

MARKETAXESS HOLDINGS INC
Form 10-K
February 21, 2018

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-K

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2017

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

For the transition period from _____ to _____

Commission File Number 001-34091

MARKETAXESS HOLDINGS INC.

(Exact name of registrant as specified in its charter)

Delaware
(State of incorporation)

52-2230784
(IRS Employer

Identification No.)

299 Park Avenue, New York, New York
(Address of principal executive offices)

10171
(Zip Code)

(212) 813-6000

(Registrant’s telephone number, including area code)

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

Title of each class:	Name of each exchange on which registered:
Common Stock, par value \$0.003 per share	NASDAQ Global Select Market

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

None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act. Yes No

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of the registrant’s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See definition of “large accelerated filer,” “accelerated filer,” “smaller reporting company” and “emerging growth company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer	Accelerated filer
Non-accelerated filer (Do not check if a smaller reporting company)	Smaller reporting company
	Emerging growth company

If an emerging growth company, indication by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

Edgar Filing: MARKETAXESS HOLDINGS INC - Form 10-K

The aggregate market value of the shares of common stock held by non-affiliates of the registrant as of June 30, 2017 (the last business day of the registrant's most recently completed second fiscal quarter) was approximately \$7.3 billion computed by reference to the last reported sale price on the NASDAQ Global Select Market on that date. For purposes of this calculation, affiliates are considered to be officers, directors and holders of 10% or more of the outstanding common stock of the registrant on that date. The registrant had 37,554,123 shares of common stock, 1,065,659 of which were held by affiliates, outstanding on that date.

As of February 16, 2018, the aggregate number of shares of the registrant's common stock outstanding was 37,629,246.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's definitive proxy statement for the 2018 Annual Meeting of Stockholders are incorporated by reference into Items 10, 11, 12, 13 and 14 of Part III of this Form 10-K.

MARKETAXESS HOLDINGS INC.

2017 FORM 10-K ANNUAL REPORT

TABLE OF CONTENTS

	Page
<u>PART I</u>	
Item 1: <u>Business</u>	3
Item 1A: <u>Risk Factors</u>	19
Item 1B: <u>Unresolved Staff Comments</u>	40
Item 2: <u>Properties</u>	40
Item 3: <u>Legal Proceedings</u>	40
Item 4: <u>Mine Safety Disclosures</u>	40
<u>PART II</u>	
Item 5: <u>Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities</u>	41
Item 6: <u>Selected Financial Data</u>	43
Item 7: <u>Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	45
Item 7A: <u>Quantitative and Qualitative Disclosures about Market Risk</u>	64
Item 8: <u>Financial Statements and Supplementary Data</u>	66
Item 9: <u>Changes in and Disagreements with Accountants on Accounting and Financial Disclosure</u>	94
Item 9A: <u>Controls and Procedures</u>	94
Item 9B: <u>Other Information</u>	94
<u>PART III</u>	
Item 10: <u>Directors, Executive Officers and Corporate Governance</u>	95
Item 11: <u>Executive Compensation</u>	95
Item 12: <u>Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</u>	95
Item 13: <u>Certain Relationships and Related Transactions and Director Independence</u>	95
Item 14: <u>Principal Accounting Fees and Services</u>	95
<u>PART IV</u>	
Item 15: <u>Exhibits and Financial Statement Schedules</u>	96
Item 16: <u>Form 10-K Summary</u>	99

PART I

Forward-Looking Statements

This report contains certain “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements may be identified by words such as “expects,” “intends,” “anticipates,” “plans,” “believes,” “seeks,” “estimates,” “will,” or words of similar meaning and include, but are not limited to, 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, perhaps 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 Item 1A. “Risk Factors.”

Item 1. Business.

MarketAxess Holdings Inc. (the “Company” or “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. Over 1,300 institutional investor and broker-dealer firms are active users of our trading platform, accessing global liquidity in U.S. high-grade corporate bonds, emerging markets and high-yield bonds, European bonds, U.S. agency bonds, municipal bonds, credit default swaps and other fixed-income securities. Through our Open Trading™ protocols, we execute trades in certain bonds between and among institutional investor and broker-dealer clients in an all-to-all trading environment on a matched principal basis. We also offer a number of trading-related products and services, including: market data to assist clients with trading decisions; connectivity solutions that facilitate straight-through processing; technology services to optimize trading environments; and execution services for exchange-traded fund managers and other clients. Through our Trax® division, we also offer a range of pre- and post-trade services, including trade matching, trade publication, regulatory transaction reporting, and market and reference data across a range of fixed-income and other products.

Our platform’s innovative technology solutions are designed to increase the number of potential trading counterparties on our electronic trading platform and create a menu of solutions to address different trade sizes and bond liquidity characteristics. Our traditional request-for-quote model 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. Our Open Trading™ protocols complement our request-for-quote model by increasing the number of potential counterparties and improving liquidity by allowing all participants to interact anonymously in an all-to-all trading environment. Our platform also provides our broker-dealer clients a solution that enables them to efficiently reach our institutional investor clients for the distribution and trading of bonds.

Traditionally, bond trading has been a manual process, with product and price discovery conducted over the telephone between two or more parties. This traditional process has a number of shortcomings resulting primarily from the lack of a central trading facility for fixed-income securities, which makes it difficult to match buyers and sellers for particular issues. Many market participants also use e-mail and other electronic means of communication for trading these securities. While electronic communication methods have addressed some of the limitations associated with traditional bond trading methods, we believe that the process is still hindered by limited liquidity, limited price transparency, significant transaction costs, compliance and regulatory challenges, and difficulty in executing numerous trades at one time.

Our disclosed multi-dealer Request For Quote (“RFQ”) trading functionality addresses many of the remaining shortcomings that result from trading bonds over the telephone or via e-mail. Through our RFQ trading protocols, our institutional investor clients can determine prices available for a security, a process called price discovery, and then trade those securities directly with our broker-dealer clients. The price discovery process includes the ability to view indicative prices from the broker-dealer clients’ inventory available on our platform, access to real-time pricing information and analytical tools (including spread-to-Treasury data, search capabilities and independent third-party credit research) available on our BondTicker® service and the ability to request executable bids and offers simultaneously from all of our participating broker-dealer clients during the trade process. On average, institutional investor clients receive several bids or offers from broker-dealer clients in response to trade inquiries. However, some trade inquiries may not receive any bids or offers.

Our services relating to trade execution include single and multiple-dealer inquiries; list trading, which is the ability to request bids and offers on multiple bonds at the same time; and swap trading, which is the ability to request an offer to purchase one bond and

a bid to sell another bond, in a manner such that the two trades will be executed simultaneously, with payment based on the price differential of the bonds. Once a trade is completed on our platform, the broker-dealer client and institutional investor client may settle the trade with the assistance of our automated post-trade messaging, which facilitates the communication of trade acknowledgment and allocation information between our institutional investor and broker-dealer clients.

We are not a party to any of the disclosed trades that occur on our platform between institutional investor clients and broker-dealer clients; rather, we serve as an intermediary between broker-dealers and institutional investors, enabling them to meet, agree on a price and then transact directly with each other. However, in connection with our Open Trading™ protocols, we execute 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 matching back-to-back trades which are then settled through a third-party clearing broker. In 2017, 15.9% of all MarketAxess platform volume was executed via Open Trading™ protocols, up from 13.2% in the 2016.

According to the Securities Industry and Financial Markets Association (“SIFMA”), outstanding U.S. high-grade corporate bond debt has increased approximately 24.9% from year-end 2012 to September 30, 2017, the most recent date available. During this same period, financial market regulators have implemented increased capital requirements for bank-owned broker-dealers holding corporate bond inventory. As a result, corporate bond debt owned by institutional investors has increased, while the available base of capital for dealer market making has declined. Partly as a result of these trends, overall secondary turnover as a percentage of corporate debt outstanding has been falling, causing all market participants to look for new electronic trading solutions to improve liquidity and turnover. We have responded with a series of Open Trading™ protocols designed to allow our broker-dealer and institutional investor clients to interact in an all-to-all trading environment. During 2017, over 700 participating client firms provided liquidity via our Open Trading™ solutions and we completed approximately 628,000 Open Trading™ trades, an increase of 53.9% compared to 2016.

Our broker-dealer clients accounted for approximately 97% of the underwriting of newly-issued U.S. corporate bonds and approximately 82% of the underwriting of newly issued European corporate bonds in 2017. We believe these broker-dealers also represent the principal source of secondary market liquidity in the markets in which we operate. Secondary market liquidity refers to the ability of market participants to buy or sell a security quickly and in large volume subsequent to the original issuance of the security, without substantially affecting the price of the security. In addition to trading fixed-income securities by traditional means, including the telephone and e-mail, our broker-dealer clients use proprietary single-dealer systems and other trading platforms, as well as our electronic trading platform. We believe that the traditional means of trading remain the manner in which the majority of bond volume is traded between institutional investors and broker-dealers.

In 2017, our volume in U.S. high-grade corporate bonds represented approximately 16.9% of the total estimated U.S. high-grade corporate bond volume, as reported by the Financial Industry Regulatory Authority (“FINRA”) Trade Reporting and Compliance Engine (“TRACE”). TRACE facilitates the mandatory reporting of over-the-counter (“OTC”) secondary market transactions in eligible fixed-income securities in the U.S., including trading between institutional investors and broker-dealers, as well as inter-dealer and retail trading. All broker-dealers that are FINRA member firms have an obligation to report transactions in corporate bonds to TRACE under a set of rules approved by the Securities and Exchange Commission (“SEC”).

Through our Trax® brand, we provide trade matching and regulatory transaction reporting services for European investment firms and market and reference data across a range of fixed-income products. In response to the pre-and post-trade transparency mandates from the recast Markets in Financial Instruments Directive (“MiFID II”) in Europe, Trax® has been authorized by the UK Financial Conduct Authority (“FCA”) as an Approved Publication Arrangement (“APA”) and an Approved Reporting Mechanism (“ARM”). In addition to its APA and ARM reporting services, Trax

has developed a comprehensive suite of value-add solutions for MiFID II, including pre trade transparency services, systematic internaliser (“SI”) determination and monitoring, best execution reporting, commodity position reporting, data quality analysis and peer benchmarking.

In 2017, 89.4% of our revenues were 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 services, post-trade 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, clearing costs and other general and administrative expenses.

Industry Background

Fixed-income securities are issued by corporations, governments and other entities, and pay a pre-set absolute or relative rate of return. As of September 30, 2017, the most recent date available, there were approximately \$40.3 trillion principal amount of fixed-income securities outstanding in the U.S. market, including \$8.8 trillion principal amount of U.S. corporate bonds, according to SIFMA. The estimated average daily trading volume of U.S. corporate bonds, as measured by TRACE, was \$27.8 billion in 2017.

Primary dealer holdings of U.S. corporate bonds (investment-grade and high-yield) as reported by the Federal Reserve Bank of New York were \$12.6 billion as of December 31, 2017. This represents less than one day of trading volume as measured by TRACE.

U.S. High-Grade Corporate Bond Market

The U.S. corporate bond market consists of three broad categories of securities: investment-grade debt (so-called “high-grade”), which typically refers to debt rated BBB- or better by Standard & Poor’s or Baa3 or better by Moody’s Investor Service; debt rated below investment-grade (so-called “high-yield”), which typically refers to debt rated lower than BBB- by Standard & Poor’s or Baa3 by Moody’s Investor Service; and debt convertible into equity (so-called “convertible debt”). We use the terms high-grade debt and investment-grade debt interchangeably in this Annual Report on Form 10-K.

The U.S. high-grade corporate bond market represents the largest subset of the U.S. corporate bond market. FINRA includes over 60,000 unique securities in the list of TRACE-eligible bonds, representing the majority of the daily trading volume of high-grade bonds. According to SIFMA, U.S. high-grade corporate bond debt outstanding has increased approximately 24.9% from \$7.0 trillion at year-end 2012 to \$8.8 trillion at September 30, 2017. Over the last five years, high-grade corporate bond issuance was over \$1.0 trillion each year, exceeding pre-financial crisis levels. Notwithstanding the growth in the total amount of debt outstanding, turnover (which is the total amount traded as a percentage of the amount outstanding for the bonds that traded) is below credit-crisis lows. The trading volume of U.S. high-grade corporate bonds as reported by TRACE increased to approximately \$4.9 trillion for the year ended December 31, 2017, compared to \$4.6 trillion and \$4.0 trillion for the years ended December 31, 2016 and 2015, respectively. We believe that the low level of turnover is an indicator of liquidity challenges in the credit markets.

Prior to regulatory reforms such as Basel III and regulations under The Dodd–Frank Wall Street Reform and Consumer Protection Act (the “Dodd-Frank Act”), dealer balance sheets were relatively elastic, so dealers were able to facilitate trading in most fixed-income products without dramatic price moves. The regulatory reforms enacted after the global financial crisis resulted in greater capital and liquidity requirements for dealers, which impacted market liquidity and diminished risk appetite by market intermediaries. The Volcker Rule, which limits proprietary trading by banks, has also had an impact on dealer inventories and the ability of dealers to act as market-makers. As a result, we believe market participants require new solutions to increase liquidity and we have responded with our Open Trading™ protocols, designed to increase the number of potential trading counterparties on our electronic trading platform by allowing our broker-dealer and institutional investor clients to interact in an all-to-all trading environment.

Emerging Markets Bond Market

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

The institutional investor base for emerging markets bonds includes many crossover investors from the high-yield and high-grade investment areas. Institutional investors have been drawn to emerging markets bonds by their high returns and high growth potential. The average daily trading volume of emerging markets debt, as reported by the Emerging Markets Trade Association for the quarter ended September 30, 2017, the most recent date available, was \$10.2 billion of external markets debt and \$11.7 billion of local markets debt.

U.S. Crossover and High-Yield Bond Market

We define the high-yield bond market generally to include all debt rated lower than BBB- by Standard & Poor's or Baa3 by Moody's Investor Service. We define the crossover market to include any debt issue rated below investment-grade by one agency but investment-grade by the other. The total amount of high-yield corporate bonds yearly issuance as reported by SIFMA increased by 18.9% to \$284.9 billion in 2017 from \$239.6 billion in 2016, primarily due to increased global demand for higher yielding debt. The average daily trading volume of high-yield bonds as measured by TRACE for the year ended December 31, 2017 was approximately \$8.2 billion.

European Corporate Bond Market

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

- bonds issued by European corporations, denominated in any currency;

5

bonds generally denominated in Euros, U.S. dollars or British Pounds Sterling intended to be distributed to European investors, excluding bonds that are issued by corporations domiciled in an emerging market;

bonds issued by supra-national organizations (entities that include a number of central banks or government financial authorities, such as the World Bank), agencies and governments located in Europe, generally denominated in Euros, U.S. dollars or British Pounds Sterling, provided that such currency is not the currency of the country where the bond was issued; and

floating-rate notes issued by European corporations.

We believe that the European corporate bond market is impacted by many of the same factors as the U.S. high-grade corporate bond market. The total amount of Euro denominated high-grade and high-yield bonds yearly issuance as reported by International Capital Markets Association increased by 14.6% to \$447.4 billion in 2017 from \$390.4 billion in 2016. The average daily trading volume of European corporate bonds as estimated by Trax[®] for the year ended December 31, 2017 was approximately \$8.7 billion.

U.S. Agency Bond Market

We define the U.S. agency bond market to include debt issued by a U.S. government-sponsored enterprise. Some prominent issuers of agency bonds are the Federal National Mortgage Association and Federal Home Loan Mortgage Corporation. The total amount of U.S. agency bonds outstanding was approximately \$1.9 trillion as of September 30, 2017 as reported by SIFMA. The average daily trading volume of U.S. agency bonds (excluding mortgage-backed securities) as measured by TRACE decreased from approximately \$5.1 billion for the year ended December 31, 2016 to \$3.8 billion for the year ended December 31, 2017.

U.S. Municipal Bond Market

Municipal bonds are debt securities issued by states, cities, counties and other governmental entities in the U.S. to fund day-to-day obligations and to finance a wide variety of public projects, such as highways or water systems. Depending on the type of financing, payments of the principal and interest on a municipal bond may come from general revenues of the municipal issuer, specific tax receipts, revenues generated from a public project, or payments from private entities or from a combination of sources. In addition to being issued for many different purposes, municipal securities are also issued in many different forms, such as fixed rate, zero coupon or variable rate bonds. The interest paid on municipal securities is typically exempt from federal income taxation and may be exempt from state income and other taxes as well. As of December 31, 2017, there were over one million different municipal bonds outstanding, in the total aggregate principal amount of more than \$3.8 trillion. In 2017, the average daily trading volume of municipal bonds as measured by the Municipal Securities Rulemaking Board (“MSRB”) decreased to \$5.5 billion from approximately \$7.4 billion for the year ended December 31, 2016.

Credit Derivative Market

Credit derivatives are contracts on an underlying asset that transfer risk and return from one party to another without transferring ownership of the underlying asset, allowing market participants to obtain credit protection or assume credit exposure associated with a broad range of issuers of fixed-income securities and other debt obligations. Among the most significant requirements 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. We operate a swap execution facility pursuant to the U.S. Commodity Futures Trading Commission’s (“CFTC”) rules and we list certain credit derivatives for trading by U.S. persons and other participants on our SEF. The U.S. Securities and Exchange Commission (“SEC”) has not yet finalized its rules for security-based SEFs that would govern the execution of single-name credit derivatives, nor has it published a timetable for the finalization and implementation of such rules. According to the International Swaps and Derivatives Association (“ISDA”), the average

daily trading volume of index credit derivative swaps for 2017 decreased to \$27.1 billion from approximately \$28.8 billion the year ended December 31, 2016.

Trade Matching and Regulatory Transaction Reporting and Publishing Services

In Europe, the first MiFID set best-execution requirements for trades and mandated that financial firms submit to their local regulators detailed end-of-day reports, including the time and price of a trade, the counterparty involved and whether it was a purchase or sale. Firms must either become so-called approved reporting mechanisms (“ARMs”) or use one of the approved providers, such as our Trax[®] ARM to submit such reports. In the U.K., required transactions are reported to the Financial Conduct Authority (“FCA”). MiFID II significantly increased the number of fields that must be reported to regulators.

Trax[®] was also approved by the FCA as an APA for transparency and reporting services under the MiFID II regime. The Trax Transparency Solution, which includes the APA, is available through the Trax Insight[™] platform, and offers our clients a pre- and post-trade transparency solution including quote publication, SI determination and instrument liquidity classification.

Trade matching enables counterparties to agree on the terms of a trade shortly after execution, reducing the risk of errors and a trade failing during settlement. Trax Match is our near real-time post-trade matching and exception management tool which covers a broad range of securities, including fixed income and equities. Trax Match helps our clients to mitigate their operational risk, improve straight-through processing (“STP”) and efficiency, address the complexities of MiFID II and the Central Securities Depositories Regulation and confirm all economic details within minutes of execution.

Our Competitive Strengths

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

• **Pre-trade** — In the pre-trade period, our platform assists our participants by providing them with value-added services, such as real time and historical trade price information, liquidity and turnover analytics, bond reference data and trade order matching alerts;

• **Trade** — Our innovative electronic trading platform enables our participants to, among other things, request and receive single and multiple security trade execution, with access to broad and unique sources of liquidity from our growing network of participating firms, and the ability to choose from a wide menu of electronic trading protocols to address different trade sizes and liquidity characteristics; and

• **Post-trade** — Following the execution of a trade, our platform supports all of the essential tools and functionalities to enable our participants to realize the full benefits of electronic trading and demonstrate best execution, including real-time trade details, STP, account allocations, automated audit trails, regulatory trade reporting, trade detail matching, and transaction cost analysis.

We believe that we are well positioned to strengthen our market position in electronic trading in our existing products and to extend our presence into new products and services by capitalizing on our competitive strengths, including:

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

Our electronic trading platform provides access to the liquidity provided through the participation on our platform of over 1,300 active institutional investor and broker-dealer clients, including substantially all of the leading broker-dealers in global fixed-income trading. We believe these broker-dealers represent the principal source of secondary market liquidity for U.S. high-grade corporate bonds, emerging markets and high-yield bonds, European high-grade corporate bonds and the other markets in which we operate. Our broker-dealer clients are motivated to continue to utilize our platform due to the presence on the platform of our large network of institutional investor clients and their ability to use our Open Trading™ protocols to help manage their risk, source liquidity, and facilitate transactions on behalf of their clients.

As shown in the chart below, our total bond trading volume increased from \$693.7 billion in 2013 to almost \$1.5 trillion in 2017.

Our adjusted estimated share of U.S. high-grade and high-yield corporate bond volume for 2017 was approximately 16.9% and 6.8%, respectively. Our estimated market share from 2013 to 2017 is shown in the chart below:

* We adjusted the reported U.S. high-grade TRACE volumes to eliminate the increased reporting of affiliate back-to-back trades by certain broker-dealers that occurred from April 2014 through October 2015 because we believe that the TRACE volume, as adjusted by us, provide a more accurate comparison to prior period reporting.

Execution Benefits to Clients

Benefits to Institutional Investor Clients

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

Competitive Prices. By enabling institutional investors to simultaneously request bids or offers from our broker-dealer clients, we believe our electronic trading platform creates an environment that motivates our broker-dealer clients to provide competitive prices and gives institutional investors confidence that they are obtaining a competitive price. For typical MarketAxess multi-dealer corporate bond inquiries, the range of competitive spread-to-Treasury responses is approximately 9 basis points (a basis point is 1/100 of 1% in yield). As an example of the potential cost savings to institutional investors, a one basis point savings on a \$1 million face amount trade of a bond with 10 years to maturity translates to aggregate savings of approximately \$800. We believe our Open Trading™ protocols enhance our institutional investor clients' ability to obtain a competitive price by allowing all of our Open Trading™ participants to interact in an all-to-all trading environment, thereby increasing the potential sources of liquidity for each participant, as well as the likelihood of receiving a competitive price response.

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

Limited Information Leakage. Our Open Trading™ protocols allow our institutional investor clients to maintain their anonymity from trade initiation through to settlement without limiting their number of potential trading counterparties. In addition, our Private Axes® protocol allows participants to negotiate bilaterally on an anonymous basis to minimize information leakage when transacting in larger trade sizes.

Benefits to Broker-Dealer Clients

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

Greater Sales Efficiency. We offer our broker-dealer clients broad connectivity with our institutional investor clients. Through this connectivity, our broker-dealer clients are able to efficiently display their indications of interest to buy and sell various securities. We also enable broker-dealers to broaden their distribution by participating in transactions to which they otherwise may not have had

access. In addition, the ability to post prices and electronically execute on straightforward trades enables bond sales professionals at broker-dealer firms to focus their efforts on higher value-added trades and more complex transactions.

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

Benefits to Both Institutional Investor and Broker-Dealer Clients. We offer additional benefits over traditional fixed-income trading methods that are shared by both institutional investor and broker-dealer clients, including:

Transparent Pricing on a Range of Securities. Institutional investors and broker-dealer clients can search bonds in inventory based on combinations of issuer, issue, rating, maturity, spread-to-Treasury, size and dealer providing the listing, in a fraction of the time it takes to do so manually. Clients can also request executable bids and offers on our electronic trading platform on any debt security in a database of corporate bonds, although there can be no assurance as to the number of market participants who will choose to provide an executable price. Our platform transmits bid and offer requests in real-time to other participants, who may respond with executable prices within the time period specified by the requestor. The primary perquisites that senior management receives. The primary perquisites for executive officers are the Company's contribution to a 401(k) Plan, life insurance of 2.5 times base salary up to a maximum of \$400,000, and long-term care insurance. Executive officers also participate in the Company's other benefit plans on the same terms as other employees. These plans include medical insurance and life insurance. We do not provide our executives reimbursement for automobiles, clubs, financial planning or things of a similar nature.

Severance Benefits. In order to recruit executives and encourage retention of employees, we believe it is appropriate and necessary to provide assurance of certain severance payments if the Company terminates the individual's employment without cause. Pursuant to our Severance and Change in Control Agreements, in the event an executive officer is terminated involuntarily by the Company without cause, as defined in the agreement, and provided the employee executes a full release of claims, in a form satisfactory to the Company, promptly following termination, the employee will be entitled to receive certain severance benefits discussed below under the heading **Potential Payments upon Termination or Change in Control**. We believe that the size of the severance package is consistent with severance offered by other companies of our size or in our industry.

Change in Control. Our senior management and other employees have built the Company into a successful real estate investment trust and the Board of Directors believes that it is important to protect them in the event of a change in control. Further, it is the Board's belief that the interests of stockholders will be best served if the interests of our senior management are aligned with them, and providing change in control benefits should eliminate, or at least reduce, the reluctance of senior management to pursue potential change in control transactions that may be in the best interests of shareholders. Relative to the overall value of the Company, these potential change in control benefits are relatively minor. See **Potential Payments upon Termination or Change in Control** for additional information.

Board Process. The Compensation Committee of the Board of Directors approves all compensation and awards to our chief executive officer and makes a recommendation to the Board of Directors for our other executive officers. Generally, on its own initiative, the Compensation Committee reviews the performance and compensation

Table of Contents

of our chief executive officer and, following discussions with him and, where it deems appropriate, FPL or other appropriate advisors, establishes his compensation level. For the remaining executive officers, the chief executive officer, with consultation from FPL, makes recommendations to the Compensation Committee that generally, with minor adjustments, are recommended to the Board of Directors for approval. With respect to equity compensation awarded to others, the Compensation Committee grants restricted stock, generally based upon the recommendation of the chief executive officer.

Report of the Compensation Committee

The following Report of the Compensation Committee does not constitute soliciting material and should not be deemed filed or incorporated by reference into any other filing by the Company under the Securities Act of 1933 or the Securities Exchange Act of 1934 except to the extent the Company specifically incorporates this Report by reference therein.

The Compensation Committee of the Company has reviewed and discussed the Compensation Discussion and Analysis required by Item 402(b) of Regulation S-K with management and, based on such review and discussions, the Compensation Committee recommended to the Board that the Compensation Discussion and Analysis be included in this Proxy Statement.

Submitted by the Compensation Committee:

Hayden C. Eaves III, Chair
H.C. Bailey, Jr.
Fredric H. Gould

Summary Compensation Table

The following table summarizes, for the fiscal years ended December 31, 2008, 2007 and 2006, the amount of compensation paid by the Company to its Chief Executive Officer, Chief Financial Officer and its three other most highly compensated executive officers (the Named Officers) as of December 31, 2008.

Name and Principal Position	Year	Salary	Bonus	Non-Equity Incentive Plan Compensation	Stock Awards (1)	All Other Compensation (2)	Total
David H. Hoster II	2008	\$ 525,000	\$ 213,885	\$ 369,915	\$ 946,327	\$ 19,794	\$ 2,074,921
President and Chief Executive Officer	2007	475,000	133,000	427,500	965,323	19,117	2,019,940
	2006	430,000	111,800	239,940	843,717	18,260	1,643,717
N. Keith McKey	2008	\$ 317,200	\$ 121,151	\$ 209,530	\$ 528,193	\$ 19,794	\$ 1,195,868
Executive Vice President,	2007	305,000	80,062	257,344	573,816	19,117	1,235,339
Chief Financial Officer and Secretary	2006	290,000	65,250	151,706	533,490	18,260	1,058,706
John F. Coleman	2008	\$ 307,800	\$ 78,374	\$ 135,547	\$ 344,866	\$ 19,794	\$ 886,381
Senior Vice President	2007	285,000	49,875	160,313	374,432	19,117	888,737

Edgar Filing: MARKETAXESS HOLDINGS INC - Form 10-K

	2006	260,000	42,250	90,675	346,825	18,260	758,010
William D. Petsas	2008	\$ 296,400	\$ 75,471	\$ 130,527	\$ 341,042	\$ 19,794	\$ 863,234
Senior Vice	2007	285,000	39,188	160,313	370,608	19,117	874,226
President							
	2006	260,000	32,500	90,675	343,001	18,260	744,436
Brent W. Wood	2008	\$ 269,400	\$ 68,596	\$ 118,637	\$ 275,982	\$ 19,794	\$ 752,409
Senior Vice	2007	245,000	41,344	137,813	280,952	19,117	724,226
President							
	2006	210,000	34,125	73,238	235,033	18,260	570,656

Table of Contents

- (1) Represents the proportionate amount of the total fair value of stock awards recognized by the Company as an expense for financial accounting purposes, disregarding for this purpose the estimate of forfeitures related to service-based vesting conditions. The fair values of these awards and the amounts expensed were determined in accordance with Financial Accounting Standards Board Statement of Financial Accounting Standards No. 123 (revised 2004) Share-Based Payment (SFAS 123R). The assumptions used in determining the grant date fair values of these awards are set forth in the notes to the Company's consolidated financial statements, which are included in our Annual Report on Form 10-K for the year ended December 31, 2008 as filed with the SEC.
- (2) The amount shown in this column represents the Company's discretionary contribution and matching contribution to its 401(k) Plan for the Named Officer's benefit and the amount of premium paid by the Company for group term life insurance on the Named Officer's life. The value of perquisites and other personal benefits are not shown in the table because the aggregate amount of such compensation, if any, is less than \$10,000 for each Named Officer.

Grants of Plan-Based Awards in 2008

Name	Grant Date	Estimated Possible Payouts Under Non-Equity Incentive Plan Awards			Estimated Future Payouts Under Equity Incentive Plan Awards (# of restricted shares)			Grant Date Fair Value of Stock Awards (3)
		Threshold	Target	Maximum	Threshold	Target	Maximum	
David H. Hoster II	05/29/2008 (1) 05/29/2008 (2)	\$ 136,500	\$ 273,000	\$ 409,500	5,376	10,753	16,129	\$ 512,380
N. Keith McKey	05/29/2008 (1) 05/29/2008 (2)	\$ 77,318	\$ 154,635	\$ 231,953	2,688	5,376	8,065	\$ 256,166
John F. Coleman	05/29/2008 (1) 05/29/2008 (2)	\$ 50,018	\$ 100,035	\$ 150,053	1,792	3,584	5,376	\$ 170,778
William D. Petsas	05/29/2008 (1) 05/29/2008 (2)	\$ 48,165	\$ 96,330	\$ 144,495	1,792	3,584	5,376	\$ 170,778
Brent W. Wood	05/29/2008 (1) 05/29/2008 (2)	\$ 43,778	\$ 87,555	\$ 131,333	1,792	3,584	5,376	\$ 170,778

- (1) Represents the possible payouts under the Company's 2008 non-equity incentive plan discussed in further detail beginning on page 10. The Company's 2008 FFO exceeded the target FFO goal set by the Compensation Committee. The actual amount earned by each Named Officer in 2008 is reported under the Non-Equity Incentive Plan Compensation column in the Summary Compensation Table.
- (2) Represents the possible payouts under the Company's annual long-term equity incentive discussed in further detail on page 11. For 2008, the Company exceeded the target performance goal set by the

Compensation Committee with respect to absolute FFO growth and exceeded the high performance goal with respect to peer group comparative FFO growth, while peer group comparative same-store growth was below threshold. Accordingly, the number of shares of restricted stock awarded on March 5, 2009 with respect to 2008 performance were as follows: Mr. Hoster 11,452 shares; Mr. McKey 5,727 shares; Mr. Coleman 3,817 shares; Mr. Petsas 3,817 shares; and Mr. Wood 3,817 shares.

- (3) Represents the grant date fair value of the award determined in accordance with SFAS 123R. The assumptions used in determining the grant date fair values of these awards are set forth in the notes to the Company's consolidated financial statements, which are included in our Annual Report on Form 10-K for the year ended December 31, 2008 as filed with the SEC.

Table of Contents**Outstanding Equity Awards at 2008 Fiscal Year-End**

Name	Option Awards			Stock Awards			Equity Incentive Plan Awards: Market Value of Unearned Shares That Have Not Vested (2)
	Number of Securities Underlying Unexercised Options (1) (#)	Option Exercise Price (\$)	Option Expiration Date	Number of Shares of Restricted Stock That Have Not Vested (#)	Market Value of Shares of Restricted Stock That Have Not Vested (2) (\$)	Equity Incentive Plan Awards: Number of Unearned Shares That Have Not Vested (#)	
David H. Hoster II	20,186	\$ 20.375	06/22/2009	26,259 (3)	\$ 934,295	33,220 (8)	\$ 1,181,968
N. Keith McKey				14,929 (4)	\$ 531,174	16,614 (8)	\$ 591,126
John F. Coleman				8,953 (5)	\$ 318,548	11,074 (8)	\$ 394,013
William D. Petsas				8,953 (6)	\$ 318,548	11,074 (8)	\$ 394,013
Brent W. Wood				6,953 (7)	\$ 247,388	11,074 (8)	\$ 394,013

(1) All stock options were exercisable at December 31, 2008.

(2) Determined based on the closing price of the Company's Common Stock (\$35.58) on December 31, 2008.

(3) Mr. Hoster's restricted stock holdings as of December 31, 2008 vest as follows provided that he remains employed by the Company on such dates: 5,117 shares on January 1, 2009; 8,400 shares on December 31, 2009; 5,116 shares on January 1, 2010; 5,116 shares on January 1, 2011; and 2,510 shares on January 1, 2012.

(4) Mr. McKey's restricted stock holdings as of December 31, 2008 vest as follows provided that he remains employed by the Company on such dates: 2,558 shares on January 1, 2009; 6,000 shares on December 31, 2009; 2,558 shares on January 1, 2010; 2,558 shares on January 1, 2011; and 1,255 shares on January 1, 2012.

(5) Mr. Coleman's restricted stock holdings as of December 31, 2008 vest as follows provided that he remains employed by the Company on such dates: 1,706 shares on January 1, 2009; 3,000 shares on December 31, 2009; 1,706 shares on January 1, 2010; 1,705 shares on January 1, 2011; and 836 shares on January 1, 2012.

- (6) Mr. Petsas' restricted stock holdings as of December 31, 2008 vest as follows provided that he remains employed by the Company on such dates: 1,706 shares on January 1, 2009; 3,000 shares on December 31, 2009; 1,706 shares on January 1, 2010; 1,705 shares on January 1, 2011; and 836 shares on January 1, 2012.
- (7) Mr. Wood's restricted stock holdings as of December 31, 2008 vest as follows provided that he remains employed by the Company on such dates: 1,706 shares on January 1, 2009; 1,000 shares on December 31, 2009; 1,706 shares on January 1, 2010; 1,705 shares on January 1, 2011; and 836 shares on January 1, 2012.
- (8) Represents the annual long-term and multi-year long-term equity incentive awards that were subject to approval by the Compensation Committee as of December 31, 2008. The Compensation Committee approved the awards on March 5, 2009. The actual 2008 annual long-term equity incentive awards are set forth in footnote (2) to the Grants of Plan-Based Awards table on page 15 of this Proxy Statement. The actual multi-year long-term equity incentive awards are set forth in the table in the Compensation Discussion and Analysis on page 13.

Table of Contents**Option Exercises and Stock Vested in 2008**

Name	Option Awards		Stock Awards	
	Number of Shares Acquired on Exercise (#)	Value Realized on Exercise (\$)	Number of Shares Acquired on Vesting (#)	Value Realized on Vesting (\$)
David H. Hoster II	20,000	\$ 557,629	25,374	\$ 954,967
N. Keith McKey			16,940	\$ 632,921
John F. Coleman			10,180	\$ 382,212
William D. Petsas			10,180	\$ 382,212
Brent W. Wood			6,130	\$ 234,407

Potential Payments upon Termination or Change in Control

The Company has entered into Severance and Change in Control Agreements and maintains certain plans that will require the Company to provide compensation to executive officers of the Company in the event of a termination of employment or a change in control of the Company. The following table shows potential payouts assuming that the employment of the Named Officer was terminated in each situation listed in the table and that termination occurred on the last business day of 2008.

	Lump Sum Cash Severance Payment	Healthcare and Other Insurance Benefits	Value of Unvested Restricted Shares	Total
David H. Hoster II				
Voluntary Resignation or Involuntary Termination with Cause				
Involuntary Termination without Cause	\$ 1,743,812		\$ 2,060,878	\$ 3,804,690
Voluntary Resignation with Good Reason following a Change in Control	\$ 2,615,718	\$ 50,000	\$ 2,503,054	\$ 5,168,772
Involuntary Termination without Breach of Duty following a Change in Control	\$ 2,615,718	\$ 50,000	\$ 2,503,054	\$ 5,168,772
Death	\$ 871,906		\$ 2,503,054	\$ 3,374,960
N. Keith McKey				
Voluntary Resignation or Involuntary Termination with Cause				
Involuntary Termination without Cause	\$ 1,077,708		\$ 1,030,623	\$ 2,108,331
Voluntary Resignation with Good Reason following a Change in Control	\$ 1,616,562	\$ 50,000	\$ 1,346,463	\$ 3,013,025
Involuntary Termination without Breach of Duty following a Change in Control	\$ 1,616,562	\$ 50,000	\$ 1,346,463	\$ 3,013,025
Death	\$ 538,854		\$ 1,346,463	\$ 1,885,317

Table of Contents

	Lump Sum Cash Severance Payment	Healthcare and Other Insurance Benefits	Value of Unvested Restricted Shares	Total
John F. Coleman				
Voluntary Resignation or Involuntary Termination with Cause				
Involuntary Termination without Cause	\$ 630,207		\$ 686,988	\$ 1,317,195
Voluntary Resignation with Good Reason following a Change in Control	\$ 630,207	\$ 37,500	\$ 844,908	\$ 1,512,615
Involuntary Termination without Breach of Duty following a Change in Control	\$ 630,207	\$ 37,500	\$ 844,908	\$ 1,512,615
Death	\$ 420,138		\$ 844,908	\$ 1,265,046
William D. Petsas				
Voluntary Resignation or Involuntary Termination with Cause				
Involuntary Termination without Cause	\$ 614,288		\$ 686,988	\$ 1,301,276
Voluntary Resignation with Good Reason following a Change in Control	\$ 614,288	\$ 37,500	\$ 844,908	\$ 1,496,696
Involuntary Termination without Breach of Duty following a Change in Control	\$ 614,288	\$ 37,500	\$ 844,908	\$ 1,496,696
Death	\$ 409,525		\$ 844,908	\$ 1,254,433
Brent W. Wood				
Voluntary Resignation or Involuntary Termination with Cause				
Involuntary Termination without Cause	\$ 526,460		\$ 686,988	\$ 1,213,448
Voluntary Resignation with Good Reason following a Change in Control	\$ 526,460	\$ 37,500	\$ 739,628	\$ 1,303,588
Involuntary Termination without Breach of Duty following a Change in Control	\$ 526,460	\$ 37,500	\$ 739,628	\$ 1,303,588
Death	\$ 350,973		\$ 739,628	\$ 1,090,601

Below is a description of the definitions and assumptions that were used in creating the table above.

Definitions. A change of control means any of the following: (i) any change in control of a nature that would be required to be reported under the Exchange Act proxy rules; (ii) the acquisition by a person or group of beneficial ownership of 30% of the Company's outstanding voting securities; (iii) a change in the composition of the Board of Directors such that the incumbent directors cease to constitute at least a majority of the Board (including, for purposes of computing a majority, those persons nominated for election by a two-thirds majority of the then incumbent directors who had been similarly nominated); (iv) the security holders of the Company approve a merger or consolidation of the Company, with certain exceptions; or (v) approval by the Company's stockholders of a complete liquidation of the Company or disposition of all or substantially all of the Company's assets.

Average annual compensation means an amount equal to the annual average of the sum of (i) the executive's annual base salary from the Company plus (ii) the amount of cash bonus paid by the Company to the executive, in each case for the average of the three calendar years that ended immediately before (or, if applicable, coincident with) a specified date.

Table of Contents

A termination is for *cause* if it is for any of the following reasons: (i) the continued failure by the executive to perform his material responsibilities and duties toward the Company (other than any such failure resulting from the executive's incapacity due to physical or mental illness); (ii) the executive engaging in willful or reckless conduct that is demonstrably injurious to the Company monetarily or otherwise; (iii) the executive's conviction, entry of a plea of no contest, or admission of guilt, for any felony or any lesser crime if such lesser crime involves fraud or dishonesty, moral turpitude, or any conduct that adversely affects the business or reputation of the Company; (iv) the commission or omission of any act by the executive that constitutes on the part of the executive fraud, dishonesty, or malfeasance, misfeasance, or nonfeasance of duty toward the Company; or (v) any other action or conduct by the executive that is injurious to the Company, its business, or its reputation.

A *breach of duty* means (i) the executive's willful misconduct in the performance of his duties toward the Company; or (ii) the commission or omission of any act by the executive that constitutes on the part of the executive fraud or dishonesty toward the Company.

A termination is for *good reason* if it is for any of the following reasons: (i) a material diminution in the executive's duties, responsibilities or authority; (ii) a material reduction in the executive's base salary; (iii) a material reduction in the executive's annual or long-term bonus and equity incentive opportunities; (iv) the Company's material relocation of the executive without the executive's consent; and (v) the failure by the Company to obtain the assumption of the obligations contained in the Severance and Change in Control Agreement by any successor entity.

Cash Severance Payment. Cash severance payments following a change in control are paid upon an involuntary termination without breach of duty and upon a voluntary termination by the executive for good reason. Additionally, cash severance payments not in connection with a change in control are paid upon an involuntary termination without cause. In each case, the cash severance payments are paid lump-sum and are based upon average annual compensation as follows:

	Involuntary Termination Without Cause	Involuntary Termination Without Breach of Duty or Voluntary Resignation With Good Reason, Each Following a Change in Control
Chief Executive and Chief Financial Officers	2 times	3 times
Senior Vice President	1.5 times	1.5 times

As a condition of the receipt of the cash severance payment not in connection with a change in control, the executive must execute a waiver and release agreement, in a form satisfactory to the Company, that releases the Company and all affiliates from any and all claims of any nature whatsoever, including, without limit, any and all statutory claims, and may not revoke the waiver and release within any revocation period required by law or permitted by the Company.

Benefits. Upon an involuntary termination without breach of duty or a voluntary termination by the executive for good reason, each following a change in control, the Company will provide each executive officer with life insurance

coverage and health plan coverage substantially comparable to the coverage the executive was receiving from the Company immediately before termination of employment. In each case, these benefits will continue for a period of 24 months (18 months for the Company's Senior Vice Presidents) following the date of termination.

Table of Contents

The value of the benefits set forth in the above table is based on an estimate of the Company's cost to provide such benefits to an executive officer upon termination following a change in control equal to \$25,000 per year.

Equity Acceleration. The Incentive Restricted Share Agreements issued to executive officers in connection with equity awards granted pursuant to the Company's 2004 Equity Incentive Plan and the 1994 Management Incentive Plan provide that an executive's interest in all of the incentive restricted shares shall become vested as of the date of his death or termination by reason of his permanent disability. Pursuant to an amendment to the Company's 2004 Equity Incentive Plan that became effective January 1, 2007, a restricted share agreement may also provide that the incentive restricted shares covered by the agreement shall vest upon involuntary termination by the Company without cause.

The Company's Equity Incentive Plan and the 1994 Management Incentive Plan also provide that upon the occurrence of a change in control, whether or not the executive's employment is terminated, the executive's interest in all of the restricted shares that are no longer subject to performance criteria shall become vested and the vesting of restricted shares subject to performance criteria shall be accelerated and the executive shall receive a pro rata number of shares based upon (i) an assumed achievement of all relevant performance objectives at target levels and (ii) the length of time within the performance period elapsed before the effective date of the change in control. The value of unvested restricted shares set forth in the above table includes all previous awards of restricted stock that have not yet vested in addition to the number of restricted shares awarded by the Compensation Committee on March 5, 2009 under the 2008 annual long-term equity incentive plan and under the multi-year long-term equity incentive plan for the performance period ended December 31, 2008.

The Company accrues dividends on all incentive restricted shares beginning with the first day of the applicable performance period. The accrued dividends are delivered to the executive officer when the incentive restricted share vest. The value of the unvested restricted stock in the above table includes the actual value of the dividends accrued with respect to each restricted share award that is no longer subject to performance criteria as well as the restricted shares awarded by the Compensation Committee on March 5, 2009.

Excise Tax Gross-Up. Upon a change in control of the Company, the executive may be subject to certain excise taxes pursuant to Section 4999 of the Internal Revenue Code. The Company has agreed to reimburse the executive for all excise taxes that are imposed on the executive under Section 4999 and any income and excise taxes that are payable by the executive as a result of any reimbursements for Section 4999 excise taxes. The Company determined that no excise taxes would have been imposed upon the Named Officers assuming that the termination occurred on the last business day of 2008.

Compensation of Directors

Under the Company's director compensation program, each non-employee director is paid an annual cash retainer of \$30,000 payable ratably on a monthly basis. The chairperson of the Audit Committee and Compensation Committee receive an additional annual cash retainer in the amount of \$10,000 and \$7,500, respectively. All other committee chairpersons and the Lead Director receive an additional annual \$5,000 cash retainer.

The director compensation program provides that each non-employee director is paid \$1,500 for each Board meeting attended. Non-employee directors serving as members of Board committees are paid \$1,000 for each meeting attended. In each case, the non-employee director is also reimbursed for his or her expenses in connection with attendance at each meeting.

Pursuant to the 2005 Directors Equity Incentive Plan, as amended, non-employee directors receive an annual award in connection with their election to the Board at the annual meeting of stockholders. The annual award

Table of Contents

consists of shares of the Company's common stock with a value of \$40,000 as of the date of grant. A director who is appointed to the Board outside of the annual meeting of stockholders will receive a prorated amount of the \$40,000 annual award payable in cash.

The 2005 Directors Equity Incentive Plan, as amended, also provides that each new non-employee director appointed or elected will receive an automatic award of restricted shares of Common Stock on the effective date of election or appointment equal to \$25,000 divided by the fair market value of the Company's Common Stock on such date. These restricted shares will vest over a four-year period upon the performance of future service as a director, subject to certain exceptions.

Messrs. Speed and Hoster, as officers of the Company, do not receive any compensation for serving the Company as members of the Board of Directors or any of its committees. In 2008, Mr. Speed received cash compensation of \$200,000 for his service as Chairman of the Board of Directors. The Company's non-employee directors received the following aggregate amounts of compensation for the year ended December 31, 2008:

Name	Fees Earned or		Stock Awards (1)	Option Awards (2)	Total
	Paid in Cash				
D. Pike Aloian	\$	52,000	\$	32,471	\$ 84,471
H.C. Bailey, Jr.	\$	49,000	\$	32,471	\$ 81,471
Hayden C. Eaves III	\$	54,000	\$	32,471	\$ 86,471
Fredric H. Gould	\$	41,500	\$	32,471	\$ 73,971
Mary E. McCormick	\$	57,000	\$	32,471(3)	\$ 89,470
David M. Osnos	\$	64,250	\$	32,471	\$ 96,721

- (1) Represents the proportionate amount of the total fair value of stock awards recognized by the Company as an expense in 2008 for financial accounting purposes in accordance with SFAS 123R. Compensation expense for the Director annual equity awards is recognized over a 12-month period beginning July 1 of the year of grant; therefore, the amount reported in this table includes compensation expense recognized in 2008 with respect to stock awards made in 2007 and 2008. The grant date fair value of the 2008 Director annual equity award determined in accordance with SFAS 123R was approximately \$40,000, which was calculated by multiplying the number of shares by the closing price of the Company's common stock on the date of grant.
- (2) No stock options were granted in 2008 and the Company did not recognize any compensation expense in 2008 with respect to options granted in prior years. As of December 31, 2008, the following non-employee directors had stock option holdings in the Company as indicated: Mr. Aloian 9,000 options; Mr. Bailey 11,250 options; Mr. Eaves 6,750 options; Mr. Osnos 11,250 options. All stock options are currently exercisable.
- (3) As of December 31, 2008, Ms. McCormick held 121 shares of restricted stock that were awarded in connection to her appointment to the Board in 2005. All 121 shares vest on June 2, 2009 provided that she remains a director of the Company on such date.

Compensation Committee Interlocks

As noted above, the Compensation Committee is comprised of three independent Directors: Messrs. Bailey, Eaves and Gould. No member of the Compensation Committee is or was formerly an officer or an employee of the Company. No executive officer of the Company serves as a member of the board of directors or compensation committee of any entity that has one or more executive officers serving as a member of the Company's Board of Directors, nor has such interlocking relationship existed in the past.

Table of Contents**Certain Transactions and Relationships**

In March 2007, the Board of Directors adopted the written Statement of Policy with respect to Related Party Transactions that states that the Company's Audit Committee is responsible for the review, approval and ratification of transactions between the Company or any of its subsidiaries and a senior officer or director of the Company, members of their immediate family, a shareholder owning in excess of five percent of the Company or an entity which is owned or controlled by one of the foregoing.

The policy requires that any related party transaction, other than transactions available to all employees generally or transactions involving less than \$5,000 when aggregated with all similar transactions, shall be consummated or shall continue only if (i) the Audit Committee pre-approves or ratifies such transaction, (ii) the transaction is approved by the disinterested members of the Board of Directors, or (iii) the transaction involves compensation approved by the Compensation Committee.

OWNERSHIP OF COMPANY STOCK**Security Ownership of Certain Beneficial Owners**

To the best of the Company's knowledge, no person or group (as those terms are used in Section 13(d)(3) of the Securities Exchange Act of 1934, as amended (the Exchange Act)) beneficially owned, as of April 14, 2009, more than five percent of the shares of Common Stock outstanding, except as set forth in the following table.

Name and Address of Beneficial Owner	Amount of Common Stock Beneficially Owned	Percent of Common Stock (1)
T. Rowe Price Associates, Inc. 100 East Pratt Street Baltimore, Maryland 21202	2,690,550(2)	10.7%
The Vanguard Group, Inc. 100 Vanguard Boulevard Malvern, Pennsylvania 19355	2,011,030(3)	8.0%
Barclays Global Investors, NA 45 Fremont Street San Francisco, California 94105	1,837,933(4)	7.3%
Cohen & Steers, Inc. 280 Park Avenue, 10th Floor New York, New York 10017	1,802,814(5)	7.2%

(1) Based on the number of shares of Common Stock outstanding as of April 14, 2009 which was 25,185,969 shares of Common Stock.

(2) Based upon an amended Statement on Schedule 13G filed with the SEC by T. Rowe Price Associates, Inc. (Price Associates). These shares of Common Stock are owned by various individual and institutional investors which Price Associates serves as investment adviser with power to direct investments and/or sole power to vote the

securities. For purposes of the reporting requirements of the Exchange Act, Price Associates is deemed to be a beneficial owner of such securities; however, Price Associates expressly disclaims that it is, in fact, the beneficial owner of such securities.

- (3) Based upon a Statement on Schedule 13G filed with the SEC that indicated that The Vanguard Group, Inc. has sole dispositive power with respect to 2,011,030 shares of Common Stock and Vanguard Fiduciary

Table of Contents

Trust Company, a wholly-owned subsidiary of The Vanguard Group, Inc., is the beneficial owner of and directs the voting of 32,013 shares of the Company as a result of its serving as investment manager of collective trust accounts.

- (4) Based upon a Statement on Schedule 13G filed with the SEC that indicated that Barclays Global Investors, NA and related entities have sole voting power with respect to 1,427,069 shares of Common Stock and sole dispositive power with respect to 1,837,933 shares of Common Stock.
- (5) Based upon an amended Statement on Schedule 13G filed with the SEC that indicated that Cohen & Steers, Inc. through Cohen & Steers Capital Management, Inc. (in which Cohen & Steers, Inc. holds a 100% interest) has sole voting power with respect to 1,616,206 shares of Common Stock and sole dispositive power with respect to 1,797,242 shares of Common Stock.

Security Ownership of Management and Directors

The following table sets forth certain information available to the Company with respect to shares of Common Stock owned by each director, each nominee for director, each executive officer and all directors, nominees and executive officers as a group, as of April 14, 2009:

Name	Amount and Nature of Beneficial Ownership			Total Beneficial Ownership	Percent of Common Stock (1)
	Common Stock	Unvested Restricted Stock	Exercisable Options		
D. Pike Aloian	7,154(2)		9,000	16,154	*
H.C. Bailey, Jr.	26,006(3)		11,250	36,417	*
Hayden C. Eaves III	13,296(4)		6,750	20,046	*
Fredric H. Gould	17,404(5)			17,404	*
Mary E. McCormick	2,851	121		2,972	*
David M. Osnos	29,304		11,250	40,554	*
Leland R. Speed	206,206(6)		5,000	211,206	*
David H. Hoster II	223,403(7)	52,071	10,186	285,660	1.1%
N. Keith McKey	89,901	27,840		117,741	*
John F. Coleman	44,887	17,557		62,444	*
Bruce Corkern	24,304(8)	14,011	2,000	40,315	*
William D. Petsas	48,097	17,557		65,654	*
Brent W. Wood	23,461	15,557		39,018	*
All directors, nominees and executive officers as a group	756,221(9)	144,714	55,436	956,371	3.8%

* Less than 1.0%.

- (1) Based on the number of shares of Common Stock outstanding as of April 14, 2009 which was 25,185,969 shares of Common Stock.

- (2) Does not include 2,500 shares of Common Stock beneficially owned by Mr. Aloian's spouse, as to which he disclaims beneficial ownership.
- (3) Includes (i) 5,248 shares of Common Stock owned by H.C. Bailey Company, a company of which Mr. Bailey is Chairman and President; (ii) 3,736 shares of Common Stock owned by Retsub Partners, L.P., a limited partnership of which Mr. Bailey is a limited partner; (iii) 2,116 shares of Common Stock owned by Curtis

Table of Contents

Partners, L.P., a limited partnership of which Mr. Bailey is President; and (iv) 2,116 shares of Common Stock owned by CJB Partners, L.P., a limited partnership of which Mr. Bailey is Vice President.

- (4) Includes (i) 6,150 shares of Common Stock owned by Mr. Eaves and his spouse as co-trustees for the Eaves Living Trust; (ii) 1,000 shares of Common Stock owned by a family foundation of which Mr. Eaves is President; and (iii) 500 shares of Common Stock owned by Mr. Eaves as trustee.
- (5) Includes 4,500 shares of Common Stock owned by a limited partnership of which Mr. Gould is a general partner and an executive officer and sole shareholder of the managing general partner (Mr. Gould has shared voting and dispositive control over these shares). Mr. Gould disclaims beneficial ownership as to the 4,500 shares of Common Stock owned by the limited partnership.
- (6) Does not include 27,288 shares of Common Stock beneficially owned by Mr. Speed's spouse, as to which he disclaims beneficial ownership.
- (7) Does not include 2,430 shares of Common Stock beneficially owned by Mr. Hoster's spouse, as to which he disclaims beneficial ownership. Mr. Hoster has pledged 64,860 shares of Common Stock as security for a loan.
- (8) Includes 1,000 shares owned by Mr. Corkern's children. Mr. Corkern has pledged 3,726 shares of Common Stock as security for a loan.
- (9) See footnotes (2) through (8).

Ownership Guidelines for Directors and Officers

In order to enhance the alignment of the interests of the directors and management with stockholders, the Company has instituted ownership guidelines for directors and officers. Each director who has served for at least five years should own shares of Common Stock with a market value of a minimum of three times the annual cash retainer fee payable to a director. Within five years of their election as an officer or by May 27, 2009 (whichever is later), officers of the Company are required to own shares of Common Stock having a market value equal to or greater than the following multiples of their base salary: (1) President and Chief Executive Officer: five times annual base salary; (2) Executive Vice President: three times annual base salary; (3) Senior Vice Presidents: two times annual base salary; and (4) Vice Presidents: one time annual base salary.

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Exchange Act requires that directors, officers and more than 10 percent stockholders of the Company file reports with the SEC to report a change in ownership within two business days following the day on which the transaction occurs. During 2008 no officer or director of the Company was late in filing a report under Section 16(a).

PROPOSAL TWO: RATIFICATION OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Audit Committee of the Board of Directors has appointed KPMG LLP to act as auditors for the fiscal year ending December 31, 2009. KPMG LLP served as the independent registered public accounting firm for the Company for the fiscal year ended December 31, 2008. A representative of KPMG LLP is expected to be present at the Annual Meeting and will have an opportunity to make a statement, if he or she so desires, and will be available to respond to appropriate questions.

At the Annual Meeting, the shareholders will be asked to ratify the selection of KPMG LLP as the Company's independent registered public accounting firm. Pursuant to the Rules and Regulations of the Securities and

Table of Contents

Exchange Commission, the Audit Committee has the direct responsibility to appoint, retain, fix the compensation and oversee the work of the Company's independent registered public accounting firm. Although ratification is not required by the Company's Bylaws or otherwise, the Board is submitting the selection of KPMG LLP to the shareholders for ratification as a matter of good corporate practice. In the event that the shareholders fail to ratify the selection, it will be considered as a direction to the Board of Directors and the Audit Committee to consider the selection of a different firm. Even if the selection is ratified, the Audit Committee in its discretion may select a different independent registered public accounting firm at any time during the year if it determines that such a change would be in the best interests of the Company and our shareholders.

The affirmative vote of a majority of the votes cast on the proposal, assuming a quorum is present at the Meeting, is required to ratify the appointment of KPMG LLP. The directors of the Company unanimously recommend a vote FOR the ratification of KPMG LLP as the Company's independent registered public accounting firm for 2009. Unless otherwise instructed, proxies will be voted FOR ratification of the appointment of KPMG LLP.

In connection with the audit of the 2008 financial statements, the Company entered into an engagement agreement with KPMG LLP which set forth the terms by which KPMG LLP will perform audit services for the Company. That agreement is subject to alternative dispute resolution procedures and an exclusion of punitive damages.

The following table shows the fees paid or accrued by the Company for the audit and other services provided by KPMG LLP for fiscal years 2008 and 2007.

	2008	2007
Audit Fees (1)	\$ 459,600	\$ 414,000
Audit-Related Fees (2)	12,500	5,500
Tax Fees		
All Other Fees		
Total	\$ 472,100	\$ 419,500

(1) Audit fees include amounts related to professional services rendered in connection with the audits of our annual financial statements and reviews of our quarterly financial statements, the audit of internal control over financial reporting and other services that are normally provided by the auditor in connection with statutory and regulatory filings or engagements. For 2008, this includes \$46,500 for comfort letter procedures and review of the Company's prospectus supplement in connection with the issuance of common stock. For 2007, this includes \$21,000 for comfort letter procedures and review of the Company's Registration Statement on Form S-3D in connection with the Company's dividend reinvestment plan.

(2) Audit-related fees consisted of accounting consultations and research.

The Audit Committee of the Board has adopted policies and procedures providing for the pre-approval of audit and non-audit services performed by the Company's independent registered public accounting firm. Pre-approval may be given as part of the Audit Committee's approval on the engagement of the independent auditor or on an individual case-by-case basis before the independent auditor is engaged to provide each service. The pre-approval of services may be delegated to the Audit Committee chairman, but the decision is subsequently reported to the full Audit Committee.

The Audit Committee has considered whether provision of the non-audit related services described above is compatible with maintaining the independent accountants' independence and has determined that those services have not adversely affected KPMG LLP's independence.

Table of Contents

OTHER MATTERS

The management of the Company does not know of any other matters to come before the Annual Meeting. However, if any other matters come before the Annual Meeting, it is the intention of the persons designated as proxies to vote in accordance with their judgment on such matters.

**STOCKHOLDER PROPOSALS FOR THE
2010 ANNUAL MEETING OF STOCKHOLDERS**

Proposals for the Company's Proxy Material

Any Company stockholder who wishes to submit a proposal for presentation at the Company's 2010 Annual Meeting of Stockholders must submit such proposal to the Company at its office at 190 East Capitol Street, Suite 400, Jackson, Mississippi 39201, Attention: Secretary, no later than December 28, 2009, in order to be considered for inclusion, if appropriate, in the Company's proxy statement and form of proxy relating to its 2010 Annual Meeting of Stockholders.

Proposals to be Introduced at the Annual Meeting but not Intended to be Included in the Company's Proxy Material

For any stockholder proposal to be presented in connection with the 2010 Annual Meeting of Stockholders, including any proposal relating to the nomination of a director to be elected to the Board of Directors of the Company, a stockholder must give timely written notice thereof in writing to the Secretary of the Company in compliance with the advance notice and eligibility requirements contained in the Company's Bylaws. To be timely, a stockholder's notice must be delivered to the Secretary at the principal executive offices of the Company not less than 60 days and not more than 90 days prior to the first anniversary of the preceding year's annual meeting; provided, however, that in the event that the date of the annual meeting is advanced by more than 30 days or delayed by more than 60 days from such anniversary date, notice by the stockholder to be timely must be so delivered not earlier than the 90th day prior to such annual meeting and not later than the close of business on the later of the 60th day prior to such annual meeting or the 10th day following the day on which public announcement of the date of such meeting is first made. The notice must contain specified information about each nominee or the proposed business and the stockholder making the nomination or proposal.

In the event that the number of directors to be elected to the Board of Directors is increased and there is no public announcement naming all of the nominees for director or specifying the size of the increased Board of Directors made by the Company at least 70 days prior to the first anniversary of the preceding year's annual meeting, a stockholder's notice will be considered timely, but only with respect to nominees for any new positions created by such increase, if the notice is delivered to the Secretary at the principal executive offices of the Company not later than the close of business on the 10th day following the day on which such public announcement is first made by the Company.

Based upon an anticipated meeting date of May 27, 2010 for the 2010 Annual Meeting of Stockholders, a qualified stockholder intending to introduce a proposal or nominate a director at the 2010 Annual Meeting of Stockholders should give written notice to the Company's Secretary not later than March 28, 2010 and not earlier than February 26, 2010.

The advance notice provisions in the Company's Bylaws also provide that, in the case of a special meeting of stockholders called for the purpose of electing one or more directors, a stockholder may nominate a person or

Table of Contents

persons (as the case may be) for election to such position if the stockholder's notice is delivered to the Secretary at the principal executive offices of the Company not earlier than the 90th day prior to the special meeting and not later than the close of business on the later of the 60th day prior to the special meeting or the 10th day following the day on which public announcement is first made of the date of the special meeting and of the nominees proposed by the Board of Directors to be elected at such meeting.

The specific requirements of these advance notice and eligibility provisions are set forth in Article II, Section 12 of the Company's Bylaws, a copy of which is available upon request.

Such requests and any stockholder proposals should be sent to the Secretary of the Company at 190 East Capitol Street, Suite 400, Jackson, Mississippi 39201.

BY ORDER OF THE BOARD OF DIRECTORS

N. Keith McKey
*Executive Vice President, Chief Financial
Officer, Treasurer and Secretary*

Table of Contents

**EASTGROUP PROPERTIES, INC.
ANNUAL MEETING OF STOCKHOLDERS
Wednesday, May 27, 2009
9:00 a.m., Central Time
CORPORATE OFFICES
190 East Capitol Street
Suite 400
Jackson, Mississippi 39201**

**190 East Capitol Street
Suite 400
Jackson, Mississippi 39201**

proxy

This proxy is solicited by the Board of Directors for use at the Annual Meeting on May 27, 2009.

The undersigned hereby appoints DAVID H. HOSTER II and N. KEITH McKEY, or either of them, Proxies for the undersigned, each with full power of substitution, and hereby authorizes them to represent and to vote all shares of common stock, \$0.0001 par value per share, of EastGroup Properties, Inc. (the Company), which the undersigned would be entitled to vote at the Annual Meeting of Stockholders (the Meeting) to be held at the Company's offices, 190 East Capitol Street, Suite 400, Jackson, Mississippi, on Wednesday, May 27, 2009, at 9:00 a.m., Central time, or any adjournment or postponement thereof, and directs that the shares represented by this Proxy shall be voted as indicated on the reverse.

This Proxy, when properly executed, will be voted in the manner directed herein by the undersigned stockholder. The Board of Directors favors a vote FOR Proposals 1 and 2. If no direction is made, this Proxy will be voted FOR Proposals 1 and 2 and will be voted in the discretion of the proxies named herein with respect to any additional matter as may properly come before the Meeting or any adjournment thereof. You are encouraged to specify your choices by marking the appropriate boxes, but you need not mark any boxes if you wish to vote in accordance with the Board of Directors' recommendations. The Proxies cannot vote your shares unless you sign and return this card.

YOUR VOTE IS IMPORTANT!

PLEASE SIGN, DATE AND RETURN THIS PROXY CARD IN THE ACCOMPANYING POSTAGE-PAID ENVELOPE OR VOTE BY TELEPHONE OR INTERNET.

See reverse for voting instructions.

Table of Contents

COMPANY #
Vote by Internet, Telephone or Mail
24 Hours a Day, 7 Days a Week

Your phone or Internet vote authorizes the named proxies to vote your shares in the same manner as if you marked, signed and returned your proxy card.

INTERNET www.eproxy.com/egp

Use the Internet to vote your proxy until 12:00 p.m. (CT) on May 26, 2009.

PHONE 1-800-560-1965

Use a touch-tone telephone to vote your proxy until 12:00 p.m. (CT) on May 26, 2009.

MAIL Mark, sign and date your proxy card and return it in the postage-paid envelope provided.

If you vote your proxy by Internet or by Telephone, you do NOT need to mail back your Proxy Card.

IF YOU VOTE BY PHONE OR INTERNET, PLEASE DO NOT MAIL YOUR PROXY CARD.
ø Please detach here ø

The Board of Directors recommends a vote FOR all the nominees listed and FOR Proposal 2.

- | | | | | |
|---------------------------|-------------------------|-----------------------|--------------------------------|-------------------------------------|
| 1. Election of directors: | 01 D. Pike Aloian | 05 David H. Hoster II | <input type="radio"/> Vote FOR | <input type="radio"/> Vote WITHHELD |
| | 02 H. C. Bailey, Jr. | 06 Mary E. McCormick | all nominees | from all nominees |
| | 03 Hayden C. Eaves, III | 07 David M. Osnos | (except as marked) | |
| | 04 Fredric H. Gould | 08 Leland R. Speed | | |

(Instructions: To withhold authority to vote for any indicated nominee, write the number(s) of the nominee(s) in the box provided to the right.)

2. To consider and ratify the appointment of KPMG LLP as the Company's independent registered public accounting firm for the 2009 fiscal year. **For** **Against** **Abstain**

THIS PROXY WHEN PROPERLY EXECUTED WILL BE VOTED AS DIRECTED OR, IF NO DIRECTION IS GIVEN, WILL BE VOTED FOR EACH PROPOSAL.

Address Change? Mark Box Indicate changes below: _____ Date _____

Signature(s) in Box

Please sign exactly as your name(s) appears on Proxy. If held in joint tenancy, all persons should sign. Trustees, administrators, etc., should include title and authority. Corporations should provide full name of corporation and title of authorized officer signing the Proxy.