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BEHIND THE NEWS

SEC: It might sue Knall in wake of trading probe

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The investigation into allegations of insider trading in Galyan's Trading Co. stock that ensnared star stockbroker David Knall two years ago hasn't faded away. The Securities and Exchange Commission notified Knall last May that it's considering filing a civil lawsuit against him, according to a disclosure in the Central Registration Depository, a database detailing stockbrokers' regulatory records.

In the notice, the SEC invited Knall to make his case why doing so would be unwarranted-typically the final step before staff makes an enforcement recommendation to the full, fiveperson commission.

Also targeted is Knall's son James, who works alongside his father in an Indianapolis office of Stifel Nicolaus, a St. Louis-based brokerage firm. James' record contains exactly the same disclosure as his father's.

The matter hasn't been resolved since the Knalls received the notices seven months ago, securities attorneys not involved in the case say. A resolution would have had to be listed in the regulatory database, which shows no further developments.

The notices might have touched off settlement negotiations, speculated Indianapolis attorney **Mark Maddox**, a former Indiana securities commissioner with no role in the case. He said settlement talks involving the SEC sometimes drag on six to 12 months.

The stakes are high. Knall's 30-person team at Stifel Nicolaus in Indianapolis oversees billions of dollars for many of central Indiana's wealthiest families, including the Simons. In insider-trading cases, the SEC often seeks disgorgement of trading profits, plus temporary or permanent removal from the industry, depending on how serious it deems the offense.

"A financial professional's involvement in a regulatory investigation or proceeding is extremely serious and can be a career-busting event," New York securities attorney **Mark** Astarita says in an essay posted on SEClaw.com.

Knall, 62, declined to comment last week, while SEC and Stifel officials did not return calls.

IBJ reported in January 2005 that the investigation focuses on allegations of insider trading in the stock of Plainfieldbased Galyan's before the company's $305 million sale to Pennsylvaniabased Dick's Sporting Goods Inc. in June 2004.

At the time, both of the Knalls were with McDonald Investments, a unit of Cleveland-based KeyCorp.

Insider trading involves making investment decisions based on information not available to the general public. That information can be used either to profit later, after a stock has risen, or to avoid a loss ahead of bad news.

In the case of Galyan's, anyone with an inkling the Dick's deal was brewing had an opportunity to make a tidy profit. The day before the deal's unveiling, Galyan's shares closed at $11.10. The next day, they closed at $16.68, a 50-percent increase.

The Knalls' disclosures in the Central Registration Depository say the SEC suits would allege violations of certain sections and rules of the Securities and Exchange Act of 1934. Securities attorneys say the provisions cited are typical for insider-trading cases.

The disclosures also note that another regulator, the National Association of Securities Dealers, in late 2004 opened a separate inquiry into the Knalls' involvement in Galyan's trades.

McDonald in November 2004 had placed James Knall on indefinite suspension. A month later, David Knall voluntarily took a leave of absence. A McDonald spokesman said the Knalls had been sidelined because of "regulatory matters" that did not involve management of clients' accounts.

In April 2005, the Knalls jumped to Stifel, and the rest of their McDonald team followed. Stifel CEO Ronald Kruszewski said at the time that he was comfortable allowing both to immediately return to work.

"David has a very stellar reputation within business circles of the securities industry," Kruszewski said then. "We reviewed what we could about the current situation and were comfortable hiring David and having him service clients in the exemplary way he has done in the last 30 years."

The probe is the first regulatory blemish on Knall's brokerage record since he joined McDonald in 1969. It also is the first for James, who joined the industry in 2001.

David Knall's list of clients is a who's who of Indiana business. In September 2004, Barron's ranked Knall fourth on its list of the nation's top 100 financial advisers. The publication said he and his staff then oversaw $3.6 billion in assets.

Knall's partner, Jeff Cohen, wouldn't disclose how much the team now oversees. However, he said, "Our business is good."

Indeed, industry observers say the team has seen little fallout from the insider-trading inquiry, in part because David Knall's conservative, value-oriented investing style has yielded successful results for decades.

"He's made so much money for so many important people over the years," **Maddox** said. "They will stick with him through thick and thin."

David Knall
