

Knight Execution and Clearing Services LLC

Statement of Financial Condition

June 30, 2011

(Unaudited)

Knight Execution and Clearing Services LLC

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	(in thousands)
Assets	
Cash and cash equivalents	\$ 4,143
Cash segregated under federal and other regulations	24,000
Collateralized agreements:	
Securities borrowed	1,419,882
Receivable from brokers, dealers and clearing organizations	314,591
Receivable from customers	62,331
Fixed assets and leasehold improvements, at cost, less accumulated depreciation and amortization of \$8,029	7,694
Goodwill	109,667
Intangible assets, less accumulated amortization of \$24,104	16,826
Other assets	2,424
Total assets	\$ 1,961,558
Liabilities and Member's Equity	
Liabilities	
Collateralized financings:	
Securities loaned	622,936
Financial instruments sold under agreements to repurchase	540,000
Payable to brokers, dealers and clearing organizations	451,825
Payable to affiliates	39,898
Payable to customers	27,530
Accrued expenses and other liabilities	26,038
Total liabilities	1,708,226
Member's equity	253,332
Total liabilities and member's equity	\$ 1,961,558

The accompanying notes are an integral part of this financial statement.

Knight Execution and Clearing Services LLC

Notes to the Statement of Financial Condition

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1. Organization and Description of the Business

Knight Execution and Clearing Services LLC (the “Company”) is a single member limited liability company organized in the state of Delaware. The Company’s sole member is Knight Capital Holdings LLC (“KCH”). The Company’s ultimate parent is Knight Capital Group, Inc. (“KCG”). On January 1, 2011, KCG completed an internal reorganization among certain wholly-owned subsidiaries whereby Knight Direct LLC and Knight Bondpoint, Inc. were merged into the Knight Clearing Services LLC, which was renamed Knight Execution & Clearing Services LLC.

The Company provides clearing and execution services to affiliates and outside institutional and broker dealer clients through three separate platforms. The clearing division provides settlement and clearance services primarily for KCG’s broker-dealer subsidiaries. The Knight Direct division provides institutions with direct market access trading through Knight Direct™ (“KD”), an advanced electronic platform. KD offers the EdgeTrade suite of algorithms that allows buy- and sell-side clients to more effectively source liquidity and manage the trading process as well as maintain anonymity, reduce market impact and lower transaction costs. The Knight BondPoint division provides electronic access and trade execution services for the retail fixed income market through a neutral secondary marketplace and through the distribution of new issues of fixed income securities.

The Company is a broker-dealer registered with the Securities Exchange Commission (“SEC”) and is a member of Financial Industry Regulatory Authority (“FINRA”), the Depository Trust Company, the National Securities Clearing Corporation, the Options Clearing Corporation and a registered clearing member of the New York Stock Exchange, NYSE Arca, NYSE Amex, the International Securities Exchange, the National Stock Exchange, The Chicago Board Options Exchange, the CBOE Stock Exchange, Nasdaq OMX, Nasdaq OMX BX, Nasdaq OMX PHLX, BATS, Direct Edge, the National Futures Association and the Municipal Securities Rulemaking Board.

2. Significant Accounting Policies

Cash and Cash Equivalents

Cash equivalents represent money market accounts, which are payable on demand, or 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 Segregated Under Federal and Other Regulations

Cash of \$24.0 million has been segregated in special reserve bank accounts for the exclusive benefit of customers and for the exclusive benefit of introducing brokers under Rule 15c3-3 of the SEC.

Collateralized Agreements and Financing

Collateralized agreements consist of securities borrowed. Collateralized financings consist of securities loaned and financial instruments sold under agreements to repurchase.

Securities borrowed and securities loaned transactions are accounted for as collateralized financing transactions and are recorded at the amount of cash collateral advanced or received, which approximates fair value. Securities borrowed transactions facilitate the settlement process and require the Company to deposit cash or other collateral with the lender. Securities loaned transactions help finance the clearance and settlement activities whereby the Company lends stock 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

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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 securities inventory of affiliated introducing brokers and are recorded at their contractual amount, which approximates fair value. The Company has entered into tri-party 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 securities on a daily basis. The market value of the securities delivered must be equal to or in excess of the principal amount loaned under the tri-party repurchase agreements plus the agreed upon margin requirement. The custodian may request additional collateral, if appropriate.

Foreign Currencies

The functional currency of the Company is the U.S. dollar. Assets and liabilities denominated in foreign currencies are translated into U.S. dollars using current exchange rates at the date of the Statement of Financial Condition.

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 impairment. The Company amortizes other intangible assets on a straight line basis over their useful lives and tests for recoverability whenever events indicate that the carrying amounts may not be recoverable.

Accrued 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.

Third party research paid for in advance of the execution of brokerage transactions is reflected as an asset and expensed as the related commission income is earned. A liability is recorded for research expense when commission income is earned. Prepaid research expense incurred on behalf of clients that elect not to use the facilities of the Company for the execution of brokerage transactions will be expensed at the time it is determined the facilities will not be used. At June 30, 2011, the Company had approximately \$84,000 in prepaid research expense included within Other assets on the Statement of Financial Condition.

Depreciation and Amortization

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 life 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.

Income Taxes

The Company is included in the consolidated federal income tax return filed by KCG. In accordance with KCG's tax sharing agreement with the Company, KCG allocates to the Company its share of income tax expense or benefit based on the Company's proportionate contribution to KCG's consolidated net income or loss. The amount of current and deferred taxes payable or refundable is recognized as of the date of the financial statements, utilizing currently enacted tax

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laws and rates. Deferred tax expenses or benefits are recognized in the financial statements for the changes in the deferred tax liabilities or assets between years. Net deferred tax liabilities are included in Accrued expenses and other liabilities on the Statement of Financial Condition.

Stock-Based Compensation

Certain employees of the Company participate in KCG's stock option and award plans (the "Stock Plans"). The purpose of the Stock Plans is to provide long-term incentive compensation, in the form of KCG stock-related awards, to employees of the Company.

Stock-based compensation is measured based on the grant date fair value of the awards. These costs, which are allocated from KCG, 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.

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

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles 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.

3. 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.

As of June 30, 2011, the fair value of financial instruments received as collateral by the Company that it was permitted to deliver or repledge was \$1.44 billion, of which \$1.38 billion had been delivered or repledged, (of which \$303.4 million could be repledged by the receiving counterparty).

The Company also pledges assets in order to finance securities inventory positions of its affiliated introducing brokers to counterparties who, in turn, are permitted to deliver or repledge them. Financial instruments pledged to counterparties that have the right to deliver or repledge them were \$343.6 million at June 30, 2011.

Additionally, the Company enters into collateralized transactions in order to finance securities inventory positions of its affiliated introducing brokers. Under these transactions, the Company pledges certain financial instruments to collateralize repurchase agreements. Financial instruments owned by affiliated introducing brokers and pledged to counterparties that did not have the right to sell or repledge such financial instruments consisted of equity securities with a fair value

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of \$537.2 million as of June 30, 2011. Repurchase agreements are short-term in nature and mature within one year.

4. Receivable From and Payable to Brokers, Dealers and Clearing Organizations

Receivable from and Payable to brokers, dealers and clearing organizations at June 30, 2011 consist of the following:

	Receivable	Payable
	(in thousands)	
Affiliated introducing brokers	\$ -	\$ 317,945
Clearing organizations	257,179	98,617
Securities failed to deliver/receive	46,201	32,691
Other	11,212	2,572
	<u>\$ 314,591</u>	<u>\$ 451,825</u>

Management believes that the carrying value of the amounts receivable from and payable to brokers, dealers and clearing organizations approximates fair value.

5. Receivable From and Payable to Customers

Accounts receivable from and payable to customers include amounts due on delivery versus payment ("DVP") and receive versus payment ("RVP") transactions. Securities owned by customers are held as collateral for receivables.

6. Fixed Assets and Leasehold Improvements

Fixed Assets and leasehold improvements comprise the following:

	(in thousands)
Computer hardware and software	\$ 13,288
Leasehold improvements	1,026
Furniture and fixtures	595
Telephone systems	550
Equipment	264
	<u>15,723</u>
Less: Accumulated depreciation and amortization	<u>8,029</u>
	<u>\$ 7,694</u>

7. Goodwill and Intangible Assets

At June 30, 2011, the Company had goodwill and intangible asset balances of \$109.7 million and \$16.8 million, respectively, which resulted from the purchases of Direct Trading Institutional, Inc. in June 2005, ValueBond, Inc. in October 2006 and EdgeTrade, LLC in January 2008.

Goodwill and intangible assets with indefinite useful lives are tested for impairment annually or when an event occurs or circumstances change that signify the existence of impairment. The test

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considers the profitability, assessment of fair value as well as the overall fair value of the Company and its reporting units compared to the net book value. In June 2011, the Company tested for the impairment of goodwill and intangible assets with indefinite lives and concluded that there was no impairment. Amortizable intangible assets are tested for recoverability whenever events indicate that the carrying amounts may not be recoverable. No such events occurred in 2011 that would indicate that the carrying amounts of the Company's goodwill or intangible assets may not be recoverable.

Intangible assets, which are primarily customer relationships and acquired technology, are all deemed to have finite lives and are being amortized over their useful lives, which have been determined to range from four to fifteen years. The weighted average remaining life of the Company's intangible assets at June 30, 2011 is approximately 5 years.

8. Commitments and Contingent Liabilities

The Company leases office space under a non-cancelable operating lease, which contains certain fixed escalation clauses. Future minimum rental commitments under all non-cancelable office leases, computer and equipment leases and other commitments were as follows:

(in thousands)

Six months ended December 31, 2011	\$	329
Year ended December 31, 2012		670
Year ended December 31, 2013		692
Year ended December 31, 2014		359
Year ended December 31, 2015		190
Thereafter through 2017		<u>272</u>
	\$	<u>2,513</u>

From time to time, the Company has been named as a defendant in legal actions and is subject to inquiries by various regulatory and self-regulatory bodies. In the opinion of management, based on consultation with legal counsel, any adverse outcome with regard to these potential matters would not likely have a material adverse effect on the operations or the financial position of the Company.

On June 29, 2011, the Company and Knight Capital Americas, L.P. ("KCA"), an affiliate of the Company, entered into a \$200.0 million one-year Revolving Credit Agreement (the "Revolving Credit Agreement") with a consortium of banks. KCG is guarantor under the Revolving Credit Agreement. The facility may be used to meet the short-term liquidity needs of the Company arising in the ordinary course of clearing and settlement activity. As of June 30, 2011, there were no borrowings under the Revolving Credit Agreement. Any amounts borrowed under the Revolving Credit Agreement are repayable on June 27, 2012. The Company is charged an annual commitment fee of 0.25% on the average daily amount of its allocated percentage of the unused portion of the Revolving Credit Agreement.

Among other restrictions, the Revolving Credit Agreement includes customary representations, warranties, affirmative and negative covenants related to (a) liens, (b) financial covenant requirements for maintaining a consolidated leverage ratio (as defined) and a liquidity ratio (as defined), as well as requirements for maintaining minimum levels of tangible net worth (as defined) and regulatory capital (as defined), and (c) restrictions on investments, dispositions and other

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restrictions and events of default customary for financings of these types. As of June 30, 2011, the Company was in compliance with all covenants under the Credit Agreement.

9. Employee Benefit Plans

KCG sponsors a 401(k) profit sharing plan (the "Plan") in which substantially all employees are eligible to participate. Under the terms of the Plan, the Company is required to make contributions to the Plan equal to 100% of the contributions made by each Company participant, up to certain limits.

Certain employees of the Company participate in KCG's stock award plans (the "Stock Plans"). The purpose of the Stock Plans is to provide long-term incentive compensation, in the form of KCG stock-related awards, to employees of the Company.

Unvested awards granted before September 1, 2010 are 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, full vesting is given where an employee has been terminated without cause by the Company. For all other awards granted after September 1, 2010 unvested awards are generally canceled if employment is terminated for any reason before the end of the relevant vesting period.

Restricted Shares and Restricted Stock Units

Eligible employees receive KCG restricted shares and/or restricted stock units (collectively, "restricted awards") as a portion of their total compensation. Restricted awards generally vest ratably over three years. KCG has the right to fully vest employees in their restricted stock units upon retirement and in certain other circumstances. Restricted awards are generally canceled if employment is terminated before the end of the relevant vesting period.

The Company measures compensation cost related to restricted awards based on the fair value of KCG's common stock at the date of grant, which the Stock Plans define as the average of the high and low sales price on the date prior to the grant date.

Stock Options

KCG's policy is to grant options for the purchase of shares of KCG Class A Common Stock at an exercise price not less than market value, which the Stock Plans define as the average of the high and low sales price on the date prior to the grant date. 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 option agreements. KCG has the right to fully vest employees in their options upon retirement and in certain other circumstances. Options are generally canceled if employment is terminated before the end of the relevant vesting period.

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 KCG'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 KCG's common stock on the grant date and the historical volatility of KCG's common stock and 3) expected option life - estimate

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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.

10. Related Party Transactions

Compensation expenses related to the overall management of the Company are allocated to the Company by an affiliate of the Company.

The Company pays KCG and an affiliate for allocated accounting, legal, IT and other support staff costs, which are a direct allocation of employee time, as well as other direct expenses incurred by or allocable to the Company.

The Company receives fees from affiliates for clearing introduced transactions from customers and proprietary transactions of the affiliates.

Related to the clearance of proprietary transactions introduced by affiliates, the Company carries balances related to the proprietary accounts of these introducing brokers ("PAIB"). Included in Payable to brokers, dealers and clearing organizations are PAIB balances payable to affiliates of \$317.9 million.

In the normal course of business, the Company may enter into short-term loans, payable on demand, from affiliated companies for which the Company pays an amount approximating its borrowing rate. Payable to affiliates at June 30, 2011 includes \$35 million in short term loans and a non interest bearing advance of \$652,000 payable to KCG.

11. Income Taxes

The Company is considered to be a disregarded entity for income tax purposes. In accordance with KCG's tax sharing agreement with the Company, KCG allocates to the Company its share of income tax expense or benefit based on the Company's proportionate contribution to KCG's consolidated net income or loss.

Deferred income taxes reflect the net tax effects of temporary differences between the financial reporting and tax bases of assets and liabilities and are measured using the enacted tax rates and laws that will be in effect when such differences are expected to reverse. The Company's net deferred tax liability at June 30, 2011 of \$1.7 million is included in Accrued expenses and other liabilities on the Statement of Financial Condition. The net deferred tax liability is attributable to differences in the book and tax bases of the Company's goodwill, fixed assets and other assets, as well as deferred compensation.

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

In the normal course of business, the activities of the Company involve the clearance, settlement, and financing of various securities transactions for affiliated introducing brokers and their institutional customers. These activities may expose the Company to off-balance-sheet risk in the event an affiliate, customer or other broker is unable to fulfill its contracted obligations and the Company has to purchase or sell the financial instrument underlying the contract at a loss.

The securities clearance and settlement activities of the affiliates and their customers are transacted on either a cash, receive/deliver versus payment ("RVP/DVP") or margin basis.

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Substantially all of the affiliates' customer transactions are settled on an RVP/DVP basis which involves payment or receipt of funds at substantially the same time underlying securities are received from or delivered to other brokers.

The Company extends credit to its affiliates, subject to various regulatory and internal margin requirements, collateralized by cash and securities in the affiliates' accounts. In connection with these activities, the Company clears transactions of affiliates involving the sale of securities not yet purchased, substantially all of which are transacted on a margin basis subject to individual exchange regulations. Such transactions may expose the Company to significant off-balance-sheet risk in the event margin requirements are not sufficient to fully cover losses that affiliates may incur. In the event the affiliate fails to satisfy its obligations, the Company may be required to purchase or sell financial instruments at prevailing market prices to fulfill the affiliate's obligations. The Company seeks to control the risks associated with its affiliates activities by requiring affiliates to maintain margin collateral in accordance with various regulatory and internal guidelines. The Company monitors these required margin levels on a daily basis and, pursuant to such guidelines, requires the affiliates to deposit additional collateral or reduce positions when necessary.

The Company's financing and securities settlement activities require the Company to pledge customer and affiliate securities as collateral in support of various secured financing sources such as bank loans, securities loaned and tri-party repurchase agreements. In the event the counterparty is unable to meet its contractual obligation to return customer or affiliate securities pledged as collateral, the Company may be exposed to the risk of acquiring the securities at prevailing market prices in order to satisfy its customer or affiliate obligations. The Company controls this risk by monitoring the fair value of securities pledged on a daily basis and by requiring adjustments of collateral levels in the event of excess market exposure. In addition, the Company establishes credit limits for such activities and monitors compliance on a daily basis.

13. Net Capital Requirement

As a registered broker-dealer and a FINRA member firm, the Company is subject to the SEC's Uniform Net Capital Rule (the "Rule") which requires the maintenance of minimum net capital. The Company has elected to use the alternative method, permitted by the Rule, which requires that the Company maintain net capital equal to the greater of \$250,000 or 2% of aggregate debit items, as defined.

At June 30, 2011, the Company had net capital of \$103.4 million, which was \$101.9 million excess of its required net capital of \$1.5 million.