

KNIGHT CAPITAL GROUP, INC.

Form 10-Q

November 09, 2010

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2010**

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)

545 Washington Boulevard, Jersey City, NJ 07310

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(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 November 5, 2010 the number of shares outstanding of the Registrant's Class A Common Stock was 98,129,871 and there were no shares outstanding of the Registrant's Class B Common Stock.

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KNIGHT CAPITAL GROUP, INC.
FORM 10-Q QUARTERLY REPORT
For the Quarter Ended September 30, 2010

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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 September 30,		For the nine months ended September 30,	
	2010	2009	2010	2009
	(In thousands, except per share amounts)			
Revenues				
Commissions and fees	\$ 157,121	\$ 177,025	\$ 494,626	\$ 503,532
Net trading revenue	79,847	119,595	392,775	354,459
Interest, net	92	(1,050)	853	(2,687)
Investment income and other, net	2,449	4,360	1,768	3,847
Total revenues	239,509	299,930	890,022	859,151
Expenses				
Employee compensation and benefits	115,730	139,334	412,775	384,135
Execution and clearance fees	44,167	50,430	134,150	121,953
Communications and data processing	17,180	15,781	50,309	43,850
Depreciation and amortization	11,269	8,777	30,338	25,223
Interest	7,501	713	17,112	2,669
Occupancy and equipment rentals	6,630	5,930	19,332	17,180
Payments for order flow	6,598	17,737	28,712	57,813
Business development	4,451	4,058	14,991	13,497
Professional fees	3,976	3,410	12,762	9,410
Restructuring	16,731	-	16,731	-
Writedown of assets and lease loss accrual (benefit), net	-	-	1,032	(9,996)
Other	5,163	4,003	14,579	11,739
Total expenses	239,396	250,173	752,823	677,473
Income from continuing operations before income taxes	113	49,757	137,199	181,678
Income tax expense	45	19,278	54,578	73,360
Income from continuing operations, net of tax	68	30,479	82,621	108,318
Income (loss) from discontinued operations, net of tax	135	(1,253)	(215)	(34,228)
Net income	\$ 203	\$ 29,226	\$ 82,406	\$ 74,090
Basic earnings per share from continuing operations	\$ 0.00	\$ 0.34	\$ 0.92	\$ 1.22
Diluted earnings per share from continuing operations	\$ 0.00	\$ 0.32	\$ 0.88	\$ 1.16

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Basic earnings per share from discontinued operations	\$ 0.00	\$ (0.01)	\$ 0.00	\$ (0.38)
Diluted earnings per share from discontinued operations	\$ 0.00	\$ (0.01)	\$ 0.00	\$ (0.37)
Basic earnings per share	\$ 0.00	\$ 0.33	\$ 0.92	\$ 0.83
Diluted earnings per share	\$ 0.00	\$ 0.31	\$ 0.88	\$ 0.79
Shares used in computation of basic earnings per share	90,405	89,278	89,809	88,919
Shares used in computation of diluted earnings per share	93,278	93,958	94,054	93,532

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)**

	September 30, 2010	December 31, 2009
	(In thousands)	
ASSETS		
Cash and cash equivalents	\$ 480,871	\$ 427,106
Financial instruments owned, at fair value	1,358,406	926,589
Collateralized agreements:		
Securities borrowed	1,639,694	394,417
Receivable from brokers, dealers and clearing organizations	527,614	500,143
Fixed assets and leasehold improvements, at cost, less accumulated depreciation and amortization	114,176	98,696
Investments	86,456	118,619
Goodwill	317,650	265,530
Intangible assets, less accumulated amortization	91,497	93,332
Other assets	191,564	189,592
Total assets	\$ 4,807,928	\$ 3,014,024
LIABILITIES & EQUITY		
Liabilities		
Financial instruments sold, not yet purchased, at fair value	\$ 1,161,283	\$ 639,259
Collateralized financings:		
Securities loaned	1,030,730	550,226
Financial instruments sold under agreements to repurchase	230,000	-
Other secured financings	41,405	-
Payable to brokers, dealers and clearing organizations	405,048	155,148
Accrued compensation expense	161,312	205,282
Accrued expenses and other liabilities	123,359	109,987
Credit facility	-	140,000
Long-term debt	307,952	-
Total liabilities	3,461,089	1,799,902
Equity		
Knight Capital Group, Inc. stockholders' equity		
Class A common stock	1,622	1,586
Shares authorized: 500,000 at September 30, 2010 and at December 31, 2009; Shares issued: 162,183 at September 30, 2010 and 158,641 at December 31, 2009;		
Shares outstanding: 97,607 at September 30, 2010 and 92,791 at December 31, 2009		
Additional paid-in capital	794,626	746,778
Retained earnings	1,308,230	1,229,112
Treasury stock, at cost; 64,576 shares at September 30, 2010 and 65,850 shares at December 31, 2009	(758,057)	(763,974)
Accumulated other comprehensive loss	(204)	-
Total Knight Capital Group, Inc. stockholders' equity	1,346,217	1,213,502
Noncontrolling interests	622	620

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Total equity	1,346,839	1,214,122
Total liabilities and equity	\$ 4,807,928	\$ 3,014,024

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

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KNIGHT CAPITAL GROUP, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	For the nine months ended September 30,	
	2010	2009
	(In thousands)	
Cash flows from operating activities		
Net income	\$ 82,406	\$ 74,090
Loss from discontinued operations, net of tax	(215)	(34,228)
Income from continuing operations, net of tax	82,621	108,318
Adjustments to reconcile income from continuing operations, net of tax to net cash used in operating activities		
Stock-based compensation	39,662	35,975
Depreciation and amortization	30,338	25,223
Debt discount accretion and other debt related expenses		