

Knight Says Company May Suffer More Losses From Trade Error

By Michael P. Regan and Inyoung Hwang - Aug 9, 2012 4:14 PM ET

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Knight Capital Group Inc. (KCG), the market maker that was driven to the verge of bankruptcy after a trading error, said last week's mishap may cause more losses.

Should its customers and trading partners lose confidence, Knight's reputation and business may suffer, The Jersey City, New Jersey-based firm said in a government filing. Lawsuits and regulatory probes may also cost money, it said.



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Just take it as the worst-case scenario where their lawyers told them put out the worst case," Bernard Donefer, a professor of **information systems** in financial markets at **Baruch College**, part of the **City University** of New York, and New York University's Stern School of Business, said in an interview.

Knight Chief Executive Officer Thomas Joyce estimated the firm's trading loss will be \$270 million after taxes, according to a letter to clients, compared with a previously reported pretax loss of \$440 million. Knight was saved from collapse on Aug. 6, when it received a \$400 million cash infusion through the sale of convertible securities to a consortium of investors.

Risk Factors

The firm updated the "Risk Factors" listed in its annual report with today's filing to include a discussion of the Aug. 1 trading error and the harm it caused to the confidence of customers and counterparties. Joyce told clients in the letter that the company is in talks with outside advisers as it works to prevent another mishap.

Getco LLC, Blackstone Group LP, brokerages Stifel Nicolaus & Co. and TD Ameritrade Holding Corp., as well as Stephens Inc. and Jefferies Group Inc. invested in the rescue funding for Knight, according to the [Jersey City](#), New Jersey-based company. The investment will give the firms a 73 percent stake in Knight once the shares are converted into common stock.

Joyce said in a telephone interview with Bloomberg on Aug. 6 it was a permanent solution to the solvency crisis that began with the errant trades. Kara Fitzsimmons, a spokeswoman for Jersey City, New Jersey-based Knight, declined to comment today beyond the filing.

Knight [fell](#) 2.9 percent to \$3.07 as of 3:25 p.m. in New York. Shares have tumbled 70 percent since its \$10.33 closing price before the Aug. 1 software malfunction.

"They shored up the short-term concerns," Sang Lee, managing partner at Boston-based research firm Aite Group LLC, said in a telephone interview. "We're well into the week and happy to say they're still in business, but questions remain what is the long-term prospect."

To contact the reporters on this story: Michael P. Regan at mregan12@bloomberg.net; Inyoung Hwang in [New York](#) at ihwang7@bloomberg.net