FINAL TRANSCRIPT

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ITG - Q1 2009 Investment Technology Group Earnings Conference Call

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CORPORATE PARTICIPANTS

Maureen Murphy
Investment Technology Group - Director of Marketing, Communications and IR

Bob Gasser
Investment Technology Group - CEO and President

Howard Naphtali
Investment Technology Group - CFO

CONFERENCE CALL PARTICIPANTS

Ken Worthington
JPMorgan Chase & Co. - Analyst

Christopher Donat
Sandler O'Neill & Partners - Analyst

Christopher Allen
Pali Research - Analyst

Michael Vinciquerra
BMO Capital Markets - Analyst

Nick Setyan
Wedbush Morgan Securities Inc - Analyst

Bob Napoli
Piper Jaffray & Co. - Analyst

PRESENTATION

Operator

Good morning, ladies and gentlemen. And thank you for joining us to discuss ITG's first quarter results for 2009. My name is Kesha and I will facilitate the call today. After the speaker's remarks there will be a question and answer period. I will provide further instructions before we take questions. As a reminder, this session is being recorded.

I would now like to turn the call over to Maureen Murphy at ITG.

Maureen Murphy - *Investment Technology Group - Director of Marketing, Communications and IR*

Thank you, and good morning. In accordance with Safe Harbor regulations I would like to advise you that the forward-looking comments we will be making this morning are subject to a series risk that may make actual results differ materially from expectations. I advice you to read about these risks in this morning's press release, as well as in our SEC filings. I would also like to remind you that the Power Point slides that accompany this presentation are available on our home page and on the Investor Relations section of our website. To begin I would like to represent ITG's CEO and President Mr. Bob Gasser.

Bob Gasser - *Investment Technology Group - CEO and President*

Thanks, Maureen. Good morning and thank you for joining us to discuss ITG's first quarter.

In a few minutes Howard will fill in some of the details on our results, but first I will begin with some highlights of quarter and with some perspective on current industry conditions and how they are impacting our plans for 2009 and beyond.

In terms of industry conditions, we said that they would continue to be challenging throughout 2009, and that certainly proved to be true in the first quarter.

We typically use the ICI data on equity mutual fund flows as a proxy for US industry conditions for our core clients, the traditional institutional money managers. I will take this opportunity to drill a little deeper into those numbers on this call in order to provide you with some more perspective on current trends and how they're impacting our volumes globally and pricing here in the US.

Looking at our first quarter earnings presentation, which is posted on our website, slide 3 is a bar chart for the ICI market data series that we typically quote. It shows the monthly net flows of cash into or out of equity mutual funds. These figures are independent of the performance of the funds. They are strictly the new money that their customers are putting into the mutual funds less the redemptions they are taking out.

In September 2001, you can see the 9/11-related downturn. It lasted only one month and represented a net outflow of about $30 billion. In 2002-20003, you can see the bursting of tech bubble, which had a much bigger impact. It led to about a 10-month period of net outflows that totaled $110 billion.

Beginning in August 2007 you can see the start of the current downturn. It already dwarfs those previous downturns both in terms of its length and its magnitude. So far it has run for 20 months, twice as long as the tech bubble downturn. And the cumulative outflows to date have been over $250 billion, which is more than double the tech bubble and over eight times the 9/11 outflows.

Despite some on-again, off-again rallies in equity markets, the funds flows have not gotten better. The most recent month available, just announced this morning, was March and it was down $28 billion.

Slide 4 drills down another level and breaks out the net flows into incoming cash from new sales versus outgoing cash from client redemptions. Back in September 2001 you can see that the net outflow was created by a sharp downward spike in sales, represented by the blue line. People did not pull their money out of the funds, they were just afraid of putting new money in.

In the current downturn, you can see quite a different pattern, especially as 2008 unfolded. The key driver was extraordinary spikes in redemptions. Investors not only stopped putting new money into the mutual funds but pulled their money right out. These are the big red spikes on the graph. They paint a stunning picture of the level of fear out there, and of how fat the mattresses are getting.

So how has this impacted ITG?

For one thing, the sales and redemptions graph is a good illustration of why US trading volumes benefited at some key points over the course of 2008. The red spikes of redemptions were actually good for our trading volume at the time. They are telling you that our clients had to engage in an unusually high level of trades as they were forced to sell shares to generate cash. Of course, our clients' distress is never a good source of long-term prosperity.

In the first quarter of 2009 a markedly different pattern emerged. The first quarter numbers show extremely low activity for both new money coming in to mutual funds and for cash going out as redemptions. This sharp drop in flows in or out represented a significant dip in the level of trading volume among ITG's core client constituency.

The lack of sharp inflows or outflows in the first quarter at our mutual fund clients led to a mixed deterioration for ITG, as they are largely the kind of full-service institutional clients that have the greatest propensity to use our higher-margin crossing products, and our full range of pre- and post-trade analytics. Another interesting data point is the 90% decline in our transition consulting business in the first quarter 2009 versus the same quarter last year. Although this is a small portion of revenues, and did not materially impact our results, it is a telling indicator. This tells me that not only is it an issue around cash flows, but it is an issue around the movement of portfolios.

In this environment our average daily volume for the first quarter was 215 million shares. POSIT average daily volume for first quarter was 39 million shares and POSIT alert average execution size remains strong at 43,100 shares for the quarter.

Now I'd like to talk about the price trend. In the first quarter we saw our average US commissions per share decline 17% to 67 mils. This is an unprecedented drop for one quarter. It is way off the recent trend line and was well below our internal forecast at the start of quarter. For prospective, the TABB Group's analysis of US industry commission rates shows that after falling 22% in 2007 the decline slowed to just 4% in 2008. ITG's average commission rate declined 13% in 2007 and 6% in 2008, holding up considerably better than the collective average over those two years.

There were several drivers of the unexpectedly sharp drop in the first quarter of 2009 rate card, all related to the severity of the current downturn.

The primary effect was the shift in client mix we discussed in our March 2009 volumes release. As we mention in the release, we witnessed our core constituents, the institutional money managers, retrench as a result of the aforementioned outflows. The bulk of our volume came from lower-rate, high-turnover accounts. This segment of our client base has traditionally shown a bias towards directing orders to our DMA platform.

Looking at the US market as a whole, New York Stock Exchange and NASDAQ combined average daily volumes were up 3.5% in the first quarter compared to the previous quarter while ITG's US average daily volumes were down 3%.

As is pretty well understood by now this is not a good measure of ITG's market position because it includes large segments of the trading universe in which ITG does not choose to compete and which are in fact incompatible with our business model.

In the first quarter these overall market volumes included a relatively weak mix of the traditional money managers where we have the greatest exposure. And it included a relatively strong increase in the segments of the market where ITG has limited participation, such as internalized proprietary trading and the high velocity strategies employed by some hedge funds. As mentioned in our volumes release, we saw an increase in volume from our DMA-oriented clients.

One final point that cannot be ignored in summarizing overall market conditions in the first quarter is the sharp decline in the notional value of Tape A and C turnover. March of 2009 was roughly half the value of March 2008. I would refer to this as an ad "valorem effect" on US markets. Citi and Bank of America's stocks alone represented just over 13% of Tape A average daily volume for the first quarter of 2009. That's nothing short of astounding.

A second factor affecting pricing in the first quarter was a surge in the internalization of order flow by the bulge bracket and electronic market making firms. In the first quarter the market saw continued elevated levels of volatility with a VIX well into the 40s and the 50s and with the associated wide bid and ask spreads you would expect under those conditions. These wide spreads attract capital from proprietary trading operations who make their money trading within the spread. In the first quarter the profits they were making from spread-based principal trading encouraged them to lower the rate card. In other words, the reduction in rate card was a loss leader in their effort to attract more liquidity to trade against.

Another revenue impact has been on commission-sharing arrangements, or CSA's. This is the system by which fund managers allocate commissions among multiple brokers to reward them for a combination of execution and research services. Over the course of 2008 ITG focused on growing its CSA business to more effectively penetrate our institutional client base. This program has provided ITG with a greater share of client wallet, and has consistently raised the awareness of our full service capabilities.

But in the first quarter of 2009, fund managers ran into a dead end. Due to the plunge in their overall investment activity that we saw reflected in the overall ICI data, our clients had much less commission to allocate in total and little to allocate to research related costs in particular. In short, the lower asset base across the industry is affecting all areas of the food chain.

Turning to international, ITG's revenues in the major trading markets outside of North America all dropped along with share prices in the first quarter since those markets are based solely on an ad valorem revenue capture model.

Looking at some of the key market indicators for first quarter versus year-end 2008 the MSCI pan-European index was down about 12%, with turnover down 19%. In comparison, ITG's European revenues were down 6% in local currency terms.

When you look at the underlying trends, ITG gained or maintained share in the parts of the European market in which we compete. As we've mentioned before, our market share gains continue to position us for strong competitive results when share prices recover. We made solid progress in the first quarter with more positive alert deployments in Europe and more algorithmic trading strategies delivered in the region. In addition, our smart order routing technology is burning in and becoming increasingly important to our top and bottom lines.

In Asia Pacific, which also operates on an ad valorem the Nikkei 225 was down 8% with turnover in Japan down 27% versus the fourth quarter 2008. And the Hang Seng was down 6% with turnover in Hong Kong down 15% over the same period. Finally Australia's ASX 200 was down 4%, with turnover in the market down 19% versus the fourth quarter of 2008.

In comparison, ITG's revenues in the AsiaPac region were down 24%. We've mentioned before that this region is still in the early stages, so our market share will most likely fluctuate. We are seeing positive improvements in Japan, however. We have deployed Triton locally with two accounts and are seeing execution flow from domestic clients. As many of you are aware we added Leon Christianakis to our leadership team at the end of first quarter, responsible for the AsiaPac region. He brings a fresh perspective, a wealth of experience operating in the region and a solid plan for leveraging revenues out of our strong product foundation in AsiaPac.

Canada is on a per share commission basis, similar to the US. In Canada TSX volumes were down 11% versus Q4 '08 while ITG's revenues were down 13% in local currency terms over the same period. Our Canadian operations continue to perform well in a difficult operating environment.

Without a doubt, first quarter market conditions were challenging, which should not come as a surprise. Hopefully we've given you insight into the way industry dynamics have impacted ITG's client mix, product mix and revenue capture for the quarter. Those factors are still at play and there's no clarity yet on when they will improve.

The key question is this: What steps is ITG taking to weather the financial storm, regardless of its duration, and to ultimately deliver operating leverage to shareholders when market conditions improve? Most importantly, we remain committed to making the investments we believe will maintain our competitive dominance in our core businesses now and in the recovery years ahead.

ITG has a unique window of opportunity in this downturn. Our business model is one of the few that is generating profits and preserving capital through the cycle. Our strong cash flow and balance sheet allows us to aggressively push our product development while others are cutting back or giving up. A good example is the latest market research that shows how successful our investment in the development of Triton has been. Not only has it grown to be the number one broker-owned execution management system but is now as widely used as RediPlus and Instinet combined, according to Tabb Group.

We continue to invest across our product line, but we're being much more selective about what development projects to pursue in the current environment. And we are finding more efficient ways to implement them.

A key opportunity for ITG during the downturn is in the area of intellectual capital. ITG's financial strength and reputation allows us to pick up some of the top industry talent at this moment in time. There is a steady stream of high quality client-facing talent coming onto market. You have seen the announcement on the new head of our AsiaPac business and in recent weeks we've made several excellent hires for our sales and trading teams in the US, AsiaPac and Europe. These are highly successful prudent players who bring a wealth of experience and expertise from algorithmic trading to higher touch trading of difficult orders.

These key upgrades to our team are being made in the overall context of squeezing more savings overall out of both fixed and variable expenses. Compensation is our largest expense line. Performance compensation is by definition variable and has shrunk due to lower performance levels. Rest assured Howard and I are intensely scrutinizing each cost center throughout the firm, and we are doing more with less throughout the firm's global infrastructure.

If the downturn drags on, we will evaluate reducing the more fixed structural part of our compensation as well. This is not just a head count game. As we have demonstrated recently, we have not hesitated to take out costs at the top of firm's comp structure where appropriate.

Another example of building in additional operating leverage on the cost side is our move towards self clearing in Europe. That project remains on track and should start to deliver significant savings and additional operating leverage in 2010, and remember that we can likely move that shift without employing significant new capital.

In addition to building in operating leverage on the cost side, we also have a number of initiatives underway on the revenue side.

Let me give you just one more example, POSIT marketplace, which we launched at the end of first quarter. We have in effect broken down the business silos around algos, smart routing and matching. This simplification of our POSIT and Algo brands has reduced confusion around our dark execution capabilities, led to higher internalization rates, which benefit our clients in all circumstances and deep in POSIT's penetration of our complete suite of algorithmic strategies.

POSIT Marketplace utilizes ITG's advanced dark pool aggregation technology. It pulls in significant buy-side liquidity from the trade blotters of POSIT Alert participants and it combines it with the liquidity in ITG's scheduled and continuous crossing systems, all while offering advance protection against information leakage and filtering out the deleterious effects of gamers pinging institutional order flow.

POSIT Marketplace is an important step towards leveraging all of our crossing and dark algorithm technologies to enhance the value to our clients, which should contribute to growing usage.

As part of our POSIT Marketplace initiative we have launched an effort to service a new client segment that is very quickly creating additional revenues for ITG. These are clients who do not want to pay a commission but are willing to pay the spread. Simply put we are bringing together commission-based and spread-based clients within the bid/offer. Retail firms, for instance, have been a steady contributor to the market's overall volume. We have the capability to bring standing institutional liquidity and retail flow together in a POSIT-matched trade.

Will this put us in direct competition with electronic market makers? Yes, it will, for the liquidity opportunities that will not taint our existing pool. We strongly believe based on our early returns that this will be a win-win for our institutional clients, new spread-based clients and our shareholders.

As a pure spread business the internalized routing flows do not get counted in our trading volumes. The revenue gets reported in Other Income. It's small but growing. And it's a good example of how we are leveraging our core franchise and technology for every incremental source of revenue we can.

So to wrap up, ITG stands out in this sector with our strong balance sheet, low value at risk, continuing profitability and sterling reputation amongst institutional asset managers. As we outlined today, we are continuing to invest to aggressively expand our competitive advantages while at the same time cutting costs where practical, preserving our cash position and identifying additional sources of revenue that complement our core business. We do not know how much longer the severe part of current downturn will last. But one thing we do know is that recessions end. And whenever the recovery does come, and when cash starts flowing back out from under those mattresses, the steps we've been taking will lever ITG even more strongly to the upside.

With that background, we will now turn to some further detail on Q1 results from ITG's Chief Financial Officer, Howard Naphtali.

Howard Naphtali - *Investment Technology Group - CFO*

Thank you, Bob. This was a challenging quarter for ITG in a business environment that continues to be marked by uncertainty in worldwide financial markets and high volatility as mentioned by the CBOE VIX index.

This market environment has led to unprecedented net outflows from mutual funds that resulted in significantly lower revenues from our core constituency, the long-only institutional money managers as Bob has described. These customers typically utilize the full range of services that ITG provides across the trading continuum and therefore generate a higher profit margin than direct asset market clients.

As noted on slide six, we generated revenues of $156 million and earnings per share of $0.29 for the quarter on a U.S. GAAP basis. In the summary of our operating results on slide 7, our U.S. business generated 34 cents of earnings. While our international businesses outside of North America were weaker in this market environment that continued to show year-over-year declines exceeding 40% in key European and Asian indices. We continue to invest for the long-term in both Europe and Asia, and, given this significant market downturn, generated an international loss of $0.05 per share, versus earnings of $0.05 last year.

To provide proper context to these results, we need to isolate severance costs within these two quarters. In 2009, our U.S. expenses include $2.6 million of severance compared to $1.1 million in 2008, while international costs include $3.1 million for severance in 2009 versus just $100,000 in 2008. From an earnings perspective the consolidated EPS impact was $0.10 per share in 2009 versus $0.02 in 2008 which therefore would yield an adjusted 2009 earnings per share figure of $0.39.

Please note that there is a decline in recurring revenues in the US on this slide and an almost corresponding increase in non-US recurring revenues since, as we discussed with you during our January call, we realigned certain management responsibilities from MacGregor related activities deriving from the international OMS business and related ITG network connections and assigned the relevant customer agreements to our European subsidiary on October 1, 2008. Therefore recurring revenues of $1.9 million and order management system commission revenues of $300,000 have been reported in non-US operations in the first quarter of 2009 with a resultant improvement in our pre-tax results of $1.1 million in Europe.

Moving to slide 8, consolidated expenses were $132.2 million, a $9.5 million reduction versus the trailing quarter. Of these savings, $5.3 million pertained to US activities and $4.2 million to international. Variances in the major cost categories were as follows: Compensation costs decreased $2.3 million, despite the inclusion of $5.7 million of several costs in the first quarter compared to $3 million in the trailing quarter. US costs were $1.5 million less than the previous quarter, despite the inclusion of additional $200,000 of severance costs, principally due to significantly lower incentive compensation accruals deriving from the lower profit levels the benefit of which was partly offset by seasonally higher payroll taxes and related costs in the first quarter. Our US compensation rate was 35% of revenues for the first quarter, and would have been 33% exclusive of severance charges. Non-US compensation costs decreased $800,000 despite the inclusion of the $3.1 million of severance charges for our international operations, compared to $600,000 of severance in the trailing quarter.

Our full-time global head count was 1,306 at the end of quarter.

Transaction processes costs were $900,000 higher than the previous quarter, as there was a $2.1 million increase in US costs despite the $28 million decline in commission revenues compared to the fourth quarter of 2008. International transaction processing costs were $1.2 million lower than the trailing quarter.

US transaction costs increased to 11.3% of revenues in the quarter, compared to 7.8% in the previous quarter. This significant cost growth derives principally from the change in customer mix away from our traditional long-only institutional core customers as Bob discussed in detail. The liquidity and trading profile of the direct market access clients who provided the bulk of our trading volume, has led to a much greater portion of our activity that takes liquidity from the market rather than either providing it or accessing our POSIT liquidity pool. This results in an expense in our P&L, rather than either zero cost for flow that is internalized or a rebate for providing liquidity and is the principal reason for this cost growth.

On the international front, the $1.2 million cost reduction includes a $700,000 favorable currency impact. In Canada we saw a similar phenomenon to that in the United States with transaction processing costs increasing to 19% from 16% of revenues. Similarly, in Europe the fourth quarter of 2008 had reflected a reduction in transaction processing costs to 37.9% of commission revenues, from 44.6% in the third quarter as we began to see certain of the initial benefits due to the advent of the maker-taker model in Europe and the related benefits deriving from the use of our smart router. In the first quarter the business environment pushed these costs up to 41.2% of commission revenues.

Occupancy and telecommunications costs were, combined, $300,000 less than the previous quarter.

Now other general and administrative costs decreased $7.8 million due to both controls exercised over the discretionary element of our costs and the inclusion in the fourth quarter of 2008 of two provisions totaling $4.1 million which were outside of our typical operating cost profile; namely there were $2.6 million of write-downs in the US and Asia Pacific of capitalized costs pertaining to discontinued non-core products, and we also took a $1.5 million charge pertaining to our unrealized loss at December 31 on New York Stock Exchange Euronext shares that we considered to be an "other than temporary" impairment.

On our international financial summary slide, you can see the breakdown of the $38.3 million of non-US revenues for the quarter. Revenues declined $11.6 million versus the first quarter of 2008 and $7.7 million versus the trailing quarter. The $11.6 million reduction versus the prior year related almost entirely to a $10.6 million adverse currency impact due to the strengthening of the US dollar, while there was a $1.9 million unfavorable foreign exchange impact versus the fourth quarter of last year.

On a pre-tax basis, our Asia Pacific region fell back to a $4.1 million loss as Australia lost $1.4 million on $1.5 million of revenues. Hong Kong had a challenging quarter, as market turnover was down approximately 55% versus last year. Our Hong Kong revenues for the quarter were $3.3 million, down 31% from last year, thereby yielding a $1.7 million pretax loss while our Japanese loss was $1 million for quarter.

In Europe, revenues were down $4.4 million in US dollar terms versus the prior year after a $5.9 million adverse currency impact.

Canadian revenues were a solid $17.6 million after a $4.2 million adverse currency impact and reflected a $100,000 revenue increase in local currency (Canadian dollar) terms. This yielded pre-tax profits of $5.9 million despite a $1.4 million adverse currency impact on pre-tax earnings due to the 19% strengthening of the US dollar versus the Canadian dollar compared to the first quarter of 2008.

On slide 10, we track our Canadian, European and Asia Pacific performance over the past year.

In Canada our strong revenue position and prudent expense management continued to position ITG Canada with pretax profit margins at or above the 30% level which was an outstanding performance in these market conditions.

In contrast to the consistent margin performance in Canada, this market environment continues to be challenging for Europe and Asia Pacific where combined revenues of $20.7 millions were $4.4 million or 18% less than the trailing quarter. However, given declines and turnover of 15% and above in each of the key markets, we have continued to grow market share, which is clearly a positive, long-term indicator.

Irrespective of the weak cyclical market conditions we continue to invest with a long-term view in these markets to position ourselves for the recovery and are gaining desktop presence for our key Triton and Algo products as these market share gains attest. We have absorbed a $6.9 million pre-tax loss for the quarter after considering both our significant development costs in Israel and the Asia Pacific pre-tax loss of $4.1 million.

Moving to slide 11, the blended US average commissions per share broker revenues achieved during the quarter was 67 mils, a 17% decrease from the 81 mils in the preceding quarter and a 24% reduction from the 88 mils in the first quarter last year. As you can also note from this slide, our US OMS commission revenues were $3.9 million for the quarter and, as I stated earlier, we earned a further $300,000 in OMS revenue share in ITG Europe bringing consolidated OMS commission revenues to $4.2 million in the first quarter. We also generated $5.5 million of commission revenues from ITG Derivatives, which generated a pre-tax loss of $400,000 in the quarter compared to $600,000 in the trailing quarter.

On slide 12, you can see that our pre-tax margins during the quarter were 15.1% for ITG as a whole and 20.8% for our US business. The US margin decline was driven principally by the lower revenue base and higher transaction processing cost levels. Given the largely fixed nature of our cost base, cost control measures and significant reductions in performance paced compensations could not offset the impact of the reduced revenues.

On slide 13, we see that diluted earnings per share for the first quarter were $0.29. As previously discussed our costs included $5.7 million of pre-tax severance charges which yielded a $4.3 million decline in net income, representing $0.10 of earnings. Therefore, you may look at a steady state earnings level, exclusive of severance, at approximately $0.39 per share.

Our effective consolidated income tax rate for the first quarter was 45%, due to the significant international losses in jurisdictions for which we did not record a tax benefit, while the US effective tax rate was 40.5% for the quarter.

Moving briefly to our balance sheet, we had approximately $296 million of unrestricted cash at March 31st. However, unrestricted cash should not be confused with excess cash. As we are self-clearing in the US, there continue to be varying funding requirements with the NSCC which were as high as $300 million at one point last year.

With that we'll move to Q and A. Operator, will you open up the lines for questions?

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Your first question comes from the line of Ken Worthington with JPMorgan. Go ahead, please.

Ken Worthington - *JPMorgan Chase & Co. - Analyst*

Hi, good morning. You spent a lot of time in the first part of the call talking about the rate. Given that market conditions have improved, were you eluding to the fact that just because the market conditions improve doesn't mean the rate will improve concurrent with equity market conditions? Is that a good read in what you said?

Bob Gasser - *Investment Technology Group - CEO and President*

Yeah, Ken, I think that's a very good read in that. You know, the market conditions have to improve. Obviously that will improve asset management performance but that needs to be followed by cash inflows and movement within portfolios as well. And I don't think that can be discounted either. That's why we use that transition consulting data point as well.

Ken Worthington - *JPMorgan Chase & Co. - Analyst*

Okay. And then I think the Russell -- well, what is your opinion on the Russell rebalance this year, at least from the financial perspective it seems that there is a big movement but is the Russell supposed to be unusually big this year and does that impact the rate card at all?

Bob Gasser - *Investment Technology Group - CEO and President*

I would say that, yeah, the Russell will be an interesting trade this year, as people have speculated. We've put out our research on the trade. We've actually augmented our portfolio trading desk, as we announced yesterday we appointed a head of the US portfolio trading team, we've made a key hire there as well. So we're positioning ourselves. We think, well, for the Russell, certainly the Triton deployments and the Algo capability and the matching capability all will, I think, play very nicely into that trade. And when you look at where liquidity has been most pronounced is really in the very, very large cap end of the marketplace. So this trade, in terms of its degree of difficulty, I think, will be as significant as it's ever been.

Ken Worthington - *JPMorgan Chase & Co. - Analyst*

Okay. And that sounds good for ITG.

Bob Gasser - *Investment Technology Group - CEO and President*

I would hope so.

Ken Worthington - *JPMorgan Chase & Co. - Analyst*

Okay. And then just on the mechanics of the change in POSIT, not the change, but the going after the spread as well.

Bob Gasser - *Investment Technology Group - CEO and President*

Yes.

Ken Worthington - *JPMorgan Chase & Co. - Analyst*

So I assume this means you are going to combine the liquidity pulls from the spread in the commissions so a spread trader will trade with a commission trade in POSIT. Is that right?

Bob Gasser - *Investment Technology Group - CEO and President*

Yeah. I think, what we're really trying to do is to bring together these two very significant client constituencies in the pool. And I think there's been a tremendous amount of fresh energy, fresh perspective around the whole POSIT business model that was created by the advent of POSIT Marketplace and breaking down all of these silos I think has created a fresh approach of which this is one to, for the first time, really go after the retail segment.

Ken Worthington - *JPMorgan Chase & Co. - Analyst*

Okay. So who gets the spread? If a spread trader and a commission trader come together on a trade, does the commission trader get the spread as well or does ITG get the spread?

Bob Gasser - *Investment Technology Group - CEO and President*

It depends. It depends on the constraints of the order of the participant in the system. So it's tough to generalize in terms of who is going to pay the spread. In certain circumstances it may happen within the NBBO and in certain circumstances it may happen on the bid or the offer.

Ken Worthington - *JPMorgan Chase & Co. - Analyst*

So the commission trader has the chance to not just trade at the mid-point but to actually capture the full spread, so have even better execution?

Bob Gasser - *Investment Technology Group - CEO and President*

Our mechanism will capture the spread. So a commission-based trader would probably be trading, the majority of the time at the midpoint.

Ken Worthington - *JPMorgan Chase & Co. - Analyst*

Okay. So you get the spread.

Bob Gasser - *Investment Technology Group - CEO and President*

We get the spread.

Ken Worthington - *JPMorgan Chase & Co. - Analyst*

Okay. And then if a spread and the commission trader come in, say, who gets priority? If there are two commissions, if a commission trader is selling IBM and you've got a commission trader and a spread trader both wanting to buy IBM, does one have priority over the other, i.e.. one is kind of a full service, full-paying customer and other is just going to make the spread? Is it time priority? Or does one get priority over the other? I'll leave it at that.

Bob Gasser - *Investment Technology Group - CEO and President*

Yeah, I think that the mechanics of a POSIT match remain what they have been. Which has been a pro-rata sharing of execution flow.

Ken Worthington - *JPMorgan Chase & Co. - Analyst*

Okay. Then on the income statement other, in the US on slide seven there's other revenue, it's been zero for the last couple of quarters; it was $2 million this quarter. What is that?

Bob Gasser - *Investment Technology Group - CEO and President*

Well, that's our first foray into spread trading.

Ken Worthington - *JPMorgan Chase & Co. - Analyst*

Ah, okay. Okay. Thank you.

Operator

Your next question comes from the line of Chris Donat with Sandler O'Neill. Go ahead, please.

Christopher Donat - *Sandler O'Neill & Partners - Analyst*

Good morning, everyone.

Bob Gasser - *Investment Technology Group - CEO and President*

Good morning, Chris.

Christopher Donat - *Sandler O'Neill & Partners - Analyst*

In terms of, I just want to explore a little bit more into the G&A line here. I know that one component of that is or has been software amortization. Is that still running at kind of a similar level as it has been in the past?

Howard Naphtali - *Investment Technology Group - CFO*

Well, as additional products are released to market it ramps up. So it does ramp up. I think collectively amortization expense, which is principally software amortization but some relating to previous acquisitions at Macgregor, Plexus, and the like are just under 50% of the net expense number and that is about as fixed as you are going to get.

Christopher Donat - *Sandler O'Neill & Partners - Analyst*

Okay. So that is still steady-state, it is not lake something has gone out of development stage and is now --

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Howard Naphtali - *Investment Technology Group - CFO*

Well, some have, yeah, and the number has ramped up over the course of the year and will continue to be as releases go out.

Christopher Donat - *Sandler O'Neill & Partners - Analyst*

Okay, okay. But that should be a relatively sustainable number, because it looks like it is -- that G&A number was about as low as it has been in two years so --

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Howard Naphtali - *Investment Technology Group - CFO*

Right. I mean obviously we've put the kabosh on anything that was controllable, okay. So things have gone down considerably beyond ramp-up, however, in the amortization costs that we can control that we talked about other things could be episodic that occur over the course of the year. If we were looking at some new business opportunities or whatever. Any consulting costs, et cetera, go through those lines and so if deal flow, et cetera, were to come up over a period of time, you're going to have expenses there. Okay, obviously we'd be looking to do things that would provide shareholder return, we wouldn't do anything willy-nilly but you have to be careful and not look at that as a fixed expense across the spectrum.

Christopher Donat - *Sandler O'Neill & Partners - Analyst*

Okay. And then, switching gears to the transaction pricing side, just -- does the news this morning out of LCH Clearnet about reducing clearing costs for equities, does that change anything for how you are thinking about self-clearing or is it -- if sort of --

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Bob Gasser - *Investment Technology Group - CEO and President*

No. I think, yes, Chris, there's two elements to that. Certainly we continue to believe that there will be quite a bit of change in the clearing, in the universal kind of European clearing model over time. But there's also a strategic element in terms of controlling one's destiny, particularly in a fragmented marketplace. And so we continue to believe that the clearing initiative will expand operating margins in Europe, in all circumstances, and as Howard and myself eluded to in 2010.

Christopher Donat - *Sandler O'Neill & Partners - Analyst*

Okay. And then just one last one on the pricing here. You haven't, despite all the movements going on in the market, you haven't really changed your rate card at all. Everything we've seen has been more a function of customer activity, right?

Bob Gasser - *Investment Technology Group - CEO and President*

The vast majority of it has been customer activity.

Christopher Donat - *Sandler O'Neill & Partners - Analyst*

Okay.

Bob Gasser - *Investment Technology Group - CEO and President*

But as I alluded to in my comments around the internalization issue clearly some of our competitors have benefited from that environment where spreads are in some cases, like the second half of '08 they were double what they were going into '08. And while they declined a little bit in Q1 of '09, clearly the folks that are engaged in that particular activity have done very, very well as you're probably hearing. And, as a result, I think there's been a little bit of aggression, particularly at the low end or commoditized end of the algorithmic trading product suite.

Christopher Donat - *Sandler O'Neill & Partners - Analyst*

Okay. And then I guess --

Bob Gasser - *Investment Technology Group - CEO and President*

But the vast majority happened from a client mix.

Christopher Donat - *Sandler O'Neill & Partners - Analyst*

Right, okay. And just one follow up to that. What do you think it would take for that mix of internalization flow -- or internalized volume just overall in the marketplace to change from where we are now --

Bob Gasser - *Investment Technology Group - CEO and President*

I think volatility has to be reduced which I think has obviously a number of probably knock-on effects, right? So I would, if the market can sustain positive performance, which attracts, flows back into mutual funds which will generate more movement both in terms of cash flow movement and portfolio movement, all those things sequentially, I think, would be a good thing for our mix of US business.

Christopher Donat - *Sandler O'Neill & Partners - Analyst*

Okay. Thanks very much.

Operator

Your next question comes from the line of Chris Allen with Pali Capital. Go ahead please.

Christopher Allen - *Pali Research - Analyst*

Hey, guys, how are you doing?

Howard Naphtali - *Investment Technology Group - CFO*

Good morning, Chris.

Bob Gasser - *Investment Technology Group - CEO and President*

Good morning, Chris.

Christopher Allen - *Pali Research - Analyst*

Just wanted to follow up on the transaction processing line in the US. You guys gave some color that it's again being driven by customer mix. I'm just wondering if there's any levers you can pull if the mix remains stable to work that line down at all? Or how should way think about that moving forward?

Bob Gasser - *Investment Technology Group - CEO and President*

Well, I think that the initiatives that we have in place with POSIT have both a top line and potentially a bottom line effect where the more that we can internalize in an environment where we're out there taking liquidity, the better off we are, right? And so, you know, that's the -- I think with smart routing, and with transaction processing over the course of the past couple of years we made great strides in terms of managing that as a cost component of our US revenue stream. But this is obviously a markedly different environment and so the initiatives that we have around POSIT marketplace potentially have a double positive effect, not the only in terms of other revenue line but in terms of our ability to manage those TP costs as well.

Christopher Allen - *Pali Research - Analyst*

Okay, great. And then just on the comp to revenue ratio, I think that you guys had provided some guidance that it would be 32% to 33% in 2009. Does that still hold true here?

Howard Naphtali - *Investment Technology Group - CFO*

I mean, that's certainly what we said in the first quarter, despite the -- the performance or the -- sorry, that's what we said in January, despite the performance in the first quarter, if you take out the severance we were there.

Christopher Allen - *Pali Research - Analyst*

Yes.

Howard Naphtali - *Investment Technology Group - CFO*

Again, you know, everything really depends on the dynamics of the market going forward but that's certainly what we saw earlier in the year when we looked at some flexible plans.

Christopher Allen - *Pali Research - Analyst*

Great, thanks a lot, guys.

Bob Gasser - *Investment Technology Group - CEO and President*

Thank you, Chris.

Operator

Your next question comes from the line of Mike Vinciquerra from BMO Capital Markets. Please proceed.

Michael Vinciquerra - *BMO Capital Markets - Analyst*

Thank you. Just to follow up on Chris Donat's question on the LCH, do you guys actually get the benefit of the cuts in the fees or is that through -- flow through a third party clearing agent that you are currently using in those markets?

Bob Gasser - *Investment Technology Group - CEO and President*

I think it's early enough, Mike, where I can honestly say I don't know the answer to that question.

Michael Vinciquerra - *BMO Capital Markets - Analyst*

Okay.

Bob Gasser - *Investment Technology Group - CEO and President*

But we can track that down for you.

Michael Vinciquerra - *BMO Capital Markets - Analyst*

Okay. Fair enough. And then the SEC fee increase in the US, is that a flow-through to your customers or do you guys absorb that?

Bob Gasser - *Investment Technology Group - CEO and President*

That is a flow-throw to our customer.

Michael Vinciquerra - *BMO Capital Markets - Analyst*

Okay. So again, no impact there. And then finally you talked a lot about the weak market conditions having a real negative impact on your business. Clearly that is true. We've seen better conditions overall in stock price movement in the contract also say six weeks. Does that give you optimism about maybe Q2 or is this something that you won't see really the impact on your business until later in the year as retail maybe gains confidence and putting money back into equity mutual funds and, of course, that then gets traded through you guys.

Bob Gasser - *Investment Technology Group - CEO and President*

Obviously, it's difficult for us to predict. I think we used the tech bubble and 9/11 as two recent precedents although, obviously significantly different in terms of their magnitude. But I would think that it's the return of the institutional investor and of investor confidence in general I think would be a, obviously would lead to cash flows and portfolio movement that would certainly benefit us at the present. I mean we did a tremendous -- as you can imagine, analysis of that client constituency. And a lot of individual interviews as well. And we're very confident in that being the significant driver of the performance in the quarter. But I think when you talk to these folks as well, you get the sense that they just don't know.

Michael Vinciquerra - *BMO Capital Markets - Analyst*

Okay. And if I could ask just one more thing on ITG derivatives, is that business where you thought it would be when you got it a couple of years ago? Is there something about it that you are just missing right now you that will help to turn the switch and get that into the black?

Bob Gasser - *Investment Technology Group - CEO and President*

Yeah, I think that the -- I'll be very honest, Mike. I think that we probably underestimated some of the on-boarding issues institutionally around the future space. When you are dealing with an FCM, and a tri-party agreement, clearly that's a complex process that we in the cash equity world have not been exposed to. That having been said, I'm pleased and towards the latter end of Q1 I think we felt very good about the ramp in institutional penetration that I think we're going to start to see flow through to the bottom line, particularly in the options space.

Michael Vinciquerra - *BMO Capital Markets - Analyst*

Great, great.

Bob Gasser - *Investment Technology Group - CEO and President*

And so I'm optimistic that we're going to see a positive delta here in Q2. And -- but I would say right up front that the future's on boarding and the nuances of FCM clearing are something that we underestimated going in.

Michael Vinciquerra - *BMO Capital Markets - Analyst*

Okay. Very good. Thanks, guys.

Operator

Your next question comes from the line of Gil Luria with Wedbush Morgan Securities. Please proceed.

Nick Setyan - *Wedbush Morgan Securities Inc - Analyst*

Hi, thanks, it is actually Nick Setyan for Gil today. Just to get a better idea of the non-US businesses would you mind telling us what the commission revenues in Europe and Canada versus the recurring and other components?

Howard Naphtali - *Investment Technology Group - CFO*

Okay. Again, you can see on slide seven the collective commission revenues of $31 million for the non-US operations. Of that $14 million is from Canada and the balance are from Europe and Asia.

Nick Setyan - *Wedbush Morgan Securities Inc - Analyst*

Great. Thanks. And then on the tax rate is it safe to assume that it will stay at the current rate if the results in the diverse geographies remain the same?

Howard Naphtali - *Investment Technology Group - CFO*

Well, if the results in the various geographies remain the same, yes, that would be true but it's highly volatile, and if you look at the fact, as I mentioned in the prepared remarks, there were losses of $1.7 million in Hong Kong and $1 million in Japan. If you will pro forma those out you will see it is a 4.7% impact on your effective tax rate, okay? A lot of people will basically take those tax benefits and therefore there'd be zero effect and you can increase earnings. We don't believe until we prove that there's an earning stream that we should be doing that, and therefore we've been prudent and conservative in our accounting but that is really the driver. You can look in your models it whatever you are assuming in those jurisdictions where we're not working a tax benefit and lever the number.

Nick Setyan - *Wedbush Morgan Securities Inc - Analyst*

Great, thanks very much.

Howard Naphtali - *Investment Technology Group - CFO*

You're welcome.

Operator

Your next question comes from the line of Bob Napoli with Piper Jaffray. Go ahead, please.

Bob Napoli - *Piper Jaffray & Co. - Analyst*

Thank you, good morning. I'm sorry if I missed this but on the revenue per share traded, how did it trend through the quarter? What was it in the month of March? And can you tell -- give out what it was in the month of April?

Bob Gasser - *Investment Technology Group - CEO and President*

No. We are not going to disclose obviously April. And we don't have the, I'm in the going to, we're not going to report the month by month for Q1.

Bob Napoli - *Piper Jaffray & Co. - Analyst*

Would it be fair to say that March was by far the worst since when you reported earnings, there was no indication of any movement like we saw when you reported that in February?

Bob Gasser - *Investment Technology Group - CEO and President*

We're not going to get into the details of the month by month.

Bob Napoli - *Piper Jaffray & Co. - Analyst*

Okay. Thank you.

Bob Gasser - *Investment Technology Group - CEO and President*

You're welcome.

Operator

There are no further questions. I would now like to turn the call back over to management for any closing remarks.

Bob Gasser - *Investment Technology Group - CEO and President*

We appreciate you joining us this morning and look forward to speaking with you in July. Thank you.

Operator

Thank you for your participation in today's conference. This concludes the presentation. You may now disconnect. Good day.