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

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

SEC FILE NUMBER  
8-66963

FACING PAGE

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 01/01/08 AND ENDING 12/31/08  
MM/DD/YY MM/DD/YY

A. REGISTRANT IDENTIFICATION

NAME OF BROKER-DEALER: Direct Edge ECN, LLC

OFFICIAL USE ONLY  
FIRM I.D. NO.

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

545 Washington Blvd 6th Floor

(No. and Street)

Jersey City

NJ

07310

(City)

(State)

(Zip Code)

NAME AND TELEPHONE NUMBER OF PERSON TO CONTACT IN REGARD TO THIS REPORT  
Glen Badach (201) 942-8206

(Area Code - Telephone Number)

B. ACCOUNTANT IDENTIFICATION

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

Price Waterhouse Coopers LLP

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

300 Madison Ave

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.

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Washington, DC  
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\*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)

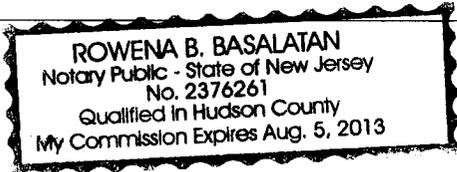
SEC 1410 (06-02)

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OATH OR AFFIRMATION

I, Glen Badach, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of Direct Edge ECN, LLC of December 31, 2008, are true and correct. I further swear (or affirm) that neither the company nor any partner, proprietor, principal officer or director has any proprietary interest in any account classified solely as that of a customer, except as follows:



[Handwritten Signature]
Signature

Controller
Title

[Handwritten Signature: Rowena B. Basalatan]
Notary Public

This report \*\* contains (check all applicable boxes):

- (a) Facing Page.
(b) Statement of Financial Condition.
(c) Statement of Income (Loss).
(d) Statement of Changes in Financial Condition.
(e) Statement of Changes in Stockholders' Equity or Partners' or Sole Proprietors' Capital.
(f) Statement of Changes in Liabilities Subordinated to Claims of Creditors.
(g) Computation of Net Capital.
(h) Computation for Determination of Reserve Requirements Pursuant to Rule 15c3-3.
(i) Information Relating to the Possession or Control Requirements Under Rule 15c3-3.
(j) A Reconciliation, including appropriate explanation of the Computation of Net Capital Under Rule 15c3-1 and the Computation for Determination of the Reserve Requirements Under Exhibit A of Rule 15c3-3.
(k) A Reconciliation between the audited and unaudited Statements of Financial Condition with respect to methods of consolidation.
(l) An Oath or Affirmation.
(m) A copy of the SIPC Supplemental Report.
(n) A report describing any material inadequacies found to exist or found to have existed since the date of the previous audit.

\*\*For conditions of confidential treatment of certain portions of this filing, see section 240.17a-5(e)(3).

# **Direct Edge ECN LLC**

**Statement of Financial Condition**

**December 31, 2008**

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**Direct Edge ECN LLC**

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**December 31, 2008**

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**Report of Independent Auditors**

To the Member of  
Direct Edge ECN LLC

In our opinion, the accompanying statement of financial condition presents fairly, in all material respects, the financial position of Direct Edge ECN 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

*PricewaterhouseCoopers LLP*

February 24, 2009

**Direct Edge ECN LLC**  
**Statement of Financial Condition**  
**December 31, 2008**

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<b>Assets</b>	
Cash and cash equivalents	\$ 35,900,283
Receivables from brokers, dealers and clearing organizations	44,157,920
Fixed assets, at cost, less accumulated depreciation and amortization of \$6,786,713	5,972,883
Goodwill	10,953,202
Other assets	788,740
Total assets	<u>\$ 97,773,028</u>
<b>Liabilities and Member's Equity</b>	
<b>Liabilities</b>	
Payable to brokers and dealers	\$ 17,372,525
ECN rebates payable	4,337,973
Accrued compensation	4,964,209
Accrued expenses and other liabilities	1,927,761
Total liabilities	<u>28,602,468</u>
Commitments and contingent liabilities (Note 6)	
<b>Member's equity</b>	
Total member's equity	<u>69,170,560</u>
Total liabilities and member's equity	<u>\$ 97,773,028</u>

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

**Direct Edge ECN LLC**  
**Notes to Statement of Financial Condition**  
**December 31, 2008**

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

Direct Edge ECN LLC, (the "Company"), a Delaware limited liability company, operates as an electronic communications network ("ECN"). The ECN is a liquidity destination offering the ability to match or route trades in Nasdaq Global Market, Nasdaq Global Select Market, Nasdaq Capital Market and New York Stock Exchange and American Stock Exchange listed securities by displaying orders in the National Stock Exchange or the FINRA Alternative Display Facility. The Company is registered as a broker-dealer with the Securities and Exchange Commission ("SEC") and is a member of the Financial Industry Regulatory Authority ("FINRA"), National Stock Exchange, Chicago Stock Exchange, CBOE Stock Exchange, International Securities Exchange, Nasdaq Stock Market, and New York Stock Exchange. The Company's sole member is Direct Edge Holdings LLC ("Direct Edge Holdings").

On December 23, 2008, Direct Edge Holdings merged with the ISE Stock Exchange, at the time, a majority owned subsidiary of the International Securities Exchange (ISE). Direct Edge Holdings issued units and received cash as consideration for the acquisition. As a result, former ISE Stock Exchange members received 40.3% interest in Direct Edge Holdings and existing Direct Edge Holdings members, i.e. Knight Capital Group ("KCG"), Citadel Derivatives Group LLC ("Citadel") and The Goldman Sachs Group, Inc., collectively own 59.7%.

**2. Significant Accounting Policies**

**Use of Estimates**

The preparation of this financial statement in conformity with generally accepted accounting principles in the United States of America 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 could differ from those estimates.

**Cash and Cash Equivalents**

Cash and cash equivalents represents demand deposit and 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. As of December 31, 2008 the balance principally consist of money market accounts held of \$33,831,930.

**ECN Activities**

Commissions receivable on ECN transactions and ECN rebates payable, are recorded on a trade date basis. ECN rebates represent payments to other broker-dealers for directing their order executions to the Company.

**Direct Edge ECN LLC**  
**Notes to Statement of Financial Condition**  
**December 31, 2008**

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**Estimated Fair Value of Financial Instruments**

Management estimates that the fair value of financial instruments recognized on the Statement of Financial Condition (including receivables, payables and accrued expenses) approximates their carrying value, as such financial instruments are short-term in nature, bear interest at current market rates or are subject to frequent repricing.

**Depreciation and Amortization**

Furniture and fixtures, computer hardware and software and equipment are being depreciated on a straight-line basis over their estimated useful lives of three to seven years. Leasehold improvements are amortized using the straight-line method over the term of the lease or the estimated use for lives of the improvement. In accordance with Statement of Position No. 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use," 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.

**Goodwill**

The Company applies the provisions of Statement of Financial Accounting Standards ("SFAS") No. 142 Goodwill and Other Intangible Assets, 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.

**Income Taxes**

Prior to July 23, 2007, the Company was considered a disregarded entity for income tax purposes and was included in the consolidated federal income tax return filed by KCG. With the issued equity interests to Citadel in exchange for cash, the status of the Company changed from a disregarded entity included in KCG's consolidated tax return to a partnership. As such, no taxes have been provided since that date.

**3. Receivables from Brokers, Dealers and Clearing Organizations**

Receivable from brokers, dealers and clearing organizations represents primarily net ECN commissions of \$34,207,849, market data receivables of \$8,570,906 and regulatory sales fee receivable of \$1,105,165.

**4. Goodwill**

At December 31, 2008, the Company had goodwill of \$10,953,202, which resulted from the purchase of the business by its initial investor.

Under SFAS No. 142, goodwill and the useful lives of intangible assets are tested for impairment, at a minimum, on an annual basis, or when an event occurs or circumstances change that signify the existence of impairment. During 2008, the Company tested the goodwill for impairment based on its assessment of fair value in comparison to its book value and concluded that there was no impairment.

**Direct Edge ECN LLC**  
**Notes to Statement of Financial Condition**  
**December 31, 2008**

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**5. Fixed Assets**

Fixed assets comprise the following:

Computer software	\$ 7,584,789
Computer hardware	2,175,922
Equipment	582,951
Leasehold improvements	1,796,602
Furniture and fixtures	619,332
	<u>12,759,596</u>
Less: accumulated depreciation and amortization	<u>(6,786,713)</u>
	<u>\$ 5,972,883</u>

**6. Commitments and Contingent Liabilities**

The Company, from time to time, may be 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 potential matters would not likely have a material adverse effect on the results of operations or the financial position of the Company.

The Company has an obligation under a sublease agreement for office space with KCG extended to 2021 with certain rental increases included within the agreement. Aggregate annual rent for office space at December 31, 2008 is listed below:

2009	\$ 525,720
2010	525,720
2011	543,411
2012	631,963
2013	631,963
2014 and later years	4,821,486
	<u>\$ 7,680,263</u>

**7. Employee Benefit Plans**

The Company's employees are eligible to participate in a KCG-sponsored 401(k) profit sharing plan (the "Plan"). 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.

**8. Related Party Transactions**

On July 23, 2007, the Company entered into a Transition Services Agreement ("TSA") with KCG. Under the terms of the agreement, KCG would provide certain technological and administrative services, in addition to facility overhead, to the Company as it transitioned from a wholly-owned subsidiary to a majority-owned subsidiary. The contract remained in effect as the Company

**Direct Edge ECN LLC**  
**Notes to Statement of Financial Condition**  
**December 31, 2008**

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transitioned from a majority-owned subsidiary to an independent company. In addition to the TSA, the Company holds a sublease agreement for office space with Knight Equity Markets, an affiliate of KCG.

Three affiliates of the Company are also material customers of the ECN operated by the Company. At December 31, 2008, ECN commissions receivable, net of rebates payable, from these affiliates amounted to \$5,327,256.

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

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 and the Company's broker-dealer customers. 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 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.

The Company maintains its cash and cash equivalents in financial institutions, which at times, may exceed federally insured limits. The Company has not experienced any losses in such accounts and believes it is not subject to any significant credit risk in regards to cash and cash equivalents.

**10. 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 \$250,000 or 6 2/3% of aggregate indebtedness, as defined.

At December 31, 2008, the Company had net capital of \$6,620,961 which was \$4,714,226 in excess of its required net capital of \$1,906,735

**11. Exemption from SEC Rule 15c3-3**

The Company has claimed exemption from SEC Rule 15c3-3 under paragraph (k)(2)(ii) of that Rule.