ITG
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OPERATOR: Good morning and thank you for joining us to discuss ITG's First Quarter Results for 2013. My name is Andrew, and I will facilitate the call today. After the speakers' 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. I would now like to turn the call over to J.T. Farley of ITG.

J.T. FARLEY: Thank you, Andrew, and good morning. In accordance with the State Department of 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 PowerPoint slides which accompany this presentation are available for download in the Investor Relations section of www.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 First Quarter 2013 Results. This morning, I would like to discuss the following: first, an overview of our business conditions; then, a brief summary of our quarterly performance and the developments in our global product areas; and I will finish up with some comments on our balance sheet before handing off to Steve.

In brief, we had a good quarter. Overall revenues declined slightly year-over-year, but expenses declined further in keeping with the savings we targeted in our last earnings call. Our European business drove international profitability higher, and we saw a rise in our overall average US rate card.

Here in the U.S. a backdrop of stabilizing market conditions helped our performance. For the first time in ten quarters, we witnessed positive domestic equity inflows with active equity managers experiencing an estimate $20 billion in domestic equity fund inflows. International inflows were also strong, at $48 billion during the quarter, according to ICI. While these flows in and of themselves do not amount to a great rotation back into equities, they are improvement over the heavy outflows we've seen over the past few years.

Combined New York Stock Exchange and NASDAQ average daily volume was down almost 6% year-over-year in the first quarter. In contrast, ITG's average daily U.S. volume rose almost 2% compared to the first quarter of 2012. January saw strong inflows into U.S. domestic mutual funds and stronger overall trading volumes. While business levels fell back a bit in February and March, our U.S. volumes were still up on a year-over-year basis.

During the quarter, average daily U.S. volume for our POSIT crossing network decreased 7% versus Q1 2012 to 89 million shares, but improved sequentially 5%. Average block size in POSIT Alert in Q1 2013 was steady year-over-year and sequentially at 32,000 shares.

We saw a mix shift in the quarter with sell-side activity accounting for 49% of total volume, down from 52% in the fourth quarter of 2012. We were very encouraged by the improvement in our average U.S. rate card, which stood at 46 mils during the quarter – up from 43 in Q4. This is the first increase in the average rate card since the first quarter of 2011, reflecting the mix shift towards more buy-side volume as well as the impact of accounts paying for research at a higher bundled rate and recent market share gains for POSIT Alert block crossing.

Turning to our international operations, we were very pleased with our European performance, which was driven by both market share gains and prudent cost management in a rallying market. This helped grow our revenues and improve our profitability. However, it is too early to tell if these improved market conditions will be sustainable over the longer term. Average daily value executed in POSIT Alert more than doubled over the first quarter of 2012, posting an increase of 108% year-over-year. Alert's average European trade size is now approximately $1.1 million notional, significantly higher than all other dark crossing networks. Overall POSIT now represents about 11% of total European dark trading. Our ability to deploy our U.S. electronic brokerage capabilities into the region, coupled with the good works of our local team, have allowed us to grow our European business over the past year.

In the Asia-Pacific region, we narrowed the profitability gap with revenues up 4% year-over-year and the loss narrowing to under $900,000. POSIT dark crossing continues to gain traction across the region, and we plan on rolling it out for Singapore-traded equities before the end of the second quarter.

Our platforms business also performed nicely in the region due to the continued deployment of Global Triton and an increase in cross-border trading flows. In Canada, total market volume declined 16% versus the first quarter of 2012; and our Canadian commission revenues were largely in line, dropping 17% year-over-year. Our total Canadian revenues dropped just 11% versus the first quarter of 2012.

Looking globally, maintaining expense discipline and increasing operating efficiency remain key priorities for us. As part of this push, we are doing a thorough analysis of our operations along the lines of four global product groups. As a reminder, these groups are electronic brokerage, platforms, analytics, and research, sales and trading. This effort will enable us to take advantage of our global capabilities in scale in regions like Europe and Asia-Pac. We are only in the early innings of this program, but so far we are very pleased with the results.

Through this review, we have been able to better assess our competitive position to help ensure that we are getting the full value for the individual products and services we offer. One benefit of this exercise is a repricing, in some circumstances where we are delivering multiple products and services, to ensure we are being fully compensated for all of the

value we are delivering. This is contributing to the rebound in our U.S. institutional rate card, which is back up at levels we saw in early 2010. We have provided details of the revenues for these global product groups for the first time in today's press release, and the financial materials Steve will discuss shortly.

Even as we strive to be more efficient, we continue to develop innovative new products and services for our clients and to maintain our leadership position in electronic execution and research. Among the recent innovations we've delivered to our clients are: the ITG Commission Manager, which allows institutional investors to track global equity and option trades in their preferred currency and language and arrange payments to more than 4,000 research providers and vendors; the next generation of POSIT Alert, offering seamless liquidity access across 28 countries in a single application; and the new ITG Dynamic Close Algorithm, which enables traders to tap the liquidity available in the NYSE and NASDAQ closing auctions in a more precise manner than competing algorithms.

In addition, our related algorithm, ITG Dynamic Open, was highlighted at the Wall Street Letter 2013 Institutional Trading Awards, with ITG being named best broker for algorithms.

On the research front, ITG Investment Research made alpha-generating calls on names like eBay, Sherwin Williams, Gulfport and SandRidge. We also put out a comprehensive report forecasting Western Canadian energy production, highlighting significant possible bottlenecks in pipeline and rail transport capacity in the coming years.

Turning to our balance sheet, we remain dedicated to returning capital to shareholders through stock repurchases, buying back 748,000 shares of common stock during the first quarter for $9 million. As a reminder, our buy-back program has reduced shares outstanding net of issuances by 15% over the past three years. We expect to continue to repurchase shares at a level at or above the amount of our operating earnings per quarter, and we will continue to view the stock repurchases as a benchmark for comparison against other potential uses of our capital.

In conclusion, we are cautiously optimistic about business conditions; and we are pleased with early results of our comprehensive business review. We believe the end result will be a more efficient firm, as well as increased transparency for our investors.

I want to take this opportunity to thank my colleagues around the world for everything they did to make this quarter possible, starting with the cost reduction plan we executed in early December 2012.

With that, I would like to turn it over to our CFO, Steve Vigliotti, to take you through the first quarter financial developments.

STEVEN VIGLIOTTI: Thanks, Bob, and good morning, everyone. As Bob mentioned, business conditions improved during the first quarter. That, combined with our continued focus on expense discipline, drove earnings significantly higher on both a sequential and year-over-year basis.

As noted on Slide 7, we generated consolidated revenues of $132.1 million during the first quarter – 9% higher than the fourth quarter of 2012 and 3% lower than the first quarter of 2012. We posted GAAP net income of $0.22 per share in the first quarter of 2013 compared to a GAAP net loss of $0.17 per share in the fourth quarter of 2012 and GAAP net income of $0.14 per share in the first quarter of 2012.

On Slide 8, we have detailed the non-operating items included in our GAAP results for the first quarter of 2013 and the fourth quarter of 2012. There were no non-operating items in the first quarter of 2012.

In the first quarter of 2013 and the fourth quarter of 2012, we incurred duplicate rent charges stemming from the build out of our new headquarters in Lower Manhattan of $1.3 million and $1.4 million, respectively. In the fourth quarter of 2012, we incurred a restructuring charge of $9.5 million related to a cost reduction plan focused on the areas of headcount, market data, and other general and administrative expenses. Excluding these items, we generated adjusted net income of $0.24 per share in the first quarter of 2013 and adjusted net income of $0.02 per share in the fourth quarter of 2012. For the rest of this discussion, all references to costs and results 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 down $8.2 million, due primarily to our cost-reduction efforts and, to a lesser extent, lower variable costs due to lower revenues.

Our consolidated pre-tax margin was 9.3%, up from 1.9% in the fourth quarter and 6.2% in the first quarter of 2012. During the first quarter of 2013, we posted net income of $0.14 per share in the U.S. on revenues of $81.2 million. Our 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 pre-tax margin in the U.S. was 8.7%, higher than both the fourth quarter of 2012 and the first 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 $0.10 per share on revenues of $50.8 million. Our international pre-tax margin rate was also higher, at 10.3%.

On Slide 10, you can see that our U.S. expenses declined $7.1 million compared to $81.2 million in the first quarter of 2012, due to lower compensation costs reflecting our cost-reduction measures and the impact of lower revenues on incentive compensation; lower general and administrative costs, due to continuing efforts to reduce those costs and lower market data and client connectivity costs. U.S. expenses were also down $3.2 million compared to the fourth quarter of 2012.

Our U.S. compensation ratio was 37.8% versus 39.9% in the fourth quarter of 2012, and 39.7% in the first quarter of 2012. Transaction processing costs as a percentage of revenue were 14% versus 15.5% in the fourth quarter of 2012 and 13.6% in the first quarter of 2012.

On Slide 11, we have provided a summary of our international results. As compared to the fourth quarter of 2012, revenues were up $6.4 million due in large part to a strong performance in Europe, where revenues were up $4.2 million sequentially. Expenses were higher than the fourth quarter of 2012 due largely to higher revenues in Europe and Asia-Pacific, as well as an $800,000 increase in stock-based compensation for mark-to-market accounting on Phantom stock awards to our Canadian employees. The compensation ratio for our combined international operations was 37.1%, up slightly over both the fourth quarter and the first quarter of 2012 due to the increase in Canadian stock-based compensation.

Combined international transaction processing costs during the quarter as a percentage of revenue were 19.9% compared to 18.1% in the fourth quarter and 20.7% in the first quarter of 2012.

On the next slide, we tracked the performance of our foreign segments over the past five quarters. All regions posted higher revenues and improved pre-tax results in the first quarter of 2013 as compared to the fourth quarter, with our losses in Asia-Pacific being reduced by half.

On Slide 13, we offer some new supplementary information, a breakout of our revenues 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 groups saw a sharp jump in revenues as compared to the fourth quarter of 2012, thanks in part to a pickup in activity in Europe, a spike in volume from our passive client segment in the U.S., and market share gains in POSIT Alert. Revenues for research, sales and trading declined due in part to a decline in project-based work and the timing of payment for research accounts that pay on a discretionary or voting basis.

And you'll note that the platforms and analytics product groups both have much less quarterly variability than the other two groups. This is due in large part to their higher mix of recurring revenues. Roughly half of our platforms and analytics revenue is recurring. Additionally, the commission portion of analytics revenue reflects fixed-priced trading commitments recognized ratably. 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 up 7% versus the fourth quarter of 2012, while market wide volumes increased only 5%. Our overall capture rate per share rose from 43 mills to 46 mills as a percentage of volume from buy-side clients increased. Our average capture rate from buy-side clients also moved higher compared with both the fourth quarter and first quarter of 2012.

We entered the quarter with $233.9 million of cash and cash equivalents on our balance sheet, down from $245.9 million at year end due primarily to the payment of full-year 2012 incentive compensation in the first quarter. Our excess cash at March 31st, over and above what we need for regulatory capital, debt payments and compensation liabilities was consistent at approximately $50 million.

During the first quarter, we repurchased 748,100 shares for $9 million or $11.97 per share. This amounted to 95% of our adjusted earnings and 104% of our GAAP earnings during the quarter. We continually review our capital management approach together with our Board, and we are currently maintaining our guidance of funding repurchases at a level equal to or greater than our adjusted earnings. Please note that this is an annual guidance; and in any given quarter, there may be fluctuations in our repurchase activity.

Looking forward, I would like to offer the following observations. We expect to complete the move into our new headquarters at 1 Liberty Plaza in Lower Manhattan by the end of the second quarter. We expect to incur duplicate rent charges of approximately $1.4 million in the second quarter of 2013. Upon completion of the move, we expect to incur a

one-time charge of approximately $3.5 million including a reserve of the remaining lease obligations at our current headquarters.

Our U.S. average daily volume for April was approximately 188 million shares, at an average rate in line with our first quarter of 2013 average. In Europe and Asia-Pacific, our average daily trading commissions in April were broadly in line with the strong first-quarter levels. 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 questions and answer session. To ask a question, you may press "*" then "1" on your touchtone phone. If you're using a speaker phone, please pick up your handset before pressing the keys. To withdraw your question, please press "*" then "2". At this time, we will pause momentarily to assemble our roster.

The first question comes from Ken Worthington of JP Morgan. Please go ahead.

KEN WORTHINGTON: Hi, good morning. Couple questions – first, for the first quarter of expenses, do we have the full impact of your previously-announced cost cutting program in those numbers? Do we have 100% there?

STEVEN VIGLIOTTI: Substantially all – there's still a little bit that's going to come probably in the second quarter, but substantially all have been realized in the first quarter.

KEN WORTHINGTON: Okay, so this next question I'll be off a little bit, but hopefully directionally correct. So if we look at the cost this quarter, back out the duplicate rent -- $119 million, more or less – if we look at the incremental revenue and the incremental costs, it looks like cost cutting drove about 100% of the revenue to the bottom line. Assuming no more cost cutting in the future and we kind of exclude the $5 million of quarterly costs, it looks like margins on incremental revenues was about 50% for the quarter. Again, it'll be off a little bit – but does that seem like a right way to think about how higher revenues will drive earnings going forward? Does it seem light? Does it seem heavy? How is that back of the envelope?

STEVEN VIGLIOTTI: Back of the envelope, that does not seem unreasonable given the incremental costs we incur on new commissions for transaction processing as well as compensation. That does not seem unreasonable.

BOB GASSER: To add to that, Ken, on the fixed expense side, we're not stopping. And I think the business unit operating methodology we've put in place is really encouraging those teams to go further. And now that there's more transparency, they have decision rights over their P&L and the resources they consume. Obviously, they have a lot more accountability; and I think we've empowered them to continue to think about the firm's cost structure in those business units and also the regions for that matter.

KEN WORTHINGTON: And then the tax rate on the international business, down quite a bit; there's a lot of potential as those different areas make more money. Asia's losing less; Europe's making more. Anything unusual internationally as far as the tax rate goes? And based on the mix, is this tax rate level kind of a reasonable place to look at going forward?

STEVEN VIGLIOTTI: Yeah, and Ken, it will vary, as you point out, based on the mix of profitability. So during the quarter, we had a large portion of our international profitability from our European operation, where we do have a favorable tax structure; and we have the smaller, non-deductible loss in Asia-Pacific. So this was lower traditionally and primarily driven by the mix of profitability and the growth from Europe.

KEN WORTHINGTON: Great, I'll re-queue for my other questions. Thank you.

BOB GASSER: Thanks, Ken.

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

CHRIS ALLEN: Good morning, guys. You mentioned that the repricing of certain products and services had a positive impact on the cash rate. I'm just wondering if maybe you'd quantify against the card in terms of how much of an impact and where we are in the stage of repricing. Is everything kind of fully repriced from here?

BOB GASSER: No, I think there's more work to do clearly. I'm not going to break it down, but I think it's reflected overall in the rate card and our comments on the institutional rate cards. And I think we've got good follow through so far, as Steve alluded, in April as well. But it gets back, once again, to I think the business unit operating methodology, which is I think is a much more disciplined one in terms of pricing and revenue capture and certainly dropping all that to the bottom line.

So I'm not prepared to discuss to the granular kind of movement here, but I think you're going to continue to see that flow through to the rate card, the overall business mix, and the profitability of the business.

CHRIS ALLEN: Got it, okay. And then the revenue by product group is very helpful. Just looking at the research sales and trading line – just kind of look at the average – it's been somewhat steady as to the volatility quarter to quarter. But that seems to be the one area you've kind of continued to invest and roll out new styles in terms of research coverage and adding some sales and trading there. So what's the underlying dynamic in that the business, when we kind of look at it, it doesn't seem to be growing right now?

BOB GASSER: I think the overall dynamic, some of that has shifted into the brokerage world. In some cases, the electronic brokerage world has benefitted from a higher rate card, if that's the client's preference in terms of how they want to interact with us and pay for the various products and services they consume. That might be, for instance, sometimes benefitting an Alert rate card or an Alert interaction with the client.

So it's hard to kind of pin that down; but our view is that it makes sense to continue to rationally invest in the high touch offering at a time when I think the Street is in some cases running, not walking, away from that. So I think you'll continue to see us continue to invest, as I said, in a very measured way. But we think it's dropping to the bottom line. It's dropping into the results. And I keep pointing back to the rate card because that was the area I think where folks were most skeptical when we started the process two and a half years ago of investing in alpha-generating content and capability.

STEVEN VIGLIOTTI: And, Chris, there were some timing elements in those revenue numbers as well in Q1. We do do a little bit of what we refer to as "project-based" work that can be lumpy from time to time, and that part of it was down a little bit in the first quarter. But that tends to smooth out over a longer period of time, over a year or so. But during the first quarter, some of our project-based work out of the research work was down.

CHRIS ALLEN: Great, thanks, guys. I'll get back in the queue.

BOB GASSER: Thank you.

STEVEN VIGLIOTTI: Thank you.

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

RICH REPETTO: Good morning, Bob and Steve. Congrats on an upside quarter. The revenue capture you cited the best since 1Q11, I think. I guess the question is, is it sustainable – this mix of more buy-siders and higher buy-side rate? The flows, at least in April, haven't looked as good as in 1Q; so what do you think about the revenue capture going forward?

BOB GASSER: I think, Rich, we continue to be optimistic. And I think that unlike other quarters, other first quarters in previous years, this was kind of a good, steady progression in terms of rate card; and we sustained some strength. And as I said earlier, and as Steve alluded to, I think we start Q2 – within a week or two, we'll probably be halfway through the quarter – we start Q2 in a good place and continued momentum on that front. So I think we can be reasonably confident and optimistic about the rate card and the business mix and the way that these various business units are contributing to that outcome.

STEVEN VIGLIOTTI: As I noted, Rich, the rate in April was comparable to the Q1 level; and to give some further color on that, the mix between buy-side and sell-side volume was the same as it was in Q1 -- and even slightly improved to what it was in Q1 during the month of April.

RICH REPETTO: Thanks, Steve, that's helpful. On the new segment revenue breakout, Bob and Steve, I know how it's impacting or affecting the sales process – or enhancing it, I guess – I guess my question is as you went through the process, did you learn anything else? What else jumped out about – you know, it looks like as the revenue got broken out, was there any other real things that jumped out at you in regards to what was growing, what isn't growing, etc.?

BOB GASSER: Yeah, I think we went through a very deep dive; and it took several quarters to get it right and to complete it. And probably you guys are just starting to see the tip of that iceberg; and over the course of the year, you'll see the rest. But I think we did a very rigorous analysis not only of the various products and the business units – how they're organized, how they interact with the regions – but also their level of profitability vis–à–vis their competition. So we spent a tremendous amount of time and effort matching ourselves up against private and public companies in this space and trying to get to the bottom of how we're performing.

In some cases, we have assets that are very well performing; and in some cases, we have assets that need an improvement in performance. And everything we're doing around the reorganization of the firm dating back to December is focused on improving the performance of those assets, even the ones that I would describe as being highly-performing relative to their peers. So nobody's escaping any scrutiny or any effort expended to continue to drive, to Ken's earlier point, as much marginal profitability as we can to the bottom line.

And we're using, as I said earlier and I think it's been very useful for Steve and I, real world examples. These are not things that we came up with in the middle of the night, rolled out of bed and said, "We think you guys should be at this operating margin". We now understand better than we ever have the average performance of our peers and the top performance of our peers.

RICH REPETTO: And that's how you benchmark it, I guess, versus the peers.

BOB GASSER: Yep.

RICH REPETTO: And is there anything that you'd expect – you know, electronic brokerage would probably be high margin, the high touch to be lower margin – well, when you get to this, would you say that any segment jumps out at you in regards to margin performance?

BOB GASSER: I'm probably not fully prepared to go into that, Rich. But as Steve alluded to, in Q4 we're really building towards that. And certainly, as you would expect, we want to demonstrate to you and others that we've improved performance in those areas where we believe we needed to.

STEVEN VIGLIOTTI: Yeah, in some cases, Rich, we're refining our business models now that we're looking at them more in addition to an integrated basis and also on a standalone basis. Historically, we've operated them entirely as integrated units. Now that we're looking at them as standalone units, we're seeing things in our models that we want to tweak; and over the course of this year, we're going to continue to work on that.

BOB GASSER: And also regionally – so now we're operating obviously in a matrix as well. The regional P&Ls continue to be very important. The regional leadership continues to be very important. And partnered up with the business units, I think we understand our business now better than we ever have.

RICH REPETTO: Okay, and if I could, I just want to sneak one more in because I want to give you a chance, Bob, to speak on regulation and give your insights. The two things that come to the top of my mind is the exchange leaders going down, sort of lobbying for a trade-at rule with the regulators. So your opinion on that – how it would impact your business as well as the industry?

And then the other thing the *Wall Street Journal* has reported -- these latency issues versus trade confirmation versus the tape. So any views on that would be helpful.

BOB GASSER: On the first topic, I don't think it's surprising that the exchanges are doing what they're doing. Certainly they've lost a lot of market share. But I think we operate in a market structure, I think, that is very efficient. Certainly we've had some issues in the past between Flash Crash and Knight and Facebook and other things. I think at this stage of the game, it's really all about containing those issues and making sure they don't spread to other participants within the market. And I think the industry and the exchanges and the regulators are all working hard to divine the right set of outcomes on that front; and we're part of that, as you would expect.

But it doesn't surprise me that those guys are down there rattling their swords. I think what's interesting is that they have not supported all those requests with some demonstration of what's wrong. And I think that's the problem; the problem is that it's really don't be distracted by the facts, and the facts being that trading costs are down significantly particularly on behalf of institutional clients which are our major constituents.

Our TCA data, as I've said publically in the past, T-costs and market impact are down 75% over the last decade. That's a tremendous amount of transfer of wealth to institutional investors and indirectly into mutual fund investors. So 90 million -- I think is the number that ICI uses – the 90 million retail investors that consume mutual fund product have benefitted greatly from market structure as it stands today. So I think we're much more focused on what we can do to contain some of the unintended consequences or morphing of various issues in the marketplace – making sure we can contain those; working with all industry participants, including the exchanges, including even the depositories, to get to a place where we feel more insulated from one isolated actor in the space. So I think on that front that would be my response.

RICH REPETTO: Okay, very well. You didn't comment on the latency issues, but—

BOB GASSER: Certainly on the latency issues, I think that's worth a deeper dive on the part of regulators. Obviously, I think all the major participants in the marketplace such as ourselves are measuring ourselves constantly. There are issues with market data that I think also need to be addressed. I was at a conference last week; and one of our major competitors mentioned market data as the number one issue in the marketplace, which I don't know if I would go that far. But clearly there's a sense that market data and the distribution of market data and the fairness of distribution of market data are all things that need to be more heavily scrutinized.

RICH REPETTO: Got it – thank you, Bob.

BOB GASSER: Thanks.

OPERATOR; The next question comes from Niamh Alexander of KBW. Please go ahead.

NIAMH ALEXANDER: Hi, thanks for taking my questions. I guess the rate card improvement is really good to see, and congrats again on the beat. It just feels like things are kind of turning – maybe a little bit of credit too, on the research side of it. I don't know if it is more research or more the people using the higher-valued algos. Which would you attribute it to this quarter?

BOB GASSER: I think as we said in the prepared remarks, Niamh, I think it is truly a combination of research and Alert, which is obviously our highest value/least commoditized electronic brokerage product. And we're seeing very, very good traction and market share gains in the U.S. and Europe on the Alert side, which we're very pleased with. But research is absolutely a part of that. I can't underline that more definitively than that. I know there are a lot of skeptics out there that we would never be able to achieve a reversal in the rate card overall and the institutional rate card; but we're doing it every day. And I give our research sales and trading folks a lot of credit.

NIAMH ALEXANDER: Okay, fair enough – and then I know you just spent a bit of time on it with Rich, sorry, but I just want to understand. If they did roll out a pilot trade-at or a minimum price improvement, how would that impact your sell-side business?

BOB GASSER: It's interesting also, Niamh – I failed to mention it with Rich; so I'm glad you asked the question again. The pilot for all that is Canada. Canada has a minimum execution size and a trade-at rule in place right now. Our guys have had six months to investigate and analyze the impact on depth of book and posted liquidity, and the net of all that is zero. So if you want to look for a pilot on a large scale, look to Canada.

NIAMH ALEXANDER: But do you have the sell-side business up there? I mean, where you do that riskless principal matching? I mean, that's the area I think that gets hit most with that. Isn't it?

BOB GASSER: Sure, not in Canada – certainly we have it in the U.S., and it's been a good part of our business. But I would think that depending on what's defined as a "material price improvement," we do pretty well given that the vast majority of things we're matching somewhere very close to the midpoint. So certainly a lot of the saber rattling is threatening. The industry certainly is mobilized – SIFMA -- everyone is mobilized around how to address this. But as I said, I think that we have to get back to the facts. We have to get back to the data and the empiricism of all this; and this is really about the exchanges losing market share, not about market quality in the U.S. – period.

NIAMH ALEXANDER: Okay, I appreciate that. Thank you, Bob. And then the other one was Canada, but can you talk to the business environment? I guess you just basically told me you felt like it's had a zero impact, so what's your view now on kind of the market structure and the market share opportunities because that was such a great growth part of the international business for a while?

BOB GASSER: I think what's going on in Canada is very much a macro story. So it's not the micro story; it's not the market structure story. I think Canada, as we've been saying; it could be a challenging market. You've got certainly a commodity-based bubble that seems to be deflating. The question is, is that a good analogy to the credit-based bubble that we experience, and how long will it take for the rat to kind of go through that snake in terms of volumes there?

I will say, however, that our guys -- as evidenced by an 11% decline in revenue as opposed to a 17% decline in volumes – are doing a very good and creative job of maintaining the profitability and the contribution there that we've become accustomed to, so kudos to the Canadian team. I think they continue to perform well relative to the competition.

And the interesting thing as you guys probably saw in the *Journal* this morning, you're starting to see some capacity being taken out of the market there. Clearly, I think, some of, I guess, the focus of the article's on mining, and that being such a significant piece of overall market cap, but there are certainly some firms that probably will disappear in Canada this year.

NIAMH ALEXANDER: Okay, fair enough – thanks, Bob. And then Asia – I think when we talked before you were getting so close to the profitability which really can have a nice extra lever on realizing some of the tax benefits there. But is there anything additional we should be thinking about – are you getting close to in terms of getting to scale – maybe not all organically or revisiting the self-clearing or something like that?

BOB GASSER: As I think we've said in the past, everything's on the table. I think the way that we've organized ourselves now makes it easier to evaluate our options there. Our Asia-Pac guys have done a very nice job, once again. They've reduced the losses, and certainly that's not our aspirational goal is to lose money in Asia; but that continues to come down, and they continue to drive more product for us into the region. And the relationships we have there are very, very strategic. And so all of those things – all the options that we can evaluate have to be evaluated in that context.

NIAMH ALEXANDER: Okay, fair enough – and then just lastly if I could, on the market share gains, Steve – is that kind of relative to the overall market, which includes high frequency trading? Because before you kind of said, "Don't look at that; they're not our core customers." Or is that like with the core kind of more active institutional customers – you feel like you're getting more wallet share there?

STEVEN VIGLIOTTI: Yeah, we didn't quote market share numbers; we just told you our growth relative to the overall market in certainly our prepared remarks. So that's the only guidance we've given. But I think based on all the information we have, we think we're doing well with institutional accounts on a relative basis period to period.

NIAMH ALEXANDER: Okay, fair enough – thank you.

OPERATOR: The next question comes from Patrick O'Shaughnessy of Raymond James. Please go ahead.

PAT O'SHAUGHNESSY: Hey, good morning, guys.

BOB GASSER: How are you, Patrick?

PAT O'SHAUGHNESSY: Good, good – so the first question is on your new product group segmentation you guys are providing I'm just kind of curious, how much of your allocation of revenues and I guess eventually earnings across those segments, how much of that is art versus science? Because I know a lot of times clients have a variety of ways that they can determine to pay you. Maybe they'll pay you through soft dollars; maybe they'll pay you through trading, etc. So how confident are you that the numbers that you're presenting here are – you're pretty confident in them?

STEVEN VIGLIOTTI: We are confident in them. There's no question it's not a hard science, Patrick. But when we went through our analysis, we looked at what industry competitors do; we looked at fair values of products that we obtain via third parties who pay cash versus others that bundle them. And we were able to come up with what we feel is a reasonable output for what the revenues are. Yeah, it was no question a challenge; but we think we've got a reasonable picture of what the units look like.

PAT O'SHAUGHNESSY: Okay, that's helpful. And then my follow-up question would be, recurring revenues -- in the States particularly -- took a sequential drop quarter-over-quarter. So how much of your rate card improvement was a function of people who had been paying directly for research just kind of shifted to tradin instead?

STEVEN VIGLIOTTI: Yeah, I don't think that was a bigger impact. I think some of the recurring revenue decline we saw dealt with something I alluded to earlier, which was some of the project-based work we do with the research unit was down a little bit in Q1. But I think overall improvement in the rate card is based on the three things we talked about. It's the change and the shift of the business between being more than 50% sell-side last quarter, being more than 50% buy-side this quarter; it is an improvement in the overall institutional rate card, a lot of which I think is helped by both continued research obligations as well as the market share improvements in Alert. So it's really those three things.

PAT O'SHAUGHNESSY: Okay, thank you.

BOB GASSER: Thank you.

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

MICHAEL WONG: Good morning.

BOB GASSER: Good morning, Michael.

MICHAEL WONG: Just confirming that the $1 million sequential decline in telecommunication expenses and $2 million decline in other general and administrative is due to your cost-cutting efforts and that the current level is fairly sustainable.

STEVEN VIGLIOTTI: Yeah, on the telecom and data processing side, we've taken a lot of efforts. We've looked at these costs pretty sharply, and we feel that this is a reasonable level to expect going forward. G&A – while we think the costs should be lower on a year-over-year basis, you can see some variability from period to period, depending on the timing of when we engage consultants or professionals such as legal and tax advisors to help us with certain things. So you could see that move up and down from period to period; but generally speaking, over the course of the year, we think that will be down versus 2012.

MICHAEL WONG: Okay and I don't remember if you've given this out before; but if you have, can you remind us what an average revenue capture rate might be for your buy-side customers versus your sell-side customers?

STEVEN VIGLIOTTI: We have not given that out before.

BOB GASSER: Yeah we have not given that out.

STEVEN VIGLIOTTI: Just for competitive reasons.

MICHAEL WONG: Okay, thank you.

OPERATOR: And the last question will be a follow up from Ken Worthington of JP Morgan. Please go ahead.

KEN WORTHINGTON: So I probably should know this, but right now the international businesses are generating a fair amount of money relative to the U.S. businesses. How are you dealing with the repatriation of that earnings? Are you repatriating everything? Are you keeping some cash over there? So I guess that's number one.

STEVEN VIGLIOTTI: For the most part, Ken, we repatriate. And the way we set up the organization is we've got efficient ways in which to do that. That can be challenging from time to time; but we try to repatriate as much as we can. Certainly to help to maintain the funding levels that we've talked about, vis-à-vis the buy-back, that's helpful to do that.

KEN WORTHINGTON: Yup, exactly where I was going. And then FX TCA – can you just kind of give us an update? It seems like such an interesting product, and there are other implications as that kind of rolls out and is successful. Where do we stand there, and what are the thoughts in kind of extending that beyond Canada and FX trading there?

BOB GASSER: Well, I think on the FX TCA, probably continue to be very gratified by the response from our equity TCA client base. So I think we're a natural provider to them in that space. I continue to read call reports back from the field talking about the fact that FX TCA is now becoming a must have from the perspective of compliance and RFPs and a lot of other things that are going on, on the buy-side.

And I think we're really well positioned to serve that community. We've got what we think is a great and awesome market dataset. And as the product grows, I think it has some leverage to it on the back end in terms of us creating what we call in the equity space a "peer database," which allows not only to look at your own performance singly but allows you to look at others like you in the space with similar constraints and demands for liquidity, etc., etc.

So there's an ability to extend the product once you get to a place of critical mass. So we're feeling very good about FX TCA. And in terms of FX trading, we continue to do a lot of foundational work in the firm. I don't think we're quite ready to discuss it just yet, but clearly the Canadian guys are consistent traders of FX by virtue of their interlisted products up there. But outside of that, there's some foundational work being done; and I think we'll be in a better position to talk about those things probably later in the year.

KEN WORTHINGTON: Okay, so if we go back a decade plus, one of the things that made ITG successful was taking TCA – kind of forcing TCA customers to trade in the platform. They loved the platform; so instead of paying just their chit, they really paid you a lot and there was a lot of leverage there. When do we start to – you know, Jerry McGuire, "Show us the money"

-- when do we start to see the real money from this? Is it maybe start end of this year, or is this like 2015/2016? Is it worth the time that I've already taken on the call?

BOB GASSER: I think it is. But I will tell you that there's a lot of foundational work that needs to be done there. I think you're right; I think TCA can be a very effective thin end of the wedge to penetrating the client business once you can demonstrate there are ways and that there's latitude to improve performance. But there's a lot of work to do. It's a completely different market structure. It has a credit element. It has a back office and clearing that are very different. So I think foundational – there's a very, very strong foundation you need to really engage in this business effectively; and we've been very careful because we feel very good about the core equity business right now, and we certainly have a sense of urgency to reasonably diversify ourselves. But we want to make sure we don't get too far out over our skis.

KEN WORTHINGTON: Okay, great – thank you very much.

BOB GASSER: Thank you, Ken.

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: Great, thank you, Operator.

And thank you for joining us today, and we look forward to speaking with you in July on the second quarter. Take care.

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