This 3DAdvisors Report Covers:
✓ **Insider Trading**: Insider Trading Behavior
Accounting: Quality of Earnings Issues
Governance: Corporate Governance Issues
✓ **Fundamentals:** Analysis of fundamentals
Deception: Deception detection analysis

Insider Sales and Risk Disclosures at Odds With Hype
Knight Capital Group Inc. (NASDAQ:NITE)

March 20, 2009

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Business Description

Knight Capital Group Inc., a financial services company, provides electronic and voice access to the capital markets across multiple asset classes for buy-side, sell-side, and corporate clients; and asset management for institutions and private clients in the United States. It operates in three operating segments, Global Markets, Asset Management and Corporate. The Global Markets segment provides market access and trade execution services across various asset classes for broker-dealers and institutions. The Asset Management segment operates as an investment manager. The company was formerly known as Knight Trading Group Inc. and changed its name to Knight Capital Group Inc. in May 2005. Knight Capital Group was founded in 1995 and is headquartered in Jersey City, New Jersey.

Key Statistics

Sector:	Last Close:	Market Cap:	Avg Vol (3m):
Financial	**$14.74**	**$1.37B**	**1,941,700**
Industry:	**52 Wk Range:**	**Trailing P/E:**	**Shrs Out:**
Investment Brokerage	**$11.03-$19.98**	**7.60**	**92.88M**
F/T Employees:	**FYE:**	**Forward P/E:**	**Short % of Float:**
1,045	**Dec-31**	**8.47**	**12.0%**

Summary of 3DAdvisors Findings for NITE

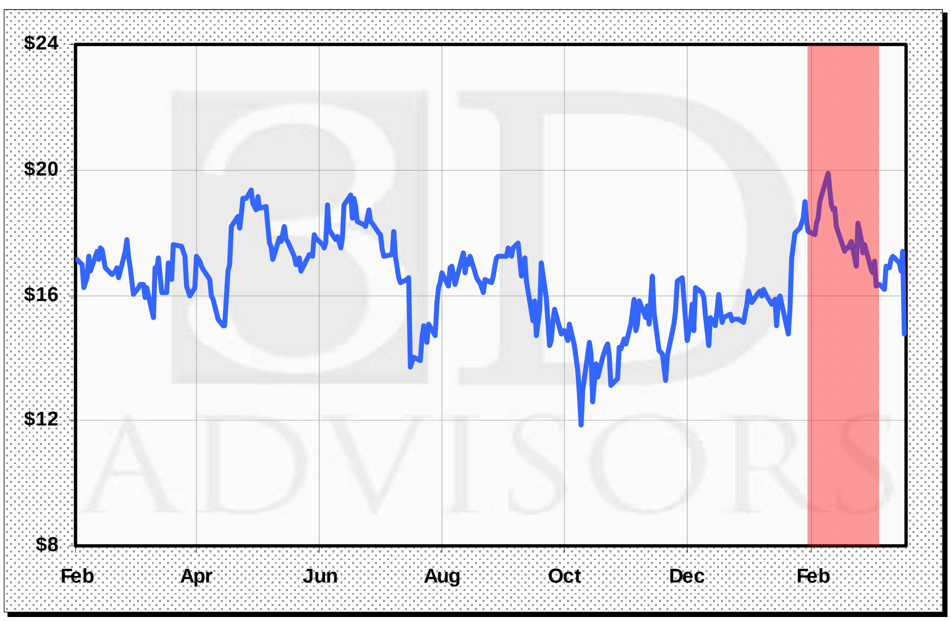
- **Insider Trading:** Insiders sell aggressively after strong quarter in familiar pattern
- **Fundamentals:** When volume and volatility drop, are results sustainable?
- **Fundamentals:** Insiders are thinking about more than volume and volatility
- **Fundamentals:** Risks associated with the winding down of Deephaven
- **Fundamentals:** Other risks to revenue and subtle changes to disclosures

Discussion of 3DAdvisors Findings for NITE

Up until an analyst downgrade that clipped the shares over 15% yesterday, NITE had been attempting to keep investors on a steady diet of good news. For example, in a press release last Friday (02/13/09), the Company gushed that its trading volume for February had risen 15% from January's levels and more than doubled from a year ago. This is a familiar refrain from the Company, repeated often in recent months as NITE management has persistently talked up the benefits inuring to it due to the current economic climate that has led to increasing volume and volatility in the equity markets, both of which we are told are good for business. Indeed, even excluding its one-time gain from the sale of part of its ownership stake in Direct Edge Holdings, the Company's 4Q08 earnings (announced 01/22/09) beat estimates handily for the period.

Management seemed to exude confidence on the ensuing conference call, acknowledging the challenging economic environment yet making several positive remarks about the business such as, "We are, without question, the leading source of off-exchange liquidity in US equities", and "I am pretty excited about our prospects moving forward almost no matter what the market conditions are, due to our ability to bring new products to the market and pick up market share." Other comments in the opening remarks pressed the issue: "we continue to increase margins as well as expand and diversify revenues", and "we are well positioned in the new Wall Street landscape with a client-centered focus, attractive offerings, and exciting growth opportunities." The opening remarks conclude with CEO **Thomas Joyce** proclaiming that "In short, I continue to believe that Knight's future is very bright."

Figure 1. NITE Daily Closing Price, 01/03/07 through 03/19/09. Red shaded area is where 5 insiders sold 725,000 shares. Source: Reuters and NITE SEC Filings.



As investors bit on the presentation, driving NITE shares up 23% following the release and conference call, certain insiders (including Joyce) were quick to provide some supply, selling significant chunks of their holdings (see Figure 1 above). As we pointed out in our initial coverage of the recent trading behavior in an issue of *Insider Research Bulletin* on 02/19/09, it is always interesting to us when insiders sell into rallies that are directly attributable to bullish statements made by the very insiders doing the selling. It's particularly interesting in the case of NITE because the Company was once slapped with a class-action securities lawsuit alleging just this type of behavior[1], claiming that management willfully made overly positive statements during a conference call and then sold a significant number of shares into the subsequent rally. Though the 2001 suit was later dismissed and the management team is largely (though not entirely[2]) different, we still find the possible emergence of the same type of behavior noteworthy.

As for the recent management behavior, the positive management-speak has been pretty much non-stop, and was especially evident throughout the 4Q08 conference call as described above. Volatility is good for them, says Joyce, so is increased trading volumes. He also strongly implies, however, that gains in market share are the primary driver for recent results. Yet questions about sustainability of results persisted in the conference call questioning, and it is obvious some analysts have concerns over what happens once the trading and volatility that spiked at the end of 2008 begins to subside to more normal levels. In addition, risk disclosures in the recent SEC Form 10-K seem to frequently contradict bullish statements made by management during conference calls, causing us to further question the bullish management sentiment, especially given the aggressive levels of insider selling in the wake of the recent positive news.

Insider Selling: Insiders sell aggressively after strong quarter in familiar pattern

This latest round of insider selling at NITE does not have the appearance of simple profit taking, in our view. Indeed, five insiders dropped just under 725,000 shares into the 23% 4Q08 earnings rally. This marked the highest convergence of selling by this management group since late 2006, a period when many of the same players were selling into strength as NITE shares neared their six-year highs just a few months prior to a rapid deceleration of earnings which dropped NITE shares by 29%.

Also catching our interest is the fact that three of the recent sellers, including Chief Information Officer **Steven Sadoff**, CEO Joyce and General Counsel **Leonard Amoruso** had been open market *buyers* of NITE shares as recently as last July. All three are now selling substantially more than what was purchased back then: In May-July, the three collectively bought 32,500 shares at roughly $14 per share. For CEO Joyce, this was no aberration as he had been buying stock since November 2007, paying upwards of $17 per share in May 2008. By selling considerably more shares than he purchased, 325,000 in all, immediately after the six-month short swing period ended in January, and taking prices just 6% higher than what he paid for some of them, it becomes apparent that he may no longer see the same value in the shares as he did

[1] On 05/29/01 a consolidated class-action suit was filed against the Company in U.S. District Court, District of New Jersey titled: IN RE: KNIGHT TRADING GROUP, INC. SECURITIES LITIGATION (Civil Action No. 00-CV-5506). The suit alleged that management had intentionally made overly optimistic statements during the 2Q00 conference call regarding 3Q00 guidance and that executives sold $63 million worth of NITE stock in the ensuing rally. The suit was dismissed with prejudice on 03/05/02 by the U.S. District Court Judge hearing the case, and the plaintiffs filed no notice of appeal before the 90-day notice period expired.

[2] The class-action lawsuit named 6 then current and former NITE executives, among them Robert Lazarowitz, who is still a Company director and is one of the sellers in this most recent round of insider selling. The details of his recent trading behavior are covered below.

months earlier. With the possible exception of the People's United Financial Inc. (NASDAQ:PBCT) insiders, we cannot recall any other recent examples where this many insiders reversed purchases in a group move immediately after the six month wait period expired. Reversals such as these have proven quite prescient in the past, which is why we usually regard them as highly significant, as we do in this case.

Adding to the weight we are placing on the recent insider behavior is the fact that four of the five sellers dropped over 45% of their actionable holdings in this round. Then there is the activity of Director **Robert Lazarowitz**, a former NITE executive and co-founder of the predecessor firm Roundtable Partners with **Kenneth Pasternak**, and who was also one of the named defendants in the securities class-action lawsuit mentioned above along with Pasternak. Lazarowitz, who had already pledged over 2 million of his NITE shares in a forward sale agreement entered into in April of 2004 (settlement in 2011), materially accelerated the deterioration of his remaining actionable holdings in the recent round, selling just under 205,000 shares.

Another interesting detail to Lazarowitz' behavior is the nature of his 10b5-1 sales and the evolution of their disclosure. For the first few years, as he traded under the plans, Knight Capital had issued SEC Form 8-Ks to announce the adoption of each new plan. This transparency suddenly stopped at the end of 2005. Since then, any specifics have been absent leading us to believe, based on the trading data that Lazarowitz was using multiple short duration plans (no more than one to three months) and would then trade even more shares during the brief intervals between the conclusion of one plan and start of the next. It is possible his behavior had become so spontaneous and unrestrained that NITE opted to minimize the shareholder attention being paid to his activity by discontinuing the SEC Form 8-K disclosures. For the first time in nearly two years, Lazarowitz began selling without the constraints of a plan in January 2009, selling more shares at a faster rate than we had seen before, ultimately diversifying 66% of his actionable holdings.

Here are some of the more significant details from the most recent round of insider selling:

- **Thomas Joyce (54)*** – Chairman, Chief Executive Officer. After joining the Company in May 2002, Joyce spent his first few years acquiring NITE shares on the open market, paying upwards of $12 per share. He would then unload 2 million shares, or roughly one-half of his position, between July 2006 and April 2007 at an average price of $17. The sales were well-timed as the issue would fall back to the $12 range a few months after his last disposition, which is when Joyce began buying back stock on the open market. Joyce has now sold 325,000 shares on 01/29/09 and 01/30/09 with the issue at $18, netting $6 million before paying the tax bill. **The sale covered 20% of Joyce's position, but more importantly he paid as high as $17 for shares back in May and now reversed his sentiment at nearly matching prices.** He will have no new derivative equity vest during the course of 2009, but stands to add 413,000 options and shares to his position next January (see Appendix A).

- **Steven Sadoff (45)*** – Executive V.P., Chief Information Officer. Apparently much has changed from Sadoff's perspective in the last six months. Last July he was buying NITE on the open market, paying $103,000 for 7,500 shares. Fast forward to 02/05/09, as he monetized his only vested stock options (50,000) and also monetized the majority of his common stock, including restricted shares that vested one week earlier. As a result, the 97,012 shares sold **erased 91% of his actionable holdings** which is even more consequential considering that he will not have any new equity vest until next January (see Appendix A). And even then, the 50,000 shares will replace only half of what he cashed in recently. This was his first sale since becoming a registered Section 16 filer back in April 2006.

- **Gregory Voetsch (47)*** – Executive V.P., Head of Institutional Client Group. Voetsch has been a fairly steady seller over the past five years, averaging two sale transactions per year. Without question his trades going back to January 2007 have been worth following as he took profits before and into declining price moves as well as deftly avoided the wrong side of short-lived earnings rallies. But while we have seen Voetsch execute high volume trades in the past, **his actions have now resulted in a complete liquidation of his entire position.** His latest sales of 17,500 shares on 10/18/08 at $14.49 and 48,400 shares on 02/05/09 at $19.04 leave him without any actionable holdings after having owned a total of 1 million shares and vested options just three years ago. This last sale covered all of the previously restricted compensation shares which vested at the end of January. Although he will add another 100,000 shares to his actionable holdings over the next year, none of these will become tradable until next February (see Appendix A).

* Indicates the individual is a "Named Executive" in the Company's most recent Proxy.

As can be seen from the table below that shows current holdings as well as holdings as reported in the Company's Proxy Statements going back to 2005 for five individuals that have sold shares in the recent round, the erosion in holdings is steep.

Name	04/01/05	04/01/06	04/01/07	04/01/08	03/18/09
T. Joyce	2,540,133	2,809,144	1,430,685	1,295,404	1,250,021
G. Voetsch	466,006	957,395	125,707	167,528	68
S. Sadoff	--	--	40,264	79,317	9,306
R. Lazarowitz*	1,866,298	1,037,580	721,830	721,830	157,484
L. Amoruso	--	--	--	118,365	67,071

* Lazarowitz has 2,024,000 shares tied up in a forward sale with April 2011 expiration.

We must again note that significant equity replenishment is not in the cards in the coming year. The timing of this round as it relates to equity compensation is also quite interesting to us. Knight has regularly issued stock and option grants to executive officers in January of each year, following annual Compensation Committee meetings held earlier in the month. As a result of the regular timing of these awards, executives consistently vest in their stock and options each year at the end of January. Looking back over the last six years, NITE shares have coincidentally traded at or near a 52-week high around the time of the fourth quarter earnings release and the period their new equity becomes available, yet, this past earnings release period was the only one where 1) insiders traded exclusively without 10b5-1 plans set in motion well in advance of the sale dates and, 2) most of the shares distributed came from equity that had just vested days earlier.

Unlike past sales, which seemed more random, these sales have more of a premeditated feel to them, in our opinion, while also establishing a new precedent of clearing out all new equity immediately upon vesting. This behavior hardly seems consistent with the Company's stated rationale for issuing long-term equity awards, which are intended to "create an ownership culture" and "align executive compensation with stockholders' interests". The absence of stock ownership guidelines and the fact that key operating officers such as Gregory Voetsch, who was awarded nearly 400,000 shares in the past four years which have since been sold, frame the picture of an insider culture that does not hesitate to seize the opportunity to sell when the timing appears right.

Fundamentals: When volume and volatility drop, are results sustainable?

We have noted with great interest management's repeated claims about increased volatility and not only how it helps results but also, given the attrition of other market players, has contributed towards the Company's gaining increasing market share in the midst of the recent chaos. We draw readers attention, once again, to Joyce's claim (in the 4Q08 conference call) that he is "excited about our prospects moving forward almost no matter what the market conditions are due to our ability to bring new products to the market and pick up market share."

In the 3Q08 conference call, Joyce expressly states that volatility is a positive influence on the Company's results. Joyce offered the following response to an analyst question concerning volatility:

> **Analyst:** I guess I am hoping to just get a little bit of a better understanding about the role that volatility played in the quarter. When you made your comments at our conference, and I guess it was the second week of September my take away was that the tick-up in volatility and the slow volumes coming out of August into the beginning of September were negative or certainly a headwind. And it seems like the last two weeks of September were incredibly strong. As I look at market performance, the S&P actually was down very slightly over that period, but very volatile. It had big up and down days. Then as we go into October and we have a very sharp falloff in the market and volatility picks up even more. So I guess the question is, one, can you give us a sense for just what maybe, if not the actual weekly dollar revenues were in the last half of September, maybe the percent of the average over the quarter that you saw there? Then secondly, can you comment on how that sort of dynamic plays out as we go into October where you had sharply declining markets?
>
> **Thomas Joyce, CEO:** I am not going to comment directly on either one actually, but I am happy to talk about volatility and volumes. The volatility – there are several kinds of volatility, right…. A volatile market where the market opens flat and goes straight down 380 points, you can imagine its not a particularly pleasant environment for market makers because we are taking the other side – in the broker-dealer business we are taking the other side of almost every trade...So volatility as we have said many times before, volatility and volumes are very good for us in general, but you have to look at the nuances and the kind of volatility they have. Now, intraday volatility where it bounces up and down in the course of the day, if it goes down 200, then it's up a 100, then it's down 100, then it's up by 300, by and large those are

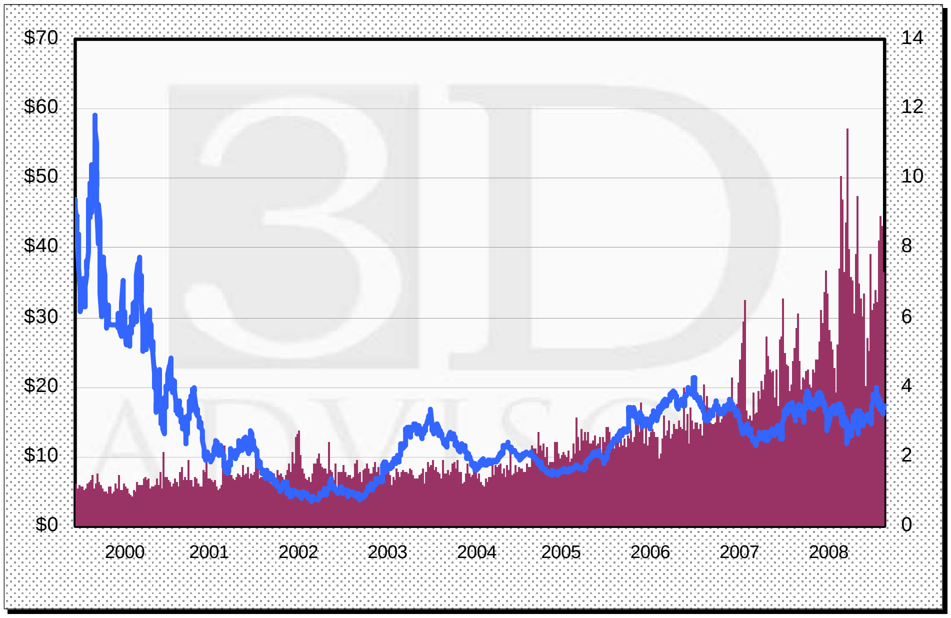
> always good days for us…And in point of fact the second half of September and, yes, early into October, the volatility has been – was and has been beneficial.

Notwithstanding Joyce's assertion that volatility, at least certain types of volatility, are good for the Company, by the 4Q08 conference call analysts were questioning the sustainability of the recent results assuming trading volume and volatility would eventually return to normal levels:

> **Analyst:** I guess the question I have is the sustainability overall. You've got a lot of moving parts and it's tough to really get your arms [around it] – because I would suspect, and give me your thoughts if it's different, but dollar volumes look like they've got to come down. You've talked about realization rates that are much lower; but you still keep putting up 1.5, 1.6 bps. And then you got the competitive landscape that you seem like you are really benefiting from.
>
> **Thomas Joyce, CEO:** Sure. Let me get to the – I'm trying to describe how I feel about revenue capture. One of my least favorite metrics, I guess, is the revenue capture. Having said that, in order to probably put a little more meat on the bones, we continue to believe that the way the models behave in sort of a core fashion is that if we had sort of the VIX Index that was, if you could, more like the ones we've seen over the last several years instead of like over the past several months, we still think the revenue capture under that scenario would hover around 1 basis point…So I guess not to make it more complicated than it already is, but the volatility profile of the marketplace will sort of move our revenue capture range up and down, depending upon whether its more volatile or less volatile.
>
> In terms of dollar volume coming down, we are not immune to the -- or we are not ignorant of the fact that after periods of a lot of activity, a lot of volatility, frenetic trading, that it is often followed by periods that are quieter. No surprise there. So, will dollar volumes come down? Probably; and obviously we are not immune to the macro trends in the market. What we are excited about is adding new high-frequency trading models; picking up market share. We know the pie has a possibility of shrinking. We are completely focused on increasing our slice of the pie. So to answer the question on sustainability, we think our performance will be – is very sustainable. We are again not immune to overall macro market conditions. So if volumes contract, I suspect our performance may contract a little. But we're excited about the opportunity to add new products within that environment and hopefully gain market share. So we again, as I indicated in my comments at the end, I am pretty excited about our prospects moving forward almost no matter what the market conditions are due to our ability to bring new products to the market and pick up market share.

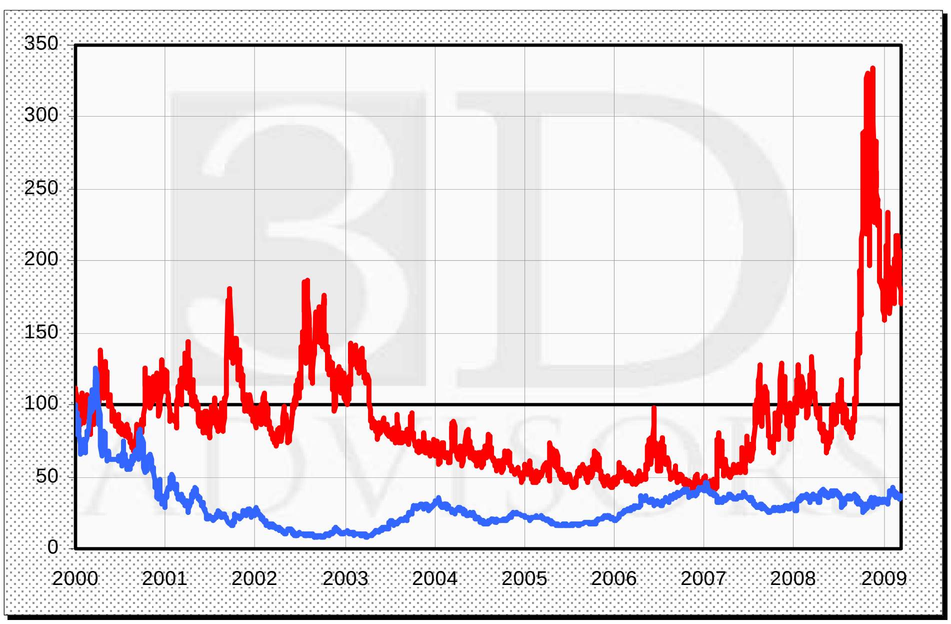
It seems to us that Joyce does a lot of bobbing and weaving on the question, but in the end he would like us to believe that the addition of new trading models will help NITE pick up market share even in the event of volume abatement. Yet, a new paragraph appears in the 2008 SEC 10-K risk section that highlights the importance of maintaining high volume. "**If the levels of trading volume decrease as a result of events stemming from the current financial and credit crisis, our transaction-based revenues will decrease. Accordingly, any reduction in trading volumes or market liquidity could adversely affect our business and financial results in a material fashion.**" [Bolding is ours.]

Figure 2. NITE Daily Closing Price, 01/03/00 through 03/13/09 (Blue Line and Left Scale) and Daily S&P 500 Trading Volume (Red Bars and Right Scale; Billions of Shares). Source: Reuters.



Despite Joyce's comments and recent risk disclosures on the topic, we see little connection between the historical performance of NITE shares and overall trading volume (Figure 2 above) or market volatility as measured by the VIX (Figure 3 below).

Figure 3. Index of the Daily Closing Value of the VIX, 01/03/00 through 03/13/09 (Red Line, 01/03/00=100) and Index of NITE Daily Closing Price (Blue Line, 01/03/00=100). Source: Reuters, CBOE, 3DAdvisors, LLC.



Perhaps it is because NITE benefits from very specific kinds of volatility as suggested by Joyce in the conference call transcript above, or maybe its trading volume in less liquid stocks that is advantageous. But you would think if that were the case than the above disclosure would have been more specific in this regard. In any case, it would seem that NITE would almost certainly have to pick up market share to maintain its current level of earnings much less keep growing, which may very well be more difficult to do as volume and volatility recede, competition heats up, and margins get pressured.

Fundamentals: Insiders are thinking about more than volume and volatility

We suspect that there are a number of additional shifting factors that might be at least partially responsible for motivating the current observed insider behavior:

Abatement of Asset Management Fees: Although Deephaven has been a recent thorn in NITE's side and its divestiture is being painted as a positive event, one must not overlook the smoothing effect this asset management arm has had on Company results during prior periods. NITE's bread and butter engine, OTC Bulletin and Pink Sheet trading, began sputtering in 2007 showing year-over-year revenue declines. The table below shows the year-to-year (and quarterly for 2008) revenue composition of NITE's key markets.

Composition of Revenues (%)	2005	2006	2007	1Q08	2Q08	3Q08	4Q08	2008
Commissions & Fees	46.7	42.9	49.4	49.4	51.9	57.2	51.5	52.6
Net Trading Revenue	26.1	25.5	31.6	45.1	38.8	44.2	43.3	42.8
Asset Mgmt Fees, Net	14.1	22.4	12.9	6.8	6.6	3.5	2.3	4.4
Interest, Net	1.4	1.6	1.9	1.2	0.9	0.6	0.1	0.7
Investment Inc. & Other, Net	11.7	7.6	3.2	-2.5	1.8	-5.5	2.8	-0.5
Total	100	100	100*	100	100	100	100	100

*Note in 2007 1% of total revenues were from a non-operating issuance of stock by a subsidiary.

We can see from the revenue composition table above that asset management fees, and to some extent investment income, were significant contributors in 2006 and have certainly helped to buffer some of the falling revenue capture metrics. In fact, the historic importance of the asset management business is subtly revealed in the both the 2006 and 2007 SEC Form 10-K filings when we see that segment information on asset management is listed first (one can see why when we look at the pre-tax margins for 2005 and 2006 for this business). This changes in the 2008 Form 10-K and due to the events described below it is safe to assume that revenues from these segments will no longer be contributors going forward.

In 2006, asset management fees accounted for 22% of total revenues, while investment income accounted for 7.6% of revenues as a result of NITE's investment in Minnesota-based Deephaven Capital Management. The demise of Deephaven is not a new revelation to investors. Deephaven began to face trouble with regard to performance in mid-2007 and by January of 2008 the Deephaven Event Funds, worth $780 million, announced plans to close. Annual fund returns had increased to 22.8% in 2006 from 7.2% in 2005 but quickly retreated to 6.8% at the end of 2007 and –32.6% by the end of 2008.

Margin Pressure Off-Set by Direct Edge Sale: It is important to note that the Corporate pre-tax margins of 35.4% (see table below) reported in 4Q08 are the result of a pre-tax gain of $51.6 million from the partial sale of the Company's investment in Direct Edge Holdings. The announcement came in the 2Q08 that NITE would be reducing its stake from 38% to 19.9% and the deal closed in the 4Q08. NITE recorded $15.9 million as a non-operating gain and $35.7 million is included in "investment income and other". One could argue that NITE "saw the writing on the wall" so to speak and saw the sale of Direct Edge as a way to soften the blow of weakening margins as Asset Management continued to head south. If the transaction was purely serendipitous, this is clearly a one-time event that buffered much of the recent losses generated by Deephaven. Excluding this one-time gain, the picture is not so uplifting and worth keeping in mind when considering what things might look like when trading volume and volatility return to more normal levels.

Pre-Tax Margins (%)	2005	2006	2007	1Q08	2Q08	3Q08	4Q08	2008
Global Markets	7.5	22.9	24.4	36.1	32.0	32.8	39.7	38.8
Asset Management	23.2	34.8	14.0	Loss of $2.7m	Loss of $6.8m	Loss of $6.1m	Loss of $3.8m	Loss of $19.4m
Corporate	66.4	46.9	15.9	Loss of $19.0m	Loss of $7.2m	Loss of $18.8m	35.4	Loss of $23.8m
Total (%)	16.6	27.3	22.7	25.5	22.9	24.0	43.3	30.4

Fundamentals: Risks associated with the winding down of Deephaven

NITE has disclosed potential pre-tax charges relate to the winding down of its full investment in Deephaven to be in the $45 million range. This, however, does not include a number of potential litigation risks that seem to lurk according to subtle Company disclosures. Here are the noteworthy disclosures in the 2008 SEC Form 10-K that suggest additional significant risks:

✓ "Even if the Stark sale is consummated, Deephaven may still face liabilities and expects to incur significant costs relating to its business, the Stark sale and the wind-down of its business." We read on to see that, "the stated purchase is subject to reduction and offset in certain circumstances, and those reductions are expected to be significant."

- ✓ "The reduction to cash of the Deephaven Fund portfolios may result in further losses to Fund investors and resulting in claims."

- ✓ "The wind-down of our Asset Management business could cause losses to the Company and could adversely affect our business and financial condition"…"In addition, because the Company is the 51% owner of Deephaven Holdings, claims may be made against the Company relating to the Deephaven business, the Stark sale and/or the wind-down of the business, including if Deephaven is unable to satisfy certain liabilities."

- ✓ "Trading strategies within our Asset Management segment expose the business to significant risk"…"As the Asset Management business employs leverage as an integral part of its various strategies, the risk of loss and the volatility of the underlying Deephaven Funds' portfolios are increased. There can be no assurance that we will be able to manage such risk successfully or that we will not experience significant losses from such activities which could have a material adverse effect on our business, financial condition and operating results."

<u>Fundamentals: Other risks to revenue and subtle changes to disclosures</u>

To the above risks we would add several others, plus we thought there were some subtle but potentially important changes to the risk disclosure section of the recently filed 2008 SEC Form 10-K.

One risk easily overlooked that we are quite curious about concerns net interest. In the 2008 SEC Form 10-K, net interest is described as "primarily affected by interest rates, the level of cash balances held at banks and clearing brokers and **our level of securities positions in which we are long compared to our securities position in which we are short**" [bolding ours]. The first part of the description is rather obvious and given the fall in interest rates over the past year one would expect net interest to be down. However, the -56.8% decline in net interest (see table below) leads one to believe that with cash and equivalents of $440.6 million at the end of 2008 versus $222.4 million at the end of 2007 there must be another explanation. One is inclined to believe that it may be due to the bolded statement above.

Finally, it should also be noted that NITE has made six acquisitions since 2005, which has also contributed to overall revenue growth and increased the difficulty in understanding what portion of growth is organic and what portion is from acquisitions. The most recent acquisition took place in July of 2008 with the acquisition of Libertas Holdings LLC. Libertas is described in 3Q08 SEC Form 10-Q as providing "trade execution services and investment research across a broad range of fixed income securities, including high-yield and high-grade corporate bonds, **distressed debt, asset- and mortgage-backed securities**, convertible bonds and syndicated loans. Knight Libertas also provides capital markets services to growing companies in need of financing to support expansion" [bolding ours]. The 3Q08 SEC Form 10-Q describes Libertas as a "riskless principal fixed income broker-dealer" as well as a "boutique institutional fixed income brokerage firm." Based on this description, one assumes that there is not any distressed debt or other such assets that are held on their books.

However, given recent events and the impact these asset classes have had on the markets, it might just be foolish to make such an assumption.

Seq. Revenue Growth (%)	2005	2006	2007	1Q08	2Q08	3Q08	4Q08	2008
Commissions & Fees	7.4	38.4	9.04	5.5	2.9	32.4	12.5	22.6
Net Trading Revenue	-34.0	47.2	17.4	-9.9	-15.8	36.8	22.3	56.1
Asset Mgmt Fees, Net	14.9	139.7	-45.4	-46.1	-5.0	-35.9	-18.8	-60.3
Interest, Net	94.1	77.7	8.4	-26.4	-27.3	-23	-83.4	-56.8
Invest. Income & Other, Net	353.4	-3.1	-60.2	-175	**	-460.0	**	-123.0
Total	1.5	50.6	-5.3*	-12.6	-2.1	20.1	24.9	15.2

* NITE recorded a non-operating gain in its revenues of $8.8 million from a subsidiary stock issuance. This gain is included in the total revenues but is not broken out as a segment.

** Investment Income & Other, Net was -$5.6 million in the 1Q08 and swung to a +$4.0 million in the 2Q08. The volatility continued in the 4Q08 increasing to +$9.4 from -$14.5 million in the 3Q08. The percentages are too great to display in the table.

Perhaps this is no more than a sign of the times, but we wish to note some of the more significant changes to risk disclosures made by NITE in recent periods. The following two appear for the first time in the 3Q08 SEC Form 10-Q:

1. **Conditions in the financial services industry and the securities markets may adversely affect our trading volumes and market liquidity.** Our Global Markets operating segment is primarily transaction-based, and declines in trading volumes and market liquidity would adversely affect our business and profitability…While uncertainty surrounding the credit crisis and expectations for economic contraction has in the short term led to an increase in overall market volatility and increased trading volume in certain markets, this trend may not continue. If the amount of trading volume decreases as a result of events stemming from the current financial and credit crisis, our transaction-based revenues will decrease. **Accordingly, any reduction in trading volumes or market liquidity could adversely affect our business and financial results in a material fashion.** [Bolding is ours.]

Clearly, the above risk disclosure is contrary to implications by CEO Joyce that NITE's "prospects can move forward almost no matter what the market conditions are."

2. **The increased risk of defaults by counterparties may adversely affect our results of operations**…We are at risk if issuers who securities we hold, customers, trading counterparties, counterparties under swaps and other derivative contracts, clearing agents, exchanges, clearing houses and other financial intermediaries and guarantors default on their obligations to us due to bankruptcy, insolvency, lack of liquidity, adverse economic conditions, operational failure, fraud or other reasons.

> Such defaults could have a material adverse effect on our results of operations, financial condition and cash flows.

Also catching our attention was a change in the location of the following risk from being listed number 11 in the 2006 SEC Form 10-K and being first on the list in the 2007 version of the filing. In the just filed 2008 edition, it retains the number one position:

> **Our revenues may be negatively impacted by declines in market volume, volatility, price or liquidity.** Our Global Markets revenues may decrease in the event of a decline in market volume, volatility, prices or liquidity. Declines in the volume of securities transactions and in market liquidity generally result in lower revenues from market-making activities. Lower price levels of securities may also result in reduced revenue capture, and thereby reduced revenues from market-making transactions, as well as result in losses from declines in the market value of securities held in inventory. Sudden sharp declines in market values of securities can result in illiquid markets, declines in the market values of securities held in inventory, the failure of buyers and sellers of securities to fulfill their obligations and settle their trades, and increases in claims and litigation. Our Asset Management business could be similarly impacted. Any decline in market volume, price or liquidity or any other of these factors could have a material adverse effect on our business, financial condition and operating results.

So, it seems that management's claims of little to no exposure to waning volatility or declines in trading volume find contradiction in their more formal disclosures in required SEC filings. Additionally, the recent aggressive trading profile described above combined with the overt hyping by management serves to highlight this contradiction. Investors are reminded that this type of contradiction combined with a convergence of insider selling at NITE has provided reliable timing clues in the past.

Appendix A

Common Stock and Option Holdings for Selected Knight Capital Group Inc. (NITE) Insiders

Name	Actionable Position as of 03/19/09:			Derivative Equity Expected to Vest in Next 12 Months			
	Common	Options [1]	Total [2]	Grant Date	Strike Price [3]	Vesting Dates	# Vesting
Leonard Amoruso	42,071	25,000	**67,071**	01/31/07	N/A	01/31/10	4,619
Senior Managing Director,				01/31/08	N/A	01/31/10	9,185
General Counsel				01/31/09	N/A	01/31/10	9,511
							23,315
William Bolster	0	45,000	**45,000**	05/11/06	$17.03	05/11/09	5,000
Director				05/10/07	$16.32	05/10/09	5,000
							10,000
Thomas Joyce	659,998	590,023	**1,250,021**	12/31/08	N/A	12/31/09	125,000
Chairman, CEO				01/31/07	$17.97	01/31/10	73,607
				01/31/07	N/A	01/31/10	71,310
				01/31/08	N/A	01/31/10	57,884
				01/31/09	N/A	01/31/10	85,354
							413,155
Robert Lazarowitz	84,484	73,000	**157,484**	05/11/06	$17.03	05/11/09	5,000
Director				05/10/07	$16.32	05/10/09	5,000
							10,000
Steven Sadoff	9,306	0	**9,306**	01/31/07	N/A	01/31/10	12,953
EVP, Chief Information Officer				01/31/08	N/A	01/31/10	15,702
				01/31/09	N/A	01/31/10	21,018
							49,673
Gregory Voetsch	68	0	**68**	01/31/07	N/A	01/31/10	35,051
EVP, Head of Institutional Client Grp				01/31/08	N/A	01/31/10	30,666
				01/31/09	N/A	01/31/10	34,420
							100,137

[1] Total number of vested, in-the-money options.
[2] Total actionable position includes common stock plus vested in-the-money options.
[3] Strike Price N/A indicates the series is restricted stock, not options.