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PRESENTATION

Operator

Good day ladies and gentlemen, thank you for standing by. At this time, all participants are in listen-only mode. Later, we will conduct a question and answer session. (Operator instructions). As reminder, this conference is being recorded Wednesday, February 2, 2011. I would now like to turn the call over to [Dave Gresci], Investor Relations Manager at MarketAxess.

Dave Gresci - *MarketAxess Holdings Inc. - IR*

Good morning and welcome to the MarketAxess fourth-quarter 2010 conference call. For the call, Rick McVey, Chairman and Chief Executive Officer, will review the highlights for the quarter. Kelley Millet, President, will provide an update on trends in our businesses. And then Tony DeLise, Chief Financial Officer, will review the financial results.

Before I turn the call over to Rick, let me remind you that today's call may include forward-looking statements. These statements represent the Company's beliefs regarding future events that, by their nature, are uncertain. The Company's actual results and financial condition may differ materially from what is indicated in those forward-looking statements. For a discussion of some of the risks and factors that could affect the Company's future results, please see the description of risk factors in our annual report on Form 10-K for the year ended December 31, 2009.

I would also direct you to read the forward-looking disclaimers in our quarterly earnings release, which was issued earlier this morning and is now available on our website. Now let me turn the call over to Rick.

Rick McVey - *MarketAxess Holdings Inc. - CEO and Chairman of the Board*

Good morning and thank you for joining us to discuss our fourth-quarter and 2010 results.

We are pleased to report another set of strong quarterly results with record revenues of $38.6 million, up 14% from a year ago, and record pre-tax income of $14.4 million, 31% above the fourth quarter of 2009. Diluted EPS improved to $0.23 compared to $0.14 one year ago. Variable transaction fees were the largest contributor to revenue growth and were up 14% from a year ago, primarily due to higher volumes. Total trading volume of $104 billion was 13% above a year ago, and the highest since pre-credit crisis levels in the second quarter of 2007, and fee capture per million traded remained strong. Increases in investor order flow and improvements in dealer hit rates are driving volume and revenue growth.

Slide four provides some perspective on our full-year results. The results for the full year highlight the operating leverage in our business as a result of strong growth from 2009 levels. Revenue was up 28% and pre-tax income was up 69%. Operating margin for the full year expanded to 35%, up strongly from 26% in 2009. More than $0.66 of every additional revenue dollar we earned in 2010 versus 2009 fell directly to pre-tax income.

We are pleased with the growth rates in 2010 and the rapid recovery we have experienced from the 2007-2008 credit crisis. In spite of the prolonged crisis environment, or five-year compound annual growth rate for EPS is 29%. Our competitive position is strong, and we are optimistic that electronic fixed income trading will continue to grow.

Slide five displays some details on our financial strength. Our cash and securities balance at December month end was $198 million, or $5.11 per diluted are. For the fourth quarter, EBITDA grew to $16 million, and our EBITDA margin reached 42%, up from 38% one year ago. Our 12-month trailing free cash flow increased to $57 million, providing the financial flexibility to comfortably execute our share repurchase program and meet our quarterly cash dividend. Due to the growth in free cash flow, our Board of Directors has declared an increase of the regular quarterly cash dividend to $0.09 per share from $0.07. Our Board will continue to consider capital management opportunities for our shareholders.

Slide six provides an update on the current regulatory reform and our credit default swap platform. We support the CFTCs and swap execution proposals, which would allow request-for-quote systems to qualify as SEFs, and we're hopeful that the SEC's regulation of security-based swaps will be consistent in large measure with the CFTC approach. We expect to learn more about the SEC rule proposals today.

The CFTC proposal would apply basically the same regulatory standards to SEFs that apply to designated contract markets. That means that SEFs would bear substantial compliance and self-regulatory obligations and costs. Our trading protocols are already largely consistent with the CFTC rule proposals. Our governance model meets the criteria for independence established in the conflict of interest rule proposals. We have a large and established network of institutional credit market participants.

As a result of these key assets, we remain optimistic that financial regulatory reform will create new opportunities for our shareholders in the OTC derivative markets.

Now let me turn the call over to Kelly to provide more detail on the business results.

Kelley Millet - *MarketAxess Holdings Inc. - President*

Thank you, Rick. Slide seven provides an update on market conditions. During the fourth quarter market conditions remained favorable for credit rating. High-grade credit spreads as measured by the Credit Suisse LUCI Index ended the quarter at 111 basis points over treasuries, a decrease from 136 basis points at the end of the third quarter. During the fourth quarter, the yield curve steepened relative to the third quarter and has been one of the factors supporting inflows into taxable bond funds and ETFs.

For January, we believe uncertainty in the municipal bond market has also been a driving factor of flows into corporate bond funds.

Non-government guaranteed new issued volume declined to $142 billion for the fourth quarter, bringing total issuance for the year to $673 billion versus $667 billion for all of 2009. January new issuance was robust and exceeded $100 billion.

TRACE volumes for the year were $2.9 trillion, in line with 2009. January 2011 US high-grade trades volumes were very healthy with average daily volume exceeding $14 billion compared to $11 billion in the second half of 2010.

Slide eight highlights our improved client and dealer participation. The continued low level of primary dealer corporate holdings from pre-crisis levels highlights the importance of our strategy to expand our dealer group. During the fourth quarter of 2010, new dealers added to the platform since the second quarter of 2008 accounted for 18% of the volume and 28% of the trade count. As a result of the increased participation of new dealers and better performance from existing dealers, hit rates have shown a strong improvement. Our US high-grade hit rate approached pre-credit crisis levels and were 77% for the fourth quarter compared to 71% in the fourth quarter of 2009 and 74% during the third quarter of 2010. The increase in US high-grade market share for the fourth quarter demonstrates the contribution of both improved dealer hit rates and investor increased flow.

Slide nine summarizes the trading volumes across our product categories. Overall global volume was up 13% year-over-year to $104.3 billion. Record quarterly volumes were reached for US high-grade fixed-rate and agency bonds. US high-grade volumes rose to $63 billion, up 14% year-over-year and up 5% from the third quarter. Market share gains more than offset the 4% decline in overall TRACE volumes compared to the fourth quarter of 2009. Eurobond volumes did decline 40% from the fourth quarter of last year but remained flat from the third quarter of 2010. We have been focusing our sales efforts on driving improvements in investor inquiries in both Eurobonds and US credit products.

The other product category volumes increased to $30 billion, up 62% from the fourth quarter of 2009 and 3% from the third quarter of 2010. The increase from a year ago was driven primarily by strong growth in agency and emerging market volumes. Sequentially, we saw a modest shift in product mix favoring agencies.

We further expanded our product offering with the launch last week of consumer asset-backed securities trading. We expect a typical ramp-up in activity with no meaningful contribution to volumes or revenues in the first quarter.

We intend to publish January trading volumes in the next few days, once FINRA trade figures are finalized. Our total trading volume for January was a record $41.9 billion, up 30% from January of 2010, resulting in record average daily volume of approximately $2.1 billion. The preliminary TRACE volume numbers would imply that January high-grade market share is broadly consistent with the fourth-quarter average.

Now let me turn the call over to Tony for more detail regarding our fourth-quarter results.

Tony DeLise - *MarketAxess Holdings Inc. - CFO*

Thank you, Kelly. Please turn to slide 10 for our earnings performance.

Our record revenue of $38.6 million increased 14% from a year ago, driven by distribution and transaction fee commission growth and continued positive contributions from our technology products and services group. Total expenses were $24.2 million, up 5% from the fourth quarter of 2009 and up 1% sequentially. The revenue growth in expense management led to record pre-tax income of $14.4 million, up 31% from last year. Our effective tax rate for the fourth quarter was 38.1%, in line with our full-year 2010 rate of 38.3%. Our diluted earnings per share of $0.23 was the highest we have generated as a public company.

The diluted share count for the fourth quarter was down modestly from the prior year and third quarter of 2010. The year-over-year reduction resulting from the repurchase program was offset by an increase in diluted securities and share issuances.

On slide 11 we have laid out our commission revenue, trading volumes and fees per million. Record distribution fees of $13.4 million were up $1.3 million from the fourth quarter of 2009, due mainly to the migration of several dealers from the regional dealer plan to the major dealer plan in the second half of 2010. It is likely that several additional dealers will follow this path in early 2011, and we project that distribution fees will increase by approximately $1.2 million in the first quarter of 2011 versus the fourth quarter of 2010. The movement of dealers from the regional to major billing plan does cause a shift from variable transaction fees to distribution fees. Assuming fourth-quarter volume, duration and average trade side levels, the decline in variable transaction fees in the first quarter of 2011 would be offset by a corresponding increase in distribution fees and result in a reduction in US high-grade variable transaction fees per million of approximately $20.

The other product category fee capture declined to $186 per million for the fourth quarter of 2010 compared to $195 for the fourth quarter of 2009. Fee capture in the other product category is driven principally by the mix of volume in high yield, emerging markets and agency bonds. The growth rate in agency trading volume has outpaced emerging markets and high yield bonds, leading to an overall decline in average fees per million in the other product category.

Slide 12 provides you with the expense details. Total expenses for the fourth quarter were up 5% from the fourth quarter a year ago and up 1% sequentially from the third quarter. The 5% increase is generally in line with our five-year compound annual growth rate of expenses. Higher market data costs and IT and other consulting fees accounted for the majority of the year-over-year increase. The modest sequential decline in employee compensation and benefits is due to a final revision to our incentive bonus provision during the fourth quarter. Employee headcount increased slightly in the fourth quarter and was 227 at year end compared to 212 at the end of 2009. We expect to add headcount during 2011, principally related to the SEF activities and CDS sales and technologies.

On slide 13 we provide balance sheet information. Cash, cash equivalents and securities as of December 31 were $198 million compared to $174 million at year end 2009. Free cash flow for the trailing 12 months was $57 million, including a deferred income tax benefit of $16 million. Free cash flow was more than sufficient to offset approximately $41 million expended on the share repurchase program and dividends. We have US federal tax loss and credit carry-forwards available to partially sheltered taxable income in 2011 and expect to be in a federal taxpaying position during the year. We continue to have no bank debt.

On slide 14 we have our 2011 guidance. We currently expect our 2011 full-year expenses to be in the range of $101 million to $107 million. The relatively wide range in expense guidance reflects some of the uncertainty surrounding the establishment and operation of a swap execution facility. We expect the effective tax rate for the full year 2011 to be between 38% and 41%. Among other items, the mix of US and foreign source income and changes in tax rates could cause variations in the effective tax rate.

We expect our capital expenditures for 2011 to be in the range of $4 million to $6 million. Capital expenditures are expected to be lower than the levels from the past two years, which included approximately $5 million in the aggregate associated with our new premises in New York.

Now let me turn the call back to Rick for some closing comments.

Rick McVey - *MarketAxess Holdings Inc. - CEO and Chairman of the Board*

Well, the MarketAxess business achieved many new milestones in 2010. We are focused on the growing set of opportunities in front of us. Our core electronic bond trading business is showing signs of accelerating growth. The addressable market is large, and our competitive position is strong. We have achieved superior growth without any regulatory mandates on electronic trading for bonds. We have delivered valuable technology solutions to our customers in order to create volume, revenue and earnings momentum. We are now embarking on an unprecedented period of regulatory change for OTC derivatives that appears likely to rapidly expand electronic trading. These changes are creating a whole new set of potential opportunities to work with our dealer and investor clients to provide e-trading solutions that comply with the new regulations.

In closing, I would like to thank our employees for their dedication and commitment, which allowed MarketAxess to achieve these results in 2010. With that, I would be happy to open the call for your questions.

QUESTIONS AND ANSWERS

Operator

(Operator instructions) Niamh Alexander, KBW.

Niamh Alexander - *Keefe, Bruyette & Woods - Analyst*

Thanks for taking my questions and congrats on a very strong finish to the year. If I could, I wanted to understand the SEFs. We've had the preliminary rules out. RFQs are in, which is good. Open Access is in, which is good, and I think they are suggesting some 15-second display requirements. So what aspects of the rules work for you, other than what I've mentioned? And then, what might need some adjusting, or what areas should we be looking towards to understand what works better for you?

Rick McVey - *MarketAxess Holdings Inc. - CEO and Chairman of the Board*

We are pretty comfortable with the set of rule proposals that have come forward and our ability to meet the requirements to operate a SEF. As you point out, I think a key thing for us was making sure that our dealer investor clients would continue to have a menu of trading protocol choices. Obviously, what we have seen in other markets is that very liquid instruments migrate over time to central limit order, books but less liquid instruments tend to trade better in a request-for-quote system. And we are very pleased that the CFTC rule proposals do allow for those choices for our customers which we think will be very important, given the very different nature of liquidity across the spectrum of CDS contracts.

We obviously think we are very well positioned from an independent standpoint, given the public company board that we operate. So we would see very few changes required in anything related to governance for the SEF relative to what we already do. And as we have mentioned many times, I think we are fully prepared to evolve with our clients, given the choice of trading protocols that we have already available on the MarketAxess system with everything from request for quote to request for stream to cross-matching already available on the platform.

Niamh Alexander - *Keefe, Bruyette & Woods - Analyst*

That's help, thanks so much, and I appreciate the clarity, Rick. If I could understand for the credit derivatives, I guess the liquidity right now from the brokerage side is more leaning to dealer-brokers that would have the liquidity, certainly dealer-to-dealer and from some of them for buy side to dealer. How do you make that leap? You have maybe the connectivity, but how do you make sure that you can find the liquidity for the customers in those products?

Rick McVey - *MarketAxess Holdings Inc. - CEO and Chairman of the Board*

I think two separate points or questions there -- yes, based on the DTCC data that is being reported weekly, we do think that, unlike corporate bonds, the CDS market has the majority of volume coming today in the interdealer market. We have said in the past, it looks like it's somewhere around 70/30 with interdealer volumes the higher percentage and client-to-dealer the lower percentage. So it is almost exactly opposite of what you see in the corporate bond market.

I think with respect to how do we attract the right liquidity on the system, we are going to stick with what served us well in corporate bonds. We need to provide the most efficient and user-friendly technology solutions. We need to do so on a cost-effective basis and we need to have an attractive value proposition that's going to drive investor order flow into the MarketAxess system for CDS in the same way that it has for corporate bonds. If we get those things right, we are very confident that we will play a significant role in the electronic market for CDS.

Niamh Alexander - *Keefe, Bruyette & Woods - Analyst*

Okay, thanks, Rick, that's helpful. If I could, just two quick questions -- one is just on the Eurobond, or the European markets. There have been a few quarters now where you changed your strategy. How do you feel about where you are at now? What kinds of changes can you make maybe to up the game there? Secondarily, just on your cash, you have increased your dividend. Should we expect maybe minimal repurchase activity now until everybody figures out what capital might be required for SEFs?

Kelley Millet - *MarketAxess Holdings Inc. - President*

Niamh, it's Kelley. Let me address your question regarding Europe. As you know, market conditions have continued to be somewhat weaker than in the US, principally due to sovereign and other political issues, although we have seen some improvement through the latter part of the year. I think, secondly, you are aware that it is a more competitive environment in the electronics space with both Bloomberg ALLQ and Tradeweb. We did introduce a new trading protocol, click-to-trade, the trade that has been very well-received and is beginning to get traction. It provides not only a workflow solution for the more private bank high-ticket flow type of organization, but it really does provide great price discovery for our traditional institutional RFQ users, given the lack of an equivalent MiFID or trade-to-take in the market environment.

We have taken specific internal steps to change our sales structure and implement specific new incentive plans associated in driving higher levels of inquiry in our core European products, as well as in our North American credit trading products, where we see much less competition, i.e., the ability of European clients to access our US high-grade emerging markets and high-yield liquidity pools here in the US.

So it will take a number of months in our minds to feel the full impact of all of those technology protocol and organizational changes, but we do believe we are taking aggressive steps to address the under-performance in Europe.

Niamh Alexander - *Keefe, Bruyette & Woods - Analyst*

Thanks, Kelley, that's really helpful. So we'll watch for the next few quarters.

Tony DeLise - *MarketAxess Holdings Inc. - CFO*

Niamh, it's Tony. On the capital management question, if you had two pieces in there on the repurchase and then on the dividends, on the repurchase side we just finished up our second repurchase plan in the last four years. So we have bought back a total of $70 million worth of shares in the past four years. This most recent repurchase plan we finished up in the fourth quarter and it met that purpose of offsetting the increase in our diluted share count at the beginning of 2009.

I think the Board will regularly look at repurchase plans, although, at least in the near-term -- I don't think it's on the ticket for the near-term. You saw that we did increase the dividend, and that is in reflection of increased, improved operating performance and improvement in free cash flow. When we first announced that dividend a little over a year ago, we were targeting a yield of between 2% and 2.25% and paying out about one-third of free cash flow. And where we stood at year end with the strong performance and the increase in our share price, our yield was at about 1.2% and paying out less than 20% of free cash flow. The Board took a look at the dividend program, and with the $0.09 quarterly dividend now, we get the yield up to around 1.7%. That's pretty consistent with the S&P 500, a little higher than some of the small-cap indexes. But we're back up at 1.7%, still paying out less than 25% of free cash flow.

And one important thing there with -- that we -- on some of the prepared remarks on the tax benefits -- even if we pull out the tax benefits from last year, we would still be paying out around 30% of free cash flow with that dividend. And the Board -- this is an ongoing topic, capital management, with the Board. We look at repurchases, look at dividends, and it's an ongoing process.

Niamh Alexander - *Keefe, Bruyette & Woods - Analyst*

Okay, thanks for taking my questions.

Operator

(Operator instructions) Hugh Miller, Sidoti & Company.

Hugh Miller - *Sidoti & Company - Analyst*

You guys obviously -- I think that the strength in Europe or the rebound there that we saw in the quarter was a little bit greater than what I was anticipating. You mentioned that you have been taking some active steps to sign some dealers and provide more liquidity and strengthen the click-to-trade product. Two questions I had. One was, are you noticing any kind of reaction from some of the competitors out there, be it Bloomberg and others, from your efforts? And the other, with regards to additional signings and how should we be looking or thinking about these fixed-rate distribution fees for the European platform as we head into the first-quarter?

Kelley Millet - *MarketAxess Holdings Inc. - President*

Again, Hugh, it's Kelley. What the click-to-trade protocol has allowed us to do is really, for the first time, to aggressively market to and explain and deliver our value proposition to a whole number of private banking type clients across the continent who really rely on a more frequent workflow solution and rely less on an RFQ capability. So obviously, by opening up these new relationships, we have the ability to sell the value proposition, to sell the efficiency of connectivity and best execution, given our liquidity pool. That is ongoing process and will take months in order to begin to see changes in those specific client behaviors.

Likewise, as I said earlier, it does provide free trade price transparency for our traditional institutional clients in Europe, given the lack of any sort of consolidated TRACE-like [tape] despite all of the movements of MiFID to trying to establish that.

So that protocol allows us to really go after a new addressable market and compete head-to-head, but also really enriches and enhances our traditional institutional RFQ offering.

Obviously, our fixed distribution fees are something that we focus on very, very carefully. We continue to make technology enhancements, allow connectivity around auto-quoting and offering a variety of products for our clients or dealer clients to trade over the platform. We are not engaged in any material dialogue currently as it relates to the nature or amount of those fixed distribution fees, but obviously that can change at a given point in time.

But ultimately, what we need to deliver is higher inquiry and traded volume from our core Eurobond business, be it from a click-to-trade protocol or our traditional RFQ, but really also accelerate what we think is our competitive advantage in European use and access of our North American credit trading products, specifically EM, high-yield and high-grade corporate product.

Hugh Miller - *Sidoti & Company - Analyst*

Okay, and maybe pinpointing a little bit in there, it seems like on the European high-grade segment that the variable fee per million came in right in the wheelhouse of where you guys had mentioned. and it should be around $100 mark, but that the fixed revenue improved from the third quarter to the fourth by about 300,000. I assume that there may have been some additional dealers that maybe are paying those fees. Should we see an improvement in the March quarter from that $3.3 million in quarterly fixed revenue, or should that stay somewhat consistent?

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Tony DeLise - *MarketAxess Holdings Inc. - CFO*

Hugh, it's Tony. On the European distribution fees, from what we know today -- and this is sitting here on February 2 -- we wouldn't expect much change in that European distribution fee line for the first quarter. When I mentioned before an expectation that the distribution fees overall would go up by around $1.2 million, virtually all of that is in the US and virtually all of that is the migration of a couple of dealers from the regional plan to the major plan.

So just sitting here today, I think it's a pretty stable situation, as Kelley mentioned, in terms of dealer discussions, but a pretty stable situation on the European distribution fees.

Hugh Miller - *Sidoti & Company - Analyst*

Okay.

Rick McVey - *MarketAxess Holdings Inc. - CEO and Chairman of the Board*

Specifically to the variable fees, just remember for all credit products we reduced our dealer markup to $0.01 across all products, excluding governments, So when you think about fee capture in the European credit business, that $100 per million should be a consistent level. It would only be influenced by the mix between credit and our government product, which has less than $0.01 in terms of its fee capture per million.

Hugh Miller - *Sidoti & Company - Analyst*

Right, right. Another question -- you mentioned in slide 11 in one of the footnotes that you do include, I guess, CDS trading in the other category, which I know obviously will eventually happen. I was wondering, are you starting to see any types of trading on the platform at this point right now from CDS at all?

Rick McVey - *MarketAxess Holdings Inc. - CEO and Chairman of the Board*

Really, we really to date have not seen any significant increase in CDS trading activity, but during the course of the last three or four months, we are very pleased with the progress that we see among dealer clients, in particular, in preparing for the Dodd-Frank changes that are likely to be implemented later this year. Specifically, there's a lot of work going on with trading APIs for CDS so that significant derivative dealers can integrate their streaming market-making capabilities into MarketAxess. We are also seeing a pickup in client approvals so that they can access more client order flow through the MarketAxess system. So behind the scenes, we are very pleased that there is a significant amount of work going on to prepare for a larger CDS electronic trading market. But in the short run, it's not showing up in trading volumes.

Hugh Miller - *Sidoti & Company - Analyst*

Okay, and the last question I had was with regards to the hit rate. Obviously, another sequential improvement, getting up towards 77%. I was wondering, during the quarter we seemed to kind of see several weeks where we saw outflows from taxable funds. I was wondering whether or not that dynamic has actually been a positive to the hit rate. With the better bid/ask balances, there may be people on both sides of the trade at this point, or any insight into that dynamic?

Kelley Millet - *MarketAxess Holdings Inc. - President*

Hugh, again, it's Kelley. We didn't see any real material or statistically significant change in the balance of our bid/offer flows through the quarter. I think the improvement to 77%, I think, is a function of greater support and adoption among the dealer community with all of their connectivity, auto-quoting and other technology work they are doing with us, as well as the continued important and growing importance of what we call our new dealers added to the system in the mid part of 2008.

Keep in mind, from a historical context, our system-wide high, which was in the low 80%s -- call it 81% pre-crisis levels -- is something that we continue to aspire to achieve. But there is a natural feeling somewhere in and around, I would assume, the low to mid 80s, even in a perfect world in terms of liquidity and stability in the credit markets.

But we continue to work very hard with both our existing dealers, as well as the new dealers to help them from a connectivity and from a technology standpoint to be a lot more efficient to respond to the increasing number of inquiries across an increasing number of clients.

So would I expect that hit rate, all else being equal, with no exogenous shock to the system to improve modestly over time? I would, but big jumps, given where we were at our historical highs, which were in the low 80s, are not likely to arise quarter to quarter.

Hugh Miller - *Sidoti & Company - Analyst*

Okay, thank you for the color.

Operator

Ladies and gentlemen, with no further questions in the queue, this concludes today's question-and-answer session. I would now like to turn the call back over to Mr. Rick McVey for closing remarks.

Rick McVey - *MarketAxess Holdings Inc. - CEO and Chairman of the Board*

Thank you for joining us this morning, and we look forward to catching up with you again next quarter.

Operator

Ladies and gentlemen, we thank you for your participation in today's conference. This concludes the presentation, and you may now disconnect. Have a good day.
