

KNIGHT CAPITAL GROUP, INC.

Form 10-Q

November 02, 2005

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# SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

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## FORM 10-Q

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QUARTERLY REPORT PURSUANT TO SECTION 13 or 15(d)  
OF THE SECURITIES EXCHANGE ACT OF 1934  
FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2005

001-14223

Commission File Number

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## KNIGHT CAPITAL GROUP, INC.

(Exact name of registrant as specified in its charter)

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DELAWARE

(State or other jurisdiction of incorporation or organization)

22-3689303

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(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

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

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act) Yes  No

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

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

At November 1, 2005 the number of shares outstanding of the Registrant's Class A Common Stock was 102,418,323 and there were no shares outstanding of the Registrant's Class B Common Stock as of such date.

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**KNIGHT CAPITAL GROUP, INC.**

**FORM 10-Q QUARTERLY REPORT**

**For the Quarter Ended September 30, 2005**

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**Table of Contents****PART I. FINANCIAL INFORMATION****Item 1. Financial Statements****KNIGHT CAPITAL GROUP, INC.****CONSOLIDATED STATEMENTS OF OPERATIONS****(Unaudited)**

	For the		For the	
	three months ended		nine months ended	
	September 30,		September 30,	
	2004		2004	
	2005	Restated	2005	Restated
<b>REVENUES</b>				
Commissions and fees	\$ 74,860,136	\$ 58,598,744	\$ 212,998,365	\$ 203,804,800
Net trading revenue	52,348,902	35,906,795	116,821,896	197,869,499
Asset management fees	41,983,284	6,804,928	67,900,813	28,843,815
Interest and dividends, net	1,763,330	1,198,974	6,319,167	2,828,891
Investment income and other	13,140,857	(692,318)	29,286,211	6,825,746
<b>Total revenues</b>	<b>184,096,509</b>	<b>101,817,123</b>	<b>433,326,452</b>	<b>440,172,751</b>
<b>EXPENSES</b>				
Employee compensation and benefits	68,267,912	50,108,698	173,319,157	168,463,224
Execution and clearance fees	24,584,539	22,042,725	71,479,360	88,487,337
Soft dollar and commission recapture expense	15,902,532	14,309,230	46,036,887	44,321,999
Communications and data processing	7,969,419	7,867,254	23,934,639	21,583,633
Professional fees	6,056,274	4,265,149	14,388,019	11,572,279
Depreciation and amortization	4,209,028	3,390,310	12,245,859	10,870,338
Payments for order flow	3,857,048	4,555,323	14,843,211	27,416,779
Occupancy and equipment rentals	3,238,952	4,144,040	10,186,066	12,880,850
Business development	1,616,485	2,053,578	4,617,599	5,921,960
Writedown of assets and lease loss accrual	5,509,360	874,275	10,055,252	3,498,261
Regulatory charges and related matters			2,000,000	79,200,000
Other	2,784,784	(820,487)	8,864,251	4,118,364
<b>Total expenses</b>	<b>143,996,333</b>	<b>112,790,095</b>	<b>391,970,300</b>	<b>478,335,024</b>
Income (loss) from continuing operations before income taxes	40,100,176	(10,972,972)	41,356,152	(38,162,273)
Income tax expense (benefit)	16,136,536	(4,367,404)	16,988,471	(5,936,961)

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Net income (loss) from continuing operations	23,963,640	(6,605,568)	24,367,681	(32,225,312)
Income from discontinued operations, net of tax	387,934	5,343,961	122,007	14,948,350
<b>Net income (loss)</b>	<b>\$ 24,351,574</b>	<b>\$ (1,261,607)</b>	<b>\$ 24,489,688</b>	<b>\$ (17,276,962)</b>
Basic earnings per share from continuing operations	\$ 0.24	\$ (0.06)	\$ 0.23	\$ (0.29)
Diluted earnings per share from continuing operations	\$ 0.23	\$ (0.06)	\$ 0.23	\$ (0.29)
Basic and diluted earnings per share from discontinued operations	\$	\$ 0.05	\$	\$ 0.13
Basic earnings per share	\$ 0.24	\$ (0.01)	\$ 0.23	\$ (0.15)
Diluted earnings per share	\$ 0.23	\$ (0.01)	\$ 0.23	\$ (0.15)
Shares used in computation of basic earnings per share	101,264,048	112,012,941	104,791,642	112,816,260
Shares used in computation of diluted earnings per share	103,724,202	112,012,941	107,955,922	112,816,260

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

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

	<b>September 30,</b>	<b>December 31,</b>
	<b>2005</b>	<b>2004</b>
	<u>                    </u>	<u>                    </u>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 183,558,099	\$ 445,539,282
Securities owned, held at clearing brokers, at market value	376,380,649	254,473,209
Receivable from brokers and dealers	256,258,445	244,881,065
Investment in Deephaven sponsored funds	281,848,158	215,329,959
Fixed assets and leasehold improvements at cost, less accumulated depreciation and amortization	65,523,628	54,382,503
Strategic investments	59,907,552	29,266,796
Goodwill	39,929,678	19,182,248
Intangible assets, less accumulated amortization	30,500,694	11,546,528
Other assets	95,519,062	119,418,725
	<u>                    </u>	<u>                    </u>
Total assets	\$ 1,389,425,965	\$ 1,394,020,315
	<u>                    </u>	<u>                    </u>
<b>LIABILITIES &amp; STOCKHOLDERS EQUITY</b>		
Liabilities		
Securities sold, not yet purchased, at market value	\$ 343,619,605	\$ 221,420,569
Payable to brokers and dealers	94,369,941	88,480,788
Accrued compensation expense	95,506,562	123,664,383
Accrued expenses and other liabilities	75,119,665	109,252,681
	<u>                    </u>	<u>                    </u>
Total liabilities	608,615,773	542,818,421
	<u>                    </u>	<u>                    </u>
Stockholders equity		
Class A Common Stock, \$0.01 par value, 500,000,000 shares authorized; 138,697,721 shares issued and 101,969,091 shares outstanding at September 30, 2005 and 133,965,513 shares issued and 113,295,191 shares outstanding at December 31, 2004	1,386,977	1,339,655
Additional paid-in-capital	466,431,469	427,451,712
Retained earnings	611,642,474	587,152,786
Treasury stock, at cost; 36,728,630 shares at September 30, 2005 and 20,670,322 shares at December 31, 2004	(294,168,558)	(147,636,413)
Accumulated other comprehensive income, net of tax	19,919,914	
Unamortized stock-based compensation	(24,402,084)	(17,105,846)
	<u>                    </u>	<u>                    </u>
Total stockholders equity	780,810,192	851,201,894
	<u>                    </u>	<u>                    </u>
Total liabilities and stockholders equity	\$ 1,389,425,965	\$ 1,394,020,315
	<u>                    </u>	<u>                    </u>

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

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

	<b>For the</b>	
	<b>nine months ended</b>	
	<b>September 30,</b>	
	<b>2005</b>	<b>2004</b>
	<b>Restated</b>	
<b>Cash flows from operating activities</b>		
Net income (loss)	\$ 24,489,688	\$ (17,276,962)
Income from discontinued operations, net of tax	122,007	14,948,350
	<u>24,367,681</u>	<u>(32,225,312)</u>
Income (loss) from continuing operations, net of tax	24,367,681	(32,225,312)
Adjustments to reconcile income (loss) from continuing operations, net of tax to net cash used in operating activities		
Depreciation and amortization	12,245,859	10,870,338
Income tax benefit on stock awards exercised	4,862,396	5,134,485
Stock-based compensation	9,965,376	9,144,843
Writedown of assets and lease loss accrual	10,055,252	3,498,261
Unrealized gain on strategic investments	708,178	
(Increase) decrease in operating assets		
Securities owned	(121,907,440)	(47,343,117)
Receivable from brokers and dealers	(9,450,118)	(59,193,729)
Other assets	10,186,580	(5,948,956)
Increase (decrease) in operating liabilities		
Securities sold, not yet purchased	122,199,036	55,603,309
Payable to brokers and dealers	5,889,153	67,548,200
Accrued compensation expense	(28,640,677)	(12,221,904)
Accrued expenses and other liabilities	(51,509,904)	75,597,998
	<u>(11,028,628)</u>	<u>70,464,416</u>
Net cash (used in) provided by operating activities	(11,028,628)	70,464,416
<b>Cash flows from investing activities</b>		
Purchases of fixed assets and leasehold improvements	(23,150,560)	