

Between January 2005 and March 2005, we issued an aggregate of 6,562 shares of common stock to two former employees relating to the exercise of employee stock options. The shares were issued at an average price of approximately \$3.16 per share for total proceeds of \$3,000 to the Company.

***Securities Authorized For Issuance Under Equity Compensation Plans***

The following table provides certain information regarding common stock authorized for issuance under our equity compensation plans, as of March 31, 2005.

**Equity Compensation Plan Information**

<b>Plan Category</b>	<b>Number of Securities to be Issued upon Exercise of Outstanding Options, Warrants and Rights (a)</b>	<b>Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights (b)</b>	<b>Number of Securities Remaining Available for Future Issuance under Equity Compensation Plans (Excluding Securities Reflected in Column (a)) (c)</b>
Equity compensation plans approved by stockholders (1)	1,130,000	\$ 14.54	1,913,059
Equity compensation plans not approved by stockholders			
<b>Total</b>	<b>1,130,000</b>	<b>\$ 14.54</b>	<b>1,913,059</b>

(1) In January 2005, the Company granted 180,000 restricted shares to employees. Of these, 129,500 shares were granted to senior management. These options vest over a

period of five years, subject to acceleration upon attainment of specified Company performance goals. The remaining 49,500 restricted shares were granted to employees and vest over a three-year period.

***Issuer Purchases of Equity Securities***

We did not repurchase any of our securities during any month within the quarter ended March 31, 2005.

***Item 3. Defaults upon Senior Securities***

None

***Item 4. Submission of Matters to a Vote of Security Holders***

None

***Item 5. Other Information***

None

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**Item 6. Exhibits**

Exhibit Listing

<b>Number</b>	<b>Description</b>
31.1	Certification by Chief Executive Officer pursuant to Exchange Act Rule 13a-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification by Chief Financial Officer pursuant to Exchange Act Rule 13a-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification by Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2	Certification by Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

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**SIGNATURES**

Pursuant to the requirements of the Securities Act of 1933, as amended, the registrant has duly caused this Form 10-Q/A to be signed on its behalf by the undersigned, thereunto duly authorized.

MARKETAXESS HOLDINGS INC.

Date: August 12, 2005

By: /s/ RICHARD M. MCVEY  
Richard M. McVey  
President and Chief Executive Officer  
(principal executive officer)

Date: August 12, 2005

By: /s/ JAMES N.B. RUCKER  
James N. B. Rucker  
Chief Financial Officer  
(principal financial and accounting  
officer)

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