

INVESTMENT TECHNOLOGY GROUP, INC.

Form 10-Q

November 09, 2016

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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal period ended September 30, 2016

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

for the transition period from to

Commission File Number 001-32722

INVESTMENT TECHNOLOGY GROUP, INC.

(Exact Name of Registrant as Specified in Its Charter)

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Delaware 95 - 2848406
(State or Other Jurisdiction of Incorporation or (I.R.S. Employer Identification No.)
Organization)

165 Broadway, New York, New York 10006
(Address of Principal Executive Offices) (Zip Code)

(212) 588 - 4000

(Registrant's Telephone Number, Including Area Code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of "large accelerated filer," "accelerated filer," and "smaller reporting company" in Rule 12b-2 of the Exchange Act.:

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act) Yes No

At October 14, 2016, the Registrant had 32,566,650 shares of common stock, \$0.01 par value, outstanding.

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QUARTERLY REPORT ON FORM 10-Q

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PRELIMINARY NOTES

When we use the terms “ITG,” the “Company,” “we,” “us” and “our,” we mean Investment Technology Group, Inc. and its consolidated subsidiaries.

FORWARD-LOOKING STATEMENTS

In addition to the historical information contained throughout this Quarterly Report on Form 10-Q, there are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, Section 21E of the Securities Exchange Act of 1934, as amended (the “Exchange Act”) and the Private Securities Litigation Reform Act of 1995. All statements regarding our expectations related to our future financial position, results of operations, revenues, cash flows, dividends, stock repurchases, financing plans, business and product strategies, competitive positions, as well as the plans and objectives of management for future operations, and all expectations concerning securities markets, client trading and economic trends are forward-looking statements. In some cases, you can identify these statements by forward-looking words such as “may,” “might,” “will,” “should,” “expect,” “plan,” “anticipate,” “believe,” “estimate,” “predict,” “potential” or “continue” and the negative of these terms and other comparable terminology.

Although we believe our expectations reflected in such forward-looking statements are based on reasonable assumptions and beliefs, and on information currently available to our management, there can be no assurance that such expectations will prove to have been correct. Important factors that could cause actual results to differ materially from the expectations reflected in the forward-looking statements herein include, among others, general economic, business, credit, political and financial market conditions, both internationally and domestically, financial market volatility, fluctuations in market trading volumes, effects of inflation, adverse changes or volatility in interest rates, fluctuations in foreign exchange rates, evolving industry regulations and regulatory scrutiny, the ultimate resolution of the Securities and Exchange Commission’s inquiry regarding pre-released American Depositary Receipts (“ADRs”) and any customer or shareholder reaction to the matter or further proceedings or sanctions based on our ADR activity, the outcome of other contingencies such as legal proceedings or governmental or regulatory investigations, the volatility of our stock price, changes in tax policy or accounting rules, the actions of both current and potential new competitors, changes in commission pricing, rapid changes in technology, errors or malfunctions in our systems or technology, cash flows into or redemptions from equity mutual funds, ability to meet liquidity requirements related to the clearing of our customers’ trades, customer trading patterns, the success of our products and service offerings, our ability to continue to innovate and meet the demands of our customers for new or enhanced products, our ability to protect our intellectual property, our ability to execute on strategic initiatives or transactions, our ability to attract and retain talented employees and our ability to pay dividends or repurchase our common stock in the future.

Certain of these factors, and other factors, are more fully discussed in Item 1A, Risk Factors, Item 7, Management’s Discussion and Analysis of Financial Condition and Results of Operations, and Item 7A, Quantitative and Qualitative Disclosures about Market Risk, in our Annual Report on Form 10-K for the year ended December 31, 2015 and Part

II, Item 1A, Risk Factors in our Quarterly Reports on Form 10-Q, which you are encouraged to read. Our 2015 Annual Report on Form 10-K and Quarterly Reports on Form 10-Q are available through our website at <http://investor.itg.com> under “SEC Filings.”

We disclaim any duty to update any of these forward-looking statements after the filing of this report to conform our prior statements to actual results or revised expectations and we do not intend to do so. These forward-looking statements should not be relied upon as representing our views as of any date subsequent to the filing of this report.

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PART I. — FINANCIAL INFORMATION

Item 1. Financial Statements

INVESTMENT TECHNOLOGY GROUP, INC. AND SUBSIDIARIES

Condensed Consolidated Statements of Financial Condition

(In thousands, except share amounts)

	September 30, 2016 (Unaudited)	December 31, 2015
Assets		
Cash and cash equivalents	\$ 260,875	\$ 330,653
Cash restricted or segregated under regulations and other	37,611	37,852
Deposits with clearing organizations	72,741	70,860
Securities owned, at fair value	8,678	5,598
Receivables from brokers, dealers and clearing organizations	283,012	1,036,777
Receivables from customers	74,869	49,176
Premises and equipment, net	52,663	55,496
Capitalized software, net	39,104	39,379
Goodwill	10,615	11,933
Intangibles, net	15,872	24,611
Income taxes receivable	8	128
Deferred taxes	35,629	23,590
Other assets	25,425	22,969
Total assets	\$ 917,102	\$ 1,709,022
Liabilities and Stockholders' Equity		
Liabilities:		
Accounts payable and accrued expenses	\$ 165,387	\$ 169,530
Short-term bank loans	133,487	81,934
Payables to brokers, dealers and clearing organizations	171,279	960,559
Payables to customers	25,606	9,957
Securities sold, not yet purchased, at fair value	6,143	2,637
Income taxes payable	6,032	17,017
Term debt	7,918	12,567
Total liabilities	515,852	1,254,201
Commitments and contingencies		
Stockholders' Equity:		
Preferred stock, \$0.01 par value; 1,000,000 shares authorized; no shares issued or outstanding	—	—

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Common stock, \$0.01 par value; 100,000,000 shares authorized; 52,410,571 and 52,300,885 shares issued at September 30, 2016 and December 31, 2015, respectively	525	523
Additional paid-in capital	242,573	239,090
Retained earnings	532,956	571,626
Common stock held in treasury, at cost; 19,846,254 and 19,207,419 shares at September 30, 2016 and December 31, 2015, respectively	(346,779)	(336,923)
Accumulated other comprehensive income (net of tax)	(28,025)	(19,495)
Total stockholders' equity	401,250	454,821
Total liabilities and stockholders' equity	\$ 917,102	\$ 1,709,022

See accompanying notes to unaudited condensed consolidated financial statements.

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INVESTMENT TECHNOLOGY GROUP, INC. AND SUBSIDIARIES

Condensed Consolidated Statements of Operations (unaudited)

(In thousands, except per share amounts)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Revenues:				
Commissions and fees	\$ 83,485	\$ 89,934	\$ 277,141	\$ 319,720
Recurring	19,214	26,659	63,220	80,038
Other	1,486	3,816	9,102	10,872
Total revenues	104,185	120,409	349,463	410,630
Expenses:				
Compensation and employee benefits	45,127	46,305	145,906	157,612
Transaction processing	20,799	21,621	65,731	71,381
Occupancy and equipment	13,849	14,229	41,893	43,071
Telecommunications and data processing services	13,720	12,779	43,341	38,562
Restructuring charges	—	—	4,355	—
Other general and administrative	37,927	21,856	87,663	82,021
Interest expense	561	429	1,668	1,402
Total expenses	131,983	117,219	390,557	394,049
(Loss) income before income tax expense	(27,798)	3,190	(41,094)	16,581
Income tax (benefit) expense	(3,887)	480	(9,460)	7,348
Net (loss) income	\$ (23,911)	\$ 2,710	\$ (31,634)	\$ 9,233
(Loss) income per share:				
Basic	\$ (0.73)	\$ 0.08	\$ (0.96)	\$ 0.27
Diluted	\$ (0.73)	\$ 0.08	\$ (0.96)	\$ 0.26
Basic weighted average number of common shares outstanding				
	32,725	33,859	33,006	34,066
Diluted weighted average number of common shares outstanding				
	32,725	34,547	33,006	34,976

See accompanying notes to unaudited condensed consolidated financial statements.

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INVESTMENT TECHNOLOGY GROUP, INC. AND SUBSIDIARIES

Condensed Consolidated Statements of Comprehensive (Loss) Income (unaudited)

(In thousands)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Net (loss) income	\$ (23,911)	\$ 2,710	\$ (31,634)	\$ 9,233
Other comprehensive loss, net of tax:				
Currency translation adjustment	(3,751)	(7,413)	(8,530)	(12,433)
Other comprehensive loss	(3,751)	(7,413)	(8,530)	(12,433)
Comprehensive loss	\$ (27,662)	\$ (4,703)	\$ (40,164)	\$ (3,200)

See accompanying notes to unaudited condensed consolidated financial statements.

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INVESTMENT TECHNOLOGY GROUP, INC. AND SUBSIDIARIES

Condensed Consolidated Statement of Changes in Stockholders' Equity (unaudited)

Nine Months Ended September 30, 2016

(In thousands, except share amounts)

	Preferred Stock	Common Stock	Additional Paid-in Capital	Retained Earnings	Common Stock Held in Treasury	Accumulated Other Comprehensive Income/(Loss)	Total Stockholders' Equity
Balance at December 31, 2015	\$ —	\$ 523	\$ 239,090	\$ 571,626	\$ (336,923)	\$ (19,495)	\$ 454,821
Net loss	—	—	—	(31,634)	—	—	(31,634)
Other comprehensive loss	—	—	—	—	—	(8,530)	(8,530)
Issuance of common stock in connection with director stock option exercises (24,498 net settled shares) and for restricted stock unit awards (1,048,179 shares), including a net excess tax benefit of \$0.4 million	—	1	(15,968)	—	18,787	—	2,820
Issuance of common stock for the employee stock purchase plan (50,387 shares)	—	1	728	—	—	—	729
Shares withheld for net settlements of share-based awards (380,272 shares)	—	—	—	—	(6,617)	—	(6,617)
Purchase of common stock for treasury (1,336,132 shares)	—	—	—	—	(22,112)	—	(22,112)
Dividends declared on common stock	—	—	—	(7,036)	86	—	(6,950)
Share-based compensation	—	—	18,723	—	—	—	18,723
	\$ —	\$ 525	\$ 242,573	\$ 532,956	\$ (346,779)	\$ (28,025)	\$ 401,250

Balance at
September 30, 2016

See accompanying notes to unaudited condensed consolidated financial statements.

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INVESTMENT TECHNOLOGY GROUP, INC. AND SUBSIDIARIES

Condensed Consolidated Statements of Cash Flows (unaudited)

(In thousands)

	Nine Months Ended September 30,	
	2016	2015
Cash Flows from Operating Activities:		
Net (loss) income	\$ (31,634)	\$ 9,233
Adjustments to reconcile net (loss) income to net cash provided by operating activities:		
Depreciation and amortization	32,450	33,324
Deferred income tax (benefit) expense	(12,426)	3,245
Provision for doubtful accounts	108	587
Non-cash share-based compensation	19,409	12,238
Gain on sale of investment research operations	(21)	—
Changes in operating assets and liabilities:		
Cash restricted or segregated under regulations and other	91	2,918
Deposits with clearing organizations	(6,742)	(23,715)
Securities owned, at fair value	(2,744)	3,122
Receivables from brokers, dealers and clearing organizations	736,136	(500,565)
Receivables from customers	(33,777)	42,018
Accounts payable and accrued expenses	1,659	(34,125)
Payables to brokers, dealers and clearing organizations	(784,076)	414,725
Payables to customers	17,827	42,100