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PRESENTATION

Operator

Good morning and thank you for joining us to discuss Investment Technology Group's first quarter results for 2011. (Operator Instructions.) I would now like to turn the call over to JTFarley of ITG. Please proceed.

JT Farley - *Investment Technology Group Inc - Director, IR and Corporate Communications*

Thank you Marissa, and good morning. In accordance with the 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 also like to point out that we will be referring to non-GAAP financial measures in today's preparation. Reconciliations of these non-GAAP measures to the comparable GAAP measures can be found in this morning's press release. The press release and the PowerPoint slides which accompany this presentation are available for download at the Investor Relations section of ITG.com.

We have with us this morning our CEO, Bob Gasser and our CFO Steve Vigliotti. To begin, we will turn it over to Bob.

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

Thanks, JT, and thank you for joining us to discuss ITG's first quarter. This morning I will cover three main points. First, I will provide a financial and industry overview. Then offer an update on our competitive strategy with particular emphasis on ITG Research. And lastly, discuss our capital allocation strategy.

As we entered 2011 the management team determined it was critical to refocus ITG's efforts around a core mission statement - To be the most valued partner in execution and research to our asset manager clients on a global basis. That is a bold statement but one the entire team at ITG believes in. We recognize, as you all know, that there are certain industry conditions that are out of our control, namely, trading volumes and flow of funds. However, we believe that our strategic direction is a sound one, built around a long-term plan to capture additional commission dollars complemented by a disciplined approach to controlling expenses. Importantly, we now feel we have positioned the business to provide the financial flexibility we need to enhance shareholder value by allocating capital to the areas that will drive the best long-term returns for our shareholders.

How did we do in the first quarter? We grew revenue modestly, while achieving a slightly higher US revenue capture rate consistent with our strategy. Our expenses were managed effectively and increased primarily due to the addition of ITG Investment Research. We returned $12.6 million to shareholders in the form of buybacks and ended the quarter with cash and cash equivalents of $6.47 per share and no long-term debt.

Let's discuss industry conditions. As you know, there has been a long string of net outflows from domestic mutual funds. While new flow trends to US mutual funds investing internationally remain positive, domestic equity fund flows turned positive in January and February for the first time in eight months before turning negative again in March. Behind these numbers lies negative investor sentiment toward the market. A Gallup poll out two weeks ago found that just 54% of Americans hold stocks directly or through mutual funds, down from 65% in 2007. And Greenwich Associates estimates that the total pool of US cash equity commissions declined 12% for the 12 months ending in mid February to $11.6 billion.

Overall, US trading activity was weak in Q1 with combined New York Stock Exchange and NASDAQ average volume down 8% year-over-year.

In terms of our first quarter volumes, ITG continued to perform well with the average daily US trading volume up 7% over the prior year period. POSIT average daily volume surged to a quarterly record of 84 million shares compared to 76 million shares in Q4. The average block size in POSIT alert in Q1 was 39,000 shares up from 36,000 in the fourth quarter.

Our revenue capture per share improved sequentially but was down year-over-year due to the continued weakness in traditional long-only volumes as well as a further shift in mix to lower rate trading, including growth in our sell side business. To put it in perspective, our sell side business saw a 25% jump in average daily volume over the fourth quarter.

We also saw a lot of portfolio rebalancing and transition orders in January and February, which are typically done at lower commission rates. The revenue capture per share on net executions was also under pressure as bid-ask spreads on S&P 500 stocks narrowed another 3% versus the fourth quarter and the VIX dropped to an average of 18.6 in the first quarter.

We do have clients who are paying for ITG Investment Research at a higher rate. We now have 31 new accounts who are paying for our research through a trading relationship with more to come online in the following quarters. These clients are trading with us at a rate card significantly higher than our average for the quarter. However, converting research relationships into trading relationships takes time. While we are maintaining our pricing discipline and continue to price ITG IR on a sector by sector basis, we also have to compete for these dollars based on institutions' broker votes, which can be as infrequent as once a year. As we start the second quarter we are making further progress selling into the subset of the ITG client base that did not have a relationship with legacy Majestic.

Moving on to our international operations. Canada posted another strong quarter with revenues up 3% over Q4 and up 18% over the first quarter of last year. We continue to invest in our Canadian infrastructure, further reducing our latency. We have also increased our Canadian market structure and research output, helping us gain more traction with key institutional clients.

European revenues were up slightly over Q4 and down 10% from Q1 of 2010, due in large part to lower institutional trading activity. Similar to the US we have seen a mix shift in Europe as sell side order flow picks up. This negatively impacted our revenue capture in the region, but helped POSIT gain share-- as of March it represented over 5% of total European dark pool volumes.

Asia Pacific posted another strong quarter with $9.4 million in revenue including a record month in March of $3.6 million and we reduced the operating loss over the first quarter of last year by $1.9 million. POSIT Marketplace continues to gain ground in Hong Kong and Australia with over 175 clients able to access the pool. POSIT Marketplace is now delivering average price improvements in Asia of 13 basis points, up from 9 basis points in 2010. After visiting the region several weeks ago, I can tell you I'm convinced that dark liquidity is now ready for prime time in APac.

Overall, our competitive position is strong. During the first quarter, ITG's Triton was recognized by Asian Banker as the best buy-side trading platform for the second year in a row and ITG's algorithms won top honors in a global buy-side survey by the trade magazine for customization, speed and price improvement. The new Greenwich Electronic Trading Survey ranks ITG number one for direct market access and smart routing, as well as for US portfolio trading algorithms. We won top honors for execution quality in CSA programs and we are in the top three in most of the other key electronic execution categories in which we compete.

But even as we gain recognition for our platform we continue to enhance it with product, service and technology innovations. The most important strategic expansion and diversification of our offering is ITG Investment Research. Our intent is to make our independent research offering a significant factor in driving commission allocations to ITG. We believe the combination of independent, data driven, alpha-generating research with best in class global execution capabilities provides a compelling value proposition to clients and we remain committed to expanding the research platform in terms of both sectors and geographies over the course of 2011.

During the quarter we launched new coverage on the deep discounters including Wal-Mart, and we recently rolled out coverage on Canadian wireless carriers. In the coming weeks we expect to roll out coverage and on restaurants and grocers. During Q1 our analysts made differentiated alpha-generating calls on names like Google, MGM, Carmax and Salesforce.com.

We remain committed to investing in research sales as well, with funding sourced from cost savings in other parts of the business. This will be important to gain further traction with hedge funds which accounted for approximately 75% of Majestic's legacy business.

In addition, we are seeing product extension opportunities in the CSA and Derivatives spaces created by the obligation clients have to pay for the research product. Finally, we continue to see opportunities to take commission share from expert network firms. ITG IR does not pose the potential compliance issues which are faced by so-called expert network firms and offers a good alternative for investors looking for differentiated content, to add to their research mosaic. As the buy-side looks to reallocate some of that spending, we are competing aggressively for that business.

Let's turn now to capital allocation and cost discipline. As we have demonstrated, we intend to continue to return capital to shareholders while at the same time seeking bolt on acquisitions which enhance our capabilities across the platform. We intend to make acquisitions that support our stated goal of creating more obligations and opportunities for clients to trade. Our strong cash flow also allows us to continue returning capital through our share repurchase program. Steve will have more on our balance sheet and buybacks in a few minutes.

We are also holding the line on expenses. The processes started with our reduction in force in Q4 of 2009 and continued throughout 2010, including the closure of our domestic Japanese presence, is now bearing fruit. Our headcount was 1,188 employees at the end of the first quarter, essentially flat from the end of the fourth quarter. We continue to manage attrition and we will work to keep our fixed costs under control, preserving our powerful operating leverage and thus our ability to capitalize on any future increases in equity volumes.

To sum up, at ITG we continue to invest in products, services and technologies that enhance our competitive position and through ITG Investment Research, we have embarked on a strategy that positions us well to penetrate existing accounts further as well as win new clients.

Finally, I would like to thank my colleagues around the world for their efforts on the Firm's behalf. Throughout this tough period, ITG has maintained its product leadership and reputation for first-class service and support, thanks to them. While none of us are complacent or happy with the bottom line result, we are proud of the way we are remaking the firm and positioning it for growth.

With that background I would like to turn it over to our CFO, Steve Vigliotti, to take you through the Q1 financial highlights.

Steve Vigliotti - *Investment Technology Group Inc - CFO*

Thanks, Bob and good morning, everyone. In the first quarter we saw a substantial improvement in our revenues and profits on a sequential basis due to growth in our US trading volumes despite challenging market conditions. As noted on slide six, we generated revenues of $150.1 million during the first quarter, 8% higher than the fourth quarter of 2010 and 2% higher than the first quarter of 2010. On a GAAP basis, net income for the quarter was $0.23 per share compared to net income of $0.04 per share in the fourth quarter of 2010 and $0.19 per share in the first quarter of 2010.

On slide seven we have detailed the non-operating items included in our GAAP results for the fourth quarter of 2010 and the first quarter of 2010. There were no non-operating items in the first quarter of this year. The fourth quarter 2010 results included non-operating items related to restructuring activities and the Majestic acquisition. And the first quarter 2010 results included a write-down of capitalized software initiatives due to evolving product priorities. Excluding these charges, adjusted net income for the fourth quarter of 2010 was $0.11 per share and adjusted net income for the first quarter of 2010 was $0.27 per share. For the remainder of this discussion all references to results and costs will be on an adjusted basis, excluding these items.

On slide eight, we have broken down our results between our US and international operations. During the first quarter of 2011 we generated earnings of $0.19 per share in the US on revenues of $100.5 million. We are currently including all of our Research operation in the US segment. On a sequential basis, you can see that a 12% growth in US revenues yielded a substantial improvement in profitability as our pre tax margin in the US climbed to 13.4% from 2.3% in the fourth quarter. Our US pre tax margins in the first quarter were, however, down from 19.3% in the first quarter of 2010 due primarily to the reduction in our rate per share from the shift and the client mix of our business which I will discuss a little later. Our combined international businesses generated net income of $0.04 per share on revenues of $49.6 million. Our international pre tax margin was 7.3% in the first quarter, down from 10.7% in the fourth quarter of 2010 but up from 4.7% in the first quarter of 2010. The sequential decline in our international margin rate was largely attributable to an additional $900,000 of R&D expenses that were allocated to our international operations to better reflect the global nature with which these resources are managed and consumed. Our consolidated effective tax rate for the first quarter was 44.3% compared to 35.8% in the fourth quarter of 2010 and 44.6% in the first quarter of 2010.

We continued to keep a close eye on expenses during the first quarter. On slide nine, you can see that our US expenses were down $400,000 sequentially to $87 million, even with a full quarter's worth of expenses for our research operations which totaled $7.5 million for the quarter compared to $4.8 million for the partial fourth quarter period. And we also had an additional $900,000 of transaction processing costs associated with higher volume. The $7.5 million of expenses from our research operations included $800,000 of stock-based compensation expense associated with retention and performance awards granted to the research management team. It included $300,000 for amortizing intangibles recorded as part of the purchase price allocation and there was $1.4 million of data and telecom costs.

G&A expenses in the US were reduced during the quarter by the $900,000 of additional R&D allocations that we made to our international businesses. Our US compensation expense ratio decreased to 38.1% from 42.7% in the fourth quarter, consistent with the guidance we provided on our last call. Transaction processing costs were $12.9 million during the first quarter representing 12.8% of revenues compared to 13.4% during of the fourth quarter of 2010 and 10.3% during the first quarter of 2010. The key driver behind the increase in the ratio from the first quarter of 2010 was a reduction in our revenues capture rate per share. You can also see the inclusion of $300,000 of interest expense associated with our new credit line, primarily reflecting commitment fees and a straight line amortization of up front fees for the two months the loan was outstanding during the quarter.

On slide ten, we have provided a summary of our international results. As compared to the fourth quarter of 2010, revenues were up $800,000 primarily reflecting a positive impact from foreign currency translations. The compensation ratio for our combined international operations was 38.7% compared to 38.8% in the fourth quarter and 41% in the first quarter of 2010. Combined international transaction processing costs during the quarter, as a percentage of revenues were 20.4% compared to 20% in the fourth quarter and 22.2% in the first quarter of 2010. The increase in international G&A costs is largely attributable to the $900,000 of additional R&D costs that were allocated to these segments during the first quarter reflecting an additional $600,000 of costs charged to our Canadian business and an addition $300,000 of costs charged to our European business.

On the next slide, we tracked the performance of our foreign segments over the past five quarters. As compared to the fourth quarter, our pre tax profits were comparable across all regions, after taking into account the impact of the additional R&D costs.

On slide 12, we have presented our US volume and rate capture statistics. Our total average daily executed volume was up 12% in the first quarter as compared to the fourth quarter while a combined average daily market volume of NYSE and NASDAQ listed securities was up only 6%. Our revenue per share increased to $0.00553 from $0.00536 in the fourth quarter, due in part to higher rates paid by research clients. This $0.00017 increase was net of a $0.00001 decrease associated with the growth in our sell-side client segment, including those that trade with us on a net basis. The growth from this client segment since the first quarter of 2010 accounted for 9.1 of the 11.3 [mill] reduction we have experienced since then.

We are on track to achieve our financial targets for ITG Investment Research including the growth in the amount of product consumed by clients, and the level of trading with ITG used to compensate us for this service. Approximately 30% of the revenue attributable to ITG Investment Research during the first quarter was from more than 60 clients that are compensating us for this service through ITG trading, either as part of a bundle commission arrangement, or through an ITG soft dollar account. These payment methods provide an opportunity for trading revenue synergies and a more flexible way to up-sell additional research content. We remain confident with the 2011 accretion figures we previously provided for the research acquisition of $0.05 to $0.10 per share.

We continued to distribute cash to shareholders during the first quarter in the form of share repurchases. We repurchased 674,500 shares during the quarter for $12.6 million, representing 132% of our net income for the quarter. Since the current program commenced in the first quarter of 2010, we have repurchased 3.8 million shares. We currently have 2.2 million shares available for repurchase under approved authorizations. We ended the quarter with $267 million of cash and cash equivalents on our balance sheet, down from the $317 million at year end, primarily due to the reduction in payables for the cash portion of our 2010 incentive compensation program, and the payment of remaining acquisition obligations owed for ITG Derivatives.

With that I would like to open the call for Q&A. Operator, please open the lines.

QUESTIONS AND ANSWERS

Operator

Your do have your first question is from the line of Ken Worthington from JPMorgan. Please proceed.

Ken Worthington - *JPMorgan - Analyst*

Hi, good morning.

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

Good morning, Ken.

Ken Worthington - *JPMorgan - Analyst*

First, maybe you Bob, could you talk about the rate card improving. I guess what I'm after is what happens from here? Does Majestic allow for more improvement? Does it stabilize things or does it kind of slow the rate of decline? You mentioned I think in the prepared remarks 31 clients, that seemed pretty good. What kind of client adds do you expect in coming quarters? Is there like another wave in Q2 and it slows from there, 31 goes to like five and four and it kind of fades as you kind of convert over the existing Majestic clients to commission paying?

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

Yes, I think there is some barrier to entry in terms of bringing in those clients online into a trading relationship, Ken. I think that is the reason for the delay. Obviously there is some negotiation going on in terms of a bundled rate, a bundled number that we are targeting. We're obviously being, as Steve alluded to and as I alluded to in my remarks, we're being very disciplined about the allocation of resource to clients and making sure that we are getting paid for that. So it takes a little time. In addition to the technical and the legal resources that are necessary to bringing these guys on board. So we're talking about things like fixed connectivity and integration into order management systems sometimes. Legal agreements that have to be signed, sometimes locally, sometimes globally. So all of those things are speed bumps. So I do -- but I do absolutely anticipate that we will continue to show similar improvement in terms of onboarding new clients to ITG and there are some new clients that are new as I alluded to in my remarks, new to both firms, that we believe will also be drivers of performance going forward.

In terms of the rate card, at the very least it will arrest the decline in my view. There is dependency on the mix of business and I think that is something that I think Steve alluded to in his remarks. We have had a significant growth in our sell side business whether or not it is net trading or sell side algos. That process started in actually in Canada, it has always been a big part of their business. It migrated to the US over the course of the last couple of years as you know going back to Q1 of 2009. Europe has gotten aggressive on that front and now Asia-PAC is just starting to roll out more and more sell-side products. So it's not about sell side brokers doing any better in this environment. It is about us taking share away from some of the incumbents in that space. And I think we've done it very effectively by institutionalizing the product and going after that market more systematically than we did in the future so,. my view is that it will at the very least arrest the decline, but there is some dependency on the mix of business. We're going to need obviously institutional flows to cooperate. The rate card is significantly higher. We are talking about factors and factors larger than our average in, for instance, those 31 accounts that are new to the firm.

Ken Worthington - *JPMorgan - Analyst*

Great. And then just secondly, when mutual fund flows turned positive in January and February was it enough time to actually see a change in business? Like it looks like the POSIT growth was very good. Did you see kind of the same thing happen in other higher fee products as well and with mutual fund flows kind of going back into redemptions, did ground that you won there, did that kind of fade somewhat with redemptions? So, I'm just trying to get a sense of --

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

Yes.

Ken Worthington - *JPMorgan - Analyst*

is two months time or does it take six months or 12 months of better mutual fund flows to see a real impact?

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

It probably takes a little bit of time, I believe. I would say though that January and February were relatively good months for us. Obviously March petered out. I think you have heard that from numerous companies that have reported in this stage. We had -- in January we typically have some good rebalances and transitions that helped and so that's been a -- as long as I have been here January has always been a relatively positive month. So I think there will be a bit of time for that to translate into higher institutional volumes. Interesting enough, in our network in our TCA business we did see institutional volumes decline in Q1 amongst the sample set of folks that we have under our belt in terms of tracking the data. So we believe that our share is still very strong. Obviously in January and February we're just getting started in the process of onboarding a lot of these new Majestic accounts and I think we are going to continue to show momentum there, regardless of what institutional flows do here to the end of the year.

Ken Worthington - *JPMorgan - Analyst*

Great, thank you very much.

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

Thank you.

Operator

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

Mike Vinciquerra - *BMO Capital Markets - Analyst*

Hi, thank you, good morning.

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

Good morning.

Mike Vinciquerra - *BMO Capital Markets - Analyst*

Staying on the research side of things, can you talk a little bit more in terms of percentage of your business there coming and how it has transitioned from subscription to flow business. If you can give us the actual number in terms of revenues from the Research clients that'd be great, but I'm really interested in how you're transitioning that and how far along we are on the curve.

Steve Vigliotti - *Investment Technology Group Inc - CFO*

Yes, we have -- Mike, this is Steve. More than 60 of our research accounts are currently paying for ITG Investment Research through trading with ITG. Either through a bundled arrangement or through an ITG soft dollar account. That's about 30% of the revenue that we're currently attributing to the Research operations.

Mike Vinciquerra - *BMO Capital Markets - Analyst*

Okay, that's helpful. And if I remember correctly, when you guys did the deal, you had said that there were about 75 clients that did business with one but not the other entity. Am I remembering that number correctly? Or is it a bigger number than that?

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

It was 80, Mike, yes.

Mike Vinciquerra - *BMO Capital Markets - Analyst*

Got it, okay, thank you. And then Steve, I missed when you said what the FX impact was on revs during the quarter, could you repeat that.

Steve Vigliotti - *Investment Technology Group Inc - CFO*

On a sequential quarter over quarter basis, it's about equivalent to the growth, the $900,000.

Mike Vinciquerra - *BMO Capital Markets - Analyst*

Okay, thank you. And then just finally, can you talk about your expected impact from the -- we're finally to the Citi reverse split here, and I realize a lot of that volume is actually internalized. So I'm wondering if there is going to be a lesser impact on your numbers than there might be for the market as a whole.

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

I think it will be a lesser impact on our numbers given the fact that its -- Citi would represent probably a very proportionate amount of our flow business so when you think about some of the stuff that is going through POSIT, net trading flows, clearly it'll be affected by the Citi reverse. But in terms of the overall number, the overall impact, the overall impact on our top line, and our volume numbers, I don't think it's going to be too significant.

Mike Vinciquerra - *BMO Capital Markets - Analyst*

Okay. So we're talking probably low single digits is that kind of rough range?

Steve Vigliotti - *Investment Technology Group Inc - CFO*

I think that is a safe assumption.

Mike Vinciquerra - *BMO Capital Markets - Analyst*

Okay, thanks a lot.

Operator

And your next question is from the line of Rich Repetto from Sandler O'Neill. Please proceed.

Rich Repetto - *Sandler O'Neill - Analyst*

Hi, Bob and Steve.

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

Good morning, Rich.

Rich Repetto - *Sandler O'Neill - Analyst*

Not to beat the rate card over your head a little bit more but when you talked in the last call you had given guidance to higher -- you were seeing a rebound and I know you did see a slight one quarter to quarter. But I guess my question is things obviously are -- if you look at the flows, January and February were good and March dropped off. So is it fair that you to say that you exited the quarter at a rate pretty below or below the 5.53 that you ended the quarter, given -- looking at the flows, given that you said that the guidance was much higher back in February on the last call.

Steve Vigliotti - *Investment Technology Group Inc - CFO*

Yes, in terms of the overall volume, Rich, we exited slightly below the average for the rate. Having said that, the rate from our core institutional buy side clients actually picked up throughout the quarter, representing the impact of -- in part the impact of Research. So the mix did weigh it down a little bit in March, but overall in terms of the core buy side business, we will continue to see improvement throughout the quarter.

Rich Repetto - *Sandler O'Neill - Analyst*

Okay. We can talk more offline on that I guess. I guess the other questions are about Majestic, you talked about the expense level. How was it - was it accretive? Was it revenue side?

Steve Vigliotti - *Investment Technology Group Inc - CFO*

Rich, given the subjectivity in allocating commissions between Research services and Trading services, we're really not disclosing that figure at this point. I can tell you that we can experience growth in our revenues over the fourth quarter run rate, which as you may recall was $5 million for two months. We were profitable in the quarter. And that we remain confident with our 2011 accretion figure of $0.05 to $0.10 per share.

Rich Repetto - *Sandler O'Neill - Analyst*

Okay. I'm a little confused. But you are saying you experienced growth but you can't -- but it is not quantifiable?

Steve Vigliotti - *Investment Technology Group Inc - CFO*

It is. It is just it is highly subjective. I'm sure you guys see that in your business as well. And our position right now is not to put out that number given the subjectivity. But internally we do track it and we do see it growing and as a result we are comfortable with our accretion guidance.

Rich Repetto - *Sandler O'Neill - Analyst*

Okay, and then next on other revenue. Other revenue had a little uptick, overall $4 million. I know you broke it out in the slides. Give a little more detail on why other revenue was up $4 million -- up $3 million from the prior quarter.

Steve Vigliotti - *Investment Technology Group Inc - CFO*

Yes, the other revenue, as you know Rich, has a lot of stuff in there for ITG. We've got professional services in there. We've got client accommodations we'll run through there. Part of the reason for the increase in this quarter was the continued growth of our stock loan match book which generated net interest spread close to $1 million for the quarter. Rich, we also had a $500,000 gain from the sale of NYSE shares we were holding from legacy seats that the Company owned. So those were two of the bigger reasons.

Rich Repetto - *Sandler O'Neill - Analyst*

Okay. Thank you.

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

Thank you, Rich.

Operator

And your text question comes from the line of Nick Setyan with Wedbush Securities. Please proceed.

Nick Setyan - *Wedbush Securities - Analyst*

Hi, thanks. Last year there was quite a bit of variability in the CompEx from quarter to quarter. Does Research now change that dynamic? How should we think about CompEx in this quarter, and the quarter going forward?

Steve Vigliotti - *Investment Technology Group Inc - CFO*

Hey, Nick, this is Steve. In the US the $38 million rate that we posted this quarter is currently what we are projecting out for the rest of the year for the US. Obviously that could change if we see sudden spikes or declines in the revenue levels. We try to vary it along with revenues, but it doesn't always go perfectly linear, but right now based on our models we are projecting a rate around the same rate we had for the first quarter.

Nick Setyan - *Wedbush Securities - Analyst*

Great, thanks.

Operator

And your next question comes from the line of Niamh Alexander from KBW. Please proceed.

Niamh Alexander - *KBW - Analyst*

Hi, thanks for taking my questions.

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

Good morning, Niamh.

Niamh Alexander - *KBW - Analyst*

Good morning. If I could just pop into the international for a sec, because you did cite R&D reallocation to Europe as one of the expense movements. But is this kind of a good run rate now for that, ex-ing the transaction which is variable to the volume?

Steve Vigliotti - *Investment Technology Group Inc - CFO*

In terms of the -- yes it is. We decided to take a look at how we charge those costs across the regions just as for now, try and operate the business as efficiently as we can. And we're managing these resources on a global basis, so we thought it was appropriate to reexamine how we charge these out. So this represents a fair run rate going forward.

Niamh Alexander - *KBW - Analyst*

Okay, fair enough, thanks. And then, I guess I have asked the question before but the volumes are down so much and industry wide, a lot of products, not just equities. Is there something that you could do, like if this the new reality and the new norm, do you feel like there's room maybe for some restructure or reorganization going forward, because Europe is pretty close to being unprofitable in the quarter, and it was only like that kind of third quarter last year.

Steve Vigliotti - *Investment Technology Group Inc - CFO*

Yes, I think Europe is an interesting example geographically of the diversity of our business, right? I think Europe in terms of institutional interest in waiting for a variety of macro reasons I think is generally a difficult place to do business right now. I think the volume spikes you've seen in Europe really come from, it looks like the middle of the last decade in terms of the fragmentation and the market structure changes. Obviously there will be a lot of scrutiny -- there has been a lot of scrutiny around those as part of MiFID, too. But what it has created is a very good environment for high frequency traders to pour into that marketplace. It is starting to look very much like the US, and our view is that the volume spikes that I think you have witnessed over the last quarter in Europe are very much driven by the HFTs, and their participation there. And so our view is that Europe is suffering from a bit of malaise in terms of how it is allocated relative to other regions by our investors. And basically we are managing costs there aggressively. We are doing everything in our power to continue to build out the product and maintain service levels, et cetera. And we're obviously hopeful that over time, Europe will become more attractive relatively speaking in terms of institutional interest.

Niamh Alexander - *KBW - Analyst*

So there is not much scope to, shall we say, lower the expense base if is the new normal, this is the new volume that we're living through right now, you feel like the operations are as lean as they can be right now.

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

Yes. And we've spent a lot of time and Steve and the management team in Europe and our broader management team has spent a lot of time examining the structural difference of Europe, for instance, relative to a Canada. Clearing -- clearly, decentralized clearing has got a lot to do with it. Clearly we have done everything in our power to control that expense line. Internalization and transaction processing costs are similarly affected, and we've done everything in our power to control those expenses. And so I feel very good about the things we have done to shore up the operating margin in Europe over the last couple of years. But we are certainly not complacent in terms of continuing to look at that business. So, from a European perspective, I think that we are in a position where we need volumes to return to drive any result to our bottom line.

Niamh Alexander - *KBW - Analyst*

Okay. Fair enough, thanks. And if I could just touch on the capital distribution as well. You had a pretty strong cash balance of $267 million. You bought back more than you earned in the quarter. But it still feels like there is a lot more cash on the balance sheet than you necessarily need to run the business. So help me think about this. Are you keeping some cash aside for maybe more deals? What is your area of preference if that's the case?

Steve Vigliotti - *Investment Technology Group Inc - CFO*

Hi Niamh, this is Steve. We currently have about $40 million of excess cash on our balance sheet over and above our regulatory requirements. Currently our approach is basically to have a balanced use of our cash resources including both investments in the business as well as distributions to shareholders via buybacks. We don't expect to build cash from here on in, other than to offset accrual buildups for things like annual compensation payments and things like that. But we're not looking to build capital and build cash, so it's really going to be a balance of distributions to shareholders via repurchases and investments in the business going forward.

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

And suffice to say, I think that we continue to believe that there are some creative things we can do with our balance sheet here.

Niamh Alexander - *KBW - Analyst*

Okay, thanks.

Operator

And your next question comes from the line of Chris Allen from Evercore. Please proceed.

Chris Allen - *Evercore - Analyst*

Good morning, guys.

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

Hi, Chris.

Steve Vigliotti - *Investment Technology Group Inc - CFO*

Good morning, Chris.

Chris Allen - *Evercore - Analyst*

Just wanted to focus a little bit on the international business, just kind of following Niamh's question. Kind of thinking about profitability and kind of looking at the comp to revenue ratio there. If I recall correctly last quarter, it was about -- almost -- a little below 37% ex-severance, and this quarter we're seeing it tick up even though revenue has increased. So I'm just trying to understand what's driving that. And how do we think about that going forward? Are there mix issues between the different businesses and kind of how does that work?

Steve Vigliotti - *Investment Technology Group Inc - CFO*

Is this International, Chris, or Europe specific?

Chris Allen - *Evercore - Analyst*

Obviously looking at comp to revenue, it's International overall.

Steve Vigliotti - *Investment Technology Group Inc - CFO*

Yes. it was relatively flat quarter on quarter in terms of that 38% level that we had noted.

Chris Allen - *Evercore - Analyst*

Wasn't there some severance in the fourth quarter, though?

Steve Vigliotti - *Investment Technology Group Inc - CFO*

There was which is also offset by some accrual timings and things like that. I think the 38% is a reasonable run rate going forward.

Chris Allen - *Evercore - Analyst*

Got it. Got it. And then just in terms of kind of the overall environment right now, obviously March was a challenging month for the industry, and April's kind of shaped up the same way. I mean, is there anything specific from an ITG perspective that would drive you to outperform, underperform kind of where industry trends are going forward right now in the second quarter?

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

Well -- it's -- obviously we are continuing to push the IR product, continuing to onboard new clients. Continuing to also I think as I said institutionalize the sell side business whether or not it's net trading or sell-side algos, not only here in the US or North America but also into Europe and Asia Pac. So obviously we're not standing still in terms of being a leaf in the wind relative to overall institutional volumes. And that is the purpose of this strategy, is to, regardless of what happens to institutional volumes, is to continue to grow throughout the course of the year as we have in the first quarter. So we are just continuing to execute the plan, and at the same token obviously we are investing in the business but we are only doing it where we can find cost saves elsewhere within the over all structure.

Chris Allen - *Evercore - Analyst*

Good, thanks, guys.

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

Thank you, Chris.

Steve Vigliotti - *Investment Technology Group Inc - CFO*

Thank you.

Operator

You do have a follow-up question from the line of Rich Repetto, please proceed. Please proceed.

Rich Repetto - *Sandler O'Neill - Analyst*

Yes, hi, Bob you mentioned on the part of it, the dark liquidity is ready for prime time in Asia. Can you get a little bit more specific, like what area in Asia you are speaking to?

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

Yes, I have always been skeptical, Rich, of the dark liquidity movement and its ability to permeate the Asia Pac markets. And primarily because there's no real regulatory catalyst the way there has been in the US and Europe. And so I have always been a little bit skeptical, and that has informed our investment decisions, frankly, in the region. And I've -- so I've always been very cautious, I've lacked some optimism on that front. I was there several weeks ago and had an opportunity to meet with clients and talk about markets like Hong Kong and Japan and Australia and obviously moving out to other developed markets within the region as well. But I think the interesting move afoot here is that clients have realized or recognized that it's just too damn expensive relative to developed markets to execute in that region at the present time. And while we may not see a proliferation of MTFs or ATSs, I think that the brokers are very actively engaged now in connecting one another's liquidity pools. And we're clearly right in the middle of that game as we speak, and I think that the cost savings speak for themselves. There is just a tremendous amount of spread to take advantage of, and we see that in our Asian liquidity monitor that our transaction cost analysis folks put out, and I think it's now setting is as kind of a front of consciousness for clients that they need to do something to address that. It certainly stands out relative to other developed parts of the world.

Rich Repetto - *Sandler O'Neill - Analyst*

Got it. And just -- I've got to go back to this Majestic thing one more time.

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

Sure.

Rich Repetto - *Sandler O'Neill - Analyst*

The expenses for Majestic look like -- they just -- you had, would have a close to $5 million or $4.8 million in the last two months of the fourth quarter, so it looks like the expenses were just a full run rate, the $7 million, roughly a full run rate for the quarter. So if you were at $5 million in revenues and had growth, are we saying that growth is above the run rate, or growth is just -- it would automatically make it accretive if you're at $5 million in revenue for the two months in the fourth quarter, if you experience growth?

Steve Vigliotti - *Investment Technology Group Inc - CFO*

Yes, Rich, we definitely had growth over the fourth quarter run rate, which would then lead you to the conclusion that we were profitable, we were accretive this quarter from research, yes.

Rich Repetto - *Sandler O'Neill - Analyst*

Okay.

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

And obviously the execution business has benefited as we discussed in terms of the bundle of offerings. So when Steve talks about the model that we built, it's all about how we capture more and more synergies within our transaction business as well.

Rich Repetto - *Sandler O'Neill - Analyst*

Got it. Okay. Thank you.

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

Thank you.

Operator

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

Rob Rutschow - *CLSA - Analyst*

Hey, good morning, guys.

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

Good morning, Rob.

Rob Rutschow - *CLSA - Analyst*

I just had kind of a bigger picture question. As I look back to the 2003 or 2004 time frame the lag between equity mutual fund flows and your revenues was probably six to eight quarters. And certainly there's a dynamic between volumes and then the pricing pressure that your clients are seeing. So I'm wondering if you can maybe help us think about what -- how that works going forward. Are your clients seeing greater pricing pressure, so would the lag be greater, or is it more a function of just straight up -- just volumes going forward?

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

I think it was -- to be honest, Rob, I don't really know. Obviously my historical perspective runs out in October of 2006, but I will tell you that from what I can glean, from obviously the history lesson I've learned over time about ITG's performance during that period, was that we were also in the middle of a vast product transition between Quantex and Triton. The firm had not foreseen, I think at that stage of the game, the end of the product cycle in Quantex, and was in the process of extinguishing that product and rolling out Triton, which is obviously our flagship EMS that we operate around the world today. And clearly throughout everything we've experienced in the last couple of years, one of the primary areas of focus for myself and the management team is to make sure that we don't confront a similar situation. That when Triton reaches end of life -- and we don't believe it's close at this stage, but when it reaches end of life, that we have the replacement product ready to go, that's been accepted by customers, and viable in every way, both from a technology perspective, functionality perspective. So our view is, make sure that we have invested in that insurance policy, and we clearly have over the last couple of years. But I would just -- I would say that I think that there was some interesting things going on within the firm back then that probably prolonged our ability to participate in that recovery.

Rob Rutschow - *CLSA - Analyst*

Okay. Thank you.

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

Thank you.

Operator

And you have a follow up question from the line of Niamh Alexander. Please proceed.

Niamh Alexander - *KBW - Analyst*

Hi, thanks. If I could just refresh. Typically June is a big month for the index rebalancing. With volumes kind of everywhere lower, should we expect maybe some unusual benefit to ITG or is it kind of pretty widely distributed now?

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

We are very actively engaged in the Russell process, we are putting out better and better research on that front. A tremendous amount of work is being done by our index research folks, our financial engineering folks. They're our portfolio trading folks, and we're hitting the road and going after that business aggressively. And so I really -- it's probably a little too early to tell in terms of what kind of impact it's going to have on our business. But I can tell you that we're going after that trade as hard as we ever have.

Niamh Alexander - *KBW - Analyst*

Okay, fair enough, thanks. And then if I could, just lastly. I understand Canadian regulators are taking a look at limiting the activity of dark pools. Does that impact your business up there?

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

Well, we have some good success I have got to say and we are very pleased with the growth of Match Now. Which is our -- I would call it -- it looks much more like an ATS, a multilateral ATS, so all broker dealers have access to that, obviously including ITG, there's been great growth in that business, and I think it's a real testament to the Canadian business, the management team up there. But I wouldn't say it's a material -- it's having a material impact on our results just yet. But we're obviously monitoring what's going on up there very closely, and any effects it may have on the overall structure of our business. But I can tell you that Canada is doing as well as it ever has, and you can look at the Greenwich survey, which just came out in Canada. We were number one and continue to have done a great job of fortifying that position, and we feel really good about the Canadian business in terms of the infrastructure investments we continue to make up there and most importantly the payoff.

Niamh Alexander - *KBW - Analyst*

Thanks. And I guess lastly, the April volume. Did you want to mention how you're doing there?

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

No, we are going to report those next week. So I think suffice to say if we felt that there was anything that was -- that needed to be related on that front in terms of something way out of whack we would disclose that here.

Niamh Alexander - *KBW - Analyst*

Okay fair enough. Thanks for taking my questions.

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

Thank you.

Operator

Ladies and gentlemen, that concludes today's question and answer portion of this conference. I would now like to turn the call over to Bob Gasser for closing remarks.

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

Okay, thank you very much for joining us, and we look forward to joining you all once again on our Q2 call.

Operator

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

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