Knight Capital's software snag causes big 3Q loss

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The Knight Capital Group Inc. trading firm said it lost $764.3 million in the third quarter because of a software glitch that flooded the stock market with trades one day in August, causing dozens of stocks to fluctuate wildly.

Knight said Wednesday that the software glitch cost it $461.1 million in financial losses. The company also took a charge of $143 million to reflect its weaker brand and competitive position after the episode.

The problems began for Knight early on Aug. 1, when dozens of stocks started rising and falling sharply for no apparent reason. Wizzard Software, for example, shot up above $14 after closing the night before at $3.50.

Knight takes stock trading orders from big brokers like TD Ameritrade and E-Trade. It routes the orders to exchanges including the New York Stock Exchange.

After Knight acknowledged that a technical glitch in its software had caused the disruption, its stock lost three-fourths of its value in two days. Knight had to cede control of its operations on the New York Stock Exchange and obtain a financial rescue from Wall Street peers.

Knight, based in Jersey City, New Jersey, managed to eke out a small profit after excluding losses from the trading fiasco. Its stock rose 5 percent in premarket trading.

Knight's loss amounts to $6.30 per share for the period ended Sept. 30. That compares with net income of $26.9 million, or 29 cents per share, a year ago.

The technology issue accounted for a financial loss of $2.46 per share, plus 76 cents per share for the related impairment charge.

Excluding those and other one-time items, Knight said it earned a penny per share. Analysts had forecast 2 cents per share, according to a FactSet survey.

Chairman and CEO Tom Joyce said that the company was gratified that it managed a small profit on an adjusted basis.

"I believe the recovery to date speaks to the strength of our offering, the dedication of Knight's client teams and deep client relationships we enjoy," he said.

Net trading revenue was negative because of the software glitch. Knight Capital's market making segment was hit the hardest, reporting net negative revenues of $341.2 million.

After the trading losses threatened its survival, Knight received $400 million from an investor group that included Jefferies Group, Blackstone, Getco, Stephens, Stifel Nicolaus and TD Ameritrade. The investors received stock that can be converted into a 73 percent stake in Knight, which means Knight essentially handed over control to the investor group.

Knight also added three directors to its board, increasing its size to 10 members.

Knight's stock rose 6 cents to close at $2.64 Wednesday. Its shares fell to

a 52-week low of $2.27 in August. They traded as high as $14 per share almost a year ago.

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