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PRESENTATION

Operator

Good morning ladies and gentlemen, and thank you for joining us to discuss ITG's second quarter results for 2009. My name is Francine and I will facilitate the call today. After the speakers' remarks, there will be a question and answer period. I will provide further instructions before we take questions. As a reminder, this session is being recorded. I will now like to turn the call over to Maureen Murphy of ITG.

Maureen Murphy - *Investment Technology Group, Inc. - SVP - Marketing & IR*

Thank you and good morning. In accordance with Safe Harbor regulations I would like to advise you that the forward looking comments we will be making this morning are subject to a series of risks that may make actual results differ materially from expectations. I advise you to read about these risks in this morning's press release, as well as in our SEC filings.

I would also like to remind you that the PowerPoint slides that accompany this presentation are available on our homepage and investor relations sections of our website. To begin, I would like to introduce ITG's CEO and President, Mr. Bob Gasser.

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

Thanks Maureen. Good morning and thank you for joining us to discuss ITG's second quarter. In a few minutes Howard will fill in some of the details on our results. But first, I will begin with some comments on current industry conditions, their influence on our current operations, as well as our plans for the rest of 2009 and beyond.

As a broad theme, we have generally seen volumes and the rate card stabilize in the US, with what looks like some upside potential when the market progresses past the early stages of recovery. Compared with the first quarter of 2009, international markets have recovered in tandem with the US. ITG's out-performance, internationally, has been driven by a maturing product line, particularly in Europe, and broader geographic reach.

In terms of industry conditions, the second quarter saw some relief from what had been unrelenting bad news. In the US, there was finally a break in the long string of cash outflows from equity mutual funds. Looking at the most recently reported ICI Fund flow data, the second quarter saw 3 straight months of positive net inflows into equity mutual funds.

April was positive by $12 billion and May was positive by $18 billion, while June saw an estimated $10 billion in inflows. In the 10 months prior to the second quarter, equity mutual funds saw $258 billion in net outflows, a level of panic selling that was previously inconceivable in this industry. So, as of the second quarter, the panic seems to have abated.

But even after a quarter of positive net inflows, equity fund managers have gained back only about 16% of the lost assets under management. That is probably not enough to inspire wild enthusiasm. Nor is the overall level of activity. While redemptions were down, new sales were still sluggish. In fact, through the end of May, they were 12% below the prior 10-month period. Again, this is reason for ongoing caution among the fund managers.

As the recovery plays out, we would expect this type of a lag in activity among equity mutual fund managers. One reason is the natural asset mix progression over the stages of a recovery. The main beneficiaries of the improved investment environment have been passively managed funds. Actively managed equity inflows are still lagging by most industry observers' estimates. It is intuitive that investors are climbing back up the risk spectrum, starting with money market funds and investment grade corporate and ultimately high yield securities, and finally, into ETF's and other benchmark securities.

The final phase of this recovery will probably be marked by sustained inflows into hedge funds and actively managed equity. If you read Pensions and Investments as I do, you are starting to see a surge in new commitments to alternative investments and increasing numbers of RFP's around managers' selections. This tells you the wave is coming. We may not see it from the shoreline quite yet, but it is coming.

The abatement in equity fund redemptions reflects a reduction in the level of absolute fear that gripped the market for much of the prior 10 months as reflected in the VIX, the volatility index. There are various ways to interpret the VIX. Some look to short term turns in the direction of VIX as buy/sell indicators. More broadly, the absolute level of the VIX can be viewed as indicative of the general level of fear in the market.

As slide 5 in the presentation shows, up through 2002, the VIX tracked along at about 20% to 25%, with occasional spikes to the 40s. From 2003 to 2007, we entered an era of complacency with the VIX. Over that 5 year period, the VIX fell to a typical range of 10% to 15%, with only a few spikes as high as 20%, before spiking to 80% last year during the height of the financial meltdown. In recent weeks, the VIX seems to have stabilized in the range of 25% to 30% with few erratic spikes.

This reflects an ongoing skepticism about the shape and the timing of the recovery. There is debate over whether 30% is the new 20%, or if we are in a cyclical period of heightened risk aversion that will mean revert at some point. But, in any case, a more normalized level of volatility should be good for our business over time. Like the rest of the recovery, we expect it to take a little bit more time to manifest itself in terms of significant volumes flowing through our systems.

Looking at the impact on ITG more specifically, our average daily volumes in the US were 195 million shares in the second quarter, down about 6% compared to the first quarter, while broader US market volume was down 2% quarter over quarter. We saw POSIT volumes up 23% compared to the prior quarter with 48 million shares in average daily volume and an average execution size of 39,100 shares in POSIT Alert. These POSIT volumes, and our overall monthly reported volumes, do not include the flow from our spread trading business. This business represents incremental review for ITG, but is not counted in our monthly US commission generating volume figures.

As we discussed on the last earnings call, this mechanism brings together commission-based and spread-based clients within the bid/offer. The buyside pays a commission. The brokers are filled at the NBBO, and ITG earns a spread in lieu of a commission on this side of the trade. In this way, we provide the buyside with additional sources of quality liquidity which has been screened by our anti-gaming liquidity filter. It is part of our strategy of capturing more order flow to maximize the operating leverage of our platform.

I am confident that in the next couple of quarters this business will continue to ramp up aggressively. We have found this model to be a good fit with our role as an agency broker, working as a partner on behalf of institutions. We are also benefiting greatly from our efforts in the US to rationalize our dark capabilities into POSIT Marketplace. We have combined smart routing, POSIT and algos into one organization within the US and European businesses, a unit we refer to as Liquidity Management. This group has done a fantastic job of finding more and more opportunities to internalize spread capture and agency flow. The US POSIT numbers bear out this group's early success.

We are just now starting to roll this structure out in Europe where we see significant opportunities, not only for revenue growth, but also for cost savings, as internalization in POSIT is by far our cheapest European execution venue. As I mentioned earlier, we have seen some stabilization in pricing over the past quarter. The portion of POSIT volume that flows through our own trading operations is a higher margin part of the mix. Given the higher POSIT volumes, we saw some slight price recovery from the first quarter. It was only a few basis points, but after the sharp first quarter drop, this stabilization is good news and hopefully it is sustainable going forward.

However, pricing pressure remains, given how ITG's products are leveraged to the early stages of the recovery. The initial flow of funds back in equities has been skewed towards index managers rather than active funds. It is noteworthy that Vanguard, for instance, is leading the fund industry with inflows, reporting almost $40 billion in net new funds this year through the end of May. And we clearly see this pattern when we look at the mix of business in ITG's own trading operations and client base. Our index clients are growing strongly, but our large base of active money managers has yet to return to a high level of activity.

This resurgence of flows into index funds had a negative margin impact on our algorithmic trading. In a high volatility environment, index funds have been heavy users of our less intelligent commoditized routing products. These are our lowest margin products, so their increased use lowers the margin mix within this segment. In a lower volatility environment, we expect these folks to migrate back to higher margin products like list-based algorithms as they gain confidence in their ability to beat a benchmark.

The other side of that coin is that the large, active managers tend to be heavy users of the higher value added trading systems, including POSIT and the most intelligent customized algorithms. We earn higher margins on these products. The large active managers have yet to bounce back in terms of meaningful volumes, but we have every confidence that it is just a matter of time until they do as the recovery plays out. When that volume comes into the mix, it should be a boost for margins.

We continue to receive positive feedback from our core clients, clients who recognize our value, not as counterparty, but as a trusted partner who spans the entire trading continuum. This recognition was recently demonstrated in the recent Waters Poll of nearly 1,000 trading experts at banks, brokerages and investment firms worldwide, which saw ITG ranked as the top execution system provider for the second year in a row.

ITG received similar ratings in the 2009 Greenwich Associates study of electronic trading in US equities. Among investment managers, ITG ranked #1 as the most important provider of self-directed electronic trading. POSIT ranked #1 among dark pools in terms of anti-gaming logic and surveillance.

And our algo capabilities did well, with ITG ranked #1 in portfolio trading algorithms and pre and post-trade analysis for algo trades. The biggest area of improvement came in direct market access, where ITG leapt from a #3 ranking last year to #1 ranking this year, as institutions' most important provider of DMA electronic trading.

Turning to our international business, we are seeing the positive impact of the market recovery. Europe's execution business returned to profitability this quarter, with revenues up 19% over the prior quarter and earnings up to $1.5 million, reflecting some operating leverage. Across Europe, the MSCI Pan-European index was up 15% over the first quarter in share price terms while MSCI turnover was up 6% on a value-weighted basis. We were helped by ad valorem pricing, which means our commission income generally increases with market prices.

As we have discussed in the past, we have tremendous operating leverage in our European platform and we are seeing the early benefits of a very modest market recovery. We have our full arsenal of trading and analytics products deployed to serve our clients there, and we are expanding our relations with a diverse set of UK and continental European clients. In the recent Greenwich survey of European electronic trading, ITG ranked #1 for overall satisfaction with client service, product knowledge and consultancy.

Perhaps the thing I am most pleased about in Europe is the composition of our revenues. POSIT, and more specifically, POSIT Alert have been gaining more and more traction in the region as we integrate them more deeply into our dark algo offering and a wide array of ITG and third-party software. This has not only affected out top line, but our bottom line as well as is evident in the region's improvement in operating margin.

Our European team has managed their expenses well. We expect transaction costs to continue their decline with improved liquidity management and we are on track to implement self clearing in Europe in 2010. We are adding a few people to manage this clearing system and there will be some consulting costs incurred in the third quarter this year that will be capitalized and amortized over 3 years. These costs should be offset several times over by the eventual savings.

In our Asia Pacific segment, second quarter revenues were up 62% over the first quarter of 2009 and losses narrowed to $3.4 million. We are gaining traction in the region as our revenue gains exceeded the overall market. Japan's Nikkei 225 was up 23% quarter over quarter with market turnover of 20%. Hong Kong's Hang Seng Index was up 35% versus the first quarter with turnover up almost 10%. And Australia's ASX 200 was up 10% with turnover up almost 35%.

We have made good progress in building out a strong platform in Asia that should provide ITG operating leverage whenever conditions improve further. We have the electronic trading and analytic products in place and we have added some experienced sales traders to add a higher-touch element to the service, which we believe is necessary at this stage of the market's evolution. I am particularly pleased with the intensity of our focus in the region and I am looking forward to strong progress throughout the year.

We are particularly pleased with our progress in penetrating accounts in Japan this year. It often takes years of in-market presence to be accepted in the Japanese trading community and ITG seems to be clearing that hurdle. As Japan is the second largest trading market in the world, this increasing penetration could represent some good upside over the next few years. For the first time since I arrived at ITG, we are starting to post some meaningful revenue numbers with Japanese institutions and we have a very solid pipeline of more to come.

Turning from Asia to Latin America, we now offer expanded electronic trading services in the region. ITG is working in connection with Brazil's largest brokerage, Agora, to offer DMA trading on the Bovespa. We plan to develop algorithms tailored to the Brazilian market and currently can execute voice brokerage trades throughout the region's stock markets. While this effort is not expected to be a significant earnings driver, it is an important step in our commitment to being a truly global partner for our clients.

Our efforts to diversify geographically and into other asset classes will serve us well in coming quarters. One important milestone reached in the second quarter was a positive contribution from our ITG derivatives unit. We now have about a 1.6% share of US listed options trading and we are gaining traction with the core ITG institutional client base.

I would like to take a minute now to address the outlook for regulatory changes in the electronic trading arena. As you probably know, SEC Chairman Mary Schapiro last month asked the Commission staff to look at the issue of transparency as it relates to dark pools. We are actively engaged in an ongoing dialogue with the SEC staff and various trade industry groups to discuss dark pools and the issue of displayed versus non-displayed liquidity. We encourage the regulators to look at dark pools and their impact on transparency in the markets. And we will continue to work with the SEC as they explore this issue.

It is intuitive to us that the time is right for an examination of how US market structure has evolved in the post-Reg NMS era. For the past 22 years, ITG's POSIT crossing system has harmoniously existed within US market structure, including the Reg ATS and Reg NMS frameworks in more recent years. We firmly believe that institutions need a place to anonymously interact with each other to find natural block liquidity. Non-displayed pools of liquidity such as POSIT provide a valuable solution for the buy side to find more opportunities to pursue best execution.

We do agree that there should be greater uniformity in the manner in which dark pools report their trades. However, academic research demonstrates that market fragmentation, including the proliferation of dark pools and other off-exchange trading, does not harm market quality. We do not anticipate much of a business impact from any changes to post-trade reporting rules, as we already make much of that information available through third-party data providers. We support efforts to increase post-trade transparency so long as the rules are applied consistently across the competitive landscape. In fact, we believe that such transparency will better enable market participants to measure the execution quality of various trading venues, helping them make better routing decisions in the future.

The other area of regulatory attention is Indications of Interest, or IOIs, IOI's have been around for a long time and play a vital role for institutions seeking liquidity in the market. However, a number of firms, as well as New York's Senator Chuck Schumer, have appealed to the SEC to focus its attention on a new order type known as flash, or step-up orders. A flash order is one in which an exchange or an ECN delays routing an order they cannot fill within their own books, while displaying that order briefly to a private network of market participants so that they can interact with that order first. While we agree that the impact of this new order type on market structure should be examined, we do not believe that any regulatory action with respect to such flash orders should have any material impact on ITG's business.

The final issue I want to address is the use of cash. Our balance sheet is a strong one, but much of the capital has been needed to cover clearing requirements during peak trading volumes such as the recent period of extraordinary volatility. As that volatility returns to normal and banks become more willing to lend for safe, routine clearing operations, we may need less cash for this purpose. In addition to maintaining for cash for clearing, we also require cash for our expanding businesses in Asia. We expect our growth in Japan to require an additional $20 million in regulatory capital this year. The ITG Board carefully tracks the efficiency of our balance sheet and weighed the option of returning cash to shareholders versus keeping it on hand to run the business securely. At this point, the bias is still toward keeping a conservative balance sheet.

In summary, we are happy to have a strong balance sheet in these uncertain times. It reflects the strong earnings and cash flow that ITG has generated throughout the most disruptive trading markets in 3 generations. There are 3 main drivers that are responsible for the improvement in this quarter's performance when compared to the first quarter. Number one, aggressive expense control in every area of the firm, number two, steady international progress derived from years of investment, and number three, tactical flexibility that allows us to leverage our key assets with new initiatives like spread capture.

In short, we are controlling the things we can control and creating new opportunities wherever the marketplace presents them. The leading indicators of industry fund flows, volatility, and pricing have all turned in the right direction. Whenever further recovery comes, ITG is well positioned in the US and internationally to take advantage with a substantial share of the market and significant upside operating leverage. With that background, we will now turn to CFO Howard Naphtali for some further detail on our second quarter results.

Howard Naphtali - *Investment Technology Group, Inc. - CFO, Managing Director*

Thank you Bob. ITG's second quarter saw a return to profitability in Europe, market share growth in Asia, and in this challenging business environment, solid earnings and cash flow in the United States and Canada. As noted on slide 9, we generated revenues of $168 million in earnings per share of $0.46 for the quarter.

Moving to the consolidated results on slide 10, our US business rebounded from our first quarter performance and generated $0.41 of earnings. Major contributors to the improved performance of the quarter were our international businesses which collectively recovered from a $0.05 loss in the first quarter to earnings of $0.05 in the second quarter. Per slide 11, year to date our US operations earned $0.76 per share while our collective international businesses broke even to yield consolidated earnings per share of $0.76. Moving to slide 12, consolidated expenses were $134 million, a $1.8 million increase over the trailing quarter as we continue to carefully hold the line on all discretionary costs in this market environment.

Overall, our US costs declined $1.2 million versus the first quarter while international expenses increased $3 million, principally due to $2.7 million currency impact. Variances in the major cost categories were as follows. Compensation costs decreased $1.3 million, driven principally by the absence of the $5.7 million severance cost incurred in the first quarter. Our US compensation rate was 33.4% of revenues and would approximate 33% exclusive of severance costs.

International compensation costs decreased $500,000 despite a $1.1 million currency effect. This was largely due to $3.1 million of severance costs recorded in the first quarter offset by increases in performance based compensation in both Europe and Asia. Our full time global head count was 1,302 at the end of the quarter. Transaction processing costs increased $2 million for the quarter. The $0.5 million cost increase pertained solely to ITG derivatives which generated 17% revenue growth over the trailing quarter. Overall, US transaction processing costs were 11.3% of revenues, unchanged from the first quarter.

The international cost growth was principally in Asia and Europe where we enjoyed revenue growth of 62% and 19%, respectively. European transaction and processing costs were 31.4% of revenues, down from 33% in the trailing quarter and 44.5% in the second quarter of 2008 as we are using our smart router technology to drive down execution costs in the same manner as we have in the United States. Occupancy, telecommunications and other general administrative costs were collectively $1.1 million greater than the previous quarter with $800,000 of that due to an adverse currency impact. We continue to exercise tight controls over the discretionary element of these costs in this environment.

On our international financial summary slide, you can see the breakdown of the $46 million of non-US revenues for the quarter. Revenues increased $7.7 million over the trailing quarter of which $2.9 million represented favorable currency impact, principally pertaining to weakness of the US dollar versus Sterling and both the Australian and Canadian dollars.

In local currency terms, we also grew revenues versus the second quarter of 2008 as an $8.7 million adverse currency impact more than offset the $2.7 million revenue decrease show on this slide.

On slide 14, we track our Canadian, European and Asia Pacific performance over the past year. We saw a small increase in Canadian revenues this quarter to $19.3 million, a $1.7 million growth over the previous quarter with $1.2 million of that representing a favorable currency impact due to the strengthening of the Canadian versus the US dollar.

Our pre-tax profit margins were approximately 30% for the quarter which continues consistent, strong performance of our Canadian business in this uncertain market environment. Our European business was a standout for the quarter as we returned to profitability on the strength of a $2.9 million or 19% revenue growth over the trailing quarter combined with the absence of the severance costs incurred in the first quarter. We earned a pre-tax profit of $1.5 million for the quarter.

Our Asian business saw $3 million, or 62% revenue growth versus the previous quarter as our new management team continued to gain market share across the region. Australia lost $1.4 million on $2.7 million of revenues. Hong Kong significantly reduced its losses compared to the first quarter as revenues of $5 million yielded a pre-tax loss of $1.1 million, while losses in Japan were slightly reduced to $800,000. Overall the Asian region pre-tax loss was $3.4 million for the quarter.

Moving to slide 15, the blended average commissions per share from broker dealer revenues achieved during the quarter was 70 mils, a 4% increase from the 67 mils in the preceding quarter and a 16% reduction from the 83 mils in the second quarter last year. As you can also note from this slide, our collective commissions from spread based trading, OMS revenue share, and ITG Derivatives grew to $18.6 million for the quarter. Please note that the spread based fees which commenced in the first quarter are now included in a "Commissions and Fees" line item on the income statement rather than on "Other Income" to better reflect the nature of the revenues earned as commission equivalent fees.

On slide 16, you can see that our pre-tax margins during the quarter were 20.2% for ITG as a whole and 24.8% for our US business. The margin recovery versus the trailing quarter was a function of our revenue growth, the absence of the significant severance costs incurred in the first quarter, and the continuation of cost control measures implemented during this economic downturn.

On slide 17, we see that diluted earnings per share for the second quarter are $0.46. Our effective consolidated income tax rate for the second quarter was 40.2% compared to 41.6% in the second quarter of '08.

And moving briefly to our balance sheet, we had approximately $362 million of unrestricted cash as of June 30. However, unrestricted cash should not be confused with excess cash. To reiterate Bob's point, since we are self-clearing in the United States, there have continued to be varying funding requirements with the NSCC which have been as high as $300 million over the past year. In addition, the growth in our Asian business activity will likely require a $25 million capital injection in the second half of this year, of which $5 million was completed in July. With that, we will move to q-and-a. Operator, will you open up the lines for questions?

QUESTIONS AND ANSWERS

Operator

Yes sir. (Operator Instructions). Our first question comes from the line of Niamh Alexander of KBW.

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

Hi. Thanks for taking my questions and congrats on a real nice strong quarter.

Howard Naphtali - *Investment Technology Group, Inc. - CFO, Managing Director*

Good morning.

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

Thank you.

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

You're welcome. A few questions, number one, just to get back to the commissions strength and thanks for the clarity on page 15, so the 18.6% versus the 10.8%, that was much of the beat versus our expectations for the US commissions. How should we think about the growth trajectory there? Is it kind of early stages that there is something unusual in there that helped drive -- it being so strong, I am just kind of trying to kind of figure out how we should think about modeling this going forward.

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

Yes, I think that is the way I would characterize it Niamh. I think it is early stages. As you can tell from my prepared remarks, we are enthusiastic and optimistic about our ability to leverage the model this way.

And, remember then, in the first quarter we probably only got a full month under our belt or so of this type of activity. We are seeing more and more clients come on to the spread capture service, a lot of whom are very new to the firm. And we see a good pipeline going forward. So, I think it is going to be difficult to model. That is the bad news. The good news is that we are on the right trajectory.

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

Okay, that is helpful. Thanks, and then just to remind me, you are not actually committing capital here. It's just -

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

No, we are not committing capital. We have not become a high frequency trader, an electronic market maker. This is all riskless principal. In other words, it is a quick capture of the spread.

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

So, it is entirely matched, and this is primarily coming from say, like retail type order flow that would not have before?

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

Some of that, yes clearly, and a variety of other different sources, which I think is -- we are learning more and more about the business as we go along in terms of sources of liquidity here and we have been very pleased with the early returns in terms of not only the spread capture and revenue that we derive, but the also the quality of the execution that we can pass along to institutions as well.

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

Okay, so I am just trying to find a way to predict here, but we are not going to model another 8 on top of this 8 for sequential growth next quarter. Was there kind an uptick of a few specific clients in this particular quarter that helped it?

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

Yes, I would not -- as I said, it is early stages, I think difficult to model. We are very positive about the business and I think you are going to see continued positive growth from here to the end of the year.

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

Okay, that is helpful. I appreciate the call.

Howard Naphtali - *Investment Technology Group, Inc. - CFO, Managing Director*

Just for clarity, the majority of that number is not the spread based trading. Recognize you have ITG Derivatives there and OMS commission revenues, and as I alluded to in the prepared remarks, the derivatives did have a 17% revenue increase which took it to 7 figures and there was revenue increase in the Order Management revenue share as well.

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

Okay, that is helpful. Thanks, Howard, I appreciate that. And then, just get back to flash orders, if I could, because it is getting quite a lot of press, and with respect to your POSIT business -- I think the SEC also said themselves that they are not looking the traditional old school type venues like POSIT and Liquidnet , but your other liquidity aggregating business, I guess that accessing these type flash orders is one of the different ways that folks can execute using that. But you do not think that that would kind of have an impact?

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

Just for clarity's sake, we do not access flash orders today, at all.

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

Oh, you do not do it at all today. Okay. So might actually be a net benefit if it is kind of eliminated between sales.

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

I don't know. I would hate to jump to any conclusions. I think that the most important point to be made which we did in our remarks was that it is not going to have any impact. The disappearance of flash orders is not going to have any adverse impact on our routing or on our economics, our transaction processing, any of those things, because we just do not engage in it today.

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

Okay, that is helpful. Well, just lastly and I'll get back on the line. Thanks for the color on the cash. I appreciate it because I know we are always kind of asking you when you are going to start maybe buying back some shares or whatnot. But, have the banks reengaged there? Have they actually started to lend again for that 3 day clearing period, because that was a big reason why you had to kind of sit on so much cash.

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

Yes. You guys read about it every day in terms of the bigger picture around credit provision out there in the marketplace, and unfortunately, we would have hoped by now that the credit market would have loosened up. In an area where, as I said it is such a conservative end ofthe risk spectrum that you would think that there would be banks lining up to provide credit here, but they are not. And I cannot understand -- I really do not have any intimate knowledge as to what their motivation is, but I think it is only a matter of time before we see easier lending policies there, but they have not appeared to us just yet.

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

Okay, and maybe that is something we should think about in terms of a catalyst for kind of freeing up some cash.

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

I think that is reasonable to suggest.

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

Okay, thank for taking my questions. Thanks again.

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

You're welcome.

Operator

Our next question comes from the line of Ken Worthington of JPMorgan Chase.

Ken Worthington - *JPMorgan Chase - Analyst*

Hi, good morning. To follow on that same line of questioning that Niamh started on, on the other fees and commission line, you said there was kind of a geographic change in income statement from other to the trading revenues, but the number on the slide 15, those are all apples to apples, correct?

Howard Naphtali - *Investment Technology Group, Inc. - CFO, Managing Director*

Yes, we re-classed the first quarter number and there was nothing obviously before the first quarter relative to contemporary trading anyway.

Ken Worthington - *JPMorgan Chase - Analyst*

Okay. Now you said there was a 17% increase in the derivatives, even if derivatives was a huge part of one 1Q, a 17% increase just is not enough to move that 2Q number, so it seems like the increase, and you did say there was some, the OMS did increase, but it seems like the majority of the increase from 1Q to 2Q, was that spread based business? Am I reading that correctly?

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

Yes, you are.

Ken Worthington - *JPMorgan Chase - Analyst*

The second question on the fee rate, you guys were accurate in guiding us to the lack of a huge recovery in the fee rate. If the active managers become more active in the market, the active money manager becoming more active, to what extent does that fee rate get back to kind of the 80 or 81 or high 70 basis point level?

Can that really get back to levels or close to levels that we saw 2, 3, 4 quarters ago, or is that, even if the activity in that client base returns to really to normal levels, are we still seeing that fee rate will be meaningfully depressed?

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

That is a good question, Ken. We have obviously taken ourselves out of the game of predicting ratecards here and I think it is difficult to tell. And one of the things, one of the reasons we are fixated on liquidity management and on the growth in POSIT is making sure that when they do return, that hopefully we are in position to capture as much of that high margin business as we possibly can and that the steady increase in POSIT volumes we think will be helpful to that overall effort, not only here in the US, but in Europe as well.

Clearly, institutions are willing to pay more for bigger blocks, so things like Alert, both within the US and Europe continue to be a very big area of focus for us. So, liquidity management has a number of benefits to it and a lot of what I would call the investments we are making in growing POSIT, hopefully, will start to pay off in even a stronger way, once the active managers return to the mix.

Ken Worthington - *JPMorgan Chase - Analyst*

Maybe asking the question just slightly differently, to what extent do you think -- the active managers have gone to these lower value, lower price products. To what extent has that migration maybe trained them, we are paying higher fees for more value added, but you know what, we really do not need that higher value added tool. Is there any indication that maybe when the business returns to normal that they do not go to the higher value, higher margin products for ITG?

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

There is no indication to us that that is the case. Clearly, it is both a, as we have been saying, both a client mix issue, and a product mix issue. So, that first statement assumes that active managers have returned as strongly as they participated in the past and that is not the case. So it is a little early to determine I think whether or not there has been some permanent shift in our product mix. I do not. I would suspect that there has not been.

And as we alluded to in our prepared remarks, even among the index funds, I think the behavior is more or less the result of higher levels of volatility. And in higher levels of volatility, the uncertainty around beating benchmarks is higher.

And, as a result, I think folks tend to stay away from, as I said, some of the more sophisticated, some of the algos that have higher degrees of artificial intelligence that we have inserted and we obviously charge more for that. So, I think it is a -- we are in a state of flux right now. And as I said earlier, we are controlling the things we can control and we are focused on new opportunities as they present themselves.

Ken Worthington - *JPMorgan Chase - Analyst*

Okay, great, and then just two quick ones. LCH, lower clearing costs in Europe, does that spread to other clearing houses and is that enough to be meaningful to your business in Europe?

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

I think the LCH news is meaningful. It certainly would be more meaningful if it spread across Pan Europe, but we are actively engaged in a number of operating margin exercises to improve that and as Howard alluded to in his remarks, we have made some real, significant transaction processing improvements there. And most of it has come in the routing world. And now it will come from the liquidity management world. And I think we are just beginning to scratch the surface on the clearing side.

Ken Worthington - *JPMorgan Chase - Analyst*

And then, finally, just Triton installs for US, Europe and Asia, can you give us numbers on those this quarter?

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

I do not have them off the top of my head, but we certainly have -- in fact, I may have them. Here I do have them. I'm sorry. Yes, so in the US we are at 200. In Canada we are at 122. In Europe we are 65, and in Asia Pac we are 21.

Ken Worthington - *JPMorgan Chase - Analyst*

Okay, thank you very much.

Operator

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

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

Good morning guys and gals.

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

I am glad to hear you are not on rehab down in AAA here.

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

I really was not on the DL like whatever was inferred, let's put it that way. Anyway, my first question, and not to beat around the bush, but I think I can back in -- if we compare your old presentation and what you disclosed in that other commission fees line and what you are presenting now, now wouldn't the difference be the spread revenue? For 1Q '09 and back quarter?

Howard Naphtali - *Investment Technology Group, Inc. - CFO, Managing Director*

You will get the 1Q '09 of 1.4 or you will get the 2Q '09 because it is a conglomeration, a combination of 3 factors, the OMS, the IT Derivatives and the spread.

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

Okay, well then can you tell us what it was then, because if we can get it for the back quarters, all the back quarters, basically?

Howard Naphtali - *Investment Technology Group, Inc. - CFO, Managing Director*

There are no other black quarters other than Q1.

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

Right.

Howard Naphtali - *Investment Technology Group, Inc. - CFO, Managing Director*

And again, we are disclosing as one line item combined, as you say, as 18.6.

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

I think what Howard alluded to there is that the majority of the delta there is spread capture, right.

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

Okay, the majority is up between 18.6 and 10.8.

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

Correct.

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

Okay. Next question, Bob you an expert on market structure and you did, you said a lot about flash and the other issues that have come up, but I would just like to get your opinion on whether flash would have put any participants in the market at a disadvantage or at an advantage?

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

Our view is pretty simple on flash orders, right, and that is that we do believe that is a mutation in market structure that deserves to be examined in light of the original principles of Reg NMS. And, so we do not hold an opinion. I would say that is negatively directed towards flash orders. We do not, as I said earlier, in response to Niahm's question, we do not route to flash order types within our smart router. We do not interact with them as a firm, but as I said, I think it deserves full examination of the unintended consequences that they might create in the marketplace.

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

I know you said it wasn't in the character -- any decision on flash orders is not material to ITG, but wouldn't you think -- I am not saying it is material, but you could get more orders if say someone else did not route internally to themselves.

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

Tough to predict. I am sure you could come up with a scenario where that is the case, but I am sure there are other scenarios where it would just have no impact on our business.

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

And last question just for Howard. One of the bright spots, and it still is a bright spot, is Canada. Market just squeezed - and this is getting very nitpicky, squeezed a little bit and just trying to say is that just sort of noise moving quarter to quarter there?

Howard Naphtali - *Investment Technology Group, Inc. - CFO, Managing Director*

Yes.

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

Okay, great, because it was a good job, great job on the international side. Thanks guys.

Operator

Our next question comes from the line of Daniel Harris of Goldman Sachs.

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

Good morning, Daniel.

Daniel Harris - *Goldman Sachs - Analyst*

I was just wondering if you could qualitatively talk about the sales process that is going on or on the buy side, how that is going in terms of the small and midsize firms, looking to start investing in technology again, which I am sure after the last year, they are probably all a little bit hesitant to do to see if this rally has legs.

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

Well, I do not know that I would isolate it to the small and midsize firms. We feel really good about the model, about the transaction based technology model for asset managers, we know that the asset management model is under duress as it has been for the last year and half. We know that folks have significant restrictions in terms of the amount that they can invest in technology on the asset management side.

And we also know that we have a very competitive model where ITG invests in the partnership and we invest in the technology. We invest in the service and support and bringing technology live and into these asset management organizations. And we compete against software vendors who I think have a really hard time. Again, putting themselves up against a transaction based model in this reduced budgetary environment for the asset management community.

I feel really good about our model, about Triton, about the desktop technology, all of our technology capabilities globally in an environment where the asset management community is under duress. The flip side of that is that, obviously, is that we want to see more transactions coming out of them, and that is difficult to do in markets that are as severely corrected as they are. But the feeling here is that when they do recover, that the firm's footprint is going to be that much stronger than it has ever been. And so, we feel good about that.

Daniel Harris - *Goldman Sachs - Analyst*

So, then I guess you would characterize -- your sales force has probably been out there over the last year -- obviously it has been a difficult environment, but still pushing the Triton installs and so as these firms begin to expand, think about investing again, there could be, I do not want to say a wave, but certainly a pick up in the Triton installs going forward.

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

Yes, the biggest point of leverage for us right now, and I know we all agree on it internally is Global Triton, right? So I think we are building very credible, regional capabilities, obviously in North America, in Asia and really what Global Triton allows us to do is to capture those very powerful cross-border flows.

So, a US institution that is managing international trading out of the US now has the capability and the product to get to the rest of the world. And that is the next stage of the leverage in our international model, as I see it.

Daniel Harris - *Goldman Sachs - Analyst*

Have you had any really feedback on those Triton X?

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

It is called Global Triton. Yes -

Daniel Harris - *Goldman Sachs - Analyst*

Oh, Global Triton, sorry.

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

It is good, in production. It is working at a number of firms and I think, like any other product, we have worked out the kinks and I think we feel good about the broader commercial distribution.

Daniel Harris - *Goldman Sachs - Analyst*

Okay, that is very helpful. Lastly, for me, you talked and we certainly see the flows going into equity mutual funds, and maybe that continues hopefully, but as it relates to the transaction business and specifically maybe POSIT is the best way for me to think about it, what do you think the lag is between mandates being won, funds flowing into these mutual funds and separate accounts and when they start actually hitting the transaction side of the business?

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

I think it is difficult to predict. Obviously, I am not a marketing person on the buy side, but as I said in my prepared remarks, I think the overall theme is that you can see the wave. It is coming. The question is what is the lag? How long will it take to reach the beach? I think that is a good question, one I am unfortunately unprepared to answer.

Daniel Harris - *Goldman Sachs - Analyst*

That is all right. I cannot answer it either. But thanks a lot.

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

Thank you, Dan.

Operator

Our next question comes from the line of Gil Luria of Wedbush Morgan.

Gil Luria - *Wedbush Morgan Securities - Analyst*

Yes, thank you for taking my question. There seems to be a pretty big swing factor, so let me just take one question to try to move the ball forward a little bit on the other commission line. Can we assume, is it safe to assume that the OMS commissions were relatively flat as broker dealer commissions were, just the OMS commission part of that line?

Howard Naphtali - *Investment Technology Group, Inc. - CFO, Managing Director*

They were up somewhat.

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

Probably more, Gil, because of increased penetration of the network, so not necessarily same store sales, but more connections that we have integrated and sponsored.

Gil Luria - *Wedbush Morgan Securities - Analyst*

Got it, thank you.

Operator

Our next question comes from the line of Mike Vinciquerra of BMO Capital Markets.

Mike Vinciquerra - *BMO Capital Markets - Analyst*

Hey, congratulations on the results, guys.

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

Thanks, Mike.

Howard Naphtali - *Investment Technology Group, Inc. - CFO, Managing Director*

Thanks, Mike.

Mike Vinciquerra - *BMO Capital Markets - Analyst*

Back to Ken's question just on LCH, can you just give us a sense for how much, when you see cuts and you are not self clearing in Europe yet, when there are cuts at the clearing providers, how much of that actually flows through to you? Does any have to flow through? Is it up to your clearing partners to pass through some of those savings?

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

You are right. It is up to our clearing partners, but as I understand it from talking to our local clearing guys, we are going to see a benefit from that.

Mike Vinciquerra - *BMO Capital Markets - Analyst*

Okay, and sticking in Europe, can you give us any sense for how your volume or your value traded is broken down right now between the incumbent exchanges and the MTS? Are you utilizing the alternatives very much at this point?

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

Oh yes, you see it, if you focus in on that transaction processing line that Howard is talking about, the delta there is really a function of better smart routing, better usage of multilateral trading facilities and better internalization within POSIT. Period.

Mike Vinciquerra - *BMO Capital Markets - Analyst*

Can you give us a sense of the split between the incumbents and the MTFs? Are you kind of in line with the percentage market share that they have been -

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

I would say that we are in line to maybe be a little more aggressive.

Mike Vinciquerra - *BMO Capital Markets - Analyst*

And then, just one final question in international. Your value traded in Europe and Asia, you gave us kind of the numbers in terms of numbers value traded for the markets broadly and how much the indexes were up. How much was your value traded up even if you do not give us the number itself, in percentage terms in both Europe and Asia?

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

Let's see here. I do not know that I have the turnover number in front of me. Why don't we get back to you on that one, Mike?

Mike Vinciquerra - *BMO Capital Markets - Analyst*

Okay, and then just one numbers question for Howard. Interest costs down, it is a small number, but down pretty noticeably sequentially. Is there something there with your interest rate swaps potentially be at a -

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Howard Naphtali - *Investment Technology Group, Inc. - CFO, Managing Director*

Yes, you will see in the 10Q, I think it might actually have been disclosed in the first part of 10Q, we had an interest hedge put on 3 years ago that expired at 3-31, that had locked us in to a 6% rate, which was market at the point we put it on. That is expired, so we are really at market rates, plus with the principal repayment, you see what the cost run rate is today.

Mike Vinciquerra - *BMO Capital Markets - Analyst*

Very good. Okay, thanks guys.

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

Thank you.

Operator

Our next question comes from the line of Bob Napoli of Piper Jaffray.

Bob Napoli - *Piper Jaffray - Analyst*

Thank you, good morning. I hate to beat a dead horse on the spread revenue that you generated. What would be the incremental margin? The incremental margin in that must be extremely high.

Howard Naphtali - *Investment Technology Group, Inc. - CFO, Managing Director*

Well, yes, some comp and other costs impact it. Yes. It is typical. It is not substantially different than POSIT incremental margins.

Bob Napoli - *Piper Jaffray - Analyst*

And, if I heard you clear, I think you said that you expect that, the revenue and earnings from that product to continue to grow through the next several quarters.

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

Yes, as I have said, we have got a very strong, visible pipeline of new clients in that business and I think good potential in the existing constituents as well. So, we feel very positive about it.

Bob Napoli - *Piper Jaffray - Analyst*

And that incremental EPS, quarter over quarter, high single digit EPS t just on that product?

Howard Naphtali - *Investment Technology Group, Inc. - CFO, Managing Director*

Potentially.

Bob Napoli - *Piper Jaffray - Analyst*

Can you tell me a little bit about who the clients, what types of clients you are assigning to that product?

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

Yes, as we have discussed in the past, it is broker dealers. It is an extension of a facility we have had for a very long time called AlterNet, and it is broker dealers would be institutional. It would be retail. It is a -- there is a whole cacophony of folks that want to interact with the POSIT order flow and are willing to do so with that mechanism.

Bob Napoli - *Piper Jaffray - Analyst*

Thank you very much.

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

You're welcome.

Operator

And our next question comes from the line of Chris Allen of Pali Capital.

Chris Allen - *Pali Capital - Analyst*

Hey guys, nice quarter.

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

Thanks, Chris.

Howard Naphtali - *Investment Technology Group, Inc. - CFO, Managing Director*

Good morning.

Chris Allen - *Pali Capital - Analyst*

I was wondering if I could get a little more color on the capture rate. Along with the fourth quarter of '08, this is kind of the first quarter we have seen a sequential increase, I was just wondering if there was any specific type of trades of anything that drove it over or whether it was just driven by more of the product mix shift?

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

No, it is really the mix shift, and I think reflected primarily in the POSIT growth there.

Chris Allen - *Pali Capital - Analyst*

All right, thanks a lot guys.

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

You got it.

Operator

Our next question comes from the line of Rob Rutschow of CLSA.

Rob Rutschow - *Calyon Securities, Inc. - Analyst*

Hey, good morning.

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

Good morning, Rob.

Rob Rutschow - *Calyon Securities, Inc. - Analyst*

Just one more question on the spread capture. Could you tell us who you are taking business from in that business, or is a new green field for you?

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

Tough to know. I think it is obviously a market that I think everyone knows pretty well at this stage of the game. I think it is probably some of the EMM community and it may be just we are a newfound source of liquidity there. It is difficult for me to predict who is winning or losing share as a result.

Rob Rutschow - *Calyon Securities, Inc. - Analyst*

Okay. In Europe, can you talk about some of the trends there in terms of the actual size of trades and whether that has been falling and whether that impacts your business over there?

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

Well, generally speaking, the size of trades, particularly in an algorithmic world, has been falling. As part of the smart routing capabilities and liquidity management capabilities we have, obviously we monitor that closely and try to optimize our interaction with various pools, whether they would be exchanges or MTFs to make sure that we are not harming ourselves.

So, there is a lot of time and effort and resource dedicated to making sure that, and I think you see it in the results, that the transaction processing line is not adversely affected by what has been a trend line that has gone straight down.

Rob Rutschow - *Calyon Securities, Inc. - Analyst*

Okay. Along those lines, can you talk at all about sort of the breakdown between exchange fees that you paying in Europe and the clearing costs, I am assuming clearing the majority of that, but whether you have, there has been incremental improvement because of the MTFs?

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

I would tell you that we do not break it down, but I would tell you that the vast majority of improvement has come from smart routing and the internalization within POSIT, that 44% in Q2 of '08 to 31%, north of 31% in Q2 of '09. That is what is responsible.

Rob Rutschow - *Calyon Securities, Inc. - Analyst*

And lastly, can you just give us a little bit more color on how you, or where you found the most cost savings sequentially outside of the US and where you are best able to control your expenses.

Howard Naphtali - *Investment Technology Group, Inc. - CFO, Managing Director*

We just talked about where the best cost savings were, really, in the Europe in transaction.

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

Yes.

Rob Rutschow - *Calyon Securities, Inc. - Analyst*

Okay, I thank you.

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

You got it.

Operator

Ladies and gentlemen, that concludes the q-and-a portion of our presentation and I would like to turn the call back over to Mr. Bob Gasser.

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

Yes, we appreciate you joining us this morning and we look forward to speaking with you all in October. Thank you.

Operator

Thank you for your participation in today's conference. This concludes the presentation.