

EARNING YOUR TRUST WITH EVERY TRADE™

KNIGHT TRADING GROUP



## Analyst and Institutional Investor Day

**November 8, 2004**

**The Harvard Club**



# **Margaret E. Wyrwas**

Senior Managing Director  
Corporate Communication  
& Investor Relations



# Forward Looking Statements

The matters described herein contain forward-looking statements that are made pursuant to the Safe Harbor provisions of the Private Securities Litigation Reform Act of 1995. Forward-looking statements involve a number of risks, uncertainties or other factors beyond the Company's control, which could cause actual results to differ materially from historical results, performance or other expectations and from any opinions or statements expressed with respect to future periods. These factors include, but are not limited to, the Company's ability to implement its growth strategies, economic, political and market conditions and fluctuations, government and industry regulation, interest rate risk, intellectual property rights, and other factors detailed in the Company's registration statement and periodic reports filed with the Securities and Exchange Commission.

## **Regulation G**

The matters described herein include certain non-GAAP financial measures as defined under SEC Regulation G. In such an event, a reconciliation of those measures to the most directly comparable GAAP measures can be downloaded from the investor relations portion of our Web site at [www.knighttradinggroup.com](http://www.knighttradinggroup.com)



# Agenda

## **Thomas M. Joyce**

- ❑ Corporate Progress and Outlook

## **Gregory C. Voetsch**

- ❑ Equity Markets

## **Thomas M. Joyce**

- ❑ Asset Management Overview

## **John B. Howard**

- ❑ 2004 Financial Review & 2005 Budget Projections

## **Thomas M. Joyce**

- ❑ Closing Remarks

## **Question & Answer Session**



## Other Matters

- Annual Guidance**
- Volume Statistics**
- Housekeeping**



# **Thomas M. Joyce**

Chief Executive Officer  
& President



# Standards. Insight. Approach.

## **STANDARDS**

- Core values and ethical behavior
- Client service and offerings

## **INSIGHT**

- Leveraging strengths
- Understanding market mechanics

## **APPROACH**

- Achieve profitability across market cycles



## Three Key Resolutions in 2004

- Agreement in principle with SEC and NASD
- Agreement to sell Derivative Markets to Citigroup
- Favorable decision in the private arbitration matter



## Our Relevance

- ❑ Superior client service
- ❑ Comprehensive, unbundled order execution services
- ❑ Coverage of nearly every equity issue
- ❑ Natural pool of liquidity
- ❑ Capital commitment
- ❑ Outstanding technology
- ❑ Established asset manager of choice



## 2004 Highlights – Equity Markets

### **INSTITUTIONS**

- Increased client roster and account penetration
- Additional sales traders at home and abroad
- Continued growth in listed block and international
- Successful integration of soft dollar offering



## 2004 Highlights – Equity Markets

### **BROKER-DEALERS**

- Unmatched client service
- Strength of network
- Enhanced execution quality
- Improved automation

## 2004 Highlights – Asset Management

### **DEEPHAVEN**

- Raised nearly \$2 billion in net assets (YTD)
- Diversified client base
- Launched two separate single-strategy funds
- Strength of management team



## Enhancing Knight's Reputation

- Increased transparency and communication
- Active industry participation
- Institutional clients = Institutional shareholders



# Where We Are

## Strengths

- Expansive depth and breadth of coverage
- Comprehensive offering
- Highly scalable asset management infrastructure
- Debt-free balance sheet

## Weaknesses

- Market sensitive model
- Concentration of revenues
- Lack of captive order flow

## Opportunities

- Industry trend toward unbundling
- Market environment improving
- Favorable changes in market structure

## Threats

- Competition from bulge bracket firms and “black box” niche players
- Downward pressure on commissions
- Limited growth potential in broker-dealer market
- Unfavorable changes in market structure or market environment

# 2005 Initiatives – Organic Growth

## **INSTITUTIONAL CLIENTS**

- Broaden client base
- Deepen account penetration

## **BROKER-DEALER CLIENTS**

- Enhance execution quality
- Increase automation

## **ASSET MANAGEMENT**

- Diversification strategy
- Grow assets under management

## 2005 Initiatives – Inorganic Growth

### **ACQUISITION CRITERIA**

- Reputation
- Client relationships
- Category expertise
- Product diversification
- Accretive

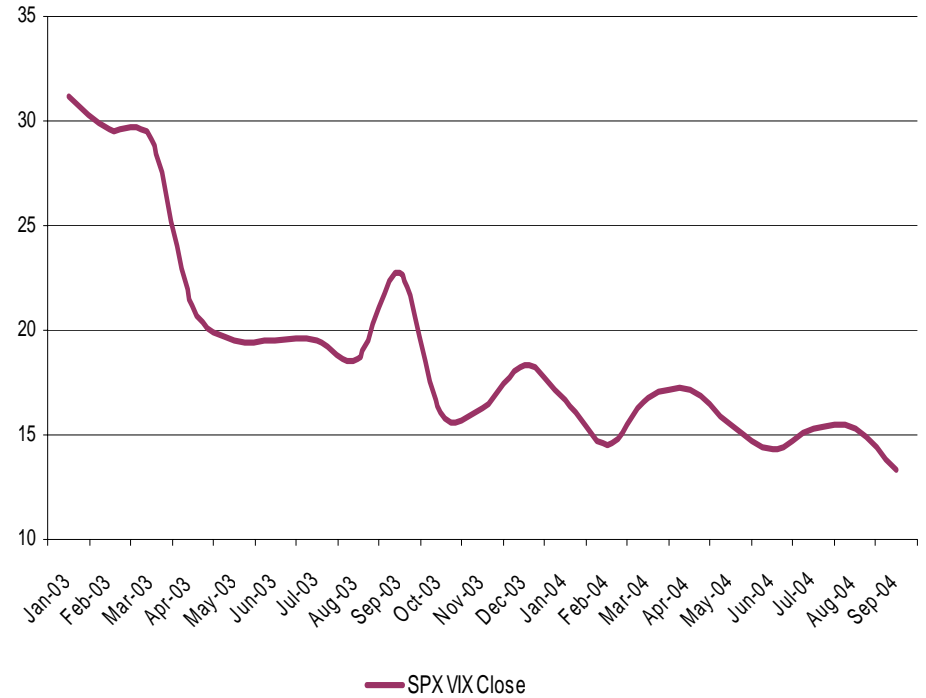
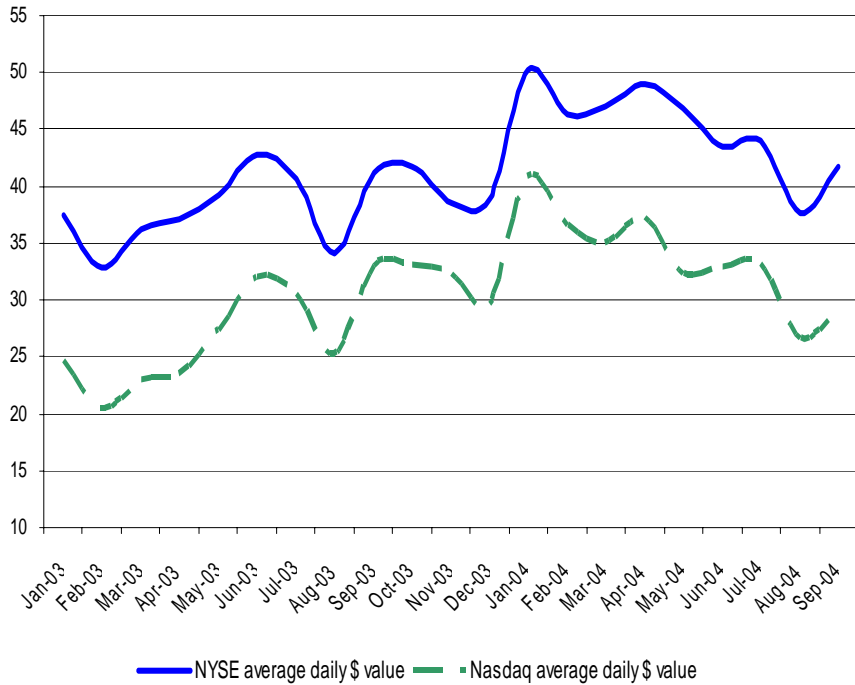


# **Gregory C. Voetsch**

Executive Vice President

Head of Sales

# Challenging Market Conditions – Equity Markets



# Comprehensive Offering – Equity Markets

Listed Block

Listed Market  
Making

Nasdaq

Pink Sheets/  
Bulletin

International

- We supply more liquidity to a greater number of small- and mid-cap stocks than any of our competitors
- We are the largest market maker in listed securities accounting for more than 6% of all daily listed volume
- We are a market leader in OTC equity issues:
  - # 1 broker in NASDAQ volume with more than 8% market share\*
  - # 1 broker in NASDAQ Small Cap stocks with more than 38% market share\*
  - # 1 broker in NASDAQ Bulletin Board volume with more than 55% of market share\*

*\*Autex numbers as of 9/30/04*

# 2004 Key Accomplishments – Equity Markets

## **INSTITUTIONS**

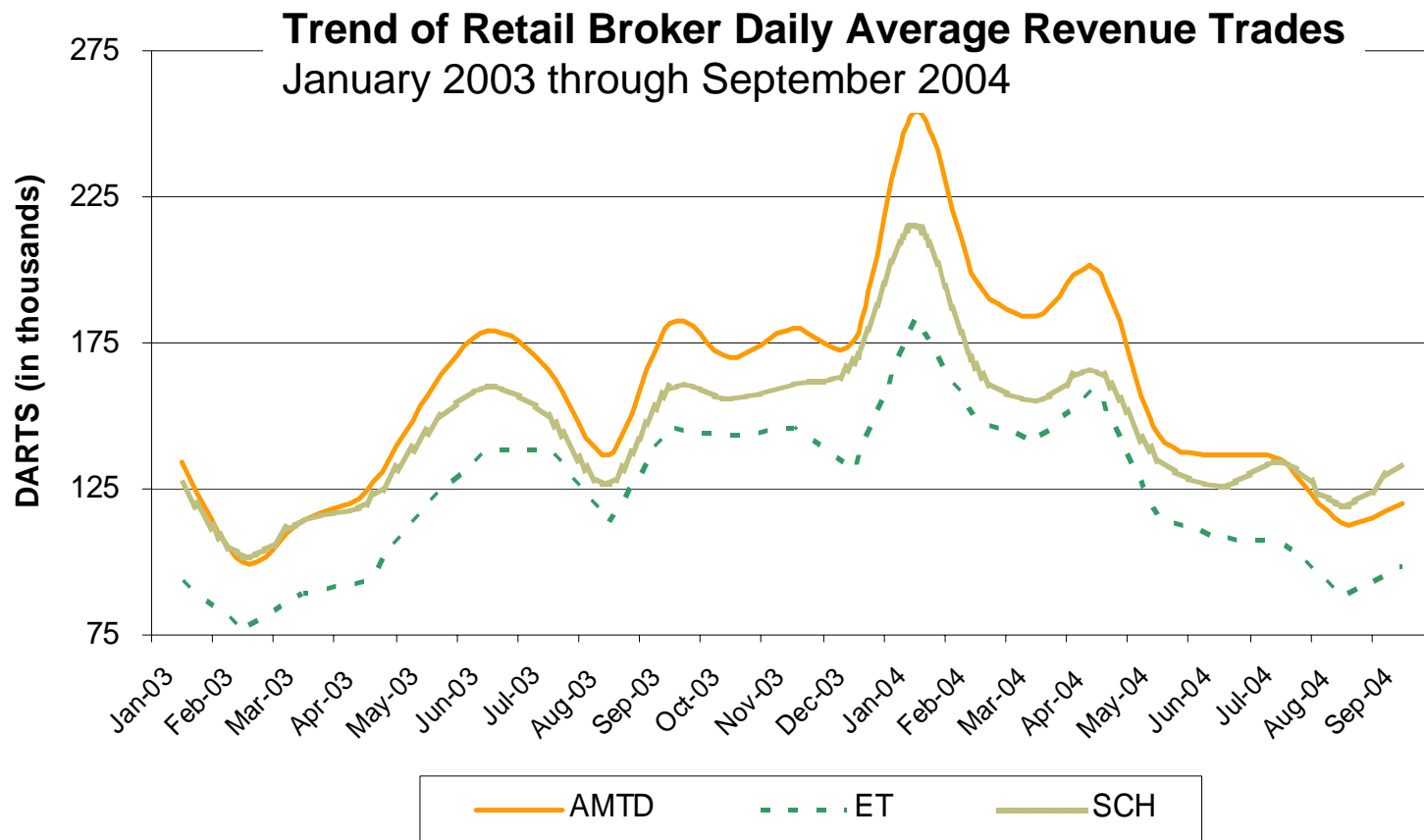
- Expansion of institutional client base
- Deeper account penetration
- Stronger presence in listed trading
- Integration of Donaldson & Co.
- Progress in London sales office
- Sales office relocations

# 2005 Key Initiatives – Equity Markets

## **INSTITUTIONS**

- Continued expansion of institutional client base
- Further account penetration
- Grow listed platform
- Diversify offering

# Challenging Market Conditions – Equity Markets



# 2004 Key Accomplishments – Equity Markets

## **BROKER-DEALERS**

- Strengthened client relationships
- Improved execution quality
- Enhanced automation
- Increased capacity
- Maintained market share

## 2005 Key Initiatives – Equity Markets

### **BROKER-DEALERS**

- Continued improvement of execution quality
- Expand market share
- Expand automation
- Increase revenue capture



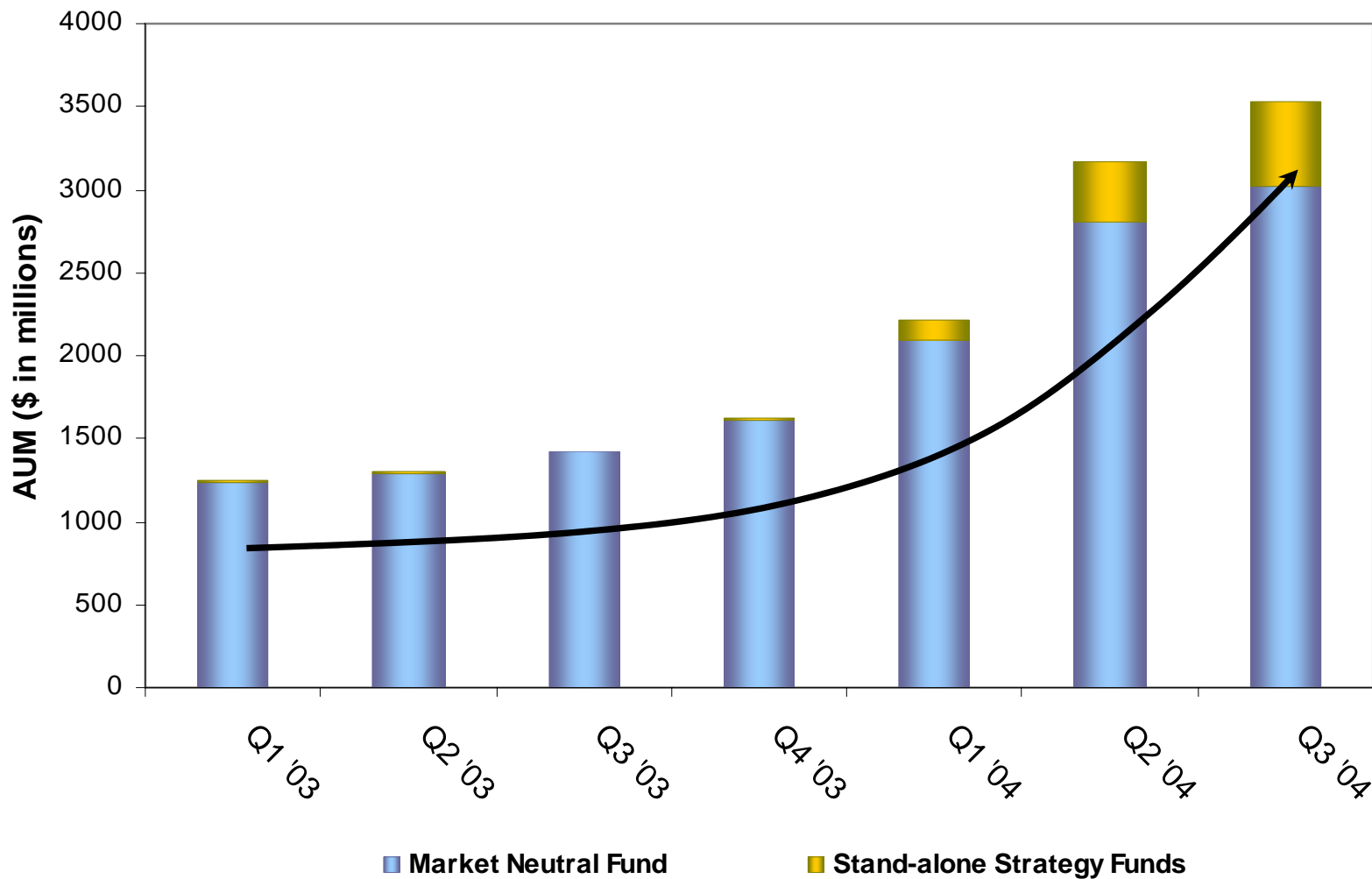
# **Thomas M. Joyce**

Chief Executive Officer  
& President

# Asset Management - Peer Comparison

<i>Average Return to Investors</i>	2002	2003	9 mos. 2004
<b>Deephaven Market Neutral Master Fund</b>	7.8%	13.9%	1.6%
<b>HFRI Hedge Fund Composite</b>	1.0%	2.4%	2.3%

# Asset Management - Growth in Assets Under Management



# 2004 Key Accomplishments - Asset Management

## DEEPHAVEN

- Diversified our client base
- Raised nearly \$2 billion in net assets (YTD)
- Continued to build team
- Integrated investment approach
- Launched two separate single-strategy funds

# 2005 Key Initiatives - Asset Management

## DEEPHAVEN

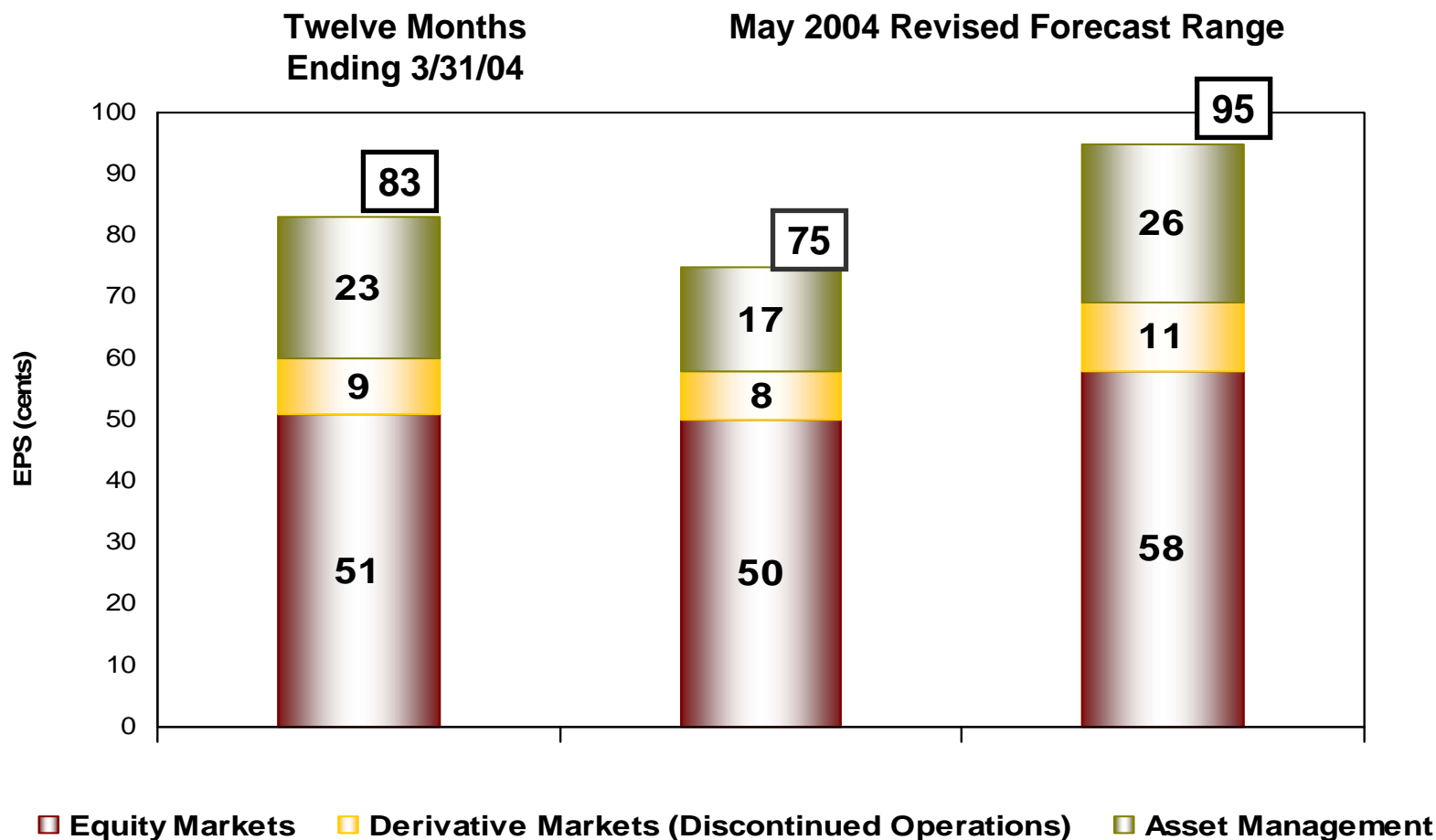
- Diversification
  - Launch new single-strategy funds
  - International expansion
- Hire and retain talent
- Process enhancement



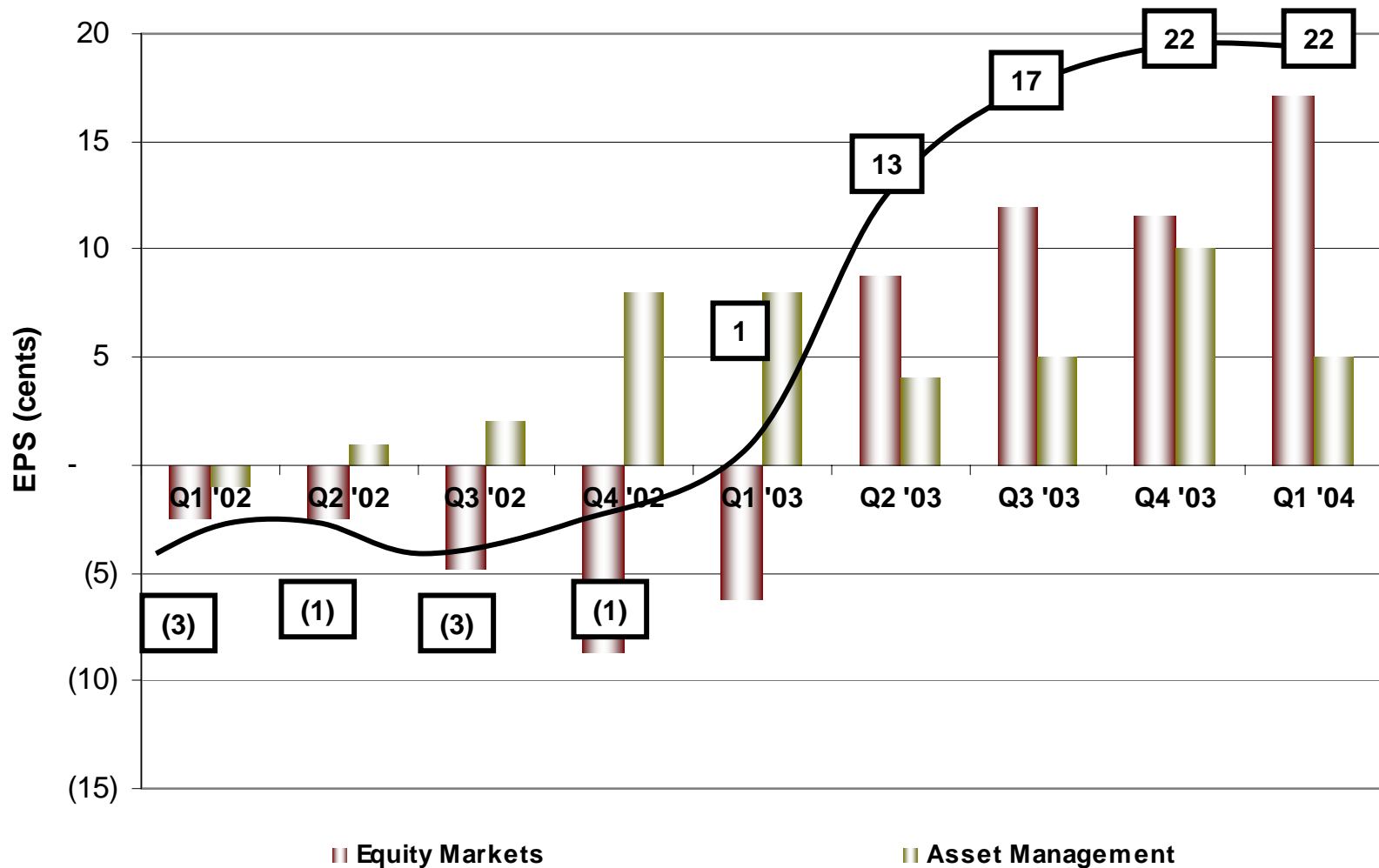
# **John B. Howard**

Senior Managing Director  
Chief Financial Officer

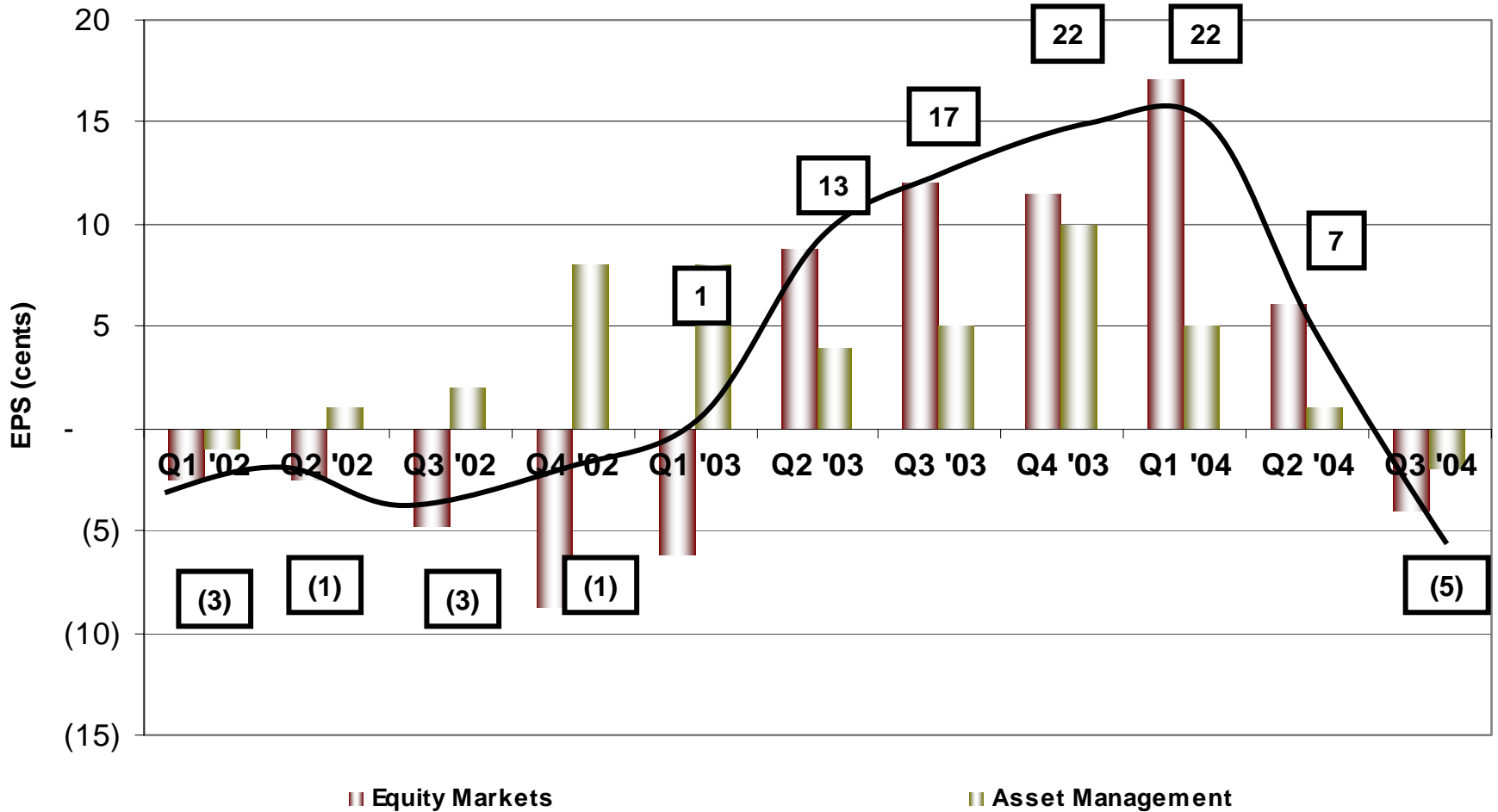
# May 2004 Revised Operating EPS Forecast for 2004



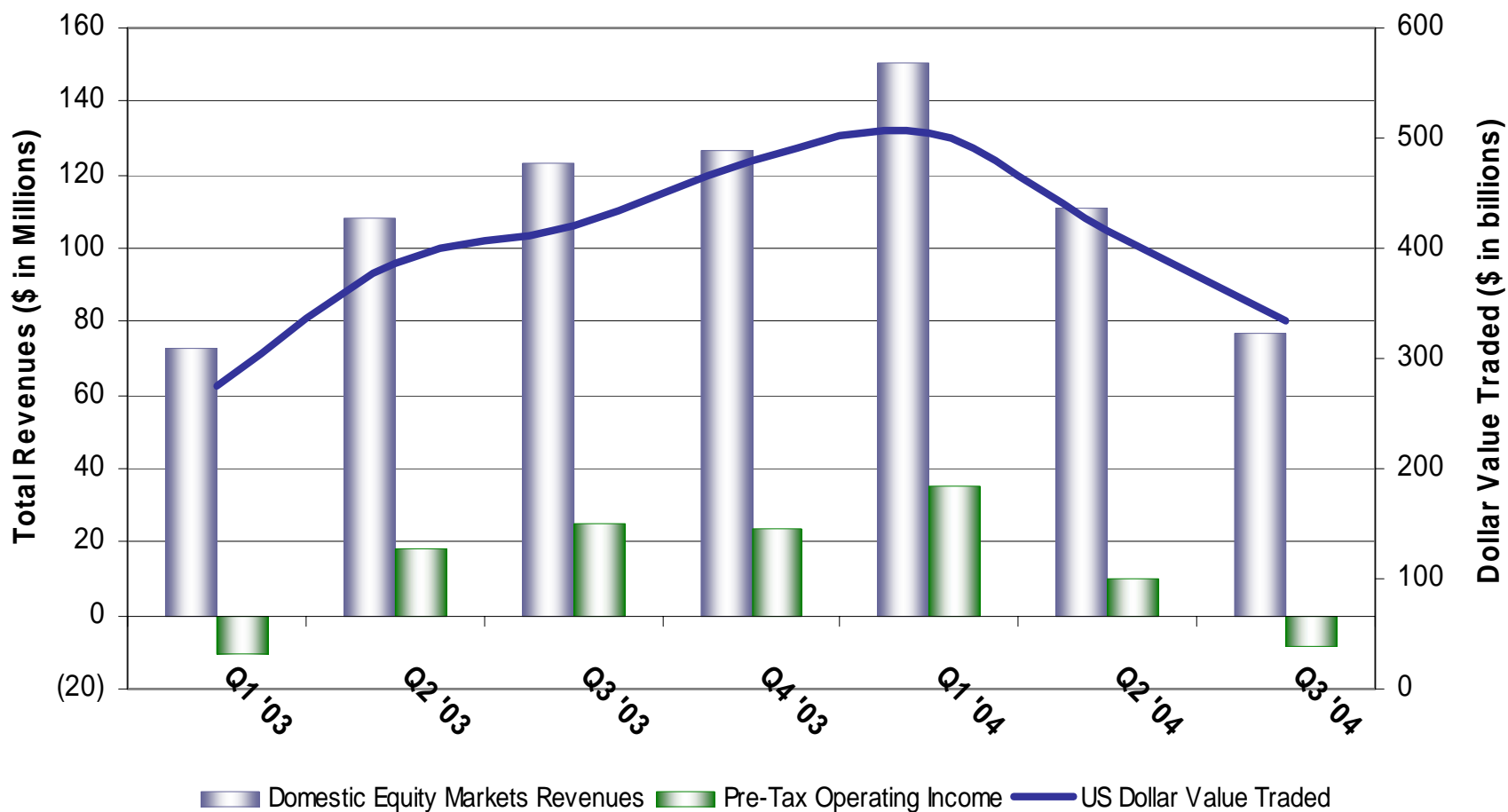
# Actual Operating EPS - The Road Leading up to May 2004...



# Actual Operating EPS - An Update



# Equity Markets - Impact of Market Conditions in 2004



## Equity Markets - Profit and Loss

	<b>2002</b>	<b>2003</b>	<b>9 mos. 2004</b>
Revenues (\$M)	341	439	392
Pre-tax Operating Earnings (\$M)	(29)	58	41
Pre-tax Margins	-	13%	10%

# Equity Markets - Revenue Capture

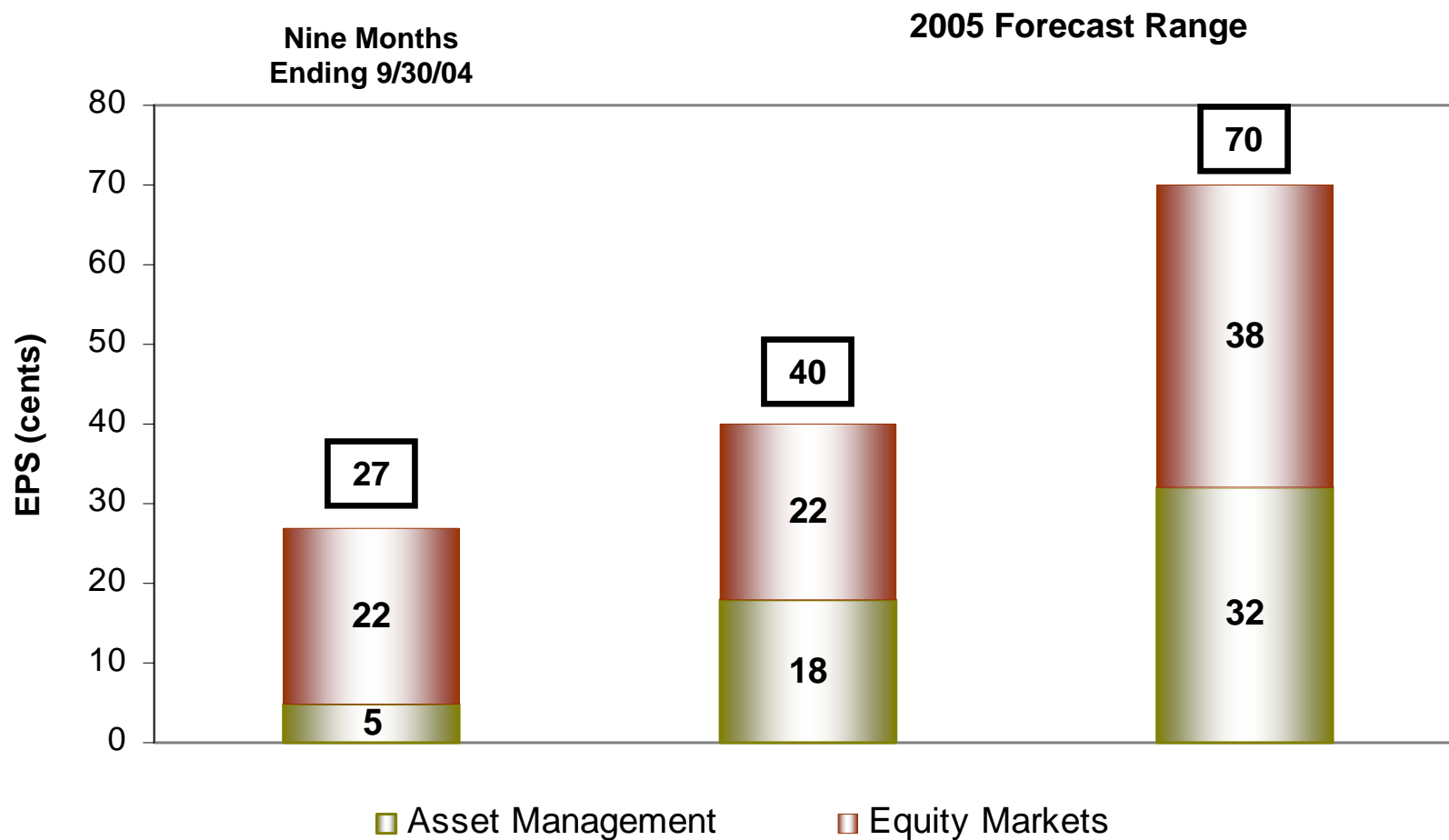
<i>Revenue Capture Overview</i>	2002	2003	Q1 2004	Q2 2004	Q3 2004	9 mos. 2004
<b>U.S. Core Equity Revenues* (\$M)</b>	319	411	143	105	72	320
<b>Total U.S. Equity Dollar Value Traded (\$B)</b>	1,150	1,560	505	417	333	1,255
<b>Average Revenue Capture per Dollar Value Traded (bps)</b>	2.8	2.6	2.8	2.5	2.2	2.6

\* Core Equity Revenues consists of Net Trading Revenues, Commission Equivalents and Commissions

## Asset Management - Profit and Loss

	2002	2003	9 mos. 2004
Revenues (\$M)	47	82	33
Pre-tax Operating Earnings (\$M)	23	52	9
Pre-tax Margins	48%	63%	28%
Average AUM (\$M)	1,239	1,359	2,756
Average Corporate Investment (\$M)	120	183	219
Average Return to Investor	7.8%	13.9%	1.6%

# 2005 Forecast Range of Operating EPS



# 2005 Forecast Revenue and Margin Ranges

		← <i>Actual</i> →			
		2003	9 Months Ending 9/30/04	2005 FORECAST RANGE	
<b><u>Revenue Overview (\$ in M)</u></b>					
Equities		440	392	500	600
Asset Management		83	33	75	125
<b>Total</b>		<b>523</b>	<b>425</b>	<b>575</b>	<b>725</b>
<b><u>Margin Overview (% of revenue)</u></b>					
Compensation		40	40	40	37
Execution & clearance		15	17	17	14
Rebates		6	6	7	6
Soft dollar/commission recapture		2	10	10	9
Pre-tax margins		19	11	12	20
<b><u>Summary Metrics</u></b>					
Equity Markets	US Dollar Value Traded (\$ in T)	1.54	1.26	1.60	2.00
	Revenue Capture per Dollar Value Traded (bps)	2.6	2.6	2.0	2.8
Asset Management	Average Fund Return (%)	13.9	1.6	4.5	6.5
	Average Assets under Mgt (\$ in B)	1.36	2.76	3.50	4.00

# Strong Financial Condition

## ***Balances at 9/30/2004***

- ❑ Equity of \$753m
- ❑ Cash of \$210m
- ❑ Deephaven investment of \$206m

## ***Projected Cash Inflows***

- ❑ Net cash of approximately \$250m from sale of Derivative Markets
- ❑ 7% investment in ISE

## ***Projected Cash Outflows***

- ❑ Regulatory charge - \$58m net of tax
- ❑ 545 Washington Boulevard build out - \$25m left
- ❑ \$125m remaining on buyback program



# **Thomas M. Joyce**

Chief Executive Officer  
& President



**Standards. Insight. Approach.**

## **COMPETITIVE ADVANTAGE**

- Client focus
- Intersection of broker-dealer and institutional order flow
- Scale and scope of activity
- Outstanding technology

# Standards. Insight. Approach. - 2005 Initiatives

## **EQUITY MARKETS**

- Continue expansion of sales coverage and gain market share
- Grow listed and international capabilities
- Expand investment in automation efforts to leverage operating efficiencies

## **ASSET MANAGEMENT**

- Diversification through new products and expansion internationally
- Strengthen infrastructure to enable further asset growth

## **CROSS DISCIPLINE**

- Capital deployment (buyback and acquisitions)
- Expense management
- Relocate Jersey City operations to 545 Washington Blvd.



# Question & Answer Session

EARNING YOUR TRUST WITH EVERY TRADE™

KNIGHT TRADING GROUP





# Appendix

# Reconciliation of GAAP Income to Non GAAP Operating Income

<i>9 Months ending September 30, 2004</i>	<i>Equity Markets</i>	<i>Asset Management</i>	<i>Consolidated</i>
<b>Income (loss) from continuing operations before income taxes</b>	(47)	9	(38)
Regulatory charges and related matters	79	0	79
Writedown of assets and lease loss accrual	4	0	4
Additional allocations related to sale of Derivative Markets business	5	0	5
<b>Pre-Tax Operating Income</b>	<b>41</b>	<b>9</b>	<b>50</b>
<b>Diluted earnings per share from continuing operations</b>	(33)	5	(28)
Regulatory charges and related matters	50	0	50
Writedown of assets and lease loss accrual	2	0	2
Additional allocations related to sale of Derivative Markets business	3	0	3
<b>Operating EPS</b>	<b>22</b>	<b>5</b>	<b>27</b>
<i>12 Months ending September 30, 2004</i>	<i>Equity Markets</i>	<i>Asset Management</i>	<i>Consolidated</i>
<b>Income (loss) from continuing operations before income taxes</b>	(24)	29	5
Regulatory charges and related matters	79	0	79
Writedown of assets and lease loss accrual	3	0	3
Additional allocations related to sale of Derivative Markets business	5	1	6
<b>Pre-Tax Operating Income</b>	<b>63</b>	<b>30</b>	<b>93</b>
<b>Diluted earnings per share from continuing operations</b>	(21)	15	(6)
Regulatory charges and related matters	50	0	50
Writedown of assets and lease loss accrual	2	0	2
Additional allocations related to sale of Derivative Markets business	3	1	4
<b>Operating EPS</b>	<b>34</b>	<b>16</b>	<b>50</b>

Note: Dollars in millions except EPS (cents)

# Reconciliation of GAAP Income to Non GAAP Operating Income

<b>2003</b>	<b>Equity Markets</b>	<b>Asset Management</b>	<b>Consolidated</b>
<b>Income (loss) from continuing operations before income taxes</b>	34	50	84
Writedown of assets and lease loss accrual	17	0	17
Additional allocations related to sale of Derivative Markets business	8	2	10
<b>Pre-Tax Operating Income</b>	<b>58</b>	<b>52</b>	<b>110</b>
<b>Diluted earnings per share from continuing operations</b>	19	26	44
Writedown of assets and lease loss accrual	8	0	8
Additional allocations related to sale of Derivative Markets business	4	1	5
<b>Operating EPS</b>	<b>31</b>	<b>27</b>	<b>57</b>
<b>2002</b>	<b>Equity Markets</b>	<b>Asset Management</b>	<b>Consolidated</b>
<b>Income (loss) from continuing operations before income taxes and minority interest</b>	(85)	21	(64)
Writedown of assets and lease loss accrual	15	0	15
International charges	31	0	31
Additional allocations related to sale of Derivative Markets business	10	2	12
<b>Pre-Tax Operating Income</b>	<b>(29)</b>	<b>23</b>	<b>(6)</b>
<b>Diluted earnings per share from continuing operations</b>	(43)	11	(32)
Writedown of assets and lease loss accrual	8	0	8
International charges	16	0	16
Additional allocations related to sale of Derivative Markets business	5	1	6
<b>Operating EPS</b>	<b>(15)</b>	<b>12</b>	<b>(3)</b>

Note: Dollars in millions except EPS (cents)

# Reconciliation of GAAP Income to Non GAAP Operating Income

**KNIGHT TRADING GROUP, INC.**  
**CONSOLIDATED STATEMENTS OF OPERATIONS\***  
**(Unaudited)**

	For the quarter ended		
	<u>Sept. 30, 2004</u>	<u>June 30, 2004</u>	<u>Mar. 31, 2004</u>
	(in thousands)		
<b>REVENUES</b>			
Net trading revenue	\$ 33,449	\$ 57,307	\$ 92,374
Commissions and fees	58,599	68,569	76,638
Asset management fees	6,805	8,107	13,932
Interest and dividends, net	1,199	772	858
Investment (loss) income and other	(692)	1,354	6,164
<b>Total revenues</b>	<u>99,360</u>	<u>136,109</u>	<u>189,966</u>
<b>EXPENSES</b>			
Employee compensation and benefits	50,109	53,250	65,104
Execution and clearance fees	19,585	24,754	29,408
Soft dollar and commission recapture expense	14,309	14,237	15,776
Payments for order flow	4,555	9,843	13,018
Communications and data processing	7,867	6,963	6,754
Depreciation and amortization	3,338	3,511	3,871
Occupancy and equipment rentals	3,982	4,401	4,435
Professional fees	4,258	3,951	3,353
Business development	2,054	1,825	2,043
Writedown of assets and lease loss accrual	874	2,624	-
Regulatory charges and related matters	-	79,200	-
Other	(820)	2,190	2,750
<b>Total expenses</b>	<u>110,111</u>	<u>206,749</u>	<u>146,512</u>
(Loss) income from continuing operations before income taxes	(10,751)	(70,640)	43,454
Income tax (benefit) expense	(4,281)	(19,058)	17,507
(Loss) income from continuing operations, net of taxes	(6,470)	(51,582)	25,947
Income from discontinued operations, net of taxes	5,344	3,737	5,868
<b>Net (loss) income</b>	<u>\$ (1,126)</u>	<u>\$ (47,845)</u>	<u>\$ 31,815</u>

\* Certain prior period amounts have been reclassified to conform to the current period presentation.