

CONOCOPHILLIPS  
Form S-3ASR  
October 06, 2006

**Table of Contents**

**As filed with the Securities and Exchange Commission on October 6, 2006**

**Registration Nos. 333-**

**333- -01**

**333- -02**

**333- -03**

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

**Form S-3  
REGISTRATION STATEMENT UNDER  
THE SECURITIES ACT OF 1933**

<b>ConocoPhillips</b>	<b>Delaware</b>	<b>01-0562944</b>
<b>ConocoPhillips Company</b>	<b>Delaware</b>	<b>73-0400345</b>
<b>ConocoPhillips Canada Funding Company I</b>	<b>Nova Scotia</b>	<b>Not applicable</b>
<b>ConocoPhillips Canada Funding Company II</b>	<b>Nova Scotia</b>	<b>Not applicable</b>
<i>(Exact name of each registrant as specified in its charter)</i>	<i>(State or other jurisdiction of incorporation or organization)</i>	<i>(I.R.S. Employer Identification Number)</i>

**600 North Dairy Ashford  
Houston, Texas 77079  
(281) 293-1000**

*(Address, including zip code, and telephone number,  
including area code, of each registrant's principal executive offices)*

**Stephen F. Gates  
Senior Vice President, Legal, and General Counsel  
ConocoPhillips**

**600 North Dairy Ashford  
Houston, Texas 77079  
(281) 293-1000**

*(Name, address, including zip code, and telephone number, including area code, of agent for service)*

*Copy to:*

**Tull R. Florey  
Baker Botts L.L.P.  
910 Louisiana  
Houston, Texas 77002-4995  
(713) 229-1234**

*Copy to:*

**Andrew J. Pitts  
Cravath, Swaine & Moore LLP  
Worldwide Plaza  
825 Eighth Avenue  
New York, New York 10069**

**Approximate date of commencement of proposed sale to the public:** From time to time after the effective date of this Registration Statement.

If the only securities being registered on this Form are to be offered pursuant to dividend or interest reinvestment plans, please check the following box.

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, as amended (the Securities Act), other than securities offered only in connection with dividend or interest reinvestment plans, check the following box.

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

If this Form is a registration statement pursuant to General Instruction I.D. or a post-effective amendment thereto that shall become effective upon filing with the Commission pursuant to Rule 462(e) under the Securities Act, check the following box.

If this Form is a post-effective amendment to a registration statement filed pursuant to General Instruction I.D. filed to register additional securities or additional classes of securities pursuant to Rule 413(b) under the Securities Act, check the following box.

#### **CALCULATION OF REGISTRATION FEE**

<b>Title of Each Class of Securities to be Registered</b>	<b>Amount to be Registered/ Proposed Maximum Offering Price Per Unit/Proposed Maximum Offering Price/Amount of Registration Fee(1)</b>
Senior Debt Securities of ConocoPhillips Canada Funding Company I	

Senior Debt Securities of ConocoPhillips Canada Funding  
Company II  
Guarantees of the Senior Debt Securities of  
ConocoPhillips Canada Funding Company I and  
ConocoPhillips Canada Funding Company II by  
ConocoPhillips and ConocoPhillips Company(2)

- (1) There is being registered hereunder such indeterminate amount of senior debt securities of ConocoPhillips Canada Funding Company I and ConocoPhillips Canada Funding Company II as may from time to time be issued at indeterminate prices. In reliance on Rule 456(b) and Rule 457(r) under the Securities Act, ConocoPhillips hereby defers payment of the registration fee required in connection with this Registration Statement.
  - (2) ConocoPhillips and ConocoPhillips Company are registering hereunder all guarantees and other obligations that they may have with respect to senior debt securities that may be issued by ConocoPhillips Canada Funding Company I and ConocoPhillips Canada Funding Company II No separate consideration will be received for such guarantees or any other such obligations. Pursuant to Rule 457(n) under the Securities Act, no registration fee is required with respect to such guarantees or obligations.
-

**Table of Contents**

**PROSPECTUS**

**ConocoPhillips Canada Funding Company I  
Senior Debt Securities  
guaranteed as described in this prospectus by  
ConocoPhillips  
and  
ConocoPhillips  
Company**

**ConocoPhillips Canada Funding Company II  
Senior Debt Securities  
guaranteed as described in this prospectus by  
ConocoPhillips  
and  
ConocoPhillips  
Company**

We will provide the specific terms of the securities in supplements to this prospectus. You should read this prospectus and any supplement carefully before you invest.

**Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined whether this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.**

The date of this prospectus is October 6, 2006

---

## TABLE OF CONTENTS

<u>About This Prospectus</u>	1
<u>About ConocoPhillips</u>	1
<u>About ConocoPhillips Company</u>	1
<u>About ConocoPhillips Canada Funding Company I</u>	1
<u>About ConocoPhillips Canada Funding Company II</u>	2
<u>Where You Can Find More Information</u>	2
<u>Forward-Looking Information</u>	3
<u>Use of Proceeds</u>	4
<u>Ratio of Earnings to Fixed Charges</u>	4
<u>Description of the Debt Securities</u>	5
<u>Plan of Distribution</u>	15
<u>Legal Matters</u>	16
<u>Experts</u>	16
<u>Index to Financial Statements</u>	F-1
<u>Form of Indenture - Funding I</u>	
<u>Form of Indenture - Funding II</u>	
<u>Opinion of Baker Botts L.L.P.</u>	
<u>Computation of Pro Forma Ratio of Earnings to Fixed Charges</u>	
<u>Consent of Ernst &amp; Young LLP</u>	
<u>Consent of PricewaterhouseCoopers LLP</u>	
<u>Consent of Ernst &amp; Young LLP</u>	
<u>Consent of Ernst &amp; Young LLP</u>	
<u>Statement of Eligibility and Qualification - Funding I</u>	
<u>Statement of Eligibility and Qualification - Funding II</u>	

## ABOUT THIS PROSPECTUS

This prospectus is part of a joint registration statement that we have filed with the U.S. Securities and Exchange Commission using a shelf registration process. Using this process, we may offer any combination of the securities described in this prospectus in one or more offerings. This prospectus provides you with a general description of the securities we may offer. Each time we use this prospectus to offer securities, we will provide a prospectus supplement and, if applicable, a pricing supplement that will describe the specific terms of the offering. The prospectus supplement and any pricing supplement may also add to, update or change the information contained in this prospectus. Please carefully read this prospectus, the prospectus supplement and any pricing supplement, in addition to the information contained in the documents we refer to under the heading Where You Can Find More Information.

## ABOUT CONOCOPHILLIPS

ConocoPhillips is an international, integrated energy company. ConocoPhillips has four core activities worldwide: petroleum exploration and production; petroleum refining, marketing, supply and transportation; natural gas gathering, processing and marketing; and chemicals and plastics production and distribution. In addition, ConocoPhillips is investing in several emerging businesses: fuels technology, gas-to-liquids, power generation and emerging technologies. ConocoPhillips principal executive office is located at 600 North Dairy Ashford, Houston, Texas 77079, telephone (281) 293-1000.

## ABOUT CONOCOPHILLIPS COMPANY

ConocoPhillips Company is a direct wholly owned subsidiary of ConocoPhillips. Its principal executive offices are located at 600 North Dairy Ashford, Houston, Texas 77079, telephone (281) 293-1000. In this prospectus, we refer to ConocoPhillips Company as CCo.

**ABOUT CONOCOPHILLIPS CANADA FUNDING COMPANY I**

ConocoPhillips Canada Funding Company I is an unlimited liability company organized in September 2006 under the laws of Nova Scotia, Canada. ConocoPhillips Canada Funding Company I is a direct wholly owned special purpose finance subsidiary of Conoco Petroleum Operations Inc. (itself an indirect wholly owned subsidiary of ConocoPhillips), organized to engage in financing activities to raise funds for the business

**Table of Contents**

operations of ConocoPhillips and its subsidiaries. The principal executive office of ConocoPhillips Canada Funding Company I is located at 600 North Dairy Ashford, Houston, Texas 77079, telephone (281) 293-1000. In this prospectus, we refer to ConocoPhillips Canada Funding Company I as Funding I.

**ABOUT CONOCOPHILLIPS CANADA FUNDING COMPANY II**

ConocoPhillips Canada Funding Company II is an unlimited liability company organized in September 2006 under the laws of Nova Scotia, Canada. ConocoPhillips Canada Funding Company II is a direct wholly owned special purpose finance subsidiary of Burlington Resources Inc. (itself a direct wholly owned subsidiary of ConocoPhillips), organized to engage in financing activities to raise funds for the business operations of ConocoPhillips and its subsidiaries. The principal executive office of ConocoPhillips Canada Funding Company II is located at 600 North Dairy Ashford, Houston, Texas 77079, telephone (281) 293-1000. In this prospectus, we refer to ConocoPhillips Canada Funding Company II as Funding II.

**WHERE YOU CAN FIND MORE INFORMATION**

ConocoPhillips files annual, quarterly and current reports, proxy statements and other information with the SEC. You can read and copy these materials at the SEC's public reference room at 100 F Street, N.E., Washington, D.C. 20549. You can obtain information about the operation of the SEC's public reference room by calling the SEC at 1-800-SEC-0330. The SEC also maintains an Internet site that contains information ConocoPhillips has filed electronically with the SEC, which you can access over the Internet at <http://www.sec.gov>. You can also obtain information about ConocoPhillips at the offices of the New York Stock Exchange, 20 Broad Street, New York, New York 10005. CPCo, Funding I and Funding II do not file separate reports, proxy statements or other information with the SEC under the Securities Exchange Act of 1934.

This prospectus is part of a joint registration statement we have filed with the SEC relating to the securities we may offer. As permitted by SEC rules, this prospectus does not contain all of the information we have included in the registration statement and the accompanying exhibits and schedules we file with the SEC. You may refer to the registration statement, exhibits and schedules for more information about us and the securities. The registration statement, exhibits and schedules are available at the SEC's public reference room or through its Internet site.

The SEC allows us to incorporate by reference the information ConocoPhillips has filed with it, which means that we can disclose important information to you by referring you to those documents. The information we incorporate by reference is an important part of this prospectus, and later information that ConocoPhillips files with the SEC will automatically update and supersede this information. We incorporate by reference the documents listed below and any future filings ConocoPhillips makes with the SEC under Sections 13(a), 13(c), 14 or 15(d) of the Exchange Act until the termination of this offering. The documents we incorporate by reference are:

ConocoPhillips Annual Report on Form 10-K for the year ended December 31, 2005;

ConocoPhillips Quarterly Reports on Form 10-Q for the quarterly periods ended March 31, 2006 and June 30, 2006; and

ConocoPhillips Current Reports on Form 8-K as filed with the SEC on February 16, 2006, February 22, 2006, March 20, 2006, March 31, 2006 (as amended by a Current Report on Form 8-K/A filed with the SEC on April 3, 2006), April 10, 2006, April 11, 2006, May 11, 2006, May 15, 2006, August 10, 2006 and October 6, 2006.



**Table of Contents**

You may request a copy of these filings, other than an exhibit to these filings unless we have specifically incorporated that exhibit by reference into the filing, at no cost, by writing or telephoning ConocoPhillips at the following address:

ConocoPhillips  
Shareholder Relations Department  
P. O. Box 2197  
Houston, Texas 77079-2197  
Telephone: (281) 293-6800

**You should rely only on the information contained or incorporated by reference in this prospectus, the prospectus supplement and any pricing supplement. We have not authorized any person, including any salesman or broker, to provide information other than that provided in this prospectus, the prospectus supplement or any pricing supplement. We have not authorized anyone to provide you with different information. We are not making an offer of the securities in any jurisdiction where the offer is not permitted. You should assume that the information in this prospectus, the prospectus supplement and any pricing supplement is accurate only as of the date on its cover page and that any information we have incorporated by reference is accurate only as of the date of the document incorporated by reference.**

**FORWARD-LOOKING INFORMATION**

This prospectus, including the information we incorporate by reference, includes forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. You can identify our forward-looking statements by the words expects, anticipates, intends, plans, projects, estimates and similar expressions.

We have based the forward-looking statements relating to ConocoPhillips operations on its current expectations, estimates and projections about ConocoPhillips and the industries in which it operates in general. We caution you that these statements are not guarantees of future performance and involve risks, uncertainties and assumptions that we cannot predict. In addition, we have based many of these forward-looking statements on assumptions about future events that may prove to be inaccurate. Accordingly, ConocoPhillips actual outcomes and results may differ materially from what we have expressed or forecast in the forward-looking statements. Any differences could result from a variety of factors, including the following:

fluctuations in crude oil, natural gas and natural gas liquids prices, refining and marketing margins and margins for ConocoPhillips chemicals business;

changes in the business, operations, results and prospects of ConocoPhillips;

the operation and financing of ConocoPhillips midstream and chemicals joint ventures;

potential failure or delays in achieving expected reserve or production levels from existing and future oil and gas development projects due to operating hazards, drilling risks and the inherent uncertainties in predicting oil and gas reserves and oil and gas reservoir performance;

unsuccessful exploratory drilling activities;

failure of new products and services to achieve market acceptance;

Edgar Filing: CONOCOPHILLIPS - Form S-3ASR

unexpected changes in costs or technical requirements for constructing, modifying or operating facilities for exploration and production projects, manufacturing or refining;

unexpected technological or commercial difficulties in manufacturing or refining ConocoPhillips refined products, including synthetic crude oil, and chemicals products;

lack of, or disruptions in, adequate and reliable transportation for ConocoPhillips crude oil, natural gas, natural gas liquids, liquefied natural gas and refined products;

**Table of Contents**

inability to timely obtain or maintain permits, including those necessary for construction of liquefied natural gas terminals or regasification facilities, comply with government regulations or make capital expenditures required to maintain compliance;

failure to complete definitive agreements and feasibility studies for, and to timely complete construction of, announced and future liquefied natural gas projects and related facilities;

potential disruption or interruption of ConocoPhillips operations due to accidents, extraordinary weather events, civil unrest, political events or terrorism;

international monetary conditions and exchange controls;

liability for remedial actions, including removal and reclamation obligations, under environmental regulations;

liability resulting from litigation;

general domestic and international economic and political conditions, including armed hostilities and governmental disputes over territorial boundaries;

changes in tax and other laws, regulations or royalty rules applicable to ConocoPhillips business; and

inability to obtain economical financing for exploration and development projects, construction or modification of facilities and general corporate purposes.

**USE OF PROCEEDS**

Unless we inform you otherwise in the prospectus supplement, the net proceeds from the sale of the securities will be used, first, for repayment or refinancing of debt, including debt securities issued by other finance subsidiaries of ConocoPhillips, and, second, for general corporate purposes, including acquisitions, working capital, capital expenditures and repurchases and redemptions of securities. Pending any specific application, we may initially invest funds in short-term marketable securities or apply them to the reduction of other short-term indebtedness.

**RATIO OF EARNINGS TO FIXED CHARGES**

The following table presents the historical ratio of earnings to fixed charges of ConocoPhillips for the six-month period ended June 30, 2006, and each of the years in the five-year period ended December 31, 2005. The following table also presents the unaudited pro forma ratio of earnings to fixed charges of ConocoPhillips for the six-month period ended June 30, 2006, and the year ended December 31, 2005, giving effect to the March 2006 acquisition of Burlington Resources Inc. using the purchase method of accounting, as if the acquisition had occurred on January 1, 2006, and January 1, 2005, respectively. Please read the unaudited pro forma financial statements included in the amendment to ConocoPhillips Current Report on Form 8-K/A as filed with the SEC on April 3, 2006, as well as Exhibit 99 to ConocoPhillips Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2006.

<b>Six Months Ended June 30 2006</b>		<b>Year Ended December 31</b>				
	<b>2005</b>	<b>2004</b>	<b>2003</b>	<b>2002</b>	<b>2001</b>	

**Ratio of Earnings to Fixed Charges:**

ConocoPhillips	18.0x	20.8x	12.4x	7.0x	2.9x	5.3x
ConocoPhillips Pro Forma	14.6x	13.1x				

For purposes of this table, earnings consist of income from continuing operations before income taxes, plus fixed charges (excluding capitalized interest and the portion of the preferred dividend requirement of a subsidiary not previously deducted from pretax income, but including amortization of amounts previously

**Table of Contents**

capitalized), less undistributed earnings of equity investees of ConocoPhillips. Fixed charges consist of interest (including capitalized interest) on all debt, amortization of debt discounts and expenses incurred on issuance, and that portion of rental expense believed to represent interest.

**DESCRIPTION OF THE DEBT SECURITIES**

The debt securities of Funding I covered by this prospectus will be Funding I's general unsecured obligations. Funding I will issue debt securities fully and unconditionally guaranteed by ConocoPhillips and CPCo on a senior unsecured basis under an indenture to be entered into among Funding I, as issuer, ConocoPhillips and CPCo, as guarantors, and The Bank of New York Trust Company, National Association, as trustee. We refer to this indenture as the Funding I indenture. The debt securities of Funding II covered by this prospectus will be Funding II's general unsecured obligations. Funding II will issue debt securities fully and unconditionally guaranteed by ConocoPhillips and CPCo on a senior unsecured basis under an indenture to be entered into among Funding II, as issuer, ConocoPhillips and CPCo, as guarantors, and The Bank of New York Trust Company, National Association, as trustee. We refer to this indenture as the Funding II indenture. We refer to the Funding I indenture and the Funding II indenture collectively as the indentures.

We have summarized material provisions of the indentures, the debt securities and the guarantees below. This summary is not complete. We have filed forms of the indentures with the SEC as exhibits to the registration statement, and you should read the indentures for provisions that may be important to you.

In this summary description of the debt securities, unless we state otherwise or the context clearly indicates otherwise, all references to ConocoPhillips mean ConocoPhillips only, all references to CPCo mean ConocoPhillips Company only, all references to Funding I mean ConocoPhillips Canada Funding Company I only, and all references to Funding II mean ConocoPhillips Canada Funding Company II only.

**General**

The debt securities of Funding I and Funding II will constitute senior debt of the issuer and will rank equally with all of its unsecured and unsubordinated debt. Neither indenture limits the amount of debt securities that may be issued under that indenture, and neither limits the amount of other unsecured debt or securities that ConocoPhillips, CPCo, Funding I or Funding II may issue. Funding I and Funding II may issue debt securities under the applicable indenture from time to time in one or more series, each in an amount authorized prior to issuance. No securities are outstanding under either the Funding I indenture or the Funding II indenture.

Funding I and Funding II are special purpose financing subsidiaries formed solely as financing vehicles for ConocoPhillips and its subsidiaries. The ability of either Funding I or Funding II to pay its debt service obligations, including any payments required to be made under its debt securities, is dependent upon its receipt of payments from ConocoPhillips and its subsidiaries. If ConocoPhillips and its subsidiaries were not to make such payments for any reason, the holders of the debt securities issued by either Funding I or Funding II would have to rely on the enforcement of ConocoPhillips' and CPCo's guarantees described below.

ConocoPhillips conducts substantially all its operations through subsidiaries, and those subsidiaries generate substantially all its operating income and cash flow. As a result, distributions or advances from those subsidiaries are the principal source of funds necessary to meet the debt service obligations of ConocoPhillips. Contractual provisions or laws, as well as the subsidiaries' financial condition and operating requirements, may limit the ability of ConocoPhillips to obtain cash from its subsidiaries that it requires to pay its debt service obligations, including any payments required to be made under its guarantee of the debt securities of Funding I and Funding II. In addition, holders of the debt securities will have a junior position to the claims of creditors of the subsidiaries of ConocoPhillips

on their assets and earnings.

Other than the restrictions on liens and sale/leaseback transactions described below under Restrictive Covenants, neither indenture contains any covenants or other provisions designed to protect holders of the debt securities in the event ConocoPhillips participates in a highly leveraged transaction or upon a change of control. The indentures also do not contain provisions that give holders the right to require Funding I or

**Table of Contents**

Funding II to repurchase their securities in the event of a decline in ConocoPhillips credit ratings for any reason, including as a result of a takeover, recapitalization or similar restructuring or otherwise.

The prospectus supplement relating to any series of debt securities being offered will include specific terms relating to the offering. These terms will include some or all of the following:

the issuer of the debt securities;

the title of the debt securities;

the total principal amount of the debt securities;

whether the debt securities will be issued in individual certificates to each holder or in the form of temporary or permanent global securities held by a depositary on behalf of holders;

the date or dates on which the principal of and any premium on the debt securities will be payable;

any interest rate, the date from which interest will accrue, interest payment dates and record dates for interest payments;

whether and under what circumstances any additional amounts with respect to the debt securities will be payable;

the place or places where payments on the debt securities will be payable;

any provisions for optional redemption or early repayment;

any provisions that would require the redemption, purchase or repayment of debt securities;

the denominations in which the debt securities will be issued;

whether payments on the debt securities will be payable in foreign currency or currency units or another form and whether payments will be payable by reference to any index or formula;

the portion of the principal amount of debt securities that will be payable if the maturity is accelerated, if other than the entire principal amount;

any additional means of defeasance of the debt securities, any additional conditions or limitations to defeasance of the debt securities or any changes to those conditions or limitations;

any changes or additions to the events of default or covenants described in this prospectus;

any restrictions or other provisions relating to the transfer or exchange of debt securities;

any terms for the conversion or exchange of the debt securities for other securities of Funding I, Funding II or any other entity; and

any other terms of the debt securities not inconsistent with the applicable indenture.

We may sell the debt securities at a discount, which may be substantial, below their stated principal amount. These debt securities may bear no interest or interest at a rate that at the time of issuance is below market rates. If we sell these debt securities, we will describe in the prospectus supplement any material United States federal income tax consequences and other special considerations.

If we sell any of the debt securities for any foreign currency or currency unit or if payments on the debt securities are payable in any foreign currency or currency unit, we will describe in the prospectus supplement the restrictions, elections, tax consequences, specific terms and other information relating to those debt securities and the foreign currency or currency unit.

**Guarantees**

ConocoPhillips and CPCo will jointly and severally, fully and unconditionally guarantee on a senior unsecured basis the full and prompt payment of the principal of and any premium and interest on the debt securities issued by each of Funding I and Funding II when and as the payment becomes due and payable,



## **Table of Contents**

whether at maturity or otherwise. The guarantees provide that in the event of a default in the payment of principal of or any premium or interest on a debt security issued by Funding I or Funding II, the holder of that debt security may institute legal proceedings directly against either ConocoPhillips or CPCo to enforce the guarantees without first proceeding against Funding I or Funding II, as applicable. The indentures provide that ConocoPhillips and CPCo may under certain circumstances assume all rights and obligations of Funding I or Funding II under the applicable indenture with respect to a series of debt securities issued by Funding I or Funding II. The guarantees will rank equally with all of ConocoPhillips' and CPCo's other unsecured and unsubordinated debt from time to time outstanding.

## **Restrictive Covenants**

ConocoPhillips has agreed to two principal restrictions on its activities for the benefit of holders of the debt securities. The restrictive covenants summarized below will apply to a series of debt securities (unless waived or amended) as long as any of those debt securities are outstanding, unless the prospectus supplement for the series states otherwise. We have used in this summary description capitalized terms that we have defined below under [Glossary](#).

### ***Limitation on Liens***

ConocoPhillips has agreed that it and its Principal Domestic Subsidiaries will issue, assume or guarantee Debt for borrowed money secured by a lien upon a Principal Property or shares of stock or Debt of any Principal Domestic Subsidiary only if the outstanding guarantees of debt securities issued by Funding I and Funding II are secured equally and ratably with or prior to the Debt secured by that lien. If the guarantees are so secured, ConocoPhillips has the option to secure any of its and its Subsidiaries' other Debt or obligations equally and ratably with or prior to the Debt secured by the lien and, accordingly, equally and ratably with the guarantees. This covenant has exceptions that permit:

- (a) liens existing on the date Funding I or Funding II first issues a series of debt securities under the applicable indenture;
- (b) liens on the property, assets, stock, equity or Debt of any entity existing at the time ConocoPhillips or a Subsidiary acquires that entity or its property or at the time the entity becomes a Subsidiary or a Principal Domestic Subsidiary;
- (c) liens on assets either:
  - existing at the time of acquisition of the assets,
  - securing all or part of the cost of acquiring, constructing, improving, developing or expanding the assets, or
  - securing Debt incurred to finance all or part of the purchase price of the assets or the cost of constructing, improving, developing or expanding the assets that was incurred before, at the time of or within two years after the later of the acquisition, the completion of construction, improvement, development or expansion or the commencement of commercial operation of the assets;
- (d) liens on specific assets to secure Debt incurred to provide funds for the cost of exploration, drilling or development of those assets;
- (e) intercompany liens;
- (f) liens securing industrial development, pollution control or other revenue bonds of a domestic government entity;

(g) liens on personal property, other than shares of stock or debt of any Principal Domestic Subsidiary, securing loans maturing in less than one year;

(h) liens on a Principal Property arising in connection with the sale of accounts receivable resulting from the sale of oil or gas at the wellhead;

**Table of Contents**

(i) statutory or other liens arising in the ordinary course of business and relating to amounts that are not yet delinquent or are being contested in good faith; and

(j) any extensions, substitutions, replacements or renewals of the above-described liens or any Debt secured by these liens if both:

the new lien is limited to the property (plus any improvements) secured by the original lien, and

the amount of Debt secured by the new lien and not otherwise permitted does not materially exceed the amount of Debt refinanced plus any premium or fee payable in connection with any such extension, substitution, replacement or renewal.

In addition, without securing the guarantees as described above, ConocoPhillips and its Principal Domestic Subsidiaries may issue, assume or guarantee Debt that this covenant would otherwise restrict in a total principal amount that, when added to all other outstanding Debt of ConocoPhillips and its Principal Domestic Subsidiaries that this covenant would otherwise restrict and the total amount of Attributable Debt outstanding for Sale/Leaseback Transactions, does not exceed a basket equal to 10% of Consolidated Adjusted Net Assets. When calculating this total principal amount, we exclude from the calculation Attributable Debt from Sale/Leaseback Transactions in connection with which ConocoPhillips or a Subsidiary has purchased property or retired or defeased Debt as described in clause (b) below under Limitation on Sale/Leaseback Transactions.

The following types of transactions do not create Debt secured by liens within the meaning of this covenant:

(a) the sale or other transfer of either:

oil, gas or other minerals in place for a period of time until, or in an amount such that, the purchaser will realize from those minerals a specified amount of money or a specified amount of those minerals, or

any other interest in property commonly referred to as a production payment ; and

(b) the mortgage or pledge of any property of ConocoPhillips or a Subsidiary in favor of the United States, any state of the United States or any department, agency or instrumentality of either, to secure payments under any contract or statute.

***Limitation on Sale/Leaseback Transactions***

ConocoPhillips has agreed that it and any of its Principal Domestic Subsidiaries will enter into a Sale/Leaseback Transaction only if at least one of the following applies:

(a) ConocoPhillips or that Principal Domestic Subsidiary could incur Debt in a principal amount equal to the Attributable Debt for that Sale/Leaseback Transaction and, without violating the Limitation on Liens covenant, could secure that Debt by a lien on the property to be leased without equally and ratably securing the guarantees of the debt securities.

(b) Within the period beginning one year before the closing of the Sale/Leaseback Transaction and ending one year after the closing, ConocoPhillips or any Subsidiary applies the net proceeds of the Sale/Leaseback Transaction either:

to the voluntary defeasance or retirement of any debt securities issued under an indenture or any Funded Debt, or

to the acquisition, exploration, drilling, development, construction, improvement or expansion of one or more Principal Properties.

Any net proceeds that are not applied for the purposes described in (b) will be subject to the limitation described in (a). For purposes of these calculations, the net proceeds of the Sale/Leaseback Transaction means the net proceeds of the sale or transfer of the property leased in the Sale/Leaseback Transaction

**Table of Contents**

(or, if greater, the fair value of that property at the time of the Sale/Leaseback Transaction as determined by ConocoPhillips board of directors).

***Glossary***

**Attributable Debt** means the present value of the rental payments during the remaining term of the lease included in the Sale/Leaseback Transaction. To determine that present value, we use a discount rate equal to the lease rate of the Sale/Leaseback Transaction. For these purposes, rental payments do not include any amounts required to be paid for taxes, maintenance, repairs, insurance, assessments, utilities, operating and labor costs and other items that do not constitute payments for property rights. In the case of any lease that the lessee may terminate by paying a penalty, if the net amount (including payment of the penalty) would be reduced if the lessee terminated the lease on the first date that it could be terminated, then this lower net amount will be used.

**Consolidated Adjusted Net Assets** means the total amount of assets of ConocoPhillips and its consolidated subsidiaries less:

all current liabilities (excluding liabilities that are extendable or renewable at ConocoPhillips option to a date more than 12 months after the date of calculation and excluding current maturities of long-term debt); and

total prepaid expenses and deferred charges.

ConocoPhillips will calculate its Consolidated Adjusted Net Assets based on its most recent quarterly balance sheet.

**Debt** means all notes, bonds, debentures or similar evidences of debt for money borrowed.

**Funded Debt** means all Debt that matures on or is renewable to a date more than one year after the date the Debt is incurred.

**Principal Domestic Subsidiary** means CPCo and any Subsidiary (1) that has substantially all its assets in the United States, (2) that owns a Principal Property and (3) in which ConocoPhillips capital investment, together with any intercompany loans to that Subsidiary and any debt of that Subsidiary guaranteed by ConocoPhillips or any other Subsidiary, exceeds \$100 million.

**Principal Property** means any oil or gas producing property located onshore or offshore of the United States or any refinery or manufacturing plant located in the United States. This term excludes any property, refinery or plant that in the opinion of ConocoPhillips board of directors is not materially important to the total business conducted by ConocoPhillips and its consolidated subsidiaries. This term also excludes any transportation or marketing facilities or assets.

**Sale/Leaseback Transaction** means any arrangement with anyone under which ConocoPhillips or a Subsidiary leases any Principal Property that ConocoPhillips or that Subsidiary has sold or transferred or will sell or transfer to that person. This term excludes the following:

temporary leases for a term of not more than three years;

intercompany leases;

leases of a Principal Property executed by the time of or within 12 months after the latest of the acquisition, the completion of construction or improvement, or the commencement of commercial operation of the Principal

Property; and

arrangements under any provision of law with an effect similar to the former Section 168(f)(8) of the Internal Revenue Code of 1954.

Subsidiary means an entity at least a majority of the outstanding voting stock of which is owned, directly or indirectly, by ConocoPhillips or by one or more other Subsidiaries, or by ConocoPhillips and one or more other Subsidiaries.

**Table of Contents**

**Consolidation, Merger and Sale of Assets**

***ConocoPhillips and CPCo***

The indentures generally permit a consolidation or merger involving ConocoPhillips or CPCo. They also permit ConocoPhillips or CPCo, as applicable, to lease, transfer or dispose of all or substantially all of its assets. Each of ConocoPhillips and CPCo has agreed, however, that it will not consolidate with or merge into any entity (other than ConocoPhillips or CPCo, as applicable) or lease, transfer or dispose of all or substantially all of its assets to any entity (other than ConocoPhillips or CPCo, as applicable) unless:

it is the continuing corporation; or

if it is not the continuing corporation, the resulting entity or transferee is organized and existing under the laws of any United States jurisdiction and assumes the performance of its covenants and obligations under the indentures and the performance of the related guarantees of the debt securities; and

in either case, immediately after giving effect to the transaction, no default or event of default would occur and be continuing or would result from the transaction.

Upon any such consolidation, merger or asset lease, transfer or disposition involving ConocoPhillips or CPCo, the resulting entity or transferee will be substituted for ConocoPhillips or CPCo, as applicable, under the applicable indenture and the guarantees. In the case of an asset transfer or disposition other than a lease, ConocoPhillips or CPCo, as applicable, will be released from the applicable indenture and the guarantees.

***Funding I and Funding II***

Each of Funding I and Funding II may assign all its rights and obligations under the applicable indenture and its debt securities to:

another entity with which Funding I or Funding II, as applicable, is consolidated or merged or which acquires by conveyance or transfer any properties or assets of Funding I or Funding II, as applicable;

ConocoPhillips or CPCo; or

another subsidiary of ConocoPhillips or CPCo.

In connection with any assignment other than to ConocoPhillips or CPCo, ConocoPhillips and CPCo will continue to guarantee the debt securities as described above. If Funding I or Funding II assigns all of its rights and obligations under its indenture and its debt securities to ConocoPhillips or CPCo, ConocoPhillips and CPCo's covenants regarding consolidations, mergers and sales of assets, ConocoPhillips' covenants described above under Restrictive Covenants and any other covenants for the benefit of any series of debt securities issued under that indenture will remain in effect.

**Events of Default**

Unless we inform you otherwise in the applicable prospectus supplement, the following are events of default with respect to a series of debt securities:

failure to pay interest on that series of debt securities for 30 days when due;

failure to pay principal of or any premium on that series of debt securities when due;

failure to redeem, purchase or repay debt securities of that series for 30 days when required;

failure to comply with any covenant or agreement in that series of debt securities or the applicable indenture (other than an agreement or covenant that has been included in the indenture solely for the benefit of other series of debt securities) for 90 days after written notice by the trustee or by the holders of at least 25% in principal amount of the outstanding debt securities issued under that indenture that are affected by that failure;



**Table of Contents**

specified events involving bankruptcy, insolvency or reorganization of ConocoPhillips, CPCo and, with respect to the applicable indenture, Funding I or Funding II;

any guarantee of any guarantor ceases to be in full force and effect (other than in accordance with the terms of the applicable indenture and such guarantee) or is declared null and void and unenforceable or found to be invalid in a judicial proceeding or any guarantor denies its liability under its guarantee (other than by reason of the release of a guarantor from its guarantee in accordance with the terms of the applicable indenture and such guarantee); and

any other event of default provided for that series of debt securities.

A default under one series of debt securities will not necessarily be a default under another series. The trustee may withhold notice to the holders of the debt securities of any default or event of default (except in any payment on the debt securities) if the trustee considers it in the interest of the holders of the debt securities to do so.

If an event of default for any series of debt securities occurs and is continuing, the trustee or the holders of at least 25% in principal amount of the outstanding debt securities of the series affected by the default (or, in some cases, 25% in principal amount of all debt securities issued under the applicable indenture that are affected, voting as one class) may declare the principal of and all accrued and unpaid interest on those debt securities to be due and payable. If an event of default relating to certain events of bankruptcy, insolvency or reorganization occurs, the principal of and interest on all the debt securities issued under the applicable indenture will become immediately due and payable without any action on the part of the trustee or any holder. The holders of a majority in principal amount of the outstanding debt securities of the series affected by the default (or, in some cases, of all debt securities issued under the applicable indenture that are affected, voting as one class) may in some cases rescind this accelerated payment requirement.

A holder of a debt security of any series issued under an indenture may pursue any remedy under that indenture only if:

the holder gives the trustee written notice of a continuing event of default for that series;

the holders of at least 25% in principal amount of the outstanding debt securities of that series make a written request to the trustee to pursue the remedy;

the holders offer to the trustee indemnity satisfactory to the trustee;

the trustee fails to act for a period of 60 days after receipt of the request and offer of indemnity; and

during that 60-day period, the holders of a majority in principal amount of the debt securities of that series do not give the trustee a direction inconsistent with the request.

This provision does not, however, affect the right of a holder of a debt security to sue for enforcement of any overdue payment.

In most cases, holders of a majority in principal amount of the outstanding debt securities of a series (or of all debt securities issued under the applicable indenture that are affected, voting as one class) may direct the time, method and place of:

conducting any proceeding for any remedy available to the trustee; and

exercising any trust or power conferred on the trustee relating to or arising as a result of an event of default.

Each indenture requires ConocoPhillips, CPCo and Funding I or Funding II, as applicable, to file each year with the trustee a written statement as to their compliance with the covenants contained in the indenture.

**Modification and Waiver**

Each indenture may be amended or supplemented if the holders of a majority in principal amount of the outstanding debt securities of all series issued under that indenture that are affected by the amendment or

**Table of Contents**

supplement (acting as one class) consent to it. Without the consent of the holder of each debt security affected, however, no modification may:

reduce the amount of debt securities whose holders must consent to an amendment, supplement or waiver;

reduce the rate of or change the time for payment of interest on the debt security;

reduce the principal of the debt security or change its stated maturity;

reduce any premium payable on the redemption of the debt security or change the time at which the debt security may or must be redeemed;

change any obligation to pay additional amounts on the debt security;

make payments on the debt security payable in currency other than as originally stated in the debt security;

impair the holder's right to institute suit for the enforcement of any payment on or with respect to the debt security;

make any change in the percentage of principal amount of debt securities necessary to waive compliance with certain provisions of the indenture or to make any change in the provision related to modification;

waive a continuing default or event of default regarding any payment on the debt securities; or

change the obligations of ConocoPhillips and CPCo under the guarantees in any manner materially adverse to the holders of any debt security issued under that indenture.

Each indenture may be amended or supplemented or any provision of that indenture may be waived without the consent of any holders of debt securities issued under that indenture in certain circumstances, including:

to cure any ambiguity, omission, defect or inconsistency;

to provide for the assumption of the obligations under the indenture of ConocoPhillips, CPCo or Funding I or Funding II, as applicable, by a successor upon any merger, consolidation or asset transfer permitted under the indenture;

to provide for uncertificated debt securities in addition to or in place of certificated debt securities or to provide for bearer debt securities;

to provide any security for, any guarantees of or any additional obligors on any series of debt securities or the related guarantees;

to comply with any requirement to effect or maintain the qualification of that indenture under the Trust Indenture Act of 1939;

to add covenants that would benefit the holders of any debt securities or to surrender any rights ConocoPhillips, CPCo or Funding I or Funding II, as applicable, has under the indenture;

to add events of default with respect to any debt securities; and

to make any change that does not adversely affect any outstanding debt securities of any series issued under that indenture in any material respect.

The holders of a majority in principal amount of the outstanding debt securities of any series (or, in some cases, of all debt securities issued under the applicable indenture, voting as one class) may waive any existing or past default or event of default with respect to those debt securities. Those holders may not, however, waive any default or event of default in any payment on any debt security or compliance with a provision that cannot be amended or supplemented without the consent of each holder affected.

## **Table of Contents**

### **Defeasance**

When we use the term defeasance, we mean discharge from some or all of our obligations under the indentures. If any combination of funds or government securities are deposited with the trustee under an indenture sufficient to make payments on the debt securities of a series issued under that indenture on the dates those payments are due and payable, then, at our option, either of the following will occur:

ConocoPhillips, CPCo and Funding I or Funding II, as applicable, will be discharged from their obligations with respect to the debt securities of that series and the related guarantees ( legal defeasance ); or

ConocoPhillips, CPCo and Funding I or Funding II, as applicable, will no longer have any obligation to comply with the restrictive covenants, the merger covenants and other specified covenants under the applicable indenture, and the related events of default will no longer apply ( covenant defeasance ).

If a series of debt securities is defeased, the holders of the debt securities of the series affected will not be entitled to the benefits of the applicable indenture, except for obligations to register the transfer or exchange of debt securities, replace stolen, lost or mutilated debt securities or maintain paying agencies and hold moneys for payment in trust. In the case of covenant defeasance, the obligation of Funding I or Funding II, as applicable, to pay principal, premium and interest on the debt securities and ConocoPhillips and CPCo s guarantees of the payments will also survive.

Unless we inform you otherwise in the prospectus supplement, we will be required to deliver to the trustee an opinion of counsel that the deposit and related defeasance would not cause the holders of the debt securities to recognize income, gain or loss for U.S. federal income tax purposes. If we elect legal defeasance, that opinion of counsel must be based upon a ruling from the U.S. Internal Revenue Service or a change in law to that effect.

### **Governing Law**

New York law will govern the indentures and the debt securities.

### **Trustee**

The Bank of New York Trust Company, National Association will be the trustee under each indenture. The Bank of New York serves as trustee or custodian relating to a number of series of debt, trust preferred securities and other long-term repayment obligations of ConocoPhillips and its subsidiaries as of June 30, 2006. The Bank of New York and its affiliates perform certain commercial banking services for us for which they receive customary fees and are lenders under various outstanding credit facilities of subsidiaries of ConocoPhillips.

If an event of default occurs under an indenture and is continuing, the trustee under that indenture will be required to use the degree of care and skill of a prudent person in the conduct of that person s own affairs. The trustee will become obligated to exercise any of its powers under that indenture at the request of any of the holders of any debt securities issued under that indenture only after those holders have offered the trustee indemnity satisfactory to it.

Each indenture contains limitations on the right of the trustee, if it becomes a creditor of ConocoPhillips, CPCo, Funding I or Funding II, as applicable, to obtain payment of claims or to realize on certain property received for any such claim, as security or otherwise. The trustee is permitted to engage in other transactions with ConocoPhillips, CPCo, Funding I and Funding II. If, however, it acquires any conflicting interest, it must eliminate that conflict or resign within 90 days after ascertaining that it has a conflicting interest and after the occurrence of a default under the applicable indenture, unless the default has been cured, waived or otherwise eliminated within the 90-day period.



## **Table of Contents**

### **Form, Exchange, Registration and Transfer**

The debt securities will be issued in registered form, without interest coupons. There will be no service charge for any registration of transfer or exchange of the debt securities. However, payment of any transfer tax or similar governmental charge payable for that registration may be required.

Debt securities of any series will be exchangeable for other debt securities of the same series, the same total principal amount and the same terms but in different authorized denominations in accordance with the applicable indenture. Holders may present debt securities for registration of transfer at the office of the security registrar or any transfer agent we designate. The security registrar or transfer agent will effect the transfer or exchange if its requirements and the requirements of the applicable indenture are met.

The trustee will be appointed as security registrar for the debt securities. If a prospectus supplement refers to any transfer agents we initially designate, we may at any time rescind that designation or approve a change in the location through which any transfer agent acts. We are required to maintain an office or agency for transfers and exchanges in each place of payment. We may at any time designate additional transfer agents for any series of debt securities.

In the case of any redemption, we will not be required to register the transfer or exchange of:

any debt security during a period beginning 15 business days prior to the mailing of the relevant notice of redemption or repurchase and ending on the close of business on the day of mailing of such notice; or

any debt security that has been called for redemption in whole or in part, except the unredeemed portion of any debt security being redeemed in part.

### **Payment and Paying Agents**

Unless we inform you otherwise in a prospectus supplement, payments on the debt securities will be made in U.S. dollars at the office of the trustee and any paying agent. At our option, however, payments may be made by wire transfer for global debt securities or by check mailed to the address of the person entitled to the payment as it appears in the security register. Unless we inform you otherwise in a prospectus supplement, interest payments may be made to the person in whose name the debt security is registered at the close of business on the record date for the interest payment.

Unless we inform you otherwise in a prospectus supplement, the trustee under the applicable indenture will be designated as the paying agent for payments on debt securities issued under that indenture. We may at any time designate additional paying agents or rescind the designation of any paying agent or approve a change in the office through which any paying agent acts.

If the principal of or any premium or interest on debt securities of a series is payable on a day that is not a business day, the payment will be made on the following business day. For these purposes, unless we inform you otherwise in a prospectus supplement, a business day is any day that is not a Saturday, a Sunday or a day on which banking institutions in any of New York, New York; Houston, Texas or a place of payment on the debt securities of that series is authorized or obligated by law, regulation or executive order to remain closed.

Subject to the requirements of any applicable abandoned property laws, the trustee and paying agent will pay to us upon written request any money held by them for payments on the debt securities that remains unclaimed for two years after the date upon which that payment has become due. After payment to us, holders entitled to the money must look to us for payment. In that case, all liability of the trustee or paying agent with respect to that money will cease.

**Book-Entry Debt Securities**

The debt securities of a series may be issued in the form of one or more global debt securities that would be deposited with a depository or its nominee identified in the prospectus supplement. Global debt securities



## **Table of Contents**

may be issued in either temporary or permanent form. We will describe in the prospectus supplement the terms of any depositary arrangement and the rights and limitations of owners of beneficial interests in any global debt security.

## **PLAN OF DISTRIBUTION**

We may sell the securities in and outside the United States through underwriters or dealers, directly to purchasers or through agents.

### **Sale Through Underwriters or Dealers**

If we use underwriters in the sale of securities, the underwriters will acquire the securities for their own account. The underwriters may resell the securities from time to time in one or more transactions, including negotiated transactions, at a fixed public offering price or at varying prices determined at the time of sale. Underwriters may offer securities to the public either through underwriting syndicates represented by one or more managing underwriters or directly by one or more firms acting as underwriters. Unless we inform you otherwise in the prospectus supplement, the obligations of the underwriters to purchase the securities will be subject to conditions, and the underwriters will be obligated to purchase all the securities if they purchase any of them. The underwriters may change from time to time any initial public offering price and any discounts or concessions allowed or reallocated or paid to dealers.

During and after an offering through underwriters, the underwriters may purchase and sell the securities in the open market. These transactions may include overallotment and stabilizing transactions and purchases to cover syndicate short positions created in connection with the offering. The underwriters may also impose a penalty bid, whereby selling concessions allowed to syndicate members or other broker-dealers for the offered securities sold for their account may be reclaimed by the syndicate if such offered securities are repurchased by the syndicate in stabilizing or covering transactions. These activities may stabilize, maintain or otherwise affect the market price of the offered securities, which may be higher than the price that might otherwise prevail in the open market. If commenced, these activities may be discontinued at any time.

If we use dealers in the sale of securities, we will sell the securities to them as principals. They may then resell those securities to the public at varying prices determined by the dealers at the time of resale. The dealers participating in any sale of the securities may be deemed to be underwriters within the meaning of the Securities Act of 1933 with respect to any sale of those securities. We will include in the prospectus supplement the names of the dealers and the terms of the transaction.

### **Direct Sales and Sales Through Agents**

We may sell the securities directly. In that event, no underwriters or agents would be involved. We may also sell the securities through agents we designate from time to time. In the prospectus supplement, we will name any agent involved in the offer or sale of the securities, and we will describe any commissions payable by us to the agent. Unless we inform you otherwise in the prospectus supplement, any agent will agree to use its reasonable best efforts to solicit purchases for the period of its appointment.

We may sell the securities directly to institutional investors or others who may be deemed to be underwriters within the meaning of the Securities Act of 1933 with respect to any sale of those securities. We will describe the terms of any such sales in the prospectus supplement.

### **Delayed Delivery Contracts**

If we so indicate in the prospectus supplement, we may authorize agents, underwriters or dealers to solicit offers from certain types of institutions to purchase securities from us at the public offering price under delayed delivery contracts. These contracts would provide for payment and delivery on a specified date in the future. The contracts would be subject only to those conditions described in the prospectus supplement. The prospectus supplement will describe the commission payable for solicitation of those contracts.

**Table of Contents**

**General Information**

We may have agreements with the agents, dealers and underwriters to indemnify them against civil liabilities, including liabilities under the Securities Act of 1933, or to contribute with respect to payments that the agents, dealers or underwriters may be required to make. Agents, dealers and underwriters may engage in transactions with us or perform services for us in the ordinary course of their businesses.

**LEGAL MATTERS**

The validity of the debt securities of Funding I and Funding II and the validity of the related guarantees by ConocoPhillips and CPCo and other matters in connection with any offering of the securities will be passed upon for us by Wayne C. Byers, ConocoPhillips Senior Counsel, or another of ConocoPhillips lawyers, and Baker Botts L.L.P., Houston, Texas, our outside counsel. Any underwriters will be advised about legal matters relating to any offering by Cravath, Swaine & Moore LLP, New York, New York, or such other counsel as may be identified in the applicable prospectus supplement. Any of those counsel will rely as to matters of Canadian law on McInnes Cooper, Halifax, Nova Scotia.

**EXPERTS**

The consolidated financial statements of ConocoPhillips appearing in ConocoPhillips Annual Report (Form 10-K) for the year ended December 31, 2005 (including the condensed consolidating financial information and financial statement schedule appearing therein), and ConocoPhillips management's assessment of the effectiveness of internal control over financial reporting as of December 31, 2005 included therein, have been audited by Ernst & Young LLP, independent registered public accounting firm, as set forth in their reports thereon, included therein, and incorporated herein by reference. Such consolidated financial statements, condensed consolidating financial information, financial statement schedule, and management's assessment are incorporated herein by reference in reliance upon such reports given on the authority of such firm as experts in accounting and auditing.

The consolidated financial statements of Burlington Resources Inc., incorporated herein by reference to ConocoPhillips Current Report on Form 8-K/A dated March 31, 2006, have been so incorporated in reliance on the report of PricewaterhouseCoopers LLP, an independent registered public accounting firm, given on the authority of said firm as experts in auditing and accounting.

The balance sheet of ConocoPhillips Canada Funding Company I at September 13, 2006, appearing in this Prospectus and Registration Statement has been audited by Ernst & Young LLP, independent registered public accounting firm, as set forth in their report thereon appearing elsewhere herein, and is included in reliance upon such report given on the authority of such firm as experts in accounting and auditing.

The balance sheet of ConocoPhillips Canada Funding Company II at September 13, 2006, appearing in this Prospectus and Registration Statement has been audited by Ernst & Young LLP, independent registered public accounting firm, as set forth in their report thereon appearing elsewhere herein, and is included in reliance upon such report given on the authority of such firm as experts in accounting and auditing.

**Table of Contents**

**INDEX TO FINANCIAL STATEMENTS**

	<b>Page</b>
<b>ConocoPhillips Canada Funding Company I</b>	
Report of Independent Registered Public Accounting Firm	F-2
Balance Sheet	F-3
Note to Balance Sheet	F-4
<b>ConocoPhillips Canada Funding Company II</b>	
Report of Independent Registered Public Accounting Firm	F-5
Balance Sheet	F-6
Note to Balance Sheet	F-7

F-1

---

**Table of Contents**

**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

The Board of Directors and Stockholder  
ConocoPhillips Canada Funding Company I

We have audited the accompanying balance sheet of ConocoPhillips Canada Funding Company I (the Company ) as of September 13, 2006. This balance sheet is the responsibility of the Company s management. Our responsibility is to express an opinion on this balance sheet based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the balance sheet is free of material misstatement. We were not engaged to perform an audit of the Company s internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company s internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the balance sheet referred to above presents fairly, in all material respects, the financial position of ConocoPhillips Canada Funding Company I at September 13, 2006, in conformity with U.S. generally accepted accounting principles.

/s/ Ernst & Young LLP

Houston, Texas  
September 19, 2006

F-2

---

**Table of Contents**

**ConocoPhillips Canada Funding Company I**

**Balance Sheet**

	<b>September 13, 2006</b>
<b>ASSETS</b>	
Cash	\$ 1,000
Total Assets	\$ 1,000
<b>STOCKHOLDER S EQUITY</b>	
Common stock (100,000 voting shares authorized with no par value) Shares issued and outstanding (100 shares)	\$ 1,000
Total Stockholder s Equity	\$ 1,000

See Note to Balance Sheet.

F-3

---

**Table of Contents**

**ConocoPhillips Canada Funding Company I**

**Note to Balance Sheet**

**Basis of Presentation**

ConocoPhillips Canada Funding Company I was incorporated in the province of Nova Scotia on September 8, 2006. ConocoPhillips Canada Funding Company I has one stockholder, Conoco Petroleum Operations Inc., which holds 100 shares of the company's outstanding voting common stock. Conoco Petroleum Operations Inc. contributed \$1,000 for its 100 percent ownership interest on September 13, 2006. ConocoPhillips Canada Funding Company I has authorized 1 million shares of preferred stock, 100,000 shares of voting common stock, and 100,000 shares of non-voting common stock. All shares were authorized without par value. No shares of preferred stock or non-voting common stock were issued or outstanding at September 13, 2006.

Other than its formation, ConocoPhillips Canada Funding Company I has not conducted any activities. The company is a direct wholly owned special-purpose finance subsidiary of Conoco Petroleum Operations Inc. (itself an indirect wholly owned subsidiary of ConocoPhillips), organized to engage in financing activities to raise funds for the business operations of ConocoPhillips and its subsidiaries.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses, and the disclosures of contingent assets and liabilities. Actual results could differ from the estimates and assumptions used.

**Table of Contents**

**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

The Board of Directors and Stockholder  
ConocoPhillips Canada Funding Company II

We have audited the accompanying balance sheet of ConocoPhillips Canada Funding Company II (the Company) as of September 13, 2006. This balance sheet is the responsibility of the Company's management. Our responsibility is to express an opinion on this balance sheet based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the balance sheet is free of material misstatement. We were not engaged to perform an audit of the Company's internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the balance sheet referred to above presents fairly, in all material respects, the financial position of ConocoPhillips Canada Funding Company II at September 13, 2006, in conformity with U.S. generally accepted accounting principles.

/s/ Ernst & Young LLP  
Houston, Texas  
September 19, 2006



Table of Contents

**ConocoPhillips Canada Funding Company II**

**Balance Sheet**

	<b>September 13, 2006</b>
<b>ASSETS</b>	
Cash	\$ 1,000
Total Assets	\$ 1,000
<b>STOCKHOLDER S EQUITY</b>	
Common stock (100,000 voting shares authorized with no par value) Shares issued and outstanding (100 shares)	\$ 1,000
Total Stockholder s Equity	\$ 1,000

See Note to Balance Sheet.

F-6

---

**Table of Contents**

**ConocoPhillips Canada Funding Company II**

**Note to Balance Sheet**

**Basis of Presentation**

ConocoPhillips Canada Funding Company II was incorporated in the province of Nova Scotia on September 8, 2006. ConocoPhillips Canada Funding Company II has one stockholder, Burlington Resources Inc., which holds 100 shares of the company's outstanding voting common stock. Burlington Resources Inc. contributed \$1,000 for its 100 percent ownership interest on September 13, 2006. ConocoPhillips Canada Funding Company II has authorized 1 million shares of preferred stock, 100,000 shares of voting common stock, and 100,000 shares of non-voting common stock. All shares were authorized without par value. No shares of preferred stock or non-voting common stock were issued or outstanding at September 13, 2006.

Other than its formation, ConocoPhillips Canada Funding Company II has not conducted any activities. The company is a direct wholly owned special-purpose finance subsidiary of Burlington Resources Inc. (itself a direct wholly owned subsidiary of ConocoPhillips), organized to engage in financing activities to raise funds for the business operations of ConocoPhillips and its subsidiaries.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses, and the disclosures of contingent assets and liabilities. Actual results could differ from the estimates and assumptions used.

F-7

---

**Table of Contents****PART II****INFORMATION NOT REQUIRED IN PROSPECTUS****Item 14. *Other Expenses of Issuance and Distribution***

The following table sets forth expenses payable by ConocoPhillips in connection with the issuance and distribution of the securities being registered. All the amounts shown are estimates.

SEC registration fee	\$	*
Printing expenses		100,000
Legal fees and expenses		150,000
Accounting fees and expenses		100,000
Fees and expenses of trustee and counsel		20,000
Rating agency fees		380,000
Miscellaneous		450,000
Total*	\$	1,200,000

\* Applicable SEC registration fees have been deferred in accordance with Rules 456(b) and 457(r) of the Securities Act of 1933 and are not estimable at this time.

**Item 15. *Indemnification of Directors and Officers******ConocoPhillips and ConocoPhillips Company***

Delaware law permits a corporation to adopt a provision in its certificate of incorporation eliminating or limiting the personal liability of a director, but not an officer in his or her capacity as such, to the corporation or its stockholders for monetary damages for breach of fiduciary duty as a director, except that such provision shall not limit the liability of a director for (1) any breach of the director's duty of loyalty to the corporation or its stockholders, (2) acts or omissions not in good faith or that involve intentional misconduct or a knowing violation of law, (3) liability under section 174 of the Delaware General Corporation Law for unlawful payment of dividends or stock purchases or redemptions, or (4) any transaction from which the director derived an improper personal benefit. ConocoPhillips restated certificate of incorporation provides that, to the fullest extent of Delaware law, no ConocoPhillips director shall be liable to ConocoPhillips or ConocoPhillips stockholders for monetary damages for breach of fiduciary duty as a director. The certificate of incorporation of ConocoPhillips Company ( CPCo ) has similar provisions with respect to its directors.

Under Delaware law, a corporation may indemnify any individual made a party or threatened to be made a party to any type of proceeding, other than an action by or in the right of the corporation, because he or she is or was an officer, director, employee or agent of the corporation or was serving at the request of the corporation as an officer, director, employee or agent of another corporation or entity against expenses, judgments, fines and amounts paid in settlement actually and reasonably incurred in connection with such proceeding: (1) if he or she acted in good faith and in a manner he or she reasonably believed to be in or not opposed to the best interests of the corporation; or (2) in the case of a criminal proceeding, he or she had no reasonable cause to believe that his or her conduct was unlawful. A corporation may indemnify any individual made a party or threatened to be made a party to any threatened, pending or completed action or suit brought by or in the right of the corporation because he or she was an officer, director,

employee or agent of the corporation, or is or was serving at the request of the corporation as a director, officer, employee or agent of another corporation or other entity, against expenses actually and reasonably incurred in connection with such action or suit if he or she acted in good faith and in a manner he or she reasonably believed to be in or not opposed to the best interests of the corporation, *provided* that such indemnification will be denied if the individual is found liable to the corporation unless, in such a case, the court determines the person is nonetheless entitled to indemnification for such expenses. A corporation must indemnify a present or former director or officer who successfully defends himself or herself in a proceeding to which he or she was a party because he or she was a director or officer of the corporation against expenses actually and reasonably

II-1

---

**Table of Contents**

incurred by him or her. Expenses incurred by an officer or director, or any employees or agents as deemed appropriate by the board of directors, in defending civil or criminal proceedings may be paid by the corporation in advance of the final disposition of such proceedings upon receipt of an undertaking by or on behalf of such director, officer, employee or agent to repay such amount if it shall ultimately be determined that he or she is not entitled to be indemnified by the corporation. The Delaware law regarding indemnification and expense advancement is not exclusive of any other rights which may be granted by ConocoPhillips' restated certificate of incorporation or bylaws, a vote of stockholders or disinterested directors, agreement or otherwise.

Under the Delaware General Corporation Law, termination of any proceeding by conviction or upon a plea of nolo contendere or its equivalent shall not, of itself, create a presumption that such person is prohibited from being indemnified.

ConocoPhillips' bylaws provide for the indemnification and advancement of expenses of any individual made, or threatened to be made, a party to an action, suit or proceeding, whether civil, criminal, administrative or investigative, by reason of the fact that he or she is or was a director or officer of ConocoPhillips or is or was a director or officer of ConocoPhillips serving as an officer, director, employee or agent of any other enterprise at the request of ConocoPhillips. CPCo's bylaws have similar provisions. However, neither ConocoPhillips nor CPCo will indemnify a director or officer who commences any proceeding (except for proceedings to enforce rights of indemnification), unless the commencement of that proceeding was authorized or consented to by the respective company's board of directors.

ConocoPhillips has agreed to indemnify each present and former director and officer of CPCo or any of its subsidiaries, against all costs or expenses, judgments, fines, losses, claims, damages or liabilities in connection with any claim, action, suit, proceeding or investigation brought within six years of the closing of the mergers of Conoco Inc. and CPCo (formerly named Phillips Petroleum Company) with subsidiaries of ConocoPhillips (collectively, the merger) for acts or omissions, existing or occurring before the merger, to the fullest extent permitted under applicable law. Subject to a cap on premiums, for a period of six years after the merger, ConocoPhillips has agreed to maintain a policy of directors' and officers' liability insurance for acts and omissions occurring before the merger with coverage in an amount and scope at least as favorable as CPCo's existing directors' and officers' liability insurance coverage at the time of the merger. Notwithstanding any other provision, the treatment of past and present directors, officers and employees of CPCo and its subsidiaries with respect to elimination of liability, indemnification, advancement of expenses and liability insurance under the merger agreement shall be, in the aggregate, no less advantageous to intended beneficiaries thereof than the corresponding treatment of the past and present directors, officers and employees of Conoco Inc. and its subsidiaries.

***ConocoPhillips Canada Funding Company I and ConocoPhillips Canada Funding Company II***

Section 147 of the articles of association of each of ConocoPhillips Canada Funding Company I ( Funding I ) and ConocoPhillips Canada Funding Company II ( Funding II ) provides that every director, manager, president, secretary, treasurer and other officer or servant of such company shall be indemnified by such company against all costs, losses and expenses which any director, manager, secretary, treasurer or other officer may incur by reason of any contract entered into or act or thing done by him as an officer or servant or in the discharge of his duties, including traveling expenses. The amount for which indemnity is proved shall immediately attach as a lien on the property of Funding I or Funding II, as applicable, and have priority against the members over all other claims. In addition, section 148 of the articles of association of each of Funding I and Funding II provides that, unless caused by his own dishonesty, no director or officer of such company in such capacity shall be liable for:

acts, receipts, neglects or defaults of any other officer or director;

joining in any receipt or other act for conformity;

any loss or expense happening to such company through the insufficiency or deficiency of title to any property acquired by order of the directors for or on behalf of such company or through the

II-2

---

**Table of Contents**

insufficiency or deficiency of any security in or upon which any of the moneys of such company shall be invested;

any loss or damage arising from the bankruptcy, insolvency or tortious act of any person with whom any money, securities or effects shall be deposited;

any loss occasioned by error of judgment or oversight by any director or officer; or

any other loss, damage or misfortune that occurs in the execution of the duties of an officer or director's office or in relation thereto.

**Item 16. Exhibits\***

Exhibit No.	Description
2.1	Agreement and Plan of Merger, dated as of December 12, 2005, by and among ConocoPhillips, Burlington Resources, Inc. and Cello Acquisition Corp. (incorporated by reference to Annex A to the Proxy Statement/Prospectus included in ConocoPhillips' Registration Statement on Form S-4; Registration No. 333-130967).
4.1	Form of Indenture among Funding I, as issuer, ConocoPhillips and CPCo, as guarantors, and The Bank of New York Trust Company, N.A., as trustee, in respect of senior debt securities of Funding I (the Funding I Indenture).
4.2	Form of Indenture among Funding II, as issuer, ConocoPhillips and CPCo, as guarantors, and The Bank of New York Trust Company, N.A., as trustee, in respect of senior debt securities of Funding II (the Funding II Indenture).
5.1	Opinion of Baker Botts L.L.P. with respect to legality of the securities offered hereby.
12.1	Computation of ratio of earnings to fixed charges of ConocoPhillips for each of the years in the five-year period ended December 31, 2005 (incorporated by reference to Exhibit 12 to the Annual Report of ConocoPhillips on Form 10-K for the year ended December 31, 2005, filed with the SEC on February 27, 2006; SEC File No. 001-32395).
12.2	Computation of pro forma ratio of earnings to fixed charges of ConocoPhillips for the year ended December 31, 2005 (incorporated by reference to Exhibit 12.2 to the Registration Statement of ConocoPhillips, CPCo and ConocoPhillips Australia Funding Company on Form S-3; Registration Nos. 333-133035, 333-133035-01 and 333-133035-02).
12.3	Computation of ratio of earnings to fixed charges of ConocoPhillips for the six months ended June 30, 2006 (incorporated by reference to Exhibit 12 to the Quarterly Report of ConocoPhillips on Form 10-Q for the quarter ended June 30, 2006, filed with the SEC on August 3, 2006; SEC File No. 001-32395).
12.4	Computation of pro forma ratio of earnings to fixed charges of ConocoPhillips for the six months ended June 30, 2006.
23.1	Consent of Ernst & Young LLP.
23.2	Consent of PricewaterhouseCoopers LLP.
23.3	Consent of Ernst & Young LLP.
23.4	Consent of Ernst & Young LLP.
23.5	Consent of Baker Botts L.L.P. (contained in Exhibit 5.1).
24.1	Powers of Attorney of directors and officers of each of ConocoPhillips, CPCo, Funding I and Funding II (included on the signature pages of the Registration Statement).





**Table of Contents**

<b>Exhibit No.</b>	<b>Description</b>
25.1	Statement of Eligibility and Qualification under the Trust Indenture Act of 1939, as amended, of The Bank of New York Trust Company, N.A., as trustee under the Funding I Indenture.
25.2	Statement of Eligibility and Qualification under the Trust Indenture Act of 1939, as amended, of The Bank of New York Trust Company, N.A., as trustee under the Funding II Indenture.

\* ConocoPhillips will file as an exhibit to a Current Report on Form 8-K (i) any underwriting, remarketing or agency agreement relating to the securities offered hereby, (ii) the instruments setting forth the terms of any debt securities, (iii) any additional required opinions of counsel with respect to legality of the securities offered hereby and (iv) any required opinion of counsel to ConocoPhillips as to certain tax matters relative to the securities offered hereby.

**Item 17. Undertakings**

(a) The undersigned Registrants hereby undertake:

(1) To file, during any period in which offers or sales are being made, a post-effective amendment to this registration statement:

(i) To include any prospectus required by Section 10(a)(3) of the Securities Act;

(ii) To reflect in the prospectus any facts or events arising after the effective date of the registration statement (or the most recent post-effective amendment thereof) which, individually or in the aggregate, represent a fundamental change in the information set forth in the registration statement. Notwithstanding the foregoing, any increase or decrease in volume of securities offered (if the total dollar value of securities offered would not exceed that which was registered) and any deviation from the low or high end of the estimated maximum offering range may be reflected in the form of prospectus filed with the Commission pursuant to Rule 424(b) if, in the aggregate, the changes in volume and price represent no more than a 20% change in the maximum aggregate offering price set forth in the Calculation of Registration Fee table in the effective registration statement; and

(iii) To include any material information with respect to the plan of distribution not previously disclosed in the registration statement or any material change to such information in the registration statement;

*provided, however,* that paragraphs (1)(i), (1)(ii) and 1(iii) do not apply if the information required to be included in a post effective amendment by those paragraphs is contained in reports filed with or furnished to the Commission by a Registrant pursuant to Section 13 or Section 15(d) of the Exchange Act, that are incorporated by reference in the registration statement, or is contained in a form of prospectus filed pursuant to Rule 424(b) that is part of the registration statement.

(2) That, for the purpose of determining any liability under the Securities Act, each such post-effective amendment shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

(3) To remove from registration by means of a post-effective amendment any of the securities being registered which remain unsold at the termination of the offering.

(4) That, for the purpose of determining liability under the Securities Act to any purchaser:

(A) Each prospectus filed by a Registrant pursuant to Rule 424(b)(3) shall be deemed to be part of the registration statement as of the date the filed prospectus was deemed part of and included in the registration statement; and

(B) Each prospectus required to be filed pursuant to Rule 424(b)(2), (b)(5), or (b)(7) as part of a registration statement in reliance on Rule 430B relating to an offering made pursuant to Rule

II-4

---

**Table of Contents**

415(a)(1)(i), (vii) or (x) for the purpose of providing the information required by Section 10(a) of the Securities Act shall be deemed to be part of and included in the registration statement as of the earlier of the date such form of prospectus is first used after effectiveness or the date of the first contract of sale of securities in the offering described in the prospectus. As provided in Rule 430B, for liability purposes of the issuer and any person that is at that date an underwriter, such date shall be deemed to be a new effective date of the registration statement relating to the securities in the registration statement to which that prospectus relates, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof. Provided, however, that no statement made in a registration statement or prospectus that is part of the registration statement or made in a document incorporated or deemed incorporated by reference into the registration statement or prospectus that is part of the registration statement will, as to a purchaser with a time of contract of sale prior to such effective date, supersede or modify any statement that was made in the registration statement or prospectus that was part of the registration statement or made in any such document immediately prior to such effective date.

(5) That, for the purpose of determining liability of a Registrant under the Securities Act to any purchaser in the initial distribution of the securities:

le="border-top: 1px solid #000000">

Total comprehensive income

\$2,404 \$3,479 \$3,908 \$5,888

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

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

**Executive Overview**

MarketAxess operates one of the leading platforms for the electronic trading of corporate bonds and certain other types of fixed-income securities. Through our platform, 656 active institutional investor client firms (firms that executed at least one trade through our electronic trading platform between July 2007 and June 2008) can access the aggregate liquidity provided by the collective interest of our 31 broker-dealer clients in buying or selling bonds through our platform. Our active institutional investor clients include investment advisers, mutual funds, insurance companies, public and private pension funds, bank portfolios and hedge funds. Our DealerAxess<sup>®</sup> trading service allows dealers to trade fixed-income securities and credit default swaps with each other on our platform. Through our Corporate BondTicker service, we provide fixed-income market data, analytics and compliance tools that help our clients make trading decisions. In addition, through our subsidiary, MarketAxess Technologies Inc., we provide FIX (Financial Information Exchange) message management tools, connectivity solutions and ancillary technology services that facilitate the electronic communication of order information between trading counterparties. Our revenues are primarily generated from the trading of U.S. and European high-grade corporate bonds.

Our multi-dealer trading platform allows our institutional investor clients to simultaneously request competing, executable bids or offers from our broker-dealer clients and execute trades with the broker-dealer of their choice from among those that choose to respond. We offer our broker-dealer clients a solution that enables them to efficiently reach our institutional investor clients for the distribution and trading of bonds. In addition to U.S. high-grade corporate bonds, European high-grade corporate bonds and emerging markets bonds, including both investment-grade and non-investment grade debt, we also offer our clients the ability to trade crossover and high-yield bonds, agency bonds and credit default swap indices.

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

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

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

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

**Table of Contents**

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

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

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

**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, and economic and political conditions in the United States, Europe and elsewhere.

***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 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 we compete favorably with respect to these factors. We continue to proactively build technology solutions that serve the needs of the credit markets.

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

***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 SEC and is a member of FINRA. Our U.K. subsidiary, MarketAxess Europe Limited, is registered as a Multilateral Trading Facility dealer with the FSA in the U.K. MarketAxess Canada Limited, a Canadian subsidiary that we incorporated in May 2003, 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.

As a public company, we are subject to the reporting requirements of the Securities Exchange Act of 1934, the Sarbanes-Oxley Act of 2002 and NASDAQ rules promulgated in response to the Sarbanes-Oxley Act. The requirements of these rules and regulations have increased our legal and financial compliance costs, made some

activities more difficult, time-consuming or costly and may also

**Table of Contents**

place a strain on our systems and resources. In order to maintain and improve the effectiveness of our disclosure controls and procedures and internal control over financial reporting, significant resources and management oversight are required.

***Rapid Technological Changes***

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

**Trends in Our Business**

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

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

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

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.

The past year has been a period of significant turmoil in the U.S. and European credit markets, especially in short-term funding and floating rate note instruments. A widespread retrenchment in the credit markets resulted in increased credit spreads and significantly higher credit spread volatility across a wide range of asset classes. The average daily trading volume of U.S. high-grade corporate bonds for the year ended June 30, 2008 decreased by 13.1% compared to the year ended June 30, 2007. We believe that a resultant lack of liquidity in the credit markets led institutional investors to reduce overall bond trading activity and conduct a higher percentage of their trades directly with their broker-dealer counterparties via the telephone, resulting in lower volumes on our platform. We also believe that a stabilization in credit market conditions, at higher overall levels of credit spreads, is likely to favorably impact the volume of trades conducted over our platform.

We have historically earned a substantial portion of our commissions and overall revenues from broker-dealer clients that are (or whose affiliates are) our stockholders. For 2008, a total of three dealers, and for 2007, a total of seven dealers, were considered to be Stockholder Broker-Dealer Clients. As a result of the reduction in the number of our Stockholder Broker-Dealer Clients due to the sale of shares of our common stock by several of our founding dealers, the percentage of our revenues derived from such clients has been declining. For the six months ended June 30, 2008, the percentage decreased to 15.1% from 38.2% for the six months ended June 30, 2007. Affiliates of most of our Stockholder Broker-Dealer Clients are also among our institutional investor clients. A table detailing the amount of our revenues generated by the Stockholder Broker-Dealer Clients, and their respective affiliates, is



provided below for the three and six months ended June 30, 2008 and 2007.

**Table of Contents**

	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	2007	2008	2007
	(\$ in thousands)			
Commissions	\$ 3,446	\$ 8,692	\$ 6,601	\$ 17,270
Information and user access fees	73	190	126	377
Investment income	209	386	476	914
Technology products and services	7		22	
Other	45	99	87	202
	\$ 3,780	\$ 9,367	\$ 7,312	\$ 18,763
Percentage of total revenues	14.7%	37.0%	15.1%	38.2%

**Commission Revenue Trends**

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.* The U.S. high-grade corporate bond fee plan incorporates monthly distribution fees and variable transaction fees billed to our broker-dealer clients on a monthly basis. The fee plan incorporates volume incentives to our broker-dealer clients that are designed to increase the volume of transactions effected on our platform. Under the fee plan, we electronically add the transaction fee to the spread quoted by the broker-dealer client but do not charge for inquiries that an institutional investor client sends to a single broker-dealer client. For trades on our DealerAxess<sup>®</sup> dealer-to-dealer electronic trading platform, we typically charge a fee to the broker-dealer client involved in the transaction that is based on the size of the transaction and the maturity of the bond traded. Monthly minimum fees applied to certain dealers participating on the DealerAxess<sup>®</sup> platform in their first year of trading. The majority of the DealerAxess<sup>®</sup> monthly minimum commitments expired as of June 30, 2007.

*European High-Grade Corporate Bond Commissions.* On June 1, 2007, we introduced a new fee plan for European high-grade corporate bond trades for the majority of our European dealers. Similar to the U.S. high-grade plan, the new European high-grade corporate bond fee plan incorporates monthly distribution fees and a transaction fee that is lower than the transaction fee under the previous European high-grade plan and incorporates incentives to our broker-dealer clients that are designed to increase the volume of transactions effected on our platform. The transaction fee under the new plan is dependent on the type of bond traded and the maturity of the issue. The combination of the distribution fees and transaction fees in the new plan results in higher total revenue to us at current or lower volume levels. If volume grows, total revenues could be less under the new plan than the previous plan due to the lower transaction fees. Under the fee plan in effect prior to June 1, 2007, broker-dealer transaction fees varied based on the type of bond traded and the maturity of the issue. This fee schedule applied a tiered fee structure, which reduced the fee per trade upon the attainment of certain specified amounts of monthly commissions generated by a particular broker-dealer and did not carry a monthly distribution fee.

*Other Commissions.* Commissions for other bond and credit default swap trades generally vary based on the type and the maturity of the instrument traded. We generally operate using standard fee schedules that may include both transaction fees and monthly distribution fees that are charged to the participating dealers.

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 Trends***

In addition to the commissions discussed above, we earn revenue from information services fees paid by institutional investor and broker-dealer clients, income on investments, technology products and services and other income.

**Table of Contents**

*Information and User Access Fees.* We charge information services fees for Corporate BondTicker™ to our broker-dealer clients, institutional investor clients and data-only subscribers. The information services fee is a flat monthly fee, based on the level of service. We also generate information services fees from the sale of bulk data to certain institutional investor clients and data-only subscribers. Institutional investor clients trading U.S. high-grade corporate bonds are charged a monthly user access fee for the use of our platform. The fee, billed quarterly, is charged to the client based on the number of the client's users. To encourage institutional investor clients to execute trades on our U.S. high-grade corporate bond platform, we reduce these information and user access fees for such clients once minimum quarterly trading volumes are attained.

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

*Technology Products and Services.* Technology products and services includes software licenses, maintenance and support services and professional consulting services. On March 5, 2008, we acquired all of the outstanding capital stock of Greenline Financial Technologies, Inc. ( Greenline ), an Illinois-based provider of integration, testing and management solutions for FIX-related products and services designed to optimize electronic trading of fixed-income, equity and other exchange-based products. In November 2007, we acquired certain assets and assumed certain obligations of Trade West Systems, LLC ( TWS ), a Utah-based financial software and technology services provider focused on providing gateway adapters for connecting order management systems and trading systems to fixed-income trading venues.

*Other.* Other revenues include fees from telecommunications line charges to broker-dealer clients and other miscellaneous revenues.

**Expense Trends**

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 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 a three-year or five-year period. 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 on a straight-line basis over their estimated useful lives, ranging from five to ten years.

*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.

**Table of Contents**

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

**Critical Accounting Policies**

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 U.S. generally accepted accounting principles, 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. Other than the expansion of our revenue recognition policy to embody additional products and services from our Greenline acquisition, there were no significant changes to our critical accounting policies and estimates during the six months ended June 30, 2008, 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, 2007.

**Segment Results**

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

**Statistical Information**

Our trading volume for each of the periods presented was as follows:

	Three Months Ended June		Six Months Ended June	
	2008	30, 2007	2008	30, 2007
Trading Volume Data (in billions)				
U.S. high-grade multi dealer	\$ 40.2	\$ 62.5	\$ 76.5	\$ 118.4
U.S. high-grade single dealer	2.5	5.0	4.9	10.0
Total U.S. high-grade	42.7	67.5	81.4	128.4
European high-grade	11.8	23.8	19.9	52.1
Other	15.3	20.1	33.0	35.4
Total	\$ 69.8	\$ 111.4	\$ 134.3	\$ 215.9
Number of U.S. Trading Days	64	63	125	125
Number of U.K. Trading Days	63	61	125	125

For volume reporting purposes, transactions in foreign currencies are converted to U.S. dollars at average monthly rates. Single-dealer inquiries represent U.S. high-grade trades on which no fees were charged in accordance with the U.S. high-grade corporate bond fee plan. Credit default swap trading volume data are included in Other. Trading volume data related to DealerAxess® bond trading between broker-dealer clients are included in either U.S. high-grade or Other trading volumes, as appropriate.



**Table of Contents**

Our active institutional investor clients (firms that executed at least one trade through our electronic trading platform for the twelve months ended June 30, 2008 and 2007, respectively) and our broker-dealer clients as of June 30, 2008 and 2007 were as follows:

	Six Months Ended June 30,	
	2008	2007
Institutional Investor Clients:		
U.S.	458	478
Europe	198	217
Total	656	695
Broker-Dealer Clients	31	30

**Results of Operations****Three Months Ended June 30, 2008 Compared to Three Months Ended June 30, 2007***Overview*

Total revenues increased by \$0.3 million or 1.3% to \$25.6 million for the three months ended June 30, 2008, from \$25.3 million for the three months ended June 30, 2007. This increase in total revenues was primarily due to an increase in technology products and services revenues of \$2.1 million and European high-grade revenues of \$0.7 million, offset by a decline in U.S. high-grade revenues of \$2.0 million and investment income of \$0.5 million. Technology products and services revenues reflect the impact of the Greenline and TWS acquisitions.

Total expenses increased by \$1.6 million or 8.4% to \$20.9 million for the three months ended June 30, 2008, from \$19.3 million for the three months ended June 30, 2007. This increase in expenses was primarily due to higher employee compensation and benefits of \$0.6 million and professional and consulting fees of \$0.7 million. The Greenline and TWS acquisitions increased expenses by \$2.6 million.

Income before taxes decreased by \$1.3 million or 21.2% to \$4.8 million for the three months ended June 30, 2008, from \$6.0 million for the three months ended June 30, 2007. Net income decreased by \$0.7 million or 19.8% to \$2.8 million for the three months ended June 30, 2008, from \$3.6 million for three months ended June 30, 2007.

*Revenues*

Our revenues for the three months ended June 30, 2008 and 2007, and the resulting dollar and percentage changes, were as follows:

	Three Months Ended June 30,					
	2008		2007		\$ Change	% Change
	\$	% of Revenues	\$	% of Revenues		
Commissions						
U.S. high-grade	\$ 12,554	49.0%	\$ 14,532	57.4%	\$ (1,978)	(13.6)%
European high-grade	5,120	20.0	4,456	17.6	664	14.9
Other	2,464	9.6	2,468	9.8	(4)	(0.2)
Total commissions	20,138	78.6	21,456	84.8	(1,318)	(6.1)
Information and user access fees	1,442	5.6	1,468	5.8	(26)	(1.8)
Investment income	761	3.0	1,258	5.0	(497)	(39.5)

Edgar Filing: CONOCOPHILLIPS - Form S-3ASR

Technology products and services	2,676	10.4	575	2.3	2,101	365.4
Other	620	2.4	547	2.2	73	13.3
Total revenues	\$ 25,637	100.0%	\$ 25,304	100.0%	\$ 333	1.3%



**Table of Contents**

*Commissions.* Total commissions decreased by \$1.3 million or 6.1% to \$20.1 million for the three months ended June 30, 2008 from \$21.5 million for the three months ended June 30, 2007. The following table shows the extent to which the decrease in commissions for the three months ended June 30, 2008 was attributable to changes in transaction volumes, transaction fees per million, monthly distribution fees and DealerAxess<sup>®</sup> minimum fees:

	<b>Change from Three Months Ended June 30, 2007</b>			
	<b>U.S. High-Grade</b>	<b>European High-Grade</b>	<b>Other</b>	<b>Total</b>
	<b>(In thousands)</b>			
Volume decrease	\$ (1,852)	\$ (1,685)	\$ (589)	\$ (4,126)
Transaction fee per million increase (decrease)	1,567	(362)	585	1,790
Monthly distribution fees increase	16	2,711		2,727
DealerAxess <sup>®</sup> minimum fees decrease	(1,709)			(1,709)
Total commissions (decrease) increase	\$ (1,978)	\$ 664	\$ (4)	\$ (1,318)

Our average fees per million for the three months ended June 30, 2008 and 2007 were as follows:

	<b>Three Months Ended June 30,</b>	
	<b>2008</b>	<b>2007</b>
<b>Average Fee Per Million</b>		
U.S. high-grade		
Total	\$ 294	\$ 215
Transaction	\$ 111	\$ 75
European high-grade		
Total	\$ 434	\$ 187
Transaction	\$ 110	\$ 140
Other	\$ 161	\$ 123
All Products	\$ 289	\$ 193

U.S. high-grade volume decreased by 36.7% for the three months ended June 30, 2008, compared to the three months ended June 30, 2007. The decrease in U.S. high-grade volume was due to a decline in the Company's estimated market share of total U.S. high-grade corporate bond volume as reported by the FINRA Trade Reporting and Compliance Engine (TRACE) from 11.1% for the three months ended June 30, 2007 to 7.5% for the three months ended June 30, 2008, coupled with a decline in overall market volume as measured by FINRA TRACE. Estimated FINRA TRACE U.S. high-grade volume decreased by 6.2% from \$608.7 billion for the three months ended June 30, 2007 to \$571.2 billion for the three months ended June 30, 2008. We believe that the credit market turmoil has negatively impacted overall FINRA TRACE volume and the share of that volume transacted over our platform. The U.S. high-grade distribution fees were \$7.8 million for both the three months ended June 30, 2008 and 2007. The DealerAxess<sup>®</sup> monthly minimum fees were zero and \$1.7 million for the three months ended June 30, 2008 and 2007, respectively. The majority of the DealerAxess<sup>®</sup> high-grade minimum fee commitments expired as of June 30, 2007. The total U.S. high-grade average fee per million is calculated for each period presented using both the transaction fees and the monthly distribution fees, including the DealerAxess<sup>®</sup> monthly minimum fees, paid by our broker-dealer clients. The U.S. high-grade average transaction fee per million increased from \$75 per million for the three months ended June 30, 2007 to \$111 per million for the three months ended June 30, 2008 due to the longer maturity of trades executed on the platform, for which we charge higher commissions.

European high-grade volume decreased by 50.4% for the three months ended June 30, 2008, compared to the three months ended June 30, 2007. During the first quarter of 2008, we believe that the European credit markets experienced market conditions similar to those experienced in the U.S. On June 1, 2007, we introduced a new fee plan

for European high-grade corporate bond trades. Similar to the U.S. high-grade plan, the new European high-grade corporate bond fee plan incorporates a monthly distribution fee and a transaction fee that is dependent on the type of bond traded and the maturity of the issue. The European high-grade distribution fee was \$3.8 million for the three months ended June 30, 2008, compared to \$1.1 million for the three months ended June 30, 2007. The total European high-grade average fee per million is calculated for each period presented using both the transaction fees and the monthly distribution fees paid by our broker-dealer clients. The European high-grade average transaction fee per million decreased

**Table of Contents**

from \$140 per million for the three months ended June 30, 2007 to \$110 per million for the three months ended June 30, 2008 principally due to the introduction of the new European high-grade fee plan.

Other volume decreased by 23.7% for the three months ended June 30, 2008, compared to the three months ended June 30, 2007. The decrease was primarily due to lower emerging market, credit default swap and agencies volume. Other average fee per million increased from \$123 per million for the three months ended June 30, 2007 to \$161 for the three months ended June 30, 2008, primarily due to lower volume in products with lower fees per million.

*Information and User Access Fees.* Information and user access fees decreased by 1.8% to \$1.4 million for the three months ended June 30, 2008 from \$1.5 million for the three months ended June 30, 2007.

*Investment Income.* Investment income decreased by \$0.5 million or 39.5% to \$0.8 million for the three months ended June 30, 2008 from \$1.3 million for the three months ended June 30, 2007. The decrease was due to lower cash and cash equivalents and securities available-for-sale resulting from the Greenline acquisition and lower interest rates.

*Technology Products and Services.* Technology products and services revenues increased by \$2.1 million or 365.4% to \$2.7 million for the three months ended June 30, 2008 from \$0.6 million for the three months ended June 30, 2007. The increase was a result of the Greenline and TWS acquisitions.

*Other.* Other revenues increased to \$0.6 million for the three months ended June 30, 2008 from \$0.5 million for the three months ended June 30, 2007.

*Expenses*

Our expenses and expenses as a percentage of revenues for the three months ended June 30, 2008 and 2007, and the resulting dollar and percentage changes, were as follows:

	2008		Three Months Ended June 30, 2007		\$ Change	% Change
	\$	% of Revenues	\$ (\$ in thousands)	% of Revenues		
Employee compensation and benefits	\$ 11,576	45.2%	\$ 11,010	43.5%	\$ 566	5.1%
Depreciation and amortization	1,816	7.1	1,879	7.4	(63)	(3.4)
Technology and communications	2,048	8.0	1,935	7.6	113	5.8
Professional and consulting fees	2,521	9.8	1,786	7.1	735	41.2
Occupancy	739	2.9	805	3.2	(66)	(8.2)
Marketing and advertising	683	2.7	530	2.1	153	28.9
General and administrative	1,495	5.8	1,320	5.2	175	13.3
Total expenses	\$ 20,878	81.4%	\$ 19,265	76.1%	\$ 1,613	8.4%

*Employee Compensation and Benefits.* Employee compensation and benefits increased by \$0.6 million or 5.1% to \$11.6 million for the three months ended June 30, 2008 from \$11.0 million for the three months ended June 30, 2007. This increase was primarily attributable to higher wages of \$0.7 million and stock-based compensation expense of \$0.5 million, offset by reduced incentive compensation of \$1.0 million. The higher wages primarily resulted from the Greenline and TWS acquisitions.

*Depreciation and Amortization.* Depreciation and amortization expense decreased by \$0.1 million or 3.4% to \$1.8 million for the three months ended June 30, 2008 from \$1.9 million for the three months ended June 30, 2007. An increase in amortization of intangible assets of \$0.5 million was more than offset by a decline in depreciation and amortization of hardware and software development costs. For the three months ended June 30, 2008 and 2007, we capitalized \$0.7 million and \$0.9 million, respectively, of software development costs, and \$0.3 million and

\$0.3 million, respectively, of computer and related equipment purchases.

**Table of Contents**

*Technology and Communications.* Technology and communications expense increased by \$0.1 million or 5.8% to \$2.0 million for the three months ended June 30, 2008 from \$1.9 million for the three months ended June 30, 2007. This increase was attributable to an increase in the purchase of market data.

*Professional and Consulting Fees.* Professional and consulting fees increased by \$0.7 million or 41.2% to \$2.5 million for the three months ended June 30, 2008 from \$1.8 million for the three months ended June 30, 2007. The increase was principally due to higher legal expense of \$0.4 million and information technology consultant costs of \$0.3 million.

*Occupancy.* Occupancy costs decreased by \$0.1 million or 8.2% to \$0.7 million for the three months ended June 30, 2008 from \$0.8 million for the three months ended June 30, 2007.

*Marketing and Advertising.* Marketing and advertising expense increased by \$0.2 million or 28.9% to \$0.7 million for the three months ended June 30, 2008 from \$0.5 million for the three months ended June 30, 2007, primarily due to higher travel and entertainment and other marketing expenses.

*General and Administrative.* General and administrative expense increased by \$0.2 million or 13.3% to \$1.5 million for the three months ended June 30, 2008 from \$1.3 million for the three months ended June 30, 2007, primarily due to increased charges for doubtful accounts.

*Provision for Income Tax.* For the three months ended June 30, 2008 and 2007, we recorded an income tax provision of \$1.9 million and \$2.5 million, respectively. The decrease in the tax provision was primarily attributable to the \$1.3 million decline in pre-tax income for the period. With the exception of the payment of certain foreign taxes, the provision for income taxes was a non-cash expense since we had available net operating loss carryforwards and tax credits to offset the cash payment of taxes.

Our consolidated effective tax rate for the three months ended June 30, 2008 was 40.2% compared to 41.2% for the three months ended June 30, 2007. 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. Due to our net deferred tax asset balance, a decrease in tax rates results in a reduction in our deferred tax balance and an increase in tax expense.

***Six Months Ended June 30, 2008 Compared to Six Months Ended June 30, 2007******Overview***

Total revenues decreased by \$0.5 million or 1.0% to \$48.6 million for the six months ended June 30, 2008, from \$49.1 million for the six months ended June 30, 2007. This decrease in total revenues was primarily due to a decline in U.S. high-grade revenues of \$3.3 million and investment income of \$0.7 million, offset by an increase in technology products and services revenues of \$2.8 million and European high-grade revenues of \$0.5 million. Technology products and services revenues reflect the impact of the Greenline and TWS acquisitions.

Total expenses increased by \$2.3 million or 5.9% to \$40.9 million for the six months ended June 30, 2008, from \$38.6 million for the six months ended June 30, 2007. This increase was primarily due to higher professional and consulting fees of \$1.1 million, technology and communications of \$0.5 million and general and administrative expenses of \$0.6 million. The Greenline and TWS acquisitions increased expenses by \$3.5 million.

Income before taxes decreased by \$2.8 million or 26.5% to \$7.7 million for the six months ended June 30, 2008, from \$10.5 million for the six months ended June 30, 2007. Net income decreased by \$1.6 million or 26.0% to \$4.4 million for the six months ended June 30, 2008, from \$6.0 million for six months ended June 30, 2007.

**Table of Contents***Revenues*

Our revenues for the six months ended June 30, 2008 and 2007, and the resulting dollar and percentage changes, were as follows:

	2008		Six Months Ended June 30, 2007		\$ Change	% Change
	\$	% of Revenues	\$ (\$ in thousands)	% of Revenues		
Commissions						
U.S. high-grade	\$ 24,956	51.4%	\$ 28,214	57.5%	\$ (3,258)	(11.5)%
European high-grade	9,709	20.0	9,210	18.8	499	5.4
Other	4,768	9.8	4,725	9.6	43	0.9
Total commissions	39,433	81.2	42,149	85.9	(2,716)	(6.4)
Information and user access fees	2,923	6.0	2,822	5.8	101	3.6
Investment income	1,752	3.6	2,480	5.1	(728)	(29.4)
Technology products and services	3,443	7.1	600	1.2	2,843	473.8
Other	1,025	2.1	1,018	2.1	7	0.7
Total revenues	\$ 48,576	100.0%	\$ 49,069	100.0%	\$ (493)	(1.0)%

*Commissions.* Total commissions decreased by \$2.7 million or 6.4% to \$39.4 million for the six months ended June 30, 2008 from \$42.1 million for the six months ended June 30, 2007. The following table shows the extent to which the decrease in commissions for the six months ended June 30, 2008 was attributable to changes in transaction volumes, transaction fees per million, monthly distribution fees and DealerAxess<sup>®</sup> minimum fees:

	Change from Six Months Ended June 30, 2007			
	U.S. High-Grade	European High-Grade	Other	Total
	(In thousands)			
Volume decrease	\$ (3,485)	\$ (5,004)	\$ (320)	\$ (8,809)
Transaction fee per million increase (decrease)	3,066	(946)	363	2,483
Monthly distribution fees increase	414	6,449		6,863
DealerAxess <sup>®</sup> minimum fees decrease	(3,253)			(3,253)
Total commissions (decrease) increase	\$ (3,258)	\$ 499	\$ 43	\$ (2,716)

**Table of Contents**

Our average fees per million for the six months ended June 30, 2008 and 2007 were as follows:

	<b>Six Months Ended June</b>	
	<b>2008</b>	<b>30, 2007</b>
<b>Average Fee Per Million</b>		
U.S. high-grade		
Total	\$ 307	\$ 220
Transaction	\$ 112	\$ 74
European high-grade		
Total	\$ 488	\$ 177
Transaction	\$ 108	\$ 155
Other	\$ 144	\$ 133
All Products	\$ 294	\$ 195

U.S. high-grade volume decreased by 36.6% for the six months ended June 30, 2008, compared to the six months ended June 30, 2007. The decrease in U.S. high-grade volume was due to a decline in the Company's estimated market share of total U.S. high-grade corporate bond volume as reported by FINRA TRACE from 10.2% for the six months ended June 30, 2007 to 7.4% for the six months ended June 30, 2008, coupled with a decline in overall market volume as measured by FINRA TRACE. Estimated FINRA TRACE U.S. high-grade volume decreased by 12.4% from \$1,258.1 billion for the six months ended June 30, 2007 to \$1,102.0 billion for the six months ended June 30, 2008. We believe that the credit market turmoil has negatively impacted overall FINRA TRACE volume and the share of that volume transacted over our platform. The U.S. high-grade distribution fees were \$15.9 million for the six months ended June 30, 2008, compared to \$15.4 million for the six months ended June 30, 2007. The DealerAxess® monthly minimum fees were zero and \$3.3 million for the six months ended June 30, 2008 and 2007, respectively. The majority of the DealerAxess® high-grade minimum fee commitments expired as of June 30, 2007. The U.S. high-grade average transaction fee per million increased from \$74 per million for the six months ended June 30, 2007 to \$112 per million for the six months ended June 30, 2008 due to the longer maturity of trades executed on the platform, for which we charge higher commissions.

European high-grade volume decreased by 61.9% for the six months ended June 30, 2008, compared to the six months ended June 30, 2007. During the first six months of 2008, we believe that the European credit markets experienced market conditions similar to those experienced in the U.S. On June 1, 2007, we introduced a new fee plan for European high-grade corporate bond trades. Similar to the U.S. high-grade plan, the new European high-grade corporate bond fee plan incorporates a monthly distribution fee and a transaction fee that is dependent on the type of bond traded and the maturity of the issue. The European high-grade distribution fee was \$7.6 million for the six months ended June 30, 2008, compared to \$1.1 million for the six months ended June 30, 2007. The European high-grade average transaction fee per million decreased from \$155 per million for the six months ended June 30, 2007 to \$108 per million for the six months ended June 30, 2008 principally due to the introduction of the new European high-grade fee plan.

Other volume decreased by 6.9% for the six months ended June 30, 2008, compared to the six months ended June 30, 2007. The decrease was primarily due to lower credit default swap and agencies volume. Other average fee per million increased from \$133 per million for the six months ended June 30, 2007 to \$144 for the three months ended June 30, 2008, primarily due to lower volume in products with lower fees per million.

*Information and User Access Fees.* Information and user access fees increased by \$0.1 million or 3.6% to \$2.9 million for the six months ended June 30, 2008 from \$2.8 million for the six months ended June 30, 2007.

*Investment Income.* Investment income decreased by \$0.7 million or 29.4% to \$1.8 million for the six months ended June 30, 2008 from \$2.5 million for the six months ended June 30, 2007. The decrease was due to lower cash and cash equivalents and securities available-for-sale resulting from the Greenline acquisition and lower interest rates.

*Technology Products and Services.* Technology products and services revenues increased by \$2.8 million or 473.8% to \$3.4 million for the six months ended June 30, 2008 from \$0.6 million for the six months ended June 30,

2007. The increase was a result of the Greenline and TWS acquisitions.

*Other.* Other revenues was \$1.0 million for both the six months ended June 30, 2008 and 2007.



**Table of Contents***Expenses*

Our expenses and expenses as a percentage of revenues for the six months ended June 30, 2008 and 2007, and the resulting dollar and percentage changes, were as follows:

	2008		Six Months Ended June 30, 2007		\$ Change	% Change
	\$	% of Revenues	\$ (\$ in thousands)	% of Revenues		
Employee compensation and benefits	\$ 22,594	46.5%	\$ 22,513	45.9%	\$ 81	0.4%
Depreciation and amortization	3,596	7.4	3,790	7.7	(194)	(5.1)
Technology and communications	4,153	8.5	3,698	7.5	455	12.3
Professional and consulting fees	4,674	9.6	3,622	7.4	1,052	29.0
Occupancy	1,506	3.1	1,554	3.2	(48)	(3.1)
Marketing and advertising	1,266	2.6	883	1.8	383	43.4
General and administrative	3,063	6.3	2,501	5.1	562	22.5
<b>Total expenses</b>	<b>\$ 40,852</b>	<b>84.1%</b>	<b>\$ 38,561</b>	<b>78.6%</b>	<b>\$ 2,291</b>	<b>5.9%</b>

*Employee Compensation and Benefits.* Employee compensation and benefits increased by \$0.1 million or 0.4% to \$22.6 million for the six months ended June 30, 2008 from \$22.5 million for the six months ended June 30, 2007. This increase was primarily attributable to higher wages of \$1.1 million, stock-based compensation expense of \$0.7 million and severance costs of \$0.3 million, offset by reduced incentive compensation of \$2.1 million. The higher wages primarily resulted from the Greenline and TWS acquisitions.

*Depreciation and Amortization.* Depreciation and amortization expense decreased by \$0.2 million or 5.1% to \$3.6 million for the six months ended June 30, 2008 from \$3.8 million for the six months ended June 30, 2007. An increase in amortization of intangible assets of \$0.6 million was more than offset by a decline in depreciation and amortization of hardware and software development costs. For the six months ended June 30, 2008 and 2007, we capitalized \$1.4 million and \$1.7 million, respectively, of software development costs, and \$0.7 million and \$0.7 million, respectively, of computer and related equipment purchases. For the six months ended June 30, 2008, \$8.3 million of definite-life intangibles were created in connection with the Greenline acquisition.

*Technology and Communications.* Technology and communications expense increased by \$0.5 million or 12.3% to \$4.2 million for the six months ended June 30, 2008 from \$3.7 million for the six months ended June 30, 2007. This increase was attributable to higher software license and maintenance costs and the purchase of market data.

*Professional and Consulting Fees.* Professional and consulting fees increased by \$1.1 million or 29.0% to \$4.7 million for the six months ended June 30, 2008 from \$3.6 million for the six months ended June 30, 2007. The increase was principally due to higher legal fees of \$0.6 million and information technology consultant costs of \$0.5 million, offset by lower recruiting fees of \$0.4 million.

*Occupancy.* Occupancy costs decreased to \$1.5 million for the six months ended June 30, 2008 from \$1.6 million for the six months ended June 30, 2007.

*Marketing and Advertising.* Marketing and advertising expense increased by \$0.4 million or 43.4% to \$1.3 million for the six months ended June 30, 2008 from \$0.9 million for the six months ended June 30, 2007, primarily due to higher promotional and other marketing expenses and travel and entertainment expenses.

*General and Administrative.* General and administrative expense increased by \$0.6 million or 22.5% to \$3.1 million for the six months ended June 30, 2008 from \$2.5 million for the six months ended June 30, 2007,

primarily due to increased charges for doubtful accounts of \$0.4 million.

*Provision for Income Tax.* For the six months ended June 30, 2008 and 2007, we recorded an income tax provision of \$3.3 million and \$4.5 million, respectively. The decrease in the tax provision was primarily attributable to the \$2.8 million decline in pre-tax

**Table of Contents**

income for the period. With the exception of the payment of certain foreign taxes, the provision for income taxes was a non-cash expense since we had available net operating loss carryforwards and tax credits to offset the cash payment of taxes.

Our consolidated effective tax rate for the six months ended June 30, 2008 was 42.5% compared to 42.9% for the six months ended June 30, 2007. The 2008 effective tax rate was unfavorably impacted by the absence of a research and development tax credit. The 2007 effective tax rate includes an adjustment to the deferred tax balance of \$0.4 million to reflect the tax rate anticipated to be in effect when temporary differences are expected to reverse, as well as a change in enacted state tax rate. 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. Due to our net deferred tax asset balance, a decrease in tax rates results in a reduction in our deferred tax balance and an increase in tax expense.

**Liquidity and Capital Resources**

During the past three years, we have met our funding requirements through cash on hand, internally generated funds and issuance of Series B Preferred Stock. Cash and cash equivalents and securities available-for-sale totaled \$118.4 million at June 30, 2008. We have no long-term or short-term debt and do not maintain bank lines of credit.

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

	<b>Six Months Ended June 30,</b>	
	<b>2008</b>	<b>2007</b>
	<b>(In thousands)</b>	
Net cash provided by operating activities	\$ 8,921	\$ 12,299
Net cash (used in) investing activities	(8,212)	(9,822)
Net cash provided by (used in) financing activities	23,364	(19,002)
Effect of exchange rate changes on cash	(528)	(125)
Net increase (decrease) for the period	\$ 23,545	\$ (16,650)

**Operating Activities**

Net cash provided by operating activities of \$8.9 million for the six months ended June 30, 2008 consisted of net income of \$4.4 million, adjusted for non-cash charges, primarily consisting of depreciation and amortization of \$3.6 million, stock-based compensation expense of \$3.5 million and deferred taxes of \$3.4 million, offset by an increase in cash used for working capital of \$6.6 million. The use of working capital primarily resulted from a decrease in accrued employee compensation of \$8.7 million, which included the payment of annual bonuses of \$13.4 million in January 2008, and a decrease in accounts payable, accrued expense and other liabilities of \$0.5 million, offset by a decrease in accounts receivable of \$1.3 million.

Net cash provided by operating activities of \$12.3 million for the six months ended June 30, 2007 consisted of net income of \$6.0 million, adjusted for non-cash charges, primarily consisting of depreciation and amortization of \$3.8 million, stock-based compensation expense of \$2.8 million and deferred taxes of \$4.3 million, offset by an increase in cash used for working capital of \$4.7 million. The use of working capital primarily resulted from a decrease in accrued employee compensation of \$4.3 million, which included the payment of annual bonuses of \$10.8 million in January 2007, and an increase in accounts receivable of \$1.7 million.

**Investing Activities**

Net cash used in investing activities of \$8.2 million for the six months ended June 30, 2008 primarily consisted of \$35.2 million for the acquisition of Greenline, net maturities of securities available-for-sale of \$29.1 million, purchases of furniture, equipment and leasehold improvements of \$0.7 million and capitalization of software development costs of \$1.4 million.

Net cash used in investing activities of \$9.8 million for the six months ended June 30, 2007 primarily consisted of net purchases of securities-available-for-sale of \$7.5 million, purchases of furniture, equipment and leasehold improvements of \$0.7 million and capitalization of software development costs of \$1.7 million.



**Table of Contents**

***Financing Activities***

Net cash provided by financing activities of \$23.4 million for the six months ended June 30, 2008 primarily consisted of the net proceeds from the issuance of the Series B Preferred Stock and related common stock purchase warrants of \$26.8 million, offset by the purchase of treasury stock of \$2.8 million.

Net cash used in financing activities of \$19.0 million for the six months ended June 30, 2007 consisted of the purchase of treasury stock of \$23.9 million, offset by proceeds from the exercise of stock options and issuance of restricted stock of \$4.5 million and excess tax benefits of \$0.3 million.

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

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

As of June 30, 2008, we had \$8.6 million invested in municipal auction rate securities with a face value of \$9.0 million. Liquidity for these securities is typically provided by an auction process that resets the applicable interest rate at pre-determined intervals. All of the municipal auction rate securities held are rated AAA or AA by Standard & Poor's and, in some cases, the pool of assets underlying the securities is guaranteed by the U.S. Department of Education. Auctions for these securities began to fail in February 2008 and, as a result, we have been unable to liquidate these holdings. While interest on the municipal auction rate securities continues to be earned and received at the maximum contractual rate, we have concluded that estimated fair value for two of these securities no longer approximates par value as of June 30, 2008. During the quarter ended June 30, 2008, we recorded an unrealized loss of approximately \$0.4 million to accumulated other comprehensive loss in the Consolidated Statements of Financial Condition. The decline in fair value is deemed temporary since we have the intent and ability to hold these investments until anticipated full recovery in fair value occurs. Due to the uncertainty in the credit markets, it is reasonably possible that the fair value of the municipal auction rate securities may change in the near term. If the credit markets recover and successful auctions resume or the issuer calls the security, we may be able to recover an amount greater than the carrying value of its investment. However, if the issuers are unable to successfully close future auctions or call the securities, or if the issuers' credit rating deteriorates, we may further adjust the carrying value of our investment in municipal auction rate securities and may need to consider an other-than-temporary impairment charge.

We have three regulated subsidiaries, MarketAxess Corporation, MarketAxess Europe Limited and MarketAxess Canada Ltd. MarketAxess Corporation is a registered broker-dealer in the U.S., MarketAxess Europe Limited is a registered Multilateral Trading Facility in the U.K. and MarketAxess Canada Ltd. is a registered Alternative Trading System in the Province of Ontario. As such, they are subject to minimum regulatory capital requirements imposed by their respective market regulators that are intended to ensure general financial soundness and liquidity based on certain minimum capital requirements. The relevant regulations prohibit a registrant from repaying borrowings from its parent or affiliates, paying cash dividends, making loans to its parent or affiliates or otherwise entering into transactions that result in a significant reduction in its regulatory net capital position without prior notification to or

approval from the registrant's principal regulator. The capital structures of our subsidiaries are designed to provide each with capital and liquidity consistent with its business and regulatory requirements. As of June 30, 2008, MarketAxess Corporation had net capital of \$17.6 million, which was \$16.9 million in excess of its required minimum net capital of \$0.7 million. MarketAxess Europe

**Table of Contents**

Limited had financial resources, as defined by the FSA, of \$21.7 million, which was \$18.2 million in excess of its required financial resources of \$3.5 million. We believe that MarketAxess Corporation and MarketAxess Europe Limited were required to maintain approximately \$5.9 million in the aggregate in cash as of June 30, 2008 to support their minimum regulatory capital requirements.

In June 2006, our U.S. subsidiary, MarketAxess Corporation, commenced operating an anonymous matching service for its broker-dealer clients. MarketAxess Corporation executes bond trades on a riskless principal basis, which are cleared and settled by an independent clearing broker. The securities clearing agreement that MarketAxess Corporation maintains with the independent clearing broker commenced in December 2004. Under the securities clearing agreement, MarketAxess Corporation maintains a collateral deposit with the clearing broker in the form of cash or U.S. government securities. As of June 30, 2008, the collateral deposit included in securities and cash provided as collateral in the Consolidated Statements of Financial Condition was \$0.5 million. MarketAxess Corporation 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 agreement between MarketAxess Corporation and the independent clearing broker, the clearing broker has the right to charge MarketAxess Corporation 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, 2008, MarketAxess Corporation had not recorded any liabilities with regard to this right.

**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**

As of June 30, 2008, we had the contractual obligations and commitments detailed in the following table:

	Total	Payments due by period			More than 5 years
		Less than 1 year	1 - 3 years	3 - 5 years	
Operating leases	\$ 7,557	\$ 1,129	\$ 3,376	\$ 1,266	\$ 1,786
Foreign currency forward contract	23,781	23,781			
	\$31,339	\$ 24,911	\$ 3,376	\$ 1,266	\$ 1,786

As of June 30, 2008, we had unrecognized tax benefits of \$2.7 million. Due to the nature of the underlying positions, it is not currently possible to schedule the future payment obligations by period. In addition, in connection with the acquisition of Greenline, the sellers are eligible to receive up to an aggregate of \$3.0 million in cash, subject to Greenline attaining certain earn-out targets over the next two years. The amount of the earn-out ultimately payable, if any, is currently unknown.

**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. These events could have a material adverse effect on our business, financial condition and results of operations.

As of June 30, 2008, we had securities available-for-sale of \$22.1 million. 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.



**Table of Contents*****Interest Rate Risk***

Interest rate risk represents our exposure to interest rate changes with respect to the money market instruments, U.S. Treasury obligations and short-term fixed-income securities in which we invest. As of June 30, 2008, our cash and cash equivalents and securities available-for-sale amounted to \$118.4 million and were primarily in money market instruments, federal agency issues 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, 2008, the notional value of our foreign currency forward contracts was \$23.8 million. We do not speculate in any derivative instruments.

***Credit Risk***

In June 2006, we began executing riskless principal transactions between our broker-dealer clients through our subsidiary, MarketAxess Corporation. We act as an intermediary in these transactions by serving as counterparty to both the buyer and the seller in matching back-to-back bond trades, which are then settled through a third-party clearing organization. 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 trading counterparty to our broker-dealer clients executing bond trades on the DealerAxess® platform. 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. The policies and procedures we use to manage this credit risk are new and untested. There can be no assurance that these policies and procedures will effectively mitigate our exposure to credit risk.

***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, 2008. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the disclosure controls and procedures are effective to ensure that information required to be disclosed by MarketAxess in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms, and to ensure that information is accumulated and communicated to our management, including the Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

(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, 2008 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.

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

In January 2007, two former employees commenced arbitration proceedings against MarketAxess Corporation before FINRA arising out of the expiration of certain vested and unvested stock options and unvested restricted shares issued to them. In April 2007, one of those former employees brought a separate FINRA arbitration against MarketAxess Holdings Inc. based on the same claim he had filed against MarketAxess Corporation. The arbitrations filed by this former employee were consolidated before FINRA and, by an award served on the parties on June 20, 2008, the FINRA arbitration panel denied the former employee's claims, totaling approximately \$3.6 million, in their entirety.

The claim of the other former employee, which is pending before FINRA and for which no hearing dates have yet been scheduled, is that we wrongfully failed to accelerate the vesting of his then unvested options and restricted shares upon his termination and also failed to waive the 90-day time period within which he was required to exercise his vested options. This former employee further alleges that he is entitled to a bonus for the approximately five months that he worked for MarketAxess Corporation during 2006. The alleged damages sought by this former employee total approximately \$0.9 million, plus statutory interest, and an unstated amount of punitive damages, costs and expenses. We have vigorously defended the claims brought against us and MarketAxess Corporation. Based on currently available information, we believe that the likelihood of a material loss is not probable. Accordingly, no amount has been provided in the accompanying financial statements. However, arbitration is subject to inherent uncertainties and unfavorable rulings could occur.

**Item 1A. *Risk Factors***

Risks that could have a negative impact on our business, results of operations and financial condition include: our dependence on our broker-dealer clients, three of which were also our stockholders as of January 1, 2008; the level and intensity of competition in the fixed-income electronic trading industry and the pricing pressures that may result; the variability of our growth rate; our limited operating history; the level of trading volume transacted on the MarketAxess platform; potential fluctuations in our operating results, which may cause our stock price to decline; the absolute level and direction of interest rates and the corresponding volatility in the corporate fixed-income market; our ability to develop new products and offerings and the market's acceptance of those products; technology failures, security breaches or rapid technology changes that may harm our business; our ability to enter into strategic alliances and to acquire other businesses and successfully integrate them with our business; extensive government regulation; continuing international expansion that may present economic and regulatory challenges; and our future capital needs and our ability to obtain capital when needed. This list is intended to identify only certain of the principal factors that could have a material adverse impact on our business, results of operations and financial condition. A more detailed description of each of these and other important risk factors can be found under the caption "Risk Factors" in our most recent Form 10-K, filed on March 3, 2008. There have been no material changes to the risk factors described in the Form 10-K.

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

During June 2008, we issued 28,000 shares of Series B Preferred Stock, which are convertible into an aggregate of 2,800,000 shares of our common stock, and warrants to purchase an aggregate of 560,000 shares of common stock at an exercise price of \$10.00 per share (the "Issuance"). The Issuance was completed through a private placement to accredited investors and is exempt from registration pursuant to Section 4(2) of the Securities Act of 1933, as amended (the "Securities Act"). The shares of Series B Preferred Stock, the shares of common stock issuable upon the conversion of the Series B Preferred Stock, the warrants and the shares of common stock issuable upon the exercise of the warrants have not been registered under the Securities Act or any state securities laws. Unless so registered, such securities may not be offered or sold in the United States absent an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act and any applicable state securities laws. We did not engage in any general solicitation or advertising with regard to the Issuance and did not offer the securities to the public in connection with the Issuance. Financial Technology Partners LP and FTP Securities LLC ("FT Partners") acted as placement agent for this transaction. We paid FT Partners a fee of 3% of the gross proceeds of the Issuance. We intend

to use the proceeds of the offering for general corporate purposes, which may include acquisitions.

**Table of Contents**

On March 5, 2008, we issued 725,923 shares of our common stock in connection with our acquisition of all of the outstanding capital stock of Greenline Financial Technologies, Inc. The shares of common stock issued to the selling shareholders of Greenline are subject to certain restrictions and cancellation as set forth in a restricted stock agreement executed by each selling shareholder of Greenline and us. Pursuant to each restricted stock agreement, the certificates evidencing the shares of our common stock to be issued to each selling shareholder of Greenline shall be held by us and released in two equal installments on December 20, 2008 and December 20, 2009, respectively. The shares of common stock have not been registered under the Securities Act or any state securities laws. Unless so registered, such securities may not be offered or sold in the United States absent an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act and any applicable state securities laws.

**Issuer Purchases of Equity Securities**

On October 26, 2006, our Board of Directors authorized a stock repurchase program for up to \$40.0 million of our common stock. Shares repurchased under the program will be held in treasury for future use. The share repurchase program was completed in January 2008. A total of 2,864,120 shares were repurchased at an aggregate cost of \$40.0 million over the life of the repurchase program.

**Item 3. Defaults upon Senior Securities**

None

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

A total of 25,027,877 shares of common stock were present or represented by proxy at our Annual Meeting of Stockholders held on June 5, 2008 (the 2008 Annual Meeting). This represented 80.8% of our shares of common stock outstanding. The following management proposals were voted upon at the 2008 Annual Meeting and all were approved:

Proposal 1 Election of Directors. The results were as follows:

<b>Director Nominee</b>	<b>For</b>	<b>Withheld</b>
Richard M. McVey	24,974,490	53,386
Roger Burkhardt	24,977,659	50,217
Stephen P. Casper	23,400,559	1,627,317
David G. Gomach	24,977,659	50,217
Carlos M. Hernandez	24,977,016	50,860
Ronald M. Hersch	23,400,659	1,627,217
Jerome S. Markowitz	24,977,759	50,117
T. Kelley Millet	24,977,759	50,117
Nicolas S. Rohatyn	13,934,788	11,093,088
John Steinhardt	23,251,177	1,776,699

Proposal 2 Ratification of the appointment of PricewaterhouseCoopers LLP as the Company's independent registered public accounting firm for the year ending December 31, 2008. The results were as follows:

<b>For</b>	<b>Against</b>	<b>Abstain</b>
25,010,044	7,969	9,864

Proposal 3 Approval of the MarketAxess Holdings Inc. 2008 Code Section 162(m) Performance Incentive Program. The results were as follows:

<b>For</b>	<b>Against</b>	<b>Abstain</b>
22,586,704	2,430,589	10,582

**Item 5. Other Information**

None

**Table of Contents**

**Item 6. Exhibits**

Exhibit Listing

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

**Table of Contents**

**SIGNATURES**

Pursuant to the requirements of the Securities Act of 1933, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

MARKETAXESS HOLDINGS INC.

Date: August 1, 2008

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

Date: August 1, 2008

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