Monotype Imaging Holdings Inc.
Form DEF 14A
April 04, 2019
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

SCHEDULE 14A

(Rule 14a-101)

INFORMATION REQUIRED IN PROXY STATEMENT

SCHEDULE 14A INFORMATION

Proxy Statement Pursuant to Section 14(a) of the

Securities Exchange Act of 1934

(Amendment No.)

Filed by the Registrant Filed by a Party other than the Registrant

Check the appropriate box:

Preliminary Proxy Statement
Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))
Definitive Proxy Statement
Definitive Additional Materials
Soliciting Material Pursuant to §240.14a-12

MONOTYPE IMAGING HOLDINGS INC.

(Name of Registrant as Specified in Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

No fee required.

Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

(1) Title of each class of securities to which transaction applies:

(2) Aggregate number of securities to which transaction applies:

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

(4) Proposed maximum aggregate value of transaction:

(5) Total fee paid:

Fee paid previously with preliminary materials.

Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

(1) Amount Previously Paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

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600 Unicorn Park Drive

Woburn, Massachusetts 01801

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS

TO BE HELD ON MAY 2, 2019

Notice is hereby given that the 2019 Annual Meeting of Stockholders (the Annual Meeting) of Monotype Imaging Holdings Inc., a Delaware corporation (the Company), will be held on Thursday, May 2, 2019, at 8:30 a.m. local time at the Company s headquarters at 600 Unicorn Park Drive, Woburn, MA 01801 for the following purposes:

1. To elect three Class I directors nominated by the board of directors to serve until the 2022 annual meeting of stockholders and until their respective successors are duly elected and qualified or until their earlier resignation or removal;

2. To hold an advisory vote to approve the compensation of the Company s named executive officers;

3. To ratify the audit committee s appointment of Deloitte & Touche, LLP as the Company s independent registered public accounting firm for 2019; and

4. To consider and vote upon such other business as may properly come before the Annual Meeting or any adjournments or postponements thereof.

Any action may be taken on the foregoing matters at the Annual Meeting on the date specified above, or on any date or dates to which, by original or later postponement or adjournment, the Annual Meeting may be postponed or adjourned.

The board of directors has fixed the close of business on March 22, 2019 as the record date for determining the stockholders entitled to receive notice of and to vote at the Annual Meeting and at any postponements or adjournments thereof. Only holders of record of the Company s common stock, par value $0.001 per share, at that time will be entitled to receive notice of and to vote at the Annual Meeting and at any postponements or adjournments thereof.

You must bring to the Annual Meeting picture identification and proof that you are a stockholder of record in order to vote your shares at the Annual Meeting.

By Order of the Board of Directors,

Janet M. Dunlap

Executive Vice President, Chief Administrative Officer, General Counsel and Secretary

Woburn, Massachusetts

April 4, 2019

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Questions and Answers about Monotype s Annual Meeting

This proxy statement (the Proxy Statement) is being furnished in connection with the solicitation of proxies by the board of directors (the Board) of Monotype Imaging Holdings Inc., a Delaware corporation (the Company or Monotype), for use at the Company s 2019 Annual Meeting of Stockholders (the Annual Meeting). This Proxy Statement and form of proxy will be made available to stockholders on or about April 4, 2019.

When and where is the Annual Meeting?

Time:	8:30 a.m. Eastern
Date:	Thursday, May 2, 2019
Location:	Company Headquarters 600 Unicorn Park Drive Woburn, Massachusetts 01801

Who can vote?

Stockholders of record as of March 22, 2019 (our Record Date) are entitled to vote. As of our Record Date, there were 41,391,437 shares of our common stock (the Common Stock) entitled to vote. Each share of our Common Stock is entitled to one vote for each Nominee (as defined herein) and one vote for each Proposal.

How many shares must be present to conduct the Annual Meeting?

The presence at the meeting in person or by proxy of holders of shares representing a majority of all the votes entitled to be cast at the meeting, or 20,695,719 voting shares, will constitute a quorum for the transaction of business at the Annual Meeting.

What is the difference between a stockholder of record and a street name holder?

These terms describe how your shares of our Common Stock are held. If your shares are registered directly in your name with Computershare Investor Services, our transfer agent, you are a stockholder of record. If your shares are held in the name of a brokerage, bank, trust or other nominee as a custodian, you are a street name holder.

What is a proxy?

A proxy is your legal designation of another person to vote on your behalf. By completing and returning the enclosed proxy card, you are giving the persons named in the proxy card, Scott Landers and Tony Callini, or each of them, each with the power of substitution, the authority to vote your shares in the manner you indicate on your proxy card.

How do I vote my shares?

If you are a stockholder of record, you have several choices. You can indicate your vote and designate your proxy:

Via the Internet;

By telephone; or

By mailing your enclosed proxy card.

Note that votes made by phone or on the Internet must be received by 11:59 p.m., local time, on May 1, 2019. Please refer to the specific instructions on the printed proxy card. If you hold your shares in street name, your broker, bank, trustee, or nominee will provide you with materials and instructions for voting your shares. If you return a properly signed proxy card but do not mark your vote on any matter, your shares will be voted **FOR** the Nominees and Proposals set forth on the proxy card.

Why did I receive more than one Proxy Statement and proxy card?

You will receive multiple Proxy Statements and proxy cards if you hold your shares in different ways (for example, by joint tenancy, in a trust, in a custodial account) or in multiple accounts. If your shares are held in street name, you will receive your proxy card or other voting information from your broker and you will return your proxy card(s) to your broker. You should vote on and sign each proxy card you receive. To request that only one copy of any of these materials be mailed to your household, please contact your broker.

Can I vote my shares in person at the Annual Meeting?

If you are a stockholder of record, you may vote your shares in person at the Annual Meeting. If you hold your shares in street name, you must obtain the appropriate documents from your broker, bank, trustee, or nominee, giving you the right to vote the shares at the Annual Meeting. You must bring to the Annual Meeting a picture identification and proof that you are a stockholder of record in order to vote your shares at the Annual Meeting. Please note that even if you plan to attend the Annual Meeting, we recommend that you vote using the enclosed proxy card in advance, to ensure that your shares will be represented.

What is a broker non-vote?

A broker non-vote refers to a share of our Common Stock represented at the Annual Meeting that is held by a broker or other nominee who has not received instructions from the beneficial owner or person entitled to vote such share and where the broker or nominee does not have discretionary power to vote. If you hold shares of our Common Stock in street name, you must provide written instructions on how you want your shares to be voted on each Proposal. If you do not provide voting instructions and the Proposal is considered a non-routine matter, then your shares will not be voted. Please note that **Proposal One Election of Directors** and **Proposal Two Advisory Vote on Executive Compensation** are considered a non-routine matters, so it is very important that you provide written instructions on each Proposal if you want your vote to be counted.

What Proposals will be voted on at the Annual Meeting and how does the Board recommend I vote?

The following is a summary of the Proposals being voted on at the Annual Meeting and the recommendations of the Board:

Proposal Number and Subject	**Description**	**Board Recommendation**
Proposal One Election of Directors	We are asking our stockholders to re-elect Gay W. Gaddis, Roger J. Heinen, Jr., and Denise F. Warren (the Nominees), each as a Class I director for a three-year term.	The Board recommends you vote **FOR** the election of each Nominee.
Proposal Two Advisory Vote on Executive Compensation	We are asking our stockholders, in an advisory, non-binding vote, to	The Board recommends you vote **FOR** the approval of the

	approve the compensation of the Company s named executive officers.	compensation of the Company s named executive officers.

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Proposal Number and Subject	Description	Board Recommendation
Proposal Three Ratification of the Company s Independent Registered Public Accounting Firm	We are asking our stockholders to ratify the audit committee s appointment of Deloitte & Touche, LLP as the Company s independent registered public accounting firm for the fiscal year ending December 31, 2019.	The Board recommends you vote **FOR** the ratification of Deloitte & Touche, LLP.

What vote is required to approve each Proposal?

To approve each of the Proposals, the following votes are required from our stockholders:

Proposal Number and Subject	Vote Required	Impact of Abstentions and Broker Non-Votes
Proposal One Election of Directors	In uncontested elections, our directors are elected by a majority of the shares voted, which means that each Nominee receiving more for votes than against votes will be elected.	Abstentions and broker non-votes will not count as votes cast on Proposal One and will not affect the outcome of the vote.
Proposal Two Advisory Vote on Executive Compensation	We will consider stockholders to have approved the Company s executive compensation if the majority of votes are cast for Proposal Two.	Abstentions and broker non-votes will not count as votes cast on Proposal Two and will not affect the outcome of the vote.
Proposal Three Ratification of the Company s Independent Registered Public Accounting Firm	Deloitte & Touche, LLP will be ratified if the majority of votes are cast for Proposal Three.	Abstentions and broker non-votes will not count as votes cast on Proposal Three and will not affect the outcome of the vote.

What happens if additional matters are presented at the Annual Meeting?

As of the filing date of this Proxy Statement, we know of no other matters other than the items of business described herein which can be considered at the Annual Meeting. If other matters requiring a vote do arise, the persons named as proxies will have the discretion to vote on those matters for you.

Can I change my vote after I have mailed my proxy card?

You may revoke your proxy by doing one of the following:

By signing a later-dated proxy card and submitting it so that it is received prior to the Annual Meeting in accordance with the instructions included on the proxy card(s);

By attending the Annual Meeting and voting your shares in person; or

By sending a written notice of revocation to:

Monotype Imaging Holdings Inc.

Attention: Corporate Secretary

600 Unicorn Park Drive

Woburn, Massachusetts 01801

Please note that your written revocation stating that you revoke your proxy must be received by our corporate secretary prior to the Annual Meeting.

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Who pays the cost of this proxy solicitation?

The cost of solicitation of proxies for the Annual Meeting will be paid by the Company. In addition to the solicitation of proxies by mail, the directors, officers, and employees of the Company may also solicit proxies personally or by telephone without additional compensation. The Company will also request persons, firms, and corporations holding shares in their names or in the names of their nominees, which are beneficially owned by others, to send proxy materials to and obtain proxies from the beneficial owners. The Company will reimburse holders for their reasonable expenses.

How do I make a proposal for consideration at next year s annual meeting of stockholders?

Stockholder proposals submitted pursuant to Rule 14a-8 of the Securities Exchange Act of 1934, as amended (the Exchange Act) for inclusion in the Company s proxy statement and form of proxy for the 2020 annual meeting of stockholders must be received by the Company by December 6, 2019. Proposals must comply with the requirements as to form and substance established by the Securities and Exchange Commission (the SEC) in order to be included in our proxy statement and form of proxy.

In accordance with our current by-laws, for a stockholder to nominate a director or for a proposal of a stockholder to be presented at the Company s 2020 annual meeting of stockholders, other than a stockholder proposal intended to be included in our proxy statement and submitted pursuant to Rule 14a-8 of the Exchange Act, a stockholder s notice must be delivered to, or mailed and received at, the principal offices of the Company, together with all supporting documentation required by the Company s by-laws, not prior to the close of business on January 3, 2020, nor later than the close of business on February 2, 2020. You may contact the Company s corporate secretary at the address below for a copy of the relevant by-law provisions regarding the requirements for making stockholder proposals and nominating director candidates. Any proposals should be mailed to:

Monotype Imaging Holdings Inc.

Attention: Corporate Secretary

600 Unicorn Park Drive

Woburn, Massachusetts 01801

The Company s Annual Report, including financial statements for the year ended December 31, 2018, is being mailed to stockholders concurrently with this Proxy Statement. The Annual Report, however, is not part of the proxy solicitation material, even when we specifically refer to the Annual Report on Form 10-K in this Proxy Statement. A copy of the Company s Annual Report on Form 10-K filed with the SEC, including all exhibits to the Annual Report, may be obtained free of charge by writing to:

Monotype Imaging Holdings Inc.

Attention: Investor Relations

600 Unicorn Park Drive

Woburn, Massachusetts 01801

The Annual Report can also be viewed and/or downloaded from the Company s website at http://ir.monotype.com/. The information contained on, or connected to, our website is not incorporated herein by reference.

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Beneficial Ownership and Section 16(a) Reporting Compliance

Security Ownership of Certain Beneficial Owners

The beneficial ownership of entities known to the Company to directly or indirectly own more than five percent of our Common Stock as of March 1, 2019 can be found in the table below. This information is based on publicly available filings on Form 13G for the period ending December 31, 2018 and the percentage ownership calculations are based on 41,447,514 shares outstanding on March 1, 2019.

	Shares Beneficially Owned	
Name and Address of Beneficial Owner	**Number**	**Percent**
BlackRock, Inc. . 55 East 52nd Street New York, NY 10055	6,000,642	14.5%
The Vanguard Group, Inc. 100 Vanguard Boulevard Malvern, PA 19355	4,223,659	10.2%
RGM Capital, LLC 9010 Strada Stell Court, Suite 105 Naples, FL 34109	3,703,397	8.9%
Trigran Investments, Inc. 630 Dundee Road, Suite 2309 Northbrook, IL 60062	3,664,425	8.8%

Security Ownership of the Board and Management

The beneficial ownership of the Company s Common Stock of all current directors and executive officers, both individually and as a group, is listed in the table below. This information is based on written representations made by each director and executive officer and the percentage ownership calculations are based on 41,447,514 shares outstanding on March 1, 2019.

	Shares Beneficially Owned	
Name of Beneficial Owner	**Number (1)**	**Percent**
Scott E. Landers (2)	439,505	1.1%
Anthony Callini	120,714	*
Janet M. Dunlap (3) +	206,726	*
Steven R. Martin (4) +	154,162	*
Benjamin W.L. Semmes III (5) +	270,322	*
Brett S. Zucker (6)	130,770	*
Pamela F. Lenehan (7)	85,775	*

Eileen A. Campbell	10,981	*
Gay W. Gaddis	29,835	*
Roger J. Heinen, Jr.	31,995	*
Peter J. Simone	36,069	*
Denise F. Warren	10,981	*
Timothy B. Yeaton	40,409	*
All executive officers and directors as a group (13 persons) (8)	1,568,244	3.8%

* Represents less than 1% of the outstanding shares of our Common Stock.

\+ The executive officer has an effective 10b5-1 trading plan as of the date of this Proxy Statement.

(1) The total number of shares beneficially owned for each individual named above includes options to purchase our Common Stock held by the beneficial owner that are currently exercisable or will become exercisable within 60 days of March 1, 2019.

(2) The amount includes 4,605 shares of stock indirectly held by Mr. Landers in his wife s and children s names and 66,741 shares subject to options.

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(3) The amount includes 37,978 shares subject to options.
(4) The amount includes 50,505 shares subject to options.
(5) The amount includes 12,564 shares of stock indirectly held by Mr. Semmes in a roll-over individual retirement account and 85,878 shares subject to options.
(6) The amount includes 55,994 shares subject to options.
(7) The amount includes 2,000 shares of stock indirectly held by Ms. Lenehan in her spouse s name.
(8) The amount includes 297,096 shares subject to options and 19,169 shares indirectly held as noted above.

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Exchange Act requires our executive officers, directors and persons who beneficially own more than 10% of a registered class of our equity securities (collectively, Insiders) to file reports of ownership and changes in ownership with the SEC. Insiders are required by the SEC to furnish the Company with copies of all Section 16(a) reports they file. The Company has received written representations from all directors and named executive officers that no other reports were required during the year ended December 31, 2018 and all filing requirements applicable to the Insiders were timely satisfied, with the exception of one Form 4 for each of Messrs. Landers, Semmes, Martin, Zucker, and Ms. Dunlap, which were filed late. These errors were remediated immediately upon discovery.

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Corporate Social Responsibility, Employee Engagement and Corporate Governance

At Monotype, we empower creative minds to build and express authentic brands. We strive to be the first stop for leaders and innovators of brand expression, providing the design assets, technology and expertise that drive brand engagement and the best user experiences. Our products, services and expertise help brands build authentic, memorable experiences at every customer touchpoint. We partner with some of the industry s largest font and marketing asset companies and employ many of the world s most talented font designers. While great products and unmatched talent are a good start, we must also earn and maintain the trust of customers, employees and stockholders.

Monotype focuses on conducting business in a manner that is principled, accountable and transparent. Our core values are at the center of everything we do:

- Be curious, be bold
- Delight customers
- Create with passion
- Act with accountability
- Include and care for all

These values are embodied in our corporate social responsibility efforts, employee engagement programs and corporate governance programs. With building long-term relationships at the heart of what we do, we seek to make Monotype a great place to work for our employees and to earn the trust of our customers and stockholders.

Corporate Social Responsibility

We know that customers and stockholders would rather engage with a company that operates in a manner that promotes social responsibility and acts accordingly.

Creating Trust

- To help ensure our customers can trust the products and services they use, we have published clear privacy statements that describe our practices, our use of anonymous and personally identifiable data (PII), and offer ways for individuals to access, correct or delete their PII from our systems or even take their PII somewhere else.
- We take data and cyber security seriously. That s why in 2018 we underwent an ISO 27001 security audit and are proud to say we have been ISO 27001 certified. We review the security practices of our vendors and strive to

hold them to the same high standards with which we hold ourselves.

We focus on the regulatory landscape so when changes occur that could affect our customers use of our products and services, we are ready to work directly with them to help them prepare to comply with the changing requirements.

We help our customers focus on compliance. We know font licensing is complicated, and we work with our customers to not only get them up to date on their current licensing needs, but also offer products that ensure our customers can be comfortable that they are fully licensed for today s most pervasive font use cases.

We launch customer surveys across all of our product lines to get a better understanding of the challenges our customers face, ensure we are helping them meet those challenges, and make changes based on their feedback.

Green Initiatives

We have taken steps to decrease the amount of waste we produce by reducing our reliance on paper and other single use products in our offices throughout the world. We have installed filtered water and coffee

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stations and provide our employees with reusable hot and cold cups to use in our offices. We also have recycling programs in all of our offices.

We encourage our employees, guided by our records retention policy, to retain electronic records as opposed to paper, which also reduces the need for off-site paper storage.

We have taken steps to reduce the amount of energy we use in our corporate headquarters by maximizing natural light in our office design, reducing the amount of electricity we use.

We limit employee travel through the deployment of desktop and group teleconferencing alternatives.

Charitable Giving

Through our Monotype Cares program, our employees support non-profit and community development organizations that align with our values and employees are given paid time off to volunteer with co-workers in their local communities.

We offer a charitable matching program. Some of the organizations that Monotype and its employees supported in 2018 include Center for Women and Enterprise (USA), GBPFLAG Pride and Passion (USA), Whitechapel Mission (UK), Blue Cross (UK), Kerala Flood Fund (India), Cordoba Food Bank (Argentina), and Saint Alberto Hurtado Homeless Shelter (Argentina).

Our global events team, made up entirely of employees, regularly organizes charitable events in support of local community, such as our Toys for Tots drive, winter coat drive, support of our local food pantry and a dress for success business clothing drive to support our local homeless shelter.

In 2018, Monotype donated $50,000 to Room to Read, a non-profit focused on girls education and children s literacy, and increased awareness of the organization by promoting the fund raising effort on many of our e-commerce channels.

Employee Engagement

We believe Monotype s success flows from nurturing our diverse, talented and engaged team through providing clear avenues for professional development and the ability to give meaningful, regular feedback to management.

Training and Development

We train the next generation of leaders in our organization to assure they are ready to lead Monotype into the future, including offering our future leaders the opportunity to interact with our Board members.

We offer in-house training programs and invested in an e-learning platform geared towards all management levels to strengthen our employees professional and leadership skills. In 2018, 64% of our global leaders at all levels participated.

Every executive leader at Monotype is allocated a training budget to allow employees to pursue external training beyond what we offer in-house, and in 2018, all relevant training requests were funded.

We invested in DiSC®, a behavior assessment tool that is designed to improve work productivity, teamwork and communication by increasing awareness of one s own behavioral style and recognition of the style of others. In 2018, we began the roll out of the assessment tool across Monotype.

We use data and analytics to inform decisions as they relate to benefits and employee experience initiatives that meet the need of our current and future workforce, to retain current talent and ensure a future talent pipeline.

Soliciting and Providing Feedback

We solicit our employees opinions regarding the management of the Company and our strategy, we listen and we act. We do this by regularly launching employee engagement surveys throughout the year. Survey results filter down through our leadership teams who then review the results with, and solicit further feedback from, each employee. From there our executive management team develops action plans to address any issues raised.

Our executive management team meets regularly with employees in town hall and other formal and informal settings to get employee perspectives on corporate strategy and implementation, customer focus and general employee satisfaction.

We have coaching and simplified performance review processes that also include peer feedback and 360-degree reviews, when appropriate, to provide our employees ongoing feedback regarding their professional development and achievements.

Embracing Diversity

We strive to increase employee diversity, and we monitor our compensation, hiring and promotion practices as they relate to gender.

We have offices around the world, which gives us an employee base that brings different cultures and perspectives to our business, and we continue to focus on international expansion.

Corporate Governance

Our Board and management team believe that effective corporate governance programs build a foundation of trust between Monotype and its stockholders, maintain internal checks and balances, and strengthen management accountability.

Equity Ownership Guidelines and Anti-Hedging

We Maintain Board and Executive Officer Equity Ownership Guidelines

Our Board believes that equity ownership by the Board, our president and chief executive officer (our President and CEO), and our other executive officers is important to align their interests with the interests of our stockholders. Equity ownership also demonstrates to the investing public and our employees that the Board, President and CEO and our other executive officers are committed to our Company. Our current equity ownership guidelines, which require our non-employee directors, President and CEO and other executive officers to beneficially own a combination of shares of our Common Stock, vested stock options and unvested shares of restricted stock with a dollar value as set forth below, are as follows:

Category	Ownership Requirement	Meets the Requirement?	Who is Subject to the Guidelines
Non-Employee Directors	5X Annual Cash Retainer	Yes	All non-employee directors are subject to the guidelines after three years of service on our Board. As of December 31, 2018 all

			non-employee directors subject to the guidelines met the guidelines; Ms. Campbell and Ms. Warren will become subject to the guidelines in 2022.
Chief Executive Officer	3X Base Salary	Yes	Mr. Landers is not subject to the guidelines until 2020; however, as of December 31, 2018 he met the guidelines.
Other Executive Officers	1X Base Salary	Yes	Our other executive officers will be subject to the guidelines in 2022; however, as of December 31, 2018 our other executive officers met the guidelines.

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Each non-employee director is subject to the guidelines once they have served on our Board for at least three years. Our President and CEO and other executive officers are subject to the guidelines four years after the later of the adoption of the guidelines and the first date he or she was employed as the Company s President and CEO or executive officer, as applicable. Compliance with each set of guidelines is measured at the close of business at the Company s principal place of business on December 31 of each year. You can find our stock ownership guidelines for our non-employee directors, our President and CEO and our other executive officers on our website at http://ir.monotype.com/.

We Maintain an Anti-Hedging Policy

Our insider trading policy prohibits all directors, officers and employees and their immediate family members from engaging in the following transactions relating to our securities or derivatives thereof:

- purchasing or selling puts or calls;
- short sales;
- trading during a standard quarterly or special blackout period and/or placing standing orders (other than under Company approved Rule 10b5-1 trading plans); and
- holding our securities or derivatives thereof in a margin account or pledging them.

Governance Practices, Risk Oversight and Business Relationships and Transactions

We Have Strong Governance Practices

We believe that strong corporate governance practices promote the long-term interests of our stockholders. Our governance practices not only strengthen our Board and executive management team accountability but also build trust in our Company with our stockholders, and include:

- Our Board has a majority voting standard for the election of directors in uncontested elections with a director resignation requirement if a director is not re-elected in an uncontested director election.
- Our Board evaluates the effectiveness of our Chair every three years and either elects or re-elects a Chair every three years.
- The Company has adopted a Code of Business Conduct and Ethics, which is applicable to every member of our Board and all employees, including our President and CEO and all senior financial officers.

We provide that any amendment to or waiver of a provision of our Code of Business Conduct and Ethics that applies to our principal executive officer, principal financial officer, principal accounting officer, controller or persons performing similar functions, will be disclosed by posting such information on our website.

The Company has adopted a set of Corporate Governance Guidelines, which are reviewed yearly and updated to reflect best practices.

All of the committees of the Board operate under written charters.

Our Board conducts an annual self-evaluation, part of which is to determine whether or not the current leadership structure is optimal for our Company and our stockholders.

Each committee of the Board conducts an annual self-evaluation, part of which is to determine the effectiveness of the committee and highlight areas of committee focus for the upcoming year.

We conduct an annual review of corporate policies and committee charters to ensure compliance with industry best practices.

Our Company policy encourages all directors to attend our annual meeting of stockholders. All members of our Board then serving on the Board attended our 2018 annual meeting of stockholders.

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Any of our committee charters, our corporate governance guidelines, and our Code of Business Conduct and Ethics can be accessed on our website at http://ir.montype.com and can also be obtained, free of charge, by writing to us at:

Monotype Imaging Holdings Inc.

Attention: Corporate Secretary

600 Unicorn Park Drive

Woburn, Massachusetts 01801

We Have Shared Board and Executive Officer Responsibility for Risk Oversight

The Company s senior management is responsible for day-to-day risk management and implementation of Company policies. We maintain an internal risk management committee that is responsible for ensuring that our risk management program, which is comprised of strategic, operational, financial, and legal risk identification and prioritization, as well as active risk management and mitigation, is reflected in our policies and actions. Our Board is responsible for our risk identification and prioritization process, has oversight of our risk management program and risks related to our operations and business strategy, and receives reports on risk management from members of our executive management team. Our audit committee oversees our Sarbanes-Oxley Act of 2002 compliance program, internal audit function, and the resolution of certain issues identified by our information technology and information security functions. Our management development and compensation committee oversee the risks with respect to our executive compensation programs. This committee works directly with management to assure that our compensation programs properly encourage management to take informed risks as they strive for business success and avoid risks that would have a material adverse effect on the Company. Our Board believes that this shared oversight is appropriate, rather than consolidation of responsibility with a single board level risk management committee.

Our Board Reviews Business Relationships and Transactions

All related party transactions are reviewed under our related person transaction approval policy by our audit committee and reported to and, if required, approved by our Board. The term related party transactions refers to transactions required to be disclosed in our filings with the SEC pursuant to Item 404 of Regulation S-K. Responsibilities for these reviews and associated actions are as follows:

Our audit committee is responsible for our policies and procedures for the review of transactions between the Company and our directors, director nominees, executive officers, security holders that beneficially own more than 5% of any class of our voting securities, or the immediate family members of any of these persons under our written related person transaction approval policy;

A list of related persons, which is updated semi-annually and cross-checked periodically, is available to our employees and officers who are involved with or familiar with the transactions, contracts or other legal or business arrangements that we may or have entered into; and

The related persons list is checked prior to entering into any transaction, contract or other legal or business arrangement.

If it is determined that we have entered into or may enter into a related person transaction, including any modification or addition to an existing contract or arrangement, our general counsel is notified and she reviews the applicable rules and determines whether the approval of our Board, the audit committee, or both is required and if so, that approval is obtained prior to entering into the transaction. No related person transaction is allowed unless our general counsel has either specifically confirmed in writing that no further approvals are necessary, or specifically confirmed in writing that all approvals necessary for us to enter into such arrangement have been obtained. In the event that a related party transaction requires the approval of the Board, the audit committee reviews the transaction and then makes a recommendation to the Board for its consideration before the transaction is entered into.

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Board Leadership and Independence

We Have Separate Board and Executive Leadership

We have separate positions for the Chair of the Board (our Chair) and President and CEO. As our Chair is elected to three-year terms, the Board has the opportunity to review the Chair s effectiveness in the position at the end of each term. Our Board believes that there are advantages to having an independent Chair, including:

- Facilitating matters such as communications between the Board and our President and CEO;
- Providing strategic guidance from the Board to our President and CEO and senior management team;
- Assisting the Board in reaching consensus on particular strategies based on senior management s plans; and
- Ensuring that the appropriate level of oversight, independence and responsibility is applied to all Board decisions, including risk oversight.

Pamela F. Lenehan is our Chair, with her three-year term expiring upon the date of our 2021 annual meeting of stockholders. The Board believes that Ms. Lenehan s skill set, board level experience, understanding of the Company s business, and her interactions with and ability to offer guidance to our senior management team allow her to excel in this role.

We Have an Independent Board

Our Board has eight members, is divided into three staggered classes (Class I, II and III), and each director in each class serves until a successor has been elected and qualified and until the earlier of their resignation or removal. Our current Board is comprised of seven independent and one non-independent director. Our one non-independent director is Scott Landers, our current President and CEO, who became a director in 2016.

Board Member Independence

Our Board has considered the relationships of all directors and any transactions involving the directors and determined that one of our directors, Scott Landers who was appointed as our President and CEO and elected to the Board in 2016, has a relationship that would interfere with the exercise of independent judgment in carrying out his responsibility as a director. Mr. Landers does not serve on any committee of the Board. Aside from Mr. Landers, each director qualifies as an independent director under the rules of the SEC and the Nasdaq Stock Market (Nasdaq).

Management Development and Compensation Committee Member Independence

Each member of our management development and compensation committee is independent as defined under the Exchange Act and the rules of Nasdaq, is an outside director as defined under Section 162(m) of the Internal Revenue Code of 1986, as amended (the Code), and a non-employee director as defined in Rule 16b-3 under the Exchange Act.

Audit Committee Member Independence

Each member of our audit committee is independent as defined under the Exchange Act and the applicable rules of Nasdaq. Our Board has determined that Peter Simone qualifies as an audit committee financial expert as defined under the Exchange Act and the applicable rules of Nasdaq. In making its determination, our Board considered the nature and scope of the experiences and responsibilities that Mr. Simone previously had with reporting companies and, in the opinion of our Board, he does not have a relationship that would interfere with the exercise of independent judgment in carrying out his responsibilities as a director.

Nominating and Corporate Governance Committee Member Independence

Each member of our nominating and corporate governance committee is independent as defined under the rules of Nasdaq.

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Management Development and Compensation Committee Interlocks and Insider Participation

In 2018, Pamela Lenehan, Gay Gaddis, Eileen Campbell, Roger Heinen and Timothy Yeaton served on our management development and compensation committee. Ms. Lenehan stepped down as a member of the committee immediately following the date of our 2018 annual meeting of stockholders when she assumed the role of Chair of our Board. None of our executive officers serves as a member of the management development and compensation committee or as a director of any entity that has one or more of its executive officers serving as a member of our Board or management development and compensation committee. None of the members of our management development and compensation committee has ever been one of our employees.

Our Board Engages an Independent Compensation Consultant

Our management development and compensation committee has engaged Pearl Meyer & Partners LLC (Pearl Meyer) to serve as its independent compensation consultant. In this capacity, Pearl Meyer advises on executive compensation best practices, peer group construction; peer group pay practices; and other relevant benchmarks with respect to the Company s:

- executive officer and key employee compensation;
- director compensation pay practices; and
- education of the Board on regulatory developments and compensation trends.

Pearl Meyer takes direction from the management development and compensation committee, reports directly to the committee and does not provide any services to the Company other than those described above. The management development and compensation committee has assessed the independence of Pearl Meyer pursuant to SEC and Nasdaq rules and determined that Pearl Meyer is independent and that their work has not raised any conflict of interest.

In making this assessment, the committee considered each of the factors set forth by the SEC and Nasdaq with respect to the compensation consultant s independence, including that Pearl Meyer provides no other services for the Company other than pursuant to its engagement by the management development and compensation committee and the individual compensation consultants from Pearl Meyer who advise the committee have no prior relationship with any of our named executive officers or any member of the Board. The committee also determined that there were no other factors that should be considered in connection with the assessment or that were otherwise relevant to the management development and compensation committee s engagement of Pearl Meyer.

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Proposal One - Election of Directors

The Board, upon the recommendation of its nominating and corporate governance committee, has nominated Gay W. Gaddis, Roger J. Heinen, Jr., and Denise F. Warren, and recommends that they be re-elected to the Board, each as a Class I director to serve until the 2022 annual meeting of stockholders and until each of their successors is duly elected and qualified and until each of their earlier resignation or removal. Ms. Gaddis, Mr. Heinen and Ms. Warren are currently Class I directors whose terms expire at this Annual Meeting. The Board anticipates that Ms. Gaddis, Mr. Heinen and Ms. Warren, if elected, will each serve as a director. Each Nominee has consented to be named in this Proxy Statement. This Proposal relates solely to the election of the Nominees and does not include any other matters including the election of directors nominated by any stockholder of the Company.

Proxies will be voted FOR the election of Ms. Gaddis, Mr. Heinen and Ms. Warren as Class I directors unless contrary instructions are set forth on the enclosed proxy card.

The Board of Directors recommends that stockholders vote FOR the election of the Nominees.

Board Statistics, Skills and Experience, and Biographical Information (including the Nominees)

Board Statistics

Our Board believes that having a diverse mix of directors with complementary qualifications, skills and attributes, varied types of business and leadership experience, and unique perspectives is essential to meeting its responsibilities and contributing to the overall direction of Monotype. When we add new members to our Board, as we did in 2018, our nominating and corporate governance committee actively seeks highly qualified women and individuals from diverse racial and ethnic groups to include in the pool from which new candidates are selected so that a diverse set of experiences and perspectives is represented.

Some statistics relating to the age, diversity and tenure of our Board are as follows:

Skills and Experience of our Directors

We want our directors to provide a collective skill set that not only strengthens the diversity and experience of our Board but also provides the oversight and strategic guidance we believe is integral to the success of our Company. We seek out certain specific characteristics in our Board members that we believe will enhance the

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Board s ability to provide such oversight and strategic guidance as it relates to our business. The following chart shows the number of directors that bring each key experience, expertise or attribute to our Board:

We believe the characteristics and experiences that our directors, including the Nominees, bring to the Board complement each other and match the needs of our Company. The chart below notes the specific key experience, expertise or attributes each of our directors, including the Nominees, which our Board has identified as particularly valuable to the effective oversight of the Company and the execution of our strategy:

Experience, Expertise or Attribute	**Campbell**	**Gaddis**	**Heinen**	**Landers**	**Lenehan**	**Simone**	**Warren**	**Yeaton**
Experience in software and services, marketing, marketing analytics or other creative professional industries	X	X	X	X		X	X	X
Specific experience in marketing services, branding or digital communications industries	X	X					X	
Leadership and/or operational experience in public companies or other major complex organizations	X		X	X	X	X	X	X
Financial or financial industry experience or knowledge			X	X	X	X	X	
Board level experience	X		X		X	X	X	X
Contributes to the racial, ethnic or gender diversity of the board	X	X			X		X	
Experience with mergers and acquisitions	X		X	X	X	X		X

Biographies of our Non-Employee Directors and Nominees

The following biographical information lists the names, ages as of January 31, 2019, positions on the Board, current term and class, and relevant experience for the last five years for each of our non-employee directors, including the Nominees, which is based on information that has been provided to us by our directors and the Nominees. There is no family relationship between any director, Nominee or executive officer of the Company. None of our directors has been convicted of a criminal offense in the past ten years.

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You can find the biographical information of Scott. Landers, our President and CEO and a Class III director, in the section entitled *Biographical Information of our Executive Officers* of this Proxy Statement.

Biographical Information of the 2019 Nominees (current term expires on the date of our Annual Meeting)

Gay W. Gaddis, 61	Member, Management Development and Compensation Committee Member, Nominating and Corporate Governance Committee Class I director since 2014

Ms. Gaddis has served as Chief Executive Officer and Founder of T-3, a collaborative think tank that works with Fortune 500 and international companies to design technology-fueled digital marketing strategies, since 1989. She currently serves as Chair of the executive committee for the Texas Business Leadership Council, and as a member of the advisory board of Womensphere, and formerly served as Chair of the board of the Committee of 200 (C200), a pre-eminent global women s business organization. Ms. Gaddis holds a BFA from the University of Texas at Austin.

Roger J. Heinen, Jr., 67	Chair, Management Development and Compensation Committee Member, Audit Committee Class I director since 2006

Mr. Heinen served as Senior Vice President, Developer Division for Microsoft Corporation from 1993 to 1996 and as Senior Vice President, Software Division for Apple Computer from 1989 to 1993. He served on the board of directors of Progress Software Corporation from 1999 until 2009. Mr. Heinen holds a BS in computer science from Worcester Polytechnic Institute, an S.E.P. from Stanford University, and a PhD, Hon. from Worcester Polytechnic Institute.

Denise F. Warren, 55	Chair, Nominating and Corporate Governance Committee Member, Audit Committee Class I director since 2018

Ms. Warren has served as the Chief Executive Officer and Founder of Netlyst, LLC, a consulting and advisory firm focused on digital business growth, since 2016. Prior to that, she served as President of Digital, Chief Executive Officer of East Coast Publishing and Executive Vice President of the Tribune Publishing Company, from June 2015 to February 2016. She also previously served in a number of executive positions at The New York Times Company from 2005 through 2014, including as Executive Vice President of Digital Products and Services from March 2013 until October 2014, General Manager of NYTimes.com from 2008 to 2013, and as Chief Advertising Officer from 2005 until 2013. Ms. Warren currently serves on the board of directors and as a member of the audit committee of Taylor Morrison Home Corporation since August 2018, and on the board of directors of privately held Newscycle, LLC since October 2017. She previously served on the board of directors and as a member of the audit committee of Electronic Arts, Inc. from May 2013 to August 2018. Ms. Warren holds a BS in management from Tulane University and an MBA in communications and media management from Fordham University.

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Biographical Information of Our Non-Employee Directors

Eileen A. Campbell, 59	Member, Management Development and Compensation Committee Class II director since 2018 Current term expires in 2020

Ms. Campbell has served as the Founder of Womintuition, a consulting agency, since 2017. From 2013 to 2017, she served as Chief Marketing Officer for IMAX Corporation, one of the world s leading entertainment technology companies specializing in immersive motion picture technologies. Prior to that, she served as Chief Executive Officer at Millward Brown, a $1B research-based consultancy owned by WPP, from 2000 to 2013. Ms. Campbell serves on the board of the Committee of 200 (C200), a pre-eminent global women s business organization, and as Executive Chair of the Reid Campbell Group, a provider of market research services. From July 2014 to September 2015, she served the board of directors of Vision Critical, a provider of cloud-based customer intelligence platforms that allows companies to build engaged, secure communities of customers. Ms. Campbell holds a BS in economics and business administration from Heidelberg University.

Pamela F. Lenehan, 66	Chair of the Board of Directors since 2018 Class III director since 2006 Current term expires in 2021

Ms. Lenehan has served as President of Ridge Hill Consulting, LLC, a strategy consulting firm, since June 2002. She formerly served on the board of directors of Civitas Solutions, Inc. from December 2008 to March 2019, including as a member of its audit committee from January 2009 to March 2019 and its audit committee Chair from January 2009 to January 2016, as a member of its compensation committee from October 2014 to March 2019, and as presiding director from January 2016 to March 2019 when it was purchased in a private equity transaction; on the board of directors and audit committee of American Superconductor Corporation from March 2011 to July 2018, including as its audit committee Chair from August 2011 to July 2018; on the board of directors and compensation committee for Spartech Corporation from December 2004 to March 2013, including as its compensation committee Chair from March 2007 to March 2013, and a member of its audit committee from January 2005 to March 2013 when it was acquired by PolyOne Corporation. She sits on the board of directors for the Center for Women and Enterprise, the National Association of Corporate Directors of New England and is the co-Chair of the Boston Chapter of Women Corporate Directors, each a not-for-profit organization. Ms. Lenehan holds an Executive Masters Professional Director Certification, Silver Level from the American College of Corporate Directors, a BA in mathematical economics from Brown University, and an

MA in economics from Brown University.

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Peter J. Simone, 71	Chair, Audit Committee Member, Nominating and Corporate Governance Committee Class II director since 2006 Current term expires in 2020

Mr. Simone has served as an investment consultant and a consultant to numerous private companies since 2001, as interim CEO of Lilliputian Systems, Inc. during the first half of 2013, and as President, Chief Executive Officer and director of Xionics Document Technologies, Inc., a developer of software solutions for printing and digital page processing, from April 1997 until its acquisition by Oak Technology, Inc., in January 2000. He has served on the board of directors of Veeco Instruments, Inc., an equipment developer and supplier to various industries including data storage and semiconductors, since July 2004. He formerly served on the board of directors of Cymer, Inc. from 1993 to 2013, on the board of Inphi Corporation from 2010 to 2013, and on the board of Newport Corporation from 2003 until 2016 when it was sold to MKS Instruments. Mr. Simone holds a Masters Professional Director Certification from the American College of Corporate Directors, a BS in accounting from Bentley University, an MBA from Babson College, and is a former CPA.

Timothy B. Yeaton, 60	Member, Nominating and Corporate Governance Committee Member, Management Development and Compensation Committee Class III director since 2012 Current term expires in 2021

Mr. Yeaton has served as the Executive Vice President and Chief Marketing Officer and previously as the Senior Vice President and Group Executive of the Infrastructure Business Group at Red Hat, Inc., a global leader in providing open source software solutions to the enterprise, since January 2014. Previously, Mr. Yeaton served as President and Chief Executive Officer of Black Duck Software from February 2009 to December 2013. He formerly served on the board of directors of Actuate Corporation from January 2011 to January 2015 when it was acquired by OpenText, and Black Duck Software from February 2009 to January 2016. Mr. Yeaton holds a BS in management from Roger Williams University and an MBA from Babson College.

2018 Meetings of the Board, its Committees, and Executive Sessions of Non-Employee Directors

The following provides information about the 2018 Meetings of the Board, its committees and any executive sessions of non-employee directors.

Meetings of the Board of Directors

Our Board met 16 times during 2018, and each director attended at least 75% of the total number of meetings of the Board or committee of which he or she was a member, with the exception of Mr. Simone who attended 63% of the meetings of the Board due to an illness requiring several weeks of hospitalization, from which he has since recovered. Ms. Campbell and Ms. Warren joined our Board in April 2018. In 2018, an executive session of the independent directors was held following a scheduled meeting of the Board and included only those directors who met the independence requirements of Nasdaq. Our Chair is responsible for chairing any executive session.

Meetings of the Committees of the Board

The Board has three standing committees: audit committee, management development and compensation committee, and nominating and corporate governance committee. Our Board holds regularly scheduled meetings based on a calendar that is reviewed yearly, however the Board will schedule meetings as the need arises throughout the year. The composition and function of each of our committees complies with the rules of the SEC and Nasdaq.

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Management Development and Compensation Committee

Chair:	Roger J. Heinen, Jr.
Additional Members:	Eileen A. Campbell, Gay W. Gaddis, and Timothy B. Yeaton
Number of Meetings:	7
Percentage of Meetings Attended by all Members:	86%
Annual Responsibilities:	

Review and make recommendations to our Board with respect to the corporate goals and objectives relevant to the compensation of our President and CEO;

Evaluate the performance of our President and CEO in light of such corporate goals and objectives and determine and approve the compensation of our President and CEO;

Review and approve the compensation of our other executive officers and members of management that report directly to our President and CEO;

Review and make recommendations to our Board with respect to director compensation, with guidance from our nominating and corporate governance committee when required;

Establish and review our overall management compensation philosophy, strategy and policies;

Review peer group and market survey data with respect to setting the compensation of our executive officers;

Review and approve actions with respect to the adoption, amendment, administration, and termination of all executive and non-executive incentive compensation plans and equity-based compensation plans;

Administer our executive compensation claw back policy including making a determination of any amounts to be repaid in the event of a financial restatement due to misconduct;

Review our sales compensation plans to ensure alignment with Company objectives;

Review our pension and other similar plans;

Retain the services of an independent compensation advisor and oversee the work of any such advisor to determine our practice s alignment with peer group policies, market surveys, compensation best practices, employee benefits and regulatory policies;

Determine the independence of and approve the compensation of our independent compensation advisor;

Make regular reports to our Board;

Review and assess the adequacy of the management development and compensation committee charter;

Evaluate the committee s performance and report the results of such evaluation to our Board; and

Review and discuss with management all executive compensation disclosure included in reports and registration statements filed with the SEC and produce required reports.

Audit Committee

Chair:	Peter J. Simone
Additional Members:	Roger J. Heinen, Jr. and Denise F. Warren
Number of Meetings:	8
Percentage of Meetings Attended by all Members:	100%

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Annual Responsibilities:

Oversee the Company s financial reporting processes and audits of financial statements and internal control over financial reporting;

Review all major accounting policies applicable to our Company;

Oversee the Company s compliance with the Sarbanes-Oxley Act of 2002;

Review the Company s internal audit function including the performance of such function;

Review and discuss with management and the independent registered public accounting firm our annual and quarterly financial statements and related disclosures;

Review the internal reporting of the Company s information technology security and protocols, and oversee of information technology security issue resolution;

Meet independently with our independent registered public accounting firm;

Appoint, retain, terminate, approve the compensation of, evaluate the independence of and oversee the work of our independent registered public accounting firm;

Assure the regular rotation of partners, including lead and concurring partners of our independent registered public accounting firm as required under the rules of the Exchange Act;

Approve all audit and permissible non-audit services to be provided by our independent registered public accounting firm, including the terms of such services;

Establish and oversee the adequacy of procedures for receipt, retention and treatment of complaints and the submission by employees of concerns regarding accounting or auditing matters;

Make regular reports to our Board;

Conduct appropriate reviews of all related party transactions;

Review and assess the adequacy of the audit committee charter;

Evaluate the committee s performance and reporting the results of such evaluation to our Board; and

Prepare the audit committee report required by SEC rules to be included in our proxy statements.

Nominating and Corporate Governance Committee

Chair:	Denise F. Warren
Additional Members:	Gay W. Gaddis, Peter J. Simone, and Timothy B. Yeaton
Number of Meetings:	5
Percentage of Meetings Attended by all Members:	80%
Annual Responsibilities:	

Develop and recommend to our Board a set of Corporate Governance Guidelines and Code of Business Conduct and Ethics;

Develop and oversee a succession plan for our President and CEO;

Recommend to our Board the persons to be nominated for election as directors and to each of our committees;

Recommend to our Board the person to be nominated as Chair of the Board;

Develop and recommend to our Board criteria for Board and committee membership;

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Identify individuals qualified to become Board members including actively seeking highly qualified women and individuals from diverse racial and ethnic groups to include in the pool from which new candidates are selected to assure that a diverse set of experiences and perspectives is represented;

Establish procedures for stockholders to submit recommendations for director candidates;

Establish procedures for identifying and evaluating director candidates including nominees recommended by stockholders;

Review our disclosures concerning policies and procedures for identifying and reviewing Board nominee candidates;

Make regular reports to our Board;

Review and assess the adequacy of the nominating and corporate governance committee charter;

Evaluate the committee s performance and reporting the results of such evaluation to our Board; and

Oversee the evaluation of our Board, its committees and management.

Communication with our Directors

You can contact any of our directors by writing to them at:

Monotype Imaging Holdings Inc.

Attention: Corporate Secretary

600 Unicorn Park Drive

Woburn, Massachusetts 01801

Your letter should clearly specify the name of the individual director or group of directors you want your letter to be delivered to and the Company will deliver it. As required by the Company s Code of Business Conduct and Ethics and Audit Committee Complaint Procedures, a third party provides a hotline and web page submission form for employees and other parties to communicate concerns to our management and Board. The web page submission form is located at www.alertline.com, and the hotline number in the United States is (800) 826-6762; a link to the numbers for calls made outside of the U.S. is available on the Corporate Governance section of our website, under Governance Documents, at http:/ir.monotype.com. Information submitted through the web submission or hotline is forwarded to our Board or audit committee and concerns can be reported anonymously if you choose.

Director Nominations

When our Board is required to select a new member, it relies on the nominating and corporate governance committee to identify suitable candidates for nomination and to assess their qualifications in light of the policies and principles in our corporate governance guidelines and the charter of the nominating and corporate governance committee.

Process for Identifying and Evaluating Director Nominations

Generally, the nominating and corporate governance committee identifies candidates for director nominees by consulting with other members of the Board and management, on its own, by utilizing search firms or other advisors, through the recommendations submitted by stockholders or through other methods deemed helpful in identifying candidates. Once candidates have been identified, the committee confirms the candidates meet the minimum qualifications by gathering information about the candidates through interviews, detailed questionnaires, comprehensive background checks or any other means deemed to be helpful in the process. The committee then meets as a group to discuss and evaluate the qualities and skills of each candidate, both on an

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individual basis and taking into account the overall composition and needs of the Board. Based on the results of this process, a recommendation is made with regard to the suitability for election of such candidates. The specific qualities and skills our Board and nominating and corporate governance committee look for in each candidate are outlined below.

Director Qualifications

In identifying prospective director candidates, the nominating and corporate governance committee considers all facts and circumstances it deems appropriate, including among other things, skill set, depth and breadth of business experience, independence, and the needs of the Board. The committee actively seeks highly qualified women and individuals from diverse racial and ethnic groups to include in the pool from which new candidates are selected so that a diverse set of experiences and perspectives is represented. The committee then assesses each candidate, with such assessment including consideration of the following minimum qualifications that must be met by all directors:

- Be of the highest ethical character and share the values reflected in the Company s Code of Business Conduct and Ethics;
- Have a reputation, both personal and professional, consistent with the image and reputation of the Company;
- Have the ability to exercise sound business judgment; and
- Have substantial business or professional experience and be able to offer meaningful advice and guidance to management based on that experience.

The committee also considers factors such as:

- An understanding of and/or experience in the technology, software or creative professional industries or other experience deemed relevant at the time;
- Leadership experience with public companies or other major complex organizations;
- How the candidate will contribute to the diversity of the Board;
- Experience in accounting or financial industries; and
- The degree to which such candidate s experience strengthens the Board s collective qualifications and skills.

Procedures for Recommendation of Director Nominees by Stockholders

If you would like the nominating and corporate governance committee to consider a prospective director candidate, please submit the candidate s name and qualifications and other information in accordance with the requirements for director nominations by stockholders in the Company s by-laws to:

Monotype Imaging Holdings Inc.

Attention: Corporate Secretary

600 Unicorn Park Drive

Woburn, Massachusetts 01801

The corporate secretary will promptly forward any nominations to the nominating and corporate governance committee. All recommendations for nomination of a director candidate must be in writing and include the following:

- The name and address of record of the stockholder;

- A representation that the stockholder is a record holder of our securities, or if the stockholder is not a record holder, evidence of ownership in accordance with Rule 14a-8(b)(2) of the Exchange Act;

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The name, age, business and residential address, educational background, current principal occupation or employment, and principal occupation or employment for the preceding five full years of the proposed director candidate;

A description of the qualifications and background of the proposed director candidate which addresses the minimum qualifications described herein;

The consent of the proposed director candidate to be named in the proxy statement relating to the Company s annual meeting of stockholders;

The consent of the proposed director candidate to serve as a director if elected at such annual meeting; and

Any other information regarding the proposed director candidate that is required to be included in a proxy statement filed pursuant to SEC rules.

Candidates may be required to undergo a comprehensive private investigation background check by a qualified company of the Company s choosing and a candidate must complete a detailed questionnaire regarding his or her experience, background, and independence. Once the nominating and corporate governance committee receives the nomination of a candidate and the candidate has complied with the minimum procedural requirements above, the candidate is evaluated by the committee and a recommendation regarding the candidate is delivered to the Board. In addition, a stockholder can propose an individual for election to the Board in accordance with the Company s by-laws.

Director Compensation

Board and Committee Cash Retainers

Diluted earnings per common share

Income from continuing operations

$

0.48

$

0.51

$

0.94

$

0.92

Income (loss) from discontinued operations

—

—

—

—

Net income per common share

$

0.48

$

0.51

$

0.94

$

0.92

Cash dividends declared per common share

$

0.16

$

0.13

$

0.32

$

0.26

Weighted average shares outstanding

Basic

37,015

36,868

37,068

36,821

Diluted

37,942

37,819

38,019

37,746

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

MARKETAXESS HOLDINGS INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
	(In thousands)			
Net income	$18,191	$19,343	$35,666	$34,669
Net cumulative translation adjustment and foreign currency exchange hedge, net of tax of $(91), $(46), $(237) and $27, respectively	(147)	(73)	(381)	43
Net unrealized gain (loss) on securities available-for-sale, net of tax of $2, $(5), $35 and $(25), respectively	4	(9)	56	(40)
Less: reclassification adjustment for realized gain from securities available-for-sale included in Other Income, net of tax of $0, $0, $(13) and $(299), respectively	—	—	(22)	(475)
Net change in unrealized gain (loss) on securities available-for-sale, net of tax	4	(9)	34	(515)
Comprehensive Income	$18,048	$19,261	$35,319	$34,197

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

MARKETAXESS HOLDINGS INC.

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

(Unaudited)

	Common Stock Voting	Additional Paid-In Capital	Treasury Stock - Common Stock Voting	Retained Earnings	Accumulated Other Comprehensive Loss	Total Stockholders' Equity
	(In thousands)					
Balance at December 31, 2013	$119	$295,557	$(32,273)	$51,042	$(4,083)	$310,362
Net income	—	—	—	35,666	—	35,666
Cumulative translation adjustment and foreign currency exchange hedge, net of tax	—	—	—	—	(381)	(381)
Unrealized net gain on securities available-for-sale, net of tax	—	—	—	—	34	34
Stock-based compensation	—	4,651	—	—	—	4,651
Exercise of stock options	—	845	—	—	—	845
Withholding tax payments on restricted stock vesting and stock option exercises	—	(4,968)	—	—	—	(4,968)
Excess tax benefits from stock-based compensation	—	2,576	—	—	—	2,576
Repurchases of common stock	—	—	(13,748)	—	—	(13,748)
Cash dividend on common stock	—	—	—	(12,058)	—	(12,058)
Balance at June 30, 2014	$119	$298,661	$(46,021)	$74,650	$(4,430)	$322,979

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

MARKETAXESS HOLDINGS INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

	Six Months Ended June 30,	
	2014	2013
	(In thousands)	
Cash flows from operating activities		
Net income	$35,666	$34,669
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	8,472	5,746
Stock-based compensation expense	4,651	4,178
Deferred taxes	2,546	2,262
Other	852	(944)
Changes in operating assets and liabilities:		
(Increase) in accounts receivable	(6,764)	(7,427)
(Increase) in prepaid expenses and other assets	(1,683)	(2,206)
(Decrease) in accrued employee compensation	(11,615)	(8,066)
Increase (decrease) in deferred revenue	237	(1,002)
Increase in accounts payable, accrued expenses and other liabilities	4,050	3,039
Net cash provided by operating activities	36,412	30,249
Cash flows from investing activities		
Acquisition of business, net of cash acquired	—	(37,827)
Securities available-for-sale:		
Proceeds from sales	—	30,900
Proceeds from maturities	5,410	5,185
Purchases	(4,181)	—
Purchases of furniture, equipment and leasehold improvements	(3,754)	(7,416)
Capitalization of software development costs	(4,971)	(3,284)
Other	(33)	63
Net cash (used in) investing activities	(7,529)	(12,379)
Cash flows from financing activities		
Cash dividend on common stock	(12,164)	(10,258)
Exercise of stock options	845	1,380
Withholding tax payments on restricted stock vesting and stock option exercises	(4,968)	(5,001)
Excess tax benefits from stock-based compensation	2,576	2,651
Repurchases of common stock	(13,748)	—
Other	(42)	(158)

Net cash (used in) financing activities	(27,501)	(11,386)
Effect of exchange rate changes on cash and cash equivalents	(919)	76
Cash and cash equivalents		
Net increase for the period	463	6,560
Beginning of period	132,691	128,908
End of period	$133,154	$135,468
Supplemental cash flow information:		
Cash paid during the year		
Cash paid for income taxes	$15,230	$12,612
Non-cash investing and financing activity:		
Liabilities assumed in connection with the Xtrakter acquisition:		
Fair value of assets acquired		$44,745
Cash paid for the capital stock		(37,827)
Liabilities assumed		$6,918

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

MARKETAXESS HOLDINGS INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

1. Organization and Principal Business Activity

MarketAxess Holdings Inc. (the "Company" or "MarketAxess") was incorporated in the State of Delaware on April 11, 2000. Through its subsidiaries, the Company operates an electronic trading platform for corporate bonds and other types of fixed-income instruments through which the Company's institutional investor clients can access liquidity provided by its broker-dealer and other institutional clients. The Company's multi-dealer trading platform allows its institutional investor clients to simultaneously request competitive, executable bids or offers from multiple broker-dealers, and to execute trades with the broker-dealer of their choice. The Company's trading platform provides access to global liquidity in U.S. high-grade corporate bonds, emerging markets and high-yield bonds, European bonds, U.S. agency bonds, credit default swaps and other fixed-income securities. The Company also executes certain bond transactions between and among institutional investor and broker-dealer clients on a matched principal (often called "riskless principal") basis by serving as counterparty to both the buyer and the seller in trades which then settle through a third-party clearing broker. The Company provides fixed-income market data, analytics and compliance tools that help its clients make trading decisions. The Company also provides trade matching and regulatory transaction reporting services to the securities markets. In addition, the Company provides technology solutions and professional consulting services to fixed-income industry participants.

2. Significant Accounting Policies

Basis of Presentation

The consolidated financial statements include the accounts of the Company and its subsidiaries. All intercompany transactions and balances have been eliminated. These consolidated financial statements are unaudited and should be read in conjunction with the audited consolidated financial statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2013. The consolidated financial information as of December 31, 2013 has been derived from audited financial statements not included herein.

These unaudited consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States of America and the rules and regulations of the U.S. Securities and Exchange Commission ("SEC") with respect to Form 10-Q and reflect all adjustments that, in the opinion of management, are normal and recurring, and that are necessary for a fair statement of the results for the interim periods presented. In accordance with such rules and regulations, certain disclosures that are normally included in annual financial statements have been omitted. Interim period operating results may not be indicative of the operating results for a full year.

Cash and Cash Equivalents

Cash and cash equivalents includes cash and money market instruments that are primarily maintained at one major global bank. Given this concentration, the Company is exposed to certain credit risk in relation to its deposits at this bank. The Company defines cash equivalents as short-term interest-bearing investments with maturities at the time of purchase of three months or less.

Securities Available-for-Sale

The Company classifies its marketable securities as available-for-sale securities. Unrealized marketable securities gains and losses, net of taxes, are reflected as a net amount under the caption of accumulated other comprehensive loss in the Consolidated Statements of Financial Condition. Realized gains and losses are recorded in the Consolidated Statements of Operations in other revenues. For the purpose of computing realized gains and losses, cost is determined on a specific identification basis.

The Company assesses whether an other-than-temporary impairment loss on the investments has occurred due to declines in fair value or other market conditions. The portion of an other-than-temporary impairment related to credit loss is recorded as a charge in the Consolidated Statements of Operations. The remainder is recognized in accumulated other comprehensive loss if the Company does not intend to sell the security and it is more likely than not that the Company will not be required to sell the security prior to recovery. No charges for other-than-temporary losses were recorded during the six months ended June 30, 2014 and 2013.

Fair Value Financial Instruments

Fair value is defined as “the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.” A three-tiered hierarchy for determining fair value has been established that prioritizes inputs to valuation techniques used in fair value calculations. The three levels of inputs are defined as Level 1 (unadjusted quoted prices for identical assets or liabilities in active markets), Level 2 (inputs that are observable in the marketplace other than those inputs classified in Level 1) and Level 3 (inputs that are unobservable in the marketplace). The Company’s financial assets and liabilities measured at fair value on a recurring basis consist of its money market funds, securities available-for-sale portfolio and one foreign currency forward contract. All other financial instruments are short-term in nature and the carrying amount reported on our Consolidated Statements of Financial Condition approximate fair value.

Allowance for Doubtful Accounts

All accounts receivable have contractual maturities of less than one year and are derived from trading-related fees and commissions and revenues from products and services. The Company continually monitors collections and payments from its customers and maintains an allowance for doubtful accounts. The allowance for doubtful accounts is based upon the historical collection experience and specific collection issues that have been identified. Additions to the allowance for doubtful accounts are charged to bad debt expense, which is included in general and administrative expense in the Company’s Consolidated Statements of Operations.

Depreciation and Amortization

Fixed assets are carried at cost less accumulated depreciation. The Company uses the straight-line method of depreciation over three to seven years. The Company amortizes leasehold improvements on a straight-line basis over the lesser of the life of the improvement or the remaining term of the lease.

Software Development Costs

The Company capitalizes certain costs associated with the development of internal use software, including among other items, employee compensation and related benefits and third-party consulting costs at the point at which the conceptual formulation, design and testing of possible software project alternatives have been completed. Once the product is ready for its intended use, such costs are amortized on a straight-line basis over three years. The Company reviews the amounts capitalized for impairment whenever events or changes in circumstances indicate that the carrying amounts of the assets may not be recoverable.

Cash Provided as Collateral

Cash is provided as collateral for electronic bank settlements and broker-dealer clearance accounts. Cash provided as collateral is included in prepaid expenses and other assets in the Consolidated Statements of Financial Condition.

Foreign Currency Translation and Forward Contracts

Assets and liabilities denominated in foreign currencies are translated using exchange rates at the end of the period; revenues and expenses are translated at average monthly rates. Gains and losses on foreign currency translation are a component of accumulated other comprehensive loss in the Consolidated Statements of Financial Condition. Transaction gains and losses are recorded in general and administrative expense in the Consolidated Statements of Operations.

The Company enters into foreign currency forward contracts to hedge its net investment in its U.K. subsidiaries. Gains and losses on these transactions are included in accumulated other comprehensive loss in the Consolidated Statements of Financial Condition.

Revenue Recognition

The majority of the Company’s revenues are derived from commissions for trades executed on its platform and distribution fees that are billed to its broker-dealer clients on a monthly basis. The Company also derives revenues from information and post-trade services, technology products and services, investment income and other income.

Commission revenue. Commissions are generally calculated as a percentage of the notional dollar volume of bonds traded on the platform and vary based on the type and maturity of the bond traded. Under the Company’s transaction fee plans, bonds that are more actively traded or that have shorter maturities are generally charged lower commissions, while bonds that are less actively traded or that have longer maturities generally command higher commissions. For trades that the Company executes between and among institutional investor and broker-dealer clients on a matched principal basis by serving as counterparty to both the buyer and the seller, the Company earns the commission through the difference in price between the two matched principal trades. Fee programs for certain products include distribution fees which are recognized monthly.

Information and post-trade services. The Company generates revenue from information services provided to our broker-dealer clients, institutional investor clients and data-only subscribers. Information services are invoiced monthly, quarterly or annually. When billed in advance, revenues are recognized monthly on a straight-line basis. The Company also generates revenue from regulatory transaction reporting and trade matching services. Revenue is recognized in the period the services are provided.

Technology products and services. The Company generates revenues from professional consulting services, technology software licenses and maintenance and support services (referred to as post-contract technical support or “PCS”). Revenue is generally recognized when persuasive evidence of an arrangement exists, delivery has occurred, the fee is fixed or determinable and collection is considered probable.

The Company enters into time and materials professional consulting contracts unrelated to any software product. Revenue for time and materials contracts is recognized as services are performed. The Company generally sells software license subscriptions on a stand-alone basis or software licenses and PCS together as part of multiple-element arrangements. Revenue for software license subscriptions is recognized ratably over the contract period. For arrangements that include multiple elements, generally software licenses and PCS, the Company allocates and defers revenue for the undelivered items based on vendor specific objective evidence (“VSOE”) of the fair value of the undelivered elements and recognizes the difference between the total arrangement fee and the amount deferred for the undelivered items as license revenue. When VSOE does not exist for undelivered items, the entire arrangement fee is recognized ratably over the performance period. For PCS, the term is typically one year and revenue is recognized over the duration of the arrangement on a straight-line basis.

Initial set-up fees. The Company enters into agreements with its broker-dealer clients pursuant to which the Company provides access to its platform through a non-exclusive and non-transferable license. Broker-dealer clients may pay an initial set-up fee, which is typically due and payable upon execution of the broker-dealer agreement. The initial set-up fee, if any, varies by agreement. Revenue is recognized over the initial term of the agreement, which is generally two years. Initial set-up fees are reported in other income in the Consolidated Statements of Operations.

Stock-Based Compensation

The Company measures and recognizes compensation expense for all share-based payment awards based on their estimated fair values measured as of the grant date. These costs are recognized as an expense in the Consolidated Statements of Operations over the requisite service period, which is typically the vesting period, with an offsetting increase to additional paid-in capital.

Income Taxes

Income taxes are accounted for using the asset and liability method. Deferred income taxes reflect the net tax effects of temporary differences between the financial reporting and tax bases of assets and liabilities and are measured using the enacted tax rates and laws that will be in effect when such differences are expected to reverse. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. A valuation allowance is recognized against deferred tax assets if it is more likely than not that such assets will not be realized in future years. The Company recognizes interest and penalties related to unrecognized tax benefits in general and administrative expenses in the Consolidated Statements of Operations.

Business Combinations, Goodwill and Intangible Assets

Business combinations are accounted for under the purchase method of accounting. The total cost of an acquisition is allocated to the underlying net assets based on their respective estimated fair values. The excess of the purchase price over the estimated fair values of the net assets acquired is recorded as goodwill. Determining the fair value of certain assets acquired and liabilities assumed is judgmental in nature and often involves the use of significant estimates and assumptions, including assumptions with respect to future cash flows, discount rates, growth rates and asset lives.

The Company operates as a single reporting unit. Subsequent to an acquisition, goodwill no longer retains its identification with a particular acquisition, but instead becomes identifiable with the entire reporting unit. As a result, all of the fair value of the Company is available to support the value of goodwill. An impairment review of goodwill is performed on an annual basis, at year-end, or more frequently if circumstances change. Intangible assets with definite lives, including purchased technologies, customer relationships and other intangible assets, are amortized on a straight-line basis over their estimated useful lives, ranging from three to 15 years. Intangible assets are assessed for impairment when events or circumstances indicate the existence of a possible impairment.

Earnings Per Share

Basic earnings per share is computed by dividing the net income attributable to common stock by the weighted-average number of shares of common stock outstanding during the period. For purposes of computing diluted earnings per share, the weighted-average shares outstanding of common stock reflects the dilutive effect that could occur if convertible securities or other contracts to issue common stock were converted into or exercised for common stock.

Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles (“GAAP”) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Out-of-Period Adjustment

During the second quarter of 2013, the Company determined that it had incorrectly excluded incentive compensation as a component of employee compensation eligible for capitalization under its software development costs capitalization policy. The Company assessed this error and determined that it was not material to previous reporting periods and was not material to the year ended December 31, 2013. Therefore, the Company recorded this item as an out-of-period adjustment in the three months ended June 30, 2013 by reducing employee compensation and benefits expense by $2.9 million and increasing depreciation and amortization expense by $1.3 million in the Consolidated Statements of Operations and increasing the net book value of capitalized software by $1.6 million in the Consolidated Statements of Financial Condition. This item was reflected as a non-cash adjustment in the Consolidated Statements of Cash Flows for 2013.

Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board issued Accounting Standards Update (“ASU”) No. 2014-09, “Revenue from Contracts with Customers”, which will replace most of the existing revenue recognition guidance in GAAP. The core principle of the ASU is that an entity should recognize revenue for the transfer of goods or services equal to the amount that it expects to be entitled to receive for those goods or services. The ASU requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments. The ASU will be effective for the Company beginning January 1, 2017 and allows for both retrospective and prospective methods of adoption. The Company is in the process of determining the method of adoption and assessing the impact of this ASU on the Company’s Consolidated Financial Statements.

3. Net Capital Requirements

Certain U.S. subsidiaries of the Company are registered as a broker-dealer or swap execution facility and therefore are subject to the applicable rules and regulations of the SEC and the Commodity Futures Trading Commission. These rules contain minimum net capital requirements, as defined in the applicable regulations, and also may require a significant part of the registrants' assets be kept in relatively liquid form. Certain of the Company's foreign subsidiaries are regulated by the Financial Conduct Authority in the U.K. or Ontario Securities Commission in Canada and must maintain financial resources, as defined in the applicable regulations, in excess of the applicable financial resources requirement. As of June 30, 2014, each of the Company's subsidiaries that are subject to these regulations had net capital or financial resources in excess of their minimum requirements. As of June 30, 2014, aggregate net capital and financial resources was $68.6 million in excess of required levels of $12.5 million.

Each of the Company's U.S. and foreign regulated subsidiaries are subject to local regulations which generally prohibit repayment of borrowings from the Company or affiliates, paying cash dividends, making loans to the Company or affiliates or otherwise entering into transactions that result in a significant reduction in regulatory net capital or financial resources without prior notification to or approval from such regulated entity's principal regulator.

4. Fair Value Measurements

The following table summarizes the valuation of the Company's assets and liabilities measured at fair value as categorized based on the hierarchy described in Note 2.

As of June 30, 2014	Level 1	Level 2	Level 3	Total
	(In thousands)			
Money market funds	$80,400	$—	$ —	$80,400
Securities available-for-sale				
Municipal securities	—	16,594	—	16,594
Corporate bonds	—	49,148	—	49,148
Foreign currency forward position	—	(293)	—	(293)
	$80,400	$65,449	$ —	$145,849
As of December 31, 2013				
Money market funds	$90,536	$—	$ —	$90,536
Securities available-for-sale				
Municipal securities	—	16,052	—	16,052
Corporate bonds	—	51,690	—	51,690
Foreign currency forward position	—	(472)	—	(472)
	$90,536	$67,270	$ —	$157,806

Securities classified within Level 2 were valued using a market approach utilizing prices and other relevant information generated by market transactions involving comparable assets. The foreign currency forward contracts are classified within Level 2 as the valuation inputs are based on quoted market prices. There were no financial assets classified within Level 3 during the six months ended June 30, 2014 and 2013.

The Company enters into foreign currency forward contracts to hedge the exposure to variability in certain foreign currency cash flows resulting from the net investment in the Company's U.K. subsidiaries. The Company designates each foreign currency forward contract as a hedge and assesses the risk management objective and strategy, including identification of the hedging instrument, the hedged item and the risk exposure and how effectiveness is to be assessed prospectively and retrospectively. These hedges are for a one-month period and are used to limit exposure to foreign currency exchange rate fluctuations. The fair value of the liability is included in accounts payable in the Consolidated Statements of Financial Condition. Gains or losses on foreign currency forward contracts designated as hedges are included in accumulated other comprehensive loss in the Consolidated Statements of Financial Condition. A summary of the foreign currency forward contract is as follows:

	As of June 30, 2014	December 31, 2013
	(In thousands)	

Notional value	$35,027	$29,431
Fair value of notional	35,320	29,903
Fair value of the liability	$(293)	$(472)

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The following is a summary of the Company's securities available-for-sale:

	Amortized cost	Gross unrealized gains	Gross unrealized losses	Estimated fair value
	(In thousands)			
As of June 30, 2014				
Municipal securities	$16,585	$ 11	$ (2)	$ 16,594
Corporate bonds	48,987	168	(7)	49,148
Total securities available-for-sale	$65,572	$ 179	$ (9)	$ 65,742
As of December 31, 2013				
Municipal securities	$16,049	$ 9	$ (6)	$ 16,052
Corporate bonds	51,579	124	(13)	51,690
Total securities available-for-sale	$67,628	$ 133	$ (19)	$ 67,742

The following table summarizes the contractual maturities of securities available-for-sale:

	As of June 30, 2014	December 31, 2013
	(In thousands)	
Less than one year	$24,564	$ 12,332
Due in 1 - 5 years	41,178	55,410
Total securities available-for-sale	$65,742	$ 67,742

Proceeds from the sales and maturities of securities available-for-sale during the six months ended June 30, 2014 and 2013 were $5.4 million and $36.1 million, respectively.

The following table provides fair values and unrealized losses on securities available-for-sale and by the aging of the securities' continuous unrealized loss position as of June 30, 2014 and December 31, 2013:

	Less than Twelve Months		Twelve Months or More		Total	
	Estimated fair value	Gross unrealized losses	Estimated fair value	Gross unrealized losses	Estimated fair value	Gross unrealized losses
	(In thousands)					
As of June 30, 2014						
Municipal securities	$3,529	$ (2)	$ —	$ —	$3,529	$ (2)
Corporate bonds	4,121	(7)	—	—	4,121	(7)

Total	$7,650	$ (9)	$ —	$ —	$7,650	$ (9)
As of December 31, 2013						
Municipal securities	$4,955	$ (6)	$ —	$ —	$4,955	$ (6)
Corporate bonds	10,728	(13)	—	—	10,728	(13)
Total	$15,683	$ (19)	$ —	$ —	$15,683	$ (19)

5. Acquisition

In February 2013, the Company acquired all of the outstanding shares of Xtrakter Limited (“Xtrakter”) from Euroclear S.A./N.V. Xtrakter is a U.K.-based provider of trade matching and regulatory transaction reporting for European securities and market and reference data across a range of fixed-income products. The acquisition of Xtrakter provides the Company with an expanded set of technology solutions ahead of incoming pre-and post-trade transparency mandates from the Markets in Financial Instruments Directive II in Europe. The aggregate purchase price was $37.8 million in cash, net of acquired cash.

The Company has completed its allocation of the purchase price to the fair value of assets acquired and liabilities assumed at the date of acquisition. The purchase price allocation is as follows (in thousands):

Purchase price	$46,683
Less: acquired cash	(8,856)
Purchase price, net of acquired cash	37,827
Accounts receivable	3,733
Intangible assets	13,255
Other assets	1,718
Deferred tax liability, net	(2,342)
Accounts payable, accrued expenses and deferred revenue	(4,622)
Goodwill	$26,085

The acquired intangible assets are as follows (in thousands, except for useful lives):

	Costs	Useful Lives
Customer relationships	$5,455	10-15 years
Internally developed software	5,000	3 years
Tradename- indefinite life	1,820	indefinite
Tradename- finite life	300	3 years
Non-compete agreement	380	3 years
Other	300	indefinite
Total	$13,255	

The identifiable intangible assets and goodwill are not deductible for tax purposes.

From the date of acquisition to June 30, 2013, Xtrakter-related revenue and net income of $7.4 million and $0.3 million, respectively, have been included in the Company's Consolidated Statements of Operations. The following unaudited pro forma consolidated financial information reflects the results of operations of the Company for the six months ended June 30, 2013, as if the acquisition of Xtrakter had occurred as of the beginning of the period presented, after giving effect to certain purchase accounting adjustments. The pro forma results are not necessarily indicative of what the Company's operating results would have been had the acquisition actually taken place at the beginning of the period presented. The pro forma financial information includes the amortization charges from acquired intangible assets, adjustments to interest income to reflect the cash purchase price and related tax effects.

	Six Months Ended June 30, 2013

	(In thousands, except per share amounts)
Revenues	$ 121,082
Income before income taxes	$ 56,129
Net income	$ 34,850
Basic net income per common share	$ 0.95
Diluted net income per common share	$ 0.92

6. Goodwill and Intangible Assets

Goodwill and intangible assets with indefinite lives was $59.7 million as of both June 30, 2014 and December 31, 2013. Intangible assets that are subject to amortization, including the related accumulated amortization, are comprised of the following:

	June 30, 2014			December 31, 2013		
	Cost	Accumulated Amortization	Net Carrying Amount	Cost	Accumulated Amortization	Net Carrying Amount
	(In thousands)					
Technology	$5,770	$ (2,992)	$ 2,778	$5,770	$ (2,159)	$ 3,611
Customer relationships	5,707	(1,017)	4,690	5,698	(816)	4,882
Non-competition agreements	380	(169)	211	380	(106)	274
Tradenames	370	(203)	167	370	(153)	217
Total	$12,227	$ (4,381)	$ 7,846	$12,218	$ (3,234)	$ 8,984

Amortization expense associated with identifiable intangible assets was $1.1 million and $0.8 million for the six months ended June 30, 2014 and 2013, respectively. Estimated total amortization expense is $2.3 million for each of 2014 and 2015, $0.7 million for 2016 and $0.4 million for each of 2017 and 2018.

7. Income Taxes

The provision for income taxes from continuing operations consists of the following:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
	(In thousands)			
Current:				
Federal	$8,023	$9,020	$13,017	$13,262
State and local	1,587	1,806	2,773	2,894
Foreign	561	418	294	290
Total current provision	10,171	11,244	16,084	16,446
Deferred:				
Federal	1,002	1,029	4,333	4,265
State and local	74	191	585	777
Foreign	(367)	(331)	111	(229)
Total deferred provision	709	889	5,029	4,813

Provision for income taxes	$10,880	$12,133	$21,113	$21,259

The following is a summary of the Company’s net deferred tax assets:

	As of June 30, 2014	December 31, 2013
	(In thousands)	
Deferred tax assets and liabilities	$10,258	$ 12,690
Valuation allowance	(7,641)	(7,743)
Deferred tax assets, net	$2,617	$ 4,947

The Company or one of its subsidiaries files U.S. federal, state and foreign income tax returns. Income tax returns for New York City (through 2003) and state (through 2006) and Connecticut state (through 2003) tax returns have been audited. Examinations of the Company’s federal tax return for 2011 and 2012 and New York state franchise tax returns for 2007 through 2009 are currently underway. The Company cannot estimate when the examinations will conclude.

Effective January 1, 2013, the Company determined that unremitted earnings of its foreign subsidiaries will be considered indefinitely reinvested outside of the United States.

8. Stock-Based Compensation Plans

Stock-based compensation expense for the three and six months ended June 30, 2014 and 2013 was as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
	(In thousands)			
Employees	$2,183	$2,074	$4,272	$3,920
Non-employee directors	152	106	379	258
Total stock-based compensation	$2,335	$2,180	$4,651	$4,178

The Company records stock-based compensation for employees in employee compensation and benefits and for non-employee directors in general and administrative expenses in the Consolidated Statements of Operations.

During the six months ended June 30, 2014, the Company granted to employees restricted stock or restricted stock units of 117,656 shares, performance-based shares with an expected pay-out at target of 29,678 shares of common stock and 382 options to purchase shares of common stock. The fair value of the restricted stock and performance-based share awards was based on a weighted-average grant date fair value per share of $62.09 and $63.07, respectively. Based on the Black-Scholes option pricing model, the weighted-average fair value for each option granted was $19.25 per share. As of June 30, 2014, the total unrecognized compensation cost related to non-vested awards was $15.2 million. That cost is expected to be recognized over a weighted-average period of 1.9 years.

9. Earnings Per Share

The following table sets forth the computation of basic and diluted earnings per common share:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
	(In thousands, except per share amounts)			
Net income from continuing operations	$18,191	$19,289	$35,666	$34,834
Income (loss) from discontinued operations	—	54	—	(165)
Net income	$18,191	$19,343	$35,666	$34,669
Weighted average common shares outstanding	37,015	36,868	37,068	36,821
Basic earnings per common share				
Income from continuing operations	$0.49	$0.52	$0.96	$0.94

Income (loss) from discontinued operations	—	—	—	—
Basic earnings per share	$0.49	$0.52	$0.96	$0.94
Weighted average common shares outstanding	37,015	36,868	37,068	36,821
Dilutive effect of stock options and restricted stock	927	951	951	925
Diluted weighted average shares outstanding	37,942	37,819	38,019	37,746
Diluted earnings per common share				
Income from continuing operations	$0.48	$0.51	$0.94	$0.92
Income (loss) from discontinued operations	—	—	—	—
Diluted earnings per share	$0.48	$0.51	$0.94	$0.92

Stock options and restricted stock totaling 51,273 shares and 70,332 shares for the three months ended June 30, 2014 and 2013, respectively, and 116,832 shares and 276,524 shares for the six months ended June 30, 2014 and 2013, respectively, were excluded from the computation of diluted earnings per share because their effect would have been antidilutive. The computation of diluted shares can vary among periods due, in part, to the change in the average price of the Company's common stock.

10. Credit Facility

In January 2013, the Company entered into a three-year credit agreement ("Credit Agreement") that provides for revolving loans and letters of credit up to an aggregate of $50.0 million ("Credit Facility"). As of June 30, 2014, there was $49.9 million available to borrow under the Credit Facility. Subject to satisfaction of certain specified conditions, the Company is permitted to upsize the Credit Facility by an additional $50.0 million in total.

Borrowings under the Credit Facility will bear interest at a rate per annum equal to either of the following, as designated by the Company for each borrowing: (A) the sum of (i) the greatest of (a) the prime rate, as defined, (b) the federal funds effective rate plus 0.50% and (c) one month adjusted LIBOR plus 1.00% plus (ii) 0.50% or (B) the sum of (i) adjusted LIBOR plus (ii) 1.50%. Default interest is 2.00% per annum in excess of the rate otherwise applicable in the case of any overdue principal or any other overdue amount. The Company is also required to pay a commitment fee to the lenders under the Credit Facility in respect of unutilized revolving loan commitments at a rate of 0.30% per annum.

The Company's existing and future material domestic subsidiaries (other than any broker-dealer subsidiary) have guaranteed the Company's obligations under the Credit Agreement. Subject to customary exceptions and exclusions, the Credit Facility is collateralized by first priority pledges (subject to permitted liens) of substantially all of the Company's personal property assets and the personal property assets of the Company's domestic subsidiaries that have guaranteed the Credit Facility, including the equity interests of the Company's domestic subsidiaries and the equity interests of certain of the Company's foreign subsidiaries (limited, in the case of the voting equity interests of the foreign subsidiaries, to a pledge of 65% of those equity interests).

The Credit Agreement requires that the Company's consolidated total leverage ratio tested on the last day of each fiscal quarter not exceed 2.5 to 1.0. The Credit Agreement also requires that the Company's consolidated interest coverage ratio tested on the last day of each fiscal quarter not fall below 3.5 to 1.0.

If an event of default occurs, including failure to pay principal or interest due on the loan balance, a voluntary or involuntary proceeding seeking liquidation, change in control of the Company, or one or more judgments against the Company in excess of $10 million, the lenders would be entitled to accelerate the facility and take various other actions, including all actions permitted to be taken by a secured creditor. If certain bankruptcy events of default occur, the facility will automatically accelerate.

11. Commitments and Contingencies

Lease Commitments

The Company leases office space under non-cancelable lease agreements expiring at various dates through 2027. Office space leases are subject to escalation based on certain costs incurred by the landlord. Minimum rental commitments as of June 30, 2014 under such operating leases were as follows (in thousands):

Remainder of 2014	$758
2015	1,707
2016	2,884
2017	2,808

2018	2,975
2019 and thereafter	15,879
	$27,011

Rental expense was $1.9 million and $1.8 million for the six months ended June 30, 2014 and 2013, respectively, and is included in occupancy expense in the Consolidated Statements of Operations. Rental expense has been recorded based on the total minimum lease payments after giving effect to rent abatement and concessions, which are being amortized on a straight-line basis over the life of the lease. The Company is contingently obligated for standby letters of credit amounting to $1.3 million that were issued to landlords for office space.

The Company has assigned two lease agreements on leased properties to separate third parties. The Company is contingently liable should the assignees default on future lease obligations through the lease termination dates of November 2015 and November 2020. The aggregate amount of future lease obligations under these arrangements is $2.6 million as of June 30, 2014.

Legal Matters

In the normal course of business, the Company and its subsidiaries included in the consolidated financial statements may be involved in various lawsuits, proceedings and regulatory examinations. The Company assesses its liabilities and contingencies in connection with outstanding legal proceedings, if any, utilizing the latest information available. For matters where it is probable that the Company will incur a material loss and the amount can be reasonably estimated, the Company would establish an accrual for the loss. Once established, the accrual would be adjusted to reflect any relevant developments. When a loss contingency is not both probable and estimable, the Company does not establish an accrual.

In January 2013, a former employee of the Company filed a complaint against the Company with the U.S. Department of Labor alleging retaliatory employment practices in violation of the whistleblower provisions of the Sarbanes-Oxley Act. The relief sought includes, among other things, reinstatement, back pay and compensatory and punitive damages. The Company believes the complaint is without merit and intends to vigorously defend itself against the allegations. The Company filed its response to the complaint in February 2013. Given the inherent uncertainty of the potential outcome of such proceedings, the Company cannot estimate the reasonably possible range of loss at this time. Based on the available information, the Company believes that the low end of the reasonably possible range of loss is zero and, accordingly, no loss accrual has been provided in the Company’s accompanying financial statements.

Other

The Company, through two regulated subsidiaries, executes certain bond transactions between and among institutional investor and broker-dealer clients on a matched principal basis by serving as counterparty to both the buyer and the seller in trades which then settle through a third-party clearing broker. Settlement typically occurs within one to three trading days after the trade date. Cash settlement of the transaction occurs upon receipt or delivery of the underlying instrument that was traded. For the six months ended June 30, 2014 and 2013, revenues from matched principal transactions were $2.8 million and $3.0 million, respectively. Under securities clearing agreements with the third party, the Company maintains a collateral deposit with the clearing broker in the form of cash. As of June 30, 2014, the amount of the collateral deposit included in prepaid expenses and other assets in the Consolidated Statements of Financial Condition was $0.9 million. The Company is exposed to credit risk in the event a counterparty does not fulfill its obligation to complete a transaction. Pursuant to the terms of the securities clearing agreements between the Company and the clearing broker, the clearing broker has the right to charge the Company for losses resulting from a counterparty’s failure to fulfill its contractual obligations. The losses are not capped at a maximum amount and apply to all trades executed through the clearing broker. At June 30, 2014, the Company had not recorded any liabilities with regard to this right.

In the normal course of business, the Company enters into contracts that contain a variety of representations, warranties and general indemnifications. The Company’s maximum exposure under these arrangements is unknown, as this would involve future claims that may be made against the Company that have not yet occurred. However, based on experience, the Company expects the risk of loss to be remote.

12. Discontinued Operations

In October 2013, the Company sold 100% of the outstanding shares of Greenline Financial Technologies, Inc. (“Greenline”), a wholly-owned subsidiary of the Company, to CameronTec Intressenter AB. The aggregate purchase price was $11.0 million in cash, including a post-closing working capital adjustment. The Company recognized a gain on the disposition of $7.6 million, net of a tax benefit.

Greenline's operating results for the three and six months ended June 30, 2013 have been classified as discontinued operations in the Consolidated Statement of Operations. The following is a summary of Greenline's operating results for the three and six months ended June 30, 2013:

	Three Months Ended June 30, 2013	Six Months Ended June 30, 2013
	(In thousands)	
Revenues	$2,052	$ 3,958
Expenses	1,961	4,226
Income (loss) before income taxes	91	(268)
Provision (benefit) for income taxes	37	(103)
Net income (loss) from discontinued operations	$54	$ (165)

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13. Customer Concentration

During both the six months ended June 30, 2014 and 2013, no single client accounted for more than 10% of total revenue. One client accounted for 14.9% and 12.1% of trading volumes during the six months ended June 30, 2014 and 2013, respectively.

14. Share Repurchase Program

In January 2014, the Board of Directors of the Company authorized a share repurchase program for up to $35.0 million of the Company's common stock. In July 2014, the Board of Directors increased the authorization under the share repurchase program by an additional $65.0 million of the Company's common stock. The share repurchase program will expire on December 31, 2015. For the six months ended June 30, 2014, the Company repurchased 242,787 shares of common stock at a cost of $13.7 million. Shares repurchased under the program will be held in treasury for future use.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Forward-Looking Statements

This report contains certain "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements may be identified by words such as "expects," "intends," "anticipates," "plans," "believes," "seeks," "estimates," "will," or words of similar meaning and include, but are not limited to, statements regarding the outlook for our future business and financial performance. Forward-looking statements are based on management's current expectations and assumptions, which are subject to inherent uncertainties, risks and changes in circumstances that are difficult to predict. It is routine for our internal projections and expectations to change as the year or each quarter in the year progresses, and therefore it should be clearly understood that the internal projections and beliefs upon which we base our expectations may change prior to the end of each quarter or the year. Although these expectations may change, we are under no obligation to revise or update any forward-looking statements contained in this report. Our company policy is generally to provide our expectations only once per quarter, and not to update that information until the next quarter. Actual future events or results may differ materially from those contained in the projections or forward-looking statements. Factors that could cause or contribute to such differences include those discussed below and elsewhere in this report, particularly in the section captioned Part II, Item 1A, "Risk Factors."

Executive Overview

MarketAxess operates a leading electronic trading platform that enables fixed-income market participants to efficiently trade corporate bonds and other types of fixed-income instruments using our patented trading technology. Our over 1,000 active institutional investor firms (firms that executed at least one trade in U.S. or European fixed income securities through our electronic trading platform between July 2013 and June 2014) include investment advisers, mutual funds, insurance companies, public and private pension funds, bank portfolios, broker-dealers and hedge funds. Our approximately 90 broker-dealer market-maker clients provide liquidity on the platform and include most of the leading broker-dealers in global fixed-income trading. We also execute certain bond transactions between and among institutional investor and broker-dealer clients on a matched principal (often called "riskless principal") basis by serving as counterparty to both the buyer and the seller in trades which then settle through a third-party clearing broker. We provide fixed-income market data, analytics and compliance tools that help our clients make trading decisions. We also provide trade matching and regulatory transaction reporting services to the securities markets. In addition, we provide technology solutions and professional consulting services to fixed-income industry participants.

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. Our trading platform provides access to global liquidity in U.S. high-grade corporate bonds, emerging markets and high-yield bonds, European bonds, U.S. agency bonds, credit default swaps ("CDS") and other fixed-income securities.

Through our Open Trading™ initiative, we have designed a series of protocols to allow our broker-dealers and institutional investor clients to operate in an all-to-all trading environment. These innovative technology solutions are designed to increase potential trading counterparties on our electronic trading platform and create a menu of solutions to address different trade sizes and bond liquidity characteristics.

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

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 information, trading and technology services to market participants across the trading cycle. The key elements of our strategy are:

to innovate and efficiently add new functionality and product offerings to the MarketAxess platform that we believe will help to increase our market share with existing clients, as well as to expand our client base;

to leverage our existing client network and technology to increase the number of potential counterparties and improve liquidity by developing and deploying a wide range of electronic trading protocols to complement our traditional request-for-quote model and allowing broker-dealers and institutional investors to operate in an all-to-all trading environment;

to leverage our existing technology and client relationships to deploy our electronic trading platform into additional product segments within the fixed-income securities markets and deliver fixed-income securities-related technical services and products;
to continue building our existing service offerings so that our electronic trading platform is more 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™ and expand the data service offering provided by Xtrakter Limited ("Xtrakter') to improve the value of the information we provide to our clients; and
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. The acquisition of Xtrakter in February 2013 provides us with an expanded set of technology solutions ahead of incoming pre- and post-trade transparency mandates from the Markets in Financial Instruments Directive II ("MiFID II") in Europe. In April 2013, we entered into a strategic alliance with BlackRock, Inc. to create a unified, open trading solution designed to help reduce liquidity fragmentation and improve pricing across credit markets.

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, among others, credit market conditions, 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, and the consolidation or contraction of our broker-dealer clients.

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. Sources of competition for us will continue to include, among others, bond trading conducted directly between broker-dealers and their institutional investor clients over the telephone or electronically and other multi-dealer trading companies. Competitors, including companies in which some of our broker-dealer clients have invested, have developed or acquired electronic trading platforms or have announced their intention to explore the development of electronic platforms that may compete with us.

In general, we compete on the basis of a number of key factors, including, among others, the liquidity provided on our platform, the magnitude and frequency of price improvement enabled by our platform and the quality and speed of execution. We believe that our ability to grow volumes and revenues will largely depend on our performance with respect to these factors.

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.

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.

Our U.S. subsidiary, MarketAxess Corporation, is a registered broker-dealer with the Securities and Exchange Commission ("SEC") and is a member of Financial Industry Regulatory Authority ('FINRA'). Our U.K. subsidiary, MarketAxess Europe Limited, is registered as a Multilateral Trading Facility dealer with the Financial Conduct Authority ("FCA") in the U.K. MarketAxess Canada Company, a Canadian subsidiary, is registered as an Alternative Trading System dealer under the Securities Act of Ontario and is a member of the Investment Industry Regulatory Organization of Canada. Relevant regulations prohibit repayment of borrowings from these subsidiaries or their affiliates, paying cash dividends, making loans to us or our affiliates or otherwise entering into transactions that result in a significant reduction in regulatory net capital or financial resources, without prior notification to or approval from such regulated entity's principal regulator.

In July 2010, the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act") was signed into law. Among the most significant aspects of the derivatives section of the Dodd-Frank Act are mandatory clearing of certain derivatives transactions ("swaps") through regulated central clearing organizations and mandatory trading of those swaps through either regulated exchanges or swap execution facilities ("SEFs"), in each case subject to certain key exceptions. In September 2013, the U.S. Commodity Futures Trading Commission ("CFTC") granted temporary registration to MarketAxess SEF Corporation, our wholly-owned U.S. subsidiary, to operate a SEF for the trading of swaps subject to the CFTC's jurisdiction. The CFTC's rules relating to the trading of swaps on SEFs were implemented on October 2, 2013. In February 2014, certain credit default swaps became subject to the CFTC's 'made available for trade' determination and were thereafter required to be executed on a SEF or designated contract market. The SEC has not yet finalized its rules for security-based SEFs, nor has it published a timetable for the finalization and implementation of such rules. No assurance can be given regarding when, whether or in what form the remaining rules regarding the new regulatory regime for the swaps marketplace will be finalized or implemented.

Various rules promulgated since the financial crisis could adversely affect our bank-affiliated broker-dealer clients' ability to make markets in a variety of fixed-income securities, thereby negatively impacting the level of liquidity and pricing available on our trading platform. For example, the Volcker Rule promulgated under the Dodd-Frank Act bans proprietary trading by banks and their affiliates. In addition, enhanced leverage ratios applicable to large banking organizations in the U.S. and Europe require these organizations to strengthen their balance sheets and may limit their ability or willingness to make markets on our trading platform We cannot predict the extent to which these rules or any future regulatory changes may adversely affect our business and operations.

Regulatory bodies in Europe are developing new rules for the fixed income markets, including changes to market structure, transparency requirements for fixed income instruments, derivatives trading and post-trade reporting obligations. In June 2014, the final texts of MiFID II and Markets in Financial Instruments Regulation ("MiFIR") were published in the Official Journal of the European Union. A large amount of implementation work is left to be completed and the rules of MiFID II and MiFIR will not enter into effect for 30 months after publication, or until January 2017. MiFID II introduces changes in market structure designed to enhance pre- and post-trade transparency, ensure trading occurs on regulated trading venues where appropriate to create a more level playing field among trading venues, and establish a harmonized regime of open access to trading venues and central counterparties on a non-discriminatory basis. Proposals for detailed implementing and technical standards are expected to be issued at the end of 2014 and thereafter. We cannot predict the extent to which any of these future regulatory changes may adversely affect our European business and operations.

Rapid Technological Changes

We must continue to enhance and improve our electronic trading platform. The electronic financial services industry is characterized by increasingly complex systems and infrastructures and new business models. 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. We have been issued 13 patents covering our most significant trading protocols and other aspects of our trading system technology.

Trends in Our Business

The majority of our revenues are derived from commissions for transactions executed on our platform between our institutional investor and broker-dealer clients and monthly distribution fees. We believe that there are five key variables that impact the notional value of such transactions on our platform and the amount of commissions and distribution fees earned by us:

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

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

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

the overall level of activity in these markets; and

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

We believe that overall corporate bond market trading volume is affected by various factors including the absolute levels of interest rates, the direction of interest rate movements, the level of new issues of corporate bonds and the volatility of corporate bond spreads versus U.S. Treasury securities. 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 profitability.

Commission Revenue

Commissions are generally calculated as a percentage of the notional dollar volume of bonds traded on our platform and vary based on the type, size, yield and maturity of the bond traded. The commission rates are based on a number of factors, including fees charged by inter-dealer brokers in the respective markets, average bid-offer spreads in the products we offer and transaction costs through alternative channels, including the telephone. Under our transaction fee plans, bonds that are more actively traded or that have shorter maturities are generally charged lower commissions, while bonds that are less actively traded or that have longer maturities generally command higher commissions.

U.S. High-Grade Corporate Bond Commissions. Our U.S. high-grade corporate bond fee plans for fully electronic trades generally incorporate variable transaction fees and distribution fees billed to our broker-dealer clients on a monthly basis. Certain dealers participate in fee programs that do not contain monthly distribution fees and instead incorporate additional per transaction execution fees and minimum monthly fee commitments. Under the fee plans, we electronically add the transaction fee to the spread quoted by the broker-dealer client. The U.S. high-grade transaction fee is generally designated in basis points in yield and, as a result, is subject to fluctuation depending on the duration of the bond traded. The average U.S. high-grade fees per million may vary in the future due to changes in yield, years-to-maturity and nominal size of bonds traded on our platform.

Other Credit Commissions. Other credit includes emerging markets and high-yield bonds and Eurobonds. Commissions for other credit products generally vary based on the type of the instrument traded using standard fee schedules. Similar to the U.S. high-grade plans, our European fee plans generally incorporate monthly distribution fees as well as variable transaction fees.

Liquid Products Commissions. Liquid products includes U.S. agency and European government bonds. Commissions for liquid products generally vary based on the type of the instrument traded using standard fee schedules.

For trades that we execute between and among institutional investor and broker-dealer clients on a matched principal basis by serving as counterparty to both the buyer and the seller, we earn our commission through the difference in price between the two trades.

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

Other Revenue

In addition to the commissions discussed above, we earn revenue from information and post-trade services, technology products and services, income on investments and other income.

Information and post-trade services. We generate revenue from information services provided to our broker-dealer clients, institutional investor clients and data-only subscribers. Information services are invoiced monthly, quarterly or annually. When billed in advance, revenues are recognized monthly on a straight-line basis. We also generate revenue from trade matching and regulatory transaction reporting services. Revenue is recognized in the period the services are provided.

Technology Products and Services. We generate revenue from professional consulting services, technology software licenses and maintenance and support services.

Investment Income. Investment income consists of income earned on our investments.

Other. Other revenues include fees from telecommunications line charges to broker-dealer clients, initial set-up fees and other miscellaneous revenues.

Expenses

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

Employee Compensation and Benefits. Employee compensation and benefits is our most significant expense and includes employee salaries, stock-based compensation costs, other incentive compensation, employee benefits and payroll taxes.

Depreciation and Amortization. We depreciate our computer hardware and related software, office hardware and furniture and fixtures and amortize our capitalized software development costs on a straight-line basis over three to seven years. We amortize leasehold improvements on a straight-line basis over the lesser of the life of the improvement or the remaining term of the lease. Intangible assets with definite lives, including purchased technologies, customer relationships and other intangible assets, are amortized over their estimated useful lives, ranging from three to 15 years. Intangible assets are assessed for impairment when events or circumstances indicate a possible impairment.

Technology and Communications. Technology and communications expense consists primarily of costs relating to maintenance on software and hardware, our internal network connections, data center hosting costs and data feeds provided by outside vendors or service providers. The majority of our broker-dealer clients have dedicated high-speed communication lines to our network in order to provide fast data transfer. We charge our broker-dealer clients a monthly fee for these connections, which is recovered against the relevant expenses we incur.

Professional and Consulting Fees. Professional and consulting fees consist primarily of accounting fees, legal fees and fees paid to information technology and non-information technology consultants for services provided for the maintenance of our trading platform and information services products.

Occupancy. Occupancy costs consist primarily of office and equipment rent, utilities and commercial rent tax.

Marketing and Advertising. Marketing and advertising expense consists primarily of print and other advertising expenses we incur to promote our products and services. This expense also includes costs associated with attending or exhibiting at industry-sponsored seminars, conferences and conventions, and travel and entertainment expenses incurred by our sales force to promote our trading platform and information services.

General and Administrative. General and administrative expense consists primarily of general travel and entertainment, board of directors' expenses, charitable contributions, provision for doubtful accounts, and various state franchise and U.K. value-added taxes.

Expenses may grow in the future, notably in employee compensation and benefits and depreciation and amortization, primarily due to investment in new products and geographic expansion. However, we believe that operating leverage can be achieved by increasing volumes in existing products and adding new products without substantial additions to our infrastructure.

Critical Accounting Estimates

This Management's Discussion and Analysis of Financial Condition and Results of Operations discusses our Consolidated Financial Statements, which have been prepared in accordance with accounting principles generally accepted in the United States, also referred to as U.S. GAAP. The preparation of these financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the reported amounts of income and expenses during the reporting periods. We base our estimates and judgments on historical experience and on various other factors that we believe are reasonable under the circumstances. Actual results may differ from these estimates under varying assumptions or conditions. Note 2 of the Notes to our Consolidated Financial Statements includes a summary of the significant accounting policies and methods used in the preparation of our Consolidated Financial Statements. There were no significant changes to our critical accounting policies and estimates during the six months ended June 30, 2014, as compared to those we disclosed in Management's Discussion and Analysis of Financial Condition and Results of Operations included in our Annual Report on Form 10-K for the year ended December 31, 2013.

Segment Results

We operate an electronic multi-party platform for the trading of fixed-income securities and provide related data, analytics, compliance tools and post-trade services. Our operations constitute a single business segment because of the highly integrated nature of these product and services, of the financial markets in which we compete and of our worldwide business activities. We believe that results by geographic region or client sector are not necessarily meaningful in understanding our business.

Results of Operations

Three Months Ended June 30, 2014 Compared to Three Months Ended June 30, 2013

Overview

Total revenues increased by $1.5 million or 2.3% to $65.0 million for the three months ended June 30, 2014, from $63.5 million for the three months ended June 30, 2013. This increase in total revenues was primarily due to an increase in information and post-trade services of $0.8 million and technology products and services of $0.5 million. A 9.6% change in the foreign currency exchange rates of the Pound Sterling compared to the U.S. dollar from the three months ended June 30, 2013 to the three months ended June 30, 2014 had the effect of increasing revenues by $0.8 million.

Total expenses increased by $3.8 million or 11.9% to $35.9 million for the three months ended June 30, 2014, from $32.1 million for the three months ended June 30, 2013. This increase was primarily due to higher employee compensation and benefits of $3.7 million, marketing and advertising of $0.4 million and technology and communications of $0.4 million, partially offset by a decrease in professional and consulting fees of $1.0 million. During the second quarter of 2013, we determined that we had incorrectly excluded incentive compensation as a component of employee compensation eligible for capitalization under our software development costs capitalization policy. We recorded this item as an out-of-period adjustment in the three months ended June 30, 2013 by reducing employee compensation and benefits expense by $2.9 million and increasing depreciation and amortization expense by $1.3 million. The change in foreign currency exchange rates had the effect of increasing expenses by $0.7 million in the three months ended June 30, 2014.

Income before taxes from continuing operations decreased by $2.4 million or 7.5% to $29.1 million for the three months ended June 30, 2014, from $31.4 million for the three months ended June 30, 2013. Net income from continuing operations decreased by $1.1 million or 5.7% to $18.2 million for the three months ended June 30, 2014, from $19.3 million for three months ended June 30, 2013.

In October 2013, we sold Greenline Financial Technologies, Inc. (“Greenline”) for $11.0 million and recognized a gain on the sale, net of a tax benefit, of $7.6 million. Greenline’s operating results have been classified as discontinued operations in our Consolidated Statement of Operations. The net income from discontinued operations for the three months ended June 30, 2013 was $0.1 million.

Revenues

Our revenues for the three months ended June 30, 2014 and 2013, and the resulting dollar and percentage changes, were as follows:

	Three Months Ended June 30, 2014			2013					
	$	% of Revenues		$	% of Revenues		$ Change	% Change	
	($ in thousands)								
Commissions	$54,315	83.6	%	$54,198	85.3	%	$117	0.2	%
Information and post-trade services	7,962	12.3		7,192	11.3		770	10.7	
Technology products and services	1,987	3.1		1,485	2.3		502	33.8	

Investment income	138	0.2		44	0.1		94		213.6		
Other	562	0.8		588	1.0		(26	)	(4.4	)	
Total revenues	$64,964	100.0	%	$63,507	100.0	%	$1,457		2.3		%

Commissions. Our commission revenues for the three months ended June 30, 2014 and 2013, and the resulting dollar and percentage changes, were as follows:

	Three Months Ended June 30,			
	2014	2013	$ Change	% Change
	($ in thousands)			
Variable transaction fees				
U.S. high-grade	$20,705	$23,077	$(2,372)	(10.3)%
Other credit	16,936	15,372	1,564	10.2
Liquid products	641	907	(266)	(29.3)
Total variable transaction fees	38,282	39,356	(1,074)	(2.7)
Distribution fees				
U.S. high-grade	13,771	12,555	1,216	9.7
Other credit	2,042	2,259	(217)	(9.6)
Liquid products	220	28	192	685.7
Total distribution fees	16,033	14,842	1,191	8.0
Total commissions	$54,315	$54,198	$117	0.2%

Variable Transaction Fees

The following table shows the extent to which the decrease in variable transaction fees for the three months ended June 30, 2014 was attributable to changes in transaction volumes and variable transaction fees per million:

	Change from the Three Months Ended June 30, 2013			
	U.S. High-Grade	Other Credit	Liquid Products	Total
	(In thousands)			
Volume (decrease) increase	$(383)	$1,652	$ (231)	$1,038
Variable transaction fee per million (decrease)	(1,989)	(88)	(35)	(2,112)
Total commissions (decrease) increase	$(2,372)	$1,564	$ (266)	$(1,074)

Our trading volumes for the three months ended June 30, 2014 and 2013 were as follows:

	Three Months Ended June 30,			
	2014	2013	$ Change	% Change
Trading Volume Data (in millions)				
U.S. high-grade - fixed rate	$109,970	$112,955	$(2,985)	(2.6)%
U.S. high-grade - floating rate	6,331	5,308	1,023	19.3
Total U.S. high-grade	116,301	118,263	(1,962)	(1.7)
Other credit	55,011	49,674	5,337	10.7
Liquid products	14,725	19,753	(5,028)	(25.5)
Total	$186,037	$187,690	$(1,653)	(0.9)%

Number of U.S. Trading Days	63	64
Number of U.K. Trading Days	61	62

For volume reporting purposes, transactions in foreign currencies are converted to U.S. dollars at average monthly rates. The 1.7% decrease in U.S. high-grade volume was principally due to a decrease in our estimated market share of total U.S. high-grade corporate bond volume as reported by FINRA TRACE from 14.1% for the three months ended June 30, 2013 to 13.6% for the three months ended June 30, 2014, partially offset by an increase in estimated FINRA TRACE U.S. high-grade volume of 1.8% to $854.5 billion for the three months ended June 30, 2014 from $839.2 billion for the three months ended June 30, 2013. We believe that certain broker-dealers initiated reporting of affiliate back-to-back trades to FINRA in April 2014, and that this double counting of trades inflated the TRACE reported volume by approximately 3% in the three months ended June 30, 2014 and consequently reduced the Company's estimated market share by approximately 0.4% in the three months ended June 30, 2014. Other credit volumes increased by 10.7% for the three months ended June 30, 2014 compared to the three months ended June 30, 2013, primarily due to higher volumes in Eurobonds, emerging markets bonds and high-yield bonds. Liquid products volume decreased by 25.5% for the three months ended June 30, 2014 compared to the three months ended June 30, 2013, due mainly to lower trading volumes in U.S.

agency bonds. Estimated U.S. Agency TRACE volumes declined by 36.6% for the three months ended June 30, 2014 compared to the three months ended June 30, 2013.

Our average variable transaction fee per million for the three months ended June 30, 2014 and 2013 was as follows:

	Three Months Ended June 30,	
	2014	2013
U.S. high-grade - fixed rate	$185	$203
U.S. high-grade - floating rate	54	24
Total U.S. high-grade	178	195
Other credit	308	309
Liquid products	44	46
Total	206	210

Total U.S. high-grade average variable transaction fee per million decreased from $195 for the three months ended June 30, 2013 to $178 for the three months ended June 30, 2014. The change was primarily due to a decrease in the duration, and an increase in the nominal size, of the bonds traded. U.S. high-grade floating rate average variable transaction fee per million increased from $24 for the three months ended June 30, 2013 to $54 for the three months ended June 30, 2014, primarily due to a change in our pricing calculation to conform with the market convention.

Distribution Fees

Distribution fees increased by $1.2 million or 8.0% to $16.0 million for the three months ended June 30, 2014 from $14.8 million for the three months ended June 30, 2013. U.S. high-grade distribution fees increased $1.2 million principally due to the migration in the second half of 2013 of two broker-dealer market makers from an all-variable fee plan to a plan that incorporates a monthly distribution fee.

Information and Post-Trade Services. Information and post-trade services increased by $0.8 million or 10.7% to $8.0 million for the three months ended June 30, 2014, from $7.2 million for the three months ended June 30, 2013, principally due to a change in foreign currency exchange rates of $0.5 million and higher data sales of $0.2 million.

Technology Products and Services. Technology products and services revenues increased by $0.5 million or 33.8% to $2.0 million for the three months ended June 30, 2014, from $1.5 million for the three months ended June 30, 2013. The increase was primarily a result of higher professional consulting services revenues.

Investment Income. Investment income was $0.1 million and $44 thousand for the three months ended June 30, 2014 and 2013, respectively.

Other. Other income was $0.6 million for both the three months ended June 30, 2014 and 2013.

Expenses

Our expenses for the three months ended June 30, 2014 and 2013, and the resulting dollar and percentage changes were as follows:

	Three Months Ended June 30, 2014 $	% of Revenues	2013 $	% of Revenues	$ Change	% Change
	($ in thousands)					
Expenses						
Employee compensation and benefits	$18,421	28.4 %	$14,712	23.2 %	$3,709	25.2 %
Depreciation and amortization	4,351	6.7	4,405	6.9	(54)	(1.2)
Technology and communications	4,449	6.8	4,045	6.4	404	10.0
Professional and consulting fees	3,426	5.3	4,435	7.0	(1,009)	(22.8)
Occupancy	1,102	1.7	1,170	1.8	(68)	(5.8)
Marketing and advertising	1,800	2.8	1,371	2.2	429	31.3
General and administrative	2,344	3.6	1,947	3.0	397	20.4
Total expenses	$35,893	55.3 %	$32,085	50.5 %	$3,808	11.9 %

Employee Compensation and Benefits. Employee compensation and benefits increased by $3.7 million or 25.2% to $18.4 million for the three months ended June 30, 2014, from $14.7 million for the three months ended June 30, 2013. The increase was primarily due to the favorable software development costs out-of-period adjustment of $2.9 million in the three months ended June 30, 2013 and higher wages and benefits associated with an increase in employee headcount of $1.4 million, partially offset by lower employee incentive compensation of $0.7 million. Our employee headcount increased from 293 as of June 30, 2013 to 318 as of June 30, 2014.

Depreciation and Amortization. Depreciation and amortization was $4.4 million for both the three months ended June 30, 2014 and 2013. An increase in amortization of software development costs of $0.7 million and depreciation of production hardware of $0.6 million was offset by the software development costs out-of-period adjustment of $1.3 million. For the three months ended June 30, 2014 and 2013, $2.1 million and $6.6 million, respectively, of equipment purchases and leasehold improvements and $2.4 million and $1.9 million, respectively, of software development costs were capitalized. The lower equipment purchases and leasehold improvements were primarily due to the build-out of a replacement primary data center in 2013.

Technology and Communications. Technology and communications expenses increased by $0.4 million or 10.0% to $4.4 million for the three months ended June 30, 2014 from $4.0 million for the three months ended June 30, 2013. The increase was mainly due to higher software maintenance and support of $0.3 million.

Professional and Consulting Fees. Professional and consulting fees decreased by $1.0 million or 22.8% to $3.4 million for the three months ended June 30, 2014, from $4.4 million for the three months ended June 30, 2013. The decrease was mainly due to lower IT consulting costs of $0.5 million and recruiting fees of $0.3 million.

Occupancy. Occupancy costs decreased by $0.1 million or 5.8% to $1.1 million for the three months ended June 30, 2014, from $1.2 million for the three months ended June 30, 2013.

Marketing and Advertising. Marketing and advertising expenses increased by $0.4 million or 31.3% to $1.8 million for the three months ended June 30, 2014, from $1.4 million for the three months ended June 30, 2013. The increase was due to higher advertising, promotion and sales related travel and entertainment costs.

General and Administrative. General and administrative expenses increased by $0.4 million or 20.4% to $2.3 million for the three months ended June 30, 2014, from $1.9 million for the three months ended June 30, 2013. The increase was due to foreign currency transaction losses and other miscellaneous expenses.

Provision for Income Tax. For the three months ended June 30, 2014 and 2013, the income tax provision from continuing operations was $10.9 million and $12.1 million, respectively. The decrease in the tax provision was attributable to the decline in pre-tax income. Our consolidated effective tax rate for the three months ended June 30, 2014 was 37.4%, compared to 38.6% for the three months ended June 30, 2013. Our consolidated effective tax rate can vary from period to period depending on, among other factors, the geographic and business mix of our earnings and changes in tax legislation and tax rates.

Six Months Ended June 30, 2014 Compared to Six Months Ended June 30, 2013

Overview

Total revenues increased by $11.2 million or 9.6% to $128.4 million for the six months ended June 30, 2014, from $117.2 million for the six months ended June 30, 2013. This increase in total revenues was primarily due to an increase in information and post-trade services of $5.1 million and commissions of $4.9 million. The increase in revenue from information and post-trade services was partly due to the inclusion of two additional months of revenues in 2014 from Xtrakter, which was acquired in February 2013. Revenues for Xtrakter for the six months ended June 30, 2014 and 2013 were $12.5 million and $7.4 million, respectively. An 8.6% change in the foreign currency exchange rates of the Pound Sterling compared to the U.S. dollar from the six months ended June 30, 2013 to the six months ended June 30, 2014 had the effect of increasing revenues by $1.6 million.

Total expenses increased by $10.5 million or 17.2% to $71.6 million for the six months ended June 30, 2014, from $61.1 million for the six months ended June 30, 2013. This increase was primarily due to higher employee compensation and benefits of $7.3 million, depreciation and amortization of $1.8 million and technology and communication costs of $1.8 million. Operating expenses for Xtrakter for the six months ended June 30, 2014 and 2013 were $12.7 million and $7.0 million, respectively. Total expenses for the six months ended June 30, 2013 reflect the favorable software development costs out-of-period adjustment recorded in the second quarter of 2013. The change in foreign currency exchange rates had the effect of increasing expenses by $1.3 million in the six months ended June 30, 2014.

Income before taxes from continuing operations increased by $0.7 million or 1.2% to $56.8 million for the six months ended June 30, 2014, from $56.1 million for the six months ended June 30, 2013. Net income from continuing operations increased by $0.8 million or 2.4% to $35.7 million for the six months ended June 30, 2014, from $34.8 million for the six months ended June 30, 2013.

The net loss from discontinued operations for the six months ended June 30, 2013 was $0.2 million.

Revenues

Our revenues for the six months ended June 30, 2014 and 2013, and the resulting dollar and percentage changes, were as follows:

	Six Months Ended June 30,								
	2014			2013					
	$	% of Revenues		$	% of Revenues		$ Change	% Change	
	($ in thousands)								
Commissions	$106,304	82.8	%	$101,384	86.5	%	$4,920	4.9	%
Information and post-trade services	16,041	12.5		10,895	9.3		5,146	47.2	
Technology products and services	4,023	3.1		2,718	2.3		1,305	48.0	
Investment income	284	0.2		176	0.2		108	61.4	
Other	1,710	1.4		1,985	1.7		(275)	(13.9)	
Total revenues	$128,362	100.0	%	$117,158	100.0	%	$11,204	9.6	%

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Commissions. Our commission revenues for the six months ended June 30, 2014 and 2013, and the resulting dollar and percentage changes, were as follows:

	Six Months Ended June 30,			
	2014	2013	$ Change	% Change
	($ in thousands)			
Variable transaction fees				
U.S. high-grade	$40,652	$42,368	$(1,716)	(4.1)%
Other credit	31,990	27,791	4,199	15.1
Liquid products	1,457	1,708	(251)	(14.7)
Total variable transaction fees	74,099	71,867	2,232	3.1
Distribution fees				
U.S. high-grade	27,743	24,903	2,840	11.4
Other credit	4,194	4,556	(362)	(7.9)
Liquid products	268	58	210	362.1
Total distribution fees	32,205	29,517	2,688	9.1
Total commissions	$106,304	$101,384	$4,920	4.9%

Variable Transaction Fees

The following table shows the extent to which the increase in variable transaction fees for the six months ended June 30, 2014 was attributable to changes in transaction volumes and variable transaction fees per million:

	Change from the Six Months Ended June 30, 2013			
	U.S. High-Grade	Other Credit	Liquid Products	Total
	(In thousands)			
Volume increase (decrease)	$3,080	$4,140	$(192)	$7,028
Variable transaction fee per million (decrease) increase	(4,796)	59	(59)	(4,796)
Total commissions (decrease) increase	$(1,716)	$4,199	$(251)	$2,232

Our trading volumes for the six months ended June 30, 2014 and 2013 were as follows:

	Six Months Ended June 30,			
	2014	2013	$ Change	% Change
Trading Volume Data (in millions)				
U.S. high-grade - fixed rate	$223,098	$209,692	$13,406	6.4%
U.S. high-grade - floating rate	12,367	9,817	2,550	26.0
Total U.S. high-grade	235,465	219,509	15,956	7.3
Other credit	105,062	91,440	13,622	14.9
Liquid products	32,929	37,102	(4,173)	(11.2)
Total	$373,456	$348,051	$25,405	7.3%

Number of U.S. Trading Days	124	124
Number of U.K. Trading Days	124	124

For volume reporting purposes, transactions in foreign currencies are converted to U.S. dollars at average monthly rates. The 7.3% increase in U.S. high-grade volume was principally due to an increase in our estimated market share of total U.S. high-grade corporate bond volume as reported by FINRA TRACE from 13.2% for the six months ended June 30, 2013 to 13.5% for the six months ended June 30, 2014, coupled with an increase in estimated FINRA TRACE U.S. high-grade volume of 4.8%. We believe that certain broker-dealers initiated reporting of affiliate back-to-back trades to FINRA in April 2014, and that this double counting of trades during the second quarter of 2014 inflated the TRACE reported volume by approximately 1.5% in the six months ended June 30, 2014 and consequently reduced the Company’s estimated market share in the six months ended June 30, 2014 by approximately 0.2%. Other credit volumes increased by 14.9% for the six months ended June 30, 2014 compared to the six months ended June 30, 2013, primarily due to higher volumes in emerging markets bonds, Eurobonds and high-yield bonds. Liquid products volume decreased by 11.2% for the six months ended June 30, 2014 compared to the six months ended June 30, 2013, due mainly to lower trading volumes in U.S. agency bonds. Estimated U.S. Agency TRACE volumes declined by 29.9% for the six months ended June 30, 2014 compared to the six months ended June 30, 2013.

Our average variable transaction fee per million for the six months ended June 30, 2014 and 2013 was as follows:

	Six Months Ended June 30,	
	2014	2013
U.S. high-grade - fixed rate	$179	$201
U.S. high-grade - floating rate	57	23
Total U.S. high-grade	173	193
Other credit	304	304
Liquid products	44	46
Total	198	206

Total U.S. high-grade average variable transaction fee per million decreased from $193 for the six months ended June 30, 2013 to $173 for the six months ended June 30, 2014. The change was primarily due to a decrease in the duration, and an increase in the nominal size, of the bonds traded. U.S. high-grade floating rate average variable transaction fee per million increased from $23 for the six months ended June 30, 2013 to $57 for the six months ended June 30, 2014, primarily due to a change in our pricing calculation to conform with the market convention.

Distribution Fees

Distribution fees increased by $2.7 million or 9.1% to $32.2 million for the six months ended June 30, 2014 from $29.5 million for the six months ended June 30, 2013. U.S. high-grade distribution fees increased $2.8 million principally due to the migration in the second half of 2013 of two broker-dealer market makers from an all-variable fee plan to a plan that incorporates a monthly distribution fee.

Information and Post-Trade Services. Information and post-trade services increased by $5.1 million or 47.2% to $16.0 million for the six months ended June 30, 2014, from $10.9 million for the six months ended June 30, 2013, principally due to the inclusion of two additional months of revenues from Xtrakter in 2014 and a change in foreign currency exchange rates of $1.0 million.

Technology Products and Services. Technology products and services revenues increased by $1.3 million or 48.0% to $4.0 million for the six months ended June 30, 2014, from $2.7 million for the six months ended June 30, 2013. The increase was primarily a result of higher professional consulting services revenues.

Investment Income. Investment income was $0.3 million and $0.2 million for the six months ended June 30, 2014 and 2013, respectively.

Other. Other income decreased by $0.3 million or 13.9% to $1.7 million for the six months ended June 30, 2014, from $2.0 million for the six months ended June 30, 2013. In the six months ended June 30, 2014, we recognized income of $0.9 million on the sale of certain MF Global bankruptcy claims. In the six months ended June 30, 2013, we recorded a gain of $0.8 million on the sale of U.S. treasuries. We used the proceeds to fund the acquisition of Xtrakter.

Expenses

Our expenses for the six months ended June 30, 2014 and 2013, and the resulting dollar and percentage changes were as follows:

	Six Months Ended June 30,					
	2014		2013			
	$	% of Revenues	$	% of Revenues	$ Change	% Change
	($ in thousands)					
Expenses						
Employee compensation and benefits	$37,030	28.8 %	$29,728	25.4 %	$7,302	24.6 %
Depreciation and amortization	8,472	6.6	6,691	5.7	1,781	26.6
Technology and communications	8,941	7.0	7,191	6.1	1,750	24.3
Professional and consulting fees	7,398	5.8	8,738	7.5	(1,340)	(15.3)
Occupancy	2,191	1.7	1,967	1.7	224	11.4
Marketing and advertising	3,009	2.3	2,306	2.0	703	30.5
General and administrative	4,542	3.6	4,444	3.7	98	2.2
Total expenses	$71,583	55.8 %	$61,065	52.1 %	$10,518	17.2 %

Employee Compensation and Benefits. Employee compensation and benefits increased by $7.3 million or 24.6% to $37.0 million for the six months ended June 30, 2014, from $29.7 million for the six months ended June 30, 2013. The increase was primarily due to higher wages and benefits of $4.5 million due to higher headcount and the software development costs out-of period adjustment of $2.9 million in the six months ended June 30, 2013. Employee compensation and benefits for the six months ended June 30, 2014, include two additional months of expenses from Xtrakter.

Depreciation and Amortization. Depreciation and amortization increased by $1.8 million or 26.6% to $8.5 million for the six months ended June 30, 2014, from $6.7 million for the six months ended June 30, 2013. The increase was due to higher amortization of software development costs of $1.4 million, higher depreciation of production hardware of $1.2 million, increased amortization of the Xtrakter intangible assets of $0.3 million, partially offset by the software development costs out-of-period adjustment of $1.3 million in the six months ended June 30, 2013. For the six months ended June 30, 2014 and 2013, $3.8 million and $7.4 million, respectively, of equipment purchases and leasehold improvements and $5.0 million and $3.3 million, respectively, of software development costs were capitalized. The lower equipment purchases and leasehold improvements were primarily due to the build-out of a replacement primary production data center in 2013.

Technology and Communications. Technology and communications expenses increased by $1.8 million or 24.3% to $8.9 million for the six months ended June 30, 2014 from $7.2 million for the six months ended June 30, 2013. The increase was due to higher software maintenance and support of $0.9 million, office telecommunication costs of $0.6 million and market data costs of $0.4 million.

Professional and Consulting Fees. Professional and consulting fees decreased by $1.3 million or 15.3% to $7.4 million for the six months ended June 30, 2014, from $8.7 million for the six months ended June 30, 2013. The decrease in professional and consulting fees was mostly due to approximately $1.2 million in investment banking, legal and other professional fees related to the Xtrakter acquisition in 2013.

Occupancy. Occupancy costs increased by $0.2 million or 11.4% to $2.2 million for the six months ended June 30, 2014, from $2.0 million for the six months ended June 30, 2013. The increased occupancy costs principally related to our new office space in London.

Marketing and Advertising. Marketing and advertising expenses increased by $0.7 million or 30.5% to $3.0 million for the six months ended June 30, 2014, from $2.3 million for the six months ended June 30, 2013. The increase was due to higher advertising, promotion and sales related travel and entertainment costs.

General and Administrative. General and administrative expenses increased by $0.1 million or 2.2% to $4.5 million for the six months ended June 30, 2014, from $4.4 million for the six months ended June 30, 2013.

Provision for Income Tax. For the six months ended June 30, 2014 and 2013, the income tax provision from continuing operations was $21.1 million and $21.3 million, respectively. Our consolidated effective tax rate for the six months ended June 30, 2014 was 37.2%, compared to 37.9% for the six months ended June 30, 2013. Our consolidated effective tax rate can vary from period to period depending on, among other factors, the geographic and business mix of our earnings and changes in tax legislation and tax rates.

Liquidity and Capital Resources

During the past three years, we have met our cash needs through cash on hand and internally generated funds. Cash and cash equivalents and securities available-for-sale totaled $198.9 million at June 30, 2014.

In January 2013, we entered into a three-year credit agreement that provides for revolving loans and letters of credit up to an aggregate of $50.0 million. As of June 30, 2014, there was $49.9 million available to borrow under the credit facility. Subject to satisfaction of certain specified conditions, we are permitted to upsize the credit facility by an additional $50.0 million in total.

Our cash flows were as follows:

	Six Months Ended June 30,	
	2014	2013
	(In thousands)	
Net cash provided by operating activities	$36,412	$30,249
Net cash (used in) investing activities	(7,529)	(12,379)
Net cash (used in) financing activities	(27,501)	(11,386)
Effect of exchange rate changes on cash and cash equivalents	(919)	76
Net increase for the period	$463	$6,560

Net cash provided by operating activities was $36.4 million for the six months ended June 30, 2014 compared to $30.2 million for the six months ended June 30, 2013. The increase in net cash provided by operating activities was primarily due to an increase in depreciation and amortization of $2.7 million and an increase in net income of $1.0 million.

Net cash used in investing activities was $7.5 million for the six months ended June 30, 2014 compared to $12.4 million for the six months ended June 30, 2013. The decrease in net cash used in investing activities was due to the acquisition of Xtrakter in February 2013 for $37.8 million and a decrease in capital expenditures of $2.0 million, partially offset by a decrease in net proceeds from securities available-for-sale of $34.9 million.

Net cash used in financing activities was $27.5 million for the six months ended June 30, 2014 compared to $11.4 million for the six months ended June 30, 2013. The increase in net cash used in financing activities was principally due to the 2014 repurchases of our common stock of $13.7 million and an increase in cash dividends paid on common stock of $1.9 million.

Free cash flow is defined as cash flow from operating activities less expenditures for furniture, equipment and leasehold improvements and capitalized software development costs. For the 12 months ended June 30, 2014 and 2013, free cash flow was $75.7 million and $68.5 million, respectively. Free cash flow is a non-GAAP financial measure. We believe that this non-GAAP financial measure, when taken into consideration with the corresponding GAAP financial measures, is important in gaining an understanding of our financial strength and cash flow generation.

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

Other Factors Influencing Liquidity and Capital Resources

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

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

Certain of our U.S. subsidiaries are registered as a broker-dealer or swap execution facility and therefore are subject to the applicable rules and regulations of the SEC and the CFTC. These rules contain minimum net capital requirements, as defined in the applicable regulations, and also may require a significant part of the registrants' assets be kept in relatively liquid form. Certain of our foreign subsidiaries are regulated by the FCA in the U.K. or Ontario Securities Commission in Canada and must maintain financial resources, as defined in the applicable regulations, in excess of the applicable financial resources requirement. As of June 30, 2014, each of our subsidiaries that are subject to these regulations had net capital or financial resources in excess of their minimum requirements. As of June 30, 2014, our aggregate net capital and financial resources was $68.6 million in excess of required levels of $12.5 million.

Each of our U.S. and foreign regulated subsidiaries are subject to local regulations which generally prohibit repayment of borrowings from our affiliates, paying cash dividends, making loans to our affiliates or otherwise entering into transactions that result in a significant reduction in regulatory net capital or financial resources without prior notification to or approval from such regulated entity's principal regulator.

As of June 30, 2014, the amount of unrestricted cash held by our non-U.S. subsidiaries was $22.9 million. We have determined that unremitted earnings of our foreign subsidiaries are considered indefinitely reinvested outside of the U.S. Any repatriation of such foreign earnings by way of dividend may be subject to both U.S. federal and state income taxes, reduced by applicable foreign tax credits. However, we do not have any current needs or foreseeable plans to repatriate cash by way of dividends from our non-U.S. subsidiaries.

We execute certain bond transactions between and among institutional investor and broker-dealer clients on a matched principal basis by serving as counterparty to both the buyer and the seller. These trades are then settled through a third-party clearing broker. Settlement typically occurs within one to three trading days after the trade date. Cash settlement of the transaction occurs upon receipt or delivery of the underlying instrument that was traded. For the six months ended June 30, 2014 and 2013, our revenues from matched principal transactions were approximately $2.8 million and $3.0 million, respectively. We maintain collateral deposits with the clearing broker in the form of cash pursuant to a securities clearing agreement. As of June 30, 2014, the amount of the collateral deposits included in prepaid expenses and other assets in the Consolidated Statements of Financial Condition were $0.9 million. We are exposed to credit risk in the event a counterparty does not fulfill its obligation to complete a transaction. Pursuant to the terms of the securities clearing agreements between us and the clearing broker, the clearing broker has the right to charge us for losses resulting from a counterparty's failure to fulfill its contractual obligations. The losses are not capped at a maximum amount and apply to all trades executed through the clearing broker. As of June 30, 2014, we had not recorded any liabilities with regard to this right.

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

In January 2014, our Board of Directors authorized a share repurchase program for up to $35.0 million of our common stock. In July 2014, our Board of Directors increased the authorization under the share repurchase program by an additional $65.0 million of our common stock. The share repurchase program will expire on December 31, 2015. For the six months ended June 30, 2014, we repurchased 242,787 shares of common stock at a cost of $13.7 million. Shares repurchased under the program will be held in treasury for future use.

In July 2014, our Board of Directors approved a quarterly cash dividend of $0.16 per share payable on August 21, 2014 to stockholders of record as of the close of business on August 7, 2014. Any future declaration and payment of dividends will be at the sole discretion of our Board of Directors. Our Board of Directors may take into account such matters as general business conditions, our financial results, capital requirements, contractual obligations, legal, and regulatory restrictions on the payment of dividends to our stockholders or by our subsidiaries to their respective parent entities, and such other factors as the Board of Directors may deem relevant.

Effects of Inflation

Because the majority of our assets are short-term in nature, they are not significantly affected by inflation. However, the rate of inflation may affect our expenses, such as employee compensation, office leasing costs and communications expenses, which may not be readily recoverable in the prices of our services. To the extent inflation results in rising interest rates and has other adverse effects on the securities markets, it may adversely affect our financial condition and results of operations.

Contractual Obligations and Commitments

There was no significant change in our contractual obligations and commitments for the six months ended June 30, 2014.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

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

Market Risk

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

As of June 30, 2014, we had a $65.7 million investment in securities available-for-sale. Adverse movements, such as a 10% decrease in the value of these securities or a downturn or disruption in the markets for these securities, could result in a substantial loss. In addition, principal gains and losses resulting from these securities could on occasion have a disproportionate effect, positive or negative, on our financial condition and results of operations for any particular reporting period.

Interest Rate Risk

Interest rate risk represents our exposure to interest rate changes with respect to the money market instruments and fixed-income securities in which we invest. As of June 30, 2014, our cash and cash equivalents and securities available-for-sale amounted to $198.9 million and were primarily in money market instruments, corporate bonds and municipal securities. We do not maintain an inventory of bonds that are traded on our platform.

Derivative Risk

Our limited derivative risk stems from our activities in the foreign currency forward contract market. We use this market to mitigate our U.S. dollar versus Pound Sterling exposure that arises from the activities of our U.K. subsidiaries. As of June 30, 2014, the notional fair value of our foreign currency forward contract was $35.3 million. We do not speculate in any derivative instruments.

Credit Risk

Our subsidiaries, MarketAxess Corporation and MarketAxess Europe Limited, act as a matched principal counterparty in certain transactions that we execute between clients. We act as an intermediary in these transactions by serving as counterparty to both the buyer and the seller in trades which then settle through a third-party clearing broker. Settlement typically occurs within one to three trading days after the trade date. Cash settlement of the transaction occurs upon receipt or delivery of the underlying instrument that was traded.

We are exposed to credit risk in our role as matched principal counterparty to our clients. We are exposed to the risk that third parties that owe us money, securities or other assets will not perform their obligations. These parties may default on their obligations to us due to bankruptcy, lack of liquidity, operational failure or other reasons. Adverse movements in the prices of securities that are the subject of these transactions can increase our risk. Where the unmatched position or failure to deliver is prolonged, there may also be regulatory capital charges required to be taken by us. There can be no assurance that the policies and procedures we use to manage this credit risk will effectively mitigate our credit risk exposure.

Cash and cash equivalents includes cash and money market instruments that are primarily maintained at one major global bank. Given this concentration, we are exposed to certain credit risk in relation to our deposits at this bank.

Item 4. Controls and Procedures

(a) Evaluation of Disclosure Controls and Procedures. Our management, including the Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our "disclosure controls and procedures" as that term is defined in Rule 13a-15(e) and Rule 15d-15(e) promulgated under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), as of June 30, 2014. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the disclosure controls and procedures are effective to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and to ensure that information is accumulated and communicated to our management, including the Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

(b) Changes in Internal Control over Financial Reporting. There were no changes in our internal control over financial reporting (as defined in Rule 13a-15(f) and Rule 15d-15(f) under the Exchange Act) during the quarter ended June 30, 2014 identified in connection with the evaluation thereof by our management, including the Chief Executive Officer and Chief Financial Officer, that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II — Other Information

Item 1. Legal Proceedings

In the normal course of business, we and our subsidiaries included in the consolidated financial statements may be involved in various lawsuits, proceedings and regulatory examinations. In January 2013, a former employee filed a complaint against us with the U.S. Department of Labor alleging retaliatory employment practices in violation of the whistleblower provisions of the Sarbanes-Oxley Act. The relief sought includes, among other things, reinstatement, back pay and compensatory and punitive damages. We believe the complaint is without merit and intend to vigorously defend against the allegations. We filed a response to the complaint in February 2013. Given the inherent uncertainty of the potential outcome of such proceedings, we cannot estimate the reasonably possible range of loss at this time. Based on the available information, we believe that the low end of the reasonably possible range of loss is zero and, accordingly, no loss accrual has been provided in our accompanying financial statements.

Item 1A. Risk Factors

There have been no material changes in our risk factors from those disclosed in our most recent Form 10-K for the year ended December 31, 2013. For a discussion of the risk factors affecting the Company, see “Risk Factors” in Part I, Item 1A of our 2013 Form 10-K.

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

Recent Sales of Unregistered Securities

None.

Issuer Purchases of Equity Securities

During the quarter ended June 30, 2014, we repurchased the following shares of common stock:

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans	Dollar Value of Shares That May Yet Be Purchased Under the Plans

			and Programs	and Programs (In thousands)
April 1, 2014 -- April 30, 2014	63,000	$ 56.06	63,000	$ 28,082
May 1, 2014 -- May 31, 2014	62,836	54.31	62,836	24,669
June 1, 2014 -- June 30, 2014	62,951	54.28	62,951	21,252
	188,787	$ 54.88	188,787	

In January 2014, our Board of Directors authorized a share repurchase program for up to $35.0 million of our common stock. In July 2014, our Board of Directors increased the authorization under the share repurchase program by an additional $65.0 million of our common stock. The share repurchase program will expire on December 31, 2015. As of June 30, 2014, we repurchased 242,787 shares of common stock at a cost of $13.7 million. Shares repurchased under the program will be held in treasury for future use.

Item 3. Defaults upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

None.

Item 6. Exhibits

Exhibit Listing:

Number	Description
31.1	Certification by Chief Executive Officer pursuant to Exchange Act Rule 13a-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification by Chief Financial Officer pursuant to Exchange Act Rule 13a-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification by Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2	Certification by Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.INS	XBRL Instance Document**
101.SCH	XBRL Taxonomy Extension Schema Document**
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document**
101.LAB	XBRL Taxonomy Extension Label Linkbase Document**
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document**
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document**

** Attached as Exhibit 101 to this Quarterly Report on Form 10-Q are the following materials, formatted in XBRL (eXtensible Business Reporting Language): (i) Consolidated Statements of Financial Condition as of June 30,2014 and December 31, 2013; (ii) Consolidated Statements of Operations for the Three and Six Months Ended June 30, 2014 and 2013; (iii) Consolidated Statements of Comprehensive Income for the Three and Six Months Ended June 30, 2014 and 2013; (iv) Consolidated Statement of Stockholders’ Equity for the Six Months Ended June 30, 2014; (v) Consolidated Statements of Cash Flows for the Six Months Ended June 30, 2014 and 2013; and (vi) Notes to the Consolidated Financial Statements.

Pursuant to Rule 406T of Regulation S-T, the Interactive Data Files on Exhibit 101 hereto are deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, as amended, are deemed not filed for purposes of Section 18 of the Securities and Exchange Act of 1934, as amended, and otherwise are not subject to liability under those sections.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

MARKETAXESS HOLDINGS INC.

Date: July 25, 2014	By:	/s/ RICHARD M. MCVEY Richard M. McVey Chief Executive Officer (principal executive officer)
Date: July 25, 2014	By:	/s/ ANTONIO L. DELISE Antonio L. DeLise Chief Financial Officer (principal financial and accounting officer)

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