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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549



**ANNUAL AUDITED REPORT  
FORM X-17A-5  
PART III**

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**Information Required of Brokers and Dealers Pursuant to Section 17 of the  
Securities Exchange Act of 1934 and Rule 17a-5 Thereunder**

REPORT FOR THE PERIOD BEGINNING 01/01/2008 AND ENDING 12/31/2008  
MM/DD/YY MM/DD/YY

**A. REGISTRANT IDENTIFICATION**

NAME OF BROKER-DEALER: Knight Capital Markets LLC

OFFICIAL USE ONLY  
FIRM I.D. NO.

ADDRESS OF PRINCIPAL PLACE OF BUSINESS: (Do not use P.O. Box No.)  
100 Manhattanville Road

Purchase (No. and Street) NY 10577  
(City) (State) (Zip Code)

NAME AND TELEPHONE NUMBER OF PERSON TO CONTACT IN REGARD TO THIS REPORT  
Timothy P. Dunham 201-557-6886  
(Area Code - Telephone Number)

**B. ACCOUNTANT IDENTIFICATION**

INDEPENDENT PUBLIC ACCOUNTANT whose opinion is contained in this Report\*

PricewaterhouseCoopers

(Name - if individual, state last, first, middle name)

300 Madison Avenue New York NY 10017  
(Address) (City) (State) (Zip Code)

**CHECK ONE:**

- Certified Public Accountant
- Public Accountant
- Accountant not resident in United States or any of its possessions.

SEC  
Section  
Washington, DC

**FOR OFFICIAL USE ONLY**

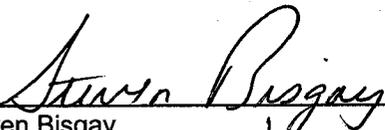
\*Claims for exemption from the requirement that the annual report be covered by the opinion of an independent public accountant must be supported by a statement of facts and circumstances relied on as the basis for the exemption. See Section 240.17a-5(e)(2)

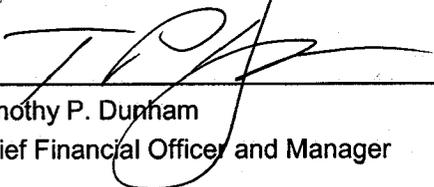
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Oath or Affirmation

State of New Jersey  
County of Hudson

We, the undersigned officers of Knight Capital Markets LLC, affirm that, to the best of our knowledge and belief, the accompanying financial statements and supplementary schedules pertaining to Knight Capital Markets LLC for the year ended December 31, 2008 are true and correct. We further affirm that neither the Company nor any principal officer or member has any proprietary interest in any account classified solely as that of a customer.

  
\_\_\_\_\_  
Steven Bisgay  
Senior Managing Director and Manager

  
\_\_\_\_\_  
Timothy P. Dunham  
Chief Financial Officer and Manager

  
\_\_\_\_\_  
Notary Public

**SHARON GAUTIER LOPEZ**  
Notary Public, State of New Jersey  
No. 2271908  
Qualified in Hudson County  
Commission Expires August 3, 2011

**Knight Capital Markets LLC**  
**Statement of Financial Condition**  
**December 31, 2008**

# **Knight Capital Markets LLC**

## **Index**

**December 31, 2008**

---

	<b>Page(s)</b>
<b>Report of Independent Auditors</b> .....	1
<b>Statement of Financial Condition</b> .....	2
<b>Notes to the Statement of Financial Condition</b> .....	3-9

# **Knight Capital Markets LLC**

## **Index**

**December 31, 2008**

---

	<b>Page(s)</b>
<b>Report of Independent Auditors</b> .....	1
<b>Statement of Financial Condition</b> .....	2
<b>Notes to the Financial Statements</b> .....	3-9

## Report of Independent Auditors

To the Member of  
Knight Capital Markets LLC:

In our opinion, the accompanying balance sheet presents fairly, in all material respects, the financial position of Knight Capital Markets LLC (the "Company") at December 31, 2008 in conformity with accounting principles generally accepted in the United States of America. This financial statement is the responsibility of the Company's management; our responsibility is to express an opinion on this financial statement based on our audit. We conducted our audit of this statement in accordance with auditing standards generally accepted in the United States of America, which require that we plan and perform the audit to obtain reasonable assurance about whether the balance sheet is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the balance sheet, assessing the accounting principles used and significant estimates made by management, and evaluating the overall balance sheet presentation. We believe that our audit of the balance sheet provides a reasonable basis for our opinion.

*PricewaterhouseCoopers LLP*

February 26, 2009

**Knight Capital Markets LLC**  
**Statement of Financial Condition**  
**December 31, 2008**

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	(in thousands)
<b>Assets</b>	
Cash and cash equivalents	\$ 144,017
Securities owned, held at clearing broker, at fair value	147,905
Receivable from brokers, dealers and clearing organization	77,487
Fixed assets and leasehold improvements, at cost, less accumulated depreciation and amortization of \$4,480	545
Goodwill	13,093
Other assets	12,241
<b>Total assets</b>	<b>\$ 395,288</b>
<b>Liabilities and Member's Equity</b>	
Liabilities	
Securities sold, not yet purchased, at fair value	\$ 153,883
Payable to brokers, dealers and clearing organization	9,521
Accrued compensation expense	4,848
Payable to affiliates	2,930
Accrued expenses and other liabilities	1,024
<b>Total liabilities</b>	<b>172,206</b>
Commitments and contingent liabilities (Note 6)	
Member's equity	223,082
<b>Total liabilities and member's equity</b>	<b>\$ 395,288</b>

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

# Knight Capital Markets LLC

## Notes to Statement of Financial Condition

### December 31, 2008

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#### 1. Organization and Description of the Business

Knight Capital Markets LLC (the "Company"), a Delaware limited liability company, operates as a market maker in the over-the-counter market for equity securities that are listed on the New York Stock Exchanges ("NYSE"), NYSE Alternext and NYSE Arca. The Company also provides capital placement services for alternative investment managers and assists corporate clients in private placements. The Company is a broker-dealer registered with the Securities and Exchange Commission ("SEC") and is a member of the Nasdaq Stock Exchange ("Nasdaq") and the Financial Industry Regulatory Authority ("FINRA"). The Company's sole member is Knight/Trimark, Inc., whose parent is Knight Capital Group, Inc. ("KCG").

#### 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.

##### Market Making Activities

Securities owned and securities sold, not yet purchased, which primarily consist of listed equity securities, are carried at fair value and are recorded on a trade date basis. All of the inventory at December 31, 2008 is held at a clearing broker and can be sold or pledged.

##### Estimated Fair Value of Financial Instruments

In September 2006, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 157 *Fair Value Measurements* ("SFAS 157"), which defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements.

Under SFAS 157, fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (i.e., the "exit price") in an orderly transaction between market participants at the measurement date. SFAS 157 establishes a hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. Observable inputs are inputs that market participants would use in pricing the asset or liability developed based on market data obtained from sources independent of the Company. Unobservable inputs are inputs that reflect the Company's belief about the assumptions market participants would use in pricing the asset or liability developed based on the best information available in the circumstances. The hierarchy is broken down into three levels based on the reliability of inputs 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.

## **Knight Capital Markets LLC**

### **Notes to Statement of Financial Condition**

#### **December 31, 2008**

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- 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.

The Company's securities owned and securities sold, not yet purchased 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. As of December 31, 2008, the Company did not hold any assets or liabilities that would be classified as Level 2 or Level 3.

In February 2008, FASB Staff Position FAS 157-2 ("FSP FAS 157-2") was issued. FSP FAS 157-2 delays the effective date of SFAS 157 for nonfinancial assets and liabilities, except for items that are recognized or disclosed at fair value in the financial statements on a recurring basis. The delay was intended to allow additional time to consider the effect of various implementation issues that have arisen from the application of SFAS 157. The Company believes that FSP FAS 157-2 will not have a material impact on the Company's Financial Statements. FSP FAS 157-2 will become effective for fiscal years beginning after November 15, 2008.

In February 2007, the FASB issued SFAS No. 159 *The Fair Value Option for Financial Assets and Financial Liabilities—Including an amendment of FASB Statement No. 115* ("SFAS 159"), which provides an option for entities to choose to measure many financial instruments and certain other items at fair value. On January 1, 2008, the Company elected not to take the option available under SFAS 159 for the purposes of valuing certain financial instruments at fair value.

#### **Goodwill**

The Company applies the provisions of SFAS No. 142 *Goodwill and Other Intangible Assets* ("SFAS 142"), which requires that goodwill and intangible assets with an indefinite useful life no longer be amortized, but instead, be tested for impairment annually or when an event occurs or circumstances change that signify the existence of impairment.

#### **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 amortized on a straight-line basis over the shorter of the life of the applicable 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.

**Knight Capital Markets LLC**  
**Notes to Statement of Financial Condition**  
**December 31, 2008**

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**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 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.

**Stock-based Compensation**

On January 1, 2006, the Company (in conjunction with KCG) adopted SFAS No. 123-R, *Share-Based Payment* ("SFAS No. 123-R"), using the "modified prospective method." Under SFAS No. 123-R, the grant date fair values of stock-based employee awards that require future service are amortized over the relevant service period.

Upon the adoption of SFAS No. 123-R, the Company changed its expense attribution method for options. For option awards granted subsequent to the adoption of SFAS No. 123-R, compensation cost is recognized on a straight-line basis over the requisite service period for the entire award, which is the same methodology that the Company uses to account for restricted share awards. For unvested option awards granted prior to the adoption of SFAS No. 123-R, the Company continues to recognize compensation cost using a graded-vesting method (as it had on a pro-forma basis previously). The graded-vesting method recognizes compensation cost separately for each vesting tranche.

SFAS No. 123-R requires expected forfeitures to be considered in determining stock-based employee compensation expense. For the year ended December 31, 2008, the Company recorded a benefit for expected forfeitures on all outstanding stock-based awards.

For stock-based payments issued after the adoption of SFAS No. 123-R, the Company applies a non-substantive vesting period approach whereby the expense is accelerated for those employees that receive options and are eligible to retire prior to the option 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 Statement of Financial Condition. Actual results may differ from those estimates.

**3. Receivable From and Payable to Brokers, Dealers and Clearing Organization**

Receivable from and Payable to brokers, dealers and clearing organization at December 31, 2008 consist of the following:

**Knight Capital Markets LLC**  
**Notes to Statement of Financial Condition**  
**December 31, 2008**

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	Receivable (in thousands)	Payable (in thousands)
Receivable from clearing broker	\$ 77,459	\$ -
Clearance, execution and other fees	28	3,615
Payments for order flow	-	5,906
	<u>\$ 77,487</u>	<u>\$ 9,521</u>

**4. Fixed Assets and Leasehold Improvements**

Fixed assets and leasehold improvements consist of the following:

	(in thousands)
Computer hardware and software	\$ 3,340
Leasehold improvements	1,194
Telephone systems	265
Furniture and fixtures	226
	<u>5,025</u>
Less: Accumulated depreciation and amortization	4,480
	<u>\$ 545</u>

**5. Goodwill**

At December 31, 2008, the Company had goodwill of \$13.1 million, which resulted from the purchase of the businesses of Trimark Securities, L.P. in 1995 and Tradetech Securities, L.P. in 1997.

Goodwill is tested for impairment, at a minimum, on an annual basis, or when an event occurs or circumstances change that signifies the existence of impairment. As part of the test for impairment, the Company's goodwill is tested in conjunction with its business segment within KCG. The test considers the profitability, assessment of fair value as well as the overall market value of the Company and its business segment compared to the net book value. In June 2008, the Company tested for the impairment of goodwill and concluded that there was no impairment. No other events occurred in 2008 that would indicate that the carrying amounts of the Company's goodwill may not be recoverable.

**6. Commitments and Contingent Liabilities**

The Company leases office space under noncancelable operating leases, which contain certain fixed escalation clauses. As of December 31, 2008, future minimum rental commitments under

**Knight Capital Markets LLC**  
**Notes to Statement of Financial Condition**  
**December 31, 2008**

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all noncancelable office leases, computer and equipment leases and other commitments (collectively, "Other Obligations") were as follows:

<b>Year ending December 31,</b>	<b>Office Leases</b>	<b>Other Obligations (in thousands)</b>	<b>Total</b>
2009	\$ 504	\$ 2	506
2010	365	-	365
2011	350	-	350
	<u>\$ 1,219</u>	<u>\$ 2</u>	<u>\$ 1,221</u>

The Company has been named as a defendant in legal actions. In addition, from time to time, the Company is subject to examinations and 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 matters would not likely have a material adverse effect on the results of operations or the financial position of the Company.

**7. Significant Clients**

The Company considers significant clients to be clients who account for 10% or more of the total U.S. equity dollar value traded by the Company during the period. For the year ended December 31, 2008, one client accounted for approximately 11.3% of the U.S. equity dollar value traded.

**8. 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 limitations.

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.

Eligible employees receive KCG restricted shares as a portion of their total compensation. Restricted share awards generally vest ratably over three years.

KCG's policy is to grant options for the purchase of shares of KCG Class A Common Stock at 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

**Knight Capital Markets LLC**  
**Notes to Statement of Financial Condition**  
**December 31, 2008**

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the option agreements. KCG 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.

**9. Related Party Transactions**

The Company pays an affiliate a fee to manage an electronic trading portfolio as well as a fee which represents the Company's allocation of certain shared services costs.

Certain overhead and other expenses are allocated to the Company by KCG or an affiliate of the Company based on direct usage, headcount or percentage of net capital depending on the source and nature of the expense.

The Company receives a fee from an affiliate for certain costs associated with the operation of a disaster recovery site.

In the normal course of business, the Company may make short-term loans, payable on demand, to affiliated companies for which the Company charges an amount approximating its borrowing rate. At December 31, 2008, Other assets includes \$3,000 in non-interest bearing receivables from affiliates.

Payable to affiliates at December 31, 2008 consists of \$267,000 in non-interest bearing payables to affiliates and \$2.7 million payable to KCG.

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

As a market maker of listed securities, substantially all of the Company's listed securities transactions are conducted as principal with broker-dealer counterparties located in the United States. The Company clears all of its securities transactions through a clearing broker on a fully disclosed basis. Accordingly, substantially all of the Company's credit exposures are concentrated with the clearing broker. The clearing broker can rehypothecate certain of the securities held on behalf of the Company. Additionally, pursuant to the terms and conditions between the Company and the clearing broker, the clearing broker has the right to charge the Company for all losses that result from a counterparty's failure to fulfill its obligations. The Company has the ability to pursue collection from or performance of the counterparty. The Company's policy is to monitor the credit standing of the clearing broker and all counterparties with which it conducts business.

As the right to charge the Company has no maximum amount and applies to all trades executed through the clearing broker, the Company believes there is no maximum amount assignable to this right. At December 31, 2008, the Company has recorded no liabilities with regard to the right. 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

**Knight Capital Markets LLC**  
**Notes to Statement of Financial Condition**  
**December 31, 2008**

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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 remote.

Securities sold, not yet purchased, which are valued at market, represent obligations of the Company to purchase such securities at a future date. The Company may incur a loss if the market value of the securities subsequently increases.

**11. 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 basic method, permitted by the Rule, which requires that the Company maintain net capital equal to the greater of \$1,000,000 or 6 2/3% of aggregate indebtedness, as defined.

At December 31, 2008, the Company had net capital of \$157.2 million, which was \$156.0 million in excess of its required net capital of \$1.2 million.