ITG
“ITG's Second Quarter Results for 2013”

Thursday, August 01, 2013, 11:00 A.M. Eastern
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OPERATOR: Good morning and thank you for joining us to discuss ITG's Second Quarter Results for 2013. My name is Andrew and I will facilitate the call today. After the speaker's remarks, there will be a question and answer period. I will provide further instructions before we take questions. As a reminder, this session is being recorded. If you need operator assistance, please press star (*) then zero (0). I would now like to turn the conference over to J. T. Farley of ITG.

J. T. FARLEY: Thank you, Andrew, and good morning. In accordance with Safe Harbor regulations, I would like to advise you that the forward-looking statements we will be making this morning are subject to a series of risks and uncertainties that may cause actual results to differ materially from those statements. These forward looking statements speak as of today and you should not rely upon them as representing our views in the future. While we may elect to update these forward-looking statements in the future, we undertake no obligation to do so. I advise you to read about the risk factors that may affect forward-looking statements in this morning's press release, as well as in our SEC filings. I would also like to point out that we will be referring to non-GAAP financial measures in today's presentation. Reconciliations of these non-GAAP measures to the comparable GAAP measures can be found in this morning's press release, as well as the press releases covering prior earnings periods. Press releases and the power point slides which accompany this presentation are available for download in the investor relations section of itg.com. Speaking this morning are ITG's CEO, Bob Gasser, and our CFO, Steven Vigliotti. To start, I would like to turn it over to Bob.

BOB GASSER: Thanks, J. T., and thank you all for joining us to discuss ITG's second quarter 2013 results. This morning, I'd like to give a brief overview of our quarterly performance, as well as general business conditions, then I will discuss our cost savings efforts and look at some new developments in our products and platform before handing off to Steve. Overall, we had a very good quarter with our highest adjusted earnings per share in almost four years. While the much anticipated great rotation into equities has certainly not come to pass, business conditions have improved or at least stabilized in all of our operating regions. Our profitability increased across all our geographies as our total revenues grew nearly 10% vs. the second quarter of 2012, while our adjusted expenses net of onetime items were just about flat.

In the U.S., bond funds saw $36 billion in outflows during the quarter, the first net drawdown since the fourth quarter of 2008. While international equity funds posted inflows of $18 billion, domestic equity mutual funds actually saw outflows of $12 billion in the second quarter, although the domestic net flows remain positive, year-to-date. We saw positive flows in July, but it's too early to call that a sustainable trend. The trend over the past several years is clear. Investors have favored international over domestic equity investment and ITG has worked hard over the past several years to capitalize on this trend and, so far this year, approximately half the adjusted earnings we have reported were from our international business.

Our average daily volume in the second quarter was 179 million shares, a drop of 2%, vs. the second quarter of 2012. While total New York stock exchange and NASDAQ averaged daily volume declined 6% during the same period. Sell-side~~f selling~~ volume comprised 49% of our U.S. volume, down from 50% in the second quarter of 2012, and unchanged from the first quarter of 2013. Our average U.S. revenue per share improved for a second straight quarter from 46 mils per share up to 48, the highest level since the second quarter of 2011.

And, while we do not break out our average buy side rate for competitive reasons, we are pleased to report that it stands at the highest level since the fourth quarter of 2008, thanks to increased use of high value services such as POSIT Alert, block crossing and clients paying for research in a bundled manner through trading. And POSIT Alert is certainly seeing increased use as we continue to gain market share in the buy side block crossing arena. Alert's average daily U.S. volume was up 41% over the second quarter of 2012 and average trade size ticked up to 33,000 shares.

ITG also performed well outside the U.S. during the second quarter. In Europe, revenue rose more than 40% compared to the second quarter of 2012, well ahead of the 8% increase in value traded across Europe during the same period. Volumes in POSIT Alert more than tripled in Europe and we saw increased activity from both institutional and sell side clients across all of our electronic brokerage product offerings. The investments we've made in our low latency infrastructure to attract liquidity, together with reductions in cost from an increased crossing rate, are resulting in a virtuous cycle that is benefiting our bottom line.

In Asia/Pacific, we posted record revenues of $12.8 million, while our loss narrowed sharply to less than $400,000~~.00~~. Our total value traded in the region rose 54% vs. the second quarter of 2012, driven by higher trading activity across most markets and fueled by growing demand for electronic trading and liquidity solutions. During the quarter, we added Singapore to our POSIT coverage, marking the 6th regional market where we offer POSIT crossing.

In Latin America this week we launched POSIT Alert for Mexico, the first fully electronic buyside block crossing system in that country. POSIT Alert for Mexico allows institutional investors to access block liquidity, which is executed via a dark order type on the Mexican exchange, the BMV. POSIT Alert complements our existing algorithmic trading tools ~~-~~for both Mexican and Brazilian equities and we intend to expand our capabilities in the region the second half of this year to round out our emerging market coverage. In Canada, we held our own in a flat environment with total revenues down about 1% compared to Q2 2012.

As you may have read, we were one of the founding shareholders in a proposed new Canadian exchange, Aequitas, which will focus on competing with the incumbent exchange and, hopefully, will create opportunities for innovation in the Canadian markets. Our involvement in Aequitas is not material in financial or resource terms, but it demonstrates our support for positive changes in the Canadian market structure.

Looking at our overall cost structure, we continue to~~our~~ focus on expense discipline in order to improve the firm's profitability. Our second quarter results reflect the full $20 million annual run rate of ~~-~~cost savings from the restructuring we announced in December~~,~~ 2012. And, as we've mentioned previously, we

expect our ongoing business unit analysis to yield additional cost savings in late 2013 and beyond.

During the second quarter, we finalized plans to close our Israel development center at the end of 2013, resulting in a onetime restructuring charge of $1.6 million. We will transition all the development and support work currently done by the Israel office to a new consulting firm, which is being launched by key members of the Israeli team. This will enable ITG to benefit from the experience and the skill of the ITG Israel team while improving our overall operational flexibility. We expect this move to save us approximately $2 million annually, beginning in 2015, as transitional costs we will incur during 2014 will largely offset any savings next year.

Even as we work to improve our efficiency, we continue to develop innovative new offerings for our clients and to solidify our leadership position in electronic execution and research. Since the last call, we have rolled out two new web-based tools for real-time trade performance tracking: ITG Algorithms Prism, which displays the performance of all ITG algos, and Smart Trading Monitor, a sophisticated TCA tool which monitors broker and trader performance. Smart Trading Monitor is powered by our global FIX network, ITG Net, and is fully integrated with our flagship execution management system, Triton, as well as ITG~~'s~~ OMS.

We also launched ITG DIS 2.0, an update of our flagship dynamic implementation shortfall portfolio trading algorithm. In addition to rolling out new products, ITG is gaining recognition for existing platforms and services. We were recently named Best Agency Broker in a survey of industry professionals conducted by Waters Magazine and FX Week magazine named us best transaction cost analysis provider for foreign exchange.

On the research front, ITG recently launched coverage of the department store sector using our proprietary data base to offer monthly estimates, a particularly valuable ~~–~~tool in a sector where public companies have pulled back from providing comparable store sales data~~,~~ intra-quarter. We also made alpha-generating research calls on names such as Apple, Boyd Gaming, Jones Energy, and Panera Bread.

Wrapping up, with today's release I believe it is clear that ITG has turned a corner operationally. We have rationalized our cost structure, built our global execution capabilities so that we can withstand business downturns and maintain our profitability, while at the same time pursue an increasing share of the global client wallet. Barring any serious macroeconomic shocks, I am optimistic that we're on a long-term path towards improving margins and even stronger client relationships. I would like to thank all of our employees for their hard and sometimes painful work in building a leaner, more resilient ITG. With that, I'd like to turn it over to our Chief Financial Officer, Steve Vigliotti, to take you through the second quarter financial developments.

STEVEN VIGLIOTTI: Thanks Bob. Excuse me. Good morning, everyone. The improvement in our business that began in Q1 continues into the second quarter, as our focus on margin improvement and global expansion~~s~~ drove earnings higher on both the sequential and a year-over-year basis. As noted on Slide 7, we generated consolidated revenues of $139.3 million during the second quarter, 5% higher than the first quarter of 2013 and 10% higher than the second quarter of 2012. We posted GAAP net income of $0.13 per share in the second quarter of 2013,

compared to GAAP net income of $0.22 per share in the first quarter of 2013 and a GAAP net loss of $6.40 per share in the second quarter of 2012. On Slide 8, we have detailed the non-operating items included in our GAAP results for the first and second quarters of 2013 and the second quarter of 2012. In the first and second quarters of 2013, we incurred ~~a~~ duplicate rent charges stemming from the build-out of our new headquarters in Lower Manhattan of $1.3 million and $1.2 million, respectively.

In the second quarter of 2013, we also incurred a charge upon the completion of the headquarters move of $3.9 million, which includes a reserve for the remaining lease obligation. In addition, in the second quarter of 2013, we incurred a restructuring charge related to the closure of our Israel development facility of $1.6 million, offset by accrual reversals related to prior restructurings of $1.7 million. The closure of our Israel development facility also resulted in a onetime tax charge of $1.6 million associated with the anticipated withdrawal of capital from Israel. In the second quarter of 2012, we incurred goodwill impairment charges of $274.3 million.

Excluding these items, we generated adjusted net income of $0.27 per share in~~of~~ the second quarter of 2013, $0.24 per share in the first quarter of 2013, and $0.05 per share in the second quarter of 2012. For the rest of this discussion, all references to results and costs will be on an adjusted basis, excluding these items. Slide 9 presents our consolidated results along with separate breakdowns of the results from our U.S. and international operations. On a year-over-year comparative basis, consolidated expenses were up only $300,000~~.00~~, even with a combined increase in transaction processing and compensation costs of $4.5 million associated with increased activity. Our consolidated pre-tax margin was 11.4%, up from 9.3% in the first quarter of 2013 and 2.9% in the second quarter of 2012. Our revenue growth is giving a significant boost to our pre-tax income, demonstrating the improved leverage in our model. On a year-to-date basis, more than 50% of incremental revenues generated over the pro rata 2012 level were realized in the~~a~~ pre-tax line, even after adjusting for the $20 million annual cost savings initiative enacted in the fourth quarter of 2012.

During the second quarter of 2013, we posted net income of $0.12 per share in the U.S. on revenues of $84.6 million. While that is down from $0.14 per share in the first quarter of 2013, please recall that our first quarter U.S. results included a tax credit of $1.2 million, or $0.03 per share, which applied to the full year 2012 but was booked during the first quarter of 2013 due to retroactive changes in tax legislation. Our second quarter pre-tax margin in the U.S. was 10%, higher than both the first quarter of 2013 and the second quarter of 2012. Please note that the U.S. segment bears nearly all of the firm's corporate costs, which negatively impacts pre-tax margins reported for that segment. Our combined international businesses posted net income of $0.15 per share on revenues of $54.7 million. Our international pre-tax margin rate was also higher at 13.5%.

On Slide 10, you can see that our U.S. expenses declined $4.5 million, compared to $80.7 million in the second quarter of 2012, due to lower compensation costs reflecting our cost reduction measures, lower general and administrative costs due to continuing efforts to reduce those costs, and lower market data and client connectivity costs. Our U.S. compensation expense ratio was 37.8%, unchanged vs. the first quarter of 2013 and lower than the 40.5% in the second quarter of 2012. Transaction processing costs as a percentage of

revenue were 13.5%, vs. 14.1% in the first quarter of 2013 and 13.2% in the second quarter of 2012.

On Slide 11, we have provided a summary of our international results. Revenues were up $3.8 million over the first quarter of 2013 and up $9.7 million over the second quarter of 2012 due to a strong performance in Europe, as well as record revenues in Asia-/Pacific. Expenses were higher, due largely to higher transaction processing and variable compensation costs. The compensation ratio for our combined international operations was 35.2%, lower than both the first quarter of 2013 and the second quarter of 2012. Combined international transaction processing costs during the quarter, as a percentage of revenue, were 20.3%, compared to 19.9% in the first quarter of 2013 and 19.6% in the second quarter of 2012.

On the next slide, we track performance of our foreign segments over the past five quarters. All regions posted higher revenues and improved pre-tax results in the second quarter of 2013, as compared to the first quarter of 2013, with our losses in Asia/Pacific being reduced by more than half. On Slide 13, we offer supplementary information on revenues broken out by our four global product groups over the past five quarters. The table also includes a corporate group, which primarily reflects investment income that is not directly attributable to any of the global product groups. As you can see from this table, the electronic brokerage group saw a sharp jump in revenues, thanks, in part, to strong European volumes as well as market share gains in POSIT Alert.

Revenues for research, sales and trading –rose in the second quarter due, in part, to a number of accounts that caught up on expected revenue levels and an increase in project--based revenue. And we continue to generate steady levels of revenue for our platforms and analytics product groups, due in large part to their higher mix of recurring revenues. As a reminder, we intend to provide this global product revenue breakout in our quarterly results going forward and expect to offer profitability information by product group towards the end of 2013, likely sometime in the fourth quarter.

On Slide 14, we have presented our U.S. volume and rate capture statistics. Our average daily executed volume was down 2% vs. the second quarter of 2012; while NYSE and NASDAQ combined average volume decreased 6%. Our average overall rate capture rate per share rose from 46 mils in the first quarter 2013 to 48 mils, even as the percentage of buy-side volume held steady, due, in part, to increased activity in POSIT Alert and hedge fund clients paying for research through bundled trading arrangements. We ended the quarter with $259 million of cash and cash equivalents on our balance sheet, up from $233.9 million at the end of the first quarter.

Much of this increase can be attributed to higher levels of client funds held in commission sharing arrangement accounts. Our excess cash at June 30th, over and above what we need for regulatory capital, debt payments and compensation liabilities was consistent with the first quarter at approximately $50 million. During the second quarter, we repurchased 675,000 shares for $9 million, or $13.31 per share. This amounted to 87% of our adjusted earnings and 177% of our GAAP earnings during the quarter. As a reminder, our buyback program has reduced shares outstanding, net of issuances, by 16% over the past three years. Looking forward, I'd like to offer the following observations:. Regarding our balance sheet, we expect to continue to repurchase shares on a regular basis in order to return capital to shareholders.

However, we will now take a more opportunistic approach, depending on marketing conditions and the prevailing price of our stock and our repurchases may have less of a direct link to our level of adjusted earnings each quarter. As of June 30th, we have $4 million, 4 million shares; excuse me, available for repurchase under our current buyback authorization.

Regarding current business conditions, we saw a seasonal slowdown in our trading activity in July. Our U.S. average daily volume for July was approximately 155 million shares, at an average rate, though, that was in line with our second quarter 2013 average. In our combined international businesses, our average daily commission levels in July were more than 10% lower than the level seen in the first half of 2013. And with that, I'd like to open the call to Q&A. Operator, please open up the lines for questions.

OPERATOR: We will now begin the question and answer session. To ask a question, you may press star (*) then one (1) on a touchtone phone. If you wish to withdraw your question, please press star (*) then two (2). At this time, we will pause momentarily to assemble our roster. The first question comes from Niamh Alexander, KBW. Please go ahead.

NIAMH ALEXANDER: Hi, thanks for taking my question and congrats on a strong, a very strong quarter.

MULTIPLE SPEAKERS: Thanks, Niamh.

NIAMH ALEXANDER: I'm getting some feedback on the call so I'll be brief. The POSIT Alert, it seems to be the primary driver of the recapture improvement and you've - thanks Steve for the update, it sounds like you are saying rate cards, kind of, holding steady **so** far vs. where it was, but what's going on there with POSIT Alert? Why the market share gains, could we see more of this? Have you made some changes to the platform? Has there been some competitive disruption? What's happening?

BOB GASSER: That's a good question, Niamh. We've been rolling out a global platform, so this is a unified point of entry to all of our POSIT platforms across the globe, all of our Alert capabilities there. This used to be a regional business, in other words, if you were a U.S. based investor executing into foreign markets, you would have to have separate instances of those Alert capabilities. Today, we've unified that into one and we're now rolling that out very aggressively and I think the response from clients has been very, very positive. So, behind the scenes, we've been working on this for the past, I'd say 18 to 24 months and it's now coming into production and we're seeing good market share gains. I mean, tripling that number in Europe is a big, big deal and so we're talking about, I think, a very meaningful trajectory there for POSIT Alert on a global basis and, really, there's just only one other incumbent. So it really is a market share gain. For now, although, if obviously, block volumes pick up, we'd expect to participate there, as well. But, secondarily, I don't want to dismiss the contribution of research, the bundle rate cards certainly benefited greatly from the increased penetration of the research product and, as Steve alluded, we did quite a bit of project work and some bespoke things during the quarter that were very helpful to clients. We're seeing good trajectory in terms of our momentum and our climb on institutional voting lists, we're obviously getting a lot of those, as you guys are, we're getting a lot of those back now and seeing meaningful first half improvements there. So that's, those have been two very, very positive things

for the U.S. rate card and I feel confident, we're tantalizingly close to 50, but I feel confident that we'll continue to move northward.

NIAMH ALEXANDER: Okay, so, but right now, like, so far in July it's kind of stable, is that it?

BOB GASSER: Stable in July.

[multiple speakers]

NIAMH ALEXANDER: Okay, and then, just to expand a little bit on that, Bob, how far, you talked about the rollout and this really helps us understand better, maybe, better traction, but are you 70% of the way out, in terms of rolling it out to clients or is [multiple voices] to users?

BOB GASSER: Yeah, I think we're approximately, in the U.S., for instance, we're approximately 25% of the way there. If I were to kind of round the number.

NIAMH ALEXANDER: Okay, okay, that's helpful, thanks. And then, if I could, your passive, the passive money working, you know, clearly more fundamental trading volume, if you dig into the volume decline, it seems like fundamental is actually kind of quietly recovering. Within that, your customers, like the passive money managers and I think some equity flows is relatively active., Are you seeing still change in behavior there, like they are kind of starting to use, maybe, in addition to ~~mid~~ POSIT Alert, they're using more or your higher fee products, is that something that you're kind of seeing more consistently now as you progress through the year?

BOB GASSER: Yeah, I think, as you guys have seen in probably a sequence of press releases, we've been building out the high touch offering in the U.S., we've made, I think, some very selective investments in personnel. We have a team now, I believe, on the field that can continue to grow that high touch business as a percentage of the total and I think, from an Alert perspective, as we've been discussing, I think it's about continuing just to roll out that platform, to just execute between now and year-end. And add more geographies. And so we still think of Asia/Pacific, for instance, as very green fields for us. The Mexican Alert introduction into Latin America, we think Brazil could be a massive opportunity relatively, but I think it's just about steak and potatoes at this stage of the game, just absolutely executing on all these initiatives, one by one, and sticking to our knitting.

NIAMH ALEXANDER: Okay, appreciate it, thank you. And then, if I could just real quick, to Steve on the capital, you're signaling to us here like we may not be buying back stock as that equates pretty much to what we're earning every quarter going forward, you know, why so? Do you have other uses for the capital or is it more kind of stock evaluation, or, help me think about the rationale for the change here.

STEVEN VIGLIOTTI: Yes, sure, Niamh. I think the guidance we're giving here is not that we're not going to buy back shares, rather than be stuck to a fixed amount of our operating earnings each quarter, that we're going to be a little bit more opportunistic. I mean, just if you look back a year ago, we purchased three times our operating earnings that we generated in 2012. So I think we just want to be clear on our guidance going forward that, while we intend to be active, it's not necessarily going to be tied quarter to quarter to each adjusted earnings level and we're going to look at factors like market conditions~~ing additions~~ and the price of the stock and be opportunistic as we execute the program.

NIAMH ALEXANDER: And do you have other uses for the capital~~account~~. Are you starting kind of maybe look at acquisitions or new hires or?

BOB GASSER: Nothing specific to mention at this point.

NIAMH ALEXANDER: Okay, all right, thanks. I'll get back in line.

OPERATOR: The next question comes from Ken Worthington of JP Morgan. Please go ahead.

KEN WORTHINGTON: Hi, good morning. Maybe to follow up on Niamh's question on the mix. Maybe, how much, I'm sorry, mix in the rate card, how much higher are the higher fee products, in terms of the rate card, than the average rate? So, as these continue to, ~~–~~if and as these continue to grow, like, how much does that alone kind of drive the rate card higher?

BOB GASSER: Yeah, I think, as we alluded to, Ken, in the prepared remarks, I think, it's a competitive issue for us to talk about it in that granular level of detail. I'd love to give you a plug for your model, but I think it's a very slippery slope from that perspective.

KEN WORTHINGTON: Can you be more fuzzy? Could it be like, ~~–~~is it substantial, is it somewhat, or is even that too granular?

BOB GASSER: Well, you know, I think you guys probably have a pretty good understanding of what a fully bundled research rate looks like. And I'll, I can direct you to Greenwich or a T~~t~~abb of just about anyone else and what a fully bundled research rate looks like vs. ~~,—~~an execution-, an~~d~~ electronic agency execution-~~-~~only rate, and they're magnitudes, right?

KEN WORTHINGTON: Yep.

BOB GASSER: So, and then within that spectrum, or within that continuum, there's ~~,—~~Alert, which is a very, very valuable electronic agency, probably the top of the food chain in terms of electronic agency product and it's obvious why it is because these are blocks, it's 33,000 shares as opposed to your average 200 share execution on a lit venue, for instance, so. But, ~~–~~that's about as close as I can get, I think.

KEN WORTHINGTON: Okay. And then I assume a big part of the rate card is really about the mix, the sell side vs. the buy side, so how does that evolve? Like, at what point do you think about capacity as being dear and do you start to change the pricing on the sell side as the buy side business, ~~–~~hopefully continues to recover? Or is capacity so cheap, ~~–~~that mix at 50/50 ~~–~~probably just kind of stays there indefinitely?

STEVEN VIGLIOTTI: Yeah, I mean, in terms of… ~~–Steven~~. In terms of the improvement, quarter over quarter, the mix was identical. So we did see a 2 mil increase in the rate even as the buy side rate was consistent from quarter to quarter. And, as you mentioned, we, even a year ago to now, and we're hovering above or below 50% buy-side to sell-side mix from period to period, so it hasn't really changed all that dramatically, from period to period, in terms of the overall mix of our business over the last year.

KEN WORTINGTON: Yep. And, I guess, is the thought that it probably, there's no reason for it to change or is there reason for it to, –for you to make changes behind the scenes to adjust pricing~~s~~ that maybe drives the –sell side business down as the buy side improves?

BOB GASSER: Yeah, I feel much more confident in our ability to continue to drive the rate card as opposed to the mix.

KEN WORTHINGTON: Okay.

BOB GASSER: And, Ken, the sellside, even though it's at a lower rate card, Ken, the sell side business is profitable for us.

KEN WORTINGTON: Yeah.

BOB GASSER: It's one that's, it's a good client base for us, one that we're happy to serve, so there's no reason for us to manage that down, if anything, we'd like to manage it up because it is profitable.

KEN WORTHINGTON: Okay. And then, maybe lastly, on the, you -kind of spoke about the launching of new products, new services in different regions, there seems to be a lot going on. How does this kind of flow through the expense outlook? And, —what are the margins kind of, how do you think about the margins as these initiatives are invested in and as they kind of ramp and get traction?

BOB GASSER: Yeah, I think one of the things we're really gratified by, Ken, is the speed with which the firm pivoted around this business unit focus... And the way it's translated into the bottom line and what I think, it's just made all of us that much more disciplined in terms of resource and how we project that resource into initiatives and making sure that when we commit to something like, for instance, DIS 2.0, that we have a strong conviction in execution in terms of the commercial value for the firm. And I think, now that the business units have those decision rights, they have control over their resources, there's much more local accountability for all of that and it just has been seismic in terms of the way we're operating this business and so what's really very gratifying to me is that we can continue this momentum with less resource and continue to put out –very competitive offerings at a time where I think it's becoming increasingly difficult for firms in lower volume environments to do that. And let's face it, we got,— we had a tailwind in Europe, we had a tailwind in Asia/Pac, but the U.S. and Canada have been, they haven't been, from a macro perspective, not terribly healthful.

KEN WORTHINGTON: Great, thank you very much.

STEVEN VIGLIOTTI: Sure, thank you.

BOB GASSER: Thanks, Ken.

OPERATOR: The next question comes from Rich Repetto of Sandler O'Neill. Please go ahead.

RICH REPETTO: Yeah, hi, good morning, guys.

MULTIPLE SPEAKERS: Hey, Rich.

STEVEN VIGLIOTTI: Good morning.

RICH REPETTO: So, I guess the first question, this is because it's still sort of learning from segmented, reporting, but your research sales and trading took a nice jump, quarter-over-quarter by almost $3 million on the revenue side, quarter-over-quarter. So I guess the question is that the rate card improvement, does that reflect improvements or it can reflect improvements, both in the electronic brokerage and research sales and trade? Is it capturing commissions in both segments?

BOB GASSER: Yes. If clients are satisfying research obligations to electronic trading, they'll be sharing, that goes on revenue in both~~growth~~, that goes on in both segments. Yes, it would, Rich.

RICH REPETTO: Okay, so the rate cap should, an improved rate capture might also capture improvements in the individual segments, as well?

BOB GASSER: Yeah, I mean, we don't keep a specific rate card for each segment because the clients will use the products at different services and to compensate us with different, the different products we offer, but the overall revenue, the improvement in revenue from an improved rate card will be realized from multiple groups.

RICH REPETTO: Got it, okay, that's helpful. And then, Bob, a lot is ~~-~~going on in Asia, or excuse me, well, in Asia's one, where you're coming close to breakeven here, and I guess the question is, ~~–~~when you look at ~~–~~what's going over, it seems like you continue to build momentum, is it just the continued penetration of products there and then you did touch on Canada and U.S. or Canada being a little bit flat, but, and then the overall international picture, and could you touch on Europe with L~~l~~iquid~~-~~net and this ~~thing with~~ agreement with the Deutsche Börse, et cetera?

BOB GASSER: Yeah, I mean, we're always, obviously, monitoring competitive developments very closely. ~~-~~ We'll see how it plays out. I feel good about our liquidity management capability in Europe, it's obvious, I mean, you guys see it in the numbers, it is what it is. A 3X Alert number is, I think, ~~—~~pretty stunning. So I'll let the numbers speak for themselves there. As I've been saying, I think, throughout the course of this year, this is the year of Europe. We've made significant investments, they're fully deployed and they're doing exactly as we ~~–~~intended them to do. In Asia/Pac, I think it's just more adoption of electronic trading. Obviously, the, we also had a good environment there, in terms of volumes, but the big volume jumps happened in Japan and we don't really have as much exposure to Japan. Other markets did well, but not nearly as well as Japan. But I think it, overall, thematically; it's really about much more electronic adoption. As I said earlier, I think we're really just scratching the surface with Alert. We're a relatively small percentage of L~~l~~iquid~~-~~net volume there, but I'm confident that we'll continue to grow that, particularly with the deployment of the global platform. And, in Canada, I think Canada's, it's just a challenging market, we've seen it in other places. We'll manage our way through it. The Canadian team is extraordinarily good at what they do, they're very entrepreneurial, they're very client centric, their reputation, in terms of the surveys, remains very, very strong. The number one electronic provider in that marketplace and so we know that Canadian, Canada will recover and rebound and but we're managing, I think, very, with a lot of sobriety during this particular period.

RICH REPETTO: Okay, thanks, Bob, that's helpful. And very last thing from me, you know, Bob, you communicated, you could hear it come through, so the excitement, I guess

what you sort of talking about or trying to describe was the segment, not just reporting but organization, as well. And, so I guess my question is now that people are looking at costs, –maybe a little bit more focused and there's more ownership, etc., could we possibly see another -program before–, year-end or, and then, I know you're trying to make steps to profitability, include profitability in the reporting by year-end, is that,– could it come any earlier? And, then the flip side of the question is can you ever get to the point where some of these groups become siloed or are we nowhere near that yet?

BOB GASSER: No, I think that the silo, I'll start with the last question. I think the silo factor's about management, right, it's about partnership, and it's about making sure that we're working together as a team. I think –we've got first class leaders in the regions in the business units to help us do that. Obviously, Steve and I spend a lot of time on that topic. But I think that the steps we took in December just continue on, it's just a new way of operating. I wouldn't, and I think what you'll see is just continual improvement, as opposed to that big number that we announced in December, right? So, –I'm certainly very focused now on '14, clearly the mercury, the announcement on Israel is a '15, so that gives you, I think, some perspective that we're not thinking about this in one year or six month perspectives, we're thinking about it in, —'14, '15 and '16. And so I think we're in a much better place for continual improvement, as opposed to,— one big number.

RICH REPETTO: And the profitability, what do they call it, progressing as you'd expected to meet the yearend targets?

BOB GASSER: Yeah, well, we're still targeting, Rich, sometime in Q4 to make those profit building metrics publicly available.

RICH REPETTO: Great, we'll be waiting for them. Thanks.

BOB GASSER: Thank you.

OPERATOR: The next question comes from Chris Allen of Evercore. Please go ahead.

CHRIS ALLEN: Good morning, guys, nice quarter.

BOB GASSER: Thanks, Chris.

STEVEN VIGLIOTTI: Thanks, Chris.

CHRIS ALLEN: Just a, I guess just following on the closing of the Israel development center. I'm guessing that tied into your comment of doing more with less resources. Is the, the resources provided there, are they just going to be handled at the business unit level internally there or, I mean, just help us think about that moving forward.

STEVEN VIGLIOTTI: So, I think as Bob mentioned, the work that's being performed there today will be transferred to a new consulting firm beginning of next year. So that will continue to be operated at, out of Israel via a separate third party company that we will outsource to. And that third party unit interacts today as a part of ITG, but going forward, it'll still interact with our business unit heads not much different than it does now.

CHRIS ALLEN: Got it. And then, you've obviously seen some very nice improvement in pre-tax operating margins in the last two quarters. Obviously, third quarter's typically

seasonally slower in the volumes that you guys have pointed to on the international side kind of tie into that. Is there a minimum level of pre-tax margins you guys think you can maintain, even in a slightly slower volume environment that we are likely to see here?

STEVEN VIGLIOTTI: Yeah, well, I mean, in terms of, you know, what one of the things, I think I mentioned, Chris, on the call, in terms of incremental revenue, you know, what, where we're generating more than 50% of that is dropping to the pre-tax line, so you can kind of use that, if you want, as your modeling kind of guidance.

CHRIS ALLEN: Got it, okay. Thanks, guys, appreciate the time.

OPERATOR: The next question comes from Michael Wong of Morningstar. Please go ahead.

MICHAEL WONG: Good morning.

STEVEN VIGLIOTTI: Good morning.

BOB GASSER: Hi, Michael.

MICHAEL WONG: So all of your geographic segments have been trended out nicely over the last couple quarters. In general, are you more excited about the revenue growth and operating margin extension potential in your U.S. segment or your international segments?

BOB GASSER: As I said earlier, I think the, for now, I think that it's a business unit story in the U.S. And I think, in terms of a regional story, it's really Europe. I mean, Europe has been on, I think, a very, very good trajectory and I think is going…my feeling is that you will see very consistent performance throughout the course of the year there. So, you know, it's, that's the way I would characterize it.

STEVEN VIGLIOTTI: And we're excited about both.

BOB GASSER: Excited by both.

STEVEN VIGLIOTTI: Yeah, the im~~ap~~proved margin in the U.S. ~~and the,~~ from the efficiencies and the im~~ap~~proved margin, internationally, from revenue growth. We're excited about both of those.

MICHAEL WONG: Okay. And do you have a general view on your, I guess, your transaction costs in Europe and Asia and if they can trend lower, such as, maybe, the degree of competition among the exchanges or, you know, usage of alternative trading volumes, or ability of the internalize order flow?

BOB GASSER: Yeah, I think we feel, you know, good about our ability to continue to focus on that, you know, to extract as much value as we can from everyone we deal with. And that doesn't just apply to exchanges and liquidity pools and it really applies to everything we do, and making sure that, you know, there's a critical focus on that, critical self assessment on that front. So it's part of, I think, this new way of operating.

MICHAEL WONG: Okay, thank you.

BOB GASSER: Thank you.

STEVEN VIGLIOTTI: Thank you.

OPERATOR: This concludes our question and answer session. I would like to turn the conference back over to Bob Gasser for any closing remarks.

BOB GASSER: Well, thank you for joining us today and we look forward to speaking with you all in November.

OPERATOR: The conference has now concluded. Thank you for attending today's presentation. You may now disconnect.