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PRESENTATION

Operator

Good morning, and thank you for joining us to discuss Investment Technology Group's first quarter results for 2010. My name is Tom, and I will facilitate the call today. After the speakers' remarks, there will be a Q&A 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.

J.T. Farley - *Investment Technology Group, Inc. - IR*

Thank you, Tom, and good morning. In accordance with Safe Harbor regulations, I'd like to advise you that any forward-looking statements we'll be making this morning are subject to a series of risks and uncertainties that may cause actual results to differ materially from those statements. These forward-looking statements speak as of today, and you should not rely upon them as representing our views in the future. While we may elect to update these forward-looking statements in the future, we undertake no obligation to do so. I advise you to read about the risk factors that may affect forward-looking statements in this morning's press release, as well as in our SEC filings.

I'd 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 PowerPoint slides which accompany this presentation are available for download at the Investor Relations section of itg.com. To begin I'd like to introduce ITG's CEO and President, Mr. Bob Gasser.

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

Thanks, JT. Good morning, and thank you for joining us to discuss ITG's first quarter. In a few moments our CFO, Steve Vigliotti, will go over the quarterly results. I will start with a discussion of how current industry conditions are affecting our results, and provide an update on the actions we've been taking to reposition our business model in the face of continuing and unprecedented headwinds.

First I'll address industry conditions. Slides three and four show a broader look at net flows to both equity funds and bond funds. What they reflect is that individual investors have taken their money out of their mattresses and put it back into the market. But it has flowed overwhelming into the bond market. As slide five shows, the appetite US investors have shown for equities have largely been for funds that invest overseas. They continue to shy away from funds that focus on domestic stocks.

During previous cycles, this late into recovery in equity markets, individual investors have always returned strongly to equity funds. The current market dynamics are striking a new level of equity risk aversion for individual investors. As slide six shows, this aversion to US stocks comes at a time when equity returns over the past year have surged 75% from their lows last March. And when equity volatility, as measured by the VIX index, sank below its historic mean of 22, averaging 20 during the first quarter of 2010. These stunning returns and low volatility did not tempt the individual investor back into the US equity markets by the end of the first quarter of this year. As slide seven shows, this has been largely a US phenomenon. European individual investors have followed a more normal historical pattern of flocking back to equity funds as their returns have recovered and volatility subsided.

What's been the impact on ITG's client base? As in recent quarters, these weak equity flows in the US and low volatility have put enormous pressure on institutional volumes. Given the lack of inflows that are typically customary in this stage of the investment cycle, the buy-side's priorities have changed. What we have seen emerging is somewhat less emphasis on execution costs as the fund managers focus has turned predominantly to enhancing performance. Cutting execution costs still plays a role, but it is dwarfed right now by a drive to demonstrate an ability to generate alpha in portfolios. The buy-side has largely forgotten counter party risk fears, which were stoked during the height of the financial crisis. They are now re-embracing bulge bracket firms in order to get access to capital, research and IPO allocations.

However, this shift in current priorities does not mean there will be a permanent reversal of trading technology trends. In fact, the latest TABB Group survey of the buy-side found quite the opposite. When asked about their 2009 experience, 56% of buy-side firms told TABB that they'd increased the percentage of commissions paid to execution-only brokers. In addition, high-touch traditional sales desks lost 19 points of market share in upstairs block trading to electronic trading. According to TABB, 64% of blocks are now traded electronically versus just 36% by sales traders.

When asked about their 2010 plans, the large buy-side firms said they expect to continue to shift more of their trading from high touch to low touch. TABB estimates the traditional sales trader will lose another five points of large buy-side firms' market share this year, down to 31% of the total shares traded. The market share gainers will be algorithms, crossing networks and dark pools.

To leverage their influence with each broker, buy-side firms are cutting back the number of core brokers they use. In 2007, the large buy-side firms used 19 core brokers on average. In 2009, that number was cut to just 13.

Now I'd like to address ITG's performance. Even with these headwinds we're confident we can win a growing share of the business from large institutions, which represent our core client base.

Despite the current difficult environment, our results show we're holding our own. Our trading volumes held steady compared to the fourth quarter. Our revenue per share for US commission trades was almost unchanged, and our POSIT volumes actually increased. POSIT average daily volume in the first quarter was 63.4 million shares, up from 55.1 million in the fourth quarter.

POSIT Alert average trade size also rose to 36,500 shares. While we don't break out average daily volume for POSIT Alert, we saw an impressive increase in the number of shares crossed through this system, speaking to the value investors place on true institutional block liquidity. Our spread-based trading revenues increased as well, despite the narrowing of spreads during the quarter.

We're also seeing improvements internationally. Canadian profitability rebounded in the first quarter, aided by a drop in transaction processing costs. And we're seeing a strong increase in POSIT activity in Europe.

Now to ITG's positioning. It's a matter for debate whether lack of fund flows to domestic equities and the buyside's reaction to these tougher circumstances is a cyclical phenomenon that will eventually right itself, or a long-term secular shift characterized by aversion to active US equity portfolio management. While April has seen three straight weeks of strong positive inflows for US domestic mutual funds, it's too early to call this a trend.

In the interest of prudence, we're hoping for a continued upswing, but we are managing our business as if the depressed fund flow environment is in fact the new normal. The rate cart has been stable, but we don't have a lot of leverage to raise it, so our cost structure and productivity must reflect this reality. But if there turns out to be a cyclical upturn in trading activity, all the better. We will have built-in additional profitability and operating leverage.

Let me highlight the breadth of action we have underway to revamp our cost structure and free up the amount of capital tied up in our business, while at the same time expanding the content and global trading capabilities we need to win even more business from our core client base.

First, let me briefly discuss our balance sheet. In the first quarter we commenced our first share buyback since 2007, repurchasing approximately $10 million worth of ITG stock. We are also reassessing the optimal capital structure for our business and ways to improve our financial flexibility.

One area of focus has been Asia. We are implementing a plan to lower our costs and reduce our capital requirements while still providing the regional trading capability we need to offer our clients as part of our global platform.

To this end, we are closing our Japanese office. This move will reduce our annual expenses by approximately $4 million, and it will also reduce the amount of capital required in the region by approximately $20 million. We will continue to offer our range of Japanese trading services to clients via our Hong Kong operation, and this move does not impact our plans for POSIT marketplace in the region. As you probably recall, we launched POSIT marketplace in Hong Kong last month, and we will be expanding it this year for trading in Australian and later Japanese equities.

As part of this restructuring, our Asia Pacific CEO, Leon Christianakis, will be leaving ITG. We thank Leon for the dedication and leadership he has provided to the firm, and we wish him and his family all the best. Our current Chief Operating Officer in the region, Alasdair Thomson, will take over the CEO role.

In short, we remain committed to the Asia Pacific region, but intend to focus more narrowly on what we believe to be our core competency-- delivery of market-leading electronic equity execution products to our core regional and global clientele.

Another part of our strategy is to expand our content offerings in order to compete for the research part of the commission bundle that has become increasingly valuable to the buy side. According to Greenwich Associates, more than 50% of the client wallet is directed to service research commitments. CSAs have been an important component to our product offerings in our effort to attack this portion of wallet, but we've come to the conclusion that CSAs are not enough.

ITG is renowned already for the value of our content, particularly when it comes to our proprietary tools to analyze transaction costs.

Our economic research team, headed up by Bob Barbera, is also a highly valued resource for our buy-side clients. Bob has a strong following among major institutional investors who prize his regular written commentary and their ability to consult with him on a one-on-one basis.

We've decided to expand this core by building a broader set of research offerings. As part of this effort, we've made a strategic investment in an independent research and analysis firm called Disclosure Insight. Disclosure Insight provides valuable due diligence reports on public companies, including the discovery of undisclosed SEC activity, accounting and auditor problems, unusual capital markets events, and the stability of the board of directors and the executive team. As part of this investment, ITG will serve as an exclusive distribution platform for Disclosure Insight research, offering it as a value add to our clients.

Turning from our content development to our technology strategy, we plan to consolidate our execution management platforms and develop them independently from our order management system. We expect this initiative to cut overall development costs while increasing the competitiveness of our offering.

Accordingly, we will continue to invest to keep our XIP order management system fully competitive in meeting clients' needs and up to date with the latest industry initiatives. But this effort will require significantly less developmental spending than trying to integrate fully with the execution management systems.

As for EMS consolidation, we will be moving to combining our single stock and portfolio oriented platforms, Radical and Triton, onto a single platform. The goal is to focus development dollars on having the best execution front-end in the market. As part of this restructuring, we took a write-down in the first quarter of approximately $6 million, which is associated with the OEMS research and development effort. Steve will discuss this in more detail shortly.

And now let me update you on the client profitability initiative we announced last quarter. While we've always looked to client economics in the past, the new program is a shift in the way we do business. We are now in the process of focusing the bulk of our attention and resources on our core client base. In doing this, we're able to offer them a more consultative relationship. This relationship encompasses our propriety research and analytic content, our expanding global trading platform, and increased product customization. This effort has been generally well received, and the initial conversations are paving the way for more constructive relationships and a higher level of engagement with many of our key clients.

On the other end of the profitability spectrum, we've had frank conversations with some of our less active clients on the lower end of the profitability spectrum about the need to generate increased revenues in exchange for the resources ITG provides. We're engaging with them to determine the appropriate level of ITG products and services for their needs, and for the size of their commission wallets. In some cases, this involves switching out of Triton desktop and the associated data feed expenses we incur to support it with ITG Channel or with a FIX connection to POSIT into ITG's liquidity.

As a last point, a brief update on the regulatory outlook. Financial regulatory reform has taken a number of twists and turns in the past several months. The political environment is obviously highly charged, and the conditions seem ripe for momentous change in the derivatives and fixed income market. In this context we believe that it's possible that we could see the creation of centrally cleared and price discovered marketplaces, markets that could not even have been envisioned just a few short weeks ago. Stay tuned. This could get very interesting.

So to wrap up, we are reworking our business model to ensure that it's successful in the face of continued headwinds and positioning ourselves for new areas of growth. And if we see a sustained inflow of cash to domestic equity funds, we will enjoy tremendous leverage to the upside.

The strategic moves we're making play to our strengths. We are focusing more attention on our core clients, cutting our cost for product development and international expansion, while at the same time enhancing our product performance and global trading platform. Finally, we're reducing the capital intensity of our business and returning more cash to shareholders. With that background, our CFO, Steve Vigliotti, will take you through the key financial points for the first quarter. Steve?

Steve Vigliotti - *Investment Technology Group, Inc. - CFO*

Thanks, Bob. Our cost reduction efforts in the US, coupled with improved performance from our international operations, substantially reduced the impact to our pro forma operating earnings of lower US market volumes. As Bob just described, the operating environment for our business continued to be very challenging in the first quarter, with stagnant flows into domestic equity funds resulting in reduced trading levels by our core US client base as compared for the first quarter of 2009.

As noted on slide 12, we generated revenues of $146.7 million during the first quarter and net income of $0.19 per share on a GAAP basis. As you can see, the decline of revenue compared to the fourth quarter is attributable to the number of trading days as our revenue per day was slightly higher. The GAAP results for the first quarter include a non-cash charge of $6.1 million pretax, $3.5 million after-tax or $0.8 a share to write off the remaining amount of capitalized software for the OMS-EMS integration project.

As part of our fourth quarter restructuring, we wrote off $2.4 million of capitalized software related to this project and kept the remaining balance on our books. As our product development plan continued to evolve in the first quarter, and in particular with respect to the EMS consolidation project Bob referred to earlier, we determined that it was unlikely that we would use the software. Since the software had not yet been released into production, and therefore was not being amortized, the write-off will not affect the current run rate of our amortization expense.

The balance of the financial commentary during this presentation will be on a pro forma basis, excluding this non-cash charge as well as the $25.4 million pretax restructuring charge in the fourth quarter of 2009.

On slide 13, you can see our consolidated results broken down between our US and international operations. On a consolidated basis, our net income was down $900,000, compared to the first quarter of 2009, on $9 million of lower revenues. Our US business generated $0.25 a share of earnings for the quarter, compared to $0.34 per share in the first quarter of 2009, and our combined international business contributed net earnings of $0.02 per share, compared to a loss of $0.05 per share during the first quarter of 2009.

Our consolidated pretax margins for the first quarter of 2010 and 2009 were 14.7% and 15.1% respectively. Our consolidated pro forma effective tax rate was 44.6% for the quarter, compared to 45.4% for the first quarter of 2009.

Moving to slide 14, US expenses were $80.6 million, down 13% compared to the first quarter of 2009 and 10% compared to the fourth quarter. US compensation expense was $34.3 million, or 34.3% of revenues, compared to $41.6 million in the first quarter of 2009 and $40.3 million for the fourth quarter.

The decline in compensation expense compared to the first quarter of 2009 reflects the impact of the fourth quarter restructuring and a net decrease in employee severance costs of $2.5 million. The decline from the fourth quarter of 2009 reflects the restructuring and the net effects of $5.8 million of non-restructuring severance during the fourth quarter and year-end reductions to incentive compensation accruals of $4.4 million, primarily for terminated employees and for senior management. As you may have seen in our proxy, some members of our senior management in the US did not receive any cash bonuses and instead received bonuses entirely in the form of stock that vest over the next three to four years. Transaction processing costs declined to $10.3 million during the first quarter, representing a 10.3 -- representing 10.3% of revenues, compared to 11.3% during the first quarter of 2009, and 11.8% in the fourth quarter, aided by a higher percentage of our volumes being crossed and POSIT. General and administrative costs were higher compared to the first quarter of 2009 due to higher amortization costs, but were down compared to the fourth quarter, reflecting lower consulting costs.

On slide 15, we have provided a summary of our international results. As compared to the fourth quarter of 2009, revenues were down $800,000, primarily due to foreign currency impacts. The compensation ratio for our combined international operations was 41%, flat as compared to the fourth quarter, and our transaction processing costs improved to 22.2%, compared to 23.9% during the fourth quarter, primarily due to improved routing and also increased POSIT utilization in Europe. On the next slide, we track the performance of our foreign segments over the past five quarters. Pretax profit margins improved in Canada and Asia Pacific as compared to the fourth quarter, but were lower in Europe due in part to a compensation true-up in the fourth quarter of 2009 and the reallocation of $800,000 of revenues from our ITG Net business to Asia Pacific during the first quarter.

On slide 17, you can see that our US rate card has been stable over the past five quarters, coming in at 68 mills for the first quarter. Our other commissions and fees were up over the fourth quarter due to higher values in our spread-based trading business and higher revenues from ITG Derivatives.

We ended the quarter with $322 million of cash and cash equivalents on our balance sheet, down from $330.9 million at year-end. As previously discussed, the decline reflected payments of incentive compensation and severance accruals, substantially offset though by a decrease in the amount of cash used in our US broker dealership subsidiary to finance customer settlement activities following the expansion of our securities lending operation.

At March 31st we had 43.5 million shares outstanding, down from 43.8 million outstanding at year-end, due to the repurchase of 556,000 shares, offset in part by the net issuance of 311,000 shares to settle employee equity awards. We have 1.5 million shares remaining under our current repurchase authorization.

We expect the ratio of our US compensation expense to decline to the historical 32% to 33% rate, exclusive of severance amounts, as the operating environment for US equities improves and our revenue levels get back to the pre-Q4 '09 level. Until such time, however, our US compensation rate may remain at the slightly higher level so that we can maintain the high caliber of our employee base in an increasingly competitive market.

Software and other intangible amortization, which is included in G&A expenses, is expected to remain at higher levels throughout 2010, at approximately $10.5 million per quarter, up from $9.9 million the fourth quarter in 2009 and $8.9 million in the first quarter of 2009.

We expect to complete the migration of our European settlement books and records to an in-house solution during the third quarter, resulting in an annualized reduction in transaction processing costs of approximately $3 million. With that, I'd like to open the call to Q&A. Operator, please open the lines for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions). And your first question comes from the line of Ken Worthington with JPMorgan. Please proceed.

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

Hi. Good morning.

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

Good morning, Ken.

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

First on the Japan office, you said $4 million of annual savings. Are you going to reinvest some of that $4 million as you build up the rest of Hong Kong, or is that something we'll see fall to the bottom line over the next couple quarters?

Steve Vigliotti - *Investment Technology Group, Inc. - CFO*

Ken, we expect that savings to fall to the bottom line. We believe we can service those clients out of our Hong Kong office with our existing team and infrastructure in place. We expect those savings to kick in beginning -- the beginning of next month. Most of those savings to kick in the beginning of next month, with a little bit of a drag just to wind down some operations, but most of the $4 million should kick in in May.

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

And remember, we have NOLs in the region, too, because it's going to be a fairly robust savings for us.

Steve Vigliotti - *Investment Technology Group, Inc. - CFO*

Yes, I mean to that point, the fact that we're not booking any -- there aren't tax effects right now in our numbers related that [loss-making] operation. That savings hits our operation dollar for dollar.

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

Okay. How big is the NOL savings?

Steve Vigliotti - *Investment Technology Group, Inc. - CFO*

The NOL on the books is year-end, for the Japan office, was some where in the neighborhood of $15 million. We had fully reserved for that. So our results were not reflecting any tax benefits. So to Bob's point, any savings we do in pretax costs will fall directly to the bottom line.

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

Understood. Then the $20 million of capital that you free up, any plans for that? You bought back stock during the quarter. Are you implying that you'll probably use the remainder of the $20 million to return to shareholders as well?

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

We certainly can. It's part of the overall plan of optimizing our balance sheet. And I think, as I said in my prepared remarks, clearly one of our priorities is returning capital to shareholders. And we expect to do much of the same throughout the course of the year, barring, a transformational event or a transformational opportunity for the firm.

Steve Vigliotti - *Investment Technology Group, Inc. - CFO*

Right. And it gives us more flexibility to invest other opportunities like Disclosure Insight.

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

And then with OMS and EMS, you seem to have been kind of de-emphasizing the synergies between the two. Why didn't this end up working, the full integration of the EMS and OMS? I guess my question is, was it a cost issue and it's just not the right time given the resources that integration needed, or was the thesis developed by your predecessor just one that doesn't work for execution and order management?

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

I would say this, Ken. I think that times change, clearly. We're basically four years into the Macgregor acquisition. Clearly a lot has happened in the last four years, both structurally within the markets and obviously within the client base. I take a lot of heart in terms of looking at, for instance, the latest Greenwich survey, looking at our leadership in the desktop space and in the smart routing and DMA space where we came out number one. And that's in the EMS world, right? So maintaining our product leadership there, our competitiveness, while at the same time making sure that we are as productive and as cost effective as we possibly can be from a development perspective I think has just overcome the priority of merging an OEMS solution.

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

Okay. And is OMS still kind of a core business? Would you think about divesting Macgregor? Or is it kind of too well integrate --

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

It's still a core business, quite frankly, because of the network effect, or the network business attached to it. And clearly the OMS client base are core customers of ours, most of them. I'd say that -- the interesting thing and the ironic thing, is that right now I'd say the product is as stable as it's ever been and as well supported as it's ever been, and the customer base I think is as happy as it's ever been. So, it's an interesting data point for me in terms of, as I said, rearranging our priorities a little bit to focus on the next generation unified EMS and making sure that from a revenue generation standpoint that we continue to ensure the dominance of that product.

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

Great. Thank you very much.

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

You got it, Ken. Thank you.

Operator

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

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

Thanks for the guidance on the expenses as well. And just to touch on it, the $3 million for the soft clearing, is some of that already in there, or could we expect, come fourth quarter, a nice drop there?

Steve Vigliotti - *Investment Technology Group, Inc. - CFO*

No, that's not in place. That will start being phased in this quarter.

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

Okay.

Steve Vigliotti - *Investment Technology Group, Inc. - CFO*

As we begin to move certain markets over to our books and records, and we'll be fully complete at the third quarter, at which time the fully baked in annual run rate reduction will be $3 million. So that -- so you'll see that -- that should pick up in our transaction processing cost number, beginning in the third quarter.

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

Okay. That's helpful. Thank you. If I could go back to your prepared remarks, Bob.

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

Sure.

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

Especially when you talked about expanding research, because you've made it clear to us that it's tougher to get paid for content, and you're not alone as an exclusion broker right now with all the market changes.

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

Sure.

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

Is Disclosure [Insight] the first of several of these type of arrangements, maybe independent that you'd like to do?

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

Absolutely.

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

How should we think about it, though? I mean, you avoid providing more and more services for the same fee. It's kind of a trap that you want to avoid. How do you get yourself into that, either higher commissions or just expanding your share?

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

Yes, absolutely. That's a great question. First I'd say that it's not happening. In isolation I'd say people would scratch their heads, why are you doing this, but it isn't in isolation. We've got a good solid pipeline of other independent research products we're looking for. We're clearly open to a transformational event in this space, if we found something of very high quality that would combine well with the firm's business and it's core DNA, if you will. That being independent and objective and agency driven.

But that having been said, we're going to continue to focus on properties like DI in the absence of that. And our view is very simple, that we have not been competing for that 50% share of client wallet over time, and we feel -- and we've been -- and quite frankly we've been given a lot of guidance by our clients that to not go after that is just not an option in the face of a shrinking client wallet overall.

As I said in my remarks, clearly there's been a migration back toward I think some of the elements of the traditional model. We don't think it's permanent, but having gone through a number of cycles like this one, I think it's -- it clearly is a responsibility of this management team to make sure that, as we enter another cycle, at one stage or another, the firm is very well diversified at that stage to weather the storm. And I take your point that clients will try to bubble, and whether or not you can get full value for that, but -- and it may be a function of critical mass, the number of properties and the number of services and the number of points at which we touch the client from a portfolio management and analyst perspective, but we've got the resource to do that. We've got the distribution channel and the senior relationships to push this along. And I think, as I said earlier, we've got an imperative to make sure that the firm can withstand any challenging secular headwind that it may be presented with.

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

That's very helpful. Thanks, Bob. And so does that mean you could actually go out and look at maybe hiring research -- I'm not applying for a job here, by the way. I'm just trying to understand where you're going with this.

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

Well, I think you guys do a very -- do a great job in the buy-sell-hold end of the alpha generation scale. As I said, that's a very, very competitive space in and of itself, as you full well know. The question is, are there unique properties in the middle that we can get involved -- and by the middle, I look at the world as being two poles. One being alpha generation and one being alpha retention. I think we have a pronounced leadership in the alpha retention game. We don't have a lot of alpha generation capability, other than Bob Barbera, and he's fantastic. I love Bob, and he does a great job for us, and serves a nice group of core clients very, very nicely. But are there things within the middle of that spectrum that could be very useful.

Disclosure Insight is an interesting property in that it focuses on a niche business, it clearly focuses on more governance-driven items. I think it makes the investment process more efficient. It doesn't compete with the buy-sell-hold world, but it could be integrated very nicely into -- and we've gotten good feedback from clients -- it can be very -- it can be integrated very nicely into the investment process. So things like that, I think, we're very, very keen to look at. As I said, we'd look at a buy-sell-hold property, but it would have to be something very transformational for the firm.

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

Okay. That's helpful. And then, Bob, just to -- [I understand] transformational, and sometimes there's short-term pain for long-term gain, but if it is the other alternative where it is occasional opportunities or one-on-one, what's your tolerance level for maybe hit to the operating margin, given the environment you're living with right now? Like, where are you and Steve comfortable with that these kind of things add expenses where the revenue may not flow through immediately? Help me understand where your tolerance level is, where you think your shareholders' tolerance level would be to deliver the upside to the earnings.

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

I think we'd have to be very, very confident that there was synergy. In other words, not a lot of overlap in terms of electronic product or trading capability. For instance, it might be a firm that has a research operation with a high touch, very capable high touch tails trading operation, but has no electronic product. And nothing that -- going on globally, that would be a nice fit, for instance. So the synergies would have to be obvious for us to, I think, take a good, hard look, and expend some of our hard-earned capital. And quite frankly, I think Steve -- I know Steve and I and the Board look at it very similarly. We're constantly assessing these opportunities vis-a-vis the value of our stock, right? So there's a constant balance between making an investment like that one, or any other one, and looking at returning the capital to shareholders.

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

Yes. Okay.

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

That to me is the test, right? Can you generate a return that's going to be more attractive than our stock return? Quite frankly, our stock is at a depressed level. So it would have to be compelling.

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

Okay, that's fair enough. Thanks. I appreciate it. I should get back on the line and let someone else. Thanks.

Operator

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

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

Hi, Bob. How are you doing? And Steve.

Steve Vigliotti - *Investment Technology Group, Inc. - CFO*

Hey, Rich.

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

Hey, Rich. Good morning.

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

I guess you made a little comment on the [opportunity] OTC derivatives. I agree with the way you assessed it. Two weeks ago you might not expected to see where we are at today. But you said stay tuned, or something to that effect. Could you expand or give us color on what you meant by your connection to this price discovery process.

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

Yes. Well, I enjoyed your piece this morning. I think it was actually -- I mean, these prepared remarks, believe me, happened a few days ago, but I enjoyed your piece this morning. And I think you hit the nail right on the head, which is one of the things that's always intimidated us about fixed income and derivatives -- and derivatives is such a catch-all phrase. Obviously we're in the exchange traded derivatives business, but I'm talking about here about OT -- what have traditionally been OTC derivatives. And I think we've always been intimidated a little bit in that market by the lack of central clearing, which obviously we don't have the balance sheet to compete in that business with the guys who muscle their way in and out every day. And there's no central price discovery and no reporting of trades. Well, it looks like that's all going to change. So the question is, is there a role -- and we're spending quite a bit of time internally exploring, is there a role for a firm like ourselves that has a good client distribution, penetration, respect in the equity space? Is there a role for us to potentially play there. And certainly the environment has changed dramatically from where I thought it would have been, as I said, in my remarks several weeks ago.

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

Got it. So at this point there's no set sort of initiatives. It's still strategizing on how to take advantage of whatever comes?

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

Exactly. We're encouraged that -- to see trades reported, price discovered and trades centrally cleared. That looks a lot like the equity market.

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

Exactly, exactly. Okay. And then follow-up. The change -- I thought Steve mentioned equity comp. Is that just something this quarter, as the after the end of the year, or is this a trend you see, given stock price or whatever? I don't think whether it makes sense given the stock price, but anyway --

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Steve Vigliotti - *Investment Technology Group, Inc. - CFO*

Well, it was -- what our Board put in place last year. Obviously last year was a challenging year for the firm. So it elected to pay our senior executives in the US the entire amount of comp in the form of equity to reflect, again, the challenging period that 2009 was for the firm. (Inaudible - multiple speakers) on an annual basis, Rich.

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

Okay, okay. And very last thing. You did a nice job, and you've already covered Disclosure Insight. Other people have attacked the service aspect to the buy-side with corporate access, gain -- giving people corporate access. Can you just take -- and you already have talked a little bit about -- are you looking at corporate access, or what other type of --

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

I've never been convinced that corporate access is a very interesting market for us. I mean, I'll just use us as an example, right? We're a [mid-cap] company. We have some strong and important investment banking relationships. We have strong relationships with you guys. Why would I go to a third-party to introduce me to institutions? I'm going to go out with you guys, right? I mean, those relationships are important to us. And I feel like the firms that would care the most are at the bottom end of the spectrum of market cap and, unfortunately, trading activity. So the question is, where's the bang for the buck?

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

Music to my ears, Bob. I agree with you.

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

Yes, I don't get that. I mean, I think for us there's other -- there's so many other things -- and I think the -- for instance, the end of the research settlement I think is unearthing a lot of independent research firms that are very well liked and respected and unique that are now, I think, in an interesting place in terms of wanting to be affiliated with a firm that can ring the register. So.

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

Got it. Thank you very much.

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

Yes.

Operator

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

Michael Vinciquerra - *BMO Capital Markets - Analyst*

Good morning, Bob and Steve.

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

Good morning, Mike.

Michael Vinciquerra - *BMO Capital Markets - Analyst*

I want to come back to the OMS-EMS issue. Because in combination with, you said, kind of separating the two systems, you're also going to be combining your two EMSs.

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

Yes.

Michael Vinciquerra - *BMO Capital Markets - Analyst*

So can you talk about how this changes the competitive dynamic, who you're going up against, if at all, and does it actually help you in a sale process in being more focused on one side or the other as you go into these accounts?

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

I think it does. We actually, to be honest, we've got three EMSs. One came with the acquisition of ITG Derivatives, a product called Matrix, which you have probably heard me talk about. So it really about the next generation technology, the next generation user interface. I mean, what I've seen internally so far in terms of development looks nothing like our existing product. By design, right? So it takes a lot of resource to think about and to develop and conceive of that next generation product. And when you look at the Greenwich survey, you look at TABB and you look at other places, you see we have a demonstrated leadership position over just about everyone else in -- well, not just about -- everyone else in the space.

So the question is, how do you maintain that, how to you grow that, how do you continue to strategically focus on that product, and in an environment where we are up against a secular headwind, and we're forced to make tough choices like we did this week in Japan. And so would I have loved to have continued done that path? Yes, but I don't know that it's practical from the perspective of the secular headwind that we're up against. So we're basically -- we're combining three into one, which has obvious synergy, and not only will it combine into one, the one will be the next generation EMS platform for the firm. And it will be singing -- all singing, dancing, multi-asset product, which is a challenge, but our team is very much, I'm sure, up to that, so --

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Michael Vinciquerra - *BMO Capital Markets - Analyst*

Now I assume Radical and Triton were aimed at a different customer bases, if I'm not mistaken.

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

Yes.

Michael Vinciquerra - *BMO Capital Markets - Analyst*

So are you going to allow some customization in the new system that you plan on bringing out to the --

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

Oh, absolutely.

Michael Vinciquerra - *BMO Capital Markets - Analyst*

Okay.

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

Yes, customization has been at the heart of the firm's differentiated value. And clearly -- I'd say there's a segment of -- I'd say there's one segment where we feel like there's a big opportunity for us that we have not capitalized on. It is the single stock long only institutional trader. In other words, we've got demonstrated ability in the portfolio trading community. We've got -- Radical has been a great product for us in the hedge fund community, and then there's a large community of single stock long-only guys who want something in the middle, right? And this will give them that ability, right? So that they can build it up or build it down in terms of the feature functionality.

Michael Vinciquerra - *BMO Capital Markets - Analyst*

Okay. Thank you. One question. I've gotten a couple questions on, again, use of capital. You obviously have --and maybe you can give us the updated statistics on what's really free cash after you look at accrued expenses and your $35 million in debt. What does that look like, Steve? And then given -- what's the time frame for trying to decide, do you go ahead and give it back to shareholders either in buy-backs or dividends, or are we looking toward year-end to see if there's a strategic option where maybe you could get into a new asset class or something like that?

Steve Vigliotti - *Investment Technology Group, Inc. - CFO*

Mike, as I mentioned in my prepared remarks, we had $320 million on the balance sheet today. A good chunk of that is in our regulated subsidiaries, about $250 million of that is in our regulated subsidiaries. The biggest [lean] we have from time to time is the occasional spike in margin deposits we have for our self-clearing infrastructure. So we've had -- we've been as high as $300 million in 2008, over $100 million in 2009. So we certainly need to have some flexibility. We're looking at ways to have committed flexibilities, so we can have more options with our existing cash. So that's kind of how we think of it. We do feel there's excess cash on the balance sheet that we're looking to use for opportunities like DI and like the buy-back. No specific guidance at this time, other than there's some flexibility.

Michael Vinciquerra - *BMO Capital Markets - Analyst*

So the quick math today says you've got about $75 million in cash and your non-regulated subsidiaries. You're going to add $20 million from Japan, or free up $20 million. Somewhere around $90 million to $100 million is what you have. Is that fair?

Steve Vigliotti - *Investment Technology Group, Inc. - CFO*

That's outside the broker dealer, but from time to time we've had to draw on those cash resources to fund the margin requirements, but that's currently where it is sitting. That's correct.

Michael Vinciquerra - *BMO Capital Markets - Analyst*

Okay, so some portion of that is a cushion, so it's something less than 90. Okay, I got it.

Steve Vigliotti - *Investment Technology Group, Inc. - CFO*

You got it.

Michael Vinciquerra - *BMO Capital Markets - Analyst*

Thank you very much.

Operator

Your next question comes from the line of Chris Allen with Ticonderoga. Please proceed.

Christopher Allen - *Ticonderoga Securities - Analyst*

Good morning, guys.

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

Good morning, Chris.

Christopher Allen - *Ticonderoga Securities - Analyst*

I'm just trying to reconcile kind of your comments around needing equity fund flows to kind of continue and kind of the trends we saw in the first quarter. We saw positive fund flows in January and March, and still declining market share in volumes in clients' [sequential] fourth quarter levels.

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

Yes, no -- well, first of all, on the market share front, I would concur, for instance, with what I think BlackRock and TJ said on their calls, which was obviously some -- in the active management community clearly some fund outflows in Q1. Clearly -- I think I would agree -- I would concur with the number that TJ threw out there, and that's -- and I think that's one we've experienced as well in terms of a more or less informal but fairly comprehensive poll of our clients, I'd say the institutional clients were probably down another 20%, 25% over Q1 of last year in their client volumes and commissions paid. So I think our experience is very similar to his. And I think the active management space, I think, has -- is in a similarly bad place in terms of any fund flows that have been coming. Certainly international funds have done well, but the data that I see is that it hasn't been all that positive for US active managers.

Christopher Allen - *Ticonderoga Securities - Analyst*

Yes, that's kind of what I was referencing for. The quarter was also a weak period, but we still saw your revenues decline on a sequential basis (inaudible - multiple speakers) had to do with where volatility was.

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

Yes, there's certainly a portfolio turnover component to it as well, and I think that that -- I think that's what TJ was trying to capture, and that's what I'm trying to capture here in terms of -- and you saw that in terms of overall volatility. In terms of overall market share, that's a metric that I've always been suspicious of in terms of institutions not representing a significant piece of overall volume at this stage, right? So we've heard chapter and verse about high frequency trading and what it represents in terms of the percentage of volume, and so I think that number is -- the high frequency number is probably all over the map.

Steve Vigliotti - *Investment Technology Group, Inc. - CFO*

And Chris, the quarter over quarter change, keep in mind that the Q1 does have a lower amount of trading days, right? So even though our ADV was comparable, or actually slightly higher in the first quarter, that certainly has an impact. And also for international business, we -- there's about an $800,000 from foreign currency impacts as well. So, just in terms of the quarter over quarter roll-forward.

Christopher Allen - *Ticonderoga Securities - Analyst*

Got it. And then just -- you guys have been talking about the over-the-counter derivatives opportunity. I mean, you guys did the RedSky acquisition back in 2008 to get into listed derivatives.

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

Yes.

Christopher Allen - *Ticonderoga Securities - Analyst*

Can you give us an update on what progress you've made in those markets? What capabilities you have, how you'd get over the potential hurdle of connecting to other desk outside of equities from a client perspective?

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

Yes. And then clearly the exchange rate derivatives market is a different place in terms of central clearing and price discovery and reported trades. And for that reason I think we felt more comfortable expanding into there. I think as Steve alluded to in his remarks in our trading line, in addition to spreading capture, the derivatives had a sequentially positive quarter. We're integrate -- it's been the tale of two markets for us. In the options market, I think we've done a better than even job of distributing the options product into our institutional client base, particularly into the hedge fund community.

The futures market has been tougher for us, clearly. And -- but we've got new arrangements there. We're now utilizing MF as an FCM -- as our kind of captive FCM. We're going out and approaching institutions and using MF as our partner there. We're going to be -- in fact, we're probably releasing into beta very shortly a portfolio trading algorithm using our dynamic implementation shortfall technology. We're going to be integrating futures into that algorithm, which I think is a first of its kind to be released into portfolio trading desks across our client base. So we're hoping that on the future side that will give us some stimulus to what has been a pretty tough row to hoe. So between Man and that, I think our view is that we will get the futures business rolling.

Christopher Allen - *Ticonderoga Securities - Analyst*

Thanks. Just one quick housekeeping question.

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

Sure.

Christopher Allen - *Ticonderoga Securities - Analyst*

The $15 million in NOLs, was that all related to Japan, and now with the closing of the office, does that go away?

Steve Vigliotti - *Investment Technology Group, Inc. - CFO*

We'll obviously explore strategies on how to make that available, but right now that relates to Japan, that's correct. One other point, too, just in terms of the Japan closing that we didn't get in the remarks, is that there will be some one-time closing costs associated with that as well. We're looking at somewhere in the neighborhood of $2.5 million to $2.6 million, about half of which -- a little less half of which would be non-cash to write off some fixed assets.

Operator

Your next question comes from the line of [Nick Setyan] with Wedbush Securities. Please proceed.

Nick Setyan - *Wedbush Securities - Analyst*

Hi. Thanks. April volumes have been relatively healthy related to the Q4 daily volumes, and we've seen fund flows data turn positive over the past couple of months. Are there early signs that there's been a pickup in some of the traditional long-only clients that are the mainstay of your client base?

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

Well, I would tell you, Nick, that there's a -- I think there's a few encouraging signs. My reticence is that in the past, the few encouraging signs have been false positives. I want to make sure we're -- that we've got a good handle on sustained traction there. I did take heart from reading, for instance the BlackRock transcript where Larry Fink talked about the second half of March and a solid increase in RFPs. That would be very good for us in terms of the movement of portfolios, transitions, and as I said some overall movement of cash into particularly active strategies. So I think there's encouraging signs. Clearly given what we've been through over the past 18 months, I'm reticent to get bulled up, but clearly there's a couple of data points out there that are positive.

Nick Setyan - *Wedbush Securities - Analyst*

Great. Thanks. Just a couple of modeling questions. What are the revenues associated with Japan?

Steve Vigliotti - *Investment Technology Group, Inc. - CFO*

The current run rate of revenues is about a million dollars per annum, but we're pretty confident that just about all of that will be able to be maintained out of Hong Kong office.

Nick Setyan - *Wedbush Securities - Analyst*

Okay. And then just on a tax rates. In the past couple of years, Q1 has been much higher than the rest of the years. Is that a pattern that we should expect to see again?

Steve Vigliotti - *Investment Technology Group, Inc. - CFO*

In terms of our -- the current tax rate of just under 45%, I think the previous guidances we gave, which were pretty much in line, was that the US was low 40s. I think we came in around 41%. Prior to the fourth quarter, we were in Australia recognizing tax benefits for losses we were incurring there. We stopped doing that in the fourth quarter. We reserved the NOLs there. So we do have -- even though we have an efficient structure in Europe for taxes, we're -- unfortunately the fact that we have losses in the Asia Pacific region that we're not able to record benefits now takes that rate up a little bit.

Nick Setyan - *Wedbush Securities - Analyst*

Okay, great. Thank you.

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

Thanks, Nick.

Operator

Your next question comes from the line of Robert Napoli with Piper Jaffray. Please proceed.

Robert Napoli - *Piper Jaffray - Analyst*

Thank you. Good morning.

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

Good morning, Bob.

Robert Napoli - *Piper Jaffray - Analyst*

You guys have talked -- I mean, a lot of this has been discussed. A very interesting call at the changes in the industry, and -- but, I mean, the challenges -- I know, as you look at market share, Bob, you say you're skeptical as to what the true market share is, and I understand that. But it just seems like the long-term trend over the last several years, no matter the market environment, has been downward pressure on market share, downward pressure on pricing. I think there's more competitively possibly to what's going on versus just what your customer base is doing. I think you did mention some of that, but it seems like every full-service firm today has a low touch arm as well as a high touch arm. I mean, I think there's competition maybe. Is that part of the challenge, that you have competition in your low touch product coming from a lot more places than you did in the past? So you're kind of going back in their direction, trying --

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

Yes. No, I think without a doubt there's more competition in the low touch space than there's ever been. I mean, you look through the Greenwich survey, and you see very clearly the -- what I would describe in some categories as kind of the bunching up of the top five providers, of which we're clearly one. In fact, we're one in some spaces and two in others and three in others, but we're always in that mix; one, two or three. And you see -- now you see Credit Suisse obviously is probably our toughest direct electronic competitor. You see Goldman Sachs obviously very heavily engaged in this space. And the competitive environment on that front is as tough as it's ever been. And hopefully I did address that in my prepared remarks, talking about this kind of -- when you've got a shrinking wallet, and research commitments and IPO allocations and capital commitment are all still very prominent in terms of the services that our clients are looking for.

So it's clearly an environment that is as competitive as it's ever been, but I would argue that institutional volumes are way down, the client wallet is way down, and I think we've more than held our own in terms of market share. I would say that the commission -- the rate card has been relatively stable since Q1, from a sharp drop in Q1 of '09, right? And I always refer back to the first -- almost the first trading of '09 as being the day the world changed, but since then we've been within maybe 2 mils of that number since then. So, and I think one of the things that we've been able to do, as we've alluded to, is POSIT is an important asset to the firm, not only in terms of the rate card, but also important in terms of the TP expense line. And now the good news about POSIT is that it is a global product for us, and it can be deployed globally and used in much the same way across every region.

Robert Napoli - *Piper Jaffray - Analyst*

As we look at -- as you look at the rate card, and I understand it looks stable -- I mean, it has been stable over the last year, but the market share has continued to decline. I mean, at least as we measure it, I mean your market share last quarter accelerated down. It was the lowest we've ever --

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

Right.

Robert Napoli - *Piper Jaffray - Analyst*

That we've seen, at least in many, many years. Now how does -- I mean, does the rate card have to -- how much is that market share going to be affected by the rate card in the future? I mean, if you reduced rates -- so it's hard to have confidence that the rate card is going to stay stable when we still see market share coming down, because you're not going to let your market share go to zero.

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

Right. The market share is a function of the percentage of institutional flows in the overall market, right? So I would argue that high frequency was stable to growing in the last year, and institutional volumes are what we've discussed, right? They've --

Robert Napoli - *Piper Jaffray - Analyst*

Right, but I still don't see how your market share hasn't gone down, even in your core client base.

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

Oh, I see what you're saying. Well, we do track that internally. I've gotten the real world data from my friends in TCA, and I can tell you we're in very solid shape from that perspective. It's a -- we feel very strongly about our institutional share, and as I said holding our own.

Robert Napoli - *Piper Jaffray - Analyst*

One of the challenges, as you add research, is the buy-side clients would like the high touch services, i.e. research, but low touch prices.

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

Right.

Robert Napoli - *Piper Jaffray - Analyst*

But that's -- I mean, I think that's a challenge as you add research is research is expensive.

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

Yes.

Robert Napoli - *Piper Jaffray - Analyst*

Maybe not as expensive as it should be.

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

Right.

Robert Napoli - *Piper Jaffray - Analyst*

But research is expensive, and it's going to be hard to charge for that research, so --

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

Yes. I tell you, Bob, it's interesting, because one of the things we suffer from as a firm is the fact we tend to be categorized or bucketed when we're approaching a large institution into what I call the agency-only kind of -- execution-only firm, right? And while we have products that can compete with anyone in the bulge bracket, we tend to get sometimes, as I said, bucketed and categorized into a place where we are limited in terms-- and despite having a robust CSA program-- limited in terms of our overall client wallet share.

And so this is a move on our part to address, as I said earlier, the ability to go after 50% of the wallet that we don't see today. And then that's important. And I understand the danger of bundling better than anybody. I mean, I grew up in a traditional bulge bracket model, so I understand that you give clients -- you pile on more and more service and ultimately the clients try to bundle you up. I don't think at this stage we have a choice, but to go after that.

Robert Napoli - *Piper Jaffray - Analyst*

Just last question. Did you -- I mean, I didn't hear-- Did you say what you invested in Disclosure Insight?

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

We did not.

Robert Napoli - *Piper Jaffray - Analyst*

Okay. And [we'll just] -- I mean, is it a material amount, or can you give us some feel for that?

Steve Vigliotti - *Investment Technology Group, Inc. - CFO*

It's a few million dollars for a minority interest.

Robert Napoli - *Piper Jaffray - Analyst*

Okay. Thank you.

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

As we said, exclusivity in terms of distribution.

Robert Napoli - *Piper Jaffray - Analyst*

Yes. Thank you.

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

Thank you.

Operator

You have a follow-up question from the line of Niamh Alexander with KBW. Please proceed.

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

Thanks for taking my question. If I could switch to the European business, if I may, because I know there were FX hits probably on the revenue line, but it looks like the expenses came up sequentially, and then adjusting for, I guess, the exchange rate came up than more than we'd expected. Have you done some hiring there? And then if we could talk to the revenue line, maybe you could update on the competitive environments, because I think there's been new people moving, some electronic businesses out of there. If you could update on that.

Steve Vigliotti - *Investment Technology Group, Inc. - CFO*

I'll start with the revenue line. So basically three things hit the European revenue line this quarter compared to last quarter. One was foreign exchange, which was the currency impacts, took that number down by $1 million. Another thing I think I mentioned in my remarks was that we reallocated about $800,000 worth of revenue from our ITG Net business from Europe over to the Asia Pacific region based on us looking down and seeing where the extra services were being provided. Where the customers were using the service, we actually moved that. And we only did it perspectively; we didn't go back and historically move things around. So that was a $800,000 shift.

Lastly in the fourth quarter we had a one-time true-up of some subscription revenue of about $300,000. So that explains a little bit of the revenue noise quarter over quarter. On the expense side in Europe, we had a fourth quarter bonus accrual [true] where we actually reduced our accrual the end of last year for incentive compensation. That was in the neighborhood of $700,000, $800,000. And we also have an increase in the amount of capitalized software amortization quarter over quarter for a few hundred thousand dollars as well.

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

Yes. So on the competitive environment, Niamh, I'd say that, yes, there's no question there's some new entrants there. There's also, I think, rationalization of the dark space-- Nasdaq has dropped out with their offering, Turquoise has been assimilated into the LSE. We -- for us, that's -- those are kind of non-events in terms of the -- it's great to have fragmentation, clearly, and our dark aggregation product has benefited heavily from what's been going on there, and -- but I think our competitive position there is as good as it's ever been, and I think our self-clearing initiative will help us there as well. As you've seen, I think in terms of our TP expense and overall gross margin, those guys have done a good job of optimizing that, and we have continued high hopes that they'll do the same. So, we continue to be very positive on the European business.

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

Okay. That's helpful. Thanks. If I could just go back to last quarter, when you talked about the efficiency plan, and looking at the profitability per client, you were not really kind of finished that process. At the time you were at the start of it.

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

Yes.

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

Have you kind of come to a point where you've cut off some clients? Because you definitely said you shifted off of Triton, on to others, and you were going to refocus on your key 70 clients.

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

Yes.

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

Where are you now with that process?

Steve Vigliotti - *Investment Technology Group, Inc. - CFO*

We clearly have -- in some cases we've ceased doing business with some clients. In some cases it's been about scrubbing the data and making sure that it's accurate. It's a massive exercise internally to get it right. And I would tell you that there's -- we've created this strategic sales effort, which is very highly focused on even a smaller subset of the core client base. And they're meant to leverage all of our algo, TCA, and technological capabilities to perform what I'm describing as more of a consultative relationship with the client. So there's a lot of effort underway. And it has -- there's been I'd say an overall reduction in our client base. There's certainly been some rationalization in terms of the way we've deployed technology. And I think you'll see that flows through to the bottom line over the next several quarters. It's tough for me to quantify right now, but it's certainly in flight.

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

Okay, that's helpful. Thanks for taking my question.

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

Thanks, Niamh.

Operator

Ladies and gentlemen, this concludes the question-and-answer session for today's conference. I'd like to turn the call over to the CEO, Bob Gasser, for closing remarks.

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

Well we appreciate everyone joining us today, and we look forward to speaking with you in July. Take care.

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.

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