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# UNITED STATES
# SECURITIES AND EXCHANGE COMMISSION

**WASHINGTON, D.C. 20549**

# FORM 10-K

☒ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**For the fiscal year ended December 31, 2011**

**OR**

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**For the transition period from to**

**Commission file number: 000-51103**

# GFI Group Inc.

(Exact name of registrant as specified in its charter)

| | |
|---|---|
| **Delaware**<br>(State or other jurisdiction of incorporation or organization) | **80-0006224**<br>(I.R.S. Employer Identification No.) |
| **55 Water Street, New York, NY**<br>(Address of principal executive offices) | **10041**<br>(Zip Code) |

**(212) 968-4100**
(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

| Title of each class | Name of each exchange on which registered |
|---|---|
| Common Stock, $0.01 par value per share | New York Stock Exchange Euronext |

Securities registered pursuant to Section 12(g) of the Act:
**None**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
Yes ☐ No ☒

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. Yes ☐ No ▯

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 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 ▯ No ☐

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ▯

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 ☐ | Accelerated filer ▯ | Non-accelerated filer ☐<br>(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 ▯

As of June 30, 2011, the aggregate market value of the registrant's common stock held by non-affiliates of the registrant was $320,839,407 based upon the closing sale price of $4.59 as reported on the New York Stock Exchange Euronext.

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

| Class | Outstanding at February 29, 2012 |
|---|---|
| Common Stock, $0.01 par value per share | 118,182,530 shares |

**DOCUMENTS INCORPORATED BY REFERENCE**

Portions of the registrant's definitive proxy statement for its 2012 Annual Meeting of Stockholders, to be held on June 7, 2012, are incorporated by reference in Part III in this Annual Report on Form 10-K.

## ITEM 6. SELECTED FINANCIAL DATA

The following table sets forth selected consolidated financial data for the five years ended December 31, 2011. This selected financial data as of December 31, 2010, December 31, 2009, December 31, 2008 and December 31, 2007 has been updated to reflect the immaterial restatement as discussed in Note 2 to the Consolidated Financial Statements in Item 8 herein. This selected consolidated financial data should be read in conjunction with "Item 7—Management's Discussion and Analysis of Financial Condition and Results of Operations" and with our consolidated financial statements and the notes thereto contained in Part II-Item 8 in this Form 10-K.

| | Year ended December 31, | | | | |
|---|---|---|---|---|---|
| | 2011 | 2010 | 2009 | 2008 | 2007 |
| | (In thousands, except share and per share data) | | | | |
| **Consolidated Statements of Operations Data:** | | | | | |
| **Revenues** | | | | | |
| Agency commissions | $ 561,026 | $ 534,239 | $ 481,326 | $ 757,310 | $ 749,223 |
| Principal transactions | 235,580 | 215,563 | 270,378 | 206,669 | 188,254 |
| Total brokerage revenues | $ 796,606 | 749,802 | 751,704 | 963,979 | 937,477 |
| Clearing services revenues | 112,735 | 41,878 | — | — | — |
| Interest income from clearing services | 2,300 | 671 | — | — | — |
| Equity in net earnings of unconsolidated businesses(1) | 10,466 | 3,974 | 1,574 | (209) | (698) |
| Software, analytics and market data | 73,620 | 60,637 | 54,347 | 51,250 | 19,522 |
| Other income(2) | 19,746 | 5,640 | 12,656 | 274 | 13,542 |
| **Total revenues** | $ 1,015,473 | $ 862,602 | $ 820,281 | $ 1,015,294 | $ 969,843 |
| Total interest and transaction-based expenses(3) | 134,702 | 67,558 | 30,354 | 43,420 | 32,732 |
| **Revenues, net of interest and transaction-based expenses** | 880,771 | 795,044 | 789,927 | 971,874 | 937,111 |
| **Expenses** | | | | | |
| Compensation and employee benefits | 627,368 | 558,248 | 583,315 | 665,973 | 604,847 |
| Other expenses(1)(3)(4) | 253,321 | 204,993 | 183,342 | 222,924 | 181,526 |
| **Total other expenses** | 880,689 | 763,241 | 766,657 | 888,897 | 786,373 |
| **Income before provision for income taxes** | 82 | 31,803 | 23,270 | 82,977 | 150,738 |
| Provision for income taxes | 2,647 | 5,884 | 6,982 | 29,871 | 55,880 |
| **Net (loss) income before attribution to non-controlling** | | | | | |

| | | | | | |
|---|---|---|---|---|---|
| **stockholders** | (2,565) | 25,919 | 16,288 | 53,106 | 94,858 |
| Less: Net income attributable to non-controlling interests | 616 | 304 | — | — | — |
| **GFI's net (loss) income** | $ (3,181) | $ 25,615 | $ 16,288 | $ 53,106 | $ 94,858 |
| **Earnings Per Share** | | | | | |
| Basic (loss) earnings per share available to common stockholders | $ (0.03) | $ 0.21 | $ 0.14 | $ 0.45 | $ 0.81 |
| Diluted (loss) earnings per share available to common stockholders | $ (0.03) | $ 0.20 | $ 0.13 | $ 0.44 | $ 0.80 |
| **Weighted average number of shares outstanding(5)** | | | | | |
| Basic | 118,334,995 | 120,275,918 | 118,178,493 | 117,966,596 | 116,595,920 |
| Diluted | 118,334,995 | 125,522,128 | 121,576,767 | 119,743,693 | 119,180,791 |
| Dividends declared per share of common stock | $ 0.20 | $ 0.45 | $ 0.20 | $ 0.255 | — |

| | For the Year Ended December 31, | | | | |
|---|---|---|---|---|---|
| | 2011 | 2010 | 2009 | 2008 | 2007 |
| | (In thousands except headcount data) | | | | |
| **Consolidated Statements of Financial Condition Data:** | | | | | |
| Cash and cash equivalents | $ 245,879 | $ 313,875 | $ 342,379 | $ 342,375 | $ 240,393 |
| Total assets(6)(7) | $ 1,190,549 | 1,273,804 | 954,874 | 1,088,691 | 978,594 |
| Total debt, including current portion | $ 250,000 | 192,446 | 173,688 | 223,823 | $ 55,291 |
| Total stockholders' equity(7) | $ 447,212 | 494,111 | 487,502 | 480,363 | 455,593 |
| **Selected Statistical Data:** | | | | | |
| Brokerage personnel headcount(8) | 1,271 | 1,161 | 1,082 | 1,037 | 1,037 |
| Employee headcount | 2,176 | 1,990 | 1,768 | 1,740 | 1,599 |
| Broker productivity for the period(9) | $ 647 | $ 669 | $ 705 | $ 910 | $ 934 |
| **Brokerage Revenues by Geographic Region:** | | | | | |
| Americas | $ 311,519 | $ 293,344 | $ 325,359 | $ 385,854 | $ 401,897 |
| Europe, Middle East & Africa | 392,895 | 379,660 | 364,752 | 489,517 | 449,949 |
| Asia | 92,192 | 76,798 | 61,593 | 88,608 | 85,631 |
| Total | $ 796,606 | $ 749,802 | $ 751,704 | $ 963,979 | $ 937,477 |

(1) During the second quarter of 2011, the Company changed the name of its income statement line item "Equity in earnings (losses) of unconsolidated brokerage businesses" to "Equity in net earnings (losses) of unconsolidated businesses" in order to better describe the results included in this line item. In addition, certain amounts related to equity in net earnings (losses) of unconsolidated businesses totaling $489, $1,574, $(209) and $(698) for the years ended December 31, 2010, 2009, 2008 and 2007, respectively, were previously presented in the "Other expenses" line item in the Consolidated Statements of Operations. In order to enhance transparency in the presentation of the Consolidated Statements of Operations these amounts have been reclassified to the "Equity in net earnings (losses) of unconsolidated businesses" line item.

(2) Certain software development contract revenues for the years ended December 31, 2008 and 2007 totaling $86 and $215 were previously presented in a line item called "Contract revenue" and have been combined into "Other income" to conform with the current year's presentation.

(3) Clearing fees for the years ended December 31, 2009, 2008 and 2007 totaling $30,354, $43,420 and $32,732 were previously presented in "Other expenses" and are now presented in "Total interest and transaction- based expenses" to conform with the current year's presentation.

(4) Other expenses is Total other expenses excluding Compensation and employee benefits.

(5) Restated to reflect the four-for-one stock split effected March 31, 2008.

(6) Total assets included receivables from brokers, dealers and clearing organizations of $217.9 million, $243.8 million, $87.7 million, $149.7 million and $317.8 million at December 31, 2011, 2010, 2009, 2008 and 2007, respectively. These receivables primarily represent securities transactions entered into in connection with our matched principal business which have not settled as of their stated settlement dates. These receivables are substantially offset by the corresponding payables to brokers, dealers and clearing organizations for these unsettled transactions.

(7) Information has been updated to reflect the restatement discussed in Note 2 of our Consolidated Financial Statements in Item 8 herein.

(8) Brokerage personnel headcount includes brokers, trainees and clerks. As of December 31, 2011, we employed 1,035 brokers and 236 trainees and clerks.

(9) We are presenting broker productivity to show the average amount of revenue generated per broker. Broker productivity is calculated as brokerage revenues divided by average brokerage personnel headcount for the period.

**ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA**

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## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of
GFI Group Inc.
New York, New York

We have audited the accompanying consolidated statements of financial condition of GFI Group Inc. and subsidiaries (the "Company") as of December 31, 2011 and 2010, and the related consolidated statements of operations, comprehensive (loss) income, cash flows and changes in stockholders' equity for each of the three years in the period ended December 31, 2011. Our audits also included the financial statement schedule listed in the Index at Item 15. These consolidated financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on the consolidated financial statements and the financial statement schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of GFI Group Inc. and subsidiaries as of December 31, 2011 and 2010, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2011, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, such financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, present fairly, in all material respects, the information set forth therein.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of December 31, 2011, based on the criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 15, 2012 expressed an unqualified opinion on the Company's internal control over financial reporting.

/s/ Deloitte & Touche LLP
New York, New York
March 15, 2012

## GFI GROUP INC. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

**(In thousands except share and per share amounts)**

| | December 31, 2011 | December 31, 2010 |
|---|---|---|
| **Assets** | | |
| Cash and cash equivalents | $ 245,879 | $ 313,875 |
| Cash segregated under federal and other regulations | 12,756 | 24,927 |
| Deposits with clearing organizations | 33,885 | 26,845 |
| Commissions receivable, net | 94,971 | 103,010 |
| Receivables from brokers, dealers and clearing organizations | 217,909 | 243,811 |
| Property, equipment and leasehold improvements, net | 61,947 | 60,612 |
| Goodwill | 266,506 | 268,288 |
| Intangible assets, net | 58,027 | 66,816 |
| Other assets | 198,669 | 165,620 |
| TOTAL ASSETS | $ 1,190,549 | $ 1,273,804 |
| **Liabilities and stockholders' equity** | | |
| LIABILITIES | | |
| Accrued compensation | $ 127,089 | $ 112,535 |
| Accounts payable and accrued expenses | 56,547 | 64,672 |
| Payables to brokers, dealers and clearing organizations | 89,529 | 172,418 |
| Payables to clearing services customers | 120,909 | 125,968 |
| Short-term borrowings, net | — | 132,703 |
| Long-term obligations | 250,000 | 59,743 |
| Other liabilities | 97,563 | 110,543 |
| Total Liabilities | 741,637 | 778,582 |
| Commitments and contingencies (Note 13) | | |
| STOCKHOLDERS' EQUITY | | |
| Preferred stock, $0.01 par value; 5,000,000 shares authorized, none outstanding at December 31, 2011 and 2010 | — | — |
| Common stock, $0.01 par value; 400,000,000 shares authorized and 131,669,676 and 128,703,324 shares issued at December 31, 2011 and 2010, respectively | 1,317 | 1,287 |
| Additional paid in capital | 365,835 | 350,230 |
| Retained earnings | 160,934 | 188,295 |
| Treasury stock, 14,145,038 and 6,577,833 common shares at cost at December 31, 2011 and 2010, respectively | (73,919) | (43,433) |
| Accumulated other comprehensive loss | (6,955) | (2,268) |
| Total Stockholders' Equity | 447,212 | 494,111 |
| Non-controlling interests | 1,700 | 1,111 |
| Total Equity | 448,912 | 495,222 |
| TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY | $ 1,190,549 | $ 1,273,804 |

See notes to consolidated financial statements

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**GFI GROUP INC. AND SUBSIDIARIES**

**CONSOLIDATED STATEMENTS OF OPERATIONS**

**(In thousands, except share and per share data)**

| | Year Ended December 31, 2011 | 2010 | 2009 |
|---|---|---|---|
| **Revenues** | | | |
| Agency commissions | $ 561,026 | $ 534,239 | $ 481,326 |
| Principal transactions | 235,580 | 215,563 | 270,378 |
| Total brokerage revenues | 796,606 | 749,802 | 751,704 |
| Clearing services revenues | 112,735 | 41,878 | — |
| Interest income from clearing services | 2,300 | 671 | — |
| Equity in net earnings of unconsolidated businesses(1) | 10,466 | 3,974 | 1,574 |
| Software, analytics and market data | 73,620 | 60,637 | 54,347 |
| Other income(1) | 19,746 | 5,640 | 12,656 |
| **Total revenues** | 1,015,473 | 862,602 | 820,281 |
| Interest and transaction-based expenses | | | |
| Transaction fees on clearing services | 108,283 | 39,918 | — |
| Transaction fees on brokerage services | 24,541 | 27,213 | 30,354 |
| Interest expense from clearing services | 1,878 | 427 | — |
| Total interest and transaction-based expenses | 134,702 | 67,558 | 30,354 |
| **Revenues, net of interest and transaction-based expenses** | 880,771 | 795,044 | 789,927 |
| **Expenses** | | | |
| Compensation and employee benefits | 627,368 | 558,248 | 583,315 |
| Communications and market data | 60,728 | 49,579 | 46,263 |
| Travel and promotion | 40,011 | 37,517 | 33,819 |
| Rent and occupancy | 24,664 | 22,413 | 20,325 |
| Depreciation and amortization | 38,943 | 34,431 | 31,493 |
| Professional fees | 27,413 | 25,949 | 18,402 |
| Interest on borrowings | 25,759 | 11,063 | 10,540 |
| Other expenses(1) | 35,803 | 24,041 | 22,500 |
| **Total other expenses** | 880,689 | 763,241 | 766,657 |
| **Income before provision for income taxes** | 82 | 31,803 | 23,270 |
| Provision for income taxes | 2,647 | 5,884 | 6,982 |
| **Net (loss) income before attribution to non-controlling stockholders** | (2,565) | 25,919 | 16,288 |
| Less: Net income attributable to non-controlling interests | 616 | 304 | — |
| **GFI's net (loss) income** | $ (3,181) | $ 25,615 | $ 16,288 |
| (Loss) earnings per share available to common stockholders | | | |
| Basic | $ (0.03) | $ 0.21 | $ 0.14 |
| Diluted | $ (0.03) | $ 0.20 | $ 0.13 |
| Weighted average shares outstanding | | | |
| Basic | 118,334,995 | 120,275,918 | 118,178,493 |
| Diluted | 118,334,995 | 125,522,128 | 121,576,767 |
| Dividends declared per share of common stock | $ 0.20 | $ 0.45 | $ 0.20 |

(1) Conformed to the current year's presentation—see Note 2

**GFI GROUP INC. AND SUBSIDIARIES**

**CONSOLIDATED STATEMENTS OF COMPREHENSIVE (LOSS) INCOME**

**(In thousands)**

| | Year Ended December 31, | | |
|---|---|---|---|
| | **2011** | **2010** | **2009** |
| Net (loss) income before attribution to non-controlling stockholders | $ (2,565) | $ 25,919 | $ 16,288 |
| Other comprehensive (loss) income: | | | |
| Foreign currency translation adjustment | (3,201) | 2,123 | 1,506 |
| Unrealized (loss) gains on available-for-sale securities, net of tax(1) | (1,486) | 183 | 565 |
| Comprehensive (loss) income | (7,252) | 28,225 | 18,359 |
| Net income attributable to non-controlling interests | 616 | 304 | — |
| Other comprehensive (loss) income attributable to non-controlling interests | (151) | 70 | — |
| GFI's comprehensive (loss) income | $ (7,717) | $ 27,851 | $ 18,359 |

(1) Amounts are net of benefit from (provision for) income taxes of $547, $(71) and $(185) for the years ended December 31, 2011, 2010 and 2009, respectively.

See notes to consolidated financial statements

**GFI GROUP INC. AND SUBSIDIARIES**

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

**(In thousands)**

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2011 | 2010 | 2009 |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | | |
| Net (loss) income before attribution to non-controlling stockholders | $ (2,565) | $ 25,919 | $ 16,288 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | |
| Depreciation and amortization | 38,943 | 34,431 | 31,493 |
| Amortization of loan fees | 1,709 | 939 | 742 |
| Amortization of prepaid bonuses and forgivable loans(1) | 33,652 | 25,707 | 60,489 |
| Provision for doubtful accounts | 250 | (829) | 3,617 |
| Share-based compensation | 32,772 | 26,674 | 25,820 |
| Loss on disposal of fixed assets | 590 | 121 | 8 |
| Benefit from deferred taxes | (4,866) | (22,632) | (32,811) |
| Losses (gains) on foreign exchange derivative contracts, net | 415 | (3,529) | (3,519) |
| (Gains) losses from equity method investments, net | (1,223) | 29 | (1,552) |
| Tax expense related to share-based compensation | 1,764 | 2,042 | 5,577 |
| Writedown of investments in unconsolidated businesses | 8,829 | — | — |
| Fair value mark-to-market on future purchase commitment(1) | (6,941) | (200) | — |
| Gain on remeasurement of previously held equity interest | — | (3,695) | — |
| Other non-cash charges, net(1) | (617) | (358) | (462) |
| (Increase) decrease in operating assets: | | | |
| Cash segregated under federal and other regulations | 12,171 | (16,841) | — |
| Deposits with clearing organizations | (7,040) | 2,746 | (2,573) |
| Commissions receivable | 7,847 | 4,222 | 20,912 |
| Receivables from brokers, dealers and clearing organizations | 25,902 | (58,862) | 61,924 |
| Other assets(1) | (44,956) | (34,368) | 7,205 |
| Increase (decrease) in operating liabilities: | | | |
| Accrued compensation | 14,554 | 6,069 | (29,575) |
| Accounts payable and accrued expenses | (8,125) | (10,473) | (2,612) |
| Payables to brokers, dealers and clearing organizations | (82,889) | 104,287 | (36,709) |
| Payables to clearing services customers | (5,044) | 9,345 | — |
| Other liabilities | (10,553) | 5,362 | (10,461) |
| Cash provided by operating activities | 4,579 | 96,106 | 113,801 |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | | |
| Business acquisitions, net of cash acquired, and purchases of intangible and other assets | (3,300) | (28,655) | — |
| Issuance of notes receivable | (4,953) | (800) | (1,000) |
| Proceeds from notes receivable | 882 | 1,000 | — |
| Proceeds from other investments | 1,062 | 662 | 4,808 |
| Purchases of other investments | (11,300) | (24,647) | (2,158) |
| Purchase of property, equipment and leasehold improvements | (23,357) | (13,214) | (13,240) |
| Proceeds on foreign exchange derivative contracts | 5,893 | 13,575 | 9,710 |
| Payments on foreign exchange derivative contracts | (11,172) | (6,695) | (25,791) |
| Cash used in investing activities | (46,245) | (58,774) | (27,671) |

(1) The Company segregated the classification of Amortization of prepaid bonuses and forgivable loans and Fair value mark-to-market on future purchase commitment from Other assets and Other non-cash charges, net, respectively.

**GFI GROUP INC. AND SUBSIDIARIES**

**CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)**

**(In thousands)**

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2011 | 2010 | 2009 |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | | |
| Repayment of short-term borrowings | (190,000) | (40,000) | (50,000) |
| Proceeds from short-term borrowings | 55,000 | 60,000 | — |
| Proceeds from long-term obligations | 250,000 | — | — |
| Repayment of long-term obligations | (60,000) | — | — |
| Purchases of treasury stock | (35,868) | (22,609) | (4,425) |
| Cash dividends paid | (24,180) | (54,658) | (23,583) |
| Payment of debt issuance costs | (8,891) | (2,719) | (831) |
| Proceeds from exercises of stock options | 75 | 645 | 70 |
| Cash paid for taxes on vested restricted stock units | (9,102) | (6,724) | (3,640) |
| Payment of contingent consideration liabilities | (1,693) | — | — |
| Tax expense related to share-based compensation | (1,764) | (2,042) | (5,577) |
| Cash used in financing activities | (26,423) | (68,107) | (87,986) |
| Effects of exchange rate changes on cash and cash equivalents | 93 | 2,271 | 1,860 |
| (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS | (67,996) | (28,504) | 4 |
| CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD | 313,875 | 342,379 | 342,375 |
| CASH AND CASH EQUIVALENTS, END OF PERIOD | $ 245,879 | $ 313,875 | $ 342,379 |
| SUPPLEMENTAL DISCLOSURE: | | | |
| Interest paid | $ 17,525 | $ 11,391 | $ 9,532 |
| Cash paid for income taxes | $ 23,948 | $ 23,998 | $ 30,492 |
| Cash received from income tax refunds | $ 8,539 | $ 4,491 | $ 5,796 |

Non-Cash Investing and Financing Activities:

During 2011, the Company recorded a $1,084 debit to Additional paid in capital with respect to the cancellation of 276,625 shares of the Company's common stock in connection with the exchange of the Company's membership interest in an equity method investment for a convertible senior secured promissory note. During 2010, in connection with the business combinations described in Note 5, the Company recorded $20,604 within Other liabilities and recorded the following items within Stockholders' Equity: $20,088 related to the issuance of 3,492,095 shares of the Company's common stock and $15,558 related to 3,682,916 of contingently issuable shares of the Company's common stock. Additionally, the Company recorded $1,627 with respect to the issuance of 414,938 shares of the Company's common stock in connection with an equity method investment during 2010. During 2009, the Company recorded a contingent liability of $2,400 within Other liabilities in connection with a business combination.

See notes to consolidated financial statements

## GFI GROUP INC. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

## (In thousands)

| | Common Stock | Additional Paid In Capital | Treasury Stock | Retained Earnings | Accumulated Other Comp. Income (loss) | Total Stockholders' Equity | Non-Controlling Interests | Total Equity |
|---|---|---|---|---|---|---|---|---|
| Balance, December 31, 2008, as previously reported | $ 1,195 | $ 279,656 | $ (18,476) | $ 219,354 | $ (4,766) | $ 476,963 | $ — | $ 476,963 |
| Restatement adjustment (Note 2) | — | — | — | 5,279 | (1,879) | 3,400 | — | 3,400 |
| Balance, December 31, 2008, as restated | $ 1,195 | $ 279,656 | $ (18,476) | $ 224,633 | $ (6,645) | $ 480,363 | $ — | $ 480,363 |
| Purchase of treasury stock | — | — | (4,425) | — | — | (4,425) | — | (4,425) |
| Issuance of common stock for exercise of stock options and vesting of restricted stock units | 14 | 70 | — | — | — | 84 | — | 84 |
| Withholding of restricted stock units in satisfaction of tax requirements | — | (3,653) | — | — | — | (3,653) | — | (3,653) |
| Tax expense associated with share-based awards | — | (5,577) | — | — | — | (5,577) | — | (5,577) |
| Foreign currency translation adjustment, net of tax | — | — | — | — | 1,506 | 1,506 | — | 1,506 |
| Unrealized gain on available-for-sale securities, net of tax | — | — | — | — | 565 | 565 | — | 565 |
| Dividends to stockholders | — | — | — | (23,583) | — | (23,583) | — | (23,583) |
| Share-based compensation | — | 25,934 | — | — | — | 25,934 | — | 25,934 |
| Net income | — | — | — | 16,288 | — | 16,288 | — | 16,288 |
| Balance, December 31, 2009, as restated | 1,209 | 296,430 | (22,901) | 217,338 | (4,574) | 487,502 | — | 487,502 |
| Purchase of treasury stock | — | — | (22,609) | — | — | (22,609) | — | (22,609) |
| Issuance of treasury stock | — | (2,077) | 2,077 | — | — | — | — | — |
| Common stock issued and issuable for acquisitions | 57 | 37,214 | — | — | — | 37,271 | — | 37,271 |
| Issuance of common stock for exercise of stock options and vesting of restricted stock units | 21 | 624 | — | — | — | 645 | — | 645 |
| Withholding of restricted stock units in satisfaction of | | | | | | | | |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| tax requirements | — | (6,724) | — | — | — | (6,724) | — | (6,724) |
| Tax expense associated with share-based awards | — | (2,042) | — | — | — | (2,042) | — | (2,042) |
| Foreign currency translation adjustment, net of tax | — | — | — | — | 2,123 | 2,123 | 70 | 2,193 |
| Unrealized gain on available-for-sale securities, net of tax | — | — | — | — | 183 | 183 | — | 183 |
| Dividends to stockholders | — | — | — | (54,658) | — | (54,658) | — | (54,658) |
| Share-based compensation | — | 26,805 | — | — | — | 26,805 | — | 26,805 |
| Non-controlling interests from business acquisitions | — | — | — | — | — | — | 737 | 737 |
| Net income | — | — | — | 25,615 | — | 25,615 | 304 | 25,919 |
| Balance, December 31, 2010, as restated | 1,287 | 350,230 | (43,433) | 188,295 | (2,268) | 494,111 | 1,111 | 495,222 |
| Purchase of treasury stock | — | — | (35,868) | — | — | (35,868) | — | (35,868) |
| Issuance of treasury stock | — | (5,379) | 5,382 | — | — | 3 | — | 3 |
| Common stock issued (cancelled) in connection with an investment | 1 | (1,084) | — | — | — | (1,083) | — | (1,083) |
| Issuance of common stock for exercise of stock options and vesting of restricted stock units | 29 | 46 | — | — | — | 75 | — | 75 |
| Withholding of restricted stock units in satisfaction of tax requirements | — | (9,102) | — | — | — | (9,102) | — | (9,102) |
| Tax expense associated with share-based awards | — | (1,764) | — | — | — | (1,764) | — | (1,764) |
| Foreign currency translation adjustment, net of tax | — | — | — | — | (3,201) | (3,201) | (27) | (3,228) |
| Unrealized loss on available-for-sale securities, net of tax | — | — | — | — | (1,486) | (1,486) | — | (1,486) |
| Dividends to stockholders | — | — | — | (24,180) | — | (24,180) | — | (24,180) |
| Share-based compensation | — | 32,888 | — | — | — | 32,888 | — | 32,888 |
| Net (loss) income | — | — | — | (3,181) | — | (3,181) | 616 | (2,565) |
| Balance, December 31, 2011 | $ 1,317 | $ 365,835 | $ (73,919) | $ 160,934 | $ (6,955) | $ 447,212 | $ 1,700 | $ 448,912 |

See notes to consolidated financial statements

**GFI GROUP INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**(In thousands, except share and per share amounts)**

## 1. ORGANIZATION AND BUSINESS

The Consolidated Financial Statements include the accounts of GFI Group Inc. and its subsidiaries (collectively, "GFI" or the "Company"). The Company, through its subsidiaries, provides brokerage services, clearing services, trading system software and market data and analytical software products to institutional clients in markets for a range of fixed income, financial, equity and commodity instruments. The Company complements its brokerage capabilities with value-added services, such as market data and software systems and products for decision support, which it licenses primarily to companies in the financial services industry. The Company's principal operating subsidiaries include: GFI Securities LLC, GFI Brokers LLC, GFI Group LLC, GFI Securities Limited, GFI Brokers Limited, GFI (HK) Securities LLC, GFI (HK) Brokers Ltd., GFI Group Pte. Ltd., GFI Korea Money Brokerage Limited, GFI Securities Nyon Sarl, Amerex Brokers LLC, Fenics Limited ("Fenics"), Trayport Limited ("Trayport"), and The Kyte Group Limited and Kyte Capital Management Limited (collectively "Kyte"). As of December 31, 2011, Jersey Partners, Inc. ("JPI") owned approximately 41% of the Company's outstanding shares of common stock. The Company's chief executive officer, Michael Gooch, is the controlling shareholder of JPI.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

***Basis of Presentation***—The Company's Consolidated Financial Statements are prepared in accordance with accounting principles generally accepted in the United States of America, which require management to make estimates and assumptions that affect the reported amounts of assets and liabilities, revenues and expenses, and the disclosure of contingencies in the Consolidated Financial Statements. Certain estimates and assumptions relate to the accounting for acquired goodwill and intangible assets, fair value measurements, compensation accruals, tax liabilities and the potential outcome of litigation matters. Management believes that the estimates utilized in the preparation of the Consolidated Financial Statements are reasonable and prudent. Actual results could differ materially from these estimates.

All intercompany transactions and balances have been eliminated.

When the Company acquired Kyte on July 1, 2010, it determined that a certain investment in an unconsolidated affiliate should be accounted for under the cost method. During the second quarter of 2011, the Company concluded that this investment should have been accounted for under the equity method since the acquisition date. During the year ended December 31, 2011, the Company recorded $521 of pre-tax income, representing the Company's cumulative share of equity in earnings of the investment from the third and fourth quarters of 2010. Additionally, during the second quarter of 2011, the Company recorded an adjustment of $2,925 to its purchase price allocation for Kyte related to all pre-acquisition earnings in this investee not previously recognized by Kyte. The Company adjusted residual goodwill accordingly. See Note 5 for discussion of the adjustment to goodwill.

***Immaterial Restatement***—During the fourth quarter of 2011, the Company completed an analysis of its tax assets and liabilities. As a result of that analysis, the Company determined that it had overstated its Provision for income taxes in certain years prior to December 31, 2008. As a result of this error, the Company has recorded the following corrections: (i) a $5,279 increase to beginning Retained earnings as of December 31, 2008, (ii) a $1,879 decrease to Foreign currency translation adjustment within beginning Accumulated other comprehensive loss as of December 31, 2008, (iii) a $3,400 increase to beginning Total equity as of December 31, 2008, (iv) a $2,780 increase to Deferred tax assets within Other assets as of December 31 2010, and (v) a $620 net decrease to Other liabilities as of

**GFI GROUP INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**(In thousands, except share and per share amounts)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

December 31, 2010 related primarily to Unrecognized tax benefits and Deferred tax liabilities. The Company has restated its Consolidated Statements of Changes in Stockholders' Equity as of December 31, 2008, 2009 and 2010 and its Consolidated Statement of Financial Condition as of December 31, 2010 to reflect these corrections.

The Company concluded that its compliance with debt covenants would not have been affected by these adjustments and that the error was not material to its previously filed Consolidated Financial Statements.

Accordingly, the Company has restated the accompanying Consolidated Financial Statements as of December 31, 2010 from amounts previously reported to correct the error by adjusting its Other assets, Other liabilities, Retained earnings and Accumulated other comprehensive loss as follows:

| | December 31, 2010 | | |
|---|---|---|---|
| | As Previously Reported | Adjustment | As Restated |
| **Consolidated Statement of Financial Condition** | | | |
| Other assets | $ 162,840 | $ 2,780 | $ 165,620 |
| Total Assets | 1,271,024 | 2,780 | 1,273,804 |
| Other liabilities | 111,163 | (620) | 110,543 |
| Total Liabilities | 779,202 | (620) | 778,582 |
| Retained earnings | 183,016 | 5,279 | 188,295 |
| Accumulated other comprehensive loss | (389) | (1,879) | (2,268) |
| Total Stockholders' Equity | 490,711 | 3,400 | 494,111 |
| Total Equity | 491,822 | 3,400 | 495,222 |
| Total Liabilities and Stockholders' Equity | 1,271,024 | 2,780 | 1,273,804 |

During the second quarter of 2011, the Company changed the name of its income statement line item "Equity in earnings of unconsolidated brokerage businesses" to "Equity in net earnings of unconsolidated businesses" in order to better describe the results included in this line item. In addition, certain amounts related to equity in net earnings of unconsolidated businesses totaling $489 and $1,574 for the years ended December 31, 2010 and 2009, respectively, were previously presented in the "Other expenses" line item in the Consolidated Statements of Operation. In order to enhance transparency in the presentation of the Consolidated Statements of Operations, these amounts have been reclassified to the "Equity in net earnings of unconsolidated businesses" line item.

Interest income on short-term investments for the year ended December 31, 2009 totaling $1,043 was previously presented in a line item called "Interest income" and has been combined into "Other income" to conform with the current year's presentation.

***Consolidation Policies***—The Consolidated Financial Statements include the accounts of the Company, its wholly-owned subsidiaries and subsidiaries that are treated as such and other entities in which the Company has a controlling financial interest. For consolidated subsidiaries that are less than wholly-owned, equity interests that are not owned by the Company are referred to as non-controlling interests. The portion of net income attributable to non-controlling interests for such subsidiaries is presented as Net income attributable to non-controlling interests on the Consolidated Statements of Operations, and the portion of the shareholders' equity of such subsidiaries is presented as

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Non-controlling interests in the Consolidated Statements of Financial Condition and Consolidated Statements of Changes in Stockholders' Equity.

*Variable Interest Entities*—The Company determines whether the Company holds any interests in entities deemed to be a variable interest entity ("VIE"). A VIE is an entity that either (i) has equity investors that lack certain essential characteristics of a controlling financial interest or (ii) does not have sufficient equity to finance its activities without additional subordinated financial support from other parties. If an entity has either of these characteristics, it is considered a VIE and must be consolidated by its primary beneficiary. The primary beneficiary is the party that has both (i) the power to direct the activities of the VIE that most significantly impact the economic performance of the entity and (ii) the obligation to absorb losses of the entity that could be potentially significant to the VIE or the right to receive benefits from the entity that could be potentially significant. As of December 31, 2011, the Company holds variable interests in certain VIEs. One of these VIEs is consolidated as it is determined that the Company is the primary beneficiary. The remaining VIEs are not consolidated as it is determined that the Company is not the primary beneficiary. See Note 18 for disclosures on Variable Interest Entities.

***Cash and Cash Equivalents***—Cash and cash equivalents consist of cash and highly liquid investments with maturities, when purchased, of three months or less.

***Cash Segregated Under Federal and Other Regulations***—The Company holds cash that belongs to customers as support for their trading activities. As a result, certain of the Company's subsidiaries are required to segregate or set aside such cash to satisfy regulations designed to protect customer assets.

***Deposits with Clearing Organizations***—Deposits with clearing organizations consist of deposits of cash and cash equivalents or short-term investments, recorded at fair value, at various clearing companies and organizations that perform clearing and custodial functions for the Company.

***Commissions Receivable***—Commissions receivable represents amounts due from brokers, dealers, banks and other financial and nonfinancial institutions for the execution of securities, commodities, foreign exchange and other derivative brokerage transactions. In estimating the allowance for doubtful accounts, management considers the length of time receivables are past due and historical experience. In addition, if the Company is aware of a client's inability to meet its financial obligations, a specific provision for doubtful accounts is recorded in the amount of the estimated losses that will result from the inability of that client to meet its financial obligation. Commissions receivable are presented net of allowance for doubtful accounts of approximately $1,453 and $1,591 as of December 31, 2011 and 2010, respectively.

***Property, Equipment and Leasehold Improvements***—Property, equipment and leasehold improvements are stated at cost, less accumulated depreciation and amortization. Depreciation and amortization are calculated using the straight-line method, generally over three to seven years. Property and equipment are depreciated over their estimated useful lives. Leasehold improvements are amortized over the shorter of the remaining term of the respective lease to which they relate or the remaining useful life of the leasehold improvement. Internal and external costs incurred in developing or obtaining computer software for internal use are capitalized in accordance with Accounting Standards Codification ("ASC") 350 *Intangibles —Goodwill and Other* ("ASC 350"), and are amortized on a straight-line basis over the estimated useful life of the software, generally three years. General and administrative costs related to developing or obtaining such software are expensed as incurred.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

***Goodwill and Intangible Assets***—Goodwill represents the excess of the purchase price allocation over the fair value of tangible and identifiable intangible net assets acquired. The goodwill associated with each business combination is allocated to the related reporting units, which are determined based on how the Company's businesses are managed and how they are reviewed by the Company's chief operating decision maker. Other intangible assets are recorded at their fair value upon completion of a business combination or certain other transactions.

In accordance with ASC 350, goodwill and other indefinite lived intangible assets are not amortized, but instead are periodically tested for impairment. The Company reviews goodwill and other indefinite lived intangible assets for impairment on an annual basis as of November 1 of each fiscal year or whenever an event occurs or circumstances change that could reduce the fair value of a reporting unit below its carrying amount.

Prior to the Company's annual goodwill impairment test, the Company early adopted Accounting Standards Update No. 2011-08 ("ASU 2011-08") *"Intangibles—Goodwill and Other (Topic 350)."* In accordance with the amended guidance prescribed by ASU 2011-08, the Company first assesses qualitative factors to determine whether it is more likely than not (a likelihood of more than 50 percent) that the fair value of a reporting unit is less than its carrying amount. The qualitative assessment is based on reviewing the totality of several factors, including macroeconomic conditions, industry and market considerations, cost factors, overall financial performance, other entity specific events (for example, changes in management) or other events such as selling or disposing of a reporting unit. After assessing qualitative factors, if the Company determines that it is more likely than not that the fair value of the reporting unit is greater than its carrying amount, no further testing is necessary. If the Company determines that it is more likely than not that the fair value of the reporting unit is less than its carrying value, then a two-step goodwill impairment test, prescribed by ASC 350, must be performed, whereby management first compares the fair value of each reporting unit with recorded goodwill to that reporting unit's book value. If management determines, as a result of this first step, that the fair value of the reporting unit is less than its carrying value, a second step in the impairment test process would require that the recorded goodwill at that reporting unit be written down to the value implied by the reporting unit's recent valuation and the estimated fair value of the assets and liabilities. Based on the Company's qualitative assessment for 2011, the Company performed a quantitative analysis for EMEA Brokerage and Clearing and Backed Trading in accordance with ASC 350. Based on the results of the annual impairment tests, no goodwill impairment was recognized during the years ended December 31, 2011 or 2010.

For the reporting units where a quantitative analysis was performed, the primary valuation methods used by the Company to estimate the fair value of its reporting units are the income and market approach. In applying the income approach, projected cash flows available for distribution and the terminal value are discounted to present value to derive an indication of fair value of the business enterprise. The market approach compares the reporting unit to selected reasonably similar publicly-traded companies. Trading and transaction comparables are used as general indicators to assess the general reasonableness of the estimated fair values.

Intangible assets with definite lives are amortized on a straight-line basis over their estimated useful lives. See Note 6 for further information.

***Prepaid Bonuses and Forgivable Employee Loans***—Prepaid bonuses and forgivable loans to employees are stated at historical value net of amortization when the agreement between the Company

GFI GROUP INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(In thousands, except share and per share amounts)

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

and the employee provides for the return of proportionate amounts of the bonus or loan outstanding if employment is terminated in certain circumstances prior to the end of the term of the agreement. Amortization is calculated using the straight-line method over the term of the contract, which is generally two to four years, and is recorded in compensation and employee benefits. The Company generally expects to recover the unamortized portion of prepaid bonuses and forgivable loans when employees voluntarily terminate their employment or if their employment is terminated for cause prior to the end of the term of the agreement. The prepaid bonuses and forgivable loans are included in Other assets in the Consolidated Statements of Financial Condition. At December 31, 2011 and 2010, the Company had prepaid bonuses of $36,797 and $37,248, respectively. At December 31, 2011 and 2010, the Company had forgivable employee loans and advances to employees of $23,909 and $8,690, respectively. Amortization of prepaid bonuses and forgivable employee loans for the years ended December 31, 2011, 2010 and 2009 was $33,652, $25,707 and $60,489, respectively and is included within Compensation and employee benefits.

***Investments***—When the Company does not have a controlling financial interest in an entity but can exert significant influence over the entity's operating and financial policies, the investment is accounted for under the equity method of accounting in accordance with ASC 323-10, *Investments—Equity Method and Joint Ventures* ("ASC 323-10"). Significant influence generally exists when the Company owns 20% to 50% of the entity's common stock or in-substance common stock. The Company initially records the investment at cost and adjusts the carrying amount each period to recognize its share of the earnings and losses of the investee based on the percentage of ownership. See Note 19 for further information. Investments for which the Company does not have the ability to exert significant influence over operating and financial policies are generally accounted for using the cost method of accounting in accordance with ASC 325-10, *Investments—Other* ("ASC 325-10"). At December 31, 2011 and 2010, the Company had cost method investments of $4,059 and $3,116, respectively, included within Other assets. The Company monitors its equity and cost method investments for indicators of impairment each reporting period.

The Company accounts for its marketable equity securities and its debt securities in accordance with ASC 320-10, *Investments—Debt and Equity Securities*. Investments designated as available-for-sale that are owned by the Company's non broker-dealer subsidiaries are recorded at fair value with unrealized gains or losses reported as a separate component of other comprehensive income, net of tax. The fair value of the Company's available-for-sale securities was $8,263 and $4,925 as of December 31, 2011 and 2010, respectively, included within Other assets.

***Fair Value of Financial Instruments***—In accordance with ASC 820-10, *Fair Value Measurements and Disclosures* ("ASC 820-10"), the Company estimates fair values of financial instruments using relevant market information and other assumptions. Fair value estimates involve uncertainties and matters of significant judgment in interpreting market data and, accordingly, changes in assumptions or in market conditions could adversely affect the estimates. The Company also discloses the fair value of its financial instruments in accordance with the fair value hierarchy as set forth by ASC 820-10.

Trading securities are reported at fair value, with gains and losses resulting from changes in fair value recognized in Other income. See Note 16 for further information.

***Derivative Financial Instruments***—The Company enters into derivative transactions for a variety of reasons, including managing its exposure to risk arising from changes in foreign currency, facilitating

GFI GROUP INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(In thousands, except share and per share amounts)

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

customer trading activities and, in certain instances, to engage in principal trading for the Company's own account. Derivative assets and liabilities are carried on the Consolidated Statements of Financial Condition at fair value, with changes in the fair value recognized in the Consolidated Statements of Operations. Contracts entered into to manage risk arising from changes in foreign currency are recognized in Other income and contracts entered into to facilitate customer transactions and principal trading are recognized in Principal transactions. Derivatives are reported on a net-by-counterparty basis when management believes that a legal and enforceable right of offset exists under these agreements. See Note 17 for further information.

***Payables to Clearing Services Customers*****—**Payables to clearing services customers include amounts due on cash and margin transactions, including futures contracts transacted on behalf of customers.

***Brokerage Transactions***—The Company provides brokerage services to its clients in the form of either agency or principal transactions.

*Agency Commissions*—In agency transactions, the Company charges commissions for executing transactions between buyers and sellers. Agency commissions revenues and related expenses are recognized on a trade date basis.

*Principal Transactions*—Principal transactions revenue is primarily derived from matched principal and principal trading transactions. Principal transactions revenues and related expenses are recognized on a trade date basis. The Company earns revenue from principal transactions on the spread between the buy and sell price of the security that is brokered. In matched principal transactions, the Company simultaneously agrees to buy instruments from one customer and sell them to another customer.

In the normal course of its matched principal and principal trading businesses, the Company holds securities positions overnight. These positions are marked to market on a daily basis.

***Clearing Services Revenues*****—**The Company charges fees to customers for clearing services provided for cash and derivative transactions. Clearing services revenues are recorded on a trade date basis as customer transactions occur and are presented net of any customer negotiated rebates.

***Software, Analytics and Market Data Revenue Recognition*****—**Software revenue consists primarily of fees charged for Trayport electronic trading software, which are typically billed on a subscription basis and is recognized ratably over the term of the subscription period, which ranges from one to five years. Analytics revenue consists primarily of software license fees for Fenics pricing tools which are typically billed on a subscription basis, and is recognized ratably over the term of the subscription period, which is generally three years. Market data revenue primarily consists of subscription fees and fees from customized one-time sales. Market data subscription fees are recognized on a straight-line basis over the term of the subscription period, which ranges from one to two years. Market data revenue from customized one-time sales is recognized upon delivery of the data.

The Company markets its software, analytics and market data products through its direct sales force and, in some cases, indirectly through resellers. In general, the Company's license agreements for such products do not provide for a right of return.

***Other Income*****—**Included within Other income on the Company's Consolidated Statements of Operations are revaluations of foreign currency derivative contracts, realized and unrealized transaction

GFI GROUP INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(In thousands, except share and per share amounts)

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

gains and losses on certain foreign currency denominated items and gains and losses on certain investments and interest income earned on short-term investments.

***Compensation and Employee Benefits***—The Company's compensation and employee benefits have both a fixed and variable component. Base salaries and benefit costs are primarily fixed for all employees while bonuses constitute the variable portion of compensation and employee benefits. The Company may pay certain performance bonuses in restricted stock units ("RSUs"). The Company also may grant sign-on and retention bonuses for certain newly-hired or existing employees who agree to long-term employment agreements. These sign-on and retention bonuses are typically amortized using the straight-line method over the term of the respective agreements.

In 2011 and 2009, the Company recorded a charge of $19,443 and $34,400, respectively, to Compensation and Employee Benefits that primarily related to severance costs and the restructuring of certain employment agreements. The Company experienced no similar charge in 2010.

***Share-Based Compensation***—The Company's share-based compensation consists of stock options and RSUs. The Company accounts for share-based compensation in accordance with ASC 718 *Compensation—Stock Compensation* ("ASC 718"). This accounting guidance requires measurement of compensation expense for equity-based awards at fair value and recognition of compensation expense over the service period, net of estimated forfeitures. In all periods presented, the only share-based compensation issued by the Company has been RSUs. The Company determines the fair value of RSUs based on the number of units granted and the grant date fair value of the Company's common stock, measured as of the closing price on the date of grant. See Note 12 for further information.

***Income Taxes***—In accordance with ASC 740, *Income Taxes*, the Company provides for income taxes using the asset and liability method under which deferred income taxes are recognized for the estimated future tax effects attributable to temporary differences and carryforwards that result from events that have been recognized either in the financial statements or the income tax returns, but not both. The measurement of current and deferred income tax assets and liabilities is based on provisions of enacted tax laws. Valuation allowances are recognized if, based on the weight of available evidence, it is more likely than not that some portion of the deferred tax assets will not be realized. Management applies the more likely than not criteria prior to recognizing a financial statement benefit for a tax position taken (or expected to be taken) in a tax return. The Company recognizes interest and/or penalties related to income tax matters in interest expense and other expense, respectively. See Note 9 for further information.

***Treasury Stock***—The Company accounts for Treasury stock using the cost method. Treasury stock held by the Company may be reissued with respect to vested RSUs in qualified jurisdictions. The Company's policy is to account for these shares as a reduction of Treasury stock on a first-in, first-out basis.

***Foreign Currency Translation Adjustments and Transactions***—Assets and liabilities of foreign subsidiaries having non-U.S. dollar functional currencies are translated at the period end rates of exchange, and revenue and expenses are translated at the average rates of exchange for the period. Gains or losses resulting from translating foreign currency financial statements are reflected in foreign currency translation adjustments and are reported as a separate component of comprehensive income and included in accumulated other comprehensive loss in stockholders' equity. Net (losses) gains resulting from remeasurement of foreign currency transactions and balances for the years ended

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

December 31, 2011, 2010 and 2009 were $(220), $(6,770) and $3,767, respectively, and are included in Other income in the Consolidated Statement of Operations.

***Recent Accounting Pronouncements***—In October 2009, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update No. 2009-13 ("ASU 2009-13") *Revenue Recognition (Topic 605) Multiple-Deliverable Revenue Arrangements*. ASU 2009-13 establishes the accounting and reporting guidance for arrangements with multiple-revenue generating activities. ASU 2009-13 addresses how to separate deliverables and how to measure and allocate arrangement consideration to one or more units of accounting and provides a selling price hierarchy for determining the selling price of a deliverable. ASU 2009-13 was effective for fiscal years beginning on or after June 15, 2010. The adoption of ASU 2009-13 did not have a material impact on the Company's Consolidated Financial Statements.

In October 2009, the FASB issued Accounting Standards Update No. 2009-14 ("ASU 2009-14") *Software (Topic 985) Certain Revenue Arrangements That Include Software Elements*. ASU 2009-14 provides guidance on how to allocate arrangement consideration to deliverables in an arrangement that includes both tangible products and software. ASU 2009-14 also provides additional guidance on how to determine which software, if any, relating to the tangible product would be excluded from software revenue recognition. ASU 2009-14 was effective for fiscal years beginning on or after June 15, 2010. The adoption of ASU 2009-14 did not have a material impact on the Company's Consolidated Financial Statements.

In January 2010, the FASB issued Accounting Standards Update No. 2010-06 ("ASU 2010-06") *Fair Value Measurements and Disclosures (Topic 820) Improving Disclosures about Fair Value Measurements.* ASU 2010-06 provides amendments to Subtopic 820-10 that require new disclosures, including the amounts of and reasons for transfers in and out of Levels 1 and 2 fair value measurements and reporting activity in the reconciliation of Level 3 fair value measurements on a gross basis. ASU 2010-06 provides amendments that clarify existing disclosures regarding the level of disaggregation for providing fair value measurement disclosures for each class of assets and liabilities. In addition, it clarifies existing disclosures about inputs and valuation techniques used to measure fair value for both recurring and nonrecurring fair value measurements that are required for either Level 2 or Level 3. ASU 2010-06 was effective for interim and annual reporting periods ending after December 15, 2009 except for the disclosures about the roll forward of activity in Level 3 fair value measurements, which was effective for fiscal years beginning after December 31, 2010 and for interim periods within those fiscal years. The adoption of ASU 2010-06 did not have a material impact on the Company's Consolidated Financial Statements.

In July 2010, the FASB issued Accounting Standards Update No. 2010-20 ("ASU 2010-20") *Receivables (Topic 310) Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses*. The main objective of ASU 2010-20 is to provide financial statement users with greater transparency about an entity's allowance for credit losses and the credit quality of its financing receivables. ASU 2010-20 requires disclosure of additional information to assist financial statement users in assessing an entity's credit risk exposures and evaluating the adequacy of its allowance for credit losses. This ASU is effective for all public companies for interim and annual reporting periods ending on or after December 15, 2010, except for disclosures relating to loan modifications, which were subsequently extended to interim and annual filings after June 15, 2011. The adoption of ASU 2010-20 did not have a material impact on the Company's Consolidated Financial Statements.

**GFI GROUP INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**(In thousands, except share and per share amounts)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

In May 2011, the FASB issued Accounting Standards Update No. 2011-04 ("ASU 2011-04") *Fair Value Measurement (Topic 820) Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs*. ASU 2011-04 amends current guidance to result in common fair value measurement and disclosures between accounting principles generally accepted in the United States and International Financial Reporting Standards. The amendments result in a consistent definition of fair value and common requirements for measurement of and disclosure about fair value between U.S. GAAP and IFRS. The amendments in ASU 2011-04 are effective for interim and annual periods beginning after December 15, 2011. The Company does not expect the adoption of ASU 2011-04 to have a material impact on the Company's Consolidated Financial Statements.

In June 2011, the FASB issued Accounting Standards Update No. 2011-05 ("ASU 2011-05") *Comprehensive Income (Topic 220) Presentation of Comprehensive Income*. The main objective of ASU 2011-05 is to improve the comparability, consistency, and transparency of financial reporting and increase the prominence of items reported in other comprehensive income ("OCI") by eliminating the option to present components of OCI as part of the statement of changes in stockholders' equity. The amendments in this standard requires entities to report the components of comprehensive income in either in (1) a single continuous statement of comprehensive income or (2) two separate but consecutive statements. The amendments in this standard do not change the items that must be reported in OCI. The amendments in ASU 2011-05 are effective for interim and annual periods beginning after December 15, 2011 and are to be applied retrospectively. The Company does not expect the adoption of ASU 2011-05 to have a material impact on the Company's Consolidated Financial Statements.

In September 2011, the FASB issued ASU 2011-08 which amends current guidance to allow entities to first assess qualitative factors to determine whether it is more likely than not (a likelihood of more than 50 percent) that the fair value of a reporting unit is less than its carrying amount. After assessing qualitative factors, if an entity determines that it is not more likely than not that the fair value of the reporting unit is less than its carrying amount, no further testing is necessary. If an entity determines that it is more likely than not that the fair value of the reporting unit is less than its carrying value, then the traditional two-step goodwill impairment test must be performed. The amendments in ASU 2011-08 are effective for interim and annual goodwill impairment tests performed for fiscal years beginning after December 15, 2011, with early adoption permitted. The Company early adopted ASU 2011-08 effective the fourth quarter of 2011. The adoption of ASU 2011-08 did not have a material impact on the Company's Consolidated Financial Statements.

In December 2011, the FASB issued Accounting Standards Update ("ASU") No. 2011-11, *Balance Sheet (Topic 210): Disclosures about Offsetting Assets and Liabilities*. ASU 2011-11 requires additional disclosure about financial instruments and derivatives instruments that are subject to netting arrangements to assist users of the financial statements in understanding the effect of those arrangements on its financial position. The new disclosures are required for reporting periods beginning on or after January 1, 2013, including retrospectively for all comparative periods presented. The Company is evaluating the effect of this guidance and does not expect the adoption of ASU 2011-11 to have a material impact on the Company's Consolidated Financial Statements.

**GFI GROUP INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**(In thousands, except share and per share amounts)**

## 3. RECEIVABLES FROM AND PAYABLES TO BROKERS, DEALERS AND CLEARING ORGANIZATIONS

Amounts receivable from and payable to brokers, dealers and clearing organizations consisted of the following:

| | December 31, | |
|---|---|---|
| | 2011 | 2010 |
| Receivables from brokers, dealers and clearing organizations: | | |
| Contract value of fails to deliver | $ 86,097 | $ 138,534 |
| Receivable from clearing organizations and financial institutions | 131,418 | 105,277 |
| Net pending trades | 394 | — |
| Total | $ 217,909 | $ 243,811 |
| Payables to brokers, dealers and clearing organizations: | | |
| Contract value of fails to receive | $ 87,254 | $ 156,989 |
| Payable to clearing organizations and financial institutions | 2,275 | 797 |
| Net pending trades | — | 14,632 |
| Total | $ 89,529 | $ 172,418 |

Substantially all fails to deliver and fails to receive balances at December 31, 2011 and 2010 have subsequently settled at the contracted amounts.

In addition to the balances above, the Company had Payables to clearing services customers of $120,909 and $125,968 at December 31, 2011 and 2010, respectively. These amounts represent cash payable to the Company's clearing customers, which are held at the Company's third party clearing firms and are included within Receivables from brokers, dealers and clearing organizations.

## 4. PROPERTY, EQUIPMENT AND LEASEHOLD IMPROVEMENTS

Property, equipment and leasehold improvements consist of the following:

| | December 31, | |
|---|---|---|
| | 2011 | 2010 |
| Software, including software development costs | $ 110,402 | $ 96,658 |
| Computer equipment | 34,314 | 30,058 |
| Leasehold improvements | 37,925 | 37,590 |
| Communications equipment | 19,528 | 17,756 |
| Furniture and fixtures | 9,911 | 8,535 |
| Automobiles | 717 | 494 |
| Total | 212,797 | 191,091 |
| Accumulated depreciation and amortization | (150,850) | (130,479) |
| Property, equipment and leasehold improvements less accumulated depreciation and amortization | $ 61,947 | $ 60,612 |

**GFI GROUP INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**(In thousands, except share and per share amounts)**

**4. PROPERTY, EQUIPMENT AND LEASEHOLD IMPROVEMENTS (Continued)**

Depreciation and amortization expense on property, equipment and leasehold improvements for the years ended December 31, 2011, 2010 and 2009 was $21,476, $21,235 and $21,059, respectively.

**5. ACQUISITIONS**

*Mortgage-Backed Security Brokerage Business*

On May 27, 2010, the Company completed the acquisition of a mortgage-backed security brokerage business for consideration of $5,095. The purchase price was comprised of 681,433 shares of the Company's common stock with a fair value of $4,095 and contingent consideration estimated at $1,000, which was previously recorded as a liability within Other liabilities. This contingent liability was remeasured to fair value at each reporting date until the targets for this contingent liability were achieved in the second quarter of 2011, which resulted in a payment of $1,000. This acquisition was accounted for as a business combination under the acquisition method. Assets acquired were recorded at fair value and the results of the acquired company have been included within the Consolidated Financial Statements since the acquisition. The purchase price was allocated among tangible and intangible assets as follows: fixed assets of $15, customer relationships of $1,700 with an estimated useful life of 6 years, non-compete agreements of $340 with an estimated useful life of 3.3 years and goodwill of $3,040. The weighted average amortization for the intangible assets is 5.6 years.

*The Kyte Group Limited and Kyte Capital Management Limited*

On July 1, 2010, the Company acquired a 70% equity ownership interest in each of The Kyte Group Limited and Kyte Capital Management Limited (collectively "Kyte"). The Company will acquire the residual 30% equity interest in Kyte for an additional cash payment to be made in or about the third quarter of 2013 in an amount to be determined pursuant to a formula based on Kyte's post-acquisition earnings. Kyte has been included in the Consolidated Financial Statements as a wholly-owned subsidiary since the acquisition date, with a liability recorded for the future payment to be made in 2013. Included as part of the purchase price is £5,000 (or approximately $7,592) that was deposited into an escrow account with a third-party escrow agent and 1,339,158 contingently issuable shares of the Company's common stock, all of which will be delivered to the selling shareholders of Kyte upon the satisfaction of certain conditions related to one of Kyte's investments in a third party.

Kyte, which is a member of several exchanges, including NYSE Euronext, NYSE LIFFE and Eurex, provides clearing, brokerage, settlement and back-office services to proprietary traders, brokers, market makers and hedge funds. Kyte provides capital to select start-up trading groups, small hedge funds, market-makers and individual traders. As part of the purchase agreement, over the period from initial acquisition to when the Company will acquire the residual 30% equity interest in Kyte, the Company agreed to make up to £20,000 available to Kyte Capital Management Limited for investments in new trading entities subject to certain approvals. The Company acquired Kyte because of its expertise in listed derivative markets, its risk management platforms and its unique clearing, broking

**GFI GROUP INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**(In thousands, except share and per share amounts)**

**5. ACQUISITIONS (Continued)**

and investment services business model. The cash portion of the purchase price of the transaction was financed from the Company's internal cash resources. The purchase price consisted of the following:

| | |
|---|---|
| *Fair value of consideration transferred:* | |
| Cash paid at closing | $ 33,996 |
| Cash paid for surplus working capital | 7,050 |
| Common stock issued at closing (2,810,662 shares) | 15,993 |
| Contingently issuable shares (1,339,158 shares) | 7,620 |
| Estimated future purchase commitment | 19,264 |
| Total | $ 83,923 |

The fair value of the 4,149,820 common shares issued and issuable was determined based on the closing market price of the Company's common shares on July 1, 2010, the closing date of the acquisition.

The future purchase commitment requires the Company to pay an additional cash payment based on the performance of Kyte during the three year period ending June 30, 2013. The Company elected the fair value option for this purchase commitment as of the date of acquisition and determined the fair value using the income approach. Subsequent changes in the fair value of the future purchase commitment are recorded in Other income in the Consolidated Statements of Operations. The fair value of the future purchase commitment at the acquisition date was $19,264 which assumed a 17.7% discount rate and was recorded as a liability within Other liabilities. In applying the income approach, the Company used forecasted financial information for Kyte for the remaining three year period ending June 30, 2013.

The fair value of the future purchase commitment and the discount rate used in its estimated fair value as of December 31, 2011 and 2010 were as follows:

| | December 31, | |
|---|---|---|
| | 2011 | 2010 |
| Fair Value of Future Purchase Commitment (included within Other liabilities) | $ 12,562 | $ 19,604 |
| Discount Rate | 16.0% | 17.7% |

The amount of the future purchase commitment accrued in the Consolidated Statements of Financial Condition at December 31, 2011 decreased from December 31, 2010, primarily due to differences between initial forecasts and actual results since the acquisition, as well as changes to the forecasted performance for Kyte for the remaining period ending June 30, 2013. From the acquisition date on July 1, 2010 through December 31, 2010, the amount accrued in the Consolidated Statements of Financial Condition increased due to an increase in the net present value of the liability due to the passage of time and foreign currency translation, offset by differences between initial forecasts and actual results since the acquisition, as well as changes to the forecasted performance of Kyte for the remaining period ending June 30, 2013.

GFI GROUP INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(In thousands, except share and per share amounts)

**5. ACQUISITIONS (Continued)**

This acquisition was accounted for as a business combination under the acquisition method. Assets acquired and liabilities assumed were recorded at their fair values as of July 1, 2010. Management determined the fair value of the identifiable intangible assets acquired utilizing an independent valuation performed by a third-party specialist. The purchase price allocation, as presented below, was translated into U.S. dollars based on the foreign exchange rate on July 1, 2010:

| | | Useful Life |
|---|---|---|
| *Assets:* | | |
| Cash and cash equivalents | $ 21,488 | |
| Cash segregated under federal and other regulations | 8,086 | |
| Deposits with clearing organizations | 16,734 | |
| Commissions receivable | 19,035 | |
| Receivables from brokers, dealers and clearing organizations | 94,849 | |
| Intangible assets subject to amortization: | | |
| Customer relationships | 14,485 | 6 Years |
| Trade name | 1,020 | 10 Years |
| Internally developed software | 3,170 | 3 Years |
| Non-compete agreements | 211 | 5 Years |
| Goodwill(1)(2) | 39,736 | |
| Other assets(1)(2) | 21,152 | |
| Total assets acquired | 239,966 | |
| *Liabilities and non-controlling interests:* | | |
| Accounts payable and accrued expenses | 24,925 | |
| Payables to clearing services customers | 116,623 | |
| Other liabilities(3) | 13,758 | |
| Non-controlling interests | 737 | |
| Total liabilities and non-controlling interests assumed | 156,043 | |
| Net assets acquired | $ 83,923 | |

(1) During the fourth quarter of 2010, the Company recorded an adjustment to its purchase price allocation for Kyte in the amount of $4,928 in Other assets for a receivable related to one of Kyte's investments in a third party. The Company recognized this adjustment based on additional information which supported the collectability of the receivable with the third party. The Company adjusted residual goodwill accordingly.

(2) During the second quarter of 2011, the Company recorded adjustments to its purchase price allocation for Kyte in the net amount of $1,546 in Other assets. This adjustment included a $2,925 decrease to goodwill related to all pre-acquisition earnings in an unconsolidated affiliate not previously recognized by Kyte that should have been accounted for under the equity method since the acquisition date, offset by a $1,379 increase to goodwill related to final tax adjustments for the Kyte acquisition. The Company adjusted residual goodwill accordingly.

**GFI GROUP INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**(In thousands, except share and per share amounts)**

**5. ACQUISITIONS (Continued)**

(3) During the fourth quarter of 2010, the Company reclassified $1,219 from "Intangible assets, net" to "Other liabilities" in the Consolidated Statements of Financial Condition. These amounts related to the fair value of contractual obligations that were deemed unfavorable and therefore recognized and valued as such as of the date of the acquisition as part of the Company's purchase price allocation.

Total intangible assets acquired in the Kyte transaction that are subject to amortization totaled $18,886 and have a weighted-average useful life of approximately 6 years.

All of the goodwill acquired was assigned to the Clearing and Backed Trading segment. None of the goodwill is expected to be deductible for income tax purposes.

In connection with the Kyte acquisition, the Company recognized $2,498 of acquisition related costs that are included in Professional fees and Other expenses in its Consolidated Statements of Operations for the year ended December 31, 2010.

The amounts of revenue and net loss of Kyte included in the Company's Consolidated Statement of Operations from the July 1, 2010 acquisition date to the period ending December 31, 2010 were as follows:

| | |
|---|---|
| Revenue | $ 52,343 |
| Net loss | $ (2,494) |

*Fixed Income Brokerage Business*

On November 1, 2010, the Company purchased the remaining 67% of the shares of an over-the-counter brokerage business in the U.K. The business has been included in the Consolidated Financial Statements as a wholly-owned subsidiary since the acquisition date. The business primarily engages in executing bond trades on a matched principal basis. The allocation of the purchase price to the net assets as of November 1, 2010 consisted of the following:

| | |
|---|---|
| Cash paid at closing | $ 11,229 |
| Common stock issued at closing (2,343,758 shares) | 7,938 |
| Cash paid as additional consideration to selling shareholders | 1,076 |
| *Total fair value of consideration transferred* | $ 20,243 |
| *Total fair value of previous equity interest* | $ 7,677 |
| Total fair value | $ 27,920 |

The cash paid at closing and as additional consideration was financed from the Company's internal cash resources.

The fair value of the 2,343,758 common shares issued was determined using the closing market price of the Company's common shares on November 1, 2010 and applying a discount to that price due to certain restrictions on the issued shares over a 2.5 and 5 year period from the date of acquisition. The Company utilized a third party valuation firm to assist management in the determination of an

(In thousands, except share and per share amounts)

**5. ACQUISITIONS (Continued)**

appropriate discount rate based on the results of various quantitative methods under the assumption that there is a discount in the value of a company's stock that is and is not marketable. These methods are commonly used valuation practices.

This acquisition was accounted for as a business combination achieved in stages under the acquisition method. Prior to the acquisition date, the Company accounted for its 33% interest in the business as an equity method investment. The acquisition date fair value of the previous equity interest was $7,677 and is included in the measurement of the total fair value of the business. The Company recognized a gain of $3,695 as a result of remeasuring its prior equity interest in the business held before the business combination. The gain is included in the line item "Other income" in the Company's Consolidated Statement of Operations for the year ended December 31, 2010.

The following table summarizes the assets acquired and liabilities assumed at their acquisition date fair values. Management determined the fair value of the identifiable intangible assets acquired based upon an independent valuation performed by a third-party specialist. The purchase price allocation, as presented below, was translated into U.S. dollars based on the foreign exchange rate on November 1, 2010:

| | | Useful Life |
|---|---|---|
| *Assets:* | | |
| Cash and cash equivalents | $ 3,800 | |
| Deposits with clearing organizations | 1,792 | |
| Receivables from brokers, dealers and clearing organizations | 2,377 | |
| Intangible assets subject to amortization: | | |
| Customer relationships | 13,474 | 6 Years |
| Trade name | 160 | 5 Years |
| Goodwill | 12,419 | |
| Other assets | 312 | |
| Total assets acquired | 34,334 | |
| *Liabilities:* | | |
| Accounts payable and accrued expenses | 1,555 | |
| Deferred tax liabilities | 3,691 | |
| Other liabilities | 1,168 | |
| Total liabilities assumed | 6,414 | |
| Net assets acquired | $ 27,920 | |

Total intangible assets acquired in the transaction that are subject to amortization totaled $13,634 and have a weighted-average useful life of approximately 6 years.

All of the goodwill acquired was assigned to the EMEA Brokerage segment. None of the goodwill is expected to be deductible for income tax purposes.

In connection with the acquisition, the Company recognized $299 of acquisition related costs that are included in Professional fees and Other expenses in its Consolidated Statement of Operations for

GFI GROUP INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(In thousands, except share and per share amounts)

## 5. ACQUISITIONS (Continued)

the year ended December 31, 2010. The Company also recognized compensation expense of $1,597 related to the renegotiation of certain employment agreements in connection with the acquisition. The expense is included in its Consolidated Statement of Operations for the year ended December 31, 2010 in Compensation and employee benefits.

The amounts of revenue and net income of the business included in the Company's Consolidated Statement of Operations from the November 1, 2010 acquisition date to the period ending December 31, 2010 are as follows:

| | |
|---|---|
| Revenue | $ 2,986 |
| Net income(1) | $ 442 |

(1) Does not include the one-time expense of $1,597 related to the renegotiation of certain employment agreements in connection with the acquisition.

## 6. GOODWILL AND INTANGIBLE ASSETS

***Goodwill***—Changes in the carrying amount of the Company's goodwill for the years ended December 31, 2011 and 2010 were as follows:

| | December 31, 2010 | Goodwill acquired | Adjustments(1) | Foreign currency translation | December 31, 2011 |
|---|---|---|---|---|---|
| **Goodwill** | | | | | |
| Americas Brokerage | $ 83,289 | $ — | $ — | $ — | $ 83,289 |
| EMEA Brokerage | 13,895 | — | — | (44) | 13,851 |
| Asia Brokerage | — | — | — | — | — |
| Clearing and Backed Trading | 42,413 | — | (1,546) | (192) | 40,675 |
| All Other | 128,691 | — | — | — | 128,691 |
| | $ 268,288 | $ — | $ (1,546) | $ (236) | $ 266,506 |

(1) During the second quarter of 2011, the Company recorded adjustments to its purchase price allocation for Kyte in the net amount of $1,546.

| | December 31, 2009 | Goodwill acquired | Adjustments | Foreign currency translation | December 31, 2010 |
|---|---|---|---|---|---|
| **Goodwill** | | | | | |
| Americas Brokerage | $ 80,249 | $ 3,040 | $ — | $ — | $ 83,289 |
| EMEA Brokerage | 1,818 | 12,419 | — | (342) | 13,895 |
| Asia Brokerage | — | — | — | — | — |
| Clearing and Backed Trading | — | 41,282 | — | 1,131 | 42,413 |
| All Other | 128,691 | — | — | — | 128,691 |
| | $ 210,758 | $ 56,741 | $ — | $ 789 | $ 268,288 |

**GFI GROUP INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**(In thousands, except share and per share amounts)**

**6. GOODWILL AND INTANGIBLE ASSETS (Continued)**

Goodwill is required to be tested for impairment at least annually and more frequently when indicators of impairment exist. All of the Company's goodwill is allocated to its reporting units and the goodwill impairment tests are performed at the reporting unit level. As discussed in Note 2, based on the results of the annual impairment tests, no goodwill impairment was recognized during the years ended December 31, 2011 or 2010.

***Intangible Assets***—Intangible assets consisted of the following:

| | December 31, 2011 | | | December 31, 2010 | | |
|---|---|---|---|---|---|---|
| | Gross amount | Accumulated amortization and foreign currency translation | Net carrying value | Gross amount | Accumulated amortization and foreign currency translation | Net carrying value |
| **Amortized intangible assets:** | | | | | | |
| Customer relationships | $ 77,151 | $ 27,606 | $ 49,545 | $ 76,951 | $ 18,165 | $ 58,786 |
| Trade names | 8,951 | 5,719 | 3,232 | 8,951 | 4,866 | 4,085 |
| Core technology | 6,400 | 4,777 | 1,623 | 6,400 | 3,686 | 2,714 |
| Non compete agreements | 3,874 | 3,463 | 411 | 3,874 | 3,048 | 826 |
| Favorable lease agreements | 620 | 420 | 200 | 620 | 340 | 280 |
| Patents | 3,131 | 225 | 2,906 | 31 | 16 | 15 |
| **Unamortized intangible assets:** | | | | | | |
| Proprietary knowledge | 110 | — | 110 | 110 | — | 110 |
| Total | $ 100,237 | 42,210 | $ 58,027 | $ 96,937 | $ 30,121 | $ 66,816 |

In July 2011, the Company completed an asset purchase of certain patents from a third party for consideration in the amount of $3,100. The patents have a weighted-average useful life of approximately 6 years.

Amortization expense for the years ending December 31, 2011, 2010 and 2009 was $12,190, $7,815 and $5,465, respectively.

At December 31, 2011, expected amortization expense for the definite lived intangible assets is as follows:

| | |
|---|---|
| 2012 | $ 11,107 |
| 2013 | 9,123 |
| 2014 | 8,398 |
| 2015 | 8,303 |
| 2016 | 6,351 |
| Thereafter | 14,635 |
| Total | $ 57,917 |

GFI GROUP INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(In thousands, except share and per share amounts)

## 7. OTHER ASSETS AND OTHER LIABILITIES

Other assets consisted of the following:

| | December 31, 2011 | December 31, 2010 |
|---|---|---|
| Prepaid bonuses | $ 36,797 | $ 37,248 |
| Deferred tax assets(1) | 47,617 | 39,751 |
| Investments accounted for under the cost method and equity method | 35,960 | 38,097 |
| Forgivable employee loans and advances to employees | 23,909 | 8,690 |
| Software inventory, net | 6,909 | 10,662 |
| Financial instruments owned | 6,864 | 5,665 |
| Deferred financing fees on 8.375% Senior Notes | 8,552 | — |
| Other(1) | 32,061 | 25,507 |
| Total Other assets(1) | $ 198,669 | $ 165,620 |

(1) Restated to reflect immaterial restatement. See Note 2 for further information.

On February 28, 2010, the Company purchased a 40% interest in the outstanding membership interests of an independent brokerage firm with a proprietary trading platform. The aggregate purchase price was comprised of $10,000 in cash and 414,938 shares of the Company's common stock. The target retained $8,000 of the cash portion of the purchase price for working capital. Additionally, the Company committed to purchase the remaining membership interests in increments of 20% by the third quarter of 2013, subject to customary closing conditions. The purchase price for the remaining membership interests was to be paid in cash and established by a formula based on the target's future results of operations. On November 30, 2011, the purchase agreement was amended and the Company exchanged its membership interests in the target for a convertible senior secured promissory note (the "Note") due in 2016 with a face value of $14,059. At the Company's discretion, the Note may be converted into a 49% membership interest in the target. Upon the exchange of its membership interests, the Company recognized a loss of $4,094 for the difference between the book value of the membership interests and the fair value of the Note. The Company accounted for the Note as an available-for-sale security. As of December 31, 2011, the Note had a fair value of $5,362 recorded within Other assets in the Consolidated Statement of Financial Condition.

On August 1, 2010, the Company purchased a 33% interest in the outstanding membership interests of an independent Commodity Futures Trading Commission ("CFTC") registered Futures Commission Merchant for $11,000 in cash. The firm is also a Foreign Exchange Dealer member of the National Futures Association and provides direct market access in certain foreign exchange markets. This investment is accounted for under the equity method. On October 28, 2011, the Company purchased an additional 5.5% interest in this entity for $1,100 in cash and continues to account for the investment under the equity method.

GFI GROUP INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(In thousands, except share and per share amounts)

**7. OTHER ASSETS AND OTHER LIABILITIES (Continued)**

Other liabilities consisted of the following:

| | December 31, 2011 | December 31, 2010 |
|---|---|---|
| Deferred revenues | $ 16,879 | $ 15,962 |
| Payroll related liabilities | 16,364 | 14,750 |
| Future purchase commitment and contingent consideration liabilities | 13,681 | 22,415 |
| Deferred tax liabilities(1) | 14,962 | 12,234 |
| Unrecognized tax benefits(1) | 11,187 | 11,850 |
| Financial instruments sold, not yet purchased | 976 | 6,769 |
| Other(1) | 23,514 | 26,563 |
| Total Other liabilities(1) | $ 97,563 | $ 110,543 |

(1) Restated to reflect immaterial restatement. See Note 2 for further information.

**8. SHORT-TERM BORROWINGS AND LONG-TERM OBLIGATIONS**

The Company had outstanding Long-term obligations as of December 31, 2011 and 2010 as follows:

| | Maturity Date | December 31, 2011 | December 31, 2010 |
|---|---|---|---|
| Long-term obligations: | | | |
| 8.375% Senior Notes | July 2018 | $ 250,000 | $ — |
| 7.17% Senior Notes | January 2013 | — | 59,743 |
| Total Long-term obligations | | $ 250,000 | $ 59,743 |

*8.375% Senior Notes*

In July 2011, the Company issued $250,000 in aggregate principal amount of 8.375% Senior Notes (the "8.375% Senior Notes") due 2018 in a private offering (the "Offering") to qualified institutional buyers pursuant to Rule 144A and to certain persons in offshore transactions pursuant to Regulation S, each under the Securities Act of 1933, as amended (the "Securities Act"). The notes were priced to investors at 100% of their principal amount, and mature in July 2018. Interest on these notes accrues at a rate of 8.375% per annum and is payable, commencing in January 2012, semi-annually in arrears on the 19th of January and July. Transaction costs of approximately $9,100 related to the 8.375% Senior Notes will be deferred and amortized over the term of the notes. On December 21, 2011, the Company completed an exchange offer for the 8.375% Senior Notes whereby it exchanged $250,000 in aggregate principal amount of the 8.375% Senior Notes for 8.375% Senior Notes that are registered under the Securities Act. At December 31, 2011, unamortized deferred financing fees related to the 8.375% Senior Notes of $8,552 were recorded within Other assets and the Company was in compliance with all applicable covenants.

**GFI GROUP INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**(In thousands, except share and per share amounts)**

**8. SHORT-TERM BORROWINGS AND LONG-TERM OBLIGATIONS (Continued)**

*7.17% Senior Notes*

In January 2008, pursuant to a note purchase agreement with certain institutional investors (the "2008 Note Purchase Agreement"), the Company issued $60,000 in aggregate principal amount of senior secured notes due in January 2013 (the "7.17% Senior Notes") in a private placement. In July 2011, the Company used $67,797 of the net proceeds from the Offering of the 8.375% Senior Notes to redeem all of its existing 7.17% Senior Notes due 2013, including all accrued and unpaid interest thereunder, and to pay all premiums and transaction expenses associated therewith. Prior to redemption, interest on the 7.17% Senior Notes accrued at a rate of 7.17% per annum and was payable semi-annually in arrears on the 30$^{th}$ of January and July and the Company's obligations under the 7.17% Senior Notes were secured by substantially all of the assets of the Company and certain assets of the Company's subsidiaries. The 2008 Note Purchase Agreement contained covenants with which the Company was required to comply, including among others, maintenance of certain financial ratios and restrictions on additional indebtedness, liens and dispositions. At December 31, 2010, the 7.17% Senior Notes were recorded net of unamortized deferred financing fees of $257 and the Company was in compliance with all applicable covenants.

*Credit Agreement*

In December 2010, the Company entered into a second amended and restated credit agreement (as amended and restated, the "Credit Agreement") with Bank of America, N.A. and certain other lenders. The Credit Agreement matures on December 20, 2013 and provides for maximum borrowings of up to $129,500, which includes up to $50,000 for letters of credit. Revolving loans may be either base rate loans or Eurocurrency rate loans. Eurocurrency rate loans bear interest at the annualized rate of one-month LIBOR plus the application margin, letter of credit fees per annum are equal to the applicable margin times the outstanding amount drawn under such letter of credit and base rate loans bear interest at a rate per annum equal to a prime rate plus the applicable margin in effect for that interest period. As long as no default has occurred under the Credit Agreement, the applicable margin for both the base rate and Eurocurrency rate loans is based on a matrix that varies with a ratio of outstanding debt to EBITDA, as defined in the Credit Agreement.

In July 2011, the Company used $135,319 of the net proceeds from the Offering of the 8.375% Senior Notes to repay all then outstanding amounts under the Credit Agreement, including accrued and unpaid interest.

As a result of the Offering, the available borrowing capacity under the Credit Agreement decreased from $200,000 to approximately $129,500. Pursuant to the terms of the Credit Agreement, following the redemption of the 7.17% Senior Notes, the lenders released all of the security supporting the Credit Agreement and the Company is no longer required to secure amounts outstanding under the Credit Agreement with any of its assets or the assets of the Company's subsidiaries.

**GFI GROUP INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**(In thousands, except share and per share amounts)**

**8. SHORT-TERM BORROWINGS AND LONG-TERM OBLIGATIONS (Continued)**

The Company had outstanding borrowings under its Credit Agreement as of December 31, 2011 and 2010 as follows:

| | December 31, 2011 | December 31, 2010 |
|---|---|---|
| Loans Available(1) | $ 129,500 | $ 200,000 |
| Loans Outstanding | $ — | $ 135,000 |

(1) Amounts available include up to $50,000 for letters of credit as of December 31, 2011 and December 31, 2010.

The Company's commitments for outstanding letters of credit relate to potential collateral requirements associated with its matched principal business. Since commitments associated with these outstanding letters of credit may expire unused, the amounts shown above do not necessarily reflect actual future cash funding requirements.

The weighted average interest rate of outstanding loans under the Credit Agreement was 3.06% for the year ended December 31, 2010. At December 31, 2011 and 2010, unamortized deferred financing fees related to the Credit Agreement were $1,738 and $2,297, respectively.

The Credit Agreement contains certain financial and other covenants. The Company was in compliance with all applicable covenants at December 31, 2011 and 2010.

**9. INCOME TAXES**

The provision for income taxes consists of the following:

| | Year Ended December 31, 2011 | 2010 | 2009 |
|---|---|---|---|
| Current provision (benefit): | | | |
| Federal | $ (7,001) | $ 5,501 | $ 5,505 |
| Foreign | 13,935 | 22,256 | 27,592 |
| State and local | 579 | 759 | 6,696 |
| Total current provision | 7,513 | 28,516 | 39,793 |
| Deferred (benefit) provision: | | | |
| Federal | (3,681) | (20,505) | (18,400) |
| Foreign | (1,749) | 1,987 | (3,480) |
| State and local | 564 | (4,114) | (10,931) |
| Total deferred (benefit) | (4,866) | (22,632) | (32,811) |
| Total provision for income taxes | $ 2,647 | $ 5,884 | $ 6,982 |

The Company had pre-tax income from foreign operations of $37,589, $81,768 and $70,990 for the years ended December 31, 2011, 2010 and 2009, respectively. Pre-tax (loss) from domestic operations

GFI GROUP INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(In thousands, except share and per share amounts)

**9. INCOME TAXES (Continued)**

was $(37,507), $(49,965) and ($47,718) for the years ended December 31, 2011, 2010 and 2009, respectively.

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. Significant components of the Company's gross deferred tax assets and liabilities are set forth below:

| | As of December 31, 2011 | As of December 31, 2010 | | |
|---|---|---|---|---|
| | | As Previously Reported | Adjustment | As Restated |
| **Deferred tax assets:** | | | | |
| Share-based compensation | $ 19,246 | $ 11,431 | $ — | $ 11,431 |
| Net operating loss carryforwards | 40,391 | 31,287 | 2,870 | 34,157 |
| Foreign deferred items | 3,398 | 5,218 | 4,573 | 9,791 |
| Unrealized loss on currency hedging | — | 806 | (806) | — |
| Foreign tax credits | 1,192 | 1,192 | — | 1,192 |
| General business credit | 3,020 | 2,724 | — | 2,724 |
| Liability reserves | 5,274 | 4,964 | — | 4,964 |
| Prepaid expenses | 4,076 | 8,677 | — | 8,677 |
| Other, net | 2,994 | 2,043 | 646 | 2,689 |
| Valuation allowance | (15,677) | (7,424) | (2,878) | (10,302) |
| Total deferred tax assets | $ 63,914 | $ 60,918 | $ 4,405 | $ 65,323 |
| **Deferred tax liabilities:** | | | | |
| Depreciation and amortization | $ (10,009) | $ (15,851) | $ 1,902 | $ (13,949) |
| Intangible amortization | (20,940) | (22,016) | (671) | (22,687) |
| Prepaid bonuses | (310) | (781) | (389) | (1,170) |
| Total deferred tax liabilities | $ (31,259) | $ (38,648) | $ 842 | $ (37,806) |
| **Net deferred tax assets** | $ 32,655 | $ 22,270 | $ 5,247 | $ 27,517 |

As a result of certain realization requirements of ASC 718, the table of deferred tax assets and liabilities shown above does not include certain deferred tax assets as of December 31, 2011 and 2010 that arose directly from tax deductions related to equity compensation in excess of compensation expense recognized for financial reporting purposes. Stockholders' Equity will be increased by $1,102 when such deferred tax assets are ultimately realized. The Company uses tax law ordering when determining when excess tax benefits have been realized.

During the fourth quarter of 2011, the Company completed an analysis of its tax assets and liabilities. As a result of that analysis, the Company determined that it had overstated its provision for income taxes in certain prior years, and has restated those balances accordingly. See Note 2 for additional information.

GFI GROUP INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(In thousands, except share and per share amounts)

**9. INCOME TAXES (Continued)**

Cumulative undistributed earnings of foreign subsidiaries were approximately $311,056 at December 31, 2011. U.S. income and foreign withholding taxes have not been recognized on the excess of the amount for financial reporting over the tax basis of investments in foreign subsidiaries that are essentially permanent in duration. This amount becomes taxable upon a repatriation of assets from the subsidiary or a sale or liquidation of the subsidiary. However, we consider the undistributed earnings of our foreign subsidiaries to be indefinitely reinvested and, accordingly, no U.S. income taxes have been provided thereon. Determination of the amount of any unrecognized deferred income tax liability is not practicable because of the complexities of the hypothetical calculation. We have not, nor do we anticipate the need to, repatriate funds to the U.S. to satisfy domestic liquidity needs arising in the ordinary course of business, including liquidity needs associated with our domestic debt service requirements.

The deferred tax assets relating to foreign deferred items listed above consist primarily of depreciation and amortization, deferred compensation and unpaid intra-group royalties and interest. The valuation allowance relates primarily to the inability to utilize net operating losses and foreign tax credits in various tax jurisdictions. At December 31, 2011, the Company established a valuation allowance for the current year's state and local net operating loss, to the extent that it is more likely than not unrealizable. The Company had U.S. federal net operating loss carryforwards of $57,337, U.S. state and local net operating loss carryforwards of $101,072 and foreign net operating loss carryforwards of $48,051. The U.S. amounts are subject to annual limitations on utilization and will begin to expire in 2018. The foreign amounts are subject to annual limitations on utilization and will generally begin to expire in 2012. Further, the Company has $1,192 of foreign tax credit carryforwards at December 31, 2011 that will begin to expire in 2012. The Company continues to monitor the realizability of these losses and believes it is more likely than not that the tax benefits associated with these losses will be realized to the extent a valuation allowance has not been established. In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will be realized and, when necessary, a valuation allowance is established. The ultimate realization of the deferred tax assets is dependent upon the generation of future taxable income during the periods in which temporary differences become deductible. Management considers the following possible sources of taxable income when assessing the realization of deferred tax assets:

- future reversals of existing taxable temporary differences;
- future taxable income exclusive of reversing temporary differences and carryforwards;
- taxable income in prior carryback years; and
- tax-planning strategies.

The assessment regarding whether a valuation allowance is required or should be adjusted also considers all available positive and negative evidence, including, but not limited to, the following:

- the nature, frequency, and severity of any recent losses;
- the duration of statutory carryforward periods;
- historical experience with tax attributes expiring unused; and

**GFI GROUP INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**(In thousands, except share and per share amounts)**

**9. INCOME TAXES (Continued)**

- the Company's estimated near- and medium-term financial outlook.

In making the determination of the realizability of these deferred tax assets we have identified certain prudent and feasible tax planning strategies that we will implement unless the need to do so is eliminated in the future. However, this determination is a judgment and could be impacted by further market fluctuations.

The corporate statutory U.S. federal tax rate was 35.0% for the three years presented. A reconciliation of the Company's provision for income tax and the statutory tax rate is as follows:

| | December 31, | | |
|---|---|---|---|
| | 2011 | 2010 | 2009 |
| Federal income tax provision (benefit) at statutory rate | $ 29 | $ 11,131 | $ 8,145 |
| U.S. state and local income taxes, net of federal tax benefit | (1,951) | (2,353) | (2,738) |
| U.S. state and local valuation allowance | 3,094 | — | — |
| Foreign operations | (992) | (5,436) | (856) |
| Non-deductible expenses | 1,991 | 2,045 | 1,776 |
| General business credit | (464) | (402) | (490) |
| (Decreases) increases in unrecognized tax benefits, net | (663) | 1,077 | 1,190 |
| Net adjustment related to the reconciliation of income tax provision (benefit) accruals to tax returns | 1,428 | (357) | — |
| Tax-Exempt Income | — | (7) | (45) |
| Other | 175 | 186 | — |
| Provision for income taxes | $ 2,647 | $ 5,884 | $ 6,982 |

Income tax expense of approximately $1,764, $2,042 and $5,577 from the exercise of stock options and the vesting of RSUs was recorded directly to additional paid-in capital in 2011, 2010 and 2009, respectively.

Total unrecognized tax benefits (net of the federal benefit on state tax positions) as of December 31, 2011 were approximately $12,021, including interest of $834, all of which could affect the effective income tax rate in future periods. A liability for an unrecognized tax benefit of $2,493 relating to years prior to 2009 had been classified as taxes payable and was previously omitted from the

(In thousands, except share and per share amounts)

**9. INCOME TAXES (Continued)**

reconciliation below. The reclassification of this amount did not cause the balance sheet to be restated. A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows:

| | Liability for Unrecognized Tax Benefits |
|---|---|
| Unrecognized tax benefits balance at December 31, 2008, as previously reported | $ 7,156 |
| Unrecognized tax benefits balance, as previously reported in taxes payable | 2,493 |
| Unrecognized tax benefits balance at December 31, 2008 | $ 9,649 |
| Gross increases—current period tax positions | 2,077 |
| Lapse of statute of limitations | (953) |
| Unrecognized tax benefits balance at December 31, 2009 | $ 10,773 |
| Gross increases—current period tax positions | 1,076 |
| Lapse of statute of limitations | — |
| Unrecognized tax benefits balance at December 31, 2010 | $ 11,849 |
| Gross increases—current period tax positions | — |
| Lapse of statute of limitations | (662) |
| Unrecognized tax benefits balance at December 31, 2011 | $ 11,187 |

The Company is under continuous examination by the Internal Revenue Service (the "IRS") and other tax authorities in certain countries, such as the U.K., and states in which the Company has significant business operations, such as New York. The Company is currently under examination by the IRS as a result of net operating loss carryback covering tax years 2004 - 2009. Also, the Company is currently at various levels of field examination with respect to audits with the New York State and New York City, for tax years 2006 - 2008. The Company has substantially concluded all U.S. federal, state and local income tax matters for years prior to 2004.

In the U.K., the Company is in discussion with tax authorities regarding whether certain compensation expenses were deductible by the Company in prior years. A portion of the compensation payment is held by a trustee and the Company may request but not compel the trustee to use the money to offset the cost to the Company of the potential tax liability, if any, arising from the disallowance of the deduction.

The Company believes that the resolution of tax matters will not have a material effect on the consolidated statements of financial condition of the Company, although a resolution could have a material impact on the Company's consolidated statements of income for a particular future period and on the Company's effective income tax rate for any period in which such resolution occurs. The Company has established a liability for unrecognized tax benefits that the Company believes is adequate in relation to the potential for additional assessments. Once established, the Company adjusts unrecognized tax benefits only when more information is available or when an event occurs necessitating a change.

GFI GROUP INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(In thousands, except share and per share amounts)

**9. INCOME TAXES (Continued)**

The Company recognizes interest and penalties related to income tax matters in interest expense and other expense, respectively. As of December 31, 2011 and 2010, the Company had approximately $834 and $153 of accrued interest related to uncertain tax positions, respectively.

**10. STOCKHOLDERS' EQUITY**

| | Shares of Common Stock |
|---|---|
| Authorized (at December 31, 2011) | 400,000,000 |
| Outstanding: | |
| December 31, 2009 | 118,426,573 |
| December 31, 2010 | 122,125,491 |
| December 31, 2011 | 117,524,638 |
| Par value per share | $ 0.01 |

**Share Issuance**

During 2011 and 2010, the Company issued 3,142,758 and 2,125,632 shares of common stock, respectively, in connection with the exercise of stock options and vesting of RSUs. The Company received total cash proceeds of $75 and $645 in 2011 and 2010, respectively, in connection with the exercise of stock options. In 2011, in connection with an investment, the Company issued 138,313 shares of common stock as part of the purchase price. In 2010, in connection with various acquisitions, the Company issued 5,835,853 shares of common stock in the aggregate as part of the purchase price of such acquisitions. See Note 5 to the Consolidated Financial Statements for further information related to these acquisitions.

**Common Stock**

Each holder of the Company's common stock is entitled to one vote per share on all matters submitted to a vote of stockholders. Subject to the rights of holders of the Company's preferred stock, if any, the holders of shares of the Company's common stock are entitled to receive dividends when, as and if declared by the Company's Board of Directors.

On each of March 31, May 31, August 31 and November 30, 2011, the Company paid a cash dividend of $0.05 per share, which, based upon the number of shares outstanding on the record date for such dividends, totaled $6,100, $6,205, $5,955 and $5,920, respectively. On December 30, 2010, the Company paid a special cash dividend of $0.25 per share, which, based on the number of shares outstanding on the record date for such dividend, totaled $30,488. On each of March 29, May 28, August 31, and November 30, 2010, the Company paid a cash dividend of $0.05 per share, which, based upon the number of shares outstanding on the record date for such dividends, totaled $5,928, $5,956, $6,088 and $6,198, respectively.

**Preferred Stock**

As of December 31, 2011 and 2010, the Company had one class of preferred stock with 5,000,000 shares authorized and none issued.

GFI GROUP INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(In thousands, except share and per share amounts)

**10. STOCKHOLDERS' EQUITY (Continued)**

**Treasury Stock**

In August 2007, the Company's Board of Directors authorized the Company to implement a stock repurchase program to repurchase a limited number of shares of the Company's common stock. Under the repurchase plan, the Board of Directors authorized the Company to repurchase shares of the Company's common stock on the open market in such amounts as determined by the Company's management, provided, however, such amounts are not to exceed, during any calendar year, the number of shares issued upon the exercise of stock options plus the number of shares underlying grants of RSUs that are granted or which management reasonably anticipates will be granted in such calendar year. During the year ended December 31, 2011, the Company repurchased 5,650,000 shares of its common stock on the open market at an average price of $4.55 per share and for a total cost of $25,868, including sales commissions. During the year ended December 31, 2010, the Company repurchased 3,062,567 shares of its common stock on the open market at an average price of $5.39 per share and for a total cost of $16,609, including sales commissions. These repurchased shares were recorded at cost as treasury stock in the Consolidated Statements of Financial Condition.

On November 15, 2011, the Company entered into a stock purchase agreement with Michael Gooch and JPI pursuant to which the Company purchased 1,053,746 and 1,163,548 shares of the Company's common stock held by Michael Gooch and JPI, respectively, for an aggregate purchase price of $10,000. The purchase price was calculated based on the $4.51 per share closing price of the Company's common stock on the New York Stock Exchange Euronext on November 15, 2011. On December 9, 2010, the Company and JPI entered into a stock purchase agreement pursuant to which GFI purchased 1,200,000 shares of the Company's common stock held by JPI for an aggregate purchase price of $6,000. The purchase price was calculated based on the $5.00 per share closing price of the Company's common stock on the New York Stock Exchange Euronext on December 8, 2010. The review and approval of these stock purchase agreements was delegated by the Company's Board of Directors to its Audit Committee, comprised of solely independent directors, which approved such stock purchase agreements. These repurchased shares were recorded at cost as treasury stock in the Consolidated Statements of Financial Condition.

**11. (LOSS) EARNINGS PER SHARE**

Basic (loss) earnings per share for common stock is calculated by dividing net (loss) income available to common stockholders by the weighted average number of shares of common stock outstanding during the period. Diluted (loss) earnings per share is calculated by dividing net (loss) income by the sum of: (i) the weighted average number of shares outstanding, (ii) outstanding stock options and RSUs (using the "treasury stock" method when the impact of such options and RSUs would be dilutive), and (iii) any contingently issuable shares when dilutive.

**GFI GROUP INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**(In thousands, except share and per share amounts)**

**11. (LOSS) EARNINGS PER SHARE (Continued)**

Basic and diluted (loss) earnings per share for the years ended December 31, 2011, 2010 and 2009 were as follows:

| | December 31, 2011 | December 31, 2010 | December 31, 2009 |
|---|---|---|---|
| **Basic (loss) earnings per share** | | | |
| GFI's net (loss) income | $ (3,181) | $ 25,615 | $ 16,288 |
| Weighted average common shares outstanding | 118,334,995 | 120,275,918 | 118,178,493 |
| Basic (loss) earnings per share | $ (0.03) | $ 0.21 | $ 0.14 |
| **Diluted (loss) earnings per share** | | | |
| GFI's net (loss) income | $ (3,181) | $ 25,615 | $ 16,288 |
| Weighted average common shares outstanding | 118,334,995 | 120,275,918 | 118,178,493 |
| Effect of dilutive options, RSUs, restricted stock, and other contingently issuable shares(1) | — | 5,246,210 | 3,398,274 |
| Weighted average shares outstanding and common stock equivalents | 118,334,995 | 125,522,128 | 121,576,767 |
| Diluted (loss) earnings per share | $ (0.03) | $ 0.20 | $ 0.13 |

(1) Potential common shares related to 4,191,049 RSUs, 146,257 options, and 3,936,047 contingently issuable shares were excluded from the computation of diluted loss per share for the year ended December 31, 2011 as a result of the net loss for the respective period.

Excluded from the computation of diluted (loss) earnings per share because their effect would be anti-dilutive were the following: 2,437,984 RSUs and 96,752 options for the year ended December 31, 2011; 1,643,217 RSUs and 56,033 options for the year ended December 31, 2010; and 2,065,724 RSUs and 59,033 options for the year ended December 31, 2009.

**12. SHARE-BASED COMPENSATION**

The Company issues RSUs to its employees under the GFI Group Inc. 2008 Equity Incentive Plan, which was approved by the Company's stockholders on June 11, 2008 (as amended, the "2008 Equity Incentive Plan"). The 2008 Equity Incentive Plan was subsequently amended at each of the Company's annual stockholders meetings since the Plan was initially approved in order to increase the number of shares of common stock available for grant under the Plan. Prior to June 11, 2008, the Company issued RSUs under the GFI Group Inc. 2004 Equity Incentive Plan (the "2004 Equity Incentive Plan").

The 2008 Equity Incentive Plan permits the grant of non-qualified stock options, stock appreciation rights, shares of restricted stock, RSUs and performance units to employees, non-employee directors or consultants. The Company issues shares from authorized but unissued shares, which are reserved for issuance upon the vesting of RSUs granted pursuant to the 2008 Equity Incentive Plan. As of December 31, 2011, there were 9,539,374 shares of common stock available for future grants of awards under this plan, which amount, pursuant to the terms of the 2008 Equity Incentive Plan, may be increased for the number of shares subject to awards under the 2004 Equity

**GFI GROUP INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**(In thousands, except share and per share amounts)**

**12. SHARE-BASED COMPENSATION (Continued)**

Incentive Plan that are ultimately not delivered to employees. The fair value of RSUs is based on the closing price of the Company's common stock on the date of grant and is recorded as compensation expense over the service period, net of estimated forfeitures.

The following is a summary of RSU transactions under both the 2008 Equity Incentive Plan and the 2004 Equity Incentive Plan:

| | RSUs | Weighted-Average Grant Date Fair Value |
|---|---|---|
| Outstanding December 31, 2008 | 3,961,310 | $ 12.95 |
| Granted | 8,423,013 | 4.04 |
| Vested | (1,934,751) | 13.09 |
| Cancelled | (241,387) | 13.00 |
| Outstanding December 31, 2009 | 10,208,185 | 5.57 |
| Granted | 8,128,286 | 5.50 |
| Vested | (3,075,790) | 7.46 |
| Cancelled | (715,544) | 5.50 |
| Outstanding December 31, 2010 | 14,545,137 | 5.14 |
| Granted | 9,250,544 | 4.74 |
| Vested | (5,095,883) | 5.38 |
| Cancelled | (742,072) | 5.69 |
| Outstanding December 31, 2011 | 17,957,726 | $ 4.84 |

The weighted average fair value of RSUs granted during 2011 was $4.74 per unit, compared with $5.50 per unit for the same period in the prior year. Total compensation expense and related income tax benefits recognized in relation to RSUs is as follows:

| | For the Year Ended December 31, | | |
|---|---|---|---|
| | 2011 | 2010 | 2009 |
| Compensation expense | $ 32,772 | $ 26,674 | $ 25,820 |
| Income tax benefits | $ 11,011 | $ 4,926 | $ 7,746 |

The Company has modified the vesting terms of RSU grants for certain employees in connection with the execution of new employment agreements or the termination of employment. As a result of these modifications, the Company recorded incremental compensation expense totaling $2,210, $66 and $708 during 2011, 2010, and 2009, respectively.

At December 31, 2011, total unrecognized compensation cost related to the RSUs prior to the consideration of expected forfeitures was approximately $61,905 and is expected to be recognized over a weighted-average period of 1.92 years. The total fair value of RSUs that vested during the years ended December 31, 2011, 2010 and 2009 was $27,407, $22,950 and $25,326, respectively.

As of December 31, 2011, the Company had stock options outstanding under two plans: the GFI Group 2002 Stock Option Plan (the "GFI Group 2002 Plan") and the GFInet Inc. 2000 Stock Option

GFI GROUP INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(In thousands, except share and per share amounts)

## 12. SHARE-BASED COMPENSATION (Continued)

Plan (the "GFInet 2000 Plan"). No additional grants will be made under these plans. Under each plan: options were granted to employees, non-employee directors or consultants to the Company; both incentive and non-qualified stock options were available for grant; options were issued with terms up to ten years from date of grant; and options were generally issued with an exercise price equal to or greater than the fair market value at the time the option was granted. In addition to these terms, both the GFI Group 2002 Plan and the GFInet 2000 Plan contained events that had to occur prior to any options becoming exercisable. Under both plans, the options became exercisable upon the completion of the Company's initial public offering, which occurred in January 2005. Options outstanding under both plans are exercisable for shares of the Company's common stock. The Company issues shares from the authorized but unissued shares reserved for issuance under the GFI Group 2002 Plan or the GFInet 2000 Plan, respectively, upon the exercise of option grants under such plans.

A summary of stock option transactions is as follows:

| | GFI Group 2002 Plan | | | GFInet 2000 Plan | | |
|---|---|---|---|---|---|---|
| | Options | Weighted Average Exercise Price | Weighted Average Contractual Term | Options | Weighted Average Exercise Price | Weighted Average Contractual Term |
| Outstanding December 31, 2008 | 651,648 | $ 3.32 | | 324,408 | $ 3.17 | |
| Exercised | (10,212) | 4.31 | | (10,836) | 2.52 | |
| Outstanding December 31, 2009 | 641,436 | 3.31 | | 313,572 | 3.19 | |
| Exercised | (30,420) | 2.97 | | (205,960) | 2.69 | |
| Cancelled | (4,212) | 2.97 | | (11,364) | 5.68 | |
| Outstanding December 31, 2010 | 606,804 | 3.33 | | 96,248 | 3.95 | |
| Exercised | (4,212) | 2.97 | | (23,884) | 2.62 | |
| Cancelled | (16,844) | 5.25 | | — | — | |
| Expired | — | — | | (55,520) | 4.82 | |
| Outstanding December 31, 2011 | 585,748 | $ 3.28 | 2.13 | 16,844 | $ 2.97 | 1.99 |
| Exercisable at December 31, 2011 | 585,748 | $ 3.28 | 2.13 | 16,844 | $ 2.97 | 1.99 |

As of December 31, 2011, 2010, and 2009, there was no unrecognized compensation cost related to stock options.

The total intrinsic value of options exercised for the years ended December 31, 2011, 2010 and 2009 was $52, $661 and $58, respectively. Additionally, the total intrinsic value of options outstanding and exercisable at December 31, 2011 was $604.

GFI GROUP INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(In thousands, except share and per share amounts)

## 13. COMMITMENTS AND CONTINGENCIES

***Operating Leases***—The Company has non-cancelable operating leases, principally for office space, that expire on various dates through 2027. At December 31, 2011, the future minimum rental commitments under such leases are as follows:

| | |
|---|---|
| 2012 | $ 14,454 |
| 2013 | 13,171 |
| 2014 | 11,260 |
| 2015 | 10,633 |
| 2016 | 9,623 |
| Thereafter | 89,675 |
| Total | $ 148,816 |

Many of the leases for office space contain escalation clauses that require payment of additional rent to the extent of increases in certain operating and other costs. In addition, certain of the Company's leases grant a free rent period, which is amortized over the lease term. The accompanying Consolidated Statements of Operations reflect all rent expense on a straight-line basis over the term of the leases. Rent expense under the leases for the years ended December 31, 2011, 2010 and 2009 was $15,252, $13,797 and $13,114, respectively.

In connection with moving the Company's headquarters in 2008, the Company terminated a portion of the former facility lease with respect to approximately 51,000 square feet, effective June 30, 2008. The Company remains liable for all of the obligations under the lease for the remaining approximately 37,000 square feet. In January 2009, the Company entered into a sublease for approximately 23,000 square feet of the remaining leased space. The Company will receive monthly payments of $55 until the sublease expires in September 2013.

***Purchase Obligations***—The Company has various unconditional purchase obligations. These obligations are for the purchase of market data from a number of information service providers during the normal course of business. As of December 31, 2011, the Company had total purchase commitments for market data of approximately $25,445, with $19,118 due within the next twelve months and $6,327 due between one to three years. Additionally, the Company has purchase commitments for capital expenditures of $3,225 primarily related to network implementations in the U.S. and U.K., and $1,096 primarily related to hosting and software license agreements. Of these purchase commitments, capital expenditures of approximately $998 and fees for hosting and software licensing agreements of approximately $684 are due within the next twelve months.

In connection with the acquisition of 70% of the equity ownership interests in Kyte, the Company agreed to purchase the residual 30% equity interest in Kyte for an additional cash payment in an amount to be determined pursuant to a formula based on Kyte's earnings, such payment to be made following June 30, 2013. See Note 5 to the Consolidated Financial Statements for further information.

***Contingencies***—In the normal course of business, the Company and certain subsidiaries included in the consolidated financial statements are, and have been in the past, named as defendants in various lawsuits and proceedings and are, and have been in the past, involved in certain regulatory examinations. Additional actions, investigations or proceedings may be brought from time to time in

GFI GROUP INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(In thousands, except share and per share amounts)

**13. COMMITMENTS AND CONTINGENCIES (Continued)**

the future. The Company is subject to the possibility of losses from these various contingencies. Considerable judgment is necessary to estimate the probability and amount of any loss from such contingencies. An accrual is made when it is probable that a liability has been incurred or an asset has been impaired and the amount of loss can be reasonably estimated. The Company accrues a liability for the estimated costs of adjudication or settlement of asserted and unasserted claims existing as of the reporting period.

The Company is subject to regular examinations by various tax authorities in jurisdictions in which the Company has significant business operations. The Company regularly assesses the likelihood of additional tax assessments that may result from these examinations in each of the tax jurisdictions. A tax accrual has been established, which the Company believes to be adequate in relation to the potential for additional tax assessments. Once established, the accrual may be adjusted based on new information or events. The imposition of additional tax assessments, penalties or fines by a tax authority could have a material impact on the Company's effective tax rate.

Additionally, the Company has recorded reserves for certain contingencies to which it may have exposure, such as reserves for certain litigation contingencies and contingencies related to the employer portion of National Insurance Contributions in the U.K.

In October 2010, the staff of the Market Regulation Department of the Financial Industry Regulatory Authority Inc. ("FINRA") (the "Staff") commenced a disciplinary proceeding by filing a complaint against GFI Securities LLC and four of its former employees in connection with allegedly improper communications in 2005 and 2006 between certain of these former employees and those at other interdealer brokerage firms. All of the former employees of GFI Securities LLC who were named in the complaint resigned in April 2008 to become employed by affiliates of Compagnie Financiere Tradition. None of the Company's current employees were named in the complaint. In February 2012, GFI Securities LLC reached an agreement with FINRA to settle this matter pursuant to which GFI Securities LLC will be censured and will pay a fine for violations of FINRA rule 2110, interpretive material 2110-5 and FINRA rule 3010. The amount of the fine will not have a material adverse impact on the Company's financial position or results of operations.

Based on currently available information, the outcome of the Company's outstanding matters are not expected to have a material adverse impact on the Company's financial position. However, the outcome of any such matters may be material to the Company's results of operations or cash flows in a given period. It is not presently possible to determine the Company's ultimate exposure to these matters and there is no assurance that the resolution of the Company's outstanding matters will not significantly exceed any reserves accrued by the Company.

***Risks and Uncertainties***—The Company primarily generates its revenues by executing and facilitating transactions for counterparties. Revenues for these services are transaction based. As a result, the Company's revenues could vary based upon the transaction volume of securities, commodities, foreign exchange and derivative markets.

***Guarantees***—The Company, through its subsidiaries, is a member of certain exchanges and clearing houses. Under the membership agreements, members are generally required to guarantee certain obligations. To mitigate the performance risks of its members, the exchanges and clearing houses may,

**GFI GROUP INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**(In thousands, except share and per share amounts)**

## 13. COMMITMENTS AND CONTINGENCIES (Continued)

from time to time, require members to post collateral, as well as meet certain minimum financial standards. The Company's maximum potential liability under these arrangements cannot be quantified. However, management believes that the potential for the Company to be required to make payments under these arrangements is unlikely. Accordingly, no contingent liability is recorded in the Consolidated Statements of Financial Condition for these arrangements.

## 14. RETIREMENT PLANS

In the United States, the Company has established the GFI Group 401(k) plan, pursuant to the applicable laws of the Internal Revenue Code. It is available to all eligible U.S. employees as stated in the plan document and is subject to the provisions of the Employee Retirement Income Security Act of 1974. Employees may voluntarily contribute a portion of their compensation, not to exceed the statutory limit. The Company did not make any contributions to the plan for the years ended December 31, 2011, 2010 or 2009.

In the U.K. the Company has established two defined contribution plans pursuant to the applicable laws in the U.K. Employees of the Company's U.K. subsidiaries may voluntarily designate a portion of their monthly compensation to be contributed, which the Company matches up to a certain percentage. The GFI Group Personal Pension Plans are open to all U.K. employees after the completion of three months of employment. The Company has made aggregate contributions of $1,461, $1,316 and $1,215 in 2011, 2010 and 2009, respectively, for the GFI Group Personal Pension Plans recorded in compensation and employee benefits.

## 15. MARKET AND CREDIT RISKS

### Market Risk

The Company, through its subsidiaries, operates as a wholesale broker. The Company provides brokerage services to its customers through agency or principal transactions. Agency brokerage transactions facilitated by the Company are settled between the counterparties on a give-up basis. In matched principal transactions, the Company is interposed between buyers and sellers and the transactions are cleared through various clearing organizations. In the event of counterparty nonperformance, the Company may be required to purchase or sell financial instruments at unfavorable market prices, which may result in a loss to the Company. The Company does not anticipate nonperformance by counterparties. The Company monitors its credit risk daily and has a policy of regularly reviewing the credit standing of counterparties with which it conducts business. The Company may also enter into principal investing transactions in which the Company commits its capital within predefined limits, either to facilitate customer trading activities or to engage in principal trading for the Company's own account. To the extent that the Company owns assets (i.e. has long positions) in fluctuating markets, a downturn in the value of those assets or in those markets could result in losses from a decline in the value of those long positions. Conversely, to the extent that the Company has sold assets that the Company does not own (i.e. has short positions) in any of those markets, an upturn in those markets could expose the Company to significant losses as the Company attempts to cover short positions in a rising market.

**15. MARKET AND CREDIT RISKS (Continued)**

Unsettled transactions (i.e., securities failed-to-receive and securities failed-to-deliver) are attributable to matched principal transactions executed by subsidiaries and are recorded at contract value. Cash settlement is achieved upon receipt or delivery of the security. In the event of nonperformance, the Company may purchase or sell the security in the market and seek reimbursement for losses from the contracted counterparty.

In certain instances, the Company may provide credit for margin requirements to customers, secured by collateral in a customer's account. In such cases, the Company is exposed to the market risk that the value of the collateral the Company holds could fall below the amount of a customer's indebtedness. This risk can be amplified in any situation where the market for the underlying instrument is rapidly declining. Agreements with customers that have margin accounts permit the Company to liquidate their positions in the event that the amount of margin collateral becomes insufficient. Despite those agreements and the Company's risk management policies with respect to margin, the Company may be unable to liquidate a customer's positions for various reasons, or at a price sufficient to cover any deficiency in a customer's account. If the Company were unable to liquidate a position at a price sufficient to cover any deficiency or if a customer was unable to post additional margin, the Company may suffer a loss.

**Credit Risk**

Credit risk arises from potential non-performance by counterparties of our matched principal business, as well as from nonpayment of commissions by customers of our agency brokerage business. The Company also has credit and counterparty risk in certain situations where it provides clearing and execution services. The Company provides agency clearing services through its relationships with general clearing member firms and/or exchanges. In these instances, the Company's accounts at such institutions are used, in its name, to provide access to clearing services for its customers. Credit risk arises from the possibility that the Company may suffer losses due to the failure of its customers or other counterparties to satisfy their financial obligations to the Company or in a timely manner.

The Company has established policies and procedures to manage its exposure to credit risk. The Company maintains a thorough credit approval process to limit its exposure to counterparty risk and employ stringent monitoring to control the market and counterparty risk from its matched principal business. The Company's brokers may only execute transactions for clients that have been approved by the Company's credit committee following review by the Company's credit department. The Company's credit approval process includes verification of key financial information and operating data and anti-money laundering verification checks. The Company's credit review process may include consideration of independent credit agency reports and a visit to the entity's premises, if necessary. The Company has developed and utilizes a proprietary, electronic credit risk monitoring system.

Credit approval is granted by the Company's credit committee, which is comprised of senior management and representatives from its compliance, finance and legal departments. Credit approval is granted subject to certain trading limits and may be subject to additional conditions, such as the receipt of collateral or other credit support. The Company's credit risk department assists the credit committee in the review of any proposed counterparty by conducting diligence on such party and by continuing to review such counterparties for continued credit approval on at least an annual basis. These results are reviewed by the credit committee. Maintenance procedures include reviewing current audited financial

GFI GROUP INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(In thousands, except share and per share amounts)

**15. MARKET AND CREDIT RISKS (Continued)**

statements and publicly available information on the client, collecting data from credit rating agencies where available and reviewing any changes in ownership, title or capital of the client. For the Company's agency business, the approval process includes the requisite anti-money laundering and know-your-customer verifications.

**16. FAIR VALUE OF FINANCIAL INSTRUMENTS**

Certain of the Company's assets and liabilities are carried at fair value or contracted amounts that approximate fair value. Assets and liabilities that are recorded at contracted amounts approximating fair value consist primarily of receivables from and payables to brokers, dealers and clearing organizations and payables to clearing services customers. These receivables and payables to brokers, dealers and clearing organizations are short-term in nature, and following December 31, 2011, substantially all have settled at the contracted amounts. The Company's marketable equity securities are recorded at fair value based on their quoted market price. The Company's investments that are accounted for under the cost and equity methods are investments in companies that are not publicly traded and for which no established market for their securities exists. The fair value of these investments is only estimated if there are identified events or changes in circumstances that may have a significant adverse effect on the carrying value of the investment. The Company's debt obligations are carried at historical amounts. The fair value of the Company's Short-term borrowings outstanding under the Credit Agreement approximated the carrying value at December 31, 2010. No such borrowings were outstanding at December 31, 2011.

The fair value of the Company's Long-term obligations was estimated using market rates of interest available to the Company for debt obligations of similar types as of December 31, 2011 and 2010 as follows:

| | December 31, | |
|---|---|---|
| | 2011 | 2010 |
| Long-term obligations, at estimated fair value: | | |
| 8.375% Senior Notes | $ 231,250 | $ — |
| 7.17% Senior Notes | — | 65,842 |

The Company's financial assets and liabilities recorded at fair value have been categorized based upon a fair value hierarchy in accordance with ASC 820-10. In accordance with ASC 820-10, the Company has categorized its financial assets and liabilities, based on the priority of the inputs to the valuation technique, into a three-level fair value hierarchy as set forth below.

*Level 1*—Financial assets and liabilities whose values are based on unadjusted quoted prices for identifiable assets or liabilities in an active market that the company has the ability to access at the measurement date (examples include active exchange-traded equity securities, listed derivatives, and most U.S. Government and agency securities).

**16. FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)**

*Level 2*—Financial assets and liabilities whose values are based on quoted prices in markets where trading occurs infrequently or whose values are based on quoted prices of instruments with similar attributes in active markets. Level 2 inputs include the following:

- Quoted prices for identifiable or similar assets or liabilities in non-active markets (examples include corporate and municipal bonds which trade infrequently);

- Inputs other than quoted prices that are observable for substantially the full term of the asset or liability (examples include interest rate and currency swaps), and

*Level 3*—Financial assets and liabilities whose values are based on prices or valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement. These inputs reflect management's own assumptions about the assumptions a market participant would use in pricing the asset or liability.

**Valuation Techniques**

A description of the valuation techniques applied to the Company's major categories of assets and liabilities measured at fair value on a recurring basis are as follows:

*U.S. Treasury Securities*—U.S. Treasury securities are valued using quoted market prices. Valuation adjustments are not applied. Accordingly, U.S. Treasury securities are generally categorized in Level 1 of the fair value hierarchy.

*Equity Securities*—Equity securities include mostly exchange-traded corporate equity securities and are valued based on quoted market prices. Accordingly, exchange-traded equity securities are generally categorized in Level 1 of the fair value hierarchy. Non-exchange traded equity securities are measured primarily using broker quotations, pricing service data from external providers and prices observed for recently executed market transactions. Non-exchange traded equity securities are generally categorized within Level 2 of the fair value hierarchy.

*Corporate Bonds*—Corporate bonds are measured primarily using broker quotations, pricing service data from external providers and prices observed for recently executed market transactions. Corporate bonds are generally categorized in Level 2 of the fair value hierarchy.

*Derivative Contracts*—Derivative contracts include instruments such as foreign exchange, commodity, fixed income and equity derivative contracts.

*Listed Derivative Contracts*—Listed derivatives that are actively traded are valued based on quoted prices from the exchange and are categorized in Level 1 of the fair value hierarchy.

*OTC Derivative Contracts*—OTC derivative contracts include forwards, swaps, and options contracts related to foreign currencies. Depending on the product and the terms of the transaction, the fair value of OTC derivative products can be either observed or modeled using a series of techniques and model inputs from comparable benchmarks, including closed-form analytic formulas, such as the Black-Scholes option-pricing model, and simulation models or a combination thereof. Many pricing models do not entail material subjectivity because the methodologies employed do not necessitate significant judgment, and the pricing inputs are observed from actively quoted markets. In the case of more established derivative

**GFI GROUP INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**(In thousands, except share and per share amounts)**

**16. FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)**

products, the pricing models used by the Company are widely accepted by the financial services industry. OTC derivative products valued by the Company using pricing models generally fall into this category and are categorized in Level 2 of the fair value hierarchy.

*Equity warrants*—Non-exchange traded equity warrants are classified within Level 3 of the fair value hierarchy and are measured using the Black-Scholes model with key inputs impacting the valuation including the underlying security price, implied volatility, dividend yield, interest rate curve, strike price and maturity date.

*Convertible debt security*—As discussed in Note 7, the Company exchanged its membership interest in a private company for a convertible senior secured promissory note in that company. This security is measured using valuation techniques involving quoted prices of or market data for comparable companies' credit ratings, peer company ratios and discounted cash flow analyses. As several inputs are unobservable and significant to the valuation, this convertible debt security is categorized within Level 3 of the fair value hierarchy.

*Future Purchase Commitment*—As the inputs used in the fair value future purchase commitment are both unobservable and significant to the overall fair value measurement of this liability, the liability is categorized in Level 3 of the fair value hierarchy. In connection with the acquisition of 70% of the equity ownership interests in Kyte, the Company agreed to purchase the residual 30% equity interest in Kyte for an additional cash payment in an amount to be determined pursuant to a formula based on Kyte's earnings, such payment to be made following June 30, 2013. In applying the income approach, the Company assumed a 16.0% and 17.7% discount rate as of December 31, 2011 and 2010, respectively, and used forecasted financial information for Kyte for the remaining period ended June 30, 2013.

*Contingent Consideration*—As the inputs used in the fair value of contingent consideration are both unobservable and significant to the overall fair value measurement of this liability, the liability is generally categorized in Level 3 of the fair value hierarchy. The category consists primarily of contingent consideration related to the acquisition of a retail energy brokerage business, completed on November 1, 2009. This contingent liability is remeasured at fair value and is based on estimated future collections of accounts receivable of the business over approximately the next two years.

In the years ended December 31, 2011 and 2010, the Company did not have any transfers amongst Level 1, Level 2, and Level 3.

**GFI GROUP INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**(In thousands, except share and per share amounts)**

**16. FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)**

Financial Assets and Liabilities measured at fair value on a recurring basis as of December 31, 2011 are as follows:

| | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) | Balance at December 31, 2011 |
|---|---|---|---|---|
| **Assets** | | | | |
| Deposits with clearing organizations: | | | | |
| U.S. Treasury securities | $ 500 | $ — | $ — | $ 500 |
| Other assets: Financial instruments owned: | | | | |
| Equity securities | $ 480 | $ 208 | $ — | $ 688 |
| Derivative contracts: | | | | |
| Foreign exchange derivative contracts | $ 16 | $ 185,933 | $ — | $ 185,949 |
| Fixed income derivative contracts | 1,628 | — | — | 1,628 |
| Equity derivative contracts | 1,453 | — | 1,937 | 3,390 |
| Netting(1) | (1,210) | (183,581) | — | (184,791) |
| Total derivative contracts | $ 1,887 | $ 2,352 | $ 1,937 | $ 6,176 |
| Total financial instruments owned | $ 2,367 | $ 2,560 | $ 1,937 | $ 6,864 |
| Other assets: Investments: | | | | |
| Equity security, available-for-sale | $ 2,901 | $ — | $ — | $ 2,901 |
| Debt security, available-for-sale | $ — | $ — | $ 5,362 | $ 5,362 |
| **Total** | $ 5,768 | $ 2,560 | $ 7,299 | $ 15,627 |
| **Liabilities** | | | | |
| Other liabilities: Financial instruments sold, not yet purchased: | | | | |
| Equity securities | $ 129 | $ 22 | $ — | $ 151 |
| Derivative contracts: | | | | |
| Foreign exchange derivative contracts | $ 7 | $ 184,354 | $ — | $ 184,361 |
| Fixed income derivative contracts | 384 | — | — | 384 |
| Equity derivative contracts | 819 | — | — | 819 |
| Netting(1) | (1,210) | (183,529) | — | (184,739) |
| Total derivative contracts | $ — | $ 825 | $ — | $ 825 |
| Total financial instruments sold, not yet purchased | $ 129 | $ 847 | $ — | $ 976 |
| Other liabilities: Future purchase commitment and | | | | |

| | | | | |
|---|---|---|---|---|
| contingent consideration liabilities | $ — | $ — | $ 13,681 | $ 13,681 |
| **Total** | $ 129 | $ 847 | $ 13,681 | $ 14,657 |

(1) Represents the impact of netting on a net-by-counterparty basis.

Excluded from the table above is variation margin on long and short derivative contracts related to exchange traded futures and options on futures in the amount of $1,125 which are included within Receivables from brokers, dealers and clearing organizations.

GFI GROUP INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(In thousands, except share and per share amounts)

## 16. FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

Financial Assets and Liabilities measured at fair value on a recurring basis as of December 31, 2010 are as follows:

| | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) | Balance at December 31, 2010 |
|---|---|---|---|---|
| **Assets** | | | | |
| Deposits with clearing organizations: | | | | |
| U.S. Treasury securities | $ 500 | $ — | $ — | $ 500 |
| Other assets: Financial instruments owned: | | | | |
| Equity securities | $ 549 | $ 161 | $ — | $ 710 |
| Derivative contracts: | | | | |
| Foreign exchange derivative contracts | $ — | $ 76,057 | $ — | $ 76,057 |
| Fixed income derivative contracts | 89 | — | — | 89 |
| Equity derivative contracts | 3,849 | — | — | 3,849 |
| Netting(1) | — | (74,934) | — | (74,934) |
| Total derivative contracts | $ 3,938 | $ 1,123 | $ — | $ 5,061 |
| Total financial instruments owned | $ 4,487 | $ 1,284 | $ — | $ 5,771 |
| Other assets: Investments: | | | | |
| Equity security, available-for-sale | $ 4,925 | $ — | $ — | $ 4,925 |
| **Total** | $ 9,912 | $ 1,284 | $ — | $ 11,196 |
| **Liabilities** | | | | |
| Other liabilities: Financial instruments sold, not yet purchased: | | | | |
| Derivative contracts: | | | | |
| Foreign exchange derivative contracts | $ — | $ 79,368 | $ — | $ 79,368 |
| Fixed income derivative contracts | 87 | — | — | 87 |
| Equity derivative contracts | 2,286 | — | — | 2,286 |
| Netting(1) | — | (74,908) | — | (74,908) |
| Total derivative contracts | $ 2,373 | $ 4,460 | $ — | $ 6,833 |
| Total financial instruments sold, not yet purchased | $ 2,373 | $ 4,460 | $ — | $ 6,833 |
| Other liabilities: Future purchase commitment and contingent consideration liabilities | $ — | $ — | $ 22,415 | $ 22,415 |

| | | | | |
|---|---|---|---|---|
| **Total** | $ 2,373 | $ 4,460 | $ 22,415 | $ 29,248 |

(1) Represents the impact of netting on a net-by-counterparty basis.

Excluded from the table above is variation margin on long and short derivative contracts related to exchange traded futures and options in the amount of $18 and $206 which are included within Receivables from brokers, dealers and clearing organizations and Payables to brokers, dealers and clearing organizations, respectively.

**GFI GROUP INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**(In thousands, except share and per share amounts)**

## 16. FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

Changes in Level 3 Financial Assets and Liabilities measured at fair value on a recurring basis for the year ended December 31, 2011 are as follows:

| | Beginning Balance | Total realized and unrealized (gains) losses included in Income(1) | Unrealized gains (losses) included in Other comprehensive (income) loss | Purchases | Issuances | Sales | Settlements | Ending Balance at December 31, 2011 | Unrealized gains (losses) for Level 3 Assets / Liabilities Outstanding at December 31, 2011 |
|---|---|---|---|---|---|---|---|---|---|
| **Assets** | | | | | | | | | |
| Other assets: | | | | | | | | | |
| Financial Instruments owned: | | | | | | | | | |
| Equity Derivative Contracts | $ — | $ — | $ — | $ 1,937 | $ — | $ — | $ — | $ 1,937 | $ — |
| Other assets: | | | | | | | | | |
| Notes Receivable: | | | | | | | | | |
| Notes Receivable, available-for-sale | — | — | — | 5,362 | — | — | — | 5,362 | — |
| **Liabilities** | | | | | | | | | |
| Other liabilities: | | | | | | | | | |
| Future purchase commitment and contingent consideration liabilities: | $ 22,415 | $ (6,941) | $ (100) | $ — | $ — | $ — | $ (1,693) | $ 13,681 | $ (6,941) |

(1) Realized and unrealized gains (losses) are reported in Other income in the Consolidated Statements of Operations.

Changes in Level 3 Financial Assets and Liabilities measured at fair value on a recurring basis for the year ended December 31, 2010 are as follows:

| | Beginning Balance | Total realized and unrealized (gains) losses included in Income(1) | Unrealized gains (losses) included in Other comprehensive (income) loss | Purchases | Issuances | Sales | Settlements | Ending Balance at December 31, 2010 | Unrealized gains (losses) for Level 3 Assets / Liabilities Outstanding at December 31, 2010 |
|---|---|---|---|---|---|---|---|---|---|
| **Liabilities** | | | | | | | | | |
| Other liabilities: | | | | | | | | | |
| Future purchase commitment and contingent consideration liabilities: | $ — | $ (1,009) | $ 1,349 | $ 22,664 | $ — | $ — | $ (589) | $ 22,415 | $ (1,009) |

(1) Realized and unrealized gains (losses) are reported in Other income in the Consolidated Statements of Operations.

*Assets and Liabilities Measured at Fair Value on a Non-recurring Basis*

The Company has cost and equity method investments which are monitored for indicators of impairment each reporting period. If the Company determines that an other-than-temporary impairment has occurred, the investment will be written down to its estimated fair value. For the year ended December 31, 2011, in accordance with the provisions of ASC 323-10, the Company determined that certain equity method investments were other-than-temporarily impaired and were written down to their estimated fair value. The Company primarily utilized the income approach by assuming an

GFI GROUP INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(In thousands, except share and per share amounts)

**16. FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)**

estimated discount rate and forecasted financial information to determine its estimated fair value. The Company measured this equity method investment at fair value on a non-recurring basis and it is not included in the tables above.

The following table presents the balance of the equity method investments at December 31, 2011 that have been measured at fair value on a non-recurring basis, using the process described above, and the impairment charges recorded during the year ended December 31, 2011:

| | Balance at December 31, 2011 | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) | Total Losses for the Year Ended, 2011 |
|---|---|---|---|---|---|
| Other Assets: | | | | | |
| Investments(1) | $ — | $ — | $ — | $ — | $ (4,717) |

(1) Impairment losses are recorded within Other expenses in the Consolidated Statements of Operations for the year ended December 31, 2011.

There were no liabilities measured at fair value on a non-recurring basis at December 31, 2011. There were no assets or liabilities measured at fair value on a non-recurring basis at December 31, 2010.

**17. DERIVATIVE FINANCIAL INSTRUMENTS**

The Company uses foreign exchange derivative contracts, including forward contracts and foreign currency swaps, to reduce the effects of fluctuations in certain assets and liabilities denominated in foreign currencies. The Company also hedges a portion of its foreign currency exposures on anticipated foreign currency denominated revenues and expenses by entering into forward foreign exchange contracts. For the years ended December 31, 2011 and 2010, none of these contracts were designated as foreign currency cash flow hedges under ASC 815-10, *Derivatives and Hedging* ("ASC 815-10").

The Company provides brokerage services to its customers for exchange-traded and over-the-counter derivative products, which include futures, forwards and options contracts. The Company may enter into principal transactions for exchange-traded and over-the-counter derivative products to facilitate customer trading activities or to engage in principal trading for the Company's own account.

The Company monitors market risk exposure from its matched principal business and principal trading business by regularly monitoring its concentration of market risk to financial instruments, countries or counterparties and regularly monitoring trades that have not settled within prescribed settlement periods or volume thresholds. Additionally, market risks are monitored and mitigated by the use of the Company's proprietary, electronic risk monitoring system, which provides daily credit reports in each of the Company's geographic regions that analyze credit concentration and facilitates the regular monitoring of transactions against key risk indicators.

For certain derivative contracts, the Company has entered into agreements with counterparties that allow for netting. The Company reports these derivative contracts on a net-by-counterparty basis when management believes that a legal and enforceable right of offset exists under these agreements.

**GFI GROUP INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**(In thousands, except share and per share amounts)**

**17. DERIVATIVE FINANCIAL INSTRUMENTS (Continued)**

Fair values of derivative contracts on a gross basis as of December 31, 2011 and 2010 are as follows:

| | December 31, 2011 | | December 31, 2010 | |
|---|---|---|---|---|
| **Derivatives not designated as hedging instruments under ASC 815-10** | **Derivative Assets(1)** | **Derivative Liabilities(2)** | **Derivative Assets(1)** | **Derivative Liabilities(2)** |
| Foreign exchange derivative contracts | $ 185,984 | $ 184,387 | $ 76,057 | $ 79,368 |
| Commodity derivative contracts | 13,178 | 12,190 | 3,955 | 4,143 |
| Fixed income derivative contracts | 4,113 | 2,904 | 89 | 87 |
| Equity derivative contracts | 3,600 | 866 | 3,849 | 2,286 |
| Total fair value of derivative contracts | $ 206,875 | $ 200,347 | $ 83,950 | $ 85,884 |
| Counterparty netting | (199,574) | (199,522) | (78,871) | (78,845) |
| **Total fair value** | $ 7,301 | $ 825 | $ 5,079 | $ 7,039 |

(1) Reflects futures and options on futures contracts within Receivables from brokers, dealers and clearing organizations and options and forwards contracts within Other assets.

(2) Reflects futures and options on futures contracts within Payables to brokers, dealers and clearing organizations and options and forwards contracts within Other liabilities.

As of December 31, 2011 and 2010, the Company had outstanding forward foreign exchange contracts with a combined notional value of $128,197 and $149,350, respectively. Approximately $32,743 and $53,480 of these forward foreign exchange contracts represents a hedge of euro-denominated balance sheet positions at December 31, 2011 and 2010, respectively. The remaining contracts are hedges of anticipated future cash flows.

In addition to the Company's outstanding forward foreign exchange contracts, the following table includes the outstanding long and short notional amounts on a gross basis of derivative financial instruments as of December 31, 2011 and December 31, 2010:

| | December 31, 2011 | | December 31, 2010 | |
|---|---|---|---|---|
| | **Long** | **Short** | **Long** | **Short** |
| Foreign exchange derivative contracts | $ 9,967,442 | $ 9,976,475 | $ 5,682,858 | $ 5,681,923 |
| Commodity derivative contracts | 512,233 | 513,245 | 501,953 | 803,357 |
| Fixed income derivative contracts | 3,119,363 | 3,195,903 | 18,346 | 18,399 |
| Equity derivative contracts | 31,959 | 6,605 | 40,040 | 92,840 |

**GFI GROUP INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**(In thousands, except share and per share amounts)**

## 17. DERIVATIVE FINANCIAL INSTRUMENTS (Continued)

The following is a summary of the effect of derivative contracts on the Consolidated Statements of Operations for the years ended December 31, 2011 and 2010:

| | | Amount of Gain (Loss) Recognized in Income on Derivatives | |
|---|---|---|---|
| Derivatives not designated as hedging instruments under ASC 815-10 | Location of Gain (Loss) Recognized in Income on Derivatives | For the Year Ended December 31, 2011 | For the Year Ended December 31, 2010 |
| Foreign exchange derivative contracts | (1) | $ 4,090 | $ 8,977 |
| Commodity derivative contracts | Principal transactions | 14,388 | 6,476 |
| Fixed income derivative contracts | Principal transactions | 10,636 | 1,506 |
| Equity derivative contracts | Principal transactions | 4,885 | 999 |

(1) For the year ended December 31, 2011, approximately $415 of losses on foreign exchange derivative contracts were included within Other (loss) income and approximately $4,505 of gains on foreign currency options were included within Principal transactions. For the year ended December 31, 2010, approximately $3,529 of gains on foreign exchange derivative contracts were included within Other (loss) income and approximately $5,448 of gains on foreign currency options were included within Principal transactions.

## 18. VARIABLE INTEREST ENTITIES

*Consolidated Variable Interest Entities*

In December 2010, Kyte entered into an investment with a limited liability partnership ("LLP"), which is focused on developing a proprietary trading business. The LLP is a VIE and it was determined that the Company is the primary beneficiary of the LLP because Kyte is the provider of the majority of the LLP's start-up capital and has the power to direct the activities of the VIE that most significantly impact the economic performance of the entity.

*Non-consolidated Variable Interest Entities*

The Company holds interests in certain variable interest entities ("VIEs") which it does not consolidate as it determined that the Company is not the primary beneficiary. The Company's involvement with such entities is in the form of direct equity interests and a convertible note. The entities include an independent brokerage firm with a proprietary trading platform, trading entities in which the Company has provided initial capital to fund trading activities, a commodity pool operator and an investment fund manager. As of December 31, 2011 and 2010, assets recognized in the Consolidated Statements of Financial Condition related to the Company's interests in these non-consolidated VIEs were $10,640 and $15,247, respectively, and are reflected in Other assets. The Company has not recorded any liabilities with respect to VIEs not consolidated. The Company's maximum exposure to loss relating to non-consolidated VIEs as of December 31, 2011 and December 31, 2010 was $10,640 and $18,047, respectively. As of December 31, 2011, the maximum exposure to loss represented assets recognized by the Company in the form of equity method investments and a convertible note. As of December 31, 2010, the maximum exposure to loss represented (i) assets recognized by the Company in the form of equity method investments and notes receivable on loans made to VIEs in which the Company holds a variable interest and (ii) a future

**18. VARIABLE INTEREST ENTITIES (Continued)**

commitment to purchase the remaining membership interests in an independent brokerage platform with a proprietary trading platform in increments of 20% by the third quarter of 2013, subject to customary closing conditions.

**19. EQUITY METHOD INVESTMENTS**

The Company has investments accounted for under the equity method (see Note 2) with an aggregate carrying value of $28,997 and $30,057, at December 31, 2011 and 2010, respectively, and which are included in Other assets. Included within Equity in net earnings of unconsolidated businesses was $10,466, $3,974 and $1,574 in 2011, 2010 and 2009, respectively, related to these investments.

The Company reviews investments accounted for under the equity method for decline in value that may be other than temporary. During the year ended December 31, 2011, the Company recorded write-downs of $4,717 related to equity method investments that were determined to be impaired on an other-than-temporary basis. The value of the Company's ownership interest in these entities was evaluated in light of recent and projected operating losses of these investees. A decline in current and projected cash flows resulted in the value of the Company's ownership interests being less than the carrying amount of these investments. These write-downs are included in Other expenses in the Consolidated Statements of Operations.

Investments accounted for under the equity method included the following:

- Investments in unconsolidated UK brokerage and trading operations acquired in the July 1, 2010 acquisition of Kyte or made by Kyte subsequent to the Company's acquisition.

- Investments in U.S. based brokerage, trading and investment firms.

These investments accounted for an aggregate investment balance of $12,506 and $13,593 at December 31, 2011 and 2010, respectively. The Company's share of net earnings for these investments was $8,093 and $1,627 in 2011 and 2010, respectively. The Company did not have any net earnings related to these investments in 2009.

During the year ended December 31, 2011, the Company recorded a $1,863 loss related to the accounting impact of an increased ownership stake in an equity method investment previously accounted for under the cost method.

During the year ended December 31, 2011, the Company recorded $521 of pre-tax income representing the Company's share of equity in prior period earnings of an equity-method investee.

**20. REGULATORY REQUIREMENTS**

The following material operating subsidiaries of the Company are required to maintain minimum levels of regulatory capital pursuant to applicable regulations:

GFI Securities LLC is a registered broker-dealer with the SEC and FINRA. GFI Securities LLC is also a registered introducing broker with the National Futures Association and the Commodity Futures Trading Commission. Accordingly, GFI Securities LLC is subject to the net capital rules under the Exchange Act and the Commodity Exchange Act. Under these rules, GFI Securities LLC is required to

**GFI GROUP INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**(In thousands, except share and per share amounts)**

**20. REGULATORY REQUIREMENTS (Continued)**

maintain minimum Net Capital, as defined by applicable regulations, of not less than the greater of $250 or 2% of aggregate debits, as defined by applicable regulations.

GFI Brokers Limited, GFI Securities Limited, The Kyte Group Limited and Kyte Broking Limited are subject to the capital requirements of the Financial Services Authority in the United Kingdom ("FSA"). In addition, GFI Securities Limited and The Kyte Group Limited are subject to the FSA consolidated capital requirements.

GFI (HK) Securities LLC is subject to the capital requirements of the Securities and Futures Commission in Hong Kong (the "SFC").

The following table sets forth information about the minimum regulatory capital that certain of the Company's subsidiaries were required to maintain as of December 31, 2011:

| | GFI Securities LLC | GFI Brokers Limited | GFI Securities Limited | The Kyte Group Limited | Kyte Broking Limited | GFI (HK) Securities LLC |
|---|---|---|---|---|---|---|
| Regulatory capital | $ 12,736 | $ 47,427 | $ 63,760 | $ 14,636 | $ 5,581 | $ 1,420 |
| Minimum regulatory capital required | 250 | 25,793 | 33,119 | 8,206 | 2,661 | 386 |
| Excess regulatory capital | $ 12,486 | $ 21,634 | $ 30,641 | $ 6,430 | $ 2,920 | $ 1,034 |

Certain of the Company's material operating subsidiaries are subject to other financial requirements as set forth below:

GFI Securities Limited's Japanese branch is subject to certain licensing requirements established by the Financial Instruments and Exchange Law (the "FIEL") in Japan. As part of the licensing requirements, GFI Securities Limited's Japanese branch is required to maintain minimum "brought-in" capital and stockholders' equity of 50,000 Japanese Yen each (approximately $650). GFI Securities Limited's Japanese branch is also subject to the FIEL's net capital rule. At December 31, 2011, GFI Securities Limited's Japanese branch was in compliance with these capital requirements.

GFI (HK) Brokers Ltd. is registered with and regulated by the Hong Kong Monetary Authority. As part of this registration, GFI (HK) Brokers Ltd. is required to maintain stockholders' equity of 5,000 Hong Kong dollars (or approximately $644). At December 31, 2011, GFI (HK) Brokers Ltd. had stockholders' equity of 25,382 Hong Kong dollars (or approximately $3,269), which exceeded the minimum requirement by 20,382 Hong Kong dollars (or approximately $2,625).

GFI Group Pte. Ltd. is subject to the compliance requirements of the Monetary Authority of Singapore, which requires that GFI Group Pte. Ltd, among other things, maintain stockholders' equity of 3,000 Singapore dollars (or approximately $2,318). At December 31, 2011, GFI Group Pte. Ltd. exceeded the minimum requirement by approximately 19,216 Singapore dollars (or approximately $14,850).

GFI Korea Money Brokerage Limited is licensed and regulated by the Ministry of Finance and Economy to engage in foreign exchange brokerage business, and is subject to certain regulatory requirements under the Foreign Exchange Transaction Act. As a licensed foreign exchange brokerage company, GFI Korea Money Brokerage Limited is required to maintain minimum paid-in capital of

GFI GROUP INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(In thousands, except share and per share amounts)

**20. REGULATORY REQUIREMENTS (Continued)**

5,000,000 Korean Won (or approximately $4,308). At December 31, 2011, GFI Korea Money Brokerage Limited exceeded the minimum requirement for paid-in-capital by approximately 6,508,075 Korean Won (or approximately $5,607).

These regulatory rules may restrict the Company's ability to withdraw capital from its regulated subsidiaries. In addition to the requirements set forth above, certain of the Company's other subsidiaries are subject to minimum net capital, minimum stockholders' equity or similar requirements of the jurisdictions in which they operate. The Company believes it is in compliance with all of these requirements at December 31, 2011 and December 31, 2010 with the exception of The Kyte Group Limited's U.K. consolidated group capital requirement which had fallen below the required minimum amount on December 31, 2010. Subsequent to December 31, 2010, the Company has re-organized its investments in certain Kyte entities and has provided additional capital to the regulated group to comply with applicable group capital requirements.

**21. SEGMENT AND GEOGRAPHIC INFORMATION**

In accordance with ASC 280-10, *Segment Reporting* ("ASC 280-10") and based on the nature of the Company's operations, products and services in each geographic region, the Company determined that it has four operating segments: (i) Americas Brokerage, (ii) Europe, Middle East and Africa ("EMEA") Brokerage, (iii) Asia Brokerage, and (iv) Clearing and Backed Trading. The Company's brokerage operations provide brokerage services in four broad product categories: fixed income, financial, equity and commodity. Additionally, in accordance with criteria in ASC 280-10, the Company presents its operating segments as five reportable segments: the four operating segments described above and "All Other." The All Other segment captures costs that are not directly assignable to one of the operating segments, primarily consisting of the Company's corporate business activities and operations from software, analytics and market data.

The accounting policies of the segments are the same as those described above in Note 2—Summary of Significant Accounting Policies. The Company evaluates performance of the operating segments based on income (loss) before income taxes, which it defines as revenues less direct expenses. Revenues within each brokerage segment include revenues that are directly related to providing brokerage services along with interest and other income directly attributable to the operating segment. Revenues within the Clearing and Backed Trading segment primarily include revenues that are directly related to providing clearing services along with the Company's share of profit (loss) on trading activity from capital investments. Direct expenses of the operating segments are those expenses that are directly related to providing the brokerage or clearing services and trading activities of the operating segments and include compensation expense related to the segment management and staff, communication and market data, travel and promotion, and certain professional fees and other expenses that are directly incurred by the operating segments. However, the Company does not allocate to its operating segments certain expenses which it manages separately at the corporate level. The unallocated costs include rent and occupancy, depreciation and amortization, professional fees, interest on borrowings and other expenses and are included in the results below under "All Other" in the reconciliation of operating results. Management generally does not consider the unallocated costs in its measurement of the four

**GFI GROUP INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**(In thousands, except share and per share amounts)**

**21. SEGMENT AND GEOGRAPHIC INFORMATION (Continued)**

operating segments' performance. Selected financial information for the Company's reportable segments is presented below for periods indicated:

| | Twelve Months Ended December 31, 2011 | | | | | |
|---|---|---|---|---|---|---|
| | Americas Brokerage | EMEA Brokerage | Asia Brokerage | Clearing and Backed Trading | All Other | Total |
| Total revenues | $ 313,483 | $ 386,012 | $ 82,903 | $ 164,882 | $ 68,193 | $ 1,015,473 |
| Revenues, net of interest and transaction-based expenses | 299,590 | 374,802 | 82,839 | 54,104 | 69,436 | 880,771 |
| Income (loss) before income taxes | 81,308 | 88,122 | 15,533 | 9,196 | (194,077) | 82 |

| | Twelve Months Ended December 31, 2010 | | | | | |
|---|---|---|---|---|---|---|
| | Americas Brokerage | EMEA Brokerage | Asia Brokerage | Clearing and Backed Trading | All Other | Total |
| Total revenues | $ 294,910 | $ 379,033 | $ 74,945 | $ 53,129 | $ 60,585 | $ 862,602 |
| Revenues, net of interest and transaction-based expenses | 278,553 | 367,494 | 74,875 | 12,140 | 61,982 | 795,044 |
| Income (loss) before income taxes | 66,399 | 115,037 | 15,814 | (3,041) | (162,406) | 31,803 |

| | Twelve Months Ended December 31, 2009 | | | | | |
|---|---|---|---|---|---|---|
| | Americas Brokerage | EMEA Brokerage | Asia Brokerage | Clearing and Backed Trading | All Other | Total |
| Total revenues | $ 327,127 | $ 364,761 | $ 61,603 | $ — | $ 66,790 | $ 820,281 |
| Revenues, net of interest and transaction-based expenses | 309,245 | 350,869 | 61,573 | — | 68,240 | 789,927 |
| Income (loss) before income taxes | 42,305 | 114,960 | (871) | — | (133,124) | 23,270 |

In addition, with the exception for goodwill, the Company does not identify or allocate asset by operating segment, nor does its chief operating decision maker evaluate operating segments using discrete asset information. See Note 6 for goodwill by reportable segment.

For the years ended December 31, 2011, 2010, and 2009, the U.K. is the only individual foreign country that accounts for 10% or more of the total sales and total long-lived assets. Information regarding revenue for the years ended December 31, 2011, 2010, and 2009, and information regarding

**GFI GROUP INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**(In thousands, except share and per share amounts)**

**21. SEGMENT AND GEOGRAPHIC INFORMATION (Continued)**

long-lived assets (defined as property, equipment, leasehold improvements and software inventory) in geographic areas as of December 31, 2011 and 2010 are as follows:

| | For the year ended December 31, | | |
|---|---|---|---|
| | 2011 | 2010 | 2009 |
| Revenues: | | | |
| United States | $ 303,508 | $ 290,053 | $ 308,846 |
| United Kingdom | 492,204 | 398,020 | 354,934 |
| Other | 219,761 | 174,529 | 156,501 |
| Total | $ 1,015,473 | $ 862,602 | $ 820,281 |

| | For the year ended December 31, | | |
|---|---|---|---|
| | 2011 | 2010 | 2009 |
| Revenues, net of interest and transaction-based expenses: | | | |
| United States | $ 295,212 | $ 278,686 | $ 306,911 |
| United Kingdom | 376,809 | 348,895 | 335,258 |
| Other | 208,750 | 167,463 | 147,758 |
| Total | $ 880,771 | $ 795,044 | $ 789,927 |

| | As of December 31, | |
|---|---|---|
| | 2011 | 2010 |
| Long-lived Assets, as defined: | | |
| United States | $ 50,993 | $ 52,649 |
| United Kingdom | 12,018 | 14,132 |
| Other | 5,846 | 4,493 |
| Total | $ 68,857 | $ 71,274 |

Revenues are attributed to geographic areas based on the location of the Company's relevant subsidiaries.

**GFI GROUP INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**(In thousands, except share and per share amounts)**

## 22. PARENT COMPANY INFORMATION

The following presents the Parent company only's Condensed Statements of Financial condition, Operations and comprehensive (loss) income and Cash flows:

**Parent Company Only**
**Condensed Statements of Financial Condition**
**(In thousands, except share and per share data)**

| | December 31, 2011 | December 31, 2010 |
|---|---|---|
| **Assets** | | |
| Cash and cash equivalents | $ 127 | $ 752 |
| Investments in subsidiaries, equity basis | 414,021 | 372,004 |
| Advances to subsidiaries | 258,951 | 302,079 |
| Other assets | 33,857 | 15,783 |
| TOTAL ASSETS | $ 706,956 | $ 690,618 |
| **Liabilities and stockholders' equity** | | |
| LIABILITIES | | |
| Short-term borrowings, net | $ — | $ 132,703 |
| Long-term obligations | 250,000 | 59,743 |
| Other liabilities | 9,744 | 4,061 |
| Total Liabilities | 259,744 | 196,507 |
| STOCKHOLDERS' EQUITY | | |
| Preferred stock, $0.01 par value; 5,000,000 shares authorized, none outstanding at December 31, 2011 and 2010 | — | — |
| Common stock, $0.01 par value; 400,000,000 shares authorized and 131,669,676 and 128,703,324 shares issued at December 31, 2011 and 2010, respectively | 1,317 | 1,287 |
| Additional paid in capital | 365,835 | 350,230 |
| Retained earnings | 160,934 | 188,295 |
| Treasury stock, 14,145,038 and 6,577,833 common shares at cost at December 31, 2011 and 2010, respectively | (73,919) | (43,433) |
| Accumulated other comprehensive loss | (6,955) | (2,268) |
| Total Stockholders' Equity | 447,212 | 494,111 |
| TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY | $ 706,956 | $ 690,618 |

GFI GROUP INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(In thousands, except share and per share amounts)

## 22. PARENT COMPANY INFORMATION (Continued)

**Parent Company Only**
**Condensed Statements of Operations and Comprehensive (Loss) Income**
**(In thousands)**

| | Year Ended December 31, 2011 | 2010 | 2009 |
|---|---|---|---|
| **Revenues:** | | | |
| Interest income | $ 110 | $ 4 | $ 5 |
| **Expenses:** | | | |
| Interest expense | 22,618 | 9,210 | 9,567 |
| Other expenses | 996 | 1,028 | 1,359 |
| Total expenses | 23,614 | 10,238 | 10,926 |
| Loss before benefit from income taxes and equity in earnings of subsidiaries | (23,504) | (10,234) | (10,921) |
| Benefit from income taxes | 8,226 | 1,892 | 3,276 |
| Loss before equity in earnings of subsidiaries | (15,278) | (8,342) | (7,645) |
| Equity in earnings of subsidiaries, net of tax | 12,097 | 33,957 | 23,933 |
| GFI's net (loss) income | $ (3,181) | $ 25,615 | $ 16,288 |
| Other comprehensive (loss) income, net of tax: | | | |
| Foreign currency translation adjustment | $ (3,050) | $ 2,054 | $ 1,506 |
| Unrealized (loss) gain on available-for-sale securities, net of tax | (1,486) | 182 | 565 |
| GFI's comprehensive (loss) income | $ (7,717) | $ 27,851 | $ 18,359 |

**GFI GROUP INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**(In thousands, except share and per share amounts)**

## 22. PARENT COMPANY INFORMATION (Continued)

**Parent Company Only**
**Condensed Statements of Cash Flows**
**(In thousands)**

| | Year Ended December 31, 2011 | 2010 | 2009 |
|---|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES: | | | |
| GFI'S net (loss) income | $ (3,181) | $ 25,615 | $ 16,288 |
| Adjustments to reconcile net (loss) income to net cash used in operating activities: | | | |
| Income from equity method investments | (12,097) | (33,957) | (23,933) |
| Amortization of loan fees | 1,709 | 939 | 742 |
| Share-based compensation | 449 | 315 | 408 |
| Changes in operating assets and liabilities: | | | |
| Other assets | (8,338) | (1,880) | (3,276) |
| Other liabilities | 5,683 | 201 | 272 |
| Cash used in operating activities | (15,775) | (8,767) | (9,499) |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | | |
| Investments in subsidiaries | 138 | 963 | 1,996 |
| Receipts from subsidiaries | 28,876 | 59,745 | 94,292 |
| Cash provided by investing activities | 29,014 | 60,708 | 96,288 |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | | |
| Repayments of short-term borrowings | (190,000) | (40,000) | (50,000) |
| Proceeds from short-term borrowings | 55,000 | 60,000 | — |
| Proceeds from long-term obligations | 250,000 | — | — |
| Repayments of long-term obligations | (60,000) | — | — |
| Purchases of treasury stock | (35,868) | (22,609) | (4,425) |
| Cash dividends paid | (24,180) | (54,658) | (23,583) |
| Payment of loan fees | (8,891) | (2,720) | (831) |
| Proceeds from exercise of stock options | 75 | 645 | 70 |
| Cash used in financing activities | (13,864) | (59,342) | (78,769) |
| (Decrease) increase in cash and cash equivalents | (625) | (7,401) | 8,020 |
| Cash and cash equivalents, beginning of year | 752 | 8,153 | 133 |
| Cash and cash equivalents, end of year | $ 127 | $ 752 | $ 8,153 |
| SUPPLEMENTAL DISCLOSURE: | | | |
| Interest paid | $ 12,614 | $ 8,778 | $ 8,874 |

***Guarantees***

From time to time, the Company provides guarantees, on behalf of its subsidiaries, to clients for the purpose of providing credit enhancement for such clients. Such guarantees generally provide that

## 22. PARENT COMPANY INFORMATION (Continued)

the Company will guarantee the performance of all liabilities, obligations and undertakings owed by such subsidiary with respect to matched principal transactions entered into by such subsidiary with the relevant client. These guarantees are generally terminable on less than 30 days' notice. The Company has not recorded any contingent liability in the condensed financial statements for these guarantees and believes that the occurrence of any events that would trigger payments under these guarantees is remote.

***Advances to Subsidiaries***

As of December 31, 2011, 2010 and 2009, the Parent company had receivables from subsidiaries of $258,951, $302,079 and $344,099, respectively, related primarily to the allocation of funds received, from notes payable and the issuance of equity securities to subsidiaries to fund working capital.

## 23. SUBSEQUENT EVENTS

In February 2012, the Board of Directors declared a quarterly cash dividend of $0.05 per share payable on March 30, 2012 to shareholders of record on March 15, 2012.

Subsequent events have been evaluated for disclosure in the notes to the Consolidated Financial Statements through the filing date of this Form 10-K.