

KNIGHT CAPITAL GROUP, INC.

Form 10-Q

August 09, 2012

[Table of Contents](#)

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-Q**

For the quarterly period ended June 30, 2012

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2012**

**OR**

.. **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**  
**001-14223**

**Commission File Number**

**KNIGHT CAPITAL GROUP, INC.**

(Exact name of registrant as specified in its charter)

**DELAWARE**

(State or other jurisdiction of incorporation or organization)

**22-3689303**

(I.R.S. Employer Identification Number)

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545 Washington Boulevard, Jersey City, NJ 07310

(Address of principal executive offices and zip code)

Registrant's telephone number, including area code: (201) 222-9400

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

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

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

Large accelerated filer  Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company)  Smaller reporting company

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date:

As of August 6, 2012 the number of shares outstanding of the Registrant's Class A Common Stock was 97,814,427 and there were no shares outstanding of the Registrant's Class B Common Stock.

As of August 6, 2012, the number of shares outstanding of the Registrant's Series A-1 Cumulative Perpetual Convertible Preferred Stock was 79,600 and Series A-2 Non-Voting Cumulative Perpetual Convertible Preferred Stock was 320,400.

**Table of Contents**

**KNIGHT CAPITAL GROUP, INC.**  
**FORM 10-Q QUARTERLY REPORT**  
**For the Quarter Ended June 30, 2012**

**TABLE OF CONTENTS**

**PART I FINANCIAL INFORMATION:**

Item 1.	<u>Financial Statements (Unaudited)</u>	3
	<u>Consolidated Statements of Operations</u>	3
	<u>Consolidated Statements of Comprehensive Income</u>	4
	<u>Consolidated Statements of Financial Condition</u>	5
	<u>Consolidated Statements of Cash Flows</u>	6
	<u>Notes to Consolidated Financial Statements</u>	7

Item 2.	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	42
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Item 3.	<u>Quantitative and Qualitative Disclosures About Market Risk</u>	65
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Item 4.	<u>Controls and Procedures</u>	68
---------	--------------------------------	----

**PART II OTHER INFORMATION:** 69

Item 1.	<u>Legal Proceedings</u>	69
---------	--------------------------	----

Item 1A.	<u>Risk Factors</u>	69
----------	---------------------	----

Item 2.	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	77
---------	--	----

Item 3.	<u>Defaults Upon Senior Securities</u>	77
---------	--	----

Item 4.	<u>Mine Safety Disclosures</u>	77
---------	--------------------------------	----

Item 5.	<u>Other Information</u>	78
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Item 6.	<u>Exhibits</u>	78
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	<u>Signatures</u>	79
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**Table of Contents****PART I. FINANCIAL INFORMATION****Item 1. Financial Statements.****KNIGHT CAPITAL GROUP, INC.****CONSOLIDATED STATEMENTS OF OPERATIONS****(Unaudited)**

	For the three months ended June 30,		For the six months ended June 30,	
	2012	2011	2012	2011
	(In thousands, except per share amounts)			
<b>Revenues</b>				
Commissions and fees	\$ 175,123	\$ 195,514	\$ 357,703	\$ 378,072
Net trading revenue	96,675	125,808	253,222	277,596
Interest, net	5,924	2,306	13,062	5,406
Investment income and other, net	11,532	2,354	14,292	4,684
<b>Total revenues</b>	<b>289,254</b>	<b>325,982</b>	<b>638,279</b>	<b>665,758</b>
<b>Expenses</b>				
Employee compensation and benefits	130,878	140,126	278,132	289,090
Execution and clearance fees	53,193	58,737	106,448	112,186
Communications and data processing	24,427	21,691	46,757	42,414
Payments for order flow	20,155	22,337	41,843	43,046
Interest	13,981	9,540	27,439	19,420
Depreciation and amortization	13,476	13,524	26,789	26,733
Occupancy and equipment rentals	6,361	7,146	12,880	14,500
Business development	5,898	7,250	11,057	10,961
Professional fees	5,132	5,514	10,867	9,868
Writedown of assets and lease loss accrual	-	-	-	945
Other	10,397	10,663	16,711	17,057
<b>Total expenses</b>	<b>283,898</b>	<b>296,528</b>	<b>578,923</b>	<b>586,220</b>
Income from continuing operations before income taxes	5,356	29,454	59,356	79,538
Income tax expense	2,065	11,704	22,959	31,155
Income from continuing operations, net of tax	3,291	17,750	36,397	48,383
Loss from discontinued operations, net of tax	-	(178)	-	(319)
<b>Net income</b>	<b>\$ 3,291</b>	<b>\$ 17,572</b>	<b>\$ 36,397</b>	<b>\$ 48,064</b>
Basic earnings per share from continuing operations	\$ 0.04	\$ 0.19	\$ 0.41	\$ 0.52
Diluted earnings per share from continuing operations	\$ 0.04	\$ 0.19	\$ 0.39	\$ 0.51
Basic earnings per share	\$ 0.04	\$ 0.19	\$ 0.41	\$ 0.52

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Diluted earnings per share	\$ 0.04	\$ 0.19	\$ 0.39	\$ 0.51
Shares used in computation of basic earnings per share	89,624	92,493	89,685	92,184
Shares used in computation of diluted earnings per share	92,682	94,682	93,167	94,884

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

**Table of Contents****KNIGHT CAPITAL GROUP, INC.****CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME****(Unaudited)**

	<b>For the three months ended June 30,</b>		<b>For the six months ended June 30,</b>	
	<b>2012</b>	<b>2011</b>	<b>2012</b>	<b>2011</b>
	<b>(In thousands)</b>		<b>(In thousands)</b>	
Net Income	\$ 3,291	\$ 17,572	\$ 36,397	\$ 48,064
Other comprehensive income:				
Cumulative translation adjustment	(237)	81	88	(214)
Comprehensive income	\$ 3,054	\$ 17,653	\$ 36,485	\$ 47,850

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

**Table of Contents****KNIGHT CAPITAL GROUP, INC.****CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION****(Unaudited)**

	<b>June 30, 2012</b>	<b>December 31, 2011</b>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 364,798	\$ 467,633
Cash and securities segregated under federal and other regulations	190,391	11,010
Financial instruments owned, at fair value, including securities pledged of \$4,269,725 at June 30, 2012 and \$2,672,709 at December 31, 2011:		
Equities	1,641,451	1,416,090
Debt securities	262,598	134,631
Listed equity options	191,157	280,384
Loan inventory	183,900	206,572
Other financial instruments	11,927	21,483
Securitized HECM loan inventory	2,738,917	1,722,631
<b>Total financial instruments owned, at fair value</b>	<b>5,029,950</b>	<b>3,781,791</b>
Collateralized agreements:		
Securities borrowed	1,907,781	1,494,647
Receivable from brokers, dealers and clearing organizations	880,080	623,897
Fixed assets and leasehold improvements, at cost, less accumulated depreciation and amortization	107,787	111,464
Investments	101,427	83,231
Goodwill	344,460	337,843
Intangible assets, less accumulated amortization	88,539	92,889
Other assets	179,749	148,546
<b>Total assets</b>	<b>\$ 9,194,962</b>	<b>\$ 7,152,951</b>
<b>LIABILITIES &amp; EQUITY</b>		
Liabilities		
Financial instruments sold, not yet purchased, at fair value:		
Equities	\$ 1,256,365	\$ 1,369,750
Debt securities	237,163	63,073
Listed equity options	178,990	254,506
Other financial instruments	8,000	34,563
<b>Total financial instruments sold, not yet purchased, at fair value</b>	<b>1,680,518</b>	<b>1,721,892</b>
Collateralized financings:		
Securities loaned	1,239,168	697,998
Financial instruments sold under agreements to repurchase	550,185	420,320
Other secured financings	96,439	59,405
Liability to GNMA trusts, at fair value	2,717,323	1,710,627
<b>Total collateralized financings</b>	<b>4,603,115</b>	<b>2,888,350</b>
Payable to brokers, dealers and clearing organizations	289,810	322,660
Payable to customers	431,838	23,664
Accrued compensation expense	111,883	188,939
Accrued expenses and other liabilities	174,407	121,083
Long-term debt	406,425	424,338
<b>Total liabilities</b>	<b>7,697,996</b>	<b>5,690,926</b>