GAIN Capital Holdings'
"Second Quarter 2014 Results Conference Call"

Monday, August 11, 2014, 5:00 PM ET
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OPERATOR: Good afternoon, and welcome to the GAIN Capital Second Quarter 2014 Results Conference Call. Our speakers today will be Glenn Stevens, CEO and Jason Emerson, CFO. All participants will be in listen-only mode. Should you need assistance, please signal a conference specialist by pressing the “*” key followed by “0.” After today’s presentation, there will be an opportunity to ask questions. Please note this event is being recorded.

During this conference call, management will make forward-looking statements to assist you in understanding its expectations for future performance. These statements are subject to a number of risks that could cause actual events and results to differ materially, and I refer you to the company’s press release of August 11th, 2014 and the company’s most recent 10-K and 10-Q SEC filings for discussions of those risks.

In addition, statements during this call, including statements related to market conditions, the integration of GFT, changes in regulation, operating performance and financial performance are based on management’s views as of today, and it is anticipated that future developments may cause these views to change. Please consider the information presented in this light. The company may at some point elect to update the forward-looking statements made today, but specifically disclaims any obligation to do so, except where required by law.

I will now turn the call over to GAIN’s CEO, Glenn Stevens, to discuss the second quarter 2014 results. Please go ahead, sir.

GLENN STEVENS: Thank you, David. Good afternoon and thanks for everyone joining our earnings call here to review our second quarter performance and first half of 2014 overview. I’ll go through some bullet points and highlights and then proceed to more details and have Jason weigh in on some of the specifics.

As kind of an overview on the accompanying deck that is with this presentation, on the first slide, it's been fairly well documented at this point that the first half of 2014, and particularly in second quarter, we’ve seen challenging market trading environment and that continues to weigh on our overall performance. It’s an obvious driver for our short-term and medium-term decision-making and these currency volatilities in particular are at levels we’ve haven’t seen in over ten years. So these are quite outliers in terms of trading activity as it serves to average the daily trading ranges, overall size of movements and it’s across the board in multiple currency pairs, and not just in specific few.

That said, we have been able to offset some of that malaise with the continued growth of our commission-based businesses and we’ve more than doubled that on a year-over-year measurement basis. We have continued to exhibit a very successful execution strategy on M&A and closed four deals recently. Our pipeline is as robust as it’s ever been and I think we continue to hone our skills in that area and we are harkened by what we think will continue to help drive our success going forward on that front.

That said, in light of challenging market conditions, the focus on overall expense management continues. We gave some guidance in terms of the synergy we expected to achieve on our GFT acquisition. I'll talk more about how we are on track there, but it's broader than that for us as a company and we've been focusing on that for synergies, and also how we can create a more competitive environment for us as a company, so that when you have these challenging environments we can succeed.

On the next slide, more specifics just to highlight a few of the financial results for the second quarter. We had net revenue of $69.7 million. We ended up with adjusted EBITDA loss of $1.6 million for the quarter. Ultimately our operating metrics stayed very stable, few indications for that. We had a 12% increase in retail volume for a similar period with $522.2 billion, with an average daily volume of $8 billion. Our institutional volume continues to grow with a 27% increase, nearly $1.4 billion with an average daily volume of about $21 billion, and our funded accounts on a year-over-year basis increased nearly 40% to $130,840.

If you move to the next page, in terms of our first half summary of both quarters put together, we are at net revenue amount of about $151 million at a 23% year-over-year increase and adjusted EBITDA of $10.4 million for this half year period. And most importantly, as kind of a harbinger of our ability to generate revenue and ultimately earnings going forward, our client assets surpassed $840 million That's a very large increase year-over-year, so the underpinnings are in place. It offers us the opportunity to build on that as a platform and continue to invest in our business.

Going back to the next slide about the market conditions, the graph, just the volatility, isn't a pretty one. If you look back as I said, you can notice you go back even north of ten years and we really ebbed in terms of trading conditions when it comes to currencies moving around on a daily basis, on a macro basis, on a trending basis.

I think what's important to know is that we don't see this as a secular change, but more of a cyclical change in that, on a broader perspective, currency markets for a long time have shown to get into a rut for projected periods, whether it be months or even in this case, almost three-quarters of a year. But ultimately, they do break out. And I think the important takeaway here is that, if you look back at our performance, we don't need a correction to lofty levels, let's say of, 2008, 2009 to create very material improvements. We actually saw that in 2013, when we only had a modest uptick in average daily trading ranges and the bottom line increased dramatically. So, we are positioned now to really reap the benefits of even a slight correction back to more normal levels or trailing averages of where we've been.

Also as part of our strategic move going forward, we are migrating towards a broader product mix with our GFT acquisition and with our ability to add multiple products to have customers be able trade different markets. We are becoming less-and-less reliant on a pure currency play. We've seen a lot of evidence in that and the metrics that come out for how much of our activity comes out of non-FX products. It's not a competency you want to move away from, but it's about broadening the platform and, again, continuing to invest in the overall market and the overall relationship with our clients.

So breaking out a little bit some of the subsectors, if you will, the next slide talks about our retail over-the-counter business. We ended up with a growth in funded accounts, which is a continued upside march, with our 37% year-over-year growth through June 30th with strong client engagement even in these somewhat tepid markets. We are seeing our average daily volumes, as I mentioned, north of $8 billion, that's up 12% compared to the same period of Q2 of '13.

We continue to generate volume in new accounts from both our direct and indirect sales channels. We are currently at about a 50:50 mix on our, if you will, partner-based business and direct business and there is a bit of a pivot that we've been operating around there, we like both drivers to be strong. As I mentioned, product diversification, with CFDs and single-stock CFDs, is really emerging as a global leader in that space. When it comes to pitching partners, or even being able to offer clients, we are almost unparalleled, if you will, on the products that we can offer and the different ways we can deliver those products in different geographies.

We continue to optimize our core markets, and I mean that on a geography basis, you always want to look into new markets where there might an opportunity. But in places like the US, which is still an important market for us, we are separating ourselves from most of the pack as either number-one or number-two provider in a market, and when we were not, we are striving to get there. And so, there are situations where a market won't prove to be tenable over longer-term and we'll consider pulling back, but for now, it's about optimizing those markets with better marketing spend and the whole on-boarding experience of clients and trying to become a stronger brand in each one of those markets and treating them not as a global market, but actually a little bit more in a local basis, so we can attract ourselves to the clients more effectively.

On the commission-based business, which is a perfect compliment to the over-the-counter retail business for us, we continue to make strides down the next slide. We really want to be able to use our M&A business, use our organic roll-out and say what can we do on the commission businesses to make that even a more material part of our overall mix. If you go back even or scan few years ago, the commission-based business was a blip on the screen, and if you look at the revenue even for Q2 of 2014 versus Q2 of 2013, that business is now generating over $32 million of revenue versus 2014. So, it's becoming more material for us, and complemented in a more normal market, I think you end-up firing on multiple cylinders, which is exactly the strategy we want to execute on.

Our institutional offering continues to grow. Our GTX platform continues to be well-received. We have new record numbers of individual users, not as individuals, but as new account users, every single quarter. And again, that's an illustration of being able to bring in more participants and get a more broader-based appeal in terms of competing with some of the larger players in that space now. But our goal is to continue to gain market share in that space.

On the futures, I mentioned that a little bit already, but our client assets were up 44% year-to-date. We have expanded that through M&A, with some of our recently-closed acquisitions there. It's important to note that while we have been doing that, we have been able to increase our revenue per contract, some of that is more of the higher touch service that we offer to some of our clients there. And so, we want to be able to increase the margins in that exchange business in the US. It's a challenging market, but we have had some margin expansion, and both of those deals that we announced, GAA and TT have proven to be accretive, which was within our expectations, but we have delivered on it.

And on the advisory side, I think the key there is focusing to help meet client-based demands for guidance, we call it guidance-based trading. Ultimately for self-directed traders that want a little bit of help, idea generation or just a sounding board, if you will. With our purchase of Galvan Advisors, we were able to roll that out to a broader set of clients, and that's just in its infancy in terms of us integrating and offering that serves to more users. So across the board, if you look at some of, trying to address the needs of the clients, I think we are trying to take in the feedback of what clients want in this kind of a market, and be able to innovate or orient our service, so that we can be more sticky with them, and also, we can be able to, in the end, add more margin and add more value.

Despite the challenging marketing conditions, as I mentioned, I think it's important to note that we've continued the strength of our core operating metrics. And ultimately over the longer term, if you had a weakness there, that in my mind should raise some alarm bells. But if you have a temporary or a passing scenario in terms of trading conditions, in terms of volatility or movements in the market that you necessarily can't control as a company, the things you can control, you want to deliver. And in that respect, we continue to grow our funded account base, both organically and through M&A. We continue to invest in our overall platform there. And we have seen the resulting increase in assets, increase in accounts. So even if you have a market that isn't overly-exciting in its current state, being able to pull in new clients, and basically extend our lead on many of our peers, I think that poses us in a good position going forward with any kind of a modest market rebound, to be able to extend that lead and that leadership role.

So at this point, I will flip this over to Jason to go through some of the financial details, and then we can summarize and move on to Q&A. Thanks.

JASON EMERSON: Great. Thank you, Glenn. Before we dive into the results for the second quarter and the year, I would like to provide more color on the restatement of our first quarter results, which was done to correct understated trading revenue. In connection with the combination of our London businesses, an isolated error occurred which caused us to underreport revenue by $4.2 million in the first quarter.

As part of the subsequent restatement of revenue, we made other immaterial adjustments to expenses, including referral fees, exchange fees and depreciation. As you will see in the amended 10-Q that we filed today, the impact of the restatement was an increase in revenue from $75.8 million, $79.9 million, an increase in pre-tax earnings from $2.1 million to $5.1 million, and an increase in diluted earnings-per-share from $0.04 to $0.09. We identified the cause and are in the process of remediating the issue. These efforts will be completed during the current quarter so that we are able to confirm a clean internal control opinion by the end of the 2014 audit period.

I am now going to take you through the results for the second quarter, and the year so far, in a little more detail in the next slide. As Glenn noted earlier, net revenue of $69.7 million for the quarter is down 5% for the quarter a year ago, while revenue of $151.1 million for the first half of 2014 is up 23%, compared to the same time in 2013. We experienced very challenging retail FX trading conditions in the second quarter, negatively impacting revenue capture of the retail OTC business. Second quarter retail OTC revenue of $36.4 million compares to $57.5 million in the quarter a year ago, and for the year revenue of $87.6 million is down 6% compared to last year, driven by the decline in trading conditions year-over-year.

The challenging trading conditions during the quarter resulted in a revenue-per-million of $70, well below the trailing 12-month average of $98 per million. As we have said in the past, we operate the business to be slightly profitable at the low-end of the $80 to $120 range per million that we have seen historically. Our retail OTC business is well-positioned to deliver positive earnings with continued growth in our client assets and funded accounts, foreign trading conditions improved in the foreign exchange markets.

Our diversification efforts continue to make traction within our retail OTC business. The acquisition of GFT in 2013 significantly expanded the products available to our retail OTC customers to more than 12,500, and the trading volume in non-FX products is now more than 25% of the retail OTC business, up significantly from three years ago. We continue to make progress in our strategy of diversifying revenue across clients, products and geographies. Our commission-based businesses have grown through both acquisition and organic efforts, carrying $32.4 million in revenue during the quarter, and more than doubling, comparing to the same time last year. We are focused on growing the commission-based businesses, to generate more stable revenue and reduce volatility and earnings of the firm overall.

During the quarter and for the year, each of these offerings delivered positive operating results. Net loss for the quarter was $5.2 million, or $0.13 per diluted share. Adjusting net income for restructuring, integration, and acquisition-related expenses, we get a figure of $4.8 million ,and a loss of $0.12 per diluted share for the quarter. Year-to-date we have a net loss of $1.3 million, or $0.04 per diluted share, and on an adjusted basis, net income of around $0.5 million or $0.01 per diluted share.

One additional item to note is that during the quarter, we adjusted the presentation of interest related to borrowings. We had historically presented this expense within the interest expense revenue line item. Given the distortive effect of interest expense related to the convertible notes, issued in the fourth quarter of last year, we have adjusted the presentation such that interest on borrowings would be presented below operating income.

Moving over to fixed operating expenses. As we execute on our strategy of growing our retail OTC and commission-based businesses, we continue to be focused on managing the expense base, to deliver operating leverage when market conditions improve. Total expense excluding referral fees and acquisition related items, as well as adjusting for the first complete quarter of having GATT in our results, it was $48.3 million for the quarter, down from $49.6 million last quarter, and down 18% compared to the same time last year on a pro forma basis. This savings results from our progress capturing synergies from the GFT transaction.

For the year, total expenses excluding referral fees, acquisition-related items were $97.9 million, down 15% from $114.6 million on a pro forma basis. So we are seeing the results of our integration plan, and have an impact on reducing the cost base. We are on track to deliver annual run rate expense reductions of $40 million by the fourth quarter of this year.

While we believe the current market environment is the result of cyclical conditions, we are in the process of enacting a number of cost management efforts. These initiatives are incremental to the expense reductions we expect to achieve from the GFT acquisition. The impact of the combined set of cost initiatives will begin to have an impact, starting in the current quarter and layering into the first quarter of 2015.

Turning to the return on capital slide, GAIN will distribute its quarterly dividend of $0.05 per share on September 19th, for holders of record as of September 12th, and we will continue to opportunistically buy back shares.

Now, I will turn the presentation back over to Glenn.

GLENN STEVENS: Thanks Jason. On the next slide, we just want to review some highlights from our year-to-date 2014 acquisitions and investments. We actually have been active enough that we have to slice these into timeframes; otherwise I wouldn't have enough time on this call to go through how many successful acquisitions and deals we have been able to get done.

So ultimately, it's important that this comes across as a core competence for us. I think some firms are good at it, and some firms are looking to get good at it. And I think that we have developed an in-house team of expertise, and that means all the pieces of integration and identifying targets, having successful negotiations, and ultimately being able to capitalize on those opportunities. And we have been saying for a long time that it has got to be part of our growth, and I think that we are delivering on that.

Now, unfortunately, we haven't had a market condition or an environment that illustrates the success of these. It's great for me to say that all these acquisitions this year have been accretive, and they are. But not materially enough, where we are able to shout from the rooftops to say we have structurally changed our business. However, we have structurally changed our business. We have made huge strides in terms of diversifying away from a sole reliance on retail FOREX trading. We have been able to add an institutional business that is a perfect compliment to that. We have done that in sub-three years. We have added a commission-based business on the future side of exchange for the futures to compliment what's available in the US market, instead of turning our back on the US market and embraced it and said, let's be the leader that we are and count on it to be a significant contributor going forward.

So all of those kinds of things are listening to clients, seeing opportunities, do things organically from an on-boarding process to payments, for all kinds of things that work on behind the scenes, that aren't obvious in press releases or for us to be able to point to. But they all lead to an opportunity to build your platform, and build your position in this market.

And on the inorganic side, if you will, on M&A, again, we have added some talent there, we have developed some expertise, but we try to do it in a strategic way. We say what makes sense, and then, is there a target that's available to fill what we think is a void. Now, we can't control the macro environment short-term, but that's not why we are here. We are here for a broader timeframe, and we want to be able to put these little pieces in place where they make sense. And in some case, there are bigger pieces like GFT.

So a quick review there, we expanded our futures business, we said there is an opportunity to pick up some assets to increase the marginal value-added to our clients if you will, which would result in a higher margin per contract, did that with GAA and Top Third. On the advisory business, we said, in challenging markets, customers want help. So let's bring a really well-respected, well-established business, that's looking for a bigger partner. Brought those guys into the fold, and it has gone extremely well and we are excited about a broader roll-out for products that come out of Galvan Research.

And on the GTX piece, we want to make sure all the underpinnings are in place. And so, being able to buy the rest of that IP that essentially covers everything, FX and non-FX, for us, gives us that platform to say, hey GTX is going to be here to stay, and it's going to be a bigger player than it already is. But in order to do that, let's go even more than FX and be able to bring multiple services to our clients that we are rapidly expanding with. The good news there also is that we are not done. We have a very robust pipeline, lots of active conversations. Wouldn't surprise me at all to get one or more deals done this year; and so, I think that's, again, part of our mix and our mantra internally to say, hey, we have to be able to manage our operating metrics, manage our costs, and look for opportunities to build the overall platform over the footprint, if you will, of our business.

So in terms of closing remarks, my discussion can come across very kind of half-filled or a glass-half-full focus, but it's not unbridled enthusiasm. The goal here is to say, look for opportunities, continue to build for the future, have faith and have confidence in what we are going to be able to deliver with that modest return to the norm, not a complete 180 degree over back to the heyday of 2009. But do that in a responsible manner, so the cost management stuff, we had a nicely laid out timeline to be able to achieve synergies on a GFT acquisition, that's going along right according to plan, right across the board, but we didn't want to stop there, so we've kind of broadened that mandate, and said, well, that's great, that's going along.

We want to capture that $40 million run rate, what else can we do, because until things improve, we can't have our heads in the sand, we have to be responsible. And so, when opportunities arise on the M&A, go get it. But when it doesn't, and if the market doesn't improve, I am not going to sit here and hope or my team is not going to sit here and hope. We are going to act, and we are going to respond to customers when we can. By the same token, we got to be able to lower our threshold, so we can be profitable, even at levels that, frankly, we haven't planned.

We didn't come into this year and say, well, how will this look at below $80, below $75, which if you go back two or three years, this is outside that range. And so, it's a scenario that we want to be able to build more resiliency into our business. So ultimately, that comes with diversification of product, diversification of customer types, and ultimately a cost basis that we can rationalize. And so, we are very proactive in that case, and ultimately that's where we want to go. And so, we look at this quarter, we look at this year-to-date, we look at the contacts of multiple years and we look forward.

So I think on that note, we ended up with getting deals done on the M&A side. Continue to really focus on our cost management, even outside the GFT acquisition. And then in the end, do what really matters in nuts and bolts, to say continue to strengthen our operating metrics, because when market conditions improve, if those are in place, it's a no-brainer that you end up with a better situation.

So I think on that, we will move to Q&A, and take your questions.

Q&A

OPERATOR: Thank you. We will now begin the question and answer session. To ask a question, you may press “*” then “1” on your touchtone phone. If you are using a speakerphone, 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.

Our first question comes from Niamh Alexander of KBW.

NIAMH ALEXANDER: Hi, Thanks for taking my questions. I guess Glenn, you are talking about the deals and they are positioning you well and you are delivering on the cost saves, but I just can't see it in the numbers. The expenses look pretty high, the revenue is down. I know it's a challenging environment, we are just looking at the numbers, you are running the companies, but the comp is up, the non-trading costs are up. And I know you just swallowed some deals, but we are not seeing any corresponding revenue for the expenses. So you’re saying that you are on-track for the $40 million, but I am not seeing it in the numbers. So help me understand what kind of expenses that you have added on with some of these businesses and where the offsetting revenue is?

GLENN STEVENS: Sure, couple of pieces. I think if you take the retail piece out, you can really see a huge change in retail revenue. Some of that pullback in retail revenue was offset or supplanted, if you will, by the other revenue that came in. You are right, in some of the institutional businesses, the comp ratios are a little higher, that's not really new news. So in our GTX business, maybe in the futures business a little bit, some of the comp ratios there are more comparable to institutional sales people. That hasn't changed in the retail side at all. Although I will say, when you say you are not seeing the $40 million, I would point to our year-over-year expense basis.

Actually, I would even take you back to the chart, where we actually continue to march every quarter over the year with our fixed operating expenses. In other words, non-variable paid out continues to march lower. And I think that, in terms of the $40 million run rate for the GFT deal, that's something that we said that over a year's time going forward, we will be at a $40 million recurring lower run rate. So at the end of Q4 of this year, there would be no surprise here and we don't need a Hail Mary on December 31st. Put the two combined companies together, there will be a $40 million lower run rate for those two companies. So we are seeing some of that come through, because our expenses year-over-year are already lower. I don't know Jason, if you want to add anything on that, but I think we are seeing that?

JASON EMERSON: No, just to put a finer point of that, Niamh, in terms of looking at the first half, we look at the operating expense reduction. If we do the walk and the fixed operating expense, we go from $114 at the end of the first half when you take out referral fees and D&A and impact of GATT, cut down to $98 million. So we are seeing that impact, in terms of the core expenses of the business come down.

GLENN STEVENS: Now to be fair, you say we will take out the referral fees. That is somewhat subject to market conditions there, when we have volume based deals or you have a threshold that has to get paid out, that's part of my point about saying that, in an improving condition, those don't increase as much, until you get the margin expansion.

However, this is absolutely the time to be reviewing those multi-year deals that have been standing and say, hey, Mr. Partner, let's rationalize these and make sense. And so, I don't know if we answered your question, but I think on the non-variable stuff or the non-referable stuff, we are seeing the money come through, although we are not done yet. And I think a little bit on the variable stuff, that's been focused too. So we don't just sit here and hope that conditions improve.

NIAMH ALEXANDER: I guess, I'd ask it another way. You have added a few other small companies during the past quarter as well, so net expenses are going up, so I am just trying like, what's the delta, what's left to cut from the existing cost base?

GLENN STEVENS: Well, I don't know if I put a number on and say, hey, here is what we are going to cut, but I would say that it's material, we don't bother talking if it's not multiple seven figures. And ultimately, I think that, one thing about scale, let's face it, when you can grow, then you just have more room to cut. It's a simple scenario which says, you get that economy of scale, whether it's on the facility side or the admin side or whatever it may be, there are ways to cut, even we are still in the process of going back and negotiating with vendors and partners that were serving GFT and GAIN at the same time. We are able to go through into those scenarios and say, oh by the way, now we will re-up this relationship with whatever vendor it is, it's got to be done cheaper, because we are paying you more from both of those entities.

So how much is left? It is material outside of even synergy stuff. We fully expect to see that flow through. I think the important part here, though, is to say, we have to be responsible in our cutting, we have room. You can look at what our marketing expense has been for a while, it has been very consistent, continue to invest. There is room there; what I am trying to say is, if we don't see a reasonable way out of the current environment, we have levers to pull. And if we do, then great, we are perfectly poised. But we are not stuck at this point. The question becomes, really, if you were in 2012, and you didn't invest in your business, and leave a lot on the table for 2013. So now, you always have that balance of saying sure, cut everything, and it's the classic baby out with the bathwater.

And so, you leave yourself shy of your optimal fighting weight, because you went and cut too much. And so, if I knew in 2011, what 2012 was going to look like, I'd cut the heck out of everything, and then I would have been in better shape for 2012, but then I'd have to remember to go spend everything again, so I was ready for 2013. Now, I am not going to be a wise guy, but if I really knew what the next six months volatility look like, I would probably have a different job, you know, sitting by myself in a room, with people that call me up and giving me money. So ultimately in that case, we can be flexible. The idea is to say, are you building the metrics? And I think ultimately, if we weren't seeing them, the operating metrics improving, we would have a different conversation. But by seeing them improve, it does help the story of saying, this will pay off. And if it doesn't, that was my point, we are not just going to sit here and quietly hope; we are actually making changes to address some of that.

NIAMH ALEXANDER: Okay, all right. Fair enough, I will follow-up later on the conference call.

GLENN STEVENS: Okay.

NIAMH ALEXANDER: And then just on the restatements Jason, it looks like there was a few different issues, it wasn't just all around this one omnibus London account or something, or what was going on there, and is it all fully resolved now?

JASON EMERSON: So the revenue restatement was the core issue that we restated our financials for Q1. And we have a remediation plan in places we talked about. And it's in process, we believe we will have the issue resolved by the end of the current quarter and in position to conclude on the financials for 2014 and address the weakness that was identified.

GLENN STEVENS: Just a final point there, Niamh, is that, yes that was an isolated event that is completely done and dusted, if you will. Has that been identified and fixed? Yes, absolutely. And number two, it's important to note that it was a timing-related item, not that we couldn't find something and found it. It was a question of, you know, Q1, Q2 timing.

NIAMH ALEXANDER: And so the D&A and the exchange, they all relate to that same issue?

JASON EMERSON: No, so then in doing the restatement, in terms of preparing the reader of the financials, we ended up incorporating those adjustments into the quarter given that we are opening up Q1 to do the restatement related to the revenue.

GLENN STEVENS: Those are what I would classify as, the less-than-material status. The reality is if you have the opportunity with the hood open to do a few little tune-up items, you do it. And so, that's why they got thrown in with it. No, not related to that, but the concept is, you have the guy open, fix the other things in there.

NIAMH ALEXANDER: Okay, fair. I should get back in the line. Just real quick on the deals. Your cash balance is a lot lower now; you have done a few deals already. And I don't know, if that [indiscernible] thing happened after the quarter closed or not. But do you still have enough cash, you feel, to go and make a few acquisitions if you want?

GLENN STEVENS: Yes, I think I wouldn't be talking about a robust pipeline if I didn't think we had the ability to figure out how to pay for them. So ultimately, part of our management, I think we have shown to be pretty adroit at being creative there, be able to put deal structures together, so that seller and ourselves, it makes sense on both sides. And then without even getting specific, we have already shown that we don't just write a check and buy a company, there has been a myriad of earn-outs in the converts and seller financing, what have you. There is lots of things to be able to structure this. So, short answer to your question is, no, we don't see it as an impediment at all, for moving forward on deals.

NIAMH ALEXANDER: Okay, thanks. I will get back in line. Thank you.

GLENN STEVENS: Sure.

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

RICH REPETTO: Hi Glenn, hi Jason.

GLENN STEVENS: Hi Rich.

JASON EMERSON: Hi Rich.

RICH REPETTO: I guess the first question is just, on the acquisitions, you do put out the expenses, I believe in slide 24, the $2.4 million. So can you talk about the revenue that would go up, against the $2.4 million for the quarter?

JASON EMERSON: Yes, Rich. So the revenue that's related to GATT in isolation, was approximately $2.8 million.

RICH REPETTO: Okay. And then, Glenn, I am not sure whether it was asked or how it was asked, but you did say last quarter that you are going to come out and give more specific details on the additional cost cutting that went beyond the GFT. And then now, you did lay out a timeframe, I believe you said from this current quarter through the 1Q 2015, but we still have no idea how much that is?

GLENN STEVENS: That's a fair question. On the one hand, we have been quite specific about synergy capture. On the other hand, what makes it slightly more difficult, specific number to put on it, because part of it has to do with the business. And what I mean by that is, as I said, we have more levers to pull. So you say well, from a headcount perspective, from a marketing spend perspective, from a new product rollout perspective, those are a bunch of things that, if we don't see things improving, things in terms of overall market, well, we didn't see the resulting improvement on the operating metrics. We probably, not probably, we will cut into some of those spends with specific numbers. What we are doing here, is being able to tee up some of those pullbacks or initiatives, and say, hey maybe it doesn't make sense right now.

So you are right. I didn't get specific in terms of how many millions we expect to save. But if you want to do an overall ballpark, if we shoot for another save of north of 10%, next step. The point I was trying to make is, we have brought up the idea that said, are you at rock bottom. And the answer is, no. We have levers to pull, to create some more flexibility. But again, there is this balance, when it comes to the business part to say, when do you do it and how deep do you do it. And so, in terms of additional numbers, I think that's probably a reasonably safe estimate to talk about another 10% decrease, if you will, in those kind of expenses because we have the fixed expenses.

RICH REPETTO: The 48 or so for the Q2, or 97 for 98…

GLENN STEVENS: Correct.

RICH REPETTO: Okay, and then my last question would be, it is unprecedented, or at least it feels unprecedented right now. But there are things that point to some of it, and when you see layoffs at the big banks and the regulatory issues. So does it strike you, as a guy that has been in the industry for all his career, does any of this strike you as potentially secular?

GLENN STEVENS: No, it doesn't, and I don't say that because it’s convenient for me to do so. You are right, as much as I hate to admit it. You are talking about FX with me since 1985, and a crappy year just does not stand out. If you look at this, even over a three-year period, you would say 2012 was pretty soft, 2013 was modestly improved and 2014 has started out, or has spent at least half a year, in the dumps. You are right, if you look back at it, if I thought something changed, if I thought that this market has said, we are not going to do this anymore, then I think that's a different story.

That said, I can't sit here and go; everybody, just hang on, don't budge. So we are not doing that, that's why we had the other businesses, that's why we had the other products, and that's why we try to diversify and add, not diversify away, but diversify and add, through reliance on the currency movement because I have to say, we haven't broken out. We have seen some glimpses of brilliance in August in terms of some little bit more moves. You see a couple of percent moves even in the equity markets bouncing out a little bit. You kind of can never predict when all of a sudden, even if they don’t explode, you will look back and go, wow that was amazingly low.

So short answer, no. I don't see that change, I have seen this before. It doesn't mean we just stay paralyzed, it means we make changes. And that goes back to the cost point. We have to really squeeze. One of the reasons we wanted to highlight the improvement is to show actually that we are not just starting now, we have started. I thought that the right question was asked to say, are you done, no. Are you capable of doing more, yes?

We gave a little bit of guidance as to what we think that number could be without too much pain, and then there is the painful stuff which you could do even more. So there is flexibility in this model, absolutely. The question is, how much do you want to sacrifice? And if you are seeing the metrics continue to improve, you want to make sure you are ready, so when 2013 comes back the way it did after 2012, you have some really serious numbers that come in. It’s not a dice roll, it’s preparation for. So that said, if I am wrong, and we don't migrate back to more normal levels, its important, Rich, that we look at our revenue per million. We don't need to move back to $100, right.

You know, we have already run the numbers in at $85 and at $90, it's a lot of leverage in an operating model to be able to have that flow to the bottom line. So, if it doesn't happen, we will be better prepared to weather that. And I use as an example, kind of look back to 2012, and Q4 was a pretty dire quarter for us, and our business now actually, you know, on a comparable basis, is more resilient. That RPM wasn't as low as this RPM, and we lost less money. This is a worse RPM, and actually performed relatively better. I am not saying it’s great, but I am saying there actually has been an improvement, that's less than a two-year period, that we have increased the resilience.

RICH REPETTO: Okay, that helps, Glenn. Appreciate it. Thank you.

GLENN STEVENS: Okay, alright.

OPERATOR: Our next question comes from Dan Fannon of Jefferies. Please go ahead.

DAN FANNON: Thanks, a couple more on expenses here. The $43 million, or the $98 million you guys threw out for your fixed costs, is the difference just all trading-related, or there is some variable compensation that is not included within this fixed number? I am trying to get a sense of the full makeup of it?

JASON EMERSON: So within that $98 million, there are commissions for our GTX and our sales trader businesses are within those operating expenses. You know, those numbers are in there, I will get those.

GLENN STEVENS: You know, specifically give that breakdown there, the predominant part of it is fixed operating stuff.

JASON EMERSON: Most of it is fixed.

GLENN STEVENS: Most of it is, and so that's the one we can focus on to say hey, what kind of needs to structurally change for that. But what's not in there, is the much bigger numbers for referral payments, partner payments out, and those are going to be volume-based, those are going to be activity-based and variable on that nature.

DAN FANNON: Got it. So what is your breakeven kind of revenue number that you think, where you wouldn't be posting a loss?

GLENN STEVENS: So I think its low 80s, it’s probably 83-85, but let me couch that, a couple of things. That's a revenue per million number in retail, but that’s a little bit of a moving target because as the other businesses become a bigger driver of total revenue, then that number actually becomes, if you will, less important for us because the other businesses can carry more of the weight. That's number one.

Number two; as we change our expense base, which we have shown that we have, that number obviously goes lower. However, I would say that, as we came out of 2013, and we were looking forward to 2014, go backwards to, you know, senior exec offsite in Q4 of 2013, we didn't say hey, how profitable will we be at 70 RPM in retail. We haven't seen it in over ten years, 20 years, so it wasn't on the likely scale of the bell curve. And so, I think it’s important to note that, we wanted to continue to migrate lower, so that breakeven question you asked, next time we talk, I’d say it’s 75, then I’d say it’s 65. So it becomes less important, and for now, to answer your question, low 80s is about where it is, given the current mix of our businesses.

DAN FANNON: Okay. And then can you discuss July a little bit, you did see a little bit of a pickup in activity, how that revenue per million kind of changed as a result of the pickup in activity, and just in the last six weeks?

GLENN STEVENS: I think in July, for example, we saw volatility actually continue to deteriorate in terms of Q2. We have seen, as I mentioned a little earlier, a little bit of a glimpse in August of some things moving around a little bit, a few little breakout moves here and there. July, I would love to call it the bottom and say, that was the depth of the trough. But again, prognosticating is not my strength, and so I think it’s important to note that we want to gear towards, every time you see it, then it’s possible; not likely, but possible, so you gear up for it. But I am not sure I am answering your question, but in terms of activity, in terms of opportunities and the trading conditions, July, at least to this date is probably as poor as we have seen it.

DAN FANNON: Got it. And then I guess, just taking that next step further, you've just posted a loss, you've got $13 million in cash, and the environment is not getting better in the short-term, and you are talking pretty aggressively about M&A. So that's kind of I think the disconnect people are not really happy, trying to put that together, those don't all add up.

GLENN STEVENS: No, you are right. And so, if you are managing for the next month or the next four, you would say time to hunker down and run the opposite direction. I think the message I am trying to send is, I don't see any reason why we can't have our cake and eat it too, which is, use this as an opportunity.

The last thing I want to do is come out of this depressed environment, and say, it was a great opportunity to expand our footprint, and we didn't take advantage of it. There are opportunistic discussions to be had that we are having, that would not happen if we were in a more robust environment. So on the one end, we are not betting blindly and doubling down on a bad card. We are investing for the future, as metrics continue to improve or continue to stay stable, at least, or strengthen. And so, I think what we are saying here is, my cake and eat it too scenario is that, while we are taking advantage of these opportunities, we have to lower our cost base, which is possible.

It might not seem obvious, but we are saying, look, for our existing business that’s been integrated, that pulls other businesses in, let's take some new initiatives off the table, lets pull back some skunk work-type scenarios on new product rollout or geographies. Let's do a few things that haven't panned out as quickly as we wanted to, and take those cost runs off the table.

And while we are doing that, if an opportunity pops up, we shouldn't shy from it because if we think that this business is going down the tubes, we should be having a different discussion. And what I said to Rich earlier was, we have seen periods of lackluster environment, and I don't think its forever, but I am not going to hope. I am just going to organize or position the company, so we can weather even more violent storm than we have already.

DAN FANNON: Got it. Thank you.

GLENN STEVENS: Okay.

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

PATRICK O'SHAUGHNESSY: Hi, good afternoon, guys.

GLENN STEVENS: Hi Patrick.

JASON EMERSON: Hi Patrick.

PATRICK O'SHAUGHNESSY: So, just to beat the dead horse on expenses. So as we are looking at some expenses in the quarter-over-quarter increase. So; your employees comp and benefits increased by $2.3 million quarter-over-quarter, and GATT, it looks like that was combined $2.4 million, so basically, was that all comp expense, is that where most of that kind of hits your P&L?

JASON EMERSON: On GATT, it's a combination of some referral fees, and within their expense base, some compensation, then G&A.

PATRICK O'SHAUGHNESSY: So, why was employee comp and benefits up on a quarter-over-quarter basis, even if you back out the GATT, I would have thought that maybe lower bonus accrual, some of the cost reduction efforts that you are talking about, that we would have seen that number actually come down?

JASON EMERSON: So the mix of the commission-based businesses, in predominantly, the sales trader, the mix of the products they traded resulted in a higher payout. So that, and the GATT effect are the main drivers for the compensation.

GLENN STEVENS: As I mentioned, non-retail, some of the highly compensated institutional-like sales guys, if you will, who were able to sell some products outside of FX. In other words, have a little bit of a broader offering for their clients and they manage, it's enough to move the needle, inside of the context amount that you are talking about.

And that's something again, as you manage this expectation going forward, all the pieces need to make sense, and that's part of the levers there to say, hey, you want to make sure that you can rationalize all of these kinds of comp schemes and organization.

And some of it is leftover, and when the margins are there then you don't necessarily go after it. You know, if the margin and the opportunity isn't there; I am not saying that we are lazy; I am saying that you have to look at things in light of what's the current environment. So there is opportunity to make those more efficient. But to answer your question there, as Jason said, that's focused a little bit on…that piece of it is focused on a product mix, on the CFD side, and spread that and things like that for institutional-like type like salespeople.

PATRICK O'SHAUGHNESSY: Got you. And then, as I am looking at your sales trader volumes for the quarter, it looks like your average daily volume was down about 23% quarter-over-quarter. So, does that imply that the sales trader revenue capture went up by a pretty substantial amount to thus result in more commissions paid to those guys?

GLENN STEVENS: Yes, that's correct. Some of that mix that changed products, non-FX, can have that effect in certain markets, yes. This is probably as dramatic a dichotomy we have seen, where FX and kind of non-FX products were so different in terms of the revenue per million that came out of it. Historically it's not nearly as large as that, but this is a bit of a weird quarter on that one.

PATRICK O'SHAUGHNESSY: Got you. And then I apologize if I missed it, but did you guys talk about what percentage of your volume came from white labels this quarter?

GLENN STEVENS: Well, we talked a little bit; we said that we are right about 50:50 in terms of volume coming out of direct and indirect business. And that's about the pivot, we have gone kind of 55:45 either way; it's presently around 50:50.

PATRICK O'SHAUGHNESSY: Got you. And historically, has that percentage been a pretty decent indicator for your referral fees? It seems like that relationship broke down a little bit this quarter. So how should we think about modeling out referral fees going forward?

GLENN STEVENS: A couple of ways. Number one, the GFT acquisition did kind of make a structural shift in that there, reliance on partner revenue was much higher than GAIN'S obviously. They were north of 85% coming out of that. And so, the way for us to look at that first was to say, we have to go in there and say look, the referral fees, number one, came out of GFT with a bigger reliance on partners. Number two, now when we say referral fees, we have the futures business kind of baked into it. So it's a little different than the apples-to-apples.

So you are asking me that question, how do we model that now? The futures business, by design, is a lower-margin business. So, as a percentage, their referral fees is going to go up. However, I think what's important, sorry to complicate this, our OEC business in the past was 85%, 90% referral fee business.

The GAATT business is more of a direct sale, and that's where we made the point of saying that our revenue per contract actually is going up, because that's direct, with less referral fees being paid out. And so on the one hand, I would say that overall referral fees go up because of futures. But that trend gets muted to some degree because changing our futures mix with the acquisition in the last three months, now makes it a little bit more direct. So ultimately, I think where we were, probably stays pretty consistent because of the offsetting effects.

PATRICK

O'SHAUGHNESSY: Okay, thank you. On GTX, so you guys announced during the quarter that you basically bought the remainder of the GTX technology that you didn't own. I didn't realize that you didn't own it all to start with. Can you just talk about the history of how you came about that technology, and why you decided this past quarter to acquire the rest of it?

GLENN STEVENS: I think that the key takeaway there is that, there is a bit of a legalese built into it in that, that we didn't have it. We had a legal exclusive; we had a multiyear extended-time exclusive license on the products, the pieces of it, the ability to build upon it, the ability to roll out products beyond FX. And what we wanted to do at this time was convert that into a full ownership of the IP.

So on the one hand, it's a bit of a technical situation to say, operating wise, and zero impact. It's more about ensuring our future value, and to say, we got our staff approved. We started to put other products on to that platform, and ultimately decision was made to say, you know what, instead of even worrying about this license at all, convert it into an asset and then be able to really go to town with it.

I think what's key, it does bring out about 10% of the fixed on that one. Overall, I mean, the license is helpful because now the non-FX full range of products is something that's really key, because before it was FX- focused, now it's a staff platform and the technology. I think it's key to be able to say, what else works in that environment. And so whether that's IRS, forwards, options, what have you, we have no qualms about investing in it and building it out because there is no reliance on license anymore. And I think ultimately in this case, the nuanced difference in a license and owning the IP is pretty close when the license is written right, but you sleep better at night when you own the IP.

PATRICK O'SHAUGHNESSY: Okay, got you. That's helpful. That's it from me, so I will get back in the queue. Thank you.

GLENN STEVENS: Thanks.

OPERATOR: Again, if you would like to ask a question, please press "*" then "1" on your touchtone phone.

Our next question comes from John Dunn of Sidoti and Company.

JOHN DUNN: Hi guys.

GLENN STEVENS: Hi, John.

JASON EMERSON: Hi, John.

JOHN DUNN: Just a quick question, are you seeing any geographic differences on the retail side, or are the different regions they were all pretty homogenous?

GLENN STEVENS: Geographic differences, no. I think that on the one hand, it's a fairly global phenomenon. Now, that doesn't mean different regions can't grow at different rates, but I think when you have a general impact of a market environment, it affects all people equally. And so, one may have been growing for us, let's say now, China is growing faster than the US market.

But if they both get muted on its financial impact to us, they both get muted. So in that respect, we don't see behavioral differences or impact differences, although there are different underlying growth rates and opportunities. And some of it has to do with just how long you have been in that market. So in some cases, if we are a new entrant, then it grows differently, than if we are longer in the tooth there.

I will qualify that whole statement by saying we don't look at this as one big market. A lot of our offerings are localized from a marketing perspective, product perspective, and even from an on-boarding perspective. And so not to mention, regulatory-wise, you have to have a local presence in a lot of cases which, by the way, is another one of those scenarios that's painful when you are doing it, and painful when you have to spend the money to be there, but when the market opportunity arises, it's only those companies with scale, which by the way, are clearly becoming fewer and fewer globally.

We are seeing lots of shops fold up their tent, and when you come out the other side, draw the parallel to the discount brokers on the equity side in the US, or draw the parallel sometimes in the retail banking business. When you have this cathartic movement of winnowing out the weaker players you do end up in a stronger position later, when you are one of the few dominant providers.

JOHN DUNN: Got it. Thank you very much.

GLENN STEVENS: Okay.

OPERATOR: Our next question comes from Niamh Alexander from KBW.

NIAMH ALEXANDER: Hi, thanks for taking my follow-up questions. If I could just go back to the expenses a little bit, and the compensation. If I ask it this way, if the business mix is the same next quarter, Jason and Glenn, as it was this quarter, are we looking at the same compensation ratio which was comp-to-net revenue, for example, is around 35%, and it's up quite a bit from last year. So when I was asking about the acquisitions you've made, I was just talking about the deals you've closed, and how they would have added to the compensation and the revenue hopefully too. So, is this is a good ratio to think about or is it a bit elevated just because we are at such a low revenue level, right now?

GLENN STEVENS: That's exactly right. There are certain thresholds, let's just use the example of paying somebody a $100,000 base. If they make no money, their salary to the revenue they bring in is really high. But if they are on a percentage deal even, as the revenue goes up, I know I am sounding obvious here. The answer to your question is, it is elevated, but that's part of that concept to say, okay, where do you want to be? You could not have them at all, and then that base level of compensation even benefits in office space would go away, but you would also lose the operating leverage, when you have increases and then the delicate balance becomes well, how much capacity we are supposed to have?

We are not in the voice business, with some of the inter-dealer brokers, and you have legions or who may be, we are never going to be able to utilize that capacity, and we have seen some cuts in those kind of scenarios. For us, it's a much leaner situation, and absolutely, 35% starts to look like some higher-brow, Wall Street shops that we are not competing with them, we are not pretending to be. But I think that, it very quickly reverses itself, with even a modest uptick in revenue opportunity, because you are not paying out 70%, 80% in comps, we are paying out much lower percentages.

NIAMH ALEXANDER: So what is a good run rate now with the kinds of [indiscernible], because I know futures added to it, just covering the futures brokers in the past, it's just a different payout structure. So is it a good run rate within the current mix, like maybe 30% in kind of a normalized revenue generating environment or what's a good run rate?

GLENN STEVENS: I think high 20s is a probably safer bet. Historically, we were low 20s, and say 22-23, we've moved that up, I would say on a longer term, 27-28. Yes, it's higher than where it used to be, but it hasn't blown out.

NIAMH ALEXANDER: Okay. Okay, fair enough. And then just lastly, you mentioned on the deals, and I know there was kind of cash in addition to just the cash on the balance sheet with all the broker receivables and what not. But help me think about your appetite to maybe help fund the deal with equity with your stock price here at these levels?

GLENN STEVENS: The appetite is not huge. Our equity is absolutely too cheap right now, and so, that's not going to be our favorite option, if you will. And so, it doesn't mean it's off the table, it doesn't mean it can't be a component of the deal. But we wouldn't lead with it on that one, no. Under a different scenario and a different valuation multiple, I'd have a different answer for you, but it's not our lead with that right now.

NIAMH ALEXANDER: Okay. Fair enough. Thanks so much.

GLENN STEVENS: Sure.

OPERATOR: Our next question comes from Patrick O'Shaughnessy of Raymond James.

PATRICK O'SHAUGHNESSY: Yes, thanks for taking my follow-up. So the question is, how do you view your weighted average incremental margins at this point? So, obviously you have a different mix of businesses and it's going to change from quarter-to-quarter, but on an average basis, say for every dollar revenue that comes in, what do you think is the variable cost associated with that at this point?

GLENN STEVENS: That's an interesting question.

JASON EMERSON: Just with the mix of business that we have right now, it does fluctuate with the commission based businesses. So…

GLENN STEVENS: That's something I think we have been targeting. I am trying to look at our longer time period to say, what would the variable look like? There is a huge movement there, as you said, where does it come from? If it comes from retail that number would obviously be a lot lower than if it comes from a sales trader or if it comes from GTX.

And if it comes from futures, it's probably much more predictable, essentially, you know what the pay structure is, as Niamh alluded to with some of these other ones. So the only thing here, Patrick, is that, in some cases at lower levels, like this, if you have a relatively standout quarter for a small group, it can move the needle a little bit, like we saw that with sales traders.

It skewed the payout and it skewed some of the comp ratio. It's not something we expect to repeat, it's not designed to repeat. And so, I think I would have to think about coming up with a number for you, frankly. But in terms of predicting it per quarter, it can move around a little bit, at these lower levels. At higher levels it doesn't because retail ends up being a bigger piece and it smoothes it out. When retail is a small piece, like it was in this quarter, the other pieces like sales trader can move the needle more.

PATRICK O'SHAUGHNESSY: Alright, got you. Thank you.

GLENN STEVENS: Okay.

OPERATOR: And at this time, there are no further questions.

GLENN STEVENS: Okay, thank you for joining the call today, and we appreciate you following up. Have a good evening.

OPERATOR: Thank you. That concludes today's conference call. Thank you for attending today's presentation. You may now disconnect your lines.