KNIGHT CAPITAL GROUP, INC.
Form 10-Q
August 09, 2012
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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)

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 x 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 x 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 x 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 x

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.

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KNIGHT CAPITAL GROUP, INC.

FORM 10-Q QUARTERLY REPORT

For the Quarter Ended June 30, 2012

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements.

KNIGHT CAPITAL GROUP, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

	For the three months ended June 30, 2012	For the three months ended June 30, 2011	For the six months ended June 30, 2012	For the six months ended June 30, 2011
	(In thousands, except per share amounts)			
Revenues				
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
Total revenues	289,254	325,982	638,279	665,758
Expenses				
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
Total expenses	283,898	296,528	578,923	586,220
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)
Net income	$ 3,291	$ 17,572	$ 36,397	$ 48,064
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

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.

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KNIGHT CAPITAL GROUP, INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Unaudited)

	For the three months ended June 30,		For the six months ended June 30,	
	2012	2011	2012	2011
	(In thousands)		(In thousands)	
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.

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KNIGHT CAPITAL GROUP, INC.

CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

(Unaudited)

	June 30, 2012	December 31, 2011
ASSETS		
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
Total financial instruments owned, at fair value	5,029,950	3,781,791
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
Total assets	$ 9,194,962	$ 7,152,951
LIABILITIES & EQUITY		
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
Total financial instruments sold, not yet purchased, at fair value	1,680,518	1,721,892
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
Total collateralized financings	4,603,115	2,888,350
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
Total liabilities	7,697,996	5,690,926
Equity		
Class A common stock		

Shares authorized: 500,000 at June 30, 2012 and at December 31, 2011; Shares issued: 170,088 at June 30, 2012 and 166,361 at December 31, 2011;		
Shares outstanding: 97,909 at June 30, 2012 and 96,645 at December 31, 2011	1,701	1,664
Additional paid-in capital	881,331	850,837
Retained earnings	1,469,717	1,433,320
Treasury stock, at cost; 72,179 at June 30, 2012 and 69,717 shares at December 31, 2011	(855,099)	(823,023)
Accumulated other comprehensive loss	(684)	(773)
Total equity	1,496,966	1,462,025
Total liabilities and equity	$ 9,194,962	$ 7,152,951

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 six months ended June 30,	
	2012	2011
	(In thousands)	
Cash flows from operating activities		
Net income	$ 36,397	$ 48,064
Loss from discontinued operations, net of tax	-	(319)
Income from continuing operations, net of tax	36,397	48,383
Adjustments to reconcile income from continuing operations, net of tax to net cash (used in) provided by operating activities		
Stock-based compensation	28,206	28,204
Depreciation and amortization	26,789	26,733
Debt discount accretion and other debt related expenses	8,646	7,379
Writedown of assets and lease loss accrual	-	945
Deferred rent	(277)	148
Unrealized gain on investments	(10,006)	(1,833)
Operating activities from discontinued operations	-	(394)
(Increase) decrease in operating assets		
Cash and securities segregated under federal and other regulations	(78,836)	(3,496)
Financial instruments owned, at fair value	(1,257,690)	(1,150,716)
Securities borrowed	(413,134)	(270,430)
Receivable from brokers, dealers and clearing organizations	104,311	(206,981)
Other assets	(9,910)	(37,336)
(Decrease) increase in operating liabilities		
Financial instruments sold, not yet purchased, at fair value	(31,842)	607,536
Securities loaned	541,170	94,991
Financial instruments sold under agreements to repurchase	129,865	281,075
Other secured financings	37,035	16,399
Liability to GNMA trusts, at fair value	1,006,696	557,711
Payable to brokers and dealers and clearing organizations	(32,850)	74,871
Payable to customers	(64,023)	4,695
Accrued compensation expense	(74,005)	(57,268)
Accrued expenses and other liabilities	6,084	29,432
Net cash (used in) provided by operating activities	(47,374)	50,048
Cash flows from investing activities		
Distributions from investments	3,309	3,689
Purchases of investments	(9,747)	(21,596)
Purchases of fixed assets and leasehold improvements	(15,211)	(22,096)
Purchase of intangible asset	(50)	-
Purchases of business, net of cash acquired	(3,072)	-
Net cash used in investing activities	(24,771)	(40,003)
Cash flows from financing activities		
Proceeds from credit facility	-	97,838
Stock options exercised	1,076	644
Income tax benefit related to stock-based compensation	170	64
Cost of common stock repurchased	(32,024)	(13,392)
Net cash (used in) provided by financing activities	(30,778)	85,154

Effect of exchange rate changes on cash and cash equivalents	88	(214)
(Decrease) increase in cash and cash equivalents	(102,835)	94,985
Cash and cash equivalents at beginning of period	467,633	375,569
Cash and cash equivalents at end of period	$ 364,798	$ 470,554
Supplemental disclosure of cash flow information:		
Cash paid for interest	$ 32,318	$ 22,887
Cash paid for income taxes	$ 44,166	$ 12,283

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

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KNIGHT CAPITAL GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

1. Organization and Description of the Business

Knight Capital Group, Inc. (collectively with its subsidiaries, Knight or the Company) is a global financial services firm that provides access to the capital markets across multiple asset classes to a broad network of clients, including broker-dealers, institutions and corporations. The Company seeks to continually apply its expertise and innovation to the market making and trading process to build lasting client relationships through consistent performance and superior client service. The Company has four operating segments: (i) Market Making; (ii) Institutional Sales and Trading; (iii) Electronic Execution Services; and (iv) Corporate and Other.

Market Making

The Market Making segment principally consists of market making in global equities and listed domestic options. As a market maker, the Company commits capital for trade executions by offering to buy securities from, or sell securities to, institutions and broker-dealers. The Market Making segment primarily includes client, and to a lesser extent, non-client market making activities in which the Company operates as a market maker in equity securities quoted and traded on the Nasdaq Stock Market; the over-the-counter (OTC) market for New York Stock Exchange (NYSE), NYSE Amex Equities (NYSE Amex), NYSE Arca listed securities; and several European exchanges. As a complement to electronic market making, the Company s cash trading business handles specialized orders and also transacts on the OTC Bulletin Board, the OTC Pink Markets and the Alternative Investment Market (AIM) of the London Stock Exchange. The segment provides trade executions as an equities Designated Market Maker (DMM) on the NYSE and NYSE Amex. The Market Making segment also includes the Company s option market making business which trades on substantially all domestic electronic exchanges.

Institutional Sales and Trading

The Institutional Sales and Trading segment includes global equity, exchange traded fund (ETF), and fixed income sales; reverse mortgage origination and securitization; capital markets; and asset management activities. The primary business of the Institutional Sales and Trading segment is to execute and facilitate equities, ETFs and fixed income transactions as an agent on behalf of institutional clients, and commit capital on behalf of clients when needed. This is predominantly a full-service execution business, in which much of the interaction is based on the Company s client relationships. This segment also facilitates client orders through program and block trades and riskless principal trades and provides capital markets services, including equity and debt offerings as well as private placements.

Electronic Execution Services

The Electronic Execution Services segment offers access via its electronic agency-based platforms to markets and self-directed trading in equities, options, fixed income, foreign exchange and futures. In contrast to Market Making, the businesses within this segment generally do not act as a principal to transactions that are executed and generally earn commissions for acting as an agent between the principals to the trade.

KNIGHT CAPITAL GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS Continued

(Unaudited)

Corporate and Other

The Corporate and Other segment invests in strategic financial services-oriented opportunities, allocates, deploys and monitors all capital, and maintains corporate overhead expenses and all other income and expenses that are not attributable to the other segments. The Corporate and Other segment houses functions that support the Company s other segments such as self-clearing services, including securities lending activities. Beginning in the second quarter of 2012, the Corporate and Other segment includes the Company s Futures Commission Merchant (FCM) which comprises certain assets and liabilities that were acquired from the futures division of Penson Financial Services, Inc. (Penson) on June 1, 2012. This business provides futures execution, clearing and custody services to facilitate transactions among brokers, institutions and non-clearing FCMs on major U.S. and European futures and options exchanges and also offers risk management and consultation services and operates an electronic futures trading platform for professional traders and individual investors.

Discontinued Operations

Discontinued operations comprise costs associated with shutting down the Company s former Deephaven Capital Management business which was discontinued in 2009.

2. Significant Accounting Policies

Basis of consolidation and form of presentation

The accompanying unaudited Consolidated Financial Statements, prepared in conformity with accounting principles generally accepted in the United States of America (GAAP), should be read in conjunction with the audited Consolidated Financial Statements included in the Current Report on Form 8-K dated August 6, 2012. These unaudited Consolidated Financial Statements reflect all adjustments that are, in the opinion of management, necessary for a fair statement of the results for the interim periods presented. All such adjustments are of a normal recurring nature. Certain footnote disclosures normally included in financial statements prepared in accordance with GAAP have been condensed or omitted pursuant to U.S. Securities and Exchange Commission (SEC) rules and regulations, although the Company believes that the disclosures herein are adequate to make the information presented not misleading. All significant intercompany transactions and balances have been eliminated. Interim period operating results may not be indicative of the operating results for a full year.

Certain reclassifications have been made to the prior periods Consolidated Financial Statements in order to conform to the current year presentation. Such reclassifications had no effect on previously reported Net income.

The Company consolidates all of its wholly-owned subsidiaries as well as any investment in which it is considered to be the primary beneficiary of a variable interest entity (VIE). The Company performs a qualitative assessment to determine if a VIE should be consolidated. As described in more detail in this footnote, the primary attributes the Company assesses include the entity s capital structure and power. The Company will consolidate a VIE if it has both (i) the power to direct the activities of a VIE that most significantly impact the entity s economic performance and (ii) the

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KNIGHT CAPITAL GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS   Continued

(Unaudited)

obligation to absorb losses of the entity that could potentially be significant to the VIE or the right to receive benefits from the entity that could potentially be significant to the VIE. As of June 30, 2012 and December 31, 2011, the Company was not considered to be a primary beneficiary of any VIE.

Cash and cash equivalents

Cash and cash equivalents include money market accounts, which are payable on demand, and short-term investments with an original maturity of less than 90 days. The carrying amount of such cash equivalents approximates their fair value due to the short-term nature of these instruments.

Cash and securities segregated under federal and other regulations

The Company maintains custody of customer funds and, as a result, it is subject to various regulatory rules and regulations. As a result of these customer holdings, the Company is obligated by the SEC and the Commodities Futures Trading Commission (CFTC) to segregate or set aside cash and/or qualified securities to satisfy these regulations, which have been promulgated to protect customer assets. The amounts recognized as cash and securities segregated under federal and other regulations approximate fair value.

Market making, sales, trading and execution activities

Financial instruments owned and Financial instruments sold, not yet purchased, which relate to market making and trading activities, include listed and OTC equity securities, listed equity options and fixed income securities which are recorded on a trade date basis and carried at fair value. Net trading revenue (trading gains, net of trading losses) are also recorded on a trade date basis.

Commissions (which includes commission equivalents earned on institutional client orders, commissions on futures transactions and home equity conversion mortgage (HECM) loan origination and securitization activities) and related expenses are also recorded on a trade date basis. Commissions earned by the Company s FCM are recorded net of any commissions paid to independent brokers and are recognized on a half-turn basis.

The Company s third party clearing agreements call for payment or receipt of interest income, net of transaction-related interest charged by clearing brokers, for facilitating the settlement and financing of securities transactions. The Company also nets interest income on its securitized HECM loan inventory against interest expense on its liability to Government National Mortgage Association (GNMA) trusts. Interest income and interest expense which have been netted on the Consolidated Statements of Operations are as follows (in thousands):

	For the three months ended June 30,		For the six months ended June 30,	
	2012	2011	2012	2011
Interest Income	$ 33,083	$ 6,165	$ 64,001	$ 12,767
Interest Expense	(27,159)	(3,859)	(50,939)	(7,361)
Interest, net	$ 5,924	$ 2,306	$ 13,062	$ 5,406

KNIGHT CAPITAL GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS Continued

(Unaudited)

Dividend income relating to securities owned and dividend expense relating to securities sold, not yet purchased, derived primarily from the Company s market making activities are included as a component of Net trading revenue on the Consolidated Statements of Operations. Net trading revenue includes dividend income and expense as follows (in thousands):

	For the three months ended June 30,		For the six months ended June 30,	
	2012	2011	2012	2011
Dividend Income	$ 7,311	$ 5,982	$ 14,271	$ 10,589
Dividend Expense	$ (7,143)	$ (5,505)	$ (12,170)	$ (10,259)

Payments for order flow represent payments to broker-dealer clients, in the normal course of business, for directing their order flow in U.S. equities and options to the Company. Payments for order flow also include fees paid to third party brokers with respect to wholesale loan production at the Company s reverse mortgage business.

Fair value of financial instruments

The Company values its financial instruments using a hierarchy of fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs when measuring fair value.

The fair value hierarchy can be summarized as follows:

Level 1 Valuations based on quoted prices in active markets for identical assets or liabilities that the Company has the ability to access. Since valuations are based on quoted prices that are readily and regularly available in an active market, valuation of these products does not entail a significant degree of judgment.

Level 2 Valuations based on quoted prices in markets that are not active or for which all significant inputs are observable, either directly or indirectly.

Level 3 Valuations based on inputs that are unobservable and significant to the overall fair value measurement.

Changes in fair value are recognized in earnings each period for financial instruments that are carried at fair value. See Footnote 4 Fair Value of Financial Instruments for a description of valuation methodologies applied to the classes of financial instruments at fair value.

Securitization activities

The Company securitizes HECMs under its GNMA issuance authority. Securitization and transfer of financial assets to a third party are generally accounted for as sales when an issuer has relinquished control over the transferred assets. Based upon the current structure of the GNMA securitization program, the Company believes that it has not met the GAAP criteria for relinquishing control over the transferred assets and therefore its securitizations fail to meet the GAAP criteria for sale accounting. As such, the Company continues to recognize the HECMs in Financial instruments owned, at fair value, and the Company recognizes a corresponding liability in Liability to GNMA trusts, at fair value on

KNIGHT CAPITAL GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS Continued

(Unaudited)

the Consolidated Statements of Financial Condition. The associated change in fair value of the securitized HECM loan inventory is recorded in Commissions and fees on the Consolidated Statements of Operations.

Collateralized agreements and financings

Collateralized agreements consist of securities borrowed and collateralized financings include securities loaned, financial instruments sold under agreements to repurchase, other secured financings and liability to GNMA trusts, at fair value.

Securities borrowed and securities loaned transactions are recorded at the amount of cash collateral advanced or received. Securities borrowed transactions facilitate the securities settlement process and require the Company to deposit cash or other collateral with the lender. Securities loaned transactions help finance the Company s securities inventory whereby the Company lends stock to counterparties in exchange for the receipt of cash or other collateral from the borrower. In these transactions, the Company receives or lends cash or other collateral in an amount generally in excess of the market value of the applicable securities borrowed or loaned. The Company monitors the market value of securities borrowed or loaned on a daily basis, with additional collateral obtained or refunded as necessary.

Financial instruments sold under agreements to repurchase are used to finance inventories of securities and other financial instruments and are recorded at their contractual amount. The Company has entered into bilateral and tri-party term and overnight repurchase agreements which bear interest at negotiated rates. The Company receives cash and makes delivery of financial instruments to a custodian who monitors the market value of these instruments on a daily basis. The market value of the instruments delivered must be equal to or in excess of the principal amount loaned under the repurchase agreements plus the agreed upon margin requirement. The custodian may request additional collateral, if appropriate.

Other secured financings represent contractual agreements used to finance financial instruments and are recorded at their contractual amount. These agreements are short-term in nature with durations of typically less than one month and bear interest at negotiated rates. The Company receives cash and pledges financial instruments to banks and other financial institutions as collateral for these secured financing arrangements. The market value of the collateral delivered must be in excess of the principal amount loaned plus the agreed upon margin requirement under the secured financings. The banks and other financial institutions may request additional collateral, if appropriate.

Liability to GNMA trusts, at fair value, represents the liability associated with the Company s securitization of HECMs where the securitization does not meet the GAAP criteria for sale treatment.

The Company s securities borrowed, securities loaned, financial instruments sold under agreements to repurchase and other secured financings are recorded at amounts that approximate fair value. These items are recorded based upon their contractual terms and are not materially sensitive to shifts in interest rates because they are short-term in nature and are fully collateralized. These items would be categorized as Level 2 in the fair value hierarchy if they were required to be recorded at fair value.

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KNIGHT CAPITAL GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS Continued

(Unaudited)

Investments

Investments primarily comprise strategic investments and deferred compensation investments. Strategic investments include noncontrolling equity ownership interests and debt instruments held by the Company within its non-broker-dealer subsidiaries, primarily in financial services-related businesses. Strategic investments are accounted for under the equity method, at cost or at fair value. The equity method of accounting is used where the Company is considered to exert significant influence on the investee. Strategic investments are held at cost, less impairment if any, when the Company is not considered to exert significant influence on operating and financial policies of the investee. Deferred compensation investments primarily consist of mutual funds, which are accounted for at fair value.

Strategic investments are reviewed on an ongoing basis to ensure that the carrying values of the investments have not been impaired. If the Company determines that an impairment loss on a strategic investment has occurred due to a decline in fair value or other market conditions, the investment is written down to its estimated fair value.

The Company maintains a non-qualified deferred compensation plan related to certain employees and directors. This plan provides a return to the participants based upon the performance of various investments. In order to hedge its liability under this plan, the Company generally acquires the underlying investments and holds such investments until the deferred compensation liabilities are satisfied. Changes in value of such investments are recorded in Investment income and other, net, with a corresponding charge or credit to Employee compensation and benefits on the Consolidated Statements of Operations.

Goodwill and intangible assets

The Company tests goodwill and intangible assets with an indefinite useful life for impairment annually or when an event occurs or circumstances change that signifies the existence of an impairment. The Company amortizes other intangible assets on a straight line basis over their estimated useful lives and tests for recoverability whenever events indicate that the carrying amounts may not be recoverable.

Payable to customers

Payable to customers arise primarily from futures transactions and include amounts due on cash and margin transactions. Due to their short-term nature, such amounts approximate fair value.

Treasury stock

The Company records its purchases of treasury stock at cost as a separate component of stockholders equity. The Company obtains treasury stock through purchases in the open market or through privately negotiated transactions. The Company may re-issue treasury stock, at average cost, for the acquisition of new businesses or, in certain instances, as inducement grants to new hires or grants to consultants.

KNIGHT CAPITAL GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS Continued

(Unaudited)

Foreign currency translation and foreign currency forward contracts

The Company s European subsidiary utilizes the Pound Sterling as its functional currency while the Company s Hong Kong subsidiary utilizes the Hong Kong dollar as its functional currency. For all other entities, the Company s functional currency is the U.S. dollar.

Assets and liabilities of foreign subsidiaries having non-U.S. dollar functional currencies are translated at exchange rates at the end of a period. Revenues and expenses are translated at average exchange rates during the period. Gains and losses resulting from translating foreign currency financial statements into U.S. dollars are included in Accumulated other comprehensive loss on the Consolidated Statements of Financial Condition and Cumulative translation adjustment on the Consolidated Statements of Comprehensive Income. Gains or losses resulting from foreign currency transactions are included in Investment income and other, net on the Company s Consolidated Statements of Operations. For the three months ended June 30, 2012 and 2011, a gain of $0.9 million and a loss of $0.8 million, respectively, were recorded in Investment income and other, net on the Company s Consolidated Statements of Operations and a gain of $1.1 million and a loss of $1.0 million were recorded for the six months ended June 30, 2012 and 2011, respectively.

The Company seeks to reduce the impact of fluctuations in foreign exchange rates on its net investment in certain non-U.S. operations through the use of foreign currency forward contracts. For foreign currency forward contracts designated as hedges, the Company assesses its risk management objectives and strategy, including identification of the hedging instrument, the hedged item and the risk exposure and how effectiveness is to be assessed prospectively and retrospectively. The ineffectiveness of the hedge is assessed based on the overall changes in the fair value of the forward contracts. For qualifying net investment hedges, any gains or losses, to the extent effective, are included in Accumulated other comprehensive loss on the Consolidated Statements of Financial Condition and the Consolidated Statements of Comprehensive Income. The ineffective portion, if any, is recorded in Investment income and other, net on the Consolidated Statements of Operations.

Soft dollar expense

Under a commission management program, the Company allows institutional clients to allocate a portion of their gross commissions to pay for research and other services provided by third parties. As the Company acts as an agent in these transactions, it records such expenses on a net basis within Commissions and fees on the Consolidated Statements of Operations.

Depreciation, amortization and occupancy

Fixed assets are depreciated on a straight-line basis over their estimated useful lives of three to seven years. Leasehold improvements are being amortized on a straight-line basis over the shorter of the term of the related office lease or the expected useful life of the assets. The Company capitalizes certain costs associated with the acquisition or development of internal-use software and amortizes the software over its estimated useful life of three years, commencing at the time the software is placed in service. The Company reviews fixed assets and leasehold improvements for impairment whenever events or changes in circumstances indicate that the related carrying amounts may not be recoverable.

The Company recognizes rent expense under operating leases with fixed rent escalations, lease incentives and free rent periods on a straight-line basis over the lease term beginning on the date the Company takes possession of or controls the use of the space, including during free rent periods.

KNIGHT CAPITAL GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS Continued

(Unaudited)

Lease loss accrual

The Company s policy is to identify excess real estate capacity and where applicable, accrue for related future costs, net of estimated sub-lease income. In the event the Company is able to sub-lease the excess real estate after recording a lease loss, such accrual is adjusted to the extent the actual terms of sub-leased property differ from the assumptions used in the calculation of the accrual. In the event that the Company concludes that previously determined excess real estate is needed for the Company s use, such lease loss accrual is adjusted accordingly.

Income taxes

The Company records deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the financial reporting and tax bases of assets and liabilities and measures them using the enacted tax rates and laws that will be in effect when such differences are expected to reverse. The Company evaluates the recoverability of future tax deductions by assessing the adequacy of future expected taxable income from all sources, including reversal of temporary differences and forecasted operating earnings. Net deferred tax assets and liabilities are included in Other assets and Accrued expenses and other liabilities, respectively, on the Consolidated Statements of Financial Condition.

Stock-based compensation

Stock-based compensation is measured based on the grant date fair value of the awards. These costs are amortized over the requisite service period, which is typically the vesting period.

Expected forfeitures are considered in determining stock-based employee compensation expense. For all periods presented, the Company recorded a benefit for expected forfeitures on all outstanding stock-based awards. The benefit recorded did not have a material impact on the results of operations in any of the periods presented.

The Company applies a non-substantive vesting period approach for stock-based awards whereby the expense is accelerated for those employees and directors that receive options and restricted stock units (RSUs) and are eligible to retire prior to the options or RSUs vesting.

Variable interest entities

A VIE is an entity that lacks one or more of the following characteristics (i) the total equity investment at risk is sufficient to enable the entity to finance its activities independently and (ii) the equity holders have the power to direct the activities of the entity that most significantly impact its economic performance, the obligation to absorb the losses of the entity and the right to receive the residual returns of the entity. The Company has a controlling financial interest and will consolidate a VIE if it has both (i) the power to direct the activities of the VIE that most significantly impact the VIE s economic performance and (ii) the obligation to absorb losses of the VIE or the right to receive benefits from the VIE that could potentially be significant to the VIE.

VIEs generally finance the purchase of assets by issuing debt and equity securities that are either collateralized by or indexed to the assets held by the VIE. The debt and equity securities issued by a VIE may include tranches of varying levels of subordination. The Company s involvement with VIEs includes purchased interests and commitments to VIEs.

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KNIGHT CAPITAL GROUP, INC.

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(Unaudited)

The Company is principally involved with VIEs through the following business activities:

Mortgage-backed securities (MBS) The Company purchases and sells beneficial interests issued by mortgage-backed VIEs in connection with its trading activities

Securitized HECM loan inventory The Company sells HECM loans to GNMA trusts which have the characteristics of a VIE and retains certain commitments and obligations to these trusts

Nonconsolidated VIEs

The Company s exposure to the obligations of VIEs is generally limited to its interests in these entities. Nonconsolidated VIEs are aggregated based on principal business activity.

For MBS, the maximum exposure to loss is the carrying value of these interests

For Securitized HECM loan inventory, the maximum exposure to loss is the value of the obligations as issuer and servicer to the GNMA trust

The carrying values of the Company s variable interests in nonconsolidated VIEs are included in the Consolidated Statements of Financial Condition as follows:

MBS are included as Debt securities within Financial instruments owned, at fair value

Securitized HECM loan inventory VIEs are captured in the valuation of the Securitized HECM loan inventory and the Liability to GNMA trusts, at fair value

The following table presents the Company s nonconsolidated VIEs at June 30, 2012 and December 31, 2011 (in thousands):

	June 30, 2012	
	Securitized HECM loan inventory	MBS
Carrying value of the VIEs		
Assets	$ -	$ 169,406
Liabilities	618	-
Maximum exposure to loss in nonconsolidated VIEs		
Commitments	19,015	-

Purchased interests	-	169,406

	December 31, 2011	
	Securitized HECM loan inventory	MBS
Carrying value of the VIEs		
Assets	$ -	$ 16,399
Liabilities	2,299	-
Maximum exposure to loss in nonconsolidated VIEs		
Commitments	12,874	-
Purchased interests	-	16,399

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(Unaudited)

Use of estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results may differ from those estimates.

Accounting Standards Updates

In December 2011, the FASB issued an Accounting Standard Update (ASU) that requires additional disclosures about financial assets and liabilities that are subject to netting arrangements. Under the ASU, financial assets and liabilities must be disclosed at their respective gross asset and liability amounts, the amounts offset on the balance sheet and a description of the respective netting arrangements. The new disclosures are required for annual reporting periods beginning on or after January 1, 2013, and are to be applied retrospectively. The Company has determined that the adoption of this ASU will not have an impact on its Consolidated Financial Statements.

3. Segregated Cash and Securities

Cash and Securities segregated under federal and other regulations primarily relates to the Company s recently acquired FCM business (see Footnote 16 Acquisition for further discussion) consists of the following (in thousands):

	June 30, 2012	December 31, 2011
Segregated cash	$ 188,091	$ 11,010
Segregated securities	2,300	-
Total Segregated Cash and Securities	**$ 190,391**	**$ 11,010**

Segregated securities consist of U.S. government obligations.

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(Unaudited)

4. Fair Value of Financial Instruments

The Company s financial instruments recorded at fair value have been categorized based upon a fair value hierarchy, as described more fully in Footnote 2 Significant Accounting Policies. The following fair value hierarchy table presents information about the Company s financial assets and liabilities measured at fair value on a recurring basis (in thousands):

	Assets and Liabilities Measured at Fair Value on a Recurring Basis			
June 30, 2012	**Level 1**	**Level 2**	**Level 3**	**Total**
Assets				
Financial instruments owned, at fair value:				
Equities[1]	$ 1,641,451	$ -	$ -	$ 1,641,451
Listed equity options	191,157	-	-	191,157
U.S. government obligations	9,734	-	-	9,734
Corporate debt[2]	83,458	-	-	83,458
Mortgage-backed securities	112,159	57,247	-	169,406
Loan inventory	-	183,900	-	183,900
Purchased call options	-	8,001	-	8,001
Foreign currency forward contracts	-	3,926	-	3,926
Securitized HECM loan inventory[3]	-	2,738,917	-	2,738,917
Total Financial instruments owned, at fair value	2,037,959	2,991,991	-	5,029,950
Securities segregated under federal and other regulations[4]	2,300	-	-	2,300
Securities on deposit with clearing organizations[4]	183,556	-	-	183,556
Deferred compensation investments[5]	-	20,859	-	20,859
Investment in Deephaven Funds[5]	-	2,154	-	2,154
Total fair value of financial instrument assets	$ 2,223,815	$ 3,015,004	$ -	$ 5,238,819
Liabilities				
Financial instruments sold, not yet purchased, at fair value:				
Equities[1]	$ 1,256,365	$ -	$ -	$ 1,256,365
Listed equity options	178,990	-	-	178,990
U.S. government obligations	148,880	-	-	148,880
Corporate debt[2]	88,282	-	-	88,282
Embedded conversion derivative	-	8,001	-	8,001
Total Financial instruments sold, not yet purchased, at fair value	1,672,517	8,001	-	1,680,518
Liability to GNMA trusts, at fair value[3]	-	2,717,323	-	2,717,323
Total fair value of financial instrument liabilities	$ 1,672,517	$ 2,725,324	$ -	$ 4,397,841

(1) Equities of $713.3 million have been netted by their respective long and short positions by CUSIP number.
(2) Corporate debt of $0.6 million has been netted by respective long and short positions by CUSIP number.

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(Unaudited)

(3) Represents HECMs that have been securitized into HECM Mortgage Backed Securities (HMBS) where the securitization is not accounted for as a sale of the underlying HECMs. See *Securitized HECM loan inventory* below for full description.
(4) Securities segregated under federal and other regulations and Securities on deposit with clearing organizations consist of U.S. government obligations.
(5) Deferred compensation investments and investment in the Deephaven Funds are included within Investments on the Consolidated Statements of Financial Condition.

	Assets and Liabilities Measured at Fair Value on a Recurring Basis			
December 31, 2011	**Level 1**	**Level 2**	**Level 3**	**Total**
Assets				
Financial instruments owned, at fair value:				
Equities[1]	$ 1,416,090	$ -	$ -	$ 1,416,090
Listed equity options	280,384	-	-	280,384
U.S. government obligations	44,316	-	-	44,316
Corporate debt[2]	73,916	-	-	73,916
Mortgage-backed securities	16,399	-	-	16,399
Loan inventory	-	206,572	-	206,572
Purchased call options	-	17,532	-	17,532
Foreign currency forward contracts	-	3,951	-	3,951
Securitized HECM loan inventory[3]	-	1,722,631	-	1,722,631
Total Financial instruments owned, at fair value	1,831,105	1,950,686	-	3,781,791
Deferred compensation investments[4]	-	20,414	-	20,414
Investment in Deephaven Funds[4]	-	1,319	-	1,319
Total fair value of financial instrument assets	$ 1,831,105	$ 1,972,419	$ -	$ 3,803,524
Liabilities				
Financial instruments sold, not yet purchased, at fair value:				
Equities[1]	$ 1,369,750	$ -	$ -	$ 1,369,750
Listed equity options	254,506	-	-	254,506
U.S. government obligations	10,644	-	-	10,644
Corporate debt[2]	52,429	-	-	52,429
Embedded conversion derivative	-	17,532	-	17,532
Total return swap	-	17,031	-	17,031
Total Financial instruments sold, not yet purchased, at fair value	1,687,329	34,563	-	1,721,892
Liability to GNMA trusts, at fair value[3]	-	1,710,627	-	1,710,627
Total fair value of financial instrument liabilities	$ 1,687,329	$ 1,745,190	$ -	$ 3,432,519

(1) Equities of $400.6 million have been netted by their respective long and short positions by CUSIP number.
(2) Corporate debt of $0.4 million has been netted by respective long and short positions by CUSIP number.

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(Unaudited)

(3) Represents HECMs that have been securitized into HMBS where the securitization is not accounted for as a sale of the underlying HECMs. See *Securitized HECM loan inventory* below for full description.

(4) Deferred compensation investments and investment in the Deephaven Funds are included within Investments on the Consolidated Statements of Financial Condition. Excluded from deferred compensation investments is $1.1 million of Level 2 assets which relate to discontinued operations and are included within Other assets on the Consolidated Statements of Financial Condition.

The Company s equities, listed equity options, U.S. government obligations, rated corporate debt, and actively traded mortgage-backed securities will generally be classified within Level 1 of the fair value hierarchy because they are valued using quoted market prices or broker or dealer quotations with reasonable levels of price transparency.

The types of instruments that trade in markets that are not considered to be active, but are valued based on observable inputs such as quoted market prices or alternative pricing sources with reasonable levels of price transparency are generally classified within Level 2 of the fair value hierarchy.

Certain instruments are classified within Level 3 of the fair value hierarchy because they trade infrequently and therefore have little or no price transparency. For those instruments that are not traded in active markets or are subject to transfer restrictions, valuations are adjusted to reflect illiquidity and/or non-transferability, and such adjustments are generally based on available market evidence. In the absence of such evidence, management s best estimate is used. As of June 30, 2012 and December 31, 2011, the Company did not hold any financial instruments that met the definition of Level 3.

There were no transfers of financial instruments between levels of the fair value hierarchy for any periods presented.

As of June 30, 2012 and December 31, 2011, the Company s loan inventory, foreign currency forward contracts, certain mortgage-backed securities, purchased call options and embedded conversion derivative related to its long-term debt (see Footnote 9 Long-Term Debt), deferred compensation investments and its remaining investment in the Deephaven Funds are classified within Level 2 of the fair value hierarchy.

The following is a description of the valuation basis, techniques and significant inputs used by the Company in valuing its Level 2 assets:

Loan inventory

The Company s loan inventory primarily comprises newly issued HECMs that it has originated or purchased and for which the Company has elected to account for at fair value. Significant inputs that are used in determining fair value include LIBOR and U.S. treasury interest rates, weighted average coupon and pricing of actively-traded HMBS and dealer quotations for HECMs.

KNIGHT CAPITAL GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS Continued

(Unaudited)

Securitized HECM loan inventory

Securitized HECM loan inventory comprises HECMs that the Company has securitized into HMBS. The Company has recorded the securitized loans in Financial instruments owned, at fair value and a corresponding liability recorded as Liability to GNMA trusts, at fair value, on its Consolidated Statements of Financial Condition. As of June 30, 2012 and December 31, 2011 all of the HMBS created by the Company has been sold to third parties. Significant inputs that are used in determining fair value include LIBOR and U.S. treasury interest rates, weighted average coupon and pricing of actively-traded HMBS and dealer quotations for HECMs.

Foreign currency forward contracts

At June 30, 2012 and December 31, 2011, the Company had a foreign currency forward contract with a notional value of 75.0 million British pounds which is used to hedge the Company s investment in its European subsidiary. As of June 30, 2012 and December 31, 2011, the Company had a foreign currency forward contract with a notional value of 6.0 million Euros which is used as an economic hedge against a strategic investment that is denominated in Euros. The fair value of these contracts was determined based upon spot foreign exchange rates, LIBOR interest rates and dealer quotations.

Mortgage-backed securities

The Company s mortgage-backed securities that are not actively traded are priced based upon dealer quotations, prices observed from recently executed transactions and cash flow models that incorporate LIBOR forward interest rates, weighted average coupon, weighted average loan age, loan to value and other observable inputs.

Purchased call options and embedded conversion derivative

The fair value of the purchased call options and embedded conversion derivative are determined using an option pricing model based on observable inputs such as implied volatility of the Company s common stock, risk-free interest rate, and other factors.

Deferred compensation investments

Deferred compensation investments comprise investments in liquid mutual funds that the Company acquires to hedge its obligations to employees and directors under certain non-qualified deferred compensation arrangements. These mutual fund investments can generally be redeemed at any time and are valued based upon quoted market prices.

Investment in the Deephaven Funds

Investment in the Deephaven Funds represents our residual investment in certain funds that were formerly managed by Deephaven Capital Management. These investments are in the process of liquidation and are valued based upon the fair value of the underlying investments within such funds.

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Fair value of derivative instruments

The Company enters into derivative transactions, primarily with respect to making markets in listed domestic options. In addition, the Company enters into derivatives to manage foreign currency exposure and related to its long-term debt (see Footnote 9 Long-Term Debt). Cash flows associated with such derivative activities are included in cash flows from operating activities on the Consolidated Statements of Cash Flows, when applicable.

The following tables summarize the fair value of derivative instruments in the Consolidated Statements of Financial Condition and the gains and losses included in the Consolidated Statements of Operations (in thousands):

	Statements of Financial	Fair Value as of	
Asset Derivatives	**Condition Location**	**June 30, 2012**	**December 31, 2011**
Derivative instruments not designated as hedging instruments:	Financial instruments owned, at fair value		
Purchased call options		$ 8,001	$ 17,532
Listed equity options(1)		191,157	280,384
Foreign currency forward contracts		234	477
		$ 199,392	$ 298,393
Derivative instruments designated as hedging instruments:	Financial instruments owned, at fair value		
Foreign currency forward contracts		$ 3,692	$ 3,474
Liability Derivatives			
Derivative instruments not designated as hedging instruments:	Financial instruments sold, not yet purchased, at fair value		
Embedded conversion derivative		$ 8,001	$ 17,532
Listed equity options(1)		178,990	254,506
Total return swap(2)		-	17,031
		$ 186,991	$ 289,069

(1) At June 30, 2012, the Company held 1.0 million long and 1.0 million short listed equity option contracts. At December 31, 2011, the Company held 1.3 million long and 1.5 million short listed equity option contracts. These contracts are not subject to collateral requirements and are not netted.

(2) At December 31, 2011, the total return swap liability was offset by an asset of equal value that was included in Financial Instruments owned, at fair value on the Company s Consolidated Statements of Financial Condition. This total return swap was liquidated during the first quarter of 2012.

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(Unaudited)

	Financial Statements Location	Gain (Loss) Recognized For the three months ended June 30, 2012	2011
Derivative instruments not designated as hedging instruments:			
Purchased call options	Investment income and other, net	$ (4,315)	$ (14,133)
Listed equity options[1]	Net trading revenue	9,784	8,682
Embedded conversion derivative	Investment income and other, net	4,315	14,133
Total return swap[2]	Investment income and other, net	-	(5,825)
Foreign currency forward contracts	Investment income and other, net	400	-
		$ 10,184	$ 2,857
Derivative instruments designated as hedging instruments:			
Foreign currency forward contracts	Accumulated other comprehensive income (loss)	$ 2,208	$ (125)

	Financial Statements Location	Gain (Loss) Recognized For the six months ended June 30, 2012	2011
Derivative instruments not designated as hedging instruments:			
Purchased call options	Investment income and other, net	$ (9,531)	$ (22,226)
Listed equity options[1]	Net trading revenue	(5,802)	8,731
Embedded conversion derivative	Investment income and other, net	9,531	22,226
Total return swap[2]	Investment income and other, net	-	(6,770)
Foreign currency forward contracts	Investment income and other, net	197	-
		$ (5,605)	$ 1,961
Derivative instruments designated as hedging instruments:			
Foreign currency forward contracts	Accumulated other comprehensive loss	$ (1,120)	$ (3,686)

(1) Realized gains and losses on listed equity options relate to the Company s market making activities in such options. Such market making activities also comprise trading in the underlying equity securities, with gains and losses on such securities generally offsetting the gains and losses reported in this table. Gains and losses on such equity securities are also included in Net trading revenue on the Company s Consolidated Statements of Operations.

(2) Loss on the total return swap is offset by an equal gain on the underlying position which is recorded in Investment income and other, net on the Company s Consolidated Statements of Operations.

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(Unaudited)

5. Collateralized Transactions

The Company receives financial instruments as collateral in connection with securities borrowed. Such financial instruments generally consist of equity and convertible securities but may include obligations of the U.S. government, federal agencies, sovereignties and corporations. In most cases, the Company is permitted to deliver or repledge these financial instruments in connection with securities lending and other secured financings and meeting settlement requirements.

The table below presents financial instruments at fair value received as collateral that were permitted to be delivered or repledged and that were delivered or repledged by the Company and in some instances could be further repledged by the receiving counterparty (in thousands):

	June 30, 2012	December 31, 2011
Collateral permitted to be delivered or repledged	$ 1,884,877	$ 1,450,281
Collateral that was delivered or repledged	1,479,916	1,383,298
Collateral permitted to be further repledged by the receiving counterparty	352,432	275,912

In order to finance securities positions and loan inventory, the Company also pledges financial instruments that it owns to counterparties who, in turn, are permitted to deliver or repledge them. Under these transactions, the Company pledges certain financial instruments owned to collateralize repurchase agreements and other secured financings. Repurchase agreements and other secured financings are short-term and mature within one year. Financial instruments owned and pledged to counterparties that do not have the right to sell or repledge such financial instruments consist of equity securities and loans.

The table below presents information about assets pledged by the Company (in thousands):

	June 30, 2012	December 31, 2011
Financial instruments owned, at fair value, pledged to counterparties that had the right to deliver or repledge	$ 3,623,697	$ 2,121,783
Financial instruments owned, at fair value, pledged to counterparties that do not have the right to deliver or repledge	646,028	550,926

6. Receivable from and Payable to brokers, dealers, and clearing organizations

Amounts receivable from and payable to brokers, dealers, and clearing organizations consist of the following (in thousands):

	June 30, 2012	December 31, 2011
Receivable:		
Clearing organizations and other	$ 755,243	$ 553,960
Securities failed to deliver	124,837	69,937
	$ 880,080	$ 623,897

Payable:				
Clearing organizations and other	$	215,092	$	306,728
Securities failed to receive		74,718		15,932
	$	289,810	$	322,660

KNIGHT CAPITAL GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS Continued

(Unaudited)

7. Investments

Investments include strategic investments, deferred compensation investments related to employee and director deferred compensation plans and investment in Deephaven Funds. Investments consist of the following (in thousands):

	June 30, 2012	December 31, 2011
Strategic investments:		
Investments accounted for under the equity method	$ 76,626	$ 59,711
Common stock of companies representing less than 20% equity ownership held at adjusted cost	1,788	1,787
Total Strategic investments	**78,414**	**61,498**
Deferred compensation investments	20,859	20,414
Investment in Deephaven Funds	2,154	1,319
Total Investments	**$ 101,427**	**$ 83,231**

During the second quarter of 2012, the Company became aware that a strategic investee that is accounted for under the equity method of accounting had identified errors in its accounting for income taxes. Specifically, the investee had not correctly accounted for an income tax benefit that resulted from a change in its tax status during 2010. The correction of this error by the investee resulted in an increase in the Company s equity method investment of $10.0 million. The Company evaluated the impact of recording this investment gain in the relevant prior periods and concluded that such amounts would not have been material, qualitatively or quantitatively, to its previously issued consolidated financial statements for any prior period. The Company also concluded that recording the investment gain in 2012 would not be material to its forecasted results for the year. Accordingly the Company recorded a $10.0 million gain in the second quarter of 2012.

8. Goodwill and Intangible Assets

Goodwill and intangible assets with an indefinite useful life are tested for impairment annually or when events indicate that the amounts may not be recoverable. As part of the test for impairment, the Company considers the profitability of the respective segment or reporting unit, an assessment of the fair value of the respective segment or reporting unit as well as the overall market value of the Company compared to its net book value. In June 2012 and 2011, the Company tested for the impairment of goodwill as part of its annual assessment and concluded that there was no impairment at that time. As a result of the event described in Footnote 18 Subsequent Event , which occurred after June 30, 2012 and therefore does not impact the carrying value of goodwill and intangible assets as of June 30, 2012. The Company will assess the impact of the subsequent event on goodwill and intangible assets in the quarter ending September 30, 2012.

As a result of a corporate restructuring the Company wrote off goodwill of $1.0 million in the Corporate and Other segment during the third quarter of 2011. No other events occurred in 2012 or 2011 that would indicate that the carrying amounts of the Company s goodwill may not be recoverable.

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(Unaudited)

The following table summarizes the Company s Goodwill as of June 30, 2012 and December 31, 2011 (in thousands):

	June 30, 2012	December 31, 2011
Market Making	$ 24,727	$ 24,727
Institutional Sales and Trading	147,736	147,736
Electronic Execution Services	165,380	165,380
Corporate and Other[1]	6,617	-
Consolidated Total	**$ 344,460**	**$ 337,843**

(1) During the second quarter of 2012, the Company recorded goodwill of $6.6 million as a result of the acquisition of certain assets and liabilities of the former futures division of Penson.

Intangible assets primarily represent client relationships and are amortized over their estimated remaining useful lives, the majority of which have been determined to range from two to 20 years. The weighted average remaining life of the Company s intangible assets at both June 30, 2012 and December 31, 2011 is approximately 11 years.

Amortizable intangibles are tested for recoverability whenever events indicate that the carrying amounts may not be recoverable. No events occurred during the three and six months ended June 30, 2012 or 2011 that would indicate that the carrying amounts of the Company s intangible assets may not be recoverable.

The following tables summarize the Company s Intangible assets, net of accumulated amortization as of June 30, 2012 and December 31, 2011 by segment and type (in thousands):

	June 30, 2012	December 31, 2011
Market Making		
Trading rights	$ 24,182	$ 25,283
Other	46	-
Total	24,228	25,283
Institutional Sales and Trading		
Customer and broker relationships	21,142	24,165
Trade names	1,300	1,350
Other	3,152	3,905
Total	25,594	29,420
Electronic Execution Services		

Customer and broker relationships		24,834		26,730
Trade names		5,980		6,207
Other		4,403		5,249
Total		35,217		38,186
Corporate and Other				
Customer and broker relationships[1]		3,500		-
Total		3,500		-
Consolidated Total	**$**	**88,539**	**$**	**92,889**

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KNIGHT CAPITAL GROUP, INC.

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(Unaudited)

(1) During the second quarter of 2012, the Company recorded intangible assets of $3.5 million as a result of the acquisition of certain assets and liabilities of the former futures division of Penson.

		June 30, 2012	December 31, 2011
Customer and broker relationships(1)	Gross carrying amount	$ 97,100	$ 93,600
	Accumulated amortization	(47,624)	(42,705)
	Net carrying amount	49,476	50,895
Trading Rights(2)	Gross carrying amount	28,520	28,520
	Accumulated amortization	(4,338)	(3,237)
	Net carrying amount	24,182	25,283
Trade names(3)	Gross carrying amount	9,800	9,800
	Accumulated amortization	(2,520)	(2,243)
	Net carrying amount	7,280	7,557
Other(4)	Gross carrying amount	18,761	18,761
	Accumulated amortization	(11,160)	(9,607)
	Net carrying amount	7,601	9,154
Total	Gross carrying amount	154,181	150,681
	Accumulated amortization	(65,642)	(57,792)
	Net carrying amount	**$ 88,539**	**$ 92,889**

(1) Customer and broker relationships primarily relate to the Donaldson, Direct Trading, Hotspot, EdgeTrade, Libertas, Urban and Astor acquisitions. The weighted average remaining life is approximately 11 years as of June 30, 2012 and 10 years as of December 31, 2011. Lives may be reduced depending upon actual retention rates.
(2) Trading rights weighted average remaining life is approximately 13 years as of June 30, 2012 and 14 years as of December 31, 2011.
(3) Trade names weighted average remaining life is approximately 14 years as of both June 30, 2012 and December 31, 2011.
(4) Other primarily includes technology and non-compete agreements acquired weighted average remaining life is approximately two years as of both June 30, 2012 and December 31, 2011.

The following table summarizes the Company s amortization expense relating to Intangible assets (in thousands):

	For the three months ended June 30,		For the six months ended June 30,	
	2012	2011	2012	2011
Amortization expense	$ 3,952	$ 3,950	$ 7,900	$ 7,900

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(Unaudited)

As of June 30, 2012, the following table summarizes the Company s estimated amortization expense for the following future periods (in thousands):

	Amortization expense
Six months ended December 31, 2012	$ 7,864
For the year ended December 31, 2013	13,074
For the year ended December 31, 2014	10,450
For the year ended December 31, 2015	8,295
For the year ended December 31, 2016	5,536

9. Long-Term Debt

The Company s Long-term debt is recorded at amortized cost. The carrying value and fair value of such Long-term debt as of June 30, 2012 and December 31, 2011 is as follows (in thousands):

	June 30, 2012		December 31, 2011	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Term Credit Agreement	$ 100,000	$ 100,000	$ 100,000	$ 100,000
Convertible Notes	331,425	316,894	324,338	287,505
Total	431,425	416,894	424,338	387,505
Less: Current portion recorded in Accrued expenses and other liabilities	25,000	25,000	-	-
Total Long-Term Debt	$ 406,425	$ 391,894	$ 424,338	$ 387,505

The carrying value of the Term Credit Agreement approximates fair value as it is not materially sensitive to shifts in interest rates due to its floating interest rate, which also considers changes in the Company s credit risks and financial condition. The fair value of the Convertible Notes is based upon the value of such debt in the secondary market. The Term Credit Agreement and the Convertible Notes would both be categorized as Level 2 in the fair value hierarchy if they were required to be recorded at fair value.

Credit Agreements

On June 29, 2011, the Company, as borrower, entered into a $100.0 million three-year Term Loan Credit Agreement (the   Term Credit Agreement) with a consortium of banks. The Company, as guarantor, also entered into a $200.0 million one-year Revolving Credit Agreement (the   Revolving Credit Agreement   and together with the Term Credit Agreement, the   Credit Agreements) with the same consortium of banks with Knight Execution & Clearing Services LLC (KECS) and Knight Capital Americas, L.P., wholly-owned subsidiaries of the Company, as borrowers. The Revolving Credit Agreement was renewed with substantially the same consortium of banks on substantially the same terms and conditions on June 27, 2012 and will expire on June 26, 2013. As a result of the consolidation of Knight Capital Americas, L.P. into KECS as of June 30, 2012, and the subsequent renaming of KECS to Knight Capital Americas LLC (KCA), KCA is now the sole borrower under the Revolving Credit Agreement.

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(Unaudited)

Term Credit Agreement

The proceeds of the Term Credit Agreement are being used for general corporate purposes. As of June 30, 2012, the Company has borrowed all the funds under the Term Credit Agreement. Borrowings under the Term Credit Agreement bear interest at variable rates as determined at the Company s election, at LIBOR or a base rate, in each case, plus an applicable margin of (a) for each LIBOR loan, 2.50% or 3.00% per annum or (b) for each base rate loan, 1.50% or 2.00% per annum (in each case, depending on the Company s leverage ratio). As of June 30, 2012, the interest rate was 2.75% per annum, which is based on the one month LIBOR rate plus 2.50%. Interest is paid monthly. The Term Credit Agreement is repayable in three installments as follows: $25.0 million on June 28, 2013, $25.0 million on December 27, 2013 and $50.0 million on June 27, 2014.

Under the Term Credit Agreement, substantially all of the Company s material subsidiaries (the Guarantors), other than its foreign subsidiaries, excluded regulated subsidiaries (which include registered broker-dealer subsidiaries) and subsidiaries thereof, guarantee the repayment of loans made pursuant to the Term Credit Agreement. The Term Credit Agreement is secured by substantially all of the assets of the Company and the Guarantors unless and until the Company obtains an investment grade rating.

Revolving Credit Agreement

The Revolving Credit Agreement comprises two classes of loans: Borrowing Base A and Borrowing Base B. The proceeds of the Borrowing Base A Loans are available to KCA and may be used to meet the short-term liquidity needs of KCA arising in the ordinary course of clearing and settlement activity. The proceeds of the Borrowing Base B Loans can only be used to fund National Securities Clearing Corporation (NSCC) margin deposits.

Borrowings under the Revolving Credit Agreement bear interest at a rate equal to the greater of the federal funds rate or the one month LIBOR rate plus (a) for each Borrowing Base A Loan, a margin of 1.50% per annum and (b) for Borrowing Base B Loans, a margin of 2.00% per annum. Interest is payable quarterly. As of June 30, 2012 and December 31, 2011, there were no outstanding borrowings under the Revolving Credit Agreement.

The Company is charged an annual commitment fee of 0.25% on the average daily amount of the unused portion of the Revolving Credit Agreement. Depending on each borrowing base, availability under the Revolving Credit Agreement is limited to either (i) a percentage of the market value of temporary positions pledged as collateral in the case of Borrowing Base A Loans, or (ii) a percentage of the margin deposit required by the NSCC in the case of Borrowing Base B Loans.

Among other restrictions, the Credit Agreements include customary representations, warranties, affirmative and negative covenants related to (a) liens, (b) financial covenant requirements for maintaining a consolidated leverage ratio and a liquidity ratio, as well as requirements for maintaining minimum levels of tangible net worth and regulatory capital, and (c) restrictions on investments, dispositions and other restrictions and events of default customary for financings of these types. As of June 30, 2012, the Company was in compliance with all covenants under the Credit Agreements.

KNIGHT CAPITAL GROUP, INC.

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(Unaudited)

In connection with the Credit Agreements, the Company incurred issuance costs of $2.2 million. The issuance costs are recorded within Other assets on the Consolidated Statements of Financial Condition and are amortized over the term of the Credit Agreements.

Cash Convertible Senior Subordinated Notes

In March 2010, the Company issued $375.0 million of Cash Convertible Senior Subordinated Notes (the Notes) due on March 15, 2015 in a private offering exempt from registration under the Securities Act of 1933, as amended. At the same time, the Company entered into hedge transactions effected through the purchase of options and sale of warrants designed to limit shareholder dilution up to a price of $31.50 per share.

The Notes bear interest at a rate of 3.50% per year, payable semi-annually in arrears, on March 15 and September 15 of each year, commencing on September 15, 2010 and will mature on March 15, 2015, subject to earlier repurchase or conversion. In connection with the issuance of the Notes, the Company recognized an original issue discount of $73.8 million which is being accreted to interest expense over the term of the Notes, resulting in an effective annual interest rate of the Notes of approximately 7.90%. The Notes, net of unamortized original issue discount are reported as Long-term debt in the Company s Consolidated Statements of Financial Condition.

Prior to December 15, 2014, the Notes will be convertible into cash only upon specified events which are based upon the price of the Company s common shares and of the Notes or upon the occurrence of specified corporate events. On or after December 15, 2014, the Notes will be convertible at any time, based on an initial conversion rate of 47.9185 shares of the Company s Class A common stock per $1,000 principal amount of Notes, which is equivalent to an initial conversion price of approximately $20.87 or a conversion premium of approximately 32.5% over the closing sale price of $15.75 per share of the Company s Class A common stock on the Nasdaq Global Select Market on March 15, 2010. The conversion rate and conversion price will be subject to adjustment in certain events, such as distributions of dividends or stock splits. Upon cash conversion, the Company will deliver an amount of cash calculated over the applicable observation period. The Company will not deliver its common stock (or any other securities) upon conversion under any circumstances. In addition, following certain corporate events that occur prior to the maturity date, the Company will pay a cash make-whole premium by increasing the conversion rate for a holder who elects to convert its Notes in connection with such a corporate event in certain circumstances. Subject to certain exceptions, holders may require the Company to repurchase, for cash, all or part of the Notes upon a fundamental change at a price equal to 100% of the principal amount of the Notes being repurchased plus any accrued and unpaid interest.

Concurrent with the sale of the Notes, the Company paid $73.7 million to enter into privately negotiated cash convertible note hedge transactions (the purchased call options) with affiliates of the initial purchasers of the Notes and another financial institution (the option counterparties) that are expected generally to reduce the Company s exposure to potential cash payments in excess of the principal amount of the Notes that may be required to be made by the Company upon the cash conversion of the Notes under certain conditions. The purchased call options cover, subject to adjustments, approximately 18 million shares of the Company s Class A common stock at a strike price of $20.87 and are expected to reduce the Company s economic exposure to potential cash payments in the event that the market price per share of the Company s Class A common stock is greater than

KNIGHT CAPITAL GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS Continued

(Unaudited)

the conversion price of the Notes. The purchased call options were recorded as an asset within Financial instruments owned, at fair value on the Consolidated Statements of Financial Condition and is accounted for as derivative instruments under GAAP. As of June 30, 2012, the fair value of the purchased call options was $8.0 million.

In connection with the sale of the Notes, the Company also entered into separate warrant transactions with the option counterparties whereby the Company sold to the option counterparties, for $15.0 million, warrants (the warrants) to purchase shares of the Company s Class A common stock, subject to adjustments, at a strike price of $31.50 per share, which represents a premium of approximately 100% over the closing price of the Company s Class A common stock on March 15, 2010. The warrants are net share settled, meaning that the Company will issue a number of shares per warrant having a value equal to the difference between the share price at each warrant expiration date and the strike price; however, at the discretion of the Company, the Company may elect to settle the warrants in cash. If the market price per share of the Company s Class A common stock exceeds the strike price of the warrants over the warrants exercise period and the Company elects net share settlement, the warrants would have a dilutive effect on the Company s Class A common stock. The warrants may not be exercised prior to the maturity of the Notes. The warrants have been recorded as Additional paid-in capital in the Consolidated Statements of Financial Condition. The warrants also meet the criteria of derivative instruments under GAAP; however, because the warrants are indexed to the Company s Class A common stock and are recorded within Equity in the Consolidated Statements of Financial Condition, the warrants are exempt from the scope and fair value provisions of GAAP related to accounting for derivative instruments.

The requirement that the Company settle conversions of the Notes entirely in cash gives rise to a bifurcatable derivative instrument under GAAP (the embedded conversion derivative). The initial valuation of the embedded conversion derivative was $73.8 million, and was recorded as a liability within Financial instruments sold, not yet purchased, at fair value on the Consolidated Statements of Financial Condition. As of June 30, 2012, the fair value of the embedded conversion derivative was $8.0 million.

Both the purchased call options and the embedded conversion derivative are derivative instruments and as such are marked to fair value each reporting period with any change recognized on the Consolidated Statements of Operations as Investment income and other, net. The Company expects the gain or loss associated with changes to the valuation of the purchased call options to substantially offset the gain or loss associated with changes to the valuation of the embedded conversion derivative.

In connection with the issuance of the Notes, the Company incurred issuance costs of $8.5 million. The issuance costs are recorded within Other assets on the Consolidated Statements of Financial Condition and are amortized over the term of the Notes.

KNIGHT CAPITAL GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS Continued

(Unaudited)

The Company recorded expenses with respect to the Long-Term Debt as follows (in thousands):

	For the three months ended June 30, 2012	For the three months ended June 30, 2011	For the six months ended June 30, 2012	For the six months ended June 30, 2011
Interest expense	$ 7,647	$ 6,656	$ 15,045	$ 13,070
Amortization of debt issuance cost[1]	781	425	1,559	850
Commitment fee[1]	150	-	276	-
Total	$ 8,578	$ 7,081	$ 16,880	$ 13,920

(1) Included in Other expense on the Consolidated Statements of Operations.

10. Stock-Based Compensation

The Knight Capital Group, Inc. 2010 Equity Incentive Plan (2010 Plan) was established to provide long-term incentive compensation to employees and directors of the Company. The 2010 Plan is administered by the Compensation Committee of the Company s Board of Directors, and allows for the grant of options, stock appreciation rights, restricted stock and restricted stock units (collectively, the awards), as defined by the 2010 Plan. In addition to overall limitations on the aggregate number of awards that may be granted, the 2010 Plan also limits the number of awards that may be granted to a single individual. The 2010 Plan replaced prior stockholder-approved equity plans for future equity grants and no additional grants will be made under those historical stock plans. However, the terms and conditions of any outstanding equity grants under the historical stock plans were not affected. As of June 30, 2012, the Company has not issued any stock appreciation rights. In addition, the Company established the Knight Capital Group, Inc. 2009 Inducement Award Plan (the Inducement Plan) (along with the 2010 Plan, the Stock Plans) which is used under limited circumstances for equity grants to new hires. The Company did not issue any awards pursuant to the Inducement Plan in 2012 or 2011.

Unvested awards granted before September 1, 2010 are generally canceled if employment is terminated for any reason before the end of the relevant vesting period. For annual incentive awards granted after September 1, 2010 and up to September 30, 2011, full vesting is given where an employee has been terminated without cause by the Company. For all other awards granted after September 1, 2010 and up to September 30, 2011 unvested awards are generally canceled if employment is terminated for any reason before the end of the relevant vesting period. Effective October 1, 2011, for all awards granted after such date, unless otherwise provided for in the applicable award agreement, full vesting will be given where an employee has been terminated without cause by the Company.

Restricted Shares and Restricted Stock Units

Eligible employees and directors may receive restricted shares and/or restricted stock units (collectively restricted awards) as a portion of their total compensation. The majority of restricted awards vest ratably over three years. The Company has also issued restricted awards that vest based upon the market price of Knight s common stock reaching a certain price for a specified period of time, however no such awards were granted in 2012 or 2011. The Company has the right to fully vest employees and directors in their restricted stock units upon retirement and in certain other circumstances.

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(Unaudited)

The Company measures compensation cost related to restricted awards based on the fair value of the Company s common stock at the date of grant. Compensation expense relating to restricted awards, primarily recorded in Employee compensation and benefits, and the corresponding income tax benefit, which was recorded in Income tax expense on the Consolidated Statements of Operations are presented in the following table (in thousands):

	For the three months ended June 30,		For the six months ended June 30,	
	2012	2011	2012	2011
Stock award compensation expense	$ 14,287	$ 12,754	$ 27,712	$ 27,459
Income tax benefit	$ 5,601	$ 5,000	$ 10,863	$ 10,764

The following table summarizes restricted awards activity during the six months ended June 30, 2012 (shares and units in thousands):

	Restricted Shares		Restricted Stock Units	
	Number of Shares	Weighted-Average Grant date Fair Value	Number of Units	Weighted-Average Grant date Fair Value
Outstanding at January 1, 2012	307	$ 16.20	7,716	$ 14.33
Granted	21	13.09	3,816	13.01
Vested	(219)	16.34	(2,004)	15.28
Forfeited	(6)	15.66	(226)	13.11
Outstanding at June 30, 2012	104	$ 15.31	9,302	$ 13.74

There is $73.5 million of unamortized compensation related to unvested restricted awards outstanding at June 30, 2012. The cost of these unvested restricted awards is expected to be recognized over a weighted average life of 1.8 years.

Stock Options

The Company s policy is to grant options for the purchase of shares of Class A Common Stock at not less than market value. Options generally vest ratably over a three or four-year period and expire on the fifth or tenth anniversary of the grant date, pursuant to the terms of the applicable option award agreement. The Company has the right to fully vest employees in their options upon retirement and in certain other circumstances. Options are otherwise canceled if employment is terminated before the end of the relevant vesting period. The Company s policy is to issue new shares upon share option exercises by its employees and directors.

The fair value of each option granted is estimated as of its respective grant date using the Black-Scholes option-pricing model. Stock options granted have exercise prices equal to the market value of the Company s common stock at the date of grant as defined by the Stock Plans. The principal assumptions utilized in valuing options and the methodology for estimating such model inputs include: (1) risk-free interest rate estimate is based on the yield of U.S. zero coupon securities with a maturity equal to the expected life of the option; (2) expected volatility estimate is based on several factors including implied volatility of market-traded options on the Company s common stock on the grant date

KNIGHT CAPITAL GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS Continued

(Unaudited)

and the volatility of the Company s common stock; and (3) expected option life estimate is based on internal studies of historical experience and projected exercise behavior based on different employee groups and specific option characteristics, including the effect of employee terminations. The Company did not grant any options during the six months ended June 30, 2012 or 2011.

Compensation expense relating to stock options, which was recorded in Employee compensation and benefits, and the corresponding income tax benefit, which was recorded in Income tax expense on the Consolidated Statements of Operations are as follows (in thousands):

	For the three months ended June 30,		For the six months ended June 30,	
	2012	2011	2012	2011
Stock option compensation expense	$ 201	$ 190	$ 494	$ 744
Income tax benefit	$ 79	$ 75	$ 193	$ 292

The following table summarizes stock option activity during the six months ended June 30, 2012 (shares and units in thousands):

Stock Option Activity (in thousands)	Number of Stock Options	Weighted-Average Exercise Price
Outstanding at January 1, 2012	2,829	$ 13.48
Granted at market value	-	-
Exercised	(116)	9.27
Forfeited or expired	(39)	16.48
Outstanding at June 30, 2012	2,674	$ 13.62
Exercisable at June 30, 2012	2,404	$ 13.36
Available for future grants at June 30, 2012*	6,844	

* Represents both options and awards available for grant

There is $0.7 million of unrecognized compensation related to unvested stock options outstanding at June 30, 2012. The cost of these unvested awards is expected to be recognized over a weighted average life of 0.6 years.

11. Income taxes

The Company and its subsidiaries file a consolidated federal income tax return as well as combined state income tax returns in certain jurisdictions. In other jurisdictions, the Company and its subsidiaries file separate company state and local income tax returns.

KNIGHT CAPITAL GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS Continued

(Unaudited)

The following table reconciles the U.S. federal statutory income tax rate to the Company s actual income tax rate:

	For the three months ended June 30, 2012	2011	For the six months ended June 30, 2012	2011
U.S. federal statutory income tax rate	35.0%	35.0%	35.0%	35.0%
U.S. state and local income taxes, net of U.S. federal income tax effect	3.6%	4.3%	3.6%	4.0%
Nondeductible charges and other, net	0.0%	0.4%	0.1%	0.2%
Actual income tax rate	38.6%	39.7%	38.7%	39.2%

At June 30, 2012, the Company had $2.9 million of unrecognized tax benefits, all of which would affect the Company s effective tax rate if recognized.

As of June 30, 2012, the Company is subject to U.S. Federal income tax examinations for the tax years 2006 through 2010, and to non-U.S. income tax examinations for the tax years 2007 through 2010. In addition, the Company is subject to state and local income tax examinations in various jurisdictions for the tax years 2003 through 2010. The final outcome of these examinations is not yet determinable. However, the Company anticipates that adjustments to the unrecognized tax benefits, if any, will not result in a material change to the results of operations or financial condition.

The Company s policy for recording interest and penalties associated with audits is to record such items as a component of Income from continuing operations before income taxes. Penalties, if any, are recorded in Other expenses and interest paid or received is recorded in Interest expense and Interest, net, on the Consolidated Statements of Operations.

12. Earnings Per Share

Basic earnings per common share (EPS) have been calculated by dividing net income by the weighted average shares of Class A Common Stock outstanding during each respective period. Diluted EPS reflects the potential reduction in EPS using the treasury stock method to reflect the impact of common stock equivalents if stock options were exercised and restricted awards were to vest.

The following is a reconciliation of the numerators and denominators of the basic and diluted earnings per share computations for the three and six months ended June 30, 2012 and 2011 (in thousands):

	For the three months ended June 30, 2012		2011	
	Numerator / net income	Denominator / shares	Numerator / net income	Denominator / shares
Income and shares used in basic calculations	$ 3,291	89,624	$ 17,572	92,493
Effect of dilutive stock based awards	-	3,058	-	2,189
Income and shares used in diluted calculations	$ 3,291	92,682	$ 17,572	94,682

Basic earnings per share	$	0.04	$	0.19
Diluted earnings per share	$	0.04	$	0.19

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	For the six months ended June 30,			
	2012		2011	
	Numerator / net income	Denominator / shares	Numerator / net income	Denominator / shares
Income and shares used in basic calculations	$ 36,397	89,685	$ 48,064	92,184
Effect of dilutive stock based awards	-	3,482	-	2,700
Income and shares used in diluted calculations	$ 36,397	93,167	$ 48,064	94,884
Basic earnings per share		$ 0.41		$ 0.52
Diluted earnings per share		$ 0.39		$ 0.51

The above calculations exclude options that could potentially dilute EPS in the future but were antidilutive for the periods presented. The number of such options excluded was approximately 1.7 million and 1.9 million for the three months ended June 30, 2012 and 2011, respectively, and 1.7 million and 2.0 million for the six months ended June 30, 2012 and 2011, respectively.

13. Significant Clients

The Company considers significant clients to be those clients who account for 10% or more of the total U.S. equity dollar value traded or fixed income notional value traded by the Company. No clients accounted for more than 10% of the Company s U.S. equity dollar value traded or fixed income notional value traded during the three months ended June 30, 2012 or 2011.

14. Commitments and Contingencies

In the ordinary course of business, the nature of the Company s business subjects it to claims, lawsuits, regulatory examinations and other proceedings. The Company is subject to several of these matters at the present time. Given the inherent difficulty of predicting the outcome of the litigation and regulatory matters, particularly in cases or proceedings in which substantial or indeterminate damages or fines are sought, or where cases or proceedings are in the early stages, the Company cannot estimate losses or ranges of losses for cases or proceedings where there is only a reasonable possibility that a loss may be incurred. There can be no assurance that these matters will not have a material adverse effect on the Company s results of operations in any future period and a material judgment could have a material adverse impact on the Company s financial condition and results of operations. However, it is the opinion of management, after consultation with legal counsel that, based on information currently available, the ultimate outcome of these matters will not have a material adverse impact on the business, financial condition or operating results of the Company although they might be material to the operating results for any particular period, depending, in part, upon operating results for that period.

On July 18, 2012, the Company announced pre-tax trading losses of $35.4 million related to the Facebook IPO. On July 21, 2012, NASDAQ announced that it would file a proposed voluntary accommodation program (the Accommodation Program) with the SEC which, among other things, creates a fund for voluntary accommodations for qualifying NASDAQ members disadvantaged by problems that arose during the Facebook IPO. The Accommodation Program, which was published in the Federal Register by the SEC on August 1, 2012, will be subject to a 21 day public comment period and thereafter approval by the SEC. Under the proposed Accommodation Program, the Company

KNIGHT CAPITAL GROUP, INC.

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(Unaudited)

would be entitled to submit claims, within seven days of formal approval by the SEC, in accordance with the parameters set forth in the Accommodation Plan. The claims would be processed and evaluated by the Financial Industry Regulatory Authority (FINRA) applying the accommodation standards set forth in the Accommodation Program. Under the Accommodation Program as proposed by NASDAQ, the Company would recover a portion of its pre-tax trading losses. The Company is evaluating the Accommodation Program as well as its other options, and plans to submit a comment letter to the SEC. There can be no assurance that the Accommodation Program will be approved by the SEC or that the terms of the Accommodation Program will not change from those proposed. As previously disclosed, there are no assurances that the Company will be able to recover its pre-tax trading losses relating to the Facebook IPO.

The Company leases office space under noncancelable operating leases. Certain office leases contain fixed dollar-based escalation clauses. Rental expense under the office leases was $3.9 million and $4.8 million for the three months ended June 30, 2012 and 2011, respectively, and is included in Occupancy and equipment rentals on the Consolidated Statements of Operations. For the six months ended June 30, 2012 and 2011, rental expense under the office leases was $8.1 million and $9.8 million, respectively.

During the first quarter of 2011, the Company recorded a lease loss accrual of $0.9 million related to excess office space in New York City.

The Company leases certain computer and other equipment under noncancelable operating leases and has entered into guaranteed employment contracts with certain employees. As of June 30, 2012, future minimum rental commitments under all noncancelable office, computer and equipment leases (Gross Lease Obligations), Sublease Income and guaranteed employment contracts longer than one year (Other Obligations) were as follows (in thousands):

Lease & Contract Obligations

	Gross Lease Obligations	Sublease Income	Net Lease Obligations	Other Obligations
Six months ending December 31, 2012	$ 12.4	$ 1.0	$ 11.4	$ -
Year ending December 31, 2013	23.3	2.2	21.1	5.5
Year ending December 31, 2014	22.4	2.0	20.4	-
Year ending December 31, 2015	21.6	1.8	19.8	-
Year ending December 31, 2016	21.2	1.9	19.3	-
Thereafter through August 31, 2023	99.7	2.8	96.9	-
	$ 200.6	$ 11.7	$ 188.8	$ 5.5

During the normal course of business, the Company collateralizes certain leases or other contractual obligations through letters of credit or segregated funds held in escrow accounts. As of June 30, 2012, the Company has provided a letter of credit for $1.0 million, collateralized by U.S. Treasury Bills, as a guarantee for one of the Company s lease obligations. In the ordinary course of business, Knight Capital Group, Inc. also has provided, and may provide in the future, unsecured guarantees with respect to the payment obligations of certain of its subsidiaries under trading, repurchase, financing and stock loan arrangements, as well as under certain leases.

KNIGHT CAPITAL GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS Continued

(Unaudited)

The Company has issued floating rate HECMs for which the borrowers have additional borrowing capacity of approximately $301.6 million as of June 30, 2012. This additional borrowing capacity is primarily in the form of undrawn lines of credit, with the balance available on a scheduled payments basis. As the issuer of these HECMs, the Company is under the obligation to fund this capacity upon the borrowers requesting such funds or such scheduled payments coming due, as applicable.

During the normal course of business, our Market Making and Institutional Sales and Trading segments may enter into futures contracts. These financial instruments are subject to varying degrees of risks whereby the fair value of the securities underlying the financial instruments, may be in excess of, or less than, the contract amount. The Company is obligated to post collateral against certain futures contracts.

The following tables summarize the Company s futures contract activity (in thousands):

		Fair Value of asset or (liability) as of	
Futures Contracts	**Consolidated Statements of Financial Condition Location**	**June 30, 2012**	**December 31, 2011**
Notional Value	Not Applicable	$ (31,228)	$ (20,769)
Fair Value	(Payable) Receivable to brokers, dealers and clearing organizations	$ (3,550)	$ 895

		Gain Recognized For the three months ended June 30,	
Futures Contracts	**Consolidated Statements of Operations Location**	**2012**	**2011**
Unrealized Gain	Net trading revenue	$ 13,194	$ 18,462

		Gain (Loss) Recognized For the six months ended June 30,	
Futures Contracts	**Consolidated Statements of Operations Location**	**2012**	**2011**
Unrealized Gain (Loss)	Net trading revenue	$ 6,097	$ (38,965)

15. Financial Instruments with Off-Balance Sheet Risk and Concentrations of Credit Risk

As a market maker of equities and options, the majority of the Company s securities transactions are conducted as principal or riskless principal with broker-dealers and institutional counterparties primarily located in the United States. The Company self-clears substantially all of its U.S. equity securities transactions. The Company clears a portion of its securities transactions through third party clearing brokers. Foreign transactions are settled pursuant to global custody and clearing agreements with major U.S. banks. Substantially all of the Company s credit exposures are concentrated with its clearing brokers, broker-dealer and institutional counterparties. The Company s policy is to monitor the credit standing of counterparties with which it conducts business.

Upon the acquisition of the futures business of Penson in June 2012, the Company began providing execution, clearing and custody services in futures contracts and options on futures contracts to facilitate customer transactions on major U.S. and European futures and options exchanges.

Customer activities may expose the Company to off-balance sheet risk in the event the customer is unable to fulfill its contracted obligation as the Company guarantees the performance of its customers to the respective clearing houses or other brokers, In accordance with regulatory requirements and market practice, the Company requires its customers to meet, at a minimum, the margin requirements established by each of the exchanges at which contracts are traded. Margin is a good faith deposit from the customer that reduces risk to the Company of failure by the customer to fulfill obligations under these contracts. The Company establishes customer credit limits and monitors required margin levels daily and, pursuant to such guidelines, require customers to deposit additional collateral, or to reduce positions, when necessary. Further, the Company seeks to reduce credit risk by entering into netting agreements with customers, which permit receivables and payables with such customers to be offset in the event of a customer default. Management believes that the margin deposits and collateral held at June 30, 2012 were adequate to minimize the risk of material loss that could be created by positions held at that time.

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

Financial instruments sold, not yet purchased, at fair value represent obligations to purchase such securities (or underlying securities) at a future date. The Company may incur a loss if the market value of the securities subsequently increases.

The Company currently has no loans outstanding to any former or current executive officer or director.

16. Acquisition

Penson Futures

On June 1, 2012, the Company completed the acquisition of certain assets and liabilities of Penson Futures, the futures division of Penson for $5.0 million in cash and a potential earn-out based on future performance valued at $7.9 million. Goodwill and intangible assets recognized upon the closing transaction amounted to $10.1 million. All of the goodwill from this transaction is expected to be deductible for income tax purposes. The following table summarizes the estimated fair values of the assets acquired and liabilities assumed (in thousands):

Cash	$	5,000
Fair value of earn-out		7,900
Recorded purchase price	$	12,900

KNIGHT CAPITAL GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS Continued

(Unaudited)

Cash	$	1,928
Segregated cash and securities		100,545
Receivable from brokers, dealers and clearing organizations		360,494
Goodwill		6,617
Intangible assets		3,500
Other assets		24,604
Payable to customers		(472,197)
Accrued expenses and other liabilities		(12,591)
Purchase of business	$	12,900

Assuming this transaction had been made at the beginning of any period presented, the consolidated pro forma results would not be materially different from reported results.

17. Business Segments

The Company has four operating segments: (i) Market Making; (ii) Institutional Sales and Trading; (iii) Electronic Execution Services; and (iv) Corporate and Other.

The Market Making segment principally consists of market making in global equities and listed domestic options. Market Making primarily includes client, and to a lesser extent, non-client electronic market making and cash trading activities in which the Company operates as a market maker in equity securities. Market Making also includes the Company s option market making business which trades on substantially all domestic electronic exchanges.

The Institutional Sales and Trading segment includes global equity, ETFs, and fixed income sales; reverse mortgage origination and securitization; capital markets; and asset management activities. The primary business of the Institutional Sales and Trading segment is to execute and facilitate transactions predominantly as agent on behalf of institutional clients for equities and fixed income offerings, and the Company commits its capital on behalf of its clients when needed. This is predominantly a full-service business, in which much of the interaction is based on the Company s client relationships. This segment also facilitates client orders through program and block trades and riskless principal trades, and provides capital markets services, including equity and debt offerings as well as private placements.

The Electronic Execution Services segment offers access via its electronic agency-based platforms to markets and self-directed trading in equities, options, fixed income, foreign exchange and futures.

The Corporate and Other segment invests in strategic financial services-oriented opportunities, allocates, deploys and monitors all capital, and maintains corporate overhead expenses and other expenses that are not attributable to the other segments. The Corporate and Other segment houses functions that support Knight s other segments such as self-clearing services, including securities lending, and other support and overhead. This segment also provides futures execution, clearing and custody services to facilitate transactions among brokers, institutions and non-clearing FCMs.

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KNIGHT CAPITAL GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS Continued

(Unaudited)

The Company s revenues, income (loss) from continuing operations before income taxes (Pre-tax earnings) and total assets by segment are summarized in the following table (in thousands):

	Market Making	Institutional Sales and Trading	Electronic Execution Services	Corporate and Other	Consolidated Total
For the three months ended June 30, 2012:					
Revenues[(1)]	$ 113,491	$ 109,698	$ 43,260	$ 22,805	$ 289,254
Pre-tax earnings	5,934	(7,488)	11,349	(4,439)	5,356
Total assets	1,773,261	4,336,929	297,205	2,787,567	9,194,962
For the three months ended June 30, 2011:[(3)]					
Revenues	$ 145,038	$ 134,885	$ 41,926	$ 4,133	$ 325,982
Pre-tax earnings	39,173	(3,968)	11,812	(17,562)	29,454
Total assets[(2)]	2,093,892	2,162,993	261,226	1,906,517	6,424,628
For the six months ended June 30, 2012:					
Revenues[(1)]	$ 265,655	$ 251,936	$ 87,508	$ 33,180	$ 638,279
Pre-tax earnings	51,064	7,168	23,615	(22,491)	59,356
Total assets	1,773,261	4,336,929	297,205	2,787,567	9,194,962
For the six months ended June 30, 2011:[(3)]					
Revenues	$ 312,227	$ 262,257	$ 82,259	$ 9,015	$ 665,758
Pre-tax earnings	102,541	(11,659)	23,170	(34,514)	79,538
Total assets[(2)]	2,093,892	2,162,993	261,226	1,906,517	6,424,628

(1) Included in revenues for the three and six months ended June 30, 2012 is a Facebook IPO trading loss of $35.4 million which includes $26.0 million for Market Making and $9.4 million for Institutional Sales and Trading.
(2) Total assets do not include assets within discontinued operations of $2.6 million at June 30, 2011.
(3) Prior period amounts have been recast to conform with current period presentation. Such recast had no effect on previously reported Consolidated Pre-tax earnings.

Subsequent Event

18. Subsequent Event

The Company experienced a technology issue at the open of trading at the NYSE on August 1, 2012. This issue was related to the installation that day of trading software and resulted in the Company sending numerous erroneous orders in NYSE-listed and NYSE Arca securities into the market. Although this software was subsequently removed from the Company s systems and clients were not negatively affected by the erroneous orders, it resulted in the Company realizing a pre-tax loss of approximately $440.0 million. This event severely impacted the Company s capital base and business operations, and the Company experienced reduced order flow, liquidity pressures and harm to customer and counterparty confidence. As a result, there was substantial doubt about the Company s ability to continue as a going concern. Following the event of August 1, 2012, the Company has begun an internal review into such event and associated controls.

KNIGHT CAPITAL GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS Continued

(Unaudited)

In light of this event, on August 6, 2012 the Company, after evaluating and pursuing various strategic alternatives, sold 400,000 shares of convertible preferred stock in private placements to investors in exchange for aggregate cash consideration of $400.0 million. The preferred stock consisted of 79,600 shares of Series A-1 preferred stock and 320,400 shares of Series A-2 preferred stock. The Series A-1 preferred stock and Series A-2 preferred stock are convertible into approximately 266.7 million shares of Class A common stock, or approximately 73% of the total number of shares of Class A common stock outstanding as of August 3, 2012, assuming the conversion in full of the preferred stock into Class A common stock.

Although the Company s capital base was severely impacted as a result of the event, the Company s regulated broker-dealer subsidiaries remained in full compliance with their net capital requirements at all times. In addition, the Company remains in good standing with The Depository Trust & Clearing Corporation s depository and clearing subsidiaries as well as the OCC. As of the close of business on August 6, 2012, Knight Capital Americas LLC, the Company s domestic broker-dealer subsidiary, had excess net capital greater than $300.0 million.

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

The following discussion of our results of operations should be read in conjunction with our Consolidated Financial Statements and notes included in Current Report on Form 8-K dated August 6, 2012 as filed with the U.S. Securities and Exchange Commission (SEC). This discussion contains forward-looking statements that involve risks and uncertainties, including those discussed in our Form 10-K for the year ended December 31, 2011 and herein. Our actual results may differ materially from those anticipated in these forward-looking statements as a result of certain factors, including, but not limited to, those set forth elsewhere in this document and in our Form 10-K.

Certain statements contained in this Quarterly Report on Form 10-Q, including, without limitation, those under Management s Discussion and Analysis of Financial Condition and Results of Operations herein (MD&A), Quantitative and Qualitative Disclosures About Market Risk in Part I, Item 3, Legal Proceedings and Risk Factors in Part II and the documents incorporated by reference, may constitute forward-looking statements. These forward-looking statements are not historical facts and are based on current expectations, estimates and projections about the Company s industry, management s beliefs and certain assumptions made by management, many of which, by their nature, are inherently uncertain and beyond our control. Accordingly, readers are cautioned that any such forward-looking statements are not guarantees of future performance and are subject to certain risks, uncertainties and assumptions that are difficult to predict including, without limitation, risks associated with the August 1, 2012 technology issue that resulted in the Company sending numerous erroneous orders in NYSE-listed and NYSE Arca securities into the market and the impact to the Company s capital structure and business as well as actions taken in response thereto and consequences thereof, risks associated with the Company s ability to recover all or a portion of the damages that are attributable to the manner in which NASDAQ OMX handled the Facebook IPO, risks associated with changes in market structure, legislative, regulatory or financial reporting rules, risks associated with the Company s changes to its organizational structure and management and the costs, integration, performance and operation of businesses previously acquired or developed organically, or that may be acquired or developed organically in the future. Readers should carefully review the risks and uncertainties disclosed in the Company s reports with the SEC including, without limitation, those detailed under Certain Factors Affecting Results of Operations within MD&A herein and under Risk Factors herein and in the Company s Annual Report on Form 10-K for the year ended December 31, 2011 and in other reports or documents the Company files with, or furnishes to, the SEC from time to time. This information should also be read in conjunction with the Company s Consolidated Financial Statements and the Notes thereto contained in this Form 10-Q, and in other reports or documents the Company files with, or furnishes to, the SEC from time to time.

Executive Overview

We are a global financial services firm that provides access to the capital markets across multiple asset classes to a broad network of clients, including broker-dealers, institutions and corporations. We seek to continually apply our expertise and innovation to the market making and trading process to build lasting client relationships through consistent performance and superior client service. We also provide capital markets services to corporate issuers and private companies. We have four operating segments: (i) Market Making; (ii) Institutional Sales and Trading; (iii) Electronic Execution Services; and (iv) Corporate and Other.

Market Making Our Market Making segment principally consists of market making in global equities and listed domestic options. As a market maker, we commit capital for trade executions by offering to buy securities from, or sell securities to, institutions and broker-dealers. Our Market Making segment primarily includes client, and to a lesser extent, non-client electronic market making activities in which we operate as a market maker in equity

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securities quoted and traded on the Nasdaq Stock Market, the over-the-counter (OTC) market for New York Stock Exchange (NYSE), NYSE Amex Equities (NYSE Amex), NYSE Arca listed securities and several European exchanges. As a complement to electronic market making, our cash trading business handles specialized orders and also transacts on the OTC Bulletin Board, the OTC Pink Markets, and the Alternative Investment Market (AIM) of the London Stock Exchange. We provide trade executions as an equities Designated Market Maker (DMM) on the NYSE and NYSE Amex. Market Making also includes our option market making business which trades on substantially all domestic electronic exchanges.

Institutional Sales and Trading Our Institutional Sales and Trading segment includes global equity, exchange traded fund (ETF) and fixed income sales; reverse mortgage origination and securitization; capital markets; and asset management activities. The primary business of the Institutional Sales and Trading segment is to execute and facilitate equities, ETFs, and fixed income transactions as agent on behalf of institutional clients, and we commit capital on behalf of our clients when needed. This is predominantly a full-service execution business, in which much of the interaction is based on the Company s client relationships. This segment also facilitates client orders through program and block trades and riskless principal trades and provides capital markets services, including equity and debt private placement.

Electronic Execution Services Our Electronic Execution Services segment offers access via our electronic agency-based platforms to markets and self-directed trading in equities, options, fixed income, foreign exchange and futures. In contrast to Market Making, we generally do not act as a principal to transactions that are executed within this segment and generally earn commissions for acting as agent between the principals to the trade.

Corporate and Other Our Corporate and Other segment invests in strategic financial services-oriented opportunities, allocates, deploys and monitors all capital, and maintains corporate overhead expenses and all other income and expenses that are not attributable to the other segments. The Corporate and Other segment houses functions that support our other segments such as self-clearing services, including securities lending activities. Beginning in the second quarter of 2012, our Corporate and Other segment includes our futures commission merchant (FCM) which comprises certain assets and liabilities which we acquired from the futures division of Penson Financial Services, Inc. on June 1, 2012. This business provides futures execution, clearing and custody services to facilitate transactions among brokers, institutions and non-clearing FCMs on major U.S. and European futures and options exchanges, and also offers risk management and consultation services and operates an electronic futures trading platform for professional traders and individual investors.

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The following table sets forth: (i) Revenues; (ii) Expenses; and (iii) Pre-tax earnings or loss from our segments and on a consolidated basis (in millions):

	For the three months ended June 30, 2012	For the three months ended June 30, 2011(1)	For the six months ended June 30, 2012	For the six months ended June 30, 2011(1)
Market Making				
Revenues	$ 113.5	$ 145.0	$ 265.7	$ 312.2
Expenses	107.6	105.9	214.6	209.7
Pre-tax earnings	5.9	39.2	51.1	102.5
Institutional Sales and Trading				
Revenues	109.7	134.9	251.9	262.3
Expenses	117.2	138.9	244.8	273.9
Pre-tax (loss) earnings	(7.5)	(4.0)	7.2	(11.7)
Electronic Execution Services				
Revenues	43.3	41.9	87.5	82.3
Expenses	31.9	30.1	63.9	59.1
Pre-tax earnings	11.3	11.8	23.6	23.2
Corporate and Other				
Revenues	22.8	4.1	33.2	9.0
Expenses	27.2	21.7	55.7	43.5
Pre-tax (loss)	(4.4)	(17.6)	(22.5)	(34.5)
Consolidated				
Revenues	289.3	326.0	638.3	665.8
Expenses	283.9	296.5	578.9	586.2
Pre-tax earnings	$ 5.4	$ 29.5	$ 59.4	$ 79.5

* Totals may not add due to rounding.

(1) Prior period amounts have been recast to conform to current period segment presentation. Such recast had no effect on previously reported consolidated pre-tax earnings.

Consolidated revenues for the three months ended June 30, 2012 decreased $36.7 million, or 11.3%, from the same period a year ago, while consolidated expenses decreased $12.6 million, or 4.3%. Consolidated pre-tax earnings for the three months ended June 30, 2012 decreased $24.1 million, or 81.8%, from the same period a year ago.

Consolidated revenues for the six months ended June 30, 2012 decreased $27.5 million, or 4.1%, from the same period a year ago, while consolidated expenses decreased $7.3 million, or 1.2%. Consolidated pre-tax earnings for the six months ended June 30, 2012 decreased $20.2 million, or 25.4%, from the same period a year ago.

Consolidated revenues for the three and six months ended June 30, 2012 include an aggregate $35.4 million trading loss related to the Facebook IPO, which primarily impacted our Market Making and Institutional Sales and Trading segments.

On July 18, 2012, we announced pre-tax trading losses of $35.4 million related to the Facebook IPO. On July 21, 2012, NASDAQ announced that it would file a proposed voluntary accommodation program (the Accommodation Program) with the SEC which, among other things, creates a fund for voluntary accommodations for qualifying NASDAQ members disadvantaged by problems that arose during the Facebook IPO. The Accommodation Program, which was published in the Federal Register by the SEC on August 1, 2012, will be subject to a 21 day public comment period and thereafter approval by the SEC. Under the proposed Accommodation Program, we would be entitled to submit claims, within seven days of formal approval by the SEC, in accordance with the parameters set forth in the Accommodation Plan. The claims would be processed and evaluated by the Financial Industry Regulatory Authority (FINRA) applying the accommodation standards set forth in the Accommodation Program. Under the Accommodation Program as proposed by NASDAQ, we would recover a portion of our pre-tax trading losses. We are evaluating the Accommodation Program as well as our other options, and plan to submit a comment letter to the SEC. There can be no assurance that the Accommodation Program will be approved by the SEC or that the terms of the Accommodation Program will not change from those proposed. As previously disclosed, there are no assurances that we will be able to recover our pre-tax trading losses relating to the Facebook IPO.

The changes in our pre-tax earnings (loss) by segment from the three and six months ended June 30, 2011 are summarized as follows:

Market Making Our pre-tax earnings from Market Making for the three months ended June 30, 2012 decreased by $33.2 million, or 84.9%, from the comparable period in 2011. Our pre-tax earnings from Market Making for the six months ended June 30, 2012 decreased by $51.5 million, or 50.2%, from the comparable period in 2011. The quarter over quarter and year over year decrease is primarily due to a $26.0 million trading loss related to the Facebook IPO