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PRESENTATION

Operator

Good morning and thank you for joining us to discuss Investment Technology Group's fourth quarter results for 2009. My name is Caitlin, and I will facilitate the call today. After the speakers' remarks there will be a question and answer period. I will provide further instructions before we take questions. As a reminder this session is being recorded.

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

JT Farley - *Investment Technology Group - IR*

Thank you, Caitlin, and good morning. In accordance with Safe Harbor regulations I would like to advise you that any forward-looking statements we will be making this morning are subject to a series of risks and uncertainties that may cause actual results to differ materially from those statements. These forward-looking statements speak as of today and you should not rely on 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 to you 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 power point slides which accompany this presentation are available for download at the Investor Relations section of itg.com. To begin I would like to introduce ITG's CEO and President, Mr Bob Gasser.

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

Thanks, JT. Good morning and thank you for joining us to discuss ITG's fourth quarter. As you probably know, our CFO Howard Naphtali is retiring from ITG today, after 12 years of hard work and dedication. In a few minutes Howard will go over the details of the quarterly results and offer some parting remarks. We are also joined today by our incoming CFO, Steve Vigliotti. Steve brings a combination of public company and industry experience with him, most recently a CFO at NYFIX where I had the pleasure of working with him. Steve, welcome to ITG.

Steve Vigliotti - *Investment Technology Group - Incoming CFO*

Thanks, Bob. I am thrilled to be joining the ITG team in such an exciting and challenging time. Being involved in the electronic trading business these past few years I have it come to know ITG well and have great respect for the quality of people and the comprehensive suite of trading products and services they have developed. I look forward to making a contribution to the Company's future success.

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

Thanks, Steve. Well, as you can see from this morning's press release it was a tough quarter. Net earnings excluding restructuring charges were $8.6 million or $0.19 per share which included the impact of additional severance and other non-recurring compensation costs. Our results were negatively impacted by continued weakness in the core client market in the US as well as depressed trading levels in the Asia-Pac region.

I will start with a discussion of how current industry conditions are impacting our results, the actions we are taking to reposition our business model, and an update on regulatory issues. First, industry conditions. This has been a highly unusual economic recovery. Historically there is a strong correlation between recovering share prices and the flow of money back into equity funds. There is typically a one quarter lag from when share prices start rising and when cash starts flowing back to the fund managers. We are now several quarters into the US equity rally with the S&P 500 ending 2009 up over 60% from its low in early March. Yet US equity fund managers saw steady negative net cash flows into year end. The ICI data on slide three show that net fund flows were negative throughout the fourth quarter continuing the trend from the previous quarter. When you look at the breakout on slide four, you can see that positive flows to the international funds masked what has continued to be significant redemptions for domestic equity funds. In fact, domestic equity funds saw approximately $33 billion in net out flows for the fourth quarter, out stripping even a $24 billion in outflows we saw during the first quarter of 2009.

There are signs of optimism, however, US domestic equity mutual funds took in almost $3.5 billion of net new cash in the two weeks ending January 20th marking the first net in-flow since last summer. Two weeks does not make a trend. It is clear that 2010 is off to a better start for asset gathering than 2009 was. We have benefited from this fund flow turn around with our US trading volumes rebounding in January from the depressed levels we saw in December. We expect to report average daily volume for the month of January that will be nearly 15% higher than fourth quarter levels.

The continuing pressure on our actively managed mutual fund clients business has impacted our volumes and pricing. ITG's average daily volume in the US was 162 million shares in the fourth quarter. This was 10% below the third quarter and 27% lower than year ago levels. POSIT average daily volume was 55 million shares and average order side in POSIT Alert was 34,500 shares. Another positive sign we're seeing in the US is the continued stability of our commission revenues per share which averaged 69 mills in the fourth quarter and has been virtually unchanged since the first quarter of 2009.

Turning to our spread based trading business, let's start with a quick refresher on the mechanics. In spread based trading we match buy side orders with sources of quality sell side liquidity. The buy side pays a commission, the sell side is filled at the NBBO and ITG earns a spread in lieu of a commission on the sell side part of the trade. Market conditions for this business continued to be challenging in the fourth quarter, with average spreads for S&P 500 stocks narrowing to 5.64 basis points, down from 6.16 in the third quarter and 9.94 at the beginning of 2009. As spreads narrow, our revenue for each trade is reduced. Despite this, we remain committed to spread based trading as a valuable source of incremental liquidity and revenues. Make no mistake about it - our continued growth in this business is dependent on market wide bid ask spreads and the amount of resting order flow provided by institutional clients.

In Europe the market conditions were a little better. We are executing very well there. As you can see in slide seven, cash flowed back into European equity funds, spurred on by positive returns in the region's equity markets. Market performance and fund flows are clearly correlated in Europe at the stage of the market cycle. The latest data set is for the third quarter of 2009 and it shows strong positive net in-flows continuing the recovery that began in the second quarter. Our European operations have product parity with the US and we're in excellent position to capture our fair share of that growth.

Our European turnover was up 18% over the prior quarter, while BATS data showed turnover up 9% during that same period. Revenues in Europe were $21.6 million, up 12% versus the third quarter of 2009 and up 16% versus the fourth quarter of 2008. We have had success in reducing our European transaction processing costs which dropped almost 3 percentage points quarter over quarter to just under 25% of total revenues. We are successfully making the case for the significant value of dark liquidity in a fragmented marketplace. We have a strong business plan in place for 2010. The fourth quarter results in Europe give us a lot of visibility and a high degree of confidence that we can continue to grow the region's top and bottom lines.

In Canada we're moving to address the effects of high frequency trading on our transaction processing costs, which rose sharply in 2009. We have deployed smart routing and are working to provide lower latency access to market data and exchange gateways. We are a stage where we have not yet exploited to our advantage the changes in market structure in Canada which are similar to what we historically achieved in the US and now in Europe. In addition, Canadian spreads narrowed again in the fourth quarter and interlisted arbitrage opportunities diminished. Revenues were up 16% over the third quarter of 2009 to $18.2 million, but expenses net of the restructuring charges rose 22% during the same period. Transaction processing costs were flat versus the third quarter at 22% of total revenues. We are allocating additional resources from within the firm to address the issue of transaction processing costs within our Canadian business.

In the Asia Pacific region, turnover deteriorated in the fourth quarter versus the third quarter. In Hong Kong fourth quarter 2009 exchange turnover was down 5% from the third quarter, while the Hang Seng Index was up 4% from the previous quarter. In Japan exchange turnover was down 7% versus the third quarter while the Nikkei 225 Index was up 4%. In Australia, market turnover was town 12% while the ASX 200 Index was up 3%. Revenues in the Asia Pacific fell 11% versus the third quarter although they were up 19% year-over-year. Excluding restructuring charges, we incurred a $5.1 million pretax loss in the region compared with a $4.2 million pretax loss in the third quarter of 2009. The investments we made in Asia Pac represent a high fixed cost base. So when our revenues decline along with overall market volumes we face negative operating leverage. We believe we have the resources in place in Asia to increase revenues and grow market share. ITG is on track to introduce POSIT Marketplace into the region at the end of this quarter. It will contain POSIT Now and dark aggregation of a variety of liquidity venues throughout the region, with a rollout plan for Hong Kong, Australia, and Japan. This will bring us one step closer to product parity in the region.

There are a number of positive indicators that lead us to believe we're on the right track. We estimate that our market share across the region was up 45% year-over-year, executed volume in our Triton EMS was up 179% year-over-year with client installations rising from 17 to 26. We now have a viable and captive pool of liquidity from which we can harvest POSIT executions.

Looking out at 2010 it remains difficult to predict how the market will shape up as the year progresses. The continuing pressure on our core client base reflects the magnitude and intensity of the 2008 financial crisis. The crisis created a heightened and persistent sense of risk aversion that has discouraged retail investors from putting their money back into equity funds. Extraordinary returns on other asset classes gave them unusually compelling alternatives. The returns on corporate bonds were multiple standard deviations from the norm in 2009, providing equity-like returns with lower risk.

There are some indications that these extraordinary conditions may have run their course as we enter 2010. For example, high yield market performance is hopefully a leading indicator that investors are ready to climb up the risk curve and on slide ten you can see that as a measure of risk aversion, the VIX Volatility Index has declined pretty steadily in the past few months and has settled into in a more normal range in the high teens and low 20s in the first few weeks of the New Year. More importantly, spreads have narrowed dramatically across the credit spectrum. This is a key reason why some analysts who follow the money management sector are looking for cash to flow back into traditionally higher risk, higher return asset classes including equities. We're not going to make a call on the timing of a meaningful recovery in fund flows for our core clients, but we remain confident in their future and ITG's ability to play a significant role in their long-term growth.

However, hoping for the return of positive correlations between equity performance and fund flows is not a strategy. The events of 2009 forced us to confront a new world order, a smaller client and resultant rebundling had a profound impact on our US business. What do I mean by rebundling? Large clients focused their commission dollars on a relatively small group of top full service counterparties. Given the fact that we held our own, and in some cases slightly improved market share with core clients, this was most acutely felt from our rate card. Starting in the third quarter the ITG management team and I engaged in a critical self examination of our business model. Central to this process was a client profitability analysis that we started just after the mix of clients and products shifted dramatically in the first quarter of 2009. For the first time we allocated not only directly attributable costs, but we allocated the firm's fixed expenses as well.

Our analysis led us to three basic actions. First, we stratified our client base into three categories based on their net contribution, core, development, and middle market.

Second, we have established a strategic sales organization focused on same-store sales within our core client base. When assets start to flow back into equities, it is likely that these folks will attract the lion's share. ITG needs to be well positioned to gain more than its fair share.

Third, the value of ITG's content must be preserved at all costs. It is a simple metric. If clients are not willing pay for a service, we will remove it and replace it with a product or connection that is more cost effective. I want to be clear here. We're not firing clients. We are clearly delineating, however, between client relationships that are strategic and ones that are more tactical or episodic.

There is no question that the harsh realities of 2009 pressured us to move quickly and decisively in this direction. This is not a temporary belt tightening. We challenged every aspect of ITG's conventional wisdom. Some of it has held up under the weight of market conditions and some of it has clearly not. The relentless push for more clients, more desktop real estate, more product, and broader overall penetration will not achieve the incremental profitability that shareholders require. The hard look we have been taking at client profitability shows that the 80/20 rule generally holds. Out of hundreds of clients we have equipped with our vast array of trading and analytical tools, a relatively small core group accounts for the bulk of our profits. In fact, our top 130 US clients ranked by revenues account for 75% of our gross margins. Some clients on the other hand have fully utilized our technology and services without adequately compensating us for it. Volumes from these kinds of clients actually degrade our operating leverage because of the disproportionate share of resources needed to support them.

Our restructuring therefore is aimed at getting smaller in order to get bigger. By getting smaller I mean pulling product and resource from a number of clients and reducing our fixed expenses commensurately. Our recent reduction in force got out ahead of what we expect will be the result of this narrower focus. By getting bigger I mean improving our margins and total profits by focusing our resources on our best clients. That process has started, and I have been engaged personally in many of these one-on-one client conversations. We are fortunate to count among our best clients most of the leading players in the global asset management industry. They consider ITG's trading and analytics mission-critical and recognize the value of partnering with us. That's clearly articulated in every major survey conducted in our industry. Our future is in focusing our resources on these firms to provide even more differentiated content and service and to capture our fair share of their wallet. That's where the true operating leverage in our model lies.

To this end, we have put together impressive client profitability analysis database. We intend to use this system going forward to make the hard decisions that will drive return on investment. Let me give you a little color on what that means in practice. We have set a hurdle rate for profitability by client. This hurdle rate uses net profit margins, not gross, so it takes into account normally unallocated costs which makes it an even stricter discipline. It recognizes that these central costs are not really fixed, but get significantly inflated over time in supporting hundreds of marginal clients. We have been going through the client list customer by customer and benchmarking them against this fully allocated hurdle rate. The results in some cases have been surprising. As I said, there is a core group of asset managers, both long only and hedge funds, who represent our existing base of core clients. We will continue to drive product development and client support resources to them at even higher levels than before. Where we have clients who fall below our hurdle rates we'll work to provide the appropriate level of resources and to develop a relationship with them which is mutually beneficial.

We enter this period with a strong hand. Our products and support are robust and are strongly positioned against the competition. You can see how highly the market values ITG's lineup in the Greenwich Surveys. You see it in the TABB surveys, you see it in our internal client call reports. They all testify to ITG's clear differentiation and leadership in the electronic execution space. It is time for us to monetize this high esteem and turn it into leveraged shareholder returns.

Turning to the regulatory environment, we have discussed before a series of potential new rules working their way through the SEC that could affect electronic trading. Most recently, on January 13th, the SEC voted to approve a proposed band on so-called naked sponsored access, the practice by which some brokers allow clients to access display markets directly using broker identification, or M-PID, without being subject to the brokers own pre-trade compliance and risk controls. ITG does not provide naked sponsored access to clients. We applaud the SEC's efforts to increase oversight of this area of the marketplace.

The SEC has also proposed several rules that would affect trading in dark pools, with the comment period ending February 22nd. Our assessment of these proposals is they do not present any threat to our business. To the contrary they may present opportunities as the SEC focuses its scrutiny on dark pools which are not truly dark. The SEC has said its primary concern is with the selective display of price information that certain dark pools make available to selected market participants, creating two tiered access to information. To create a more level playing field the rules would require actionable indications of interest to be treated like quotes, lower the display threshold for alternative trading systems and require realtime post trade transparency for ATSs. The SEC's proposal is positive for ITG in that is recognizes the need for institutions to confidentially interact to find natural block liquidity, which is what our POSIT crossing network does. To allow this kind of activity to continue, the proposed rules do not apply to truly dark trading activity and they also exempt block orders over $200,000. These exemptions should allow POSIT to continue providing our clients with anonymous, efficient trading with no information leakage just as it has done for the past 22 years.

Moving on to the market structure concept release that came out nearly two weeks ago, in addition to it being an interesting historical narrative one thing is clear, almost everything is on the table. The five objectives of the Exchange Act of 1975 adjusted for modern technology provide the lens through which a number of topics such as high frequency trading, broker internalization, systemic risk, co-location and public price discovery are being studied. This re-examination of all aspects of US market structure is both timely and constructive. We believe the themes of fairness, competition, and transparency will figure prominently in the staff's approach. While it is still early days, we believe all of this taken together will result in an increased scarcity value for block liquidity.

In closing my prepared remarks, I want to thank my colleagues at ITG for their hard work and dedication throughout what has been a very challenging time for our company. I know I speak for them in saying we remain dedicated to providing shareholders with the returns they deserve regardless of market conditions. Undoubtedly we are as highly correlated to the health of the asset management industry as we have ever been. At this stage in the cycle it is exactly where we want to be. With that background, we'll now turn to some further detail in Q4 results from ITG's Chief Financial Officer, Howard Naphtali.

Howard Naphtali - *Investment Technology Group - CFO*

Thank you, Bob. ITG's fourth quarter performance was a reflection of the challenging market conditions that Bob just described in each of our business segments coupled with a largely fixed cost nature of our infrastructure. The latter cost issue has been addressed based upon our current market estimates with the restructuring that focused principally on the US business and was announced in December. As noted on slide fourteen, we generated revenues of $151 million and a loss of $0.18 per share for the quarter in accordance with GAAP. To ensure a clear understanding of our fourth quarter results, we have separately identified on slide fifteen the non-operating charge by business segment that pertains to the restructuring to which I just referred. The $25.4 million charge is consistent with the estimates provided in both our press release and Form 8K in December. Please note that all financial commentary during the balance of this presentation will be on a pro forma basis, excluding this non-operating charge.

Moving to the consolidated results on slide sixteen, our US business generated $0.26 of earnings, while our combined international businesses earned $2.5 million pretax with a loss of $3 million after tax due to certain tax true ups and non-operating charges including an accounting valuation allowance. The overall consolidated pro forma effective tax rate excluding these items for the quarter was 46%. For slide seventeen, for the full year 2009 our US operations earned $1.40 per share while our collective international businesses lost $0.06 to yield consolidated earnings per share of $1.34. Our effective pro forma tax rate for the full year was 41% after giving effect to the fourth quarter true ups and nonoperating charges I just referred to.

Moving to slide eighteen, consolidated expenses were $134.7 million, a $4.3 million increase over the trailing quarter. Overall, our US costs increased $1.8 million versus the third quarter while international expenses increased $2.5 million of which $1.1 million represented currency impact. Variances in the major cost categories were as follows. US compensation costs increased $2.2 million, excuse me, due to separation costs cited in the press release which were unrelated to the restructuring. Exclusive of these costs, our US compensation rate was 33.4% of revenues which is largely consistent with recent quarters. International compensation costs increased $700,000 principally due to a $400,000 adverse currency effect. The full time global head count was 1,183 at the end of the quarter. Transaction processing costs declined $600,000 for the quarter. US cost reduction of $1.3 million is reflective of lower activities in ITG's US equity trading business as overall US transaction processing costs were 11.8% of revenues in both the third and fourth quarters. International transaction costs increased $700,000 in line with the related $3.4 million increase in commission revenues. Occupancy telecommunications and other G&A costs were collectively $2 million higher than the previous quarter of which $0.5 million represented an adverse currency impact. The largest component of the growth in G&A costs pertained to consulting costs.

On our international financial summary slide, you can see the breakdown of the $47.6 million of non-US revenues for the quarter. Revenues increased $3.8 million versus the trailing quarter of which $900,000 related to a favorable currency impact principally pertaining to weakness of the US dollar versus Sterling and both the Australian and Canadian dollars. On slide twenty we track our Canadian, European and Asia Pacific performance over the past year. We saw a return to Canadian revenue growth this quarter as revenues increased 16% to $18.2 million. Pretax profit margins declined from 25% in the third quarter to 21% based upon a compensation true up and an increase in transaction processing costs to 22% of revenues. As discussed both last quarter and in Bob's remarks, this increase in transaction processing costs is being analyzed with initial steps being taken in the same manner as we have addressed related cost issues in both the United States and Europe by further deploying our smart router technology.

Our European business was a positive as revenues grew 12% versus the trailing quarter and 16% versus the fourth quarter of 2008. The improvement in pretax profitability to $3.8 million derives from this revenue growth, a favorable compensation true up and continued improvement in transaction processing costs which have declined to 25% of revenues versus 27% in the third quarter and 31% last year. Our Asian business saw a $1 million decline in revenues versus the previous quarter in a difficult market environment as Bob described. Given the continued investment spending levels required for future growth, the Asian region generated a pretax loss of $5.1 million for the quarter.

Moving to slide twenty one, the blended average commissions per share from broker-dealer revenues achieved during the quarter was 69 mils, which is slightly better than the first quarter of this year and relatively consistent with the previous two quarters. As you can also note from this slide, our collective commissions from spread based trading, OMS revenue share and ITG derivatives were $12.2 million for the quarter versus $16 million in the preceding quarter, largely due to the difficult conditions for spread based trading that Bob described.

On slide twenty two you can see that our pretax margins during the quarter were 10.8% for ITG as a whole and 13.4% for our US business. The margin degradation over the course of the past year was principally the result of lower revenue levels in all regions combined with increased transaction processing costs in all regions other than Europe and the targeted investment spending in Asia Pacific. This reflects the downward leverage of our fixed cost infrastructure. However, as history has proven, there is a tremendous margin upside for ITG with growth in commission revenues. On slide twenty three, we see that diluted earnings per share for the fourth quarter were $0.19.

Moving briefly to our balance sheet, we had approximately $331 million of unrestricted cash at December 31st. However, please note that ITG has moved to an annual incentive compensation payment for 2009 compared to progress payments in prior years and will also be paying out the predominant portion of restructuring costs in the first quarter. These first quarter payments should approximate $80 million in the aggregate. With that background, I will turn it back over to Bob.

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

Before we move onto Q&A, I would like to give my personal thanks to Howard for everything he has done over the past 12 years to help build ITG into the company it is today. He has been a tremendous asset to the company and I want to wish him and his family all the best.

Howard Naphtali - *Investment Technology Group - CFO*

Thank you, Bob. I would like to add my thanks to all of on you the call this morning with whom I have had the pleasure of working over the years. This is a complex sector and one that is undergoing tremendous technological and competitive changes. I have been truly impressed by the quality of your analysis and the challenging and thought provoking questions you have raised during my tenure. ITG is a special place with a unique culture and collegial environment that has fostered innovation and market leadership over the years. I have cherished my time here and I look toward to seeing solid returns in my future relationship with ITG as a shareholder. With my retirement, Steve Vigliotti will now be assuming the CFO role. Those of you who have had the chance to meet Steve know that he has a good grasp on this business and I'm sure he'll get as much value out of your insights and perspectives as I have. With that I would like to open the call to Q&A. Operator, please open up the lines for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Your first question comes from the line of Niamh Alexander of KBW. Please proceed.

Niamh Alexander - *KBW - Analyst*

Thanks for taking my questions. Congrats, Howard and the best of luck to you. Where is the leverage in the international business and you explained that I guess you were a little behind on adjusting the smart routing in Canada with the transaction processing, but the tax rate is kind of really giving up the gain. So we saw nice strong revenues, but it is not translating to earnings and I think a lot of folks that have been supporting the stock have bought into the argument that a lot of the leverage in this model is in the international business. So we're not seeing it and how can we get comfortable that we're not going to continue to see really high tax rates and maybe transaction costs continue to drag on the revenue here.

Howard Naphtali - *Investment Technology Group - CFO*

I will address the tax item and Bob can talk about the forward leverage in the model. The tax item is a non-cash item which is really related to true ups and a valuation allowance from an accounting perspective. It will not recur going forward.

Niamh Alexander - *KBW - Analyst*

Howard, can you help me understand this rate, it has whipped around a lot and I know Asia is probably the biggest drag there because you're not making money and you can't carry forward losses there, but it seems just really difficult to model, but apart from that it's just kind of taken any incremental earnings and could that persist even outside of this one-time item?

Howard Naphtali - *Investment Technology Group - CFO*

Right. This has happened one time as you recall and we've had true ups in the past they have been significantly favorable collectively, over the course of the last ten years the US domestic tax rate has been pretty consistent in the 40% to 41% range and we're not expecting any material deviation from that. There has always been a wild card on an overall effective tax rate depending upon the nature of the international losses as we talked historically about, and never having booked tax benefits where we never made money in the past ergo Japan initially and Hong Kong and in the past before we came profitable in Europe, we had booked certain benefits in Australia where we had made consistent profitability in the 10% to 15% level and we pretty much reversed those. So you really have a sense of purity going forward and really only upside potential on the tax line, at least in the international vein and with profitability and Bob and Steve will talk about in a minute in Europe we do still have a favorable tax arbitrage where we have the bulk of the revenues that will show up in Ireland at a 12.5% tax rate versus a normal run rate of 40% in the United States. So the earnings leverage should be all to the good assuming the performance is there.

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

Yes, and on the TP side Niamh, I think just to kind of view a round the world tour there, Europe I think you have seen that we continue to generate good leverage in terms of transaction processing. We expect to drive more leverage out of the business in 2010 as we internalize more within POSIT, obviously dark aggregation is a key theme of our product offering there, and a continued focus as well as the self clearing initiative. And so I think as I said in my prepared remarks, there is a lot of visibility we have into that and the trend is our friend.

Asia Pac on the TP side, I think it is a bigger challenge in that not a lot of structural as we discussed in the past, not a lot of structural change in Asia. A lot of different clearing regimes we're dealing with onshore in Japan and Australia and Hong Kong and other places. So I don't know that there is going to be a lot of TP leverage in Asia Pac in 2010.

Canada, there is, as I have said before and I will say it again, a huge amount of pressure on the Canadian management team to reverse what is a negative trend in the second half of the year primarily caused by changes in market structure, influx of high frequency trading, but the thing that gives me confidence that we're on the right track is that we've addressed issues like those in the US, in Europe. And while there are nuances that we respect that exist in the Canadian market, I know we have all the resources to reverse that trend.

Niamh Alexander - *KBW - Analyst*

Okay. That's helpful. Thank you, Bob. The European margins were encouraging which is really good to see. I guess on Europe with respect to the self clearing, are we still targeting this year and is there kind of a lift that we should see at some point? I am sure there is redundancy now as you migrate.

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

I would say we're in good shape. We're right on track internally to our plan and we're very well-positioned to execute on that in 2010.

Niamh Alexander - *KBW - Analyst*

And in terms of timing, should we see a lift? Is there going to be a one quarter or is it a gradual thing?

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

I think what we're going to see is a gradual thing, but reach critical mass I would think in later Q2, Q3.

Niamh Alexander - *KBW - Analyst*

Okay. That's helpful. Thanks. Then the G&A expense really surprised us because it was higher. I don't know if there was a bit of I guess kitchen sinking given all the restructuring charges, but is this a higher run rate going forward or should we expect this to come down as a result of the restructuring?

Howard Naphtali - *Investment Technology Group - CFO*

A couple of things there. Obviously, there were consulting that we cited in the prepared remarks and you also recognize there is a fixed cost element in there in amortization of both cap software and previous intangibles that run close to $10 million per quarter. So that's like 44%, 45% of the cost save, so I defer to Steve and Bob to talk about the future beyond that.

Steve Vigliotti - *Investment Technology Group - Incoming CFO*

Going forward, certainly we don't expect the consulting costs to stay as high as they were in the fourth quarter, but as some of the our new technology initiatives have rolled out we may see a slight uptick in some of our cap sotftware amortization going forward, but certainly the consulting aspect of that we expect to come down going forward.

Niamh Alexander - *KBW - Analyst*

Thanks. Lastly on expenses and I will get back on the line, too, I guess on expenses with the restructure I guess most of it is going to be put into effect in the first quarter, so therefore we should expect a run rate through 2Q on. What kind of a compensation ratio should we be thinking about and then secondarily with respect to the restructure, $80 million outflow probably mostly cash, that takes your cash balance down quite a lot. So should we not think now about maybe you having some more flexibility to kind of look at potential acquisitions or maybe repurchases --

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

You know what, I will start with your second question, and that is that it is obviously a normal course of business for us, so every time we talk about cash obviously internally we know we're building up a balance that will be paid out as part of our variable compensation expense. It doesn't at all change our internal measurement of it in terms of the strength of the cash balance. So similar phenomenon to last year, right, so when we -- as I think last year was the first full year where we had annualized comp and it was paid out in that manner. So we knew going into first quarter that there was going to be a net outflow of that proportion.

Steve Vigliotti - *Investment Technology Group - Incoming CFO*

With regard to the restructuring, we expect that to take effect beginning in the first quarter and as a result we're sort of modeling a US comp rate which would be in the range of 32% to 33%.

Niamh Alexander - *KBW - Analyst*

32, 33 in the US and for Europe it is in the 40s, right? International in general.

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

Exactly, international.

Niamh Alexander - *KBW - Analyst*

I will get back in the queue. Thanks.

Operator

Your next question comes from the line of Ken Worthington of JPMorgan. Please proceed.

Ken Worthington - *JPMorgan - Analyst*

Hi. Good morning.

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

Good morning, Ken.

Ken Worthington - *JPMorgan - Analyst*

You indicated in your prepared remarks mutual fund sales doing better in January for US equities. Are you seeing a return of those type of customers to kind of the higher fee, higher value-added products that you offer?

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

I would say that we're pleased with the correlation that our volume has had with what looks like a very slight uptick if you put in the context of basically a five month unabated period of net outflows. And I would say that if you're reading the tea leaves here, I would say that POSIT Alert is doing well as a proportion of the total and as a proportion of the POSIT Mix, and I think that would indicate to us that there is at least a little bit more urgency on the part of some of our core long only mutual fund clients to establish or dispose of positions.

Ken Worthington - *JPMorgan - Analyst*

Great. Secondly, in terms of Macgregor, where do you stand right now in terms of the integration of the two and what kind of revenue synergies, if any, should we still expect from the merging or further merging of Macgregor in your core operations?

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

I would say, Ken, and we have been communicating this to our client base over the past several weeks, the focus has shifted a bit in that we're now focused on the next generation EMS very squarely. So we're talking about internally a brand new version of Global Triton that will have more and more capability, included in it will be more and more OMS like functionality. And with our OMS clients I would say the product is as stable and well supported as it has ever been and clearly in an environment where in which we're operating now with volumes being what they are, I don't think there is any -- I can't point to a major client having an issue with the product or with the software.

Interestingly enough, when you look at that core client base that I described earlier, there are obviously quite a number of Macgregor OMS clients on that list. So the OMS business continues to be one that is important to us, strategically, particularly in the context of our client stratification if you will, but I think the imperative that we're under here to narrow our focus a bit and to focus on what is at the core of the firm's desktop business which is the EMS business, which continues to perform beautifully globally in terms of its penetration of, as I described earlier, that core client base that we care strongly about, that really is I would say the only subtle shift in our posture.

Ken Worthington - *JPMorgan - Analyst*

And what is the timing of the release of the new EMS, is it first half, second half, 2011, beyond?

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

I would say that we're focused in on probably putting it out into beta in probably Q1 of 2011.

Ken Worthington - *JPMorgan - Analyst*

Okay. Great. And then lastly, and I apologize, I just haven't been able to calculate this myself yet. In terms of Asia market share, is it obvious that you either gained or lost market share during the fourth quarter?

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

Not really. I think year-over-year we're very confident in, as I said, basically an exit rate that's significantly higher than what it was at the end of last year.

Ken Worthington - *JPMorgan - Analyst*

Okay. Great. Thank you.

Operator

Your next question comes from the line of Gil Luria from Wedbush.

Nick Setyan - *Wedbush - Analyst*

This is Nick Setyan for Gil. Given the benefit to Q4's rate card from some of the actions you described in your comments, can you expect greater resilience in the rate card in Q1 and even going into 2010?

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

Yes. I guess we have gotten out of the rate card prediction business Thank God, but I would say I think that the stability over the course of 2009 I think speaks for itself. As I said in my prepared remarks, it is a very small standard deviation from Q1 to Q4 month by month, and so I think it probably, it certainly leads us to believe that the rate card impairment is permanent, but the issue of declines from here I wouldn't predict what it is going to be, I think hopefully the stability in 2009 persists.

Nick Setyan - *Wedbush - Analyst*

Okay. Thanks. Going back to Canada were revenues to remain where they are directionally, is it reasonable to expect Q4's pretax margin to be a trough given the compensation true ups or do you see further pressure as we move into 2010?

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

The -- as I said a few minutes ago, the Canadian team is under significant pressure obviously to raise the pretax margin in 2010, and I believe that that's both visible and achievable, and they understand that very clearly, and given our track record in Canada, I think you have to bet on them.

Nick Setyan - *Wedbush - Analyst*

Great. Just one final question. Should we expect any impact from further employee separation costs in Q1?

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

Further separation costs in Q1 for employees?

Steve Vigliotti - *Investment Technology Group - Incoming CFO*

We have accrued all of those in the fourth quarter.

Nick Setyan - *Wedbush - Analyst*

Great. Thanks so much.

Operator

(Operator Instructions) Your next question comes from the line of Mike Vinciquerra of BMO capital.

Mike Vinciquerra - *BMO Capital - Analyst*

Thank you very much. A couple of things. First I wanted to ask, I know it is still early since you announced the restructuring in the US business, but have you had a chance to talk to some clients and are you getting a sense that some of them will be willing to step up and improve the economics based on the value they're getting from the products they currently have?

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

I think we've had, as I said earlier I say it from the first hand, and that is some very productive client conversations with that core group, and I am really pleased actually by the response that folks have had and in some cases it is all about just making sure that we're very visible and that they're informed about what they're consuming and in some cases maybe sometimes that gets lost in translation, maybe we get a little bit too tactical in the way we face the client as opposed to strategic, which gets to my second point that I discussed in my prepared remarks, Mike. But I am very pleased, and in some cases actually I can tell you we have actually killed a couple of things or initiatives, customizations that were in the queue that had resources attached to them, and quite frankly as a part of a very constructive and positive dialog with the client, we both agreed that you know what, maybe that's not the right thing to do, and I walk away feeling like that is not going to affect our relationship negatively, and in fact I think it will affect it very positively. I think this level of transparency, engagement, dialog, is now clearly in motion.

Mike Vinciquerra - *BMO Capital - Analyst*

Okay. Great. One regulatory issue or I guess rules issue that we didn't discuss yet talk about some sub penny quoting because clearly the dark pools or some of the broker dark pools allow essentially changes in quotes internally there without having to go outside a penny and it is attracting order flow. Any positive ramifications of sub penny quoting in the lit markets?

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

I think the reason the lit markets are supportive of it is particularly in some of these sub $5 Citibank-like stocks, they want to drive more liquidity back into the lit market. So I am not surprised by it. I do think that there are some down stream unattended consequences that people have to consider, one of which is a very practical one which is market data. Market data is, I think if you ask any major broker on the street today, market data clearly is a utility within the firm, kind of the circulatory system if you will of each firm, and managing that, maintaining it, and growing it is a challenge. So to allow for sub penny pricing and more price points if you will, clearly I think you have to anticipate there be a logarithmic increase in market data volumes.

Mike Vinciquerra - *BMO Capital - Analyst*

That's a good point. I hadn't considered that. I guess with what's going on in the options market, I guess we kind of have a road map how to handle that type of quote volume. Would you see technologically it is not a huge challenge for the industry to go to something like that?

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

I think have you a relatively small number of options contracts that are on the run if you will, and I think that's probably the major difference. So I can tell you when Citibank crossed through 2 billion shares of volume and I don't know, I can't recall exactly what day it was, but when it crossed through 2 billion shares of volume, that was the street kind of I think yawned under the pressure of that.

It is going to be an interesting dialog. As I said, I think the market structure concept releases are very interesting ones, and I think the issue of internalization is going to get a lot of scrutiny clearly, and as I said, I think on balance just as the dark pool concept release was for us, I think it has the ability on balance to be very positive for ITG.

Mike Vinciquerra - *BMO Capital - Analyst*

Great. Thank you very much.

Operator

You have one additional question from the line of Niamh Alexander. Please proceed.

Niamh Alexander - *KBW - Analyst*

Thanks again. Back to Ken's question on Macgregor actually because we're four years into it now, and you have been running the extra development teams to roll out these XIPs with the full integration and seems like it is a bit of a reverse turn now and you're focusing all out on the EMS. So how do you differentiate yourself, because I guess part of the pitch that ITG will be different, is you would have this greater part of the wallet share resulting having the fully integrated EMS and OMS system. How are you differentiating yourself other than, you're going to retrench and refocus on these clients, but how do you know that they're going to pay you more?

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

I think a couple things. One, you can't forget the value and the contribution of the ITG Net business as well. So the ITG Net business, as I said repeatedly, has been a great business for the firm. It came with the Macgregor acquisition, so it has been a big positive and now it is at the heart of the firm's network business. So if you look at the Macgregor asset in its entirety, I think it has been a positive addition to the mix.

I think that I understand it when folks look at it they will say there is a big shift, really it is not as big a shift as I think you have just characterized it. It is really about refocusing our energy a little bit more on the EMS functionality as opposed to the OMS functionality and I think it is a function of market conditions. So while the code -- if we step back and we thought about market conditions in 2008, you would have said the OMS needs to be completely rewritten and it will never hold up under the weight of these increasing volumes of execution and message traffic. Clearly that's flattened out and declined. So I think what we have done is we have very rationally shifted our resources and our focus a little bit to focus on what we believe has the ability to generate the most shareholder return which is, as I said, the next generation EMS and quite frankly we're a little bit ahead. I don't want -- I also don't want to leave with you the impression that Triton is somehow end of life. It is not. But we want to make sure it stays out in front in terms of this leadership, and we may be a little early to be frank, but we believe it is the right thing to do.

Niamh Alexander - *KBW - Analyst*

Okay. That's helpful. Thanks, Bob. In terms of differentiating yourself to clients, and I do appreciate the color on the EMS, what do you point to because quite a few of your competitors have pretty sophisticated EMS systems and I think it is getting increasingly difficult to get paid for them frankly. How do you differentiate and argue that your commission share of the wallet should increase?

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

I think there's two ways, one of which is who we are. So we're an agent with global capability and global service and support. So that is in and of itself is differentiated and I think we go up against the software providers very effectively with the broker-dealer model which at its heart has a lot more sense of urgency than a software firm or software vendor. So service, support, global footprint, we're agent only, and Triton, when it goes up against the Bloombergs of the world, it really benefits from the fact that it is highly customizable. So we're not delivering anything that just pops out of a box and never changes. It is highly customizable in the client environment, and that's obviously, I think its biggest draw in terms of if you were to do a gap analysis between it and every other EMS in the marketplace. And behind that as I said earlier is the service and support, people on the ground in Singapore and Sydney and London and Tokyo and Hong Kong and San Francisco and Chicago and Boston, that are intimately engaged with the client.

Niamh Alexander - *KBW - Analyst*

Okay. That's helpful. I do appreciate the customizable differentiation. That helps. I guess if I could take a step back as there is nobody else in the queue right now and how -- when you look ahead to the year ahead just put 2009 behind us, where do you think the levers for growth might be that we're not maybe taking into consideration right now, your stock is down already 9% already today, and you talked about retrenching, refocusing on your more profitable clients, but where outside of that do you think you could maybe deliver some surprise in terms of what levers can you pull here?

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

I think continued improvement on the TP side clearly, as we discussed getting those margins in Canada back up to where they have been historically. We have a good visibility into it in Europe. I think Europe is really the most exciting region in which we're operating today. If you think about it, it's come in the face of not a huge amount of turnover growth in Europe. It is -- fourth quarter was a modest quarter in terms of overall volumes in Europe, but we significantly outperformed. January has been a good month for us in the region. So I think Europe there is more operating leverage and more top line to come there.

I think in the US, I am excited by as I said earlier it is not just about the restructuring and reducing costs. It is about narrowing our focus, and I am excited by the potential to reengineer the US business to get back to the US operating margins that we enjoyed. We have to -- basically this is a new world order, and we have to reengineer our US business, our operating model to reflect that, and we are. This is not burning -- these costs savings you're not burning in over the quarters. It is a hard cut. It is starting Q1. I can tell you there has been no degradation in service or support or the client experience at all associated with that. So I am excited by that. I think AP, AP is going to be I think a challenge, but there is light from the perspective of I think everyone expects that those economies, those GDPs across the region are going to outperform the rest of the developed world and if they do, as expected, I would think the equity markets are going to perform commensurately with that, and so we're hopeful that market volumes will return.

Niamh Alexander - *KBW - Analyst*

Okay. Thanks, Bob. I appreciate it.

Operator

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

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Rich Repetto - *Sandler O'Neill - Analyst*

Hi, can you hear me?

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

We can hear you.

Rich Repetto - *Sandler O'Neill - Analyst*

I know I am at the end of the queue and I don't even have a question, but I want to say Howard, has been, as a CFO has been a pleasure to work with, his transparency and working with the analysts, he has done an excellent job and we'll sorely miss him. That was it.

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

That's great. Thank you, Rich.

Operator

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

Rob Rutschow - *CLSA - Analyst*

Good morning.

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

Good morning, Rob.

Rob Rutschow - *CLSA - Analyst*

I wanted to get a little bit more detail on the sequential changes in the other commissions. If you could just quantify how much of that was spread compression, what happened with the OMS, and derivatives line items?

Howard Naphtali - *Investment Technology Group - CFO*

Bob has given you the flavor, and the largest portion of the reduction of $3.8 million versus the trailing quarter came from the spread-based trading, with a narrowing of the spreads, et cetera.

Rob Rutschow - *CLSA - Analyst*

So other two are fairly --

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

And also less volume in the system, Rob, obviously. When our volumes go down, there is a leverage effect there as well. It is double whammy in terms of spreads going lower and lower overall volumes within our US system.

Rob Rutschow - *CLSA - Analyst*

Okay.

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

But also don't discount the fact from the revenue share perspective, obviously that's reflective of overall weak institutional volumes as well, right.

Rob Rutschow - *CLSA - Analyst*

Right.

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

That's where we're collecting revenue on the network side from other brokers.

Rob Rutschow - *CLSA - Analyst*

Okay. And second question, I guess you have been pretty clear that the cost saves are hard cut. Is the head count reduction completely -- is it complete at this point? Will there be any more in the first quarter and the other items, the non-comp expenses, are those, have those been reduced starting at the beginning of the quarter or will that take a little bit longer?

Steve Vigliotti - *Investment Technology Group - Incoming CFO*

The non-comp expenses also kick in the first quarter as well.

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

Yes to both.

Rob Rutschow - *CLSA - Analyst*

Great. Thank you. Good luck, Howard.

Howard Naphtali - *Investment Technology Group - CFO*

Thank you, Rob.

Operator

Your next question comes from the line of Patrick O'Shaughnessy of Raymond James. Please proceed.

Patrick O'Shaughnessy - *Raymond James - Analyst*

Good morning.

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

Good morning, Patrick.

Patrick O'Shaughnessy - *Raymond James - Analyst*

Want to make sure I am thinking about the modeling of the operating expenses going forward correctly. So you guided towards $25 million to $28 million in annual expense reductions because the restructuring. So is it a fair way to think about it take the operating expenses that you had in the fourth quarter, back out the restructuring, back out the one-time additional severance and then maybe say you go down about $7 million from there in the first quarter 2010 and then you probably have some slight expense growth as you continue to build out international during the year?

Steve Vigliotti - *Investment Technology Group - Incoming CFO*

This is Steve. Some of that $25 million to $28 million was actually a realized in Q4 with reduction of year end incentive comp accruals. So going forward we look for the impact of the restructuring for the full year 2010 to be somewhere $22 million to $25 million. And for that to kick in again, beginning of the first quarter.

Patrick O'Shaughnessy - *Raymond James - Analyst*

Got it. That's helpful. And my second question would be just in regards to the Asian Pacific market, at what point would you say this just isn't working, we've lost too much money on it, we're going to shut it down? What is the level of patience you have with the business, if it is still not making money by the end of 2011, you say it is not working or what's your long-term thought there?

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

Well, I think what we have -- and believe me, this was obviously the perfect environment as I said to challenge the firm's conventional wisdom, so one of the conventional wisdoms we have had has been that the value of a global broker with global capability is something that is appreciated by the core asset managers that we have discussed, and I think we walk away feeling that without an Asia Pac presence the other regional capabilities would be diminished. We understand that it is a huge -- it is a significant investment. We understand that it operates with a tremendous amount of negative operating leverage at this stage of the game. We can point to now two regions where the patience has paid off, that being Canada, which despite the margin issues we're talking about in the last several quarters, is a very solid contributor to the firm's bottom line, and is now interestingly enough being eclipsed by Europe in terms of its contribution. So we understand where folks are coming from. We -- the numbers don't lie. From a strategic perspective we're patient and we're confident in that particular aspect of our future direction.

Patrick O'Shaughnessy - *Raymond James - Analyst*

Understood. Thank you very much.

Operator

This concludes our question and answer session. I would now like to turn the call over to Mr Bob Gasser for closing remarks.

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

We, as I said, we appreciate you all joining us today, and we look forward to speaking with you all in May, and once again I want to wish Howard all the best.

Operator

Ladies and gentlemen, thank you for your participation in today's conference. This concludes the presentation. You may now disconnect. Have a great day.
