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EDITED TRANSCRIPT

ITG - Q1 2012 Investment Technology Group, Inc. Earnings Conference Call

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OVERVIEW:

ITG reported 1Q12 revenues of $136.4m and GAAP net income per share of $0.14.

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PRESENTATION

Operator

Good morning, and thank you for joining us to discuss ITG's first quarter results for 2012. My name is Deana, and I will be the facilitator for today's call. 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.

JT Farley - *Investment Technology Group Inc - IR*

Thank you, 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 upon them as representing our views in the future. While we may elect to update these forward-looking statements in the future, we undertake no obligation to do so. I advise you to read about the risk factors that may affect forward-looking statements in this morning's press release, as well as in our SEC filings.

I would like to also 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, as well as the press releases covering prior earnings periods. Press releases and the PowerPoint slides which accompany this presentation are available for download at the Investor Relations section of itg.com. Presenting this morning are ITG's CEO, Bob Gasser and our CFO, Steve Vigliotti. To begin, I'd like to turn it over to

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

Thanks, JT, and thank you for joining us to discuss ITG's first quarter results. I would like to give you a brief overview of the industry and our quarterly performance, and then offer an update on our competitive strategy. Lastly, I will discuss capital allocation.

As you know, market conditions remain difficult for the cash equity brokerage industry, but we are focused on our strategic plan to capture additional commission dollars through global product expansion and development of our research capabilities. We intend to do this while still maintaining a disciplined approach to expense management.

We were pleased that our international operations significantly benefited our financial results in the first quarter, validating our effort to roll out our entire platform to all the regions where we operate. The lessons we've learned from the evolution of North American market structure are benefiting us in Europe, and particularly in Asia Pac, where the region's markets are at relatively early stages of electronic maturity. While we are frustrated at the length and severity of secular decline in institutional equity market activity, we remain steadfast in our belief that ITG is well-positioned for even the most modest of recoveries.

Industry data from the first quarter confirmed the headwinds we faced. Active equity managers had another challenging quarter, as evidenced by approximately $15 billion in domestic equity fund outflows, compared with the $13 billion of inflows in the first quarter of 2011, according to ICI. US equity volumes reflected these negative numbers with combined New York Stock Exchange and NASDAQ average daily volume down 14% year-over-year in the first quarter. We held our own in this tough environment, with average daily US volume down only 1% over the prior-year period.

POSIT continues to gain ground, with average daily volume rising to 96.1 million shares, up 11% versus Q4, and up almost 15% from the first quarter of last year. Average block size in POSIT Alert in Q1 2012 was up slightly at 33,000 shares. Our capture rate was flat sequentially, but the greater mix of our business from sell-side accounts which increased to 48%, continued to put pressure on the average revenue per share. While fund flows remain negative, the meager returns offered by bond investments should prompt an eventual return to equities.

US Treasuries posted negative returns in the first quarter of 2012, while corporates and high-yields saw low-single digit returns. In contrast, the S&P rose 12% during the first quarter. We're certainly not prepared to call a turn-around for equity volumes, but this relative outperformance is a positive sign. In reading through public asset manager earnings transcripts, there is a clear consensus that the relative value trade for equity should be attractive, but even by their own admission, there are no signs of fixed income capitulation just yet.

Turning now to our international operations, we showed solid progress in the first quarter. Our European revenues were up 24% sequentially, due to market gains and some portfolio repositioning by key clients early on in the quarter. This compares quite favorably to an increase of 9% in total European value traded, according to BATS data. Our share of European dark trading rose to 13% during the quarter, up from 10% in the fourth quarter of 2011. We believe our performance in Europe demonstrates the inherent operating leverage of the business. While we are pleased with this momentum, we are mindful of the volatility in the European macro situation, and the effect the sharp market correction might have in our operations, given the ad valorem pricing conventions in the region.

We also saw continued progress in AsiaPac, with sequential revenue growth of 15%, and a further reduction in losses. Client demand for dark liquidity is growing across the region and we are well situated to continue to capitalize on this trend with our POSIT Marketplace aggregation model, and the launch earlier this year of POSIT Alert block crossing for stocks in Japan, Hong Kong and Australia. Canada also had a solid quarter, with revenues up slightly over Q4. Volumes traded in our Match Now, Canada's largest dark pool were up 66% versus the first quarter of 2011. Match Now represented more than 3% of total Canadian market volumes during the quarter.

Moving on to ITG Investor Research, or IR, we continue to make progress in building on our platform of data-driven, alpha generating research and integrating it with ITG's best in class global execution capabilities. We remain committed to expanding the research offering, and last week we initiated coverage on the biggest IPO of this generation, Facebook. Our research on Facebook is unbiased and unconflicted by investment banking activity. Analyst Steve Weinstein's research on Facebook is truly differentiated, based not only on his experience as a seasoned internet analyst, but also on our proprietary analysis of data including a panel of credit card payments to Facebook and Facebook vendors, granular advertising pricing data and mobile social media usage tracking. We hosted a Facebook Day in San Fran last week, with approximately 30 select investors in attendance, focused on advertising in the social media space. We hope to have a similar impact on the Burger King IPO in the coming quarter.

We also launched coverage on names including St. Jude Medical, Dunkin' Brands and Yandex. While new consumer technology analyst Joe Fersedi issued a detailed thematic report on Apple's iTV opportunity. We also made alpha generating calls on names like eBay, Edwards Lifesciences and Ultra Petroleum. Our industry-leading capabilities continue to win recognition. During the first quarter we were named Best Equities Trading Platform at the inaugural Wall Street Letter Institutional Trading Awards. We also won the prize for Best Internal Crossing in The Trade Magazine's Algorithmic Trading Survey, which polled more than 200 buy-side traders. In this year's Greenwich Survey, ITG continued to hold its own against much bigger competitors, placing at or near the top in a number of categories, including overall US Electronic Trading Quality, Important Dark Pool Provider, Best Portfolio Trading Algorithms and Top Commission Management Programs.

We also had several important product launches in the quarter. As I mentioned, we rolled out POSIT Alert in the Asia Pacific region. We also launched the new ITG Dynamic Open Algorithm, which empowers traders to tap liquidity available in the New York Stock Exchange and NASDAQ opening auctions. This algo has been very well received by clients, many of whom previously tended to avoid participating in the opens. We are testing conventional wisdom with a combination of good old-fashioned quantitative research and product innovation. While the algo business remains highly competitive, this is a perfect example of opportunities still existing for ITG globally to lead with innovation. That's why we're number two in market share and algos in Greenwich.

On the analytic side, we recently launched a robust transaction cost analysis platform for the foreign exchange markets. ITG TCA for FX offers a bigger data set than any other product on the market. Given the difficulty in measuring best execution in the FX market, we believe there will be strong demand for this product, which we intend to price as a stand-alone service. This FX TCA expertise will benefit us, as we look to develop more robust foreign exchange execution capabilities, capitalizing on our standing as an agency broker and a trusted partner to our clients.

We believe that the expansion of these capabilities, with the integration of equity and foreign exchange trading, will allow us to capture a greater share of cross-border portfolio trades. ITG's 25-year history suggests that when we have a opportunity to measure execution quality we have an opportunity to disrupt traditional methods of transacting.

Moving on to capital allocation during the quarter, we repurchased 820,000 shares of common stock. ITG continues to pursue a balanced approach towards capital allocation, returning capital to shareholders at a level at least equal to our level of cash earnings and sometimes, as conditions warrant, in excess of that level. We view our stock as an attractive investment at current levels, and we use the stock buyback as a yardstick to measure any other potential use of our capital.

To wrap up, we remain confident in our ability to weather these difficult operating conditions, we continue to hold the line on expenses, while selectively investing in our capabilities in order to remain competitive and to expand our addressable market. With that background, I would like to turn it over to our CFO, Steve Vigliotti, to take you through the first quarter financial developments. Steve?

Steve Vigliotti - *Investment Technology Group Inc - CFO*

Thanks, Bob, and good morning, everyone. The further improvement in our international businesses helped us increase profitability sequentially. Even with a challenging US trading environment, which saw market-wide volumes decrease from an already slow fourth quarter. In the US, we continued to focus on the areas we can control during this period of reduced trading activity. That is, managing our expenses and leveraging our trading technology and research services to improve our market share and stabilize our commission rates.

As noted on slide eight, we generated revenues of $136.4 million during the fourth quarter, 5% higher than the fourth quarter of 2011, and 9% lower than the first quarter of 2011. On a GAAP basis, we generated net income during the quarter of $0.14 per share compared to a net loss of $0.09 per share in the fourth quarter of 2011, and a net income of $0.23 per share in the first quarter of 2011. There were no non-operating items in the first quarter of this year and in the first quarter of 2011.

As noted on slide nine, GAAP results during the fourth quarter of 2011 included an impairment charge and a follow-on restructuring charge. For the remainder of this discussion, all references to cost and results will be on an adjusted basis, excluding these items.

On slide ten, you can see our consolidated results, along with separate breakdowns of the results from our US and international operations. On a year-to-year comparative basis, you can see the impact of our cost reductions. Consolidated expenses were down $5.1 million versus the first quarter of 2011, reflecting the net effect of $3.6 million in new costs from the Ross Smith Energy Research Group, which we acquired in June 2011, lower variable transaction processing cost of $800,000, and $7.9 million of other cost reductions, including compensation reductions in the US associated with lower revenues.

The modest increase in consolidated expenses from the fourth quarter is primarily attributable to higher variable transaction processing costs from our international trading activity, and an increase in international infrastructure costs. Our consolidated pre-tax margin was 6.2%, up from 3.6% in the fourth quarter, but down from 11.4% in the first quarter of last year. During the first quarter of 2012, we generated earnings of $0.04 per share in the US on revenues of $84.6 million and pre-tax margin of 4%. Our combined international businesses generated net income of $0.10 per share on revenues $51.8 million, and a pre-tax margin of 9.9%. Our consolidated effective tax rate for the first quarter was 35.7% compared to 41.7% in the fourth quarter of 2011, and 44.3% in the first quarter of 2011. This lower effective tax rate reflects the impact of our improved international profitability, and the relative weighting that it has in our consolidated profitability.

On slide 11, you can see that our US expenses were down $1.7 million sequentially, to $81.2 million, primarily reflecting lower compensation and lower occupancy costs from our prior year restructuring activities. US expenses declined $5.8 million, compared to $87 million in the first quarter of 2011, reflecting the net effect of $2.8 million in additional costs in the US for our energy research operations, $1.4 million of lower variable transaction processing costs and $7.2 million of other cost reductions, including compensation reductions associated with lower revenues. Our US compensation expense ratio was 39.7%, compared to 41.2% in the fourth quarter and 38.1% in the first quarter of 2011. Transaction processing costs as a percentage of revenue was 13.6%, better than the 14.2% in the fourth quarter due to improved crossing, but higher than the 12.8% in the first quarter of last year largely due to our trading mix.

On slide 12, we have provided a summary of our international results. As compared to the fourth quarter of 2011, revenues were up $5 million. Overall international expenses were up $4.4 million, due to a $1.8 million of higher variable transaction processing costs, a $1.2 million increase in compensation associated with higher revenues, and higher mark-to-market accounting adjustments on our variable stock-based awards in Canada.

The higher expenses also reflect increases in various costs of $1.4 million, including the impact of year-end accrual reversals, as well as higher infrastructure costs. The compensation ratio for our combined international operations decreased to 36.7% from 38% in the fourth quarter, due to the impact of higher revenues. Combined international transaction processing costs during the quarter as a percentage of revenue was 20.7%, up from 19% in the fourth quarter due to an increase in commission sharing costs with introducing brokers and due to a higher portion of Asia Pacific trading activity in countries where it costs us more to execute and settle.

On the next slide, we track the performance of our foreign segments over the past five quarters. Our European pre-tax results were strong, and we continue to reduce our loss in AsiaPac. Our Canadian results reflect the impact of higher transaction processing costs during the quarter, and higher mark-to-market accounting adjustments on our variable stock-based awards.

On slide 14, we have presented our US volume and rate capture statistics. Out total average daily executed volume was up 4% in the first quarter, as compared to the fourth quarter, even with a 5% sequential decline in combined NYSE and NASDAQ average daily volumes. Most of our volume increase came from the sell-side, resulting in an increase in the mix from this client segment to 48% during the quarter, up from 44% in the fourth quarter.

Even with this greater mix of volume from the lower rate sell-side accounts, our overall capture rate, as compared to the fourth quarter, was flat at 44 mils, reflecting a reduction in market-on-close orders associated with index rebalancing from our institutional passive client segment, and a modest increase in the average rate earned from our institutional active client segment. Approximately 70% of the 11.3 mil rate reduction from the first quarter of 2011 is attributable to the year-over-year growth of our sell-side volume, which only represented 36% of our volume in the first quarter of 2011.

Looking ahead to April volumes, we expect to report US ADV of approximately 175 million shares, a slight increase over March even with slightly overall lower market volumes. We saw a similar mix in our volume, and as a result, the average rate per share on April volumes was generally in line with the fourth -- with Q1. During the first quarter we repurchased 820,000 shares for a total of $9.1 million, or $11.05 per share, representing 166% of our earnings for the quarter. As we view our stock as an attractive investment at current levels, we continue to believe that share repurchases are an effective way to return capital to stockholders. We currently have 3.1 million shares available for repurchase under approved authorizations.

We ended the year with $223 million -- excuse me -- we ended the first quarter with $223 million of cash and cash equivalents on our balance sheet, down from $284.2 million at year end, due to the payment during the quarter of 2011 incentive compensation and restructuring liabilities, reduced soft dollar balances and an increase in the amount of cash used for settlement purposes and clearing margin requirements. At quarter end, we had cash of approximately $25 million over and above the amount needed to support our global regulatory capital needs, net of the current amount due on long-term debt, and severance and other compensation liabilities. The decrease in excess cash from the approximate $35 million we noted at year was due, in part, to an increase in the reserve for regulatory capital requirements in the AsiaPac region, associated with higher trading activity and stock repurchases we made in excess of earnings during the first quarter.

We previously disclosed in our last filing the fact that we signed a new lease for our new headquarters in Lower Manhattan, and that we expected duplicate rent for a period of time as we completed the build-out while we occupy our existing headquarters in Midtown. Based on the revised timing of when expect to commence the build-out, we expect to incur duplicate rent in the fourth quarter of this year and in the first quarter of next year estimated at between $1.5 million to $2 million per quarter. We expect to separately identify these costs as non-operating items in our press release disclosures. And with that, I'd like to open the call to Q&A. Operator, please open up the line for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) First question will come from the line of Niamh Alexander, KBW.

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

Hi, thanks and good morning. Can I talk about Europe, because that's really nice progress and I don't know if that's also driving that nice lever in the tax rate and the international business but you sell very strong revenue but I'm trying to get a sense of if that was maybe in March, when equity market valuations were really starting to roll over. I'm trying to get a sense of maybe the sustainability of that.

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

Yeah, I think what you saw, in terms of our -- we certainly took share, as you can see. We feel very -- I'm actually back from Europe last week, was in London for the better part of the week. Feel very good about the momentum we have there, feel very good about the share. The dark pool share, which we're leading with in terms of our marketing to clients, I think it's really resonating in terms of the POSIT story and the overall liquidity management story. We're managing liquidity in London very similar to the way we do now in the US, with respect to the differences and the nuances of market structure there.

But I feel very good about the momentum in Europe, feel very good about the product pipeline, feel very good about the services support, the quality of what we're doing and I think that's resonating with clients. So I think we're up. As I said in my prepared remarks, we're up 24% sequentially, and I think there was a 9% increase in total European value traded. So I think we're on a good trajectory there.

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

Okay, fair enough. So it sounds like it did build through the quarter, and we can't really attribute it, some of it, to the big downdrafts, I'm just nervous that we're going to have to mark it back down for the next quarter.

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

Like I said I feel very good about the pipeline, the sustainability of what we're doing.

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

Okay, fair enough. Thanks, Bob, I appreciate that. And then on the POSIT. It was good to see that you actually grew the POSIT volume year-on-year, when market volumes were flat, so POSIT seems to be outgrowing. Is it in the POSIT Alert, is it in the smaller block-side POSIT business there, and can you help me understand what's driving that.

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

Yes, I think it's a function of all those things. I think we're internalizing liquidity well, I think Alert is actually done, I think, relatively well. I think it's all of those things combined. I think that the Liquidity Management area here in the US, managed by Jamie Selway and Jeff Bacidore and a fantastic team have done a very, very good job of attracting more and more flow from a very diverse set of liquidity providers, whether or not they're institutional, or they're sell-side, or they're online retail, et cetera, so right on down the line I think there was very good progress made, there.

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

Okay, fair enough, thanks. If I could just lastly, on the FX -- the FX TCA, I saw you rolled it out during the quarter, and you discussed it. Should we start to build something into a model yet, or this kind of a teaser to try and get a little bit more business from them on the commission side?

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

Yes, we actually rolled out FX TCA last week, last Wednesday, as a matter of fact. We announced it officially, it's out and it's being -- we're in a number of trials with clients. I think we're very comfortable with the differentiation of the product clearly on market share and our market presence on the equity TCA side will be very helpful. There again, a strong pipeline, strong road shows being conducted around the globe in the coming weeks, and in our view, when we say stand-alone, it will be a cash payment as opposed to something that's being soft dollared. So we're, I think we're very excited by the product, there's not a lot of competitors of size in the space. In fact, I don't think there's anyone of size that we would find, for instance, in the equity space.

So I think we're very, very enthused by the client reception, and what we think will be a very good -- a very good pipeline and trajectory, there. I don't know if you can bake anything in the models at this stage in the game, but given we started last week, officially, we're feeling good about it.

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

Okay. Thanks, Bob.

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

Thank you.

Operator

Our next question comes from the line of Rich Repetto, Sandler O'Neill.

Rich Repetto - *Sandler O'Neill - Analyst*

Hi, Bob. I guess the volume, when you talk the volumes in April, you can see international definitely outperforming US. I guess the question is, if volumes stay where they are, at a suboptimal or depressed level, are there more things you can do from the cost side, or that you would do in the US?

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

We're constantly reevaluating the cost side across the firm, both US and international, so the international business is certainly not immune from that, despite the growth. I think there's efficiencies, there's probably some more efficiencies to be had. And I'm not talking about head count here, I'm taking about things we can just do to make the business better. We certainly have some things that are incorporated into our internal models and our business plan and our scorecard that I think are available to us. So I -- I -- certainly I wouldn't make the representation to you that we're done here, and the year-over-year cost numbers I think are pretty good. And thank God we did it. It was very proactive and, I think, reflective of what we were feeling at the time, and that is that there is this secular issue and it's not going to reverse itself very easily.

But the one thing that I would fall back on, whether you're looking at the international business in Q1 or you're looking at the US domestic business in Q3 last year, The operating leverage remains intact. When volumes return -- and we've led with some slides, and they're not very pretty, in the front-end of the presentation on overall market conditions -- when volumes return, and this has been a participationless rally on the part of US retail. When US retail returns and I think equity mutual funds return and inflect back to a positive place, I think that this -- we're as well-positioned as we've ever been, but we're not going to give up here, in terms of trying to create more operating leverage for ourselves.

Rich Repetto - *Sandler O'Neill - Analyst*

I think the last part of what you're saying, Bob, actually goes to my next question. You know the flows are -- I'm just trying to see what you're seeing in regards to trading level. We know what the numbers are and we know what the flows are, so it appears you don't have the principal people trading, like the mutual funds, and it's impacting because of low volatility. The high frequency incremental volume, as well, is that a reasonable...?

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

I think it affects everyone. I think it affects the principal trading on behalf of large financial institutions, obviously Dodd-Frank, I think, has thrown a wet blanket over some activity. Clearly the regulatory environment is a little bit more aggressive on the HFT side. Volatility is low. Institutional volumes are down, but I -- hedge fund volumes are down, there's been a number of hedge fund closures. If you add all those things up, you stack them up, it's a pretty tough picture, in terms of what it means to overall market volumes.

Rich Repetto - *Sandler O'Neill - Analyst*

Okay, and just a very small -- I think you might have mentioned this, Steve, the actual adjusted net income on international, it looks like you had a lower tax rate, I think you mentioned but I missed it. International, is that correct.

Steve Vigliotti - *Investment Technology Group Inc - CFO*

Overall our tax rate was lower this quarter than -- significantly -- than both Q4 and Q1 of last year. A lot of that has to do with the mix of our profitability, coming mostly this quarter from our international regions, some of which is housed in lower taxing countries. And obviously as you can see a relative higher waiting for overall profitability than in quarters past. When you look at it going forward, the rate is going to depend on the mix of profitability between the US and the international business, and even within the international businesses, it could impact between regions, right? Such as Europe now, where we have a pretty effective tax structure as a part of our Irish operations there. So you see strong results from the quarter of Europe. That certainly helped as well.

Rich Repetto - *Sandler O'Neill - Analyst*

Okay. Thank you.

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

Thanks, Rich.

Operator

The next question comes from the line of Ken Worthington, JPMorgan.

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

Hi, good morning. I guess I'm hitting on things that have already been brought up, but if I look at the international, AsiaPac revenue is up quite a bit. Profitability improved only modestly. Canadian revenue dipped slightly, but profitability declined meaningfully, and I know Steve mentioned higher, I think it's transaction and infrastructure costs, so are the higher transactions infrastructure costs happening across geographies, and if so, why and how are they happening, and if you could just give a little more flavor on those two, it'd be great.

Steve Vigliotti - *Investment Technology Group Inc - CFO*

So the transaction processing costs were up, particularly in AsiaPac, relative to revenue as a result of the mix of -- I know I use that word a lot -- but the mix of countries that we executed in, some of which, this quarter, were weighted towards higher countries where we don't have our sub-clearing infrastructure in place and it costs us costs us more to execute and settle, so that drove cost a little up in the AsiaPac region. We also had some increased activity from clients that accessed us through introducing brokers, so we had some commission sharing costs associated with that as well.

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

Is that part in Asia or was that in Canada, the introducing brokers?

Steve Vigliotti - *Investment Technology Group Inc - CFO*

Both.

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

Both. Okay.

Steve Vigliotti - *Investment Technology Group Inc - CFO*

And so that's -- that's -- those are the primary reasons for the increase in the transaction processing costs. On the infrastructure cost side, you'll see some of the increases had to do with it, as I mentioned in my remarks, we had some year-end, sort of accrual adjustments, as we closed the books at year end. Some items that we accrued for we determined didn't need to be and we ended up reversing, so about half of that $1 million increase in the telecom and market data cost line was attributable to fourth quarter accrual true-ups, and then we had some increases this quarter just associated with new clients, more activity, et cetera, in those regions.

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

Okay, and what would be an accrual reversal, just even if it's a hypothetical example, what would be one of those?

Steve Vigliotti - *Investment Technology Group Inc - CFO*

You know, market data, or a telecom vendor who there was an issue on price or when periods were cancelled, et cetera that ended up getting reversed out at some point.

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

And on the tax rate. You mentioned the Irish structure, so we've been waiting for the Irish structure to pay out for, it feels like, at least a decade. So is this the -- if we see earnings at this level, is this really -- is this the level that we scale, so that if we see it here or higher, that's when you start to kick in, I think it's like the 11% or 12%, or maybe it's like 8% or 7% Irish rate. Is that, am I thinking about that correctly?

Steve Vigliotti - *Investment Technology Group Inc - CFO*

Yes, certainly. The Irish corporate tax rate is 12.5%, and as we perform well in the European region, some of that gets attributed to our Irish operations so that's a big help in our tax rate, absolutely, Ken.

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

And then even beyond the 12.5%, don't you have certain deductions that, at least initially, it'll even be below 12.5%, like tax loss carryforwards, or --?

Steve Vigliotti - *Investment Technology Group Inc - CFO*

Yeah, though not wanting to get into the specifics -- we do have, as we mentioned, significant tax loss carryforwards in the Asia Pacific region, specifically Hong Kong and Australia, which are fully reserved. So as we incur losses there, we don't record an offsetting benefit. What once -- as those losses come down, obviously that helps our tax rate, because we're not absorbing pre-tax profitability without a benefit. So it's important for us to improve the profitability there to help our tax rate, as well.

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

Okay, and then just going back to Asia, you said volume in places where you don't clear. Where was the volume -- where did that volume come from, just as we think about trying to track stuff the future. Would it be like Korea, or --.

Steve Vigliotti - *Investment Technology Group Inc - CFO*

Japan, Indonesia, Korea.

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

Japan is obviously a -- obviously the major market in the region and we do not self-clear in Japan, so -- and we certainly rolled out quite a bit of product into Japan in the latter part of 2011, and I think we're seeing a carry through in Q1.

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

Okay. Great. Thanks very much.

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

Thanks, Ken.

Operator

The next question comes from the line of Matthew Heinz, Stifel Nicolaus.

Matthew Heinz - *Stifel Nicolaus - Analyst*

Hi, good morning. I know you guys don't typically break out your trading versus non-trading businesses, but you have said in the past that both research and technology are profitable as a stand-alone, so I wondering if you could give us a sense of what the EBITDA margins look like from these segments, and also whether there are any kind of leverage you could pull on pricing with some of the recurring revenue business?

Steve Vigliotti - *Investment Technology Group Inc - CFO*

Yes, Matt, that's probably not something we'll get into, but I will reiterate, similar to what we talked about in Q4, that the research operations, based on our attribution of revenue, was profitable in Q1, as well.

Matthew Heinz - *Stifel Nicolaus - Analyst*

And any color on the technology side, with regard to profitability? I'm assuming it's well into the green on margin, correct?

Steve Vigliotti - *Investment Technology Group Inc - CFO*

By technology, can you define what you mean by that?

Matthew Heinz - *Stifel Nicolaus - Analyst*

Just on ITG Net and the technology backbone.

Steve Vigliotti - *Investment Technology Group Inc - CFO*

As we report now, Matt, we're integrating those products into our regional businesses, so we're -- right now our disclosures on those. But, yes, those are, obviously we do very well on those areas, but reporting on those are housed within our regions, and part of our overall regional profitabilities, both US and internationally.

Matthew Heinz - *Stifel Nicolaus - Analyst*

Okay, thank you.

Operator

The next question comes from the line of Chris Allen, Evercore.

Chris Allen - *Evercore Partners - Analyst*

Good morning, guys.

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

(Multiple Speakers) Good morning, Chris.

Chris Allen - *Evercore Partners - Analyst*

I guess -- just one quick question on the recurring revenues down a little bit from the back half of last year. Is that driven by a move, more research being paid through commissions, or --?

Steve Vigliotti - *Investment Technology Group Inc - CFO*

That has a little bit to do with it, Chris. Certainly, we've tried to identify accounts where that makes sense for us to do. But there's a whole host of things. There's other --there's timing issues in terms of when -- when we bill, we've got our analytics products there and some of those, we may switch from billing to bundle from time to time, as well, as well as our OMS and ITG Net offerings are all bundled into that recurring line.

Chris Allen - *Evercore Partners - Analyst*

Got it. I may have missed this before, what are your plans now, in terms of further building out research from here?

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

They're clearly organic at this stage of the game. We certainly have a pipeline of new industry verticals, I think we've built out, in the past six months, we've built out quite a large numbers of names under coverage, particularly in the restaurant group, in the med device group. We've added some very significant thematic stuff. Steve Weinstein's off to a great start, Facebook is obviously going to be a large part of his focus for the next, probably several years. We are -- you'll hear about, I think shortly, probably another organic opportunity for us that we've been building out in another geography, so I think -- it's all about organically growing what we have. There is a visible pipeline of new verticals and new companies that we're bringing on board.

Chris Allen - *Evercore Partners - Analyst*

Thank you, guys.

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

Thank you.

Operator

The next question comes from the line of Patrick O'Shaughnessy, Raymond James.

Patrick O'Shaughnessy - *Raymond James - Analyst*

Good morning, guys. I wanted to follow up on the research question. Can you give us on update on the progress that you're making monetizing that? I guess both in terms of what sort of uptick you see -- or uptake you see, I should say, from your clients and your ability to actually generate profits from the research group?

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

We're very pleased with the research offering. We believe it is absolutely alpha generating. The two groups, two legacy groups, our energy research and the legacy Majestic, have done, I think, fantastic things for the firm in terms of repositioning it. We -- we're making great progress on the research voting side, and we review that monthly. Our progress with large long onlys, et cetera, we've secured some great new hedge fund clients. I think we're paying the ITG execution world is now paying for in excess of 60% of the research offering. Obviously from zero when we acquired these two firms, they were both CSA-ed, if you will, previous to being bundled into our offering. So we're very happy with the additions and the profitability and the accretion to our execution business.

Patrick O'Shaughnessy - *Raymond James - Analyst*

And are you able to tell if it is accretive to your earnings at this point.

Steve Vigliotti - *Investment Technology Group Inc - CFO*

(Multiple Speakers) Yes, it is. None of those were stock deals, so it is accretive.

Patrick O'Shaughnessy - *Raymond James - Analyst*

Okay, fair enough. Lastly, I guess to kind of put a bow on the tax rate discussion, sorry to beat a dead horse, here, but as far as guidance and what we should be modeling going forward, is the current rate the rate you did in the first quarter as good as anything for the time being?

Steve Vigliotti - *Investment Technology Group Inc - CFO*

I would really look at the mix of our overall profitability, so if more of that is going to be driven from the US, you'll probably want to take it up a little bit. If you're modeling more of it to come from international, including Europe, you could take it down a bit. It's really going to depend on the mix of where the profitability comes from.

Patrick O'Shaughnessy - *Raymond James - Analyst*

Okay, got you, thank you very much.

Operator

There are no more questions at this time. I would now like to turn the call back to Mr. Bob Gasser for closing remarks.

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

Thank you, operator. It was good talking to you today, and we look forward to the Q2 call. Thanks very much.

Operator

Ladies and gentlemen, this concludes today's presentation. Thank you for your participation, you may now disconnect, and have a great day.