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PRESENTATION

Operator

Good morning, and thank you for joining us to discuss Investment Technology Group's third quarter results for 2010. My name is Stephanie, and I will facilitate the call today. After the speakers' remarks, there will be a question-and-answer period. I will provide further instruction before we take questions. As a reminder, this session is being recorded.

I would now like to turn the call over to JT Farley of ITG.

JT Farley - *Investment Technology Group - IR*

Thank you, Stephanie, and good morning. In accordance with the Safe Harbor regulations, I would like to advise you that any forward-looking statements we'll 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. The release and the PowerPoint slides, which accompany this presentation, are available for download at the Investor Relations section of ITG.com.

We have with us this morning, our CFO, Steve Vigliotti; and our CEO, Bob Gasser. To begin, we will turn it over to Bob.

Bob Gasser - *Investment Technology Group - CEO*

Thanks, JT. Good morning and thank you for joining us to discuss ITG's third quarter. I will begin this morning by giving you some color on the Majestic acquisition we announced earlier this week. Then I will give you an update on industry conditions, our continuing program demand's operating cost during the downturn and our focus on capital discipline and share buybacks.

First, on the Majestic acquisition. We see this is as a major step and a transformational strategy for ITG. The strategy is to fundamentally expand our client relationship beyond the trading desk by offering compelling value to chief investment officers, portfolio managers and analysts within our client community. We see a clear opportunity to meet their growing appetite for independent, unbiased research, which is differentiated in its approach.

We have moved extremely quickly to assimilate what is now known as ITG Investment Research into our business. I joked with my Management team Tuesday that we've executed our first 30 days of our 100-day play in one day. Greenwich Associates puts the size of the independent US research market at just under $1 billion, while Integrity Research estimates it at about $2 billion. Either way, it's a significant increase in ITG's current addressable market as an execution broker, which is currently only about 40% of the total buy side commission pool of approximately $13 million according to Greenwich. This transaction expands our exposure to the client wallet and provides us with access to a select group of hedge funds, who, while significant in size, have not felt compelled to deal with ITG in the past.

ITG Investment Research is differentiated by its objectivity. Analysis of primary data informs its investment analysis. This is a natural extension of ITG's core suite of analytical training tools and technology and is entirely consistent with our firm's reputation for objectivity and insights that are grounded in data. The combined platform offers a unique and compelling proposition across our client's organizations, helping them to capture alpha as well as preserve it.

At a time when there is unprecedented pressure on institutions to deliver investment performance, ITG will now provide portfolio managers, analysts and traders with a robust suite of research and analytics that can make a real difference in results. We believe the proprietary research content will increase our penetration in key accounts, driving greater commission allocations to ITG and increasing our share of wallet. Our clients tend to allocate commission dollars to buckets or categories of brokers and services they provide. We are aggressively recategorizing ITG from an execution-only broker to a full-service provider, while maintaining our conflict-free positioning. We are, in many ways, redefining the BD model. I cannot think of a single competitor that has such a diverse or powerful suite of products that spans the entire investment process.

ITG Investment Research does not make buy/hold/sell recommendations on stocks. We now cover, however, more than 200 companies, across 17 industry verticals, on behalf of approximately 200 clients in the US and Europe. Importantly, 80 of these clients do not have a trading relationship with ITG going into this deal.

This investment research leverages unique primary data to forecast key metrics such as revenues. At this stage, it's probably a good idea to provide a recent tangible example. [John Aiken], ITG Investment Research's Head of Research and Internet Analyst, predicted a top-line Google beat in their latest quarter. His call for a consensus beat was based on data that he and his team collected around the instant search technology that Google has recently deployed and its translation into ad revenue. Throughout our due diligence process, we found numerous examples of this ability to extract alpha generating opportunities from differentiated sources of information. ITG Investment Research also covered-- also offers clients very high-end bespoke research as well as access to their analysts.

The Majestic acquisition is a sizeable commitment for ITG. The purchase price is $56 million. In addition, there will be approximately $11 million in stock awards to Majestic Management to provide both retentive and performance incentives. Steve will have more details on the financial elements of this deal in a few minutes.

Majestic's historical business model was primarily subscription-fee based. They did not have a broker-dealer cash register to collect on client obligations. This deal is driven by revenue synergies, with the two organizations complementing each other naturally. They have 14 research sales people who have been already assimilated into our US sales and trading operation. These folks are now working hand and glove with the existing sales trading resources throughout ITG.

One of the things that made this acquisition so attractive was its scalability. We fully expect to add new US industry verticals and additional companies under coverage over the next several quarters, starting with Medical Devices in Q4. In addition, we believe that there are significant opportunities to expand ITG Investment Research's geographic footprint. This could be very valuable to our businesses in regions like Asia-Pac where client commission spending remains very bundled.

This strategic expansion of our revenue base comes at a time when the challenging conditions in our traditional market show no signs of abating. As you can see on Slide 3, the Investment Company Institute finds that our core actively managed client base saw cash outflows from domestic mutual funds of over $39 billion in the third quarter. That is nearly double the rate of the second quarter, so no swing in momentum is yet evident. There was a small increase in flows to US-based international funds. But at only about a billion dollars, that inflow hardly offsets the huge decline on the domestic side. And it is clear to us that at least part of this shift in fund flows and the increase in risk aversion by US retail investors is a secular change, not merely a cyclical one. The May 6 flash crash and lack of regulatory response have done nothing to reinstill investor confidence.

I think BlackRock CEO, Larry Fink, said it best when he described the "tax" being imposed on plan sponsors and pension funds by the current low-rate environment. While we all realize that the bubble in fixed income will probably end badly and the herd will be led to slaughter, there's a certain inevitably to some reversion back towards equities based on the math alone.

Against this gloomy pre-election backdrop, we believe that ITG is holding its own compared to the competition. Positive average daily volume during the quarter was 61.7 million shares, while the average block size in POSIT Alert was 37,400 shares. Our volume makes ITG the single largest source for crossing institutional block-sized orders in the US equity market today. We recently rode out algo trading for the Brazilian market, adding to our coverage of North America, Asia-Pacific and 21 European markets. Just this week we launched POSIT Marketplace in Australia, the first aggregator of dark liquidity in that country. And we continue to gain recognition and awards from industry analysts for our best-in-class products and services. In the third quarter, Triton was named best buy-side trading system by Financial News, and ITG was named the overall top global broker for commission sharing arrangements by Integrity Research.

Turning to our businesses outside of the US, our regional operations continue to perform in the face of difficult market conditions.

In Canada, revenues were up 11% over the third quarter of 2009, although they were weaker versus the second quarter. Our Canadian crossing networking, Match Now, continues to add new clients and is gaining market share. On the expense side, transaction processing costs fell again, helped in part by a switch to a new clearing provider.

In Europe, we gained a bit of market share despite a steep drop in market turnover and a fall in US fund flows into European equities. Transaction processing costs as a percentage of revenue fell over 400 basis points, compared to the second quarter, to 20.5%, as we consolidated our settlement agents and moved our settlement books and records in-house.

Asia-Pacific revenues were up more than 4% over the second quarter, despite a 7% drop in regional market turnover. That, combined with the closure of our Japan offices and a focus on cost discipline, helped us to narrow our loss in the region.

In light of the continuing tough conditions in our markets, while we will continue to invest in new products and services, we will also continue to look for ways to improve our operating efficiency and ultimately our cost structure. Between managed attrition and the restructuring we took in the fourth quarter of last year, ITG's global headcount is now down 15% from its peak in early 2009, to 1,140 employees.

As part of our planning for next year, we are examining our cost structure on a global basis and believe there are opportunities during the course of 2011 to further reduce costs in a targeted manner. We will do so while maintaining the competitiveness of our product set and the high levels of service which our clients expect from ITG.

We are looking at maximized efficiency, not only in our operations but with our balance sheet as well. Following the mostly cash acquisition of Majestic, ITG continues to have a strong balance sheet and positive cash flow generation. We have the ability to fund further bolt-on acquisitions that support our growth strategies and to make additional share repurchases if desired. Following the final principle payment in Q4 of our 2006 term loan, we will have an additional $10 million of quarterly cash flow available to further enhance our financial flexibility.

During the quarter, we purchased just under 945,000 shares and maintained vigilance around our capital spending programs.

The last topic I would like to address is financial regulation and potential changes to equity market structure. Overall, we are generally sanguine about the outlook as it relates to our business. The regulators, the SEC in particular, have done a good job of assessing the current market structure landscape and have proposed some thoughtful rule changes in the areas of naked access, flash orders and dark pools. We believe the time is right to move forward on these regulations in order to help restore confidence in the wake of the May 6 flash crash. This doesn't require a sweeping round of changes-- even an incremental approach has the potential to provide a foundation of trust for the individual investor. Regulations which increase transparency, such as the proposed consolidated audit trail, would make it easier for the SEC to do its job and could deter potentially destabilizing market activity on the part of unregulated market participants. While many high-frequency trading participants do provide much needed liquidity to the marketplace, all of us need to be concerned about the potential for our variant behavior to affect the functioning of our equity markets.

Let me conclude by reiterating that trading conditions remain very tough out there with no visibility on when they might turn. We cannot say when market conditions might stabilize, but in the meantime, we are putting our balance sheet to work and taking decisive actions to expand our addressable market, increase our institutional penetration, cut costs and return cash to shareowners.

With that background, our CFO, Steve Vigliotti, will take you through the key financial highlights of the third quarter. Steve?

Steve Vigliotti - *Investment Technology Group - CFO*

Thanks, Bob. While we have made significant strides in reducing our cost base, as evidenced by an 11% decrease in US expenses during the third quarter as compared to the third quarter of 2009, the combination of reduced market activity and a leveraged cost structure that is built for scale, negatively impacted our results. As confidence improves and investors reallocate portions of their portfolios back to actively managed equities, this leveraged cost structure will position us to produce attractive shareholder returns.

As noted on Slide 9, we generated revenues of $130.4 million during the third quarter, 18% lower than the third quarter of 2009, reflecting the challenging market conditions for equity trading. The reduction in revenue from the third quarter of 2009 was attributable in part to our reduced US volume, which was in line with the reduction in the combined market volume of NYSE and NASDAQ listed securities. Net income for the quarter was $0.14 a share, compared to $0.40 per share in the third quarter of 2009. The $0.17 per share of net income detailed on the slide for the second quarter of 2010 includes non-operating charges for goodwill impairment and restructuring, aggregating $7.7 million pre- and post-tax. Excluding these charges, net income for the second quarter $0.35 per share. For the remainder of this discussion, all references to results and costs for the second quarter will be on a pro forma basis, excluding these items.

On Slide 8, we have broken down our results between our US and international operations. During the third quarter, we generated earnings of $0.17 a share in the US on revenues of $88.1 million. Our combined international businesses incurred a net loss of $0.03 a share on revenues of $42.3 million. Our consolidated pretax margin was 8.7% during the quarter, compared to 17.7% during the third quarter of 2009. Our effective tax rate for the third quarter was 45.4%, compared to 37.7% in the third quarter of 2009. The increase in our effective tax rate reflects the combined impact of lower US profitability, and our decision during the fourth quarter of 2009 to discontinue recognizing tax benefits on losses incurred in the Asia-Pacific region.

Moving to Slide 9, US expenses were $78 million, compared to $87.8 million in the third quarter of 2009 and $84.1 million in the second quarter of 2010. Our US compensation ratio increased to 37%, compared to 33.2% in the third quarter of 2009 and 33% in the second quarter. As noted in prior guidance, in periods of declining revenues, our compensation ratio increases as we need to retain our high-caliber workforce in order to remain competitive. Despite the increase in this ratio, the absolute amount of the US compensation expense during the third quarter was down $5.5 million or 14% compared to the third quarter of 2009, and $3.1 million or 9% compared to the second quarter. Transaction processing costs were $11 million during the second quarter, representing 12.4% of revenues, compared to 11.8% during the third quarter of 2009 and 12% during the second quarter.

On Slide 10, we have provided a summary of our international results. As compared to the second quarter of 2010, revenues were down $4.9 million, inclusive of a positive impact from foreign currency translations of $600,000, primarily in Europe. This net decline reflected the challenging market conditions in both Canada and Europe. The compensation ratio for combined international operations was 42.6%, compared to 40% in the second quarter due to declining revenues. Combined international transaction processing costs during the quarter, as a percentage of revenue, were down to 20%, compared to 22.5% during the second quarter from savings in Europe, from completing the migrations to a single settlement agent and to in-house settlement books and records, and for the migration of our Canadian clearing activities to a new third party.

On the next slide, we tracked the performance of our foreign segments over the past five quarters. As compared to the second quarter, our pretax margins were down in Europe and Canada. In Asia-Pacific, we were able to reduce our pretax loss by 17%, due to a combination of improved revenues and cost reductions.

Similar to the presentation from our last call, on Slide 12 we have presented our US volume and rate capture statistics, combining both the traditional commission execution volumes and the volumes from net executions. Our total average daily executed volume was down 19% compared to the second quarter, while a combined average daily market volume with NYSE and NASDAQ listed securities was down 27% from the second quarter. Our revenue per share declined to $58 million from $61 million in the second quarter due to a further increase in the mix of our business to higher turnover, lower rate clients. For competitive reasons, we did not break out the historical revenue and rate associated with the new presentation prior to the first quarter so as not to provide detail on the capture per share for next executions through a comparison to our prior disclosures. You can also note on the slide that our other commissions and fees lie in the US consisting of revenues from ITG derivatives and commissioned sharing from our desktop products is down 19% from the second quarter due primarily to market conditions.

We continued our focus on capital management initiatives during the third quarter with a continuation of share repurchases and an increased discipline over capital spending.

We repurchased 944,928 shares during the quarter at an average price of $14.55, bringing year-to-date repurchases to 2.4 million shares. The number of shares currently available for repurchase under approved authorizations is 3.6 million shares. The specific timing and amount of repurchase will vary based on market and business conditions as well as other factors.

We entered the quarter with $339.5 million of cash and cash equivalents on our balance sheet, up from the $325.9 million at June 30.

With regard to the recently announced acquisition of Majestic Research, please note the following. The purchase price for Majestic of $56 million is comprised of $53 million in cash and $3 million in rolled-over equity awards. Approximately $700,000 of the $56 million purchase price will be reflected as a post-closing expense for employee equity awards, which were accelerated. We will also record transaction related expenses in the fourth quarter of approximately $800,000 related to this deal.

Majestic's revenues for 2010 are expected to be approximately $26 million, 25% higher than 2009. Going forward, these revenues will either be reflected in our financials as recurring revenues, if clients are paying through hard dollars or through soft-dollar arrangements including through ITG, or as commission income if such payment is in the form of an overall commission arrangement. As Bob mentioned, we believe this transaction has significant revenue synergy opportunities through our distribution channels and our execution capabilities. As a result, we expect this transaction to be accretive to 2011 earnings per share by a range of $0.05 per share to $0.10 per share after deducting both amortization expense for intangibles reported in the purchase price allocation and stock-based compensation associated with retention and performance awards granted to the Majestic Management team.

Looking ahead, I would like to offer the following observations. We are targeting a US compensation ratio of 38% for the fourth quarter, as the environment for equity trading remains challenging, including an incremental 1% related to the Majestic acquisition. Going forward, we expect this ratio to decline as volumes improve.

As part of the Majestic integration, we will be closing our Westchester, New York office and will relocate the staff, primarily sales traders and support, to our Midtown Manhattan offices. In connection with this closing, we expect to record a restructuring charge in the fourth quarter in excess of $2 million and expect to reduce annual 2011 expenses by $750,000.

And with that, I'd like to open the call to Q&A. Operator, please open up the lines for questions.

QUESTIONS AND ANSWERS

Operator

Thank you. (OPERATOR INSTRUCTIONS) Our first question comes from the line of Ken Worthington with JPMorgan. Please proceed.

Ken Worthington - *JPMorgan Chase & Co - Analyst*

Hi, good morning.

Bob Gasser - *Investment Technology Group - CEO*

Good morning, Ken.

Ken Worthington - *JPMorgan Chase & Co - Analyst*

Can you give us some flavor on Majestic? I know you spent a lot of time, but can you talk about the margins in that business? And can you give us a little bit more detail on how the cross-sell opportunity evolved? So what I'm kind of after is the buy side has been reducing the number of trading desks. You have a subscription-based model. How easy is it to really transfer a subscription-based model to a transaction-based model in this kind of market?

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Steve Vigliotti - *Investment Technology Group - CFO*

Sure, Ken. With regards to the margin, the guidance we've given for next year with the $0.05 to $0.10 accretive EPS, coupled with some reasonable revenue synergy growth from the acquisition due to our execution and distribution channels, we think, you know, make it somewhere in the 10% to 15% range.

Ken Worthington - *JPMorgan Chase & Co - Analyst*

Okay.

Bob Gasser - *Investment Technology Group - CEO*

And then to answer your second question, Ken, I'd say that basically we-- going into this deal, as you can imagine we did a lot of analysis and broke the client base down into basically four categories. One was these firms that only traded with Eagle did not trade with ITG. Firms that only traded with ITG did not trade with Eagle. Majestic, excuse me. We-- that's a code name we were using. Majestic. So ITG Investment Research obviously going forward.

And then there were-- there was-- there were crossover accounts. Clearly these were accounts where we certainly had a risk of bundling given the size of our overall relationship historically, but who Majestic was providing research content to.

So when we think about all of those different categories of accounts, we think about the bundling risk. We think about converting those CSA and soft dollar accounts over to ITG. And then we think about also addressing a market of 80 clients that we have never had an opportunity to serve as an executing broker.

We walked away from that process feeling good about-- as I think Steve and myself have articulated, feeling good about the revenue synergies.

The process has already started. Our research sales folks moved onto our trading floor on Monday. Our first research call was on Tuesday. And we're all out there talking to clients. In fact, I was visiting with clients yesterday, and various members were-- various members of the team-- of my Management team were visiting also with some of the larger clients that are part of this acquisition.

So-- and the earlier returns are actually, I think very positive. We-- clearly there's a lot of good will out there for what Majestic does. Clearly there's a lot of good will for what ITG does. And we view the bundled offering as being one that will be very appealing.

As you're probably aware, some of these-- particularly when a broker or a research provider becomes a very significant part of a firm's CSA budget, they start to run out of room in terms of their ability to continue to grow. And we believe in that circumstance, where Majestic might have been capped in terms of the ability to provide more verticals, more research, more content, we believe the cash-- the ITG cash register will help them move beyond that cap.

So overall, I'd say we're very, very pleased with the early returns.

Ken Worthington - *JPMorgan Chase & Co - Analyst*

Thank you. And then on the core business, it looked like the commission rate fell by about 5% sequentially based on the new reporting from 2Q to 3Q. In years past, I think you had given some sort of guidance where the commission rate probably falls normally at, you know, like an 8% to 10% rate. Is the trajectory that we've seen recently a good new trajectory, or is that very old guidance still applicable as we look forward, based on what you know right now?

Bob Gasser - *Investment Technology Group - CEO*

I'd say that the capture there is more a function of the mix in terms of the growth of our business. We continue to still see growth in the spread-based relationships and some of the flows that we're starting to see from, for instance, retail providers.

The problem is that the institution was fairly weak. So we're seeing good growth in the segment that we've been focused on since Q1 of 2009, and that is this spread-base or net-trading-based business. But at the same token, the institutional market is very challenged. So I think it's more of a client mix issue.

Ken Worthington - *JPMorgan Chase & Co - Analyst*

Okay. And I'll end on a high note. The market share in Asia looks like it did well during the quarter. Can you talk about the traction you're getting there, particularly with the reorganization you've done recently in Asia?

Bob Gasser - *Investment Technology Group - CEO*

Yes. We're really-- I've got to say Dave Stevens has hit the ground running. He's put some organizational changes in place. I think mere-- just his mere presence in Hong Kong has had a very, very positive effect on the overall business.

Asia is a place where I think volumes are relatively healthy here in October. As you're probably seeing, a tremendous amount of IPO activity. Asia and Europe are decoupling from the US in the preelection environment here in terms of the overall levels of activity, but particularly Asia.

Ken Worthington - *JPMorgan Chase & Co - Analyst*

Great. Thank you.

Operator

Your next question comes from the line of Rich Repetto with Sandler O'Neill. Please proceed.

Rich Repetto - *Sandler O'Neill & Partners - Analyst*

Yes. Hi, Bob, I'm in a difficult spot here, so I'll just limit it to one question.

Bob Gasser - *Investment Technology Group - CEO*

No problem. Good morning, Rich.

Rich Repetto - *Sandler O'Neill & Partners - Analyst*

Morning, Bob and Steve.

Steve Vigliotti - *Investment Technology Group - CFO*

Hi, Rich.

Rich Repetto - *Sandler O'Neill & Partners - Analyst*

So my question is I know on an individual basis that you don't probably want to break out some of the stuff, but in aggregate you've reshaped the firm with Disclosure Insight, White Cap and Majestic. So what, in aggregate, is the cost on the investment? That's the first part of it.

And then what are the reve-- aggregate sort of ballpark revenues and expenses, so we know how you're really looking at the firm going forward? I know that particularly that Jamie Selway is an expensive guy. I'm kidding really. But just if you can give it more on an aggregate basis, I think that'll help analysts to look at the Company.

Bob Gasser - *Investment Technology Group - CEO*

Sure. I mean, I'd say that to address on the Majestic front, obviously we've spent a lot of time going through the purchase price and the structure of the deal here this morning. On Disclosure Insight it was a minority investment that we haven't disclosed. It was relatively small.

Disclosure Insight, I think, is doing a great job of building out the library. When we acquired Disclosure Insight they were 260 names. They're now at 559, so they're really moving towards critical mass very aggressively, and we're very pleased with John Gavin and his team there.

And then on the White Cap front, I've got to say we were very lucky, very opportunistic. We absorbed White Cap, Jamie and his colleagues into the firm. Jamie is-- I mean, talk about hitting the ground running. We had a client dinner in New York earlier this week. It was Tuesday night. It was probably the best-attended client event we've ever had. I think we had close to 55 clients for dinner over at the Modern that was extremely well received.

Jamie, I don't-you know, he's on the road. Clearly he's making hay while the sun is shining here in terms of the market structure issues that are circling around us.

So, I-- you know, those three pieces of content are-- in my mind are very, very integral to reshaping this firm and probably not the last of things we're going to do in this space.

Rich Repetto - *Sandler O'Neill & Partners - Analyst*

And on sort of the aggregate revenue expense impact I know we said the $0.05 to $0.10, but overall?

Bob Gasser - *Investment Technology Group - CEO*

On the Majestic side it's $0.05 to $0.10.

Steve Vigliotti - *Investment Technology Group - CFO*

Yes, that's clearly the biggest part of this effort so far.

Rich Repetto - *Sandler O'Neill & Partners - Analyst*

Okay. But we still don't have a really feel for revenues expenses here (inaudible).

Bob Gasser - *Investment Technology Group - CEO*

Yes, revenues are projected to be $25 million.

Steve Vigliotti - *Investment Technology Group - CFO*

(Inaudible) Majestic revenues, as we indicated for 2010, are projected to be about $26 million, which is 25% over the prior year. You know, we expect continued growth from the continued client base as well as from our synergies.

Rich Repetto - *Sandler O'Neill & Partners - Analyst*

Okay. Thank you very much.

Operator

Your next question comes from the line of Daniel Harris with Goldman Sachs. Please proceed.

Daniel Harris - *Goldman Sachs - Analyst*

Hey, good morning, guys. How you doing?

Bob Gasser - *Investment Technology Group - CEO*

Good morning, Dan.

Steve Vigliotti - *Investment Technology Group - CFO*

Good morning.

Daniel Harris - *Goldman Sachs - Analyst*

Hey, I was wondering if you could give us a little bit more flavor on the spread-based trading or the net trading and how you're seeing that continuing to progress here in the quarter and how you think that that goes forward.

Bob Gasser - *Investment Technology Group - CEO*

I still believe we have a robust opportunity to continue to attract more and more-- excuse me-- retail flow to our firm. We're just entering this business. We're competing against basically an oligopoly in that space. You know, clearly, I think some of the issues that arose from the flash crash and other kind of market conditions are creating even more opportunities for us.

Our institutional clientele finds this liquidity to be particularly attractive. And so I believe-- and that business, that segment has been growing for us. You see it probably in a little bit of our wholesale market share numbers. And I don't want to, you know, throw our hat on that, but I think we're becoming a presence in that marketplace, and-- but I think there's a lot more to do.

Daniel Harris - *Goldman Sachs - Analyst*

Thanks a lot. Hey, I just want to shift over to the Canadian market. That's obviously one that continues to evolve.

Bob Gasser - *Investment Technology Group - CEO*

Sure.

Daniel Harris - *Goldman Sachs - Analyst*

Specifically over the last two years. And you guys have been a part of that process. But as you look out there, what do you think on market structure there, do you continue to see more share moving away from the exchanges to sort of the other venues, the non-lit venues, and how do you guys think you play a role?

Bob Gasser - *Investment Technology Group - CEO*

I think there's no question that you'll probably see some continued share loss in the primary exchange. We are certainly benefiting from that with our Match Now facility. Match Now is a little bit more of a utility than POSIT is. In other words, we do have-- it's a dark pool, but it's facilitating sell-side execution as well.

I think our folks in Canada are very well positioned in terms of the continued demand for smart routing, for algorithmic trading, for liquidity aggregation. There's POSIT Alert in production up there, and I think it's been doing pretty well.

We're celebrating, interestingly enough, our tenth anniversary as a Canadian broker this evening. In fact, I'm leaving for that just after this call. And I think it speaks volumes to not only the durability of our franchise up there, but I-- what I believe to be the exciting growth prospects going forward.

So I think it's more of the same, Dan. I think assuming there isn't some regulatory backlash, which I don't expect there will be, the Canadian banks have always been-- I'm talking about the big universal banks, they've always been, I think, very much free-market driven, and they certainly not at all beholden to the TSX.

Daniel Harris - *Goldman Sachs - Analyst*

Okay, great. And then just last for me. You know, you talked about the balance sheet and the 3.6 million shares you guys still have available for repurchase. How do you evaluate the opportunity for repurchase versus continued expansion in research, or maybe it's just geographic expansion that you guys want to pursue? I mean, is there a hurdle rate that those things have to overcome, versus what you're getting on the repurchase? And on the repurchase, you know, how should we think about timing? Thanks a lot.

Bob Gasser - *Investment Technology Group - CEO*

I think that one of the things that was really appealing about Majestic was, as I said, it was right-sized in terms of its price. It was right-sized in terms of its existing institutional penetration. It is scalable, which we can get very excited about very quickly in terms of not only more industry verticals here in the US, but expanding that globally.

We are probably still missing a handful of important industry verticals out there. The question is whether or not we can find something that's consistent with our approach, which I think is probably very clear at this stage.

But we-- every step of the way we want to retain financial flexibility. So we believe that the financial strength of the firm continues to be a core asset to our business. And so I think we want to maintain a balance of both going forward, while at the same time investing in this business and nurturing it and giving it the opportunity to really have an effect on the bottom line.

In terms of international expansion, I think we've got all the right pieces in place. We still have, you know, product parity in Europe. We now control our settlement in Europe.

We-- I think we're in great shape in Canada. In US, obviously the institutional market is challenged, but our market share continues to be very good with institutions.

And in Asia, we have the right guy leading that effort, and I think you'll see some good things out of that business in the near and intermediate term.

So I don't really feel compelled to do anything in terms of acquisitions around other execution platforms globally, but I think it's probably a pretty good chance that-- or probability that we will be looking at some other content offerings.

But as I said, balancing that, the scale of that against, you know, maintaining our financial flexibility.

Daniel Harris - *Goldman Sachs - Analyst*

Okay, thanks very much.

Bob Gasser - *Investment Technology Group - CEO*

Thanks, Dan.

Operator

Your next question comes from the line of Niamh Alexander with KBW. Please proceed.

Niamh Alexander - *Keefe, Bruyette & Woods - Analyst*

Hi. Thanks for taking my question, and congrats on getting Majestic done and closed and everything so quickly during the last quarter.

Steve Vigliotti - *Investment Technology Group - CFO*

Thank you, Niamh.

Bob Gasser - *Investment Technology Group - CEO*

Thanks, Niamh.

Niamh Alexander - *Keefe, Bruyette & Woods - Analyst*

You're welcome. And if I could stick, I guess, on the subject of deploying the cash for acquisitions and share repurchases, we talked before about, you know, the settlement period, lending, and we understood you were-- you know, you were working with the banks to try and free up some of that cash. And still you have quite a lot of cash on the balance sheet, but arguably you don't need it all.

You know, are you getting closer, do you think, to maybe getting that line of credit with the bank that might free up some additional cash for repurchases, or am I getting the sense that your focus has really shifted back towards, you know, content deals and repurchases would be more kind of smaller and more in line with what we've seen recently?

Steve Vigliotti - *Investment Technology Group - CFO*

Just to give some color on the cash, Niamh, so on the balance sheet at September 30, the $340 million of cash, we had approximately $265 million of that was being used to meet the desired capital of our regulated subsidiaries. So of that, about $75 million of amounts outside the regulated entities. We just recently used $53 million for the Majestic purchase.

In terms of the bank facility, we are engaged in putting a bank group together to secure a committed facility for our US broker-dealer entity. We think this is an-- a prudent and important thing for us to do. It'll help us not only meet temporary spikes in clearing requirements that get caused by volatility increases, we also believe it'll help us free up about an additional $50 million worth of cash that's on our balance sheet today.

And we are working on that. To date, we have received some formal commitments. We have some other indications of commitments to participate. And now, with the Majestic deal behind us, we're going to be working over the coming weeks to try to get that done.

Niamh Alexander - *Keefe, Bruyette & Woods - Analyst*

Okay, great. And just in terms of the liquidity of the stock, if you freed up an additional $50 million, would you like to deploy that towards repurchases, or do you think you'd rather keep a good chunk of that for more deals?

Steve Vigliotti - *Investment Technology Group - CFO*

See, I think, as Bob mentioned, I think we're focused on both investing in the business for long-term growth as well as using some of our continued cash flow and balance sheet flexibility to return value to shareholders. I think we like to continue on both fronts.

Niamh Alexander - *Keefe, Bruyette & Woods - Analyst*

Okay. I'll take it. Thanks for the additional color. I appreciate. And--

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Bob Gasser - *Investment Technology Group - CEO*

And that's one of the other reasons, Niamh, that I threw out, the fun fact about our-- the final principle payment in our term loan. It highlights, once again, you know, you've got an additional $10 million to-- that's freed up going forward. There's more ability, as a hit, to maintain overall financial flexibility.

Niamh Alexander - *Keefe, Bruyette & Woods - Analyst*

Okay. Thank you, Bob. I appreciate that. On Majestic, if I could just understand have they not tried to get some business with the big institutional accounts, or maybe why haven't they done it so far, and why would it be different going forward that you think you can get them in there with the big institutional accounts.

Bob Gasser - *Investment Technology Group - CEO*

Well, they have a very significant institutional business. It's a mix, as you would expect, with 200 clients, both here in the US and Europe. It's a mix of hedge funds and US institutions, some very large US institutions.

They've had a subscription-based model, right, so interestingly enough, they've had an approach that is very focused on PMs and analysts, and not at all focused on the trading desks of our clientele.

So even in firms where we do crossover, where they had an existing strong relationship, and we have an existing strong relationship, in many ways, the product is being introduced for the first time to the trading desk at those large accounts. And it's an interesting process we're going through right now of education, of, as I said, addressing the notion of payment structure going forward, rate card, all those things.

But one of the things that we're very pleased with so far is the early returns in terms of us being recategorized as a firm. We're no longer in this bucket of-- we just-- you know, you guys are an execution-only firm. You don't receive any research votes. So we can only pay you in this way, to this magnitude. So that changed Monday, Monday morning, and I couldn't be more excited by the client response at this stage.

Niamh Alexander - *Keefe, Bruyette & Woods - Analyst*

Oh, that's very interesting, and I guess that helps to the rate capture, too, as people start to pay you more for a bundled product rate.

Bob Gasser - *Investment Technology Group - CEO*

Yes, exactly.

Niamh Alexander - *Keefe, Bruyette & Woods - Analyst*

Okay. Thank you. And then lastly, if I could, before the message to us was we did a lot of restructure early in the year, and we think they're pretty much done, but I get the sense you're kind of indicating there could be more. Is it staff? Is it office closures? You know, help us think about where there could be additional cost cuts in the core business if, you know, the environment persists as it is for several quarters yet.

Bob Gasser - *Investment Technology Group - CEO*

I think it's really about productivity at this stage. Certainly when we look at some of our real estate footprint, for instance, in Rye Brook in Westchester County, it just-- it looked very, very overdone, particularly given what we were attempting to do. We basically relocated that staff down to the New York trading desk as part of this move on Monday.

We did a lot of things on Monday, which that was one. And so it's about making sure that we are as productive as we possibly can be across the entire organization. And it-- the timing is good in terms of our 2011 planning. Every revenue-- ever cost center, every revenue center is expected to arrive at that table with some suggested productivity improvements.

So I think we are-- looking back on the riff in 2009, it was absolutely the right thing to do. But given the overall state of affairs in the institutional business, I think the compelling argument to maintain our level of service and our-- and the (inaudible) of our product suite, particularly in light of this new acquisition we've made, I think in terms of people, that's not going to be the focus.

Niamh Alexander - *Keefe, Bruyette & Woods - Analyst*

Okay. Thanks for taking my questions.

Bob Gasser - *Investment Technology Group - CEO*

Yes.

Operator

Your next question comes from the line of Mike Vinciquerra with BMO Capital Markets. You may proceed.

Mike Vinciquerra - *BMO Capital Markets - Analyst*

Yes, thank you. Just one more on Majestic, Bob. You know, many months ago when we were talking about your research capabilities and what you were looking to do, I think you were focused on smaller deals. I wouldn't necessarily consider this small. It seems a little bit more transformational. What-- did something change along the way that you just looked up and realized that this would be something that would actually take you to a much different level instead of trying to do small pieces one at a time?

Bob Gasser - *Investment Technology Group - CEO*

You know, it really is-- I'll sum it up in one word, and that's opportunity, Mike. We just-- the more we learned about Majestic and their penetration and their differentiation, the quality of their people and their process, the more we got excited by the opportunity to really, as you said, transform the firm, recategorize the firm, and create something that was scalable, unlike anything else we had seen.

I mean, we've done a lot of deep dives into the independent research space, and this one really stood out for us. So I think it really was a function of just being opportunistic and not being-- but not putting ourselves in a position where we ceded any financial flexibility going forward, but it was just too compelling, I think at this stage, to pass on.

Mike Vinciquerra - *BMO Capital Markets - Analyst*

Okay. Thank you. Steve, a couple of clean-up questions. I think you mentioned these in your prepared remarks. I want to make sure I've got the one-time costs for the fourth quarter. I think you said $700,000 for equity cost acceleration, $800,000 for deal costs and then the $2 million for restructuring, so $3.5 million in one-time costs in Q4, is that right?

Steve Vigliotti - *Investment Technology Group - CFO*

Yes, we've identified that thus far. That's correct, Mike.

Mike Vinciquerra - *BMO Capital Markets - Analyst*

And did you mention in your prepared remarks the tax rate spike? Did I miss that?

Steve Vigliotti - *Investment Technology Group - CFO*

I did, yes. It really has to do with the mix of the business. So the fact that US profitability has come down in the third quarter and the fact that we're-- we continue to incur losses in the Asia-Pacific region where, since the fourth quarter of last year, we stopped recording a tax benefit, so that shift and mix is going to push that rate up higher when the mix of our US profitability goes down a bit.

Mike Vinciquerra - *BMO Capital Markets - Analyst*

Got it. Thank you. And then just the last thing, your cost cuts from both the Tokyo office and then the clearing changes you made internationally, are those fully baked into 3Q numbers, or will it be-- did you get a full-quarter benefit, I guess, from your changes?

Steve Vigliotti - *Investment Technology Group - CFO*

Almost. The Canadian clearing change happened in August, so you've got two-thirds of it there. But for the most part, we got most of it in the quarter.

Bob Gasser - *Investment Technology Group - CEO*

A little bit left in Japanese costs, but, I think, yes, that's how we (inaudible).

Mike Vinciquerra - *BMO Capital Markets - Analyst*

All right. That's it for me, guys. Thank you.

Bob Gasser - *Investment Technology Group - CEO*

Thanks, Mike.

Operator

Your next question comes from the line of Chris Allen with Ticonderoga Securities. You may proceed.

Chris Allen - *Ticonderoga Securities - Analyst*

Good morning, guys.

Bob Gasser - *Investment Technology Group - CEO*

Morning, Chris.

Steve Vigliotti - *Investment Technology Group - CFO*

Morning, Chris.

Chris Allen - *Ticonderoga Securities - Analyst*

I just wanted to just, again, confirm a couple of numbers. The 10% to 15% margins for Majestic, was that current or projected last year?

Steve Vigliotti - *Investment Technology Group - CFO*

Both.

Chris Allen - *Ticonderoga Securities - Analyst*

Both. Okay. And then in terms of the $0.05 to $0.10 EPS accretion, what level of revenue synergies is built into that assumption?

Steve Vigliotti - *Investment Technology Group - CFO*

It's-- I really don't want to get into the details of our modeling at this point. There's still a lot we're-- you know, we're doing with the integration process right now. But I think we're comfortable with those levels of accretion guidance right now.

Chris Allen - *Ticonderoga Securities - Analyst*

Got it. Okay. And then I guess just one follow-up question on the bank facility. I mean, what's the hold up? You guys have been working on that for a while. Is it just continuing to be that the banks are still kind of not facilitating lending at this point?

Steve Vigliotti - *Investment Technology Group - CFO*

That's a fair question. Yes, we had targeted having this completed by now. And while the credit markets have thawed a little bit, obtaining a facility of the type I described is still a bit of a challenge in the post-financial crisis world. There are a number of banks that have decided to avoid these types of broker-dealer lines altogether.

So, yes, but, you know, we remain optimistic that we'll be able to get something done in the fourth quarter, but it's certainly more of a challenge than a traditional or regular commercial line of credit.

Bob Gasser - *Investment Technology Group - CEO*

And I think the other point to be there is we probably pushed the envelope a little bit structurally, so we're-- our requirements are probably-- you know, are fairly stringent in terms of what we're looking to do here. So, I mean--

Steve Vigliotti - *Investment Technology Group - CFO*

Yes, in order to really have that financial flexibility with excess cash, you know, something like a multiyear facility, for example, of something that's important to us as well.

Bob Gasser - *Investment Technology Group - CEO*

Absolutely.

Steve Vigliotti - *Investment Technology Group - CFO*

So we'd like to do this right and for a line that really fits our needs perfectly.

Chris Allen - *Ticonderoga Securities - Analyst*

Great. Thanks a lot, guys.

Bob Gasser - *Investment Technology Group - CEO*

Thank you.

Operator

Your next question comes from the line of Nick Setyan with Wedbush Securities. You may proceed.

Nick Setyan - *Wedbush Morgan Securities, Inc - Analyst*

Hi, guys. Thanks.

Bob Gasser - *Investment Technology Group - CEO*

Hi, good morning.

Nick Setyan - *Wedbush Morgan Securities, Inc - Analyst*

I have a couple of housekeeping questions again. On the recurring revenues in the US, what was behind the decline there, the quarter over quarter?

Steve Vigliotti - *Investment Technology Group - CFO*

Yes, it's-- we continue to grow our connectivity business, which adds to that, but to some degree we have, you know-- our OMS subscriptions have trended downward over the last few quarters.

Nick Setyan - *Wedbush Morgan Securities, Inc - Analyst*

Okay. So stability in the past few quarters in that business, we should-- I mean, is there a declining rate of growth there that we should be thinking about going forward, or is this a good level to think about?

Steve Vigliotti - *Investment Technology Group - CFO*

It's a good level to think about.

Nick Setyan - *Wedbush Morgan Securities, Inc - Analyst*

Okay. And the tax rates going forward, you know, barring a sort of return in profitability in the US, is there anything else you guys can do to lower that tax, or should we just think about a higher tax rate going forward, barring a return in profitability in the US?

Steve Vigliotti - *Investment Technology Group - CFO*

Yes, it's difficult when you have a region where you continue incurring losses. We see those losses being pared back a little bit this quarter, and we hope to continue this as we see the early signs of the fourth quarter helping Asia-Pacific.

But, nonetheless, with having that loss in the region, not being able to record a tax benefit, the mix I going to drive that.

Nick Setyan - *Wedbush Morgan Securities, Inc - Analyst*

Great. Thank you.

Operator

Your next question comes from the line of Michael Wong with Morningstar. Please proceed.

Michael Wong - *Morningstar, Inc - Analyst*

Good morning.

Bob Gasser - *Investment Technology Group - CEO*

Hi, Michael.

Michael Wong - *Morningstar, Inc - Analyst*

Oh, looking at your new rate capture metrics, can you tell me does the equity market volatility, besides just volume, but does equity market volatility affect your rate capture now that you have spread-based trading in there?

Bob Gasser - *Investment Technology Group - CEO*

It does. So, obviously, lower volatility leads to tighter spreads, which is something I think you've seen in other folks that have reported so far this quarter. And clearly that is one-- a variable that affects that outcome at this stage.

Michael Wong - *Morningstar, Inc - Analyst*

Would you say it's the lower volatility or client mix in this quarter that was the majority of the (inaudible)?

Bob Gasser - *Investment Technology Group - CEO*

More client-- excuse me-- more client mix than volatility.

Michael Wong - *Morningstar, Inc - Analyst*

Okay. And just some more details on Majestic's customer base. So would you say it's more traditional asset managers that use your more higher value added services or more hedge fund based?

Bob Gasser - *Investment Technology Group - CEO*

It's more hedge fund based, but it does have some very, very significant asset management clients. You know, the hedge fund world is still a small minority of what we do. This clearly will increase our exposure there. But it stands to reason that hedge funds, obviously, are always looking for alpha generation they can't find elsewhere. They're always looking for that edge, maybe sometimes a little bit more aggressively.

So it's a-- from that perspective, when I talk about our addressable market, as I did in my prepared remarks, that's what I was referring to.

Michael Wong - *Morningstar, Inc - Analyst*

Okay. And just a clarification, so the Majestic offering is global and will have some affect on all your geographies, not just your US segments?

Bob Gasser - *Investment Technology Group - CEO*

It's only the US today.

Michael Wong - *Morningstar, Inc - Analyst*

Okay.

Bob Gasser - *Investment Technology Group - CEO*

As I said, 200 companies, 17 industry verticals in the US, but they do have clients in Europe as part of the mix. But our view is that there are very significant opportunities globally for us to expand the coverage.

Michael Wong - *Morningstar, Inc - Analyst*

So essentially you hope to roll that out to Asia-Pac where they have more bundled commissions at the moment.

Bob Gasser - *Investment Technology Group - CEO*

That's one example, but clearly Asia is the region where there is the most bundling of both content and execution.

Michael Wong - *Morningstar, Inc - Analyst*

Okay. And the Majestic personnel, can you comment on whether they'll be paid more on a fixed or a variable? Like if they really do ramp up your commissions, will they be paid more on a variable basis, or is there a significant (inaudible) there?

Bob Gasser - *Investment Technology Group - CEO*

They're going to be-- the Majestic folks will be assimilated into our cost structure, but they will-- certainly there'll be some subjectivity about overall firm performance and overall group performance, but clearly there will be a significant part of their compensation that will be attributed back to them by virtue of their individual and Majestic performance. So it's a mix of all those things, just as it would be for any ITG employee.

Tony Berkman, their CEO, is joining my Executive Committee, so, you know, I think that, in and of itself, is a strong statement in terms of Tony is now responsible for ITG Investment Research. And obviously we aspire for that to be a global product and a global offer.

Michael Wong - *Morningstar, Inc - Analyst*

Okay. And last question for me. Even though, I guess, it hurts long term, but in the short term have you benefited at all from, I guess, all of the redemptions and equity funds in the US, them having to, you know, sell out of positions, per se?

Bob Gasser - *Investment Technology Group - CEO*

Yes, I don't-- I think it's been-- there's two things that are working against us there, one of which is overall-- it's not just the fund flows. I think there's another element to the stagnation in the US institutional business, and that really refers to portfolio turnover.

And I think if you talked to our clients, you'd do your surveys, as we do constantly, you'll find it's a function of both building cash, portfolio turnover being low, and obviously volatility is probably a first derivative of that. So it's all of those things combined have created the environment I think that we're operating in today.

Michael Wong - *Morningstar, Inc - Analyst*

Thank you.

Operator

Your next question comes from the line of Rob Rutschow with CLSA. Please proceed.

THOMSON REUTERS

Rob Rutschow - *CLSA - Analyst*

Hey, good morning. I just had a quick follow up on, I guess, the last questions. When you were considering looking for equity research, did you first look outside of the US, or was the focus always on the US first?

Bob Gasser - *Investment Technology Group - CEO*

I-- we have certainly seen some international properties, but I think that the-- this particular property, this particular opportunity, the ability to assimilate it aggressively, for it to be plug and play with our US business I think made it very, very appealing.

Rob Rutschow - *CLSA - Analyst*

And you've talked about, you know, building outside the US. Would you consider buying outside of the US to, you know, build up the business more quickly?

Bob Gasser - *Investment Technology Group - CEO*

If we found a compelling content offering that had good critical mass with an install base of institutional fund managers the way this does, that was differentiated, that we felt we could position neatly with our DNA and our own legacy as a firm I think, yes, we certainly would.

Rob Rutschow - *CLSA - Analyst*

Okay. And I apologize if you already told us this, but could you tell us what the POSIT volumes were during the quarter?

Bob Gasser - *Investment Technology Group - CEO*

61.7 million shares.

Rob Rutschow - *CLSA - Analyst*

Thanks a lot.

Bob Gasser - *Investment Technology Group - CEO*

Thank you.

Operator

With no further question in queue, I would now like to turn the call over to Mr. Bob Gasser for any closing remarks. You may proceed.

Bob Gasser - *Investment Technology Group - CEO*

Thank you, Stephanie. Thank you for joining us for the Q3 call, and we're excited to talk to you-- speak to you again in January.

Operator

Ladies and gentlemen, that concludes today's conference. Thank you for your participation. You may now disconnect and have a wonderful day.