MARKETAXESS HOLDINGS INC
Form 10-K/A
August 12, 2005

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

Form 10-K/A

(Mark One)

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

For the fiscal year ended December 31, 2004

o **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	**52-2230784**
(State of incorporation)	*(IRS Employer Identification No.)*
140 Broadway, New York, New York	**10005**
(Address of principal executive offices)	*(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 þ No o

Indicate by check mark if disclosure of delinquent filers pursuant to item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this form 10-K or any amendment to this form 10-K. o

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

The aggregate market value of the shares of common stock and non-voting held by non-affiliates of the registrant was approximately $436,820,049 at December 31, 2004, based upon the closing price for shares of the registrant s common stock as reported by the National Market System of the NASDAQ Stock Market on that date. For purposes of this calculation, affiliates are considered to be officers, directors and holders of 10% or more of the outstanding common stock of the registrant on that date. At March 28, 2005, the number of shares of the registrant s common stock outstanding was 23,032,141.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant s definitive proxy statement for the 2005 Annual Meeting of Stockholders, which was filed on April 29, 2005, are incorporated by reference into Items 10, 11, 12, 13 and 14 of Part III of this Form 10-K.

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EXPLANATORY NOTE

The purpose of this amendment on Form 10-K/A to the Annual Report on Form 10-K of MarketAxess Holdings Inc. for the year ended December 31, 2004 is to restate the Consolidated Financial Statements as of and for the year ended December 31, 2004 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.

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 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 non-cash adjustments detailed above had no impact on the Company s cash flows or income before taxes for the year ended December 31, 2004.

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PART I

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, statement 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.

Item 1. *Business*

MarketAxess operates one of the leading platforms for the electronic trading of corporate bonds and certain other types of fixed-income securities. Our electronic trading platform is accessed by our broker-dealer and institutional investor clients either via a direct connection or over the Internet. Our 539 active institutional investor client firms (firms that executed at least one trade through our electronic trading platform between January 2004 and December 2004) can access the aggregate liquidity provided by the collective interest of our 22 broker-dealer clients in buying or selling bonds through our platform. 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. Since our inception, the majority of our revenues have been generated from the trading of U.S. high-grade corporate bonds, although an increasing percentage of our revenues has recently been derived from the trading of European high-grade corporate bonds. With limited exceptions, our commissions are generated from transactions between a broker-dealer client and an institutional investor client.

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 a developing country, including both high-grade and non-investment grade debt. To date, however, emerging markets bonds do not represent a significant component of our revenues.

We derive our revenues primarily from commissions paid by our broker-dealer clients for trades executed on our platform (which represented 89.9% of our revenues for the year ended December 31, 2004) and, to a lesser extent, from license fees for access to our trading platform charged to certain of our broker-dealer clients (which represented 4.1% of our revenues for the year ended December 31, 2004) and information and user access fees charged to our clients (which represented 3.6% of our revenues for the year ended December 31, 2004).

Traditionally, bond trading has been a manual process, with product and price discovery conducted over the telephone between two or more parties. This traditional process, which is still how most corporate bonds are traded, has a number of shortcomings resulting primarily from the lack of a central trading facility for these securities, which creates difficulty matching buyers and sellers for particular issues. In recent years, an increasing number of corporate bond trading participants have utilized e-mail and other electronic means of communication (including proprietary, single-dealer systems) for trading corporate bonds. While this has addressed some of the shortcomings associated with traditional corporate bond trading, we believe that the process is still hindered by limited liquidity,

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limited price transparency, significant transaction costs, compliance and regulatory challenges, and difficulty in executing numerous trades at one time.

Through our electronic platform, our institutional investor clients can determine prices available for a security, a process called price discovery, as well as trade securities directly with our broker-dealer clients. The price discovery process includes the ability to view indicative prices from the broker-dealer clients inventory available on our platform, access to real-time pricing information and analytical tools (including spread-to-Treasury data, search capabilities and independent credit research) available on our Corporate BondTicker service and the ability to request executable bids and offers simultaneously from up to 18 of our broker-dealer clients during the trade process. On average, institutional investor clients receive several bids or offers from broker-dealer clients in response to trade inquiries. However, some trade inquiries may not receive any bids or offers. Our services relating to trade execution include single- and multiple-dealer inquiries; list trading, which is the ability to request bids and offers on multiple bonds at the same time; and swap trading, which is the ability to request an offer to purchase one bond and a bid to sell another bond, in a manner such that the two trades will be executed simultaneously, with payment based on the price differential of the bonds. Once a trade is completed on our platform, the broker-dealer client and institutional investor client may settle the trade with the assistance of our automated post-trade messaging, which facilitates the communication of trade acknowledgment and allocation information between our institutional investor and broker-dealer clients.

With limited exceptions, we are not a party to the actual trades that occur on our platform and we do not at any time take title to the traded securities or the proceeds from the sale of such securities. Rather, we serve as an intermediary between broker-dealers and institutional investors, enabling them to meet, agree on a price, and then transact with each other.

Our client base includes 22 of the leading broker-dealers in global fixed-income trading and 539 active institutional investor firms (firms that executed at least one trade through our electronic trading platform between January 2004 and December 2004), including 80 of the top 100 global holders of U.S. corporate bonds, as measured by Thomson Financial. Our broker-dealer clients accounted for approximately 99% of the underwriting of newly-issued U.S. high-grade corporate bonds and in excess of 75% of the underwriting of newly-issued European high-grade corporate bonds in 2004, and include 13 of the top 15 broker-dealers as ranked by 2004 new-issue underwriting volume of European high-grade corporate bonds. We believe these broker-dealers also represent the principal source of secondary market liquidity in such securities, as well as in sovereign and corporate bonds issued by entities domiciled in an emerging markets country. Secondary market liquidity refers to the ability of market participants to buy or sell a security quickly and in large volume subsequent to the original issuance of the security, without substantially affecting the price of the security. Our broker-dealer clients currently trade fixed-income securities by traditional means including telephone, e-mail and proprietary, single-dealer systems in addition to our electronic trading platform and we expect them to continue to do so in the future. While we have not identified a reliable source of data relating to the total volume of client-to-dealer trading in these markets and, therefore, are unable to determine the portion of the trading that is taking place on our platform, we believe that these traditional means of trading corporate bonds remain the manner in which the majority of corporate bonds are traded between institutional investors and broker-dealers.

Results for Calendar Years 2004, 2003 and 2002

From January 2002 through the end of 2004, we experienced significant growth in total trading volume, total commissions and net income, as illustrated in the following table:

	Year Ended December 31,		
	2004	**2003**	**2002**
Total trading volume (in billions)	$298.1	$192.2	$ 48.4
Total commissions (in millions)	68.2	52.8	15.6
Income (loss) before taxes (in millions)	17.3	4.4	(36.1)

For the year ended December 31, 2004, 61.5% of our trading volume was in U.S. high-grade corporate bonds, 25.7% of our trading volume was in European high-grade corporate bonds and 12.8% of our trading volume was in other bonds, most of which are sovereign and corporate bonds issued by entities domiciled in an emerging markets country.

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Industry Background

Fixed-income securities are issued by corporations, governments and other entities, and pay a pre-set absolute or relative rate of return. The global fixed-income market is large and has experienced significant growth in trading volume and amount of debt outstanding over the last several years. For example, as of December 31, 2004 in the U.S. fixed-income market, there were approximately $23.6 trillion of fixed-income securities outstanding, including $4.7 trillion of U.S. corporate bonds. We are primarily active in three segments of the global fixed-income securities market: U.S. high-grade corporate bonds; European high-grade corporate bonds; and sovereign and corporate bonds issued by entities domiciled in an emerging markets country.

U.S. High-Grade Corporate Bond Market

The total U.S. corporate bond market has experienced significant growth over the past five years. The total amount of U.S. corporate bonds outstanding has grown from $2.7 trillion as of December 31, 1998 to $4.7 trillion as of December 31, 2004. The average daily trading volume of U.S. corporate bonds also grew from $19.0 billion in 2002 (the first calendar year for which such data are available) to $21.3 billion for the year ended December 31, 2004.

The U.S. corporate bond market consists of three broad categories of securities: investment-grade debt (so-called high-grade), which typically refers to debt rated BBB or better by Standard & Poor s, or Baa3 or better by Moody s Investor Service; debt rated below investment-grade (so-called high-yield), which typically refers to debt rated lower than BBB by Standard & Poor s or Baa3 by Moody s Investor Service; and debt convertible into equity (so-called convertible debt).

The U.S. high-grade corporate bond market, which represents the largest subset of the U.S. corporate bond market, has seen significant growth in trading volume over the last several years. Several factors continue to drive growth in trading volume in this market, including:

Improved price transparency In 2002, the National Association of Securities Dealers, Inc. (NASD) adopted the Trade Reporting and Compliance Engine (TRACE), which requires NASD members to report secondary market transactions in certain fixed-income securities to the NASD. The NASD began publicly disseminating real-time price information on approximately 500 large (greater than or equal to $1 billion in original issue amount) corporate bond issues in July 2002. In March 2003, the NASD expanded the list of corporate bonds for which prices are disseminated to include over 4,000 unique securities, representing over two-thirds of the daily trading volume of high-grade corporate bonds. On October 1, 2004, the NASD again expanded the list of corporate bonds for which prices are disseminated to include 17,000 unique securities, representing over 95% of the daily trading volume of high-grade corporate bonds. In February 2005, the NASD further expanded the list of TRACE-eligible bonds to include 23,000 unique securities, representing 99% of the daily trading volume of high-grade corporate bonds.

Introduction of electronic trading platforms Electronic trading platforms, which are in the early stages of adoption, act as central facilities to bring together buyers and sellers. The actions of participants on these platforms are facilitated by an electronic medium that improves some of the manual processes that might otherwise be required, such as searching for securities with specific characteristics, the coordination of multiple bilateral telephone calls or electronic communications, the sorting and analysis of competing offers, and the entry of orders into the trading system after verbal or e-mail trade agreement. As a result, these platforms typically provide a lower-cost and more efficient means of enhanced distribution and trade execution than previously possible.

Growth in credit derivatives Credit derivatives are contracts that transfer an asset s risk and return from one party to another without transferring ownership of the underlying asset, allowing market participants to obtain credit protection or assume credit exposure associated with a broad range of issuers of fixed- income securities and other debt obligations. They are often designed to reduce the probability or severity of loss and can be tied to particular events, such as a default, bankruptcy or ratings downgrade. Credit derivatives provide increased flexibility and liquidity for investors and lenders to diversify their credit exposures. The

appeal of these products is apparent in the growth in the total notional amount of outstanding credit default swaps (agreements that allow the transfer of third-party credit risk from one party to another), which increased from approximately $900 billion at December 31, 2001 to approximately $8.4 trillion at December 31, 2004.

Growth in the total amount of debt outstanding The total size of the U.S. high-grade corporate bond market has increased significantly since 1998, when approximately $425 billion gross amount of new bonds were issued, as compared to approximately $603 billion during 2004.

Factors similar to those described above also contributed to significant growth in trading volume in the U.S. Treasury market, which is recognized as the most liquid fixed-income market in the world. These factors include availability of real-time U.S. Treasury market prices (1982), introduction of interest-rate derivatives (mid-1980 s), advent of electronic trading of U.S. Treasury securities (1997) and an increase in the balance of outstanding U.S. Treasury debt ($3.9 trillion as of December 31, 2004, up from $616.4 billion at December 31, 1980). As a result, the average daily trading volume in the U.S. Treasury market increased from $18.3 billion in 1980 to $497.9 billion for the year ended December 31, 2004, representing a compound annual growth rate, or CAGR, of 14.8%.

European High-Grade Corporate Bond Market

The European high-grade corporate bond market consists of a broad range of products, issuers and currencies. We define the European high-grade corporate bond market generally to consist of bonds intended to be distributed to European investors, primarily bonds issued by European corporations, excluding bonds that are issued by a corporation domiciled in an emerging markets country and excluding most government bonds that trade in Europe.

We believe that the average daily trading volume in the European high-grade corporate bond market has grown significantly over the past five years, driven by many of the same factors that have driven growth in the U.S. high-grade corporate bond market. In addition, we believe the following factors unique to the European high-grade corporate bond market are also driving growth in trading volume:

Adoption of the Euro The adoption of the Euro as the common currency in most European Union countries has reduced the importance of currency as an investment selection criterion and elevated the importance of the credit risk of particular issuers. As a result, institutional investors have exhibited a greater interest in investing in a broader range of bonds issued by entities domiciled outside of their home countries.

Regulatory environment Certain European Union countries have eased restrictions that required institutional investors to invest primarily in domestic securities. This has provided European institutional investors with increased flexibility to invest in securities issued by entities domiciled in other countries within the European Union.

Common liquidity pool The larger capital pool created by the common currency and changes in the regulatory environment have enabled European corporations to offer larger issues, which has resulted in increases in the liquidity and trading volumes of these issues. This has attracted even more institutional investors, who prefer to invest in highly-liquid markets.

Emerging Markets Bond Market

We define the emerging markets bond market generally to include U.S. dollar- or Euro-denominated bonds issued by sovereign entities or corporations domiciled in a developing country. These issuers are typically located in Latin America, Asia, or Central and Eastern Europe. Examples of countries we classify as emerging markets include: Brazil, Colombia, Mexico, Peru, the Philippines, Russia, Turkey and Venezuela.

The institutional investor base for sovereign and corporate bonds issued by entities domiciled in an emerging markets country has recently expanded to include many crossover investors from the more mainstream high-yield and high-grade investment areas. Institutional investors have been drawn to sovereign and corporate bonds issued by entities domiciled in an emerging markets country by their high returns and high growth potential, as well as by a

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general trend toward positive economic and political reforms and improving economic performance in many emerging markets countries.

Our Competitive Strengths

Our electronic trading platform provides solutions to some of the shortcomings of traditional bond trading methods. The benefits of our solution are demonstrable throughout the trading cycle:

- *Pre-trade* gathering real-time and historical pricing information, identifying interested buyers and sellers in a particular security, and obtaining research and analysis;
- *Trade* single and multiple security trade execution; and
- *Post-trade* trade detail matching, account allocation and automated audit trail.

We believe that we are well positioned to strengthen our market position in electronic trading of U.S. and European high-grade corporate bonds and sovereign and corporate bonds issued by entities domiciled in an emerging markets country, and to extend our presence into new products and services by capitalizing on our competitive strengths, including:

Significant Trading Volumes with Participation by Leading Broker-Dealers and Institutional Investors

Our electronic trading platform provides access to the liquidity provided through the participation on our platform of 22 of the leading global securities broker-dealers and 539 active institutional investor firms (firms that executed at least one trade through our electronic trading platform between January 2004 and December 2004). We believe these broker-dealers represent the principal source of secondary market liquidity for U.S. high-grade corporate bonds, European high-grade corporate bonds and sovereign and corporate bonds issued by entities domiciled in an emerging markets country. Our broker-dealer clients are motivated to continue to utilize our platform due to the presence on the platform of our large network of institutional investor clients, which includes 80 of the top 100 global holders of U.S. corporate bonds, as measured by Thomson Financial. We believe that if we continue to grow the participation of our broker-dealer and institutional investor clients on our electronic trading platform, the benefits in liquidity on the platform to both broker-dealers and institutional investors will be amplified, further motivating them to use our platform. Currently, the majority of trading of U.S. high-grade corporate bonds still occurs using traditional bond trading methods, implying significant opportunity for us to continue to grow our trading volume. Our trading volume across all of our products increased from $11.7 billion in 2001, to $48.4 billion in 2002, to $192.2 billion in 2003 and to $298.1 billion in 2004. We have not identified a reliable source of data relating to the size of the bond markets we serve, specifically the client-to-dealer market, and therefore we are unable to accurately determine the total volume of secondary trading of these bonds or the portion of such trading conducted on our platform.

Execution Benefits to Clients

Benefits to Institutional Investor Clients

We believe we provide numerous benefits to our institutional investor clients over traditional bond trading methods, including:

Competitive Prices. By enabling institutional investors to simultaneously request bids or offers from our broker-dealer clients, we believe our electronic trading platform creates an environment that motivates our broker-dealer clients to provide competitive prices and gives institutional investors confidence that they are obtaining a competitive price. For typical MarketAxess multi-dealer corporate bond inquiries, the range of competitive spread-to-Treasury responses is, on average, approximately 10 basis points (a basis point is 1/100 of 1% in yield). As an example of the potential cost savings to institutional investors, a one basis point savings on a $1 million face amount trade of a bond with 10 years to maturity translates to aggregate savings of approximately $750.00.

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Transparent Pricing on a Range of Securities. The commingled multi-dealer inventory of bonds posted by our broker-dealer clients on our platform consists of a daily average of more than $130 billion in indicative bids and offers. Subject to applicable regulatory requirements, institutional investors can search bonds in inventory based on any combination of issuer, issue, rating, maturity, spread-to-Treasury, size and dealer providing the listing, in a fraction of the time it takes to do so manually. Institutional investor clients can also request executable bids and offers on our electronic trading platform on any debt security in a database of U.S. and European corporate bonds, although there can be no assurance as to the number of broker-dealers who will choose to provide an executable price. Our platform transmits bid and offer requests in real-time to broker-dealer clients, who may respond with executable prices within a time period specified by the investor.

Improved Cost Efficiency. We believe that we provide improved efficiency by reducing the time and labor required to conduct broad product and price discovery. Single-security and multi-security (bid or offer lists) inquiries can be efficiently conducted with multiple broker-dealers. In addition, our Corporate BondTicker eliminates the need for manually-intensive phone calls or e-mail communication to gather, sort and analyze information concerning historical transaction prices.

Benefits to Broker-Dealer Clients

We also provide substantial benefits to our broker-dealer clients over traditional bond trading methods, including:

Greater Sales Efficiency. We offer our broker-dealer clients broad connectivity with their institutional investor clients. Through this connectivity, our broker-dealer clients are able to efficiently display their indications of interest to buy and sell various securities. We also enable broker-dealers to broaden their distribution by participating in transactions to which they otherwise may not have had access. In addition, the ability to post prices and electronically execute on straightforward trades enables bond sales professionals at broker-dealer firms to focus their efforts on more profitable activities, such as higher value-added trades and more complex transactions.

More Efficient Inventory Management for Broker-Dealers. The posting of inventory to, and the ability to respond to inquiries from, a broad pool of institutional investors, creates an increased opportunity for broker- dealers to identify demand for their inventory, particularly in less liquid securities. As a result, we believe they can achieve enhanced bond inventory turnover, which may limit credit exposure.

Benefits to Both Institutional Investor and Broker-Dealer Clients

We offer additional benefits over traditional bond trading methods that are shared by both institutional investor and broker-dealer clients, including:

Greater Trading Accuracy. Our electronic trading platform includes verification mechanisms at various stages of the execution process which result in greater accuracy in the processing, confirming and clearing of trades between institutional investor and broker-dealer clients. These verification mechanisms are designed to ensure that our broker-dealer and institutional investor clients are sending accurate trade messages by providing multiple opportunities to verify they are trading the correct bond, at the agreed-upon price and size. Our platform assists our institutional investor clients in automating the transmittal of order tickets from the portfolio manager to the trader, and from the trader to back-office personnel. This automation provides more timely execution and a reduction in the likelihood of errors that can result from information being manually entered into different systems.

Efficient Risk Monitoring and Compliance. Our electronic trading platform offers both institutional investors and broker-dealers an automated audit trail for each stage in the trading cycle. This enables compliance personnel to review information relating to trades more easily and with greater reliability. Trade information including time, price and spread-to-Treasury is stored securely and automatically on our electronic trading platform. These data also represent a valuable source of information for our clients compliance personnel. Importantly, we believe the automated audit trail, together with the competitive pricing that is a feature of our electronic trading platform, gives fiduciaries the ability to demonstrate that they have achieved best execution on behalf of their clients.

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Other Service Offerings

In addition to services directly related to the execution of trades, we offer our clients several other services, including:

Information Services. The information and analytical tools we provide to our clients help them make investment and trading decisions. Our Corporate BondTicker provides access to real-time and historical price, yield and MarketAxess estimated spread-to-Treasuries for publicly disseminated NASD TRACE-eligible bonds. Corporate BondTicker combines publicly-available TRACE data with the prices for trades executed on our U.S. high-grade electronic trading platform, integrating the two data sources and providing real-time TRACE data with associated analytical tools that are not otherwise available. In addition, Corporate BondTicker provides indicative prices for secondary loans and credit default swaps, through arrangements with certain of our broker-dealer clients, and independent credit research. Our electronic trading platform allows institutional investors to compile, sort and use information to discover investment opportunities that might have been difficult or impossible to identify using a manual information gathering process or other electronic services.

Straight-Through Processing. Straight-through processing refers to the integration of systems and processes to automate the trade process from end-to-end trade execution, confirmation and settlement without the need for manual intervention. Our electronic trading platform provides broker-dealers and institutional investors with the ability to automate portions of their transaction processing requirements, improving accuracy and efficiency. Through post-trade messaging, institutional investors receive electronic notices of execution from MarketAxess in industry standard protocols, complete with all relevant trade details. Institutional investors can download trade messages, allocate trades to sub-accounts on whose behalf the trades were made and send the allocations to broker-dealers for confirmation.

Robust, Scalable Technology Platform

We have developed proprietary technology that is highly secure, fault-tolerant and provides adequate capacity for our current operations, as well as for substantial growth. Our highly scalable systems are designed to accommodate additional volume, products and clients with relatively little modification and low incremental costs.

Proven Innovator with an Experienced Management Team

Since our inception, we have been an innovator in the fixed-income securities markets. Our management team is comprised of executives with an average of more than 20 years experience in the securities industry. We have consistently sought to benefit participants in the markets we serve by attempting to replicate the essential features of fixed-income trading, including the existing relationships between broker-dealers and their institutional investor clients, while applying technology to eliminate weaknesses in traditional trading methods. *Euromoney* magazine recognized MarketAxess as offering the best multi-dealer trading platform for corporate bonds in 2004 and 2003.

Some of the innovations we have introduced to electronic trading include:

2000 the first multi-dealer disclosed trading platform for U.S. high-grade corporate bonds;

2001 the first electronic Treasury benchmarking for U.S. high-grade corporate bond trades;

2002 Corporate BondTicker, our information services product, combining NASD TRACE bond data with MarketAxess data and analytical tools;

2002 bid and offer list technology for corporate bond trading, enabling institutional investors to request executable prices for multiple securities simultaneously;

2003 corporate bond swap trading on our European platform, enabling the simultaneous purchase and sale of two different corporate bonds based on the price differential between the securities; and

2004 corporate bond swap trading on our U.S. trading platform, enabling the simultaneous purchase and sale of two different corporate bonds based on the price differential between the securities.

Our Strategy

Our objective is to provide the leading global electronic trading platform for fixed-income securities, connecting broker-dealers and institutional investors more easily and efficiently, while offering a broad array of services to market participants across the trading cycle. The key elements of our strategy are:

Enhance the Liquidity of Securities Traded on Our Platform and Broaden Our Client Base in Our Existing Markets

We intend to further enhance the liquidity of securities traded on our leading electronic, multi-dealer to client platform for U.S. and European high-grade corporate bond trading and for the trading of sovereign and corporate bonds issued by entities domiciled in an emerging markets country. Our ability to innovate and efficiently add new functionality and product offerings to the MarketAxess platform will help us deepen our market share with our existing clients, as well as expand our client base, which we believe will in turn lead to even further increases in the liquidity of the securities provided by our broker-dealer clients and available on our platform. We will seek to make our current product offerings on our European electronic trading platform available to our 363 active U.S. institutional investor clients (firms that executed at least one trade through our electronic trading platform between January 2004 and December 2004) and to make our current product offerings on our U.S. electronic trading platform available to our 176 active European institutional investor clients (firms that executed at least one trade through our electronic trading platform between January 2004 and December 2004), in each case subject to regulatory requirements.

Leverage our Existing Technology and Client Relationships to Expand into New Segments of the Fixed-Income Securities Market

We intend to leverage our technology, as well as our strong broker-dealer and institutional investor relationships, to deploy our electronic trading platform into additional product segments within the fixed-income securities market. In the future, we intend to expand our product offerings to include, among others, credit derivatives. Due in part to our highly scalable systems, we believe we will be able to enter into new markets with relatively little technology modification and low incremental costs.

Continue to Strengthen and Expand our Trade-Related Service Offerings

We plan 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. We also plan 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). We are continually considering the introduction of new trading techniques. As an example, we have the technology necessary to offer anonymous trading of fixed-income securities if and when the market opportunity for such a product arises. We may also develop and expand our technology platform in order to create single-dealer technology solutions that we can offer to our broker-dealer clients for internal order management and trade processing.

Expand our Data and Information Services Offerings

We regularly add new content and analytical capabilities to Corporate BondTicker in order to improve the value of the information we provide to our clients. Examples of added content include pricing for syndicated loans and credit derivatives, and independent credit research. We intend to enter into distribution partnerships with information and data services companies in order to widen the user base of our data products and to continue adding new content and analytical capabilities. In July 2004, we entered into an agreement with Interactive Data Corporation, through its subsidiary, FT Interactive Data, to promote and market Corporate BondTicker. We expect this and other distribution partnerships to broaden our presence in the marketplace and increase our brand awareness. We intend to seek out additional market leaders in various segments of the securities industry and leverage their existing customer bases and distribution channels to further our data services market penetration.

As use of our electronic trading platform continues to grow, we believe that the amount and value of our proprietary trading data will also increase, further enhancing the value of our information services offerings to our clients.

Pursue Strategic Alliances and Select Acquisitions

We plan to continue to increase and 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. As an example, during 2003, we entered into a strategic alliance with BrokerTec USA, L.L.C. and BrokerTec Europe Ltd. (collectively, BrokerTec) in order to provide our institutional investor clients with an electronic system to buy and sell U.S. Treasury securities. Although this strategic alliance with BrokerTec terminated effective February 28, 2005, we are working with our broker-dealer clients and others in order to continue to provide our institutional investor clients with an electronic system for the trading of U.S. Treasury securities.

MarketAxess Electronic Trading Platform

Current Markets

U.S. High-Grade Corporate Bonds

Our U.S. high-grade corporate bond business consists of U.S. dollar-denominated investment-grade debt issued by corporations for distribution in the U.S. Institutional investors based in the U.S., as well as institutional investors located in the U.K., Germany, Belgium, Switzerland, Sweden, Norway, Hong Kong and Singapore have access to U.S. high-grade corporate bond trading on our electronic trading platform. Investment-grade debt typically refers to debt rated BBB- or better by Standard & Poor s, or Baa3 or better by Moody s Investor Service. We use the terms high-grade debt and investment-grade debt interchangeably in this annual report on Form 10-K. Our trading volume in the U.S. high-grade corporate bond market increased from $10.0 billion in 2001 to $183.5 billion in 2004. We have not identified a reliable source of data relating to the total volume of client-to-dealer trading in the U.S. high-grade corporate bond market and, therefore, we are unable to determine the portion of this trading that is taking place on our platform. The majority of trading in U.S. high-grade corporate bonds presently is not conducted on our platform.

We offer our institutional investor clients access to a broad inventory of U.S. high-grade corporate bonds, which is provided and updated daily by our broker-dealer clients. Our electronic trading platform is a multi-dealer disclosed counterparty model, which allows institutional investors to view bids and offers from one or more of our broker-dealer clients while permitting each party to know the identity of its counter-party throughout the trading process. By disclosing the counterparties, the inquiry system on which our trading platform is based combines the strength of existing offline client/dealer relationships with the efficiency and transparency of an electronic trading platform. This enables institutional investors to instantly direct trade inquiries and negotiations to their traditional broker-dealer or to any of the overwhelming majority of the world s leading broker-dealers who provide liquidity in these securities. Institutional investors have access to the commingled inventory of our broker-dealer clients, representing indicative bids and offers. Each line item of inventory represents an indicative bid and/or offer on a particular bond issue by a particular broker-dealer client. Institutional investor clients are not restricted to trading only the bonds posted as inventory, although many of the trades conducted on our platform are made from the posted inventory. To transact in a specific bond that does not appear in inventory, institutional investors can easily search our database and submit an online inquiry to their chosen broker-dealers, who can respond with live, executable prices. In a single inquiry, institutional investors can request bids or offers from up to all 18 of our U.S. broker-dealer clients. While, on average, institutional investor clients receive several bids or offers from broker-dealers in response to trade inquiries, some inquiries may not receive any bids or offers.

In the U.S. high-grade corporate bond market, 18 broker-dealers utilize our platform, including the top 10 broker-dealers as ranked by 2004 new-issue underwriting volume. Three hundred sixty-three active institutional investor clients (firms that executed at least one trade through our electronic trading platform between January 2004 and December 2004) utilize our electronic trading platform to trade U.S. high-grade corporate bonds.

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European High-Grade Corporate Bonds

The European high-grade corporate bond market consists of a broad range of products, issuers and currencies. We define the European high-grade corporate bond market generally to consist of bonds intended to be distributed to European investors, primarily bonds issued by European corporations, excluding bonds that are issued by a corporation domiciled in an emerging markets country and most government bonds that trade in Europe. Examples include:

- bonds issued by European corporations, denominated in any currency;
- bonds generally denominated in Euros, U.S. dollars or Pounds Sterling, excluding bonds that are issued by a corporation domiciled in an emerging market;
- bonds issued by supra-national organizations (entities, such as the World Bank, which include a number of central banks or government financial authorities), agencies and governments located in Europe, generally denominated in Euros, U.S. dollars or Pounds Sterling, provided that such currency is not the currency of the country where the bond was issued; and
- floating-rate notes issued by European corporations.

MarketAxess Europe Limited, our wholly-owned U.K. subsidiary, commenced operations in August 2001. MarketAxess Europe Limited received Financial Services Authority (FSA) regulatory approval and began to offer European secondary trading functionality in U.S. dollar- and Euro-denominated European corporate bonds to our broker-dealer and institutional investor clients in September 2001. In 2002, we added trading in other European high-grade corporate bonds, including bonds issued in Pounds Sterling and floating rate notes. As on our U.S. electronic trading platform, all trading on our European platform is done using a multi-dealer disclosed counterparty model. We offered the first platform in Europe with this capability for corporate bonds.

In the European high-grade credit market, 18 broker-dealers utilize our platform, including 13 of the top 15 broker-dealers as ranked by 2004 new-issue underwriting volume of European corporate bonds. The 18 broker-dealers who utilize our European platform are: ABN Amro, Banc of America Securities, Barclays, Bear Stearns, BNP Paribas, Citigroup, Credit Suisse First Boston, Deutsche Bank, DZ Bank AG, Goldman Sachs, HSBC, JPMorgan, Lehman Brothers, Merrill Lynch, Morgan Stanley, The Royal Bank of Scotland, Société Générale and UBS.

Our 176 active institutional investor clients (firms that executed at least one trade through our electronic trading platform between January 2004 and December 2004) are based outside of the U.S. and utilize our platform for trading European high-grade corporate bonds. On a typical day, institutional investors on our European corporate bond trading platform have access to approximately 18,000 line items of commingled inventory, representing an aggregate of approximately $90 billion of indicative bids and offers. In a single inquiry, institutional investors can request bids or offers from up to six of the broker-dealers who participate on the European platform. While many of the trades conducted on our platform are made from the posted inventory, institutional investor clients are not restricted to trading only the bonds posted as inventory. To transact in a specific bond that does not appear in inventory, institutional investors can submit an online inquiry to their chosen broker-dealers, who can respond with live, executable prices. While, on average, institutional investor clients receive several bids or offers from broker-dealers in response to trade inquiries, some inquiries may not receive any bids or offers. Our 2004 trading volume in the European high-grade corporate bond market was $76.5 billion. We have not identified a reliable source of data relating to the total volume of client-to-dealer trading in the European high-grade corporate bond market and, therefore, we are unable to determine the portion of this trading that takes place on our platform. The majority of trading in European high-grade corporate bonds presently is not conducted on our platform.

Emerging Markets Bonds

We define the emerging markets bond market generally to include U.S. dollar- or Euro-denominated bonds issued by sovereign entities or corporations domiciled in a developing country. These issuers are typically located in

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Latin America, Asia, or Central and Eastern Europe. The emerging markets countries whose bonds were most frequently traded on our platform in 2004 were Brazil, Colombia, Mexico, Peru, the Philippines, Russia, Turkey and Venezuela.

Seventeen of our U.S. broker-dealer clients use our platform to trade sovereign and corporate bonds issued by entities domiciled in an emerging markets country. Many of our institutional investor clients who have access to our U.S. trading platform can trade sovereign and corporate bonds issued by entities domiciled in an emerging markets country. Institutional investor clients can direct an inquiry simultaneously to up to six of the 17 participating broker-dealer clients. While, on average, institutional investor clients receive several bids or offers from broker-dealers in response to trade inquiries, some inquiries may not receive any bids or offers.

We have not identified a reliable source of data relating to the total volume of client-to-dealer trading in sovereign and corporate bonds issued by entities domiciled in an emerging markets country and, therefore, we are unable to determine the portion of this trading that is taking place on our platform. The majority of trading in sovereign and corporate bonds issued by entities domiciled in an emerging markets country presently is not conducted on our platform.

New Issues

For newly-issued U.S. high-grade corporate bonds and for newly-issued sovereign and corporate bonds issued by entities domiciled in an emerging markets country, we enable U.S. institutional investors to submit indications of interest on our electronic trading platform directly to the underwriter syndicate desks of our broker-dealer clients. Institutional investors can access the new-issue calendar, prospectuses, transaction terms and online allocations on our platform. Our broker-dealer clients add the indications of interest for new issues submitted on our platform to the indications of interest they receive through traditional offline methods to build their order book for an offering. By making U.S. high-grade new issues available on the MarketAxess platform, issuers and broker-dealers are able to reach a broader base of institutional investors and are able to leverage our technology to efficiently and effectively communicate with institutional investors throughout the offering process. Issuers are also given greater visibility into the number and size of the indications of interest and firm commitments to purchase their bonds. Institutional investors are given another method to gain information regarding, and better access to, new issues.

In the new-issues market, 11 broker-dealers utilize our platform, all of whom are in the top 20 broker-dealers as ranked by 2004 new-issue underwriting volume and who collectively represented the majority of new-issue underwriting volume in 2004. These dealers also continue to use traditional distribution channels for new issues. All of our U.S. institutional investors have access to our electronic trading platform for new-issue bonds. In 2004, approximately $199 billion of new issues inventory was made available on our platform, representing approximately 45% of all U.S. high-grade corporate bond new issues during the year.

Key Trading Functionalities

Single Inquiry Trading Functionality

We currently offer institutional investors the ability to request bids or offers in a single inquiry from up to 18 of our broker-dealer clients for U.S. high-grade corporate bonds and from up to six of our broker-dealer clients for European high-grade corporate bonds and for sovereign and corporate bonds issued by entities domiciled in an emerging markets country. Institutional investors can obtain bids or offers on any security posted in inventory or included in the database available on our platform. Institutional investors can choose when they would like the broker-dealers prices or spreads to be returned to them, in order to have the ability to see all executable prices available at the same time. As part of the price discovery process, institutional investors and broker-dealers can also see the transaction history of the security they are buying or selling by accessing Corporate BondTicker before executing a transaction.

List Trading Functionality

We currently offer institutional investors the ability to request bids or offers on a list of up to 25 different bonds in the U.S. high-grade corporate bond market and up to ten different bonds in the European high-grade corporate bond market. This facilitates efficient trading for institutional investors such as mutual funds and hedge funds. Institutional investors are able to have multiple lists executable throughout the trading day, enabling them to manage their portfolio duration, and credit and sector exposure.

Swap Trading Functionality

We currently offer institutional investors the ability to request an offer to purchase one bond and a bid to sell another bond, in a manner such that the two trades will be executed simultaneously, with payment based on the price or yield differential of the securities. This functionality is currently available for U.S. high-grade corporate bonds, European high-grade corporate bonds, sovereign and corporate bonds issued by entities domiciled in an emerging markets country, and transactions involving a U.S. high-grade bond with a U.S. government bond.

Information and Analytical Tools

Corporate BondTicker

Corporate BondTicker provides real-time NASD TRACE data and enhances it with MarketAxess trade data and analytical tools to provide professional market participants with a comprehensive set of corporate bond price information. The data include trade time and sales information, including execution prices, as well as MarketAxess-estimated spread-to-Treasuries, for trades disseminated by the NASD TRACE system. The data also include actual execution prices and spread-to-Treasury levels for U.S. high-grade corporate bond trades executed on the MarketAxess platform. Corporate BondTicker allows institutional investors to search for and sort bonds based upon specific criteria, such as volume, time/date of transaction, spread change, issuer or security. This search function allows institutional investors to compile information relating to potential securities trades in a fraction of the time that it takes to manually compile this information from disparate sources or other electronic databases, including direct TRACE feeds. In addition, Corporate BondTicker provides independent credit research, as well as indicative prices for secondary markets in loans and credit default swaps.

TRACE facilitates the mandatory reporting of over-the-counter secondary market transactions in eligible fixed-income securities. All broker-dealers that are NASD member firms have an obligation to report transactions in corporate bonds to TRACE under a set of rules approved by the U.S. Securities and Exchange Commission (SEC). The NASD then publicly disseminates a portion of this data, which is available free of charge on a delayed basis through the NASD website or available immediately for a set fee.

Corporate BondTicker is integrated directly into the MarketAxess electronic trading platform and can be seamlessly accessed, either when viewing securities inventory or when launching an inquiry. Corporate BondTicker is also available through the Internet for non-trading professional market participants, including, among others, research analysts and rating agencies, who can log in and access the information via an easy-to-use browser-based interface.

We provide Corporate BondTicker as an ancillary service to our trading clients and also to other industry participants. We derive revenues from our Corporate BondTicker service by charging for seat licenses per user at our broker-dealer and institutional investor clients, through distribution agreements with other information service providers and through bulk data sales to third parties. Seat license fees from institutional investor clients are waived for clients that transact a sufficient volume of trades through MarketAxess.

We have recently added additional analytical capabilities to our information services offerings that aim to provide clients with more information about bond prices and market activity, including asset swap spreads, turnover percentage and liquidity ratios. These statistics measure a security s trading activity relative to its amount outstanding and relative to the overall market, respectively, providing an additional perspective on relative liquidity. In addition, we provide pricing measures to help institutional investors better assess the relative value of a corporate bond, providing more consistent relative pricing information for institutional investors, such as offering spread data versus the interest rate swap curve and versus the U.S. Treasury curve. Users are also able to download a variety of MarketAxess-compiled trade reports containing a comprehensive review of trading activity. Corporate BondTicker is currently the source of corporate bond trading information for *The Wall Street Journal.*

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My Portfolio

Institutional investors are able to upload their corporate bond portfolio onto our electronic trading platform utilizing the My Portfolio trading feature. Institutional investors who utilize My Portfolio benefit from the ability to automatically match inventory on our platform to bonds held in their portfolio, allowing them to more efficiently launch an inquiry and transact in these securities. Users of this feature can also directly access Corporate BondTicker to obtain the trading history of the securities in their portfolio.

MarketAxess Research

MarketAxess Research provides fixed-income, macroeconomic and strategy research reports offered by 11 of our broker-dealer clients: ABN Amro, Banc of America Securities, Bear Stearns, BNP Paribas, Credit Suisse First Boston, Deutsche Bank, HSBC, JPMorgan, Lehman Brothers, Morgan Stanley and UBS. These broker-dealers determine which research reports to make available on our platform and when they will be made available. Users of this service benefit from being able to access these reports in one place, rather than having to go to multiple broker-dealer websites. In addition, clients can utilize advanced search capabilities for finding content and can customize the look and feel of the research views, as well as create e-mail driven research alerts.

Straight-Through Processing

Straight-through processing refers to the integration of systems and processes to automate the trade process from end-to-end trade execution, confirmation and settlement without the need for manual intervention. There are two elements of straight-through processing: internal straight-through processing and external straight-through processing. Internal straight-through processing relates to the trade and settlement processes that are internal to an industry participant. For example, in the case of an institutional investor, this includes authorization of orders, placement of orders with broker-dealers, receipt of execution details and allocation of trades. External straight-through processing refers to connecting seamlessly to all external counterparts in the trading and settlement process.

Post-trade processing, which is an important part of the trading cycle, generally entails significant cost and risk of error and consequent failure in trade settlement. Automation by way of straight-through processing improves the efficiency of the trade cycle. We provide broker-dealers and institutional investors with a range of tools that facilitate straight-through processing, including easy-to-use online allocation tools and post-trade messaging features that enable institutional investors to communicate electronically between front- and back-office systems, thereby integrating the order, portfolio management and accounting systems of our broker-dealer and institutional investor clients in real time. Our straight-through processing tools can be customized to meet specific needs of clients. We continue to build industry partnerships to assist our clients in creating connectivity throughout the trade cycle. Through these partnerships, we are increasingly providing solutions that can quickly be deployed within our clients trading operations.

Dependence on Our Broker-Dealer Clients Who Are Also Our Stockholders

Revenues

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. Information relating to the percentage of our commissions and the percentage of our revenues generated by these nine broker-dealer clients is provided in the chart below:

	Year Ended December 31,		
	2004	**2003**	**2002**
Percentage of commissions generated by broker-dealer client stockholders and their respective affiliates	57.7%	62.5%	79.0%
Percentage of total revenues generated by broker-dealer client stockholders and their respective affiliates	53.6%	57.0%	66.4%

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Our broker-dealer clients are not restricted from buying and selling fixed-income securities, directly or through their own proprietary or third-party platforms, with institutional investors. For more information, see Management s Discussion and Analysis of Financial Condition and Results of Operations Risk Factors That May Affect Future Results 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.

Board of Directors

We currently have nine directors, eight of whom are not our employees. Of the eight non-employee directors, two are employees of entities that are affiliates of broker-dealer clients and stockholders of MarketAxess, although these entities do not have the contractual right to designate members of our Board of Directors.

Other Businesses

Our broker-dealer clients currently trade fixed-income securities by means other than our electronic trading platform and we expect them to continue to do so in the future. 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, including proprietary, single-dealer systems.

We cannot be assured that such broker-dealers primary commitments will not be to one of our competitors. Other companies, including some in which certain of our broker-dealer clients or their affiliates have invested, have developed electronic trading platforms or have announced their intention to explore the development of electronic trading platforms that compete or will compete with us. Furthermore, our broker-dealer clients or their affiliates have made, or may in the future make investments in or enter into agreements with other businesses that directly or indirectly compete with us.

Stock Ownership by Our Broker-Dealer Clients

Nine of our broker-dealer clients (ABN Amro, BNP Paribas, Banc of America, Bear Stearns, Credit Suisse First Boston, Deutsche Bank, JPMorgan, Lehman Brothers and UBS), or their affiliates, are stockholders of ours. As of December 31, 2004, these nine broker-dealer clients own 19,674,861 shares of our common stock, our non-voting common stock and shares of our common stock issuable upon exercise of warrants, representing approximately 45.0% of our outstanding common stock. To the extent that some or all of these broker-dealer clients or their affiliates vote similarly, they are likely to be able to influence decisions requiring approval by our stockholders.

Conflicts of Interest

For more information concerning the potential conflicts of interest that may arise as a result of the various roles (broker-dealer client and stockholder) played by certain of our broker-dealer clients, please see the section Management s Discussion and Analysis of Financial Condition and Results of Operations 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.

Sales and Marketing

We promote our products and services using a variety of direct and indirect sales and marketing strategies. Our sales force of 16 people located in the U.S. and seven persons located in the U.K. is organized into three teams: U.S. client sales, European client sales, and dealer relation groups both in the U.S. and Europe. They are responsible for client acquisition activity and for increasing use of our platform by our existing clients. Their goal is to train and support existing and new clients on how to use the system and to educate them as to the benefits of utilizing an electronic fixed-income trading platform. We employ various strategies, including advertising, direct marketing, promotional mailings and participation in industry conferences, to increase awareness of our brand and our electronic trading platform. For example, we have worked with *The Wall Street Journal* to establish Corporate BondTicker as the source of information for its daily corporate bond and high-yield tables.

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Competition

The electronic trading industry is highly competitive and we expect competition to intensify in the future. We face four main areas of competition:

Telephone We compete with bond trading business conducted over the telephone between broker-dealers and their institutional investor clients. Institutional investors have historically purchased fixed-income securities by telephoning bond sales professionals at one or more broker-dealers and inquiring about the price and availability of individual bonds. This remains the manner in which the majority of corporate bonds are still traded between institutional investors and broker-dealers.

E-mail We compete with bond trading business conducted via e-mail between broker-dealers and their institutional investor clients. E-mail provides an efficient means of initiating product and price discovery with a large universe of potential trading partners.

Other electronic trading platforms There are numerous other electronic trading platforms currently in existence. These include Thomson TradeWeb, a multi-dealer to institutional investor trading platform that has historically focused on government bond trading, and Bloomberg, which provides electronic trading functionality. Thomson TradeWeb has launched an electronic corporate bond trading platform. In addition, some broker-dealers operate proprietary electronic trading systems that enable institutional investors to trade directly with a broker-dealer over an electronic medium. We believe that we are currently the only platform primarily focused on multi-party disclosed trading of credit products between broker-dealers and institutional investors, though others have or may seek to expand their product offerings to compete in this market. Additionally, as we expand our business into new products, we will likely come into more direct competition with other electronic trading platforms.

Market data and information vendors Several large market data and information providers currently have a data and analytics relationship with virtually every institutional firm. Some of these entities currently offer varying forms of electronic trading of fixed-income securities, mostly on a single-dealer basis. Some of these entities have announced their intention to expand their electronic trading platforms or to develop new platforms. These entities are currently direct competitors to our information services and may in the future become direct competitors to our electronic trading platform.

Competitors, including companies in which some of our broker-dealer clients have invested, have developed electronic trading platforms or have announced their intention to explore the development of electronic trading platforms that compete or will compete with us. Furthermore, our broker-dealer clients have made, or may in the future make investments in or enter into agreements with other businesses that directly or indirectly compete with us.

In general, we compete on the basis of a number of key factors, including:

- liquidity provided on the platform;
- magnitude and frequency of price improvement;
- facilitating the quality and speed of execution;
- total transaction costs;
- technology capabilities, including the ease of use of our electronic trading platform; and
- range of products and services offered.

We believe that we compete favorably with respect to these factors. Our trading volume and client acceptance have grown significantly over the past two years and we continue to proactively build technology solutions that serve the needs of the credit markets.

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Our competitive position is also enhanced by the familiarity and integration of our broker-dealer and institutional investor clients with our electronic trading platform and other systems. We have focused on the unique aspects of the credit markets we serve in the development of our platform, working closely with our clients to provide a system that is suited to their needs.

Furthermore, our broker-dealer clients have invested in building application programming interfaces with us for inventory contributions, electronic trading, government bond benchmark pricing and post-trade messaging. We believe that we have successfully built deep roots with our broker-dealer clients, increasing our level of service to them while at the same time increasing their commitment to our services.

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 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 or our current broker-dealer clients 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. Significant consolidation has occurred in our industry and these firms, as well as others that may undertake such consolidation in the future, are potential competitors of ours.

Technology

The design and quality of our technology are critical to our growth and our ability to execute our business strategy. Our electronic trading platform has been designed with secure, scalable, client-server architecture that makes broad use of distributed computing to achieve speed, reliability and fault tolerance. The platform is built on industry-standard technologies.

All critical server-side components, primarily our networks, application servers and databases, have backup equipment running in case the main equipment fails. This offers fully redundant system capacity to maximize uptime and minimize the potential for loss of transaction data in the event of an internal failure. We also seek to minimize the impact of external failures by automatically recovering connections in the event of a communications failure. The majority of our broker-dealer clients have dedicated T-1 lines to our network in order to provide fast data transfer. Our security measures include industry-standard communications encryption.

We have designed our application with an easy-to-use, Windows-based interface. Through a secure, single sign-on, our clients are able to access our electronic trading platform. We provide users an automatic software update feature which does not require manual intervention.

We have completed the transition to new internally-developed software for our U.S. high-grade corporate, emerging markets and European bond platforms. The new trading platforms incorporate the feedback we have received from our broker-dealer and institutional investor clients. We expect that the new platforms will offer enhanced functionality and greater ease-of-use. Additionally, they will consolidate separate trading protocols and systems, thereby reducing the ongoing development and maintenance costs associated with maintaining multiple technology platforms. The new platforms have been designed initially to handle six times our current trading volume.

Intellectual Property

We rely upon a combination of copyright, patent, trade secret and trademark laws, written agreements and common law to protect our proprietary technology, processes and other intellectual property. Our software code,

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elements of our electronic trading platform, Web site and other proprietary materials are protected by copyright laws. We currently have five patent applications pending, covering certain aspects of our business.

The written agreements upon which we rely to protect our proprietary technology, processes and intellectual property include agreements designed to protect our trade secrets. Examples of these written agreements include third party nondisclosure agreements, employee nondisclosure and inventions assignment agreements, and agreements with customers, contractors and strategic partners. Other written agreements upon which we rely to protect our proprietary technology, processes and intellectual property take many forms, and contain provisions related to patent, copyright, trademark or trade secret rights.

We have obtained U.S. federal registration of the MarketAxess® name and logo, and the same mark and logo have been registered in several foreign jurisdictions. We have pending registrations for the MarketAxess®) name and logo in several other foreign jurisdictions. In addition, we have obtained U.S. federal registration for the marks AutoSpotting®, BondLink® and Actives® and associated designs, and have applied for U.S. federal registration of the mark FrontPage. Corporate BondTicker is a trademark we use, but it has not been registered.

In addition to our efforts to register our intellectual property, we believe that factors such as the technological and creative skills of our personnel, new service developments, frequent enhancements and reliability with respect to our services are essential to establishing and maintaining a technology and market leadership position.

Government Regulation

The securities industry and financial markets in the U.S. and elsewhere are subject to extensive regulation. As a matter of public policy, regulatory bodies in the U.S. and the rest of the world are charged with safeguarding the integrity of the securities and other financial markets and with protecting the interests of investors participating in those markets. Our active broker-dealer subsidiaries fall within the scope of their regulations.

Our electronic trading platform facilitates broker-dealers completing trades with their institutional investor clients. With limited exceptions, we are not a party to these trades, we do not hold any bonds in inventory, we are not directly involved in the clearance or settlement of trades and we take no custody of client funds or securities.

Regulation of the U.S. Securities Industry and Broker-Dealers

In the U.S., the SEC is the governmental agency responsible for the administration of the federal securities laws. Our U.S. subsidiary, MarketAxess Corporation, is registered with the SEC as a broker-dealer. It is also a member of the NASD, a self-regulatory organization to which most broker-dealers belong. In addition, MarketAxess Corporation is a member of the Securities Investor Protection Corporation, which provides certain protection for clients accounts in the event of a liquidation of a broker-dealer to the extent any such accounts are held by the broker-dealer.

Finally, MarketAxess Corporation is registered with certain states and the District of Columbia as a broker-dealer. The states and the District of Columbia are responsible for the administration of their respective blue sky laws, rules and regulations.

Regulation of the Non-U.S. Securities Industries and Investment Service Providers

The securities industry and financial markets in the U.K., the European Union and elsewhere are subject to extensive regulation. MarketAxess Europe Limited may fall within the scope of those regulations depending upon the extent to which it is characterized as providing a regulated investment service.

Our principal regulator in the U.K. is the FSA. Our subsidiary, MarketAxess Europe Limited, is registered as a dealer with the FSA.

The securities industry in the member states of the European Union is regulated by agencies in each member state. European Union measures provide for the mutual recognition of regulatory agencies and of prudential supervision making possible the grant of a single authorization for providers of investment services which, in general, is valid throughout the European Union. As an FSA-approved dealer, MarketAxess Europe Limited receives the benefit of this authorization.

Employees

As of December 31, 2004, we had 172 employees, 145 of whom were based in the U.S. and 27 of whom were based in the U.K. None of our employees is represented by a labor union. We consider our relationships with our employees to be good and have not experienced any interruptions of operations due to labor disagreements.

Company Information

Our Internet website address is www.marketaxess.com. Through our Internet website, we will make available, free of charge, the following reports as soon as reasonably practicable after electronically filing them with, or furnishing them to, the SEC: our annual report on Form 10-K; our quarterly reports on Form 10-Q; our current reports on Form 8-K; and amendments to those reports filed or furnished pursuant to Section 13(a) of the Securities Exchange Act of 1934. Our Proxy Statements for our Annual Meetings are also available through our Internet website. Our Internet website and the information contained therein or connected thereto are not intended to be incorporated into this Annual Report on Form 10-K.

You may also obtain copies of our reports without charge by writing to:

MarketAxess Holdings Inc.
140 Broadway
New York, NY 10005
Attn: Investor Relations

In addition, our Board of Directors has standing Audit, Compensation and Nominating Committees. Each of these committees has a written charter approved by our Board of Directors. Our Board of Directors has also adopted a set of Corporate Governance Guidelines. Copies of each committee charter, along with the Corporate Governance Guidelines, are also posted on our web site. The information on our corporate web site is not incorporated by reference into this report.

We have obtained federal registration of the MarketAxess® name and logo, as well as for the marks Auto-Spotting®, BondLink® and Actives® and have applied for U.S. federal registration of the mark FrontPage. Other trademarks and service marks appearing in this annual report on Form 10-K are the property of their respective holders.

Item 2. ***Properties***

Our corporate headquarters and principal U.S. offices are located at 140 Broadway, New York, New York, where we lease the entire 42nd floor, which is approximately 24,000 square feet. This lease expires in February 2010. In addition, we lease another 17,000 square feet at 350 Madison Avenue, New York, New York, which we currently sublet. The lease expires in April 2011. MarketAxess Europe Limited s headquarters and principal offices are located at 71 Fenchurch Street, London, England, where we lease the entire 9th and 10th floors, which are approximately 4,700 square feet per floor. This lease expires in November 2015. MarketAxess Europe Limited sublets the 9th floor and was notified in November 2004 that the sublessee will exercise its termination right and will vacate the premises in May 2005. Our current intention is to reoccupy the 9th floor upon such event.

Item 3. ***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 4. ***Submission of Matters to a Vote of Security Holders***

No matters were submitted to security holders for a vote during the fourth quarter of our fiscal year ended December 31, 2004.

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PART II

Item 5. *Market for Registrant s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities*

Price Range

Our common stock commenced trading on the NASDAQ National Market under the symbol MKTX on November 5, 2004. Prior to that date, there was no public market for our common stock. On November 4, 2004, the registration statement relating to our initial public offering was declared effective by the SEC. The high and low bid information for our common stock, as reported by NASDAQ, was as follows:

November 5, 2004 to December 31, 2004	
High	**Low**
$24.41	**$12.75**

On March 28, 2005, the last reported closing price of our common stock on the NASDAQ National Market was $10.26.

Holders

There were approximately 188 holders of record of our common stock as of March 28, 2005.

Dividend Policy

We have not declared or paid any cash dividends on our capital stock since our inception. We intend to retain future earnings to finance the operation and expansion of our business and do not anticipate paying any cash dividends in the foreseeable future.

In the event we decide to declare dividends on our common stock in the future, such declaration will be subject to the discretion of our Board of Directors. Our Board may take into account such matters as general business conditions, our financial results, capital requirements, contractual, legal, and regulatory restrictions on the payment of dividends by us to our stockholders or by our subsidiaries to us and any such other factors as our Board may deem relevant.

Use of Proceeds

On November 4, 2004, the registration statement relating to our initial public offering (No. 333-112718) was declared effective. We received net proceeds from the sale of the shares of our common stock in the offering of $53.9 million, at an initial public offering price of $11.00 per share, after deducting underwriting discounts and commissions and estimated offering expenses. Additionally, prior to the closing of the initial public offering, all outstanding shares of convertible preferred stock were converted into 14,484,493 shares of common stock and 4,266,310 shares of non-voting common stock.

The underwriters for our initial public offering were Credit Suisse First Boston LLC, J.P. Morgan Securities Inc., Banc of America Securities LLC, Bear, Stearns & Co. Inc. and UBS Securities LLC.

All of the underwriters are affiliates of some of our broker-dealer clients and affiliates of some our institutional investor clients. In addition, affiliates of all the underwriters are stockholders of ours.

Except for salaries, and reimbursements for travel expenses and other out-of-pocket costs incurred in the ordinary course of business, none of the proceeds from the offering have been paid by us, directly or indirectly, to any of our directors or officers or any of their associates, or to any persons owning ten percent or more of our outstanding stock or to any of our affiliates. As of December 31, 2004, we have not used any of the net proceeds

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from the initial public offering for product development costs, sales and marketing activities and working capital. We have invested the proceeds from the offering in cash and cash equivalents and short-term marketable securities pending their use for these or other purposes.

Recent Sales of Unregistered Securities

Between January 2003 and December 2004, we issued an aggregate of 98,161 shares of common stock to 11 former employees and one current employee upon exercise of vested stock options. The shares were issued at an average price of approximately $3.10 per share for total proceeds of $0.3 million.

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 December 31, 2004.

Equity Compensation Plan Information

Plan Category	Number of Securities to be Issued upon Exercise of Outstanding Options, Warrants and Rights (a)	Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights (b)	Number of Securities Remaining Available for Future Issuance under Equity Compensation Plans (Excluding Securities Reflected in Column (a)) (c)
Equity compensation plans approved by stockholders(1)	4,018,693	$ 5.71	3,011,839
Equity compensation plans not approved by stockholders(2)	888,889	$ 2.70	
Total	4,907,582	$ 5.17	3,011,839

(1) These plans consist of the Company s 2004 Stock Incentive Plan, 2001 Stock Incentive Plan and 2000 Stock Incentive Plan.

(2) Represents the grant of a stock option to a senior officer.

This option is now fully vested.

Issuer Purchases of Equity Securities

We did not repurchase any of our securities during any month within the quarter ended December 31, 2004.

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Item 6. ***Selected Financial Data***

The selected statement of operations data for each of the years ended December 31, 2004, 2003 and 2002 and the selected balance sheet data as of December 31, 2004 and 2003 have been derived from our audited financial statements included elsewhere in this Form 10-K. The selected statement of operations data for the year ended December 31, 2001 and for the period from April 11, 2000 (date of inception) through December 31, 2000, and the balance sheet data as of December 31, 2002, 2001 and 2000 have been derived from our audited financial statements not included in this Form 10-K.

	Year Ended December 31,				April 11, 2000 (Date of Inception) through December 31, 2000
	2004 (Restated)	2003	2002	2001	
	(In thousands, except share and per share data)				
Statement of Operations Data:					
Revenues					
Commissions U.S. high-grade	$ 45,465	$ 40,310	$ 13,390	$ 3,392	$ 47
European high-grade	15,142	7,126	975	47	
Other(1)	7,565	5,364	1,190	833	
Total commissions	68,172	52,800	15,555	4,273	47
Information and user access fees	2,713	1,144	287	13	
License fees	3,143	4,145	924		
Interest income	882	371	742	2,132	1,666
Other(2)	887		1,193	181	
Total revenues	75,797	58,460	18,701	6,598	1,713
Expenses					
Employee compensation and benefits	33,146	26,860	24,290	24,356	5,862
Depreciation and amortization	3,468	4,688	6,658	5,127	1,446
Technology and communications	6,402	4,755	3,943	5,240	2,304
Professional and consulting fees	4,908	4,180	4,699	12,903	5,005
Warrant-related expense(3)	2,524	5,400	8,624	7,484	15
Marketing and advertising	2,530	2,292	2,588	1,780	235
Moneyline revenue share	1,240	1,806	708	408	
Restructuring charges			(674)	8,244	
General and administrative	4,263	4,077	3,941	6,153	3,681

Total expenses	58,481	54,058	54,777	71,694	18,548
Income (loss) before taxes	17,316	4,402	(36,076)	(65,096)	(16,835)
Provision (benefit) for income taxes(4,7)	(40,271)	190			
Net income (loss)(7)	$ 57,587	$ 4,212	$ (36,076)	$ (65,096)	$ (16,835)
Net income (loss) per common share(5,7):					
Basic	$ 6.76	$ (2.20)	$ (14.39)	$ (24.08)	$ (7.53)
Diluted	$ 1.88	$ (2.20)	$ (14.39)	$ (24.08)	$ (7.53)
Weighted average number of shares of common stock outstanding:					
Basic	7,097,682	3,288,464	3,290,326	3,097,994	2,573,979
Diluted	30,638,644	3,288,464	3,290,326	3,097,994	2,573,979

	As of December 31,				
	2004 (Restated)	2003	2002	2001	2000
	(In thousands)				
Balance Sheet Data:					
Cash, cash equivalents and short-term investments	$103,449	$ 36,182	$ 23,806	$ 37,200	$49,927
Working capital(6)	103,996	31,884	20,140	30,588	43,944
Total assets	175,646	57,183	39,437	56,042	55,532
Total redeemable convertible preferred stock		159,664	148,209	128,527	67,555

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	Year Ended December 31,				April 11, 2000 (Date of Inception) through December 31,
	2004	2003	2002	2001	2000
			(In billions)		
Trading Volume Data:					
U.S. high-grade	$183.5	$140.3	$39.4	$10.0	$ 0.2
European high-grade	76.5	31.8	4.2	0.2	
Other(1)	38.1	20.1	4.8	1.5	
Total	$298.1	$192.2	$48.4	$11.7	$ 0.2

(1) Other commissions consist primarily of commissions from the trading of emerging markets and new issues bonds. Other trading volume refers to the volume of bonds traded of the aforementioned types.

(2) Other revenues consist primarily of telecommunications line charges to broker-dealer clients, other miscellaneous revenues and, in 2002, insurance proceeds.

(3) Warrant-related expense is the expense associated with the allocation of warrants to purchase 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 us. The total number of shares underlying the warrant is 5,000,002. While the warrant was expensed each quarter, this was a non-cash expense that varied with the underlying fair market value of our common stock. The final share allocations under the warrant program occurred on March 1, 2004. Accordingly, we will no longer record any expense related to this warrant.

(4) During the year ended December 31, 2004, we reduced the valuation allowance relating to our deferred tax assets by $46.1 million from $64.3 million to $18.1 million. Due to the fact that we had achieved multiple quarters of profitability, it became more likely than not that we would be able to utilize our net operating loss carryforwards. We also determined that it was more likely than not that all of

the temporary differences relating to the deductibility of certain expenses for book and tax purposes, including the warrant-related expense, would be utilized prior to expiration. We also recognized $2.1 million in tax credits and an additional tax benefit for operating losses of $1.5 million. Without giving effect to the reduction of the valuation allowance, tax credits and an additional tax benefit for operating losses would have been $7.9 million.

(5) Includes the effect of dividends accrued on our redeemable convertible preferred stock. We have not included dilutive net income (loss) per common share for periods in which we had a net loss, as the effect would have been anti-dilutive. Upon completion of our initial public offering, all outstanding shares of redeemable convertible preferred stock and convertible preferred stock were converted into 14,484,493 shares of

common stock and 4,266,310 shares of non-voting common stock.

(6) Working capital is defined as current assets minus current liabilities. Current assets consist of Cash and cash equivalents, Short-term investments, Securities and cash provided as collateral, Accounts receivable, and Prepaid expenses. Current liabilities consist of Accrued employee compensation, Deferred license revenue, and Accounts payable, accrued expenses and other liabilities.

(7) The Company has restated its Consolidated Financial Statements as of and for the year ended 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 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 and related Deferred tax assets of $41.4 million had 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 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 2004 tax return.

Item 7. *Management s Discussion and Analysis of Financial Condition and Results of Operations*

You should read the following discussion and analysis of our financial condition and results of operations in conjunction with Selected Financial Data and our consolidated financial statements and related notes included elsewhere in this Form 10-K. In addition to historical information, this discussion and analysis contains forward-looking statements that involve risks, uncertainties and assumptions. Our actual results may differ materially from those anticipated in these forward-looking statements as a result of certain factors, including those set forth under Risk Factors That May Affect Future Results and elsewhere in this Form 10-K.

Executive Summary

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, 539 active institutional investor client firms (firms that executed at least one trade through our electronic trading platform between January 2004 and December 2004) 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 revenues are primarily generated from the trading of U.S. and European high-grade corporate bonds.

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, warrant-related expense, marketing and advertising and other general and administrative expenses.

Based on our limited operating history, we will encounter risks and difficulties frequently experienced by 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-dealer and institutional investor clients;
- deliver, expand and enhance reliable and cost-effective product and service offerings;
- respond effectively to competition;
- diversify our sources of revenues;
- maintain adequate control of our expenses; and
- attract and retain personnel.

We operate in a highly competitive business environment. In particular, we compete with bond trading business conducted over the telephone between broker-dealers and their institutional investor clients. Institutional investors have historically purchased fixed-income securities by contacting bond sales professionals at one or more broker-dealers by telephone or e-mail and inquiring about the price and availability of individual bonds. This remains the

manner in which the majority of corporate bonds are traded between institutional investors and broker-dealers. In addition, there are numerous other electronic trading platforms currently in existence. These include Thomson TradeWeb, a multi-dealer to institutional investor trading platform, and Bloomberg, which provides electronic trading functionality.

We believe that we compete favorably on the basis of several factors, including 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, technological capabilities, including the ease of use of our trading platform, and the range of our products and services. We also believe that we are well positioned to respond to future challenges due to the experience and continuity of our senior management team.

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;

- 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);

- 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.

History

MarketAxess was formed in April 2000, and pilot trading on our fully disclosed multi-dealer platform began in October 2000. We launched trading on our electronic platform in January 2001 with eight broker-dealer clients. Since that time, our broker-dealer clients have grown to include 22 of the leading securities firms. Our broker-dealer clients currently 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.

In March 2001, we acquired Trading Edge, Inc. (Trading Edge), the operator of an anonymous trading platform for U.S. corporate bonds, convertible bonds, municipal bonds, and sovereign and corporate bonds issued by entities domiciled in emerging markets. In an anonymous platform, the identities of buyers and sellers of securities are not disclosed to each other. Rather, the broker-dealer stands between buyers and sellers, acting as riskless principal to both sides of each transaction. Two clearing brokers cleared all trades executed on the Trading Edge platform. The MarketAxess platform differs from the Trading Edge platform in that trading on the MarketAxess platform is conducted on a fully-disclosed basis, where buyers and sellers are aware of the other s identity. Trades executed on the MarketAxess platform are settled directly between the buyer and the seller, with no credit risk exposure to MarketAxess.

In May 2001, we decided to halt development efforts for the convertible bond trading platform, while continuing to operate that platform with its existing functionality. In October 2001, we decided to terminate the municipal bond

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trading platform. The decisions with respect to the convertible bond and municipal bond trading platforms were not contemplated at the time of the Trading Edge acquisition and resulted from lower than anticipated trading volumes on these platforms. We currently maintain an anonymous trading platform capability for U.S. corporate bonds, convertible bonds, and sovereign and corporate bonds issued by entities domiciled in an emerging markets country, although it is dormant.

In August 2001, one of our U.K. subsidiaries, MarketAxess Europe Limited, began operations with secondary electronic trading in U.S. dollar-denominated and Euro-denominated corporate bonds.

In February 2002, we reorganized into MarketAxess Holdings Inc., a holding company that operates primarily through two operating subsidiaries, MarketAxess Corporation and MarketAxess Europe Limited. These subsidiaries are registered as broker-dealers with applicable market regulators in the U.S. and the U.K., respectively.

We launched our information service, Corporate BondTicker , in July 2002. Corporate BondTicker combines NASD TRACE data with MarketAxess data and analytical tools to provide trading professionals, research firms, rating and news agencies, and other market participants with a comprehensive set of corporate bond information.

We have been funded by nine of our 22 broker-dealer clients through purchases of equity securities, primarily convertible preferred stock, for a total purchase price of $79.8 million. In addition, we acquired cash and investments at fair value totaling $36.4 million in connection with the acquisition of Trading Edge. We also received net proceeds of $53.9 million from the sale of shares of our common stock in our November 2004 initial public offering. As of December 31, 2004, we had cash, cash equivalents and short-term investments totaling $103.4 million. We have no outstanding debt.

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;
- economic and political conditions in the United States, Europe and elsewhere;
- the availability of cash for investment by mutual funds and other institutional and retail investors;
- the volume of new fixed-income securities being brought to the market;
- investors assessment of the level of risk attributable to the issuers of corporate bonds;
- adverse market conditions, including unforeseen market closures or other disruptions in trading;
- concerns over inflation and weakening consumer confidence levels;
- the level and volatility of foreign currency exchange rates; and
- legislative and regulatory changes.

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.

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Competitive Landscape

The global fixed-income securities industry generally, and the electronic financial services markets in which we engage 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;
- 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.

Competitors, including companies in which some of our broker-dealer clients have invested, have developed electronic trading platforms or have announced their intention to explore the development of electronic platforms that compete or will compete with us.

In general, we compete on the basis of a number of key factors, including:

- 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.

We believe that we compete favorably with respect to these factors. Our trading volume and client acceptance have grown significantly over the past three years and we continue to proactively build technology solutions that serve the needs of the credit markets.

Our competitive position is also enhanced by the familiarity and integration of our broker-dealer and institutional investor clients with our electronic trading platform and other systems. We have focused on the unique aspects of the credit markets we serve in the development of our platform, working closely with our clients to provide a system that is suited to their needs.

Many of our current and potential competitors are more established and substantially larger than we are, and have a 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 securities. In addition, many of our competitors offer a wide range of services, have broader name recognition and have larger customer bases. 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.

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Any combination of our competitors or our current broker-dealer clients may enter into joint ventures or consortia to provide services similar to those provided by us. Others may acquire the capabilities necessary to compete with us through acquisitions. Significant consolidation has occurred in our industry and these firms, as well as others that may undertake such consolidation in the future, are potential competitors of ours.

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 require us to incur significant costs.

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 also place undue strain on our systems and resources. 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 are required.

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.

Recent Developments

The Company has restated its Consolidated Financial Statements as of and for the year ended 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 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.

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 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.

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The non-cash adjustments detailed above had no impact on the Company s cash flows or income before taxes for the year ended December 31, 2004 of $17.3 million.

The effect of the restatement resulted in the following changes:

	Year Ended and As of December 31, 2004	
	As previously Reported	Restated
	(In thousands, except per share amounts)	
Statement of Operations:		
Benefit for income taxes	$ (41,330)	$ (40,271)
Net income	58,646	57,587
Net income per common share		
Basic	$ 6.90	$ 6.76
Diluted	$ 1.91	$ 1.88
Consolidated Statements of Financial Condition		
Deferred income taxes	$ 41,410	$ 40,351
Accumulated Deficit	(99,578)	(100,637)

Trends in Our Business

The following table identifies changes in key financial measures of our business for the years ended December 31, 2004, 2003 and 2002.

	Year Ended December 31,		
	2004 (Restated)	2003	2002
		(In thousands)	
Revenues	$75,797	$ 58,460	$ 18,701
% change	29.7%	212.6%	N/A
Income (loss) before taxes	17,316	4,402	(36,076)
Net income (loss)(1)	57,587	4,212	(36,076)
Net increase (decrease) in cash, cash equivalents and short-term investments	67,267	12,376	(13,394)

(1) During the year ended December 31, 2004, we reduced the valuation allowance relating to our deferred tax assets by $46.1 million from

$64.3 million to $18.1 million. Due to the fact that we had achieved multiple quarters of profitability, it became more likely than not that we would be able to utilize our net operating loss carryforwards. We also determined that it was more likely than not that all of the temporary differences relating to the deductibility of certain expenses for book and tax purposes, including the warrant-related expense, would be utilized prior to expiration. We also recognized $2.1 million in tax credits and an additional tax benefit for operating losses of $1.5 million. Without giving effect to the reduction of the valuation allowance, tax credits and reversal, our net income for the year ended December 31, 2004 would

have been
$7.9 million.

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The majority of our revenues are primarily derived from commissions for transactions in U.S. and European high-grade corporate bonds executed on our platform. These commissions are paid by our 22 broker-dealer clients.

Most transactions executed on our platform are originated by our active institutional investor clients (firms that executed at least one trade through our electronic trading platform between January 2004 and December 2004), consisting of 539 institutions as of December 31, 2004. The volume of transactions executed across our platform is largely determined by the number of transaction inquiries originated by our institutional investor clients and the competitiveness of the prices they receive from our broker-dealer clients in response to these inquiries.

The notional value of bonds traded over our platform has grown rapidly since the commercial launch of the platform in January 2001. The total notional value traded increased from $11.7 billion for the year ended December 31, 2001, to $48.4 billion for the year ended December 31, 2002, to $192.2 billion for the year ended December 31, 2003 and to $298.1 billion for the year ended December 31, 2004. This has resulted in revenues that have grown from $6.6 million for the year ended December 31, 2001, to $18.7 million for the year ended December 31, 2002, to $58.5 million for the year ended December 31, 2003 and to $75.8 million in the year ended December 31, 2004.

Our overall trading volume is impacted by volume in the corporate bond market generally. Various factors that have historically impacted overall corporate bond market trading volume include the absolute level of interest rates, the direction of interest rate movements, the level of new issues of U.S. high-grade corporate bonds, volatility of corporate bond spreads versus U.S. Treasury securities, economic conditions, the geopolitical environment, market psychology, relative prices of competing asset classes and, more importantly, changes in expectations about inflation. While we believe that 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. Commission revenues have grown from $15.6 million for the year ended December 31, 2002, to $52.8 million for the year ended December 31, 2003 and to $68.2 million for the year ended December 31, 2004.

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. A continued period of decreased volume of U.S. high-grade corporate bond trading on our platform could result in our being unable to renew these transaction fee arrangements on terms that are acceptable to us, if at all. To the extent that we are not able to renew these arrangements on their current terms or other terms that are acceptable to us, our commissions in future periods could be negatively affected.

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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, income earned on investments and insurance recoveries. Revenues from these sources totaled $3.1 million for the year ended December 31, 2002, $5.7 million for the year ended December 31, 2003 and $7.6 million for the year ended December 31, 2004. We anticipate that revenues other than commissions will grow as we expand our data and information services offerings.

Expense Trends

Growth in revenue and in the value of trades executed on our platform has been achieved without commensurate increases in expenses. Our total expenses were $54.8 million for the year ended December 31, 2002, $54.1 million for the year ended December 31, 2003 and $58.5 million for the year ended December 31, 2004. As a result, we had a Loss before income taxes of $36.1 million for the year ended December 31, 2002, Income before income taxes of $4.4 million for the year ended December 31, 2003 and Income before income taxes of $17.3 million for the year ended December 31, 2004.

In the normal course of business, we incur the following expenses:

- employee compensation and benefits expenses, which include salaries, incentive compensation and related employee benefits and taxes;
- depreciation and amortization expenses, which result primarily from the depreciation of the fixed assets we purchase, including computer software and hardware used in the development of our trading systems;
- technology and communications expenses, which consist primarily of costs for our network connections with our customers and our data centers, as well as connectivity to various other market participants;
- professional and consulting expenses, which consist primarily of legal and accounting expenses;
- marketing and advertising expenses, which consist primarily of media, print and other advertising expenses as well as client marketing expenses; and
- general and administrative expenses, which include travel and entertainment expenses, rental and occupancy expenses, and other administrative expenses and general office costs.

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 achi