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ITG - Q4 2011 INVESTMENT TECHNOLOGY GROUP, INC. EARNINGS CONFERENCE CALL

EVENT DATE/TIME: FEBRUARY 01, 2012 / 4:00PM GMT

OVERVIEW:

ITG reported 4Q11 revenues of $129.9m and GAAP net loss per share of $0.09.

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PRESENTATION

Operator

Good morning, and thank you for joining us to discuss ITG's fourth-quarter results for 2011. My name is Janeda, and I will facilitate the call today. After the speakers' remarks, there will be a question-and-answer period. I will provide further instructions before we take questions. As a reminder, this session is being recorded.

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

JT Farley - *Investment Technology Group Inc - Director, IR*

Thank you, Janeda, 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 presentation. Reconciliation of these non-GAAP measures to the comparable GAAP measures can be found in this morning's press release, as well as the press releases covering prior earnings periods. The press releases and the PowerPoint slides which accompany this presentation are available for download at the Investor Relations section of www.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 and President*

Thanks JT, and thank you for joining us to discuss ITG's fourth-quarter and full-year 2011. On this call, I will give a brief overview of the industry and our quarterly results, then offer an update on our competitive strategy. And lastly, I will discuss capital allocation.

As many of you no doubt saw, ITG unveiled a new brand identity last week. Going forward, our legal name remains Investment Technology Group, but the Firm will be known simply as ITG. The new ITG brand includes a new look to all of our media and marketing materials on our website, as well as a new logo and a new brand line -- Decoding Signal from Noise. This brand line conveys how we help our clients weather the information deluge in today's financial markets, offering data-driven insights to both preserve and to generate alpha.

We continue to believe that our strategic direction is the right one, built around a long-term plan to capture additional commission dollars and multi-asset-class opportunities, while remaining focused on disciplined expense management. We practiced that expense management in the fourth quarter, consolidating leases of our development offices in Culver City, California, and further reducing our headcount in October, as discussed on the previous earnings call.

This cost focus is especially important given the persistence of tough market conditions. Volumes were weaker in most of our operating regions during the fourth quarter, reinforcing the need to further improve the efficiency of our platform, while still continuing the build-out of ITG investment research to further differentiate ourselves. While we are not pleased with the bottom-line number, we continue to be pleased with the results of our cost-control efforts, which resulted in a further reduction in our fixed cost base sequentially.

That said, we recognize the need to remain diligent in identifying other areas where new efficiencies can be realized. All of our efforts to address the material weakness of the environment have been proactive, dating back to the reduction in force in Q4 of 2009. While the length and severity of this secular decline in the institutional equity market has been disappointing, we remain steadfast in our belief that ITG is well-positioned for even the most modest of recoveries.

As it relates to the industry, actively managed equity assets had another challenging quarter, resulting in a total of $132 billion in domestic equity out-flows in 2011, compared with $95 million in out-flows in 2010, according to ICI data. We're seeing some of this money move into domestic equity ETFs, which saw assets under management rise from $527 billion to $615 billion between November 2010 and November 2011. While we do service ETF and index fund managers, it is generally a lower rate per share than our core active institutional managers.

US equity volumes saw the effects of these out-flows, with combined New York Stock Exchange and NASDAQ average daily volume down 4% year-over-year. In terms of our fourth-quarter volumes, ITG continued to outperform in this tough environment, with average daily US volume in the fourth quarter up 6% over the prior-year period. POSIT average daily volume decreased sequentially to 86.4 million shares, but was still up 14% from the fourth quarter of last year. Average block size in POSIT Alert in Q4 2011 was relatively steady at 32,000 shares. Due to lower activity from institutional investors during the quarter, the mix of our business from sell-side accounts increased to 44%, pushing our overall capture rate per share down. Steve will offer some more color on that in a few minutes.

Turning to our international operations, market conditions were difficult in Europe and the Asia-Pac region, with turnover down both quarter-over-quarter and year-over-year. Despite the headwinds, we held our own with international revenues down just 4% versus the fourth quarter of 2010.

ITG's deep liquidity management skills, ie, POSIT, smart routing, and Algos, continue to win acclaim. POSIT Marketplace was named best alternative trading venue, while Triton was recognized as best execution management system by Asian Investor magazine. In Canada, ITG virtually swept the awards by independent research firm, ForeFactor, ranking number one for best trading technology, best EMS, best algorithms, best direct market access, and best fixed network. The ForeFactor survey was based on responses by portfolio managers and traders at more than 120 buy-side firms.

In Europe, the most recent TABB Group trading survey recognized ITG as one of the top two algorithmic providers gaining ground. These awards recognize the value that ITG's expertise and platforms provide to the institutional investment community. As market fragmentation increases worldwide, we are well-positioned as the leading provider of global dark aggregation, with POSIT Marketplace available in 26 countries and counting.

Despite extremely difficult market conditions, our product leadership and innovation remain intact. Looking at specific results, Asia-PAC posted $9.4 million in revenue in the fourth quarter, flat year-over-year. This is a decent result given the steep drop in regional turnover. Hong Kong, Japan, and Australia saw value-traded drop 34%, 22%, and 12%, respectively, compared to the fourth quarter of 2010. In 2011, we gained market share in the region, and feel good about our momentum going into 2012. Dark liquidity is gaining traction across the region, and we are well-situated to continue to capitalize on this trend with our POSIT Marketplace aggregation model. We will be rolling out POSIT Alert in the region in the second quarter of 2012.

In Europe, ITG has gained market share, and maintained profitability in an extremely challenging and volatile environment. Europe's POSIT crossed an average value of $313 million each day in Q4. This represents almost a 140% increase over the same quarter last year. By expanding its offering and attracting more liquidity, POSIT represented 9.8% of total European dark liquidity during the quarter, up from 5.5% in the fourth quarter of last year. In 2012, we are enhancing our capabilities in order to sustain the momentum in our European liquidity management business.

Turning to Canada, ITG held its own, with revenue flat versus the fourth quarter of 2010 despite a lackluster end to a tough year. The Investment Industry Association of Canada estimates that institutional brokerages saw at least a 30% drop in operating profits in 2011, while ITG's adjusted net income in Canada was actually up 6% for the year. Volumes traded in our Match Now, Canada's largest dark pool, were up 65% versus the fourth quarter of 2010. Match Now represented 2.5% of total Canadian market volumes during the quarter.

Moving on to ITG investment research, or IR, we continue to make progress in building out our platform of data-driven, alpha-generating research, and integrating it with ITG's best-in-class global execution capabilities. While there are headwinds across our businesses, I want to take this opportunity to reiterate that IR was accretive on a stand-alone basis during 2011. We continue to transition IR clients to trading relationships. As of now, 60% of the legacy Majestic clients, and more than 40% of the legacy Ross Smith clients, are paying for ITG investment research via trading.

We remain committed to expanding the research offering, and during the quarter we made two key hires, Terry Gardner and Steve Weinstein. Terry serves in the newly created role of Chief Operating Officer, overseeing the day-to-day management of the Company's research initiatives, and reporting to ITG IR CEO Tony Berkman. Before joining ITG, he was the CEO of Soleil Securities. Steve Weinstein, formally an I.I.-ranked analyst at Pacific Crest Securities, will lead ITG's research coverage of the Internet space.

During the quarter, we made alpha-generating research calls on names like Apple, AutoNation, and Laredo Petroleum; initiated coverage on Johnson & Johnson and Groupon; and analyst Steve West launched coverage on the restaurant sector.

Also in the research space, we wrote down the carrying value of our minority investment in Disclosure Insight, as we were unable to meet our sales targets. We believe there is value to the 1,500-company library that we have built in partnership with the DI principals. The two firms are currently exploring a variety of alternatives to monetize this offering. The DI product in its current form is a subscription-based reference tool that we believe can be harnessed to generate alpha, and manage risk. In hindsight, the Disclosure Insight investment was a valuable exercise, as it formed the basis of early discussions with our clients around the economics of research, and the potential value it held within ITG's suite of product offerings. The result is not indicative of how our overall research business is doing - ITG IR is making progress in an extremely tough market.

Moving on to capital allocation during the quarter, we repurchased just over 1 million shares of common stock, at an average price of $10.62 per share. Since resuming the share buy-back program in early 2010, we have purchased 6.1 million shares of common stock, and reduced our shares outstanding, net of new issuances, by more than 10%. ITG continues to pursue a balanced approach towards capital allocation, returning capital to shareholders at a level equal to or above our level of cash earnings. We continue to view our stock as an attractive investment at current levels.

To sum up, we're pleased with the ongoing transformation of our Company, as expressed in our new brand identity, and we are confident in our ability to weather these difficult operating conditions. While we suffered from deleveraging in our business model during the fourth quarter due to weaker institutional volumes, particularly in the US, we continue to take costs out of the business and continue to reclassify the Firm as a differentiated full-service broker.

With that background, I'd like to turn it over to our CFO, Steven Vigliotti, to take you through the key fourth-quarter financial developments.

Steven Vigliotti - *Investment Technology Group Inc - CFO*

Thank you, Bob, and good morning, everyone. The slowdown in trading activity in the US by institutional investors during the fourth quarter led to lower revenues, resulting in reduced margin rates and profitability due to the significant operating leverage in our business model. We did continue to attract relatively strong flow in the US from our sell-side client segment, increasing further the shift in the mix of our volume, which has the impact of lowering our overall revenue capture rate per share. Our international businesses were also impacted by lower institutional trading activity, however, we were able to substantially preserve our international profitability through cost management.

As noted on Slide 7, we generated revenues of $129.9 million during the fourth quarter, 13% lower than the third quarter of 2011, and 6% lower than the fourth quarter of 2010. On a GAAP basis, we incurred a net loss during the quarter of $0.09 per share, compared to net income of $0.25 per share in the third quarter, and net income of $0.04 per share in the fourth quarter of 2010.

On Slide 8, we have detailed the non-operating items included in our GAAP results for the fourth quarter of 2011 and the fourth quarter of 2010. In the fourth quarter of 2011, we incurred a previously announced follow-on restructuring charge of $6.8 million to consolidate office space, and to further streamline trading sales and support functions in the US. And as Bob mentioned earlier, we wrote off the remaining carrying value of our investment in Disclosure Insight of $4.3 million. In the fourth quarter of 2010, we incurred charges related to the Majestic Research acquisition, and an office closing, totaling $4.2 million. For the remainder of this discussion, all references to results and costs will be on an adjusted basis, excluding these items.

On Slide 9, you can see our consolidated results, along with separate breakdowns of the results from our US and international operations. On a consolidated basis, our expenses were down $7 million from the third quarter, reflecting $3.9 million in lower variable transaction processing costs, excluding currency effects; $1.2 million of lower costs from currency effects; and other cost reductions of $1.9 million, including compensation reductions associated with lower revenues. The $1.9 million in lower costs are in addition to the $3.2 million in sequential cost reductions we noted in the third quarter. Our consolidated pre-tax margin declined to 3.6% from 11.5% in the third quarter, and 5.3% in the fourth quarter of last year.

During the fourth quarter of 2011, we generated earnings of $0.01 per share in the US on revenues of $83.1 million. Our combined international businesses generated net income of $0.06 per share on revenues of $46.8 million. Our international pre-tax margin was 9.6% in the fourth quarter, down from 11.1% in the third quarter of 2011, and from 10.7% in the fourth quarter of 2010, due to the impact of fixed costs on lower revenues. Our consolidated effective tax rate for the fourth quarter was 41.7%, compared to 39.1% in the third quarter of 2011, and 35.7% in the fourth quarter of 2010.

On slide 10, you can see that our US expenses were down $3.6 million sequentially to $82.9 million, reflecting lower variable transaction processing costs of $2.3 million, and $1.3 million of other cost reductions, including compensation reductions associated with lower revenues. US expenses declined $4.5 million, compared to $87.4 million in the fourth quarter of 2010, reflecting the net effect of $5.9 million in higher costs for investment research, and $10.4 million of other cost reductions. The increase in cost for investment research is entirely attributable to the timing of our acquisitions, as the Majestic acquisition was completed at the end of October 2010, and the Ross Smith acquisition was completed in early June 2011.

Our US compensation expense ratio increased to 41.2% from 37.2% in the third quarter, due to the impact of lower revenues, as the absolute dollar amount of compensation was down by $2.3 million sequentially. As noted on prior calls, although we are able to adjust the amount of compensation expense as revenues change, it's difficult to adjust in a linear fashion, given our concentration of technology employees. Transaction processing costs as a percentage of revenue was 14.2%, comparable to the third quarter, and up from 13.4% in the fourth quarter of last year, largely due to our trading mix.

On slide 11, we have provided a summary of our international results. As compared to the third quarter of 2011, revenues were down $4.6 million, inclusive of a reduction in revenues from currency effects of $1.4 million. Overall international expenses were down $3.4 million, due to $1.6 million of lower variable transaction processing costs, excluding currency effects, a $1.2 million reduction in cost from currency effects, and other cost savings of $600,000.

The compensation ratio for our combined international operations increased to 38% from 34.2% in the third quarter, due to the impact of lower revenues and higher variable mark-to-market adjustments we are required to take on stock awards outstanding to our Canadian team. Combined international transaction processing costs during the quarter as a percentage of revenues were 19%, down from 21% in the third quarter, due to lower execution costs from higher crossing rates and improved routing strategies.

On the next slide, we track the performance of our foreign segments over the past five quarters. As compared to the third quarter, our pre-tax results were down in Canada, and were down slightly in Europe and Asia-PAC. With regard to APAC, it's worth noting that for the full year 2011, we were able to reduce our pre-tax loss by more than half, from $13.4 million in 2010 to $6.3 million this year.

On slide 13, we have presented our US volume and rate capture statistics. Our total average daily executed volume was down 13% in the fourth quarter as compared to the third quarter, in line with the 14% sequential reduction in combined NYSE and NASDAQ average daily volumes. Most of our volume decline came from buy-side clients, as we continued to attract relatively strong flows from our sell-side client segment. The volume mix from our sell-side client segment was 44% during the quarter, up from 41% in the third quarter.

Although this growing sell-side activity does reduce our overall average revenue capture rate per share, which declined 6% sequentially, it does allow us to utilize our excess capacity to generate attractive incremental gross margins on this flow, and it provides additional natural liquidity for our core institutional client base. Approximately half of the $9.7 million rate reduction for the fourth quarter of 2011 is attributable to the year-over-year growth of our sell-side volume, which only represented 32% of our volume in the fourth quarter of 2010, with the remaining change due in part to an increased percentage of lower-priced market-on-closed transactions associated with index rebalancing during the quarter.

As Bob mentioned, ITG investment research is profitable on a stand-alone basis. The accretion for 2011 came in slightly below the range to which we guided when we made the Majestic and Ross Smith acquisitions, due to the difficult environment for hedge funds and long-only investors. That said, the revenues we have attributed to the IR products have helped to partially offset the loss of revenue we have experienced from other US clients due to reduced levels of institutional trading.

Looking ahead to January volumes, despite tame overall market volumes, we saw a 14% increase in our US ADV over Q4 levels, to approximately 207 million shares per day. We saw a similar mix in our volume, and as a result, the average rate per share on January volumes was in line with Q4. During the fourth quarter, we repurchased 1,009,700 shares, for a total of $10.7 million, or $10.62 per share. For the full year, we repurchased 2,974,200 shares for $38.9 million, which represented 136% of our adjusted operating net income during 2011. We currently expect to continue our disciplined approach to capital management by returning cash to shareholders via share repurchases that are in line with our level of adjusted earnings and cash flow. We currently have 3.9 million shares available for repurchase under approved authorizations.

We ended the year with $284.2 million of cash and cash equivalents on our balance sheet, up $36.7 million from September 30, due to a reduction in the amount of liquidity needed for settlement purposes and year-end margin requirements. At December 31, we had cash of approximately $35 million over and above the amount needed to support our global regulatory capital needs, net of the current amount due on long-term debt, and severance and other compensation liabilities.

With that, I'd like to open the call to Q&A. Operator, please open up the lines for questions.

QUESTIONS AND ANSWERS

Operator

Thank you. (Operator Instructions) Ken Worthington, JPMorgan Chase & Co.

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

Hi, good morning. First Bob, can you talk about the direct-report changes? Again, you've made changes over the last three to four months. What I'm interested in is what changes they're implementing, how they're kind of redirecting business strategy, personnel, resources, et cetera, and how substantial are the changes that they're making, and is it something that you think we as buy-siders and sell-siders will be able to see over the next couple of quarters?

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

Yes. As you guys know, we brought in Dave Stevens, who had previously run Europe and Hong Kong for ITG, and had done a very good job if you look at the results in AP, and Europe previously, done a very good job on our behalf. Dave brings to the job I think another interesting skill set in that he was trained as a research salesperson at Goldman Sachs and had led the JPMorgan European team, as well. He brings a balance of both electronic execution and research sales experience to what is obviously a very different business than the one it was two years ago, and I'm referring to our US business, with the addition of investment research. That whole notion of how we bundle and how we monetize the research product into the electronic offering is something that I think Dave is bringing an incredible amount of discipline, focus and intensity to.

You're right, we've made some very significant changes at the senior leadership level over what I would describe is probably the last three to six months. One of the key changes I think has been the accountability of the sales force, and making sure that the resources that we have dedicated to the client--facing relationship are as productive as they possibly can be. This firm has a plethora of product. There's no question about it. It's all about obviously monetizing that, distributing it, and being very disciplined in our focus and our intensity on the value of the offering and driving that yield back to the Company and to its shareholders.

So I think this is a very -- it's a seminal event, in many ways. The addition of Terry Gardner to the research effort I think is reflective of the growing importance of research, and the day-to-day operation is becoming a big one of the firm. Tony is very focused on our strategic direction, on the vision for the business. He's obviously a thought leader, and it's very important to the future direction of our product suite there, including obviously Ross Smith. Terry is taking the reins of what I would call the classic DOR role. The day-to-day operation, monetization, the coordination with research sales, road shows, all the things that you guys are obviously intimately familiar with. We think Terry is also a big addition.

Steve Weinstein is an interesting addition, in that Steve comes to the firm from Pac Crest, an independent research provider, was very highly ranked in I.I., and brings with him some interesting discipline. Combining some of his capabilities, a fundamental analyst, with our research and our data set, our traditional data set and approach, we think it's a very powerful combination. Clearly, going into the Facebook offering, we believe we're going to have quite a bit of impact, given the amount of data that we collect on that company, and on all the satellite companies within that Facebook space.

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

I appreciate that, but how are we going to see it? It seems like some of the impact may be subtle. But in terms of like say sales accountability, if sales accountability goes up, is it possible for you to give us more metrics so that we can see the benefit of that, or is it big enough to be clearly impacting the stats you're giving?

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

I'll point you to -- I'll give you guys some insight into the 2012 plan and some of the things that I'm watching very closely, and Dave will obviously be very much integral to, and that is the rate card on the hedge fund fundamental side and the institutional active side. As Steve has been telling you, we're very focused on the mix of business and what it's done. Some of it's been destructive to the rate card, but obviously, we believe it's something worth doing in terms of generating a significantly higher liquidity pool within the firm that will have a very nice leverage effect when institutional volumes return.

But one of the key things and one of the key metrics against which the US business is being assessed is the rate card of our hedge fund fundamental client base and our institutional active client base. Within those client bases, there's a significant amount of consumption of research. So I'll make the bold statement right now that we are aspiring to push that rate card actually higher in 2012, and certainly, Steve has given you some insight into that in the past. We had good success on the hedge fund fundamental side in 2011. We want to continue that momentum, and we want to marry that to a higher rate card within the institutional active business as well.

When you think about the impact and the positive contribution of research, that is a very important metric for us to be watching and for us to be managing and for us to be communicating with clients about. As long as I've been here, I don't think we've ever pushed the rate card in the other direction. As I said, that's a key metric for Dave and his team going forward, and one that will be felt by the shareholders on the bottom line as we go forward.

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

Okay. And then lastly for me, in terms of the market share and the domestic equity trading business, with commissions down across the board, there may be some consolidation of brokers. How successful are you seeing yourselves in terms of maintaining that market share or even boosting that market share as the clients kind of consolidate where they send commissions?

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

I think -- I will say this in retrospect -- the research investment and the balancing out of our portfolio from Alpha preservation to a balance of Alpha generation and preservation, the conversations we have with clients strategically about our goals and targets and our aspirations in terms of revenue generation are much, much different than what they were a year ago.

Our ability to go in there and saying you know what, we're here on the vote, and our expectation is here in terms of our compensation, is a much more powerful conversation than the one we used to have, which was in many ways, we were a leaf in the wind, we were blowing around with institutional volumes, obviously as they have been volatile. So from here on in, I think it's a very different conversation, a different approach, and as I said, integrated into the metrics of the US business in 2012.

Steven Vigliotti - *Investment Technology Group Inc - CFO*

As you know, Ken, year-over-year our market share is up. A lot of that certainly is helped by the growth in the sell-side activity we've had, but it's also worth noting that because of the research product, we've been able to now start trading with more than 50 new accounts directly because of the research product. So it's clearly helping us expand our addressable market and grow our client base.

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

Great. Thank you very much.

Operator

Rich Repetto, Sandler O'Neill & Partners.

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

The first question, January, nice number for January, up nicely. If you look at sort of the drivers, actually if you could help identify some of the drivers, because what I was looking at is Pipeline, some issues around with them, could that be helping? Low volatility, looks like higher internalization rates, then you've actually seen some life and some flows here. So could you sort of give us a qualitative break-out of --?

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

Yes. I do believe we out-performed in January, which is obviously a very gratifying thing after a very challenging Q4 in the US. But I would attribute it to the whole mix of business. We clearly had some good liquidity management, and sell-side flows, we're monetizing, I think, the research product effectively. We clearly had a little bit of seasonal help in terms of some transitions and index rebalancings and things like that.

But overall, I think it was a good mix of contributions from across all of our client constituencies. The US, I think, was a good result, and I think globally, I think we did pretty well, as well, in terms of relative to market turnovers you are seeing in just about every region. I think Asia PAC was clearly -- I think the challenges there remain. The Chinese New Year was a little bit early this year, it's good to get it out of the way in January, but clearly that I think was a little bit of a damper on AP, but the rest of the world I think it was a pretty good result.

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

Thanks. Bob, I guess you have talked about IR being profitable. Can you speak to the -- I guess, profitability of the non-IR? Again, I know there's a low revenue, low -- as far as 4Q goes, low revenue, low volume quarter.

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

Yes. I think the -- when you think about our mix of business, obviously it is -- it has shifted pretty dramatically over the course of the last year into the sell-side business and some of the liquidity management initiatives we've had there. I think we're taking a ton of share in that business, and for one reason or another I think some folks have ceded their market share in that space to us. I think we're hitting on all cylinders there. It's important to note that if there is a recovery in institutional volumes, we don't expect any of that volume to go away. We expect it to be even more additive over time to the overall liquidity pool and the institutional user experience as well.

But obviously when you're dealing with lower rate card flow, you're dealing with lower gross margins, and I think that's intuitive to everyone, although they're still pretty high, and still, from our perspective, there's still an imperative to make sure that the factory floor is firing on all cylinders. So it's clearly less profitable business, but it has clearly made up for the gap in institutional business in terms of volume. As I said earlier, when there is a recovery in institutional volume, it's not going to go away. In fact, I think it could grow as well. So I think it's another point of leverage in our model right now that we think could be a good contributor.

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

Okay. And very last thing -- actually two quick things, but - buy-back, you've sort of been consistent with the amount around 1 million shares per quarter, somewhere in that neighborhood. If the environment got better, your stock price would probably be higher as well. How would you view putting capital to use? Would you be more aggressive? And just one other -- and I'm sorry for running on here, but the comp ratio, Steve, what do you envision in 2012?

Steven Vigliotti - *Investment Technology Group Inc - CFO*

Sure. I'll take both of those, Rich. In terms of the capital management, I think we're going to continue on with our current approach, which is to deploy just about all of our operating earnings currently to the buy-back program. So you saw for the full year 2011, we -- our purchase spend was 136% of our operating earnings, so we expect to continue to at least to 100%, if not slightly more than that in the coming year. So as our earnings improve, you should expect to see more capital dedicated to the buy-back program.

With regard to the comp ratio, we came in for the full year right around, on a consolidated basis, 38%, which is consistent with where we were in 2010, and pretty close to where we had guided coming into the year. You'll see some jumps in the rate, Rich, from time to time. As I mentioned, as our revenues increased in Q3, we were able to drop the rate by a couple percent. As revenues shrunk this quarter a little bit, that rate went up. So you'll see some variability between that mid-30% to 40% rate, depending on where our revenues go on a quarter-to-quarter basis, but I think -- when you smooth that out over an annual period, I think high 30%s, around that 38% is reasonable.

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

And if I'm not mistaken, it was 38% versus 38% on year over year.

Steven Vigliotti - *Investment Technology Group Inc - CFO*

Year-over-year. Yes.

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

Okay. Thank you very much.

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

Okay, thanks Rich.

Operator

Niamh Alexander, KBW.

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

The transition business, you mentioned you have a little bit of a benefit in the first quarter. Are you starting to see some signs of life in this kind of flow? Is it more seasonal, you think?

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

I think the consensus amongst the guys that we know in that business and serve on a daily business is that there is some pent-up demand, I think for portfolio transitions. Clearly I think there were some folks who have been on the sideline and continue to be on the sideline as a result of the European issues not being decided fully. The impression I get from talking to folks directly in that business is that there is some pent-up demand in some portfolios and allocations that are lined up and ready to go, but have been dissuaded by some of the turmoil that we've experienced globally, and has not been fully resolved.

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

Okay. Fair enough, thanks. Then just -- you did the restructuring in the third quarter, and some of it came through in the fourth quarter. But if we end up having a similar type of environment, like we have a very strong maybe hopeful first quarter for equities, but then people kind of lack of direction thereafter, all else equal, could we expect some earnings growth? I was a little thrown by the penny we got in the US business this quarter.

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

Yes. It's obviously a disappointment to us. But I think, and I would use as the antithesis to that obviously, Q3. There's a lot of leverage we continue to build into the business, but there are fixed costs. As Steve alluded in his comments, half of our population are technologists, and it's a different compensation scheme there, but it's a big group of people, dedicated to continuing our product leadership and innovation.

I think despite all of the weakness in the market and all the challenges we've had in terms of institutional flows, we've done a very good job of doing more with less, and maintaining our product leadership across all regions. I know that's been a challenge for our technology folks, but they've really risen to the occasion and we're about as sharp in our focus right now as I think we've ever been. I think the net of all that is it's I think it's going to swing around. Clearly, Q3 was a good result. Q4 was the antithesis of that, and we've had a strong start to January, but we're not putting anything in the bank.

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

Okay. Fair enough, thanks. Lastly if I could touch on, Bob, on Ken's point about changing around the captains, because there's been quite a lot of that over the last few years. What about the sales? Some other companies and brokers have really started to change the payout structure to the sales people and things like that? Have you put in effect things like that as well as changing the management?

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

We clearly in our 2012 plan, we are very focused on aligning performance with compensation, and also recognizing the value of the firm's product suite, which obviously it's a little bit more complex than it's ever been, but I think that we clearly approach the client with a powerful offering. And making sure that all of our teams that are engaged in the client-facing exercise walk away knowing what the impact of their effort will be to their bottom line, or not. Right? If you don't meet your plan, you're not going to get paid.

Dave Stevens and Steve have actually spent quite a bit of time on that topic here in the US, and we think it could be a nice driver to the 2012 outcome. As I said, rate card is one of the key metrics. It's one of the things that I use to really suss out whether or not in reality the clients are valuing the research properly, and we're moving from an electronic-execution-only rate to something that is more reflective of the overall value of our bundle.

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

Fair enough, thanks. I guess an observation. You're telling us that you're gaining the market share, and you're telling us that the rate card is -- with the institutional clients, it's as strong as ever, but it will be great to get a few data points there, because I know you're giving us the mix-shift information, but still just to give us a sense of the disparity in the actual rate cards would really help us understand better and model that better going forward. Thanks.

Steven Vigliotti - *Investment Technology Group Inc - CFO*

Yes. No, I hear you. We've resisted doing that, to give specific rate per segment just due to commercial sensitivities. But just to provide some color in terms of where the two segments that Bob mentioned that we are particularly focused on in terms of rate, the hedge fund fundamental and institutional active, those two segments in particular. Year-over-year we saw nice growth in the rate from the hedge fund fundamental client segment. A lot of that has to do with that being one of the bigger consumers of our research product, and the payers through trading on that.

On the institutional active side, our traditional long-only client base, we've seen effectively a flat rate card for the last 18 months, 18 to 24 months. We feel pretty good about that, it's really been -- in terms of the overall rate, mix issue, and what we've done to kind of bring in additional liquidity and incremental profitability by bringing in a new client segment. But we feel pretty good on where we've been with those two client segments, and we're going to continue to focus on that going forward, as Bob mentioned.

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

Fair enough. Thank you.

Operator

Cory Dlugozima, Raymond James.

Cory Dlugozima - *Raymond James - Analyst*

Yes. Just had a question on the write-down to Disclosure Insight. I think the natural inclination is to say okay, they had to write down this investment. What does that say about the progress in their overall research offering? You touched on that a little bit, Bob, in your prepared remarks, but can you just kind of flesh out why we shouldn't make that connection, necessarily?

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

Yes, and it's very simple, I think. First of all I want to start by saying that we have a lot of respect for the DI principals, and the library they've built. We do think it has value, but when you don't control it, and it's not integrated into what we do on the research side, it's difficult for us to dictate the direction of that offering. We -- I think there's a fundamental difference in our view on the value proposition going forward. I think the DI principals feel very strongly that it's a very great reference tool and subscription tool. We feel it is a very valuable alpha-generation tool and risk-management tool.

I'll give you an example. There's 1,500 companies under coverage. We think that our investors really care about the 85 high-risk companies that they've identified and continue to cover with a great degree of intensity. A great example of that is a great call on Green Mountain Coffee, way before Einhorn latched on to the story. That's a great piece of research, and a very actionable call. We want to take it in one direction, they want to take it in the other. Unfortunately, we don't have a controlling interest in this enterprise. At this stage of the game, that's what we've decided to do, and we'll see where it all shakes out. But that is not at all reflective of the success that we're having on the research side, where we are 100% owner, and have assimilated those products and those capabilities into the firm.

Cory Dlugozima - *Raymond James - Analyst*

Got you. Appreciate that. Then one follow-up question on a different topic on the expenses. You -- and I'm not sure if I missed this, but I think last quarter you said that $3.2 million in the last quarter rolled off because of your restructuring efforts. Did you say how much your costs fell this quarter as a result of the restructuring efforts in 2Q? Also, if there was any impact from the restructuring efforts this quarter in this quarter expenses?

Steven Vigliotti - *Investment Technology Group Inc - CFO*

Yes, so $3.2 million was the number that costs dropped sequentially from Q2 to Q3. Following the restructuring, costs dropped another $1.9 million this quarter. Some of it had to do with the continued realization of the restructuring activities that happened at the end of Q2, some of it had -- a little bit of it had to do with the new restructuring activity, and of course some of the cost reduction had to do with just lower levels of business during the quarter.

Cory Dlugozima - *Raymond James - Analyst*

Okay. Thank you.

Operator

At this time, we have no further questions. I would now like to turn the call back over to Bob Gasser for any closing remarks.

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

Thank you very much, operator. We look forward to speaking with you again in May, and thank you very much. Take care.

Operator

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