

INVESTMENT TECHNOLOGY GROUP, INC.  
Form 10-K  
March 13, 2015

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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
WASHINGTON, D.C. 20549

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**FORM 10-K**

(Mark One)

**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES  
EXCHANGE ACT OF 1934**

**For the fiscal year ended December 31, 2014**

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES  
EXCHANGE ACT OF 1934**

**For the transition period from \_\_\_\_\_ to \_\_\_\_\_  
Commission File Number 001-32722**

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**INVESTMENT TECHNOLOGY GROUP, INC.**

(Exact name of registrant as specified in its charter)

**DELAWARE**  
(State of incorporation)

**95-2848406**  
(IRS Employer Identification No.)

**165 Broadway, New York, New York**  
(Address of principal executive offices)

**10006**  
(Zip Code)

**(212) 588-4000**  
(Registrant's telephone number, including area code)

SECURITIES REGISTERED PURSUANT TO SECTION 12(B) OF THE ACT:

**Common Stock, \$0.01 par value**  
(Title of class)

**New York Stock Exchange**  
(Name of exchange on which registered)

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SECURITIES REGISTERED PURSUANT TO SECTION 12(G) OF THE ACT: **None**

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Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes  No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of "large accelerated filer," "accelerated filer," and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer                       Accelerated filer                       Non-accelerated filer                       Smaller reporting company   
(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined by Rule 12b-2 of the Act)

Yes  No

Aggregate market value of the voting stock held by non-affiliates of the Registrant at June 30, 2014:  
**\$573,475,988**

Number of shares outstanding of the Registrant's Class of common stock at February 19, 2015:  
**34,191,818**

**DOCUMENTS INCORPORATED BY REFERENCE:**

Proxy Statement relating to the 2015 Annual Meeting of Stockholders (incorporated, in part, in Form 10-K Part III)

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Investment Technology Group, ITG, the ITG logo, AlterNet, ITG Algorithms, ITG List-Based Algorithms, ITG Net, ITG Position Manager, ITG Single-Stock Algorithms, ITG TCA, POSIT, POSIT Alert, POSIT Marketplace, RFQ-hub, Triton and MATCH Now are registered trademarks or service marks of the Investment Technology Group, Inc. companies. ITG Derivatives and ITG Smart Router are trademarks or service marks of the Investment Technology Group, Inc. companies.

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**PRELIMINARY NOTES**

When we use the terms "ITG," the "Company," "we," "us" and "our," we mean Investment Technology Group, Inc. and its consolidated subsidiaries.

**FORWARD-LOOKING STATEMENTS**

In addition to the historical information contained throughout this Annual Report on Form 10-K, there are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act") and the Private Securities Litigation Reform Act of 1995. All statements regarding our expectations related to our future financial position, results of operations, revenues, cash flows, dividends, financing plans, business and product strategies, competitive positions, as well as the plans and objectives of management for future operations, and all expectations concerning securities markets, client trading and economic trends are forward-looking statements. In some cases, you can identify these statements by forward-looking words such as "may," "might," "will," "could," "should," "would," "expect," "plan," "anticipate," "believe," "estimate," "predict," "trend," "potential" or "continue" and the negative of these terms and other comparable terminology.

Although we believe our expectations reflected in such forward-looking statements are based on reasonable assumptions and beliefs, and on information currently available to our management, there can be no assurance that such expectations will prove to have been correct. Important factors that could cause actual results to differ materially from the expectations reflected in the forward-looking statements herein include, among others, general economic, business, credit and financial market conditions, both internationally and domestically, financial market volatility, fluctuations in market trading volumes, effects of inflation, adverse changes or volatility in interest rates, fluctuations in foreign exchange rates, evolving industry regulations and regulatory scrutiny, the volatility of our stock price, changes in tax policy or accounting rules, the actions of both current and potential new competitors, changes in commission pricing, rapid changes in technology, errors or malfunctions in our systems or technology, cash flows into or redemptions from equity mutual funds, ability to meet liquidity requirements related to the clearing of our customers' trades, customer trading patterns, the success of our products and service offerings, our ability to continue to innovate and meet the demands of our customers for new or enhanced products, our ability to successfully integrate companies we have acquired and our ability to attract and retain talented employees.

Certain of these factors, and other factors, are more fully discussed in Item 1A, *Risk Factors*, Item 7, *Management's Discussion and Analysis of Financial Condition and Results of Operations*, and Item 7A, *Quantitative and Qualitative Disclosures about Market Risk*, in this Annual Report which you are encouraged to read.

We disclaim any duty to update any of these forward-looking statements after the filing of this report to conform our prior statements to actual results or revised expectations and we do not intend to do so. These forward-looking statements should not be relied upon as representing our views as of any date subsequent to the filing of this report.

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**Item 1. Business**

Investment Technology Group, Inc. was formed as a Delaware corporation on July 22, 1983. Its principal subsidiaries include: (1) ITG Inc., AlterNet Securities, Inc. ("AlterNet") and ITG Derivatives LLC ("ITG Derivatives"), institutional broker-dealers in the United States ("U.S."), (2) ITG Canada Corp. ("ITG Canada"), an institutional broker-dealer in Canada, (3) Investment Technology Group Limited ("ITG Europe"), an institutional broker-dealer in Europe, (4) ITG Australia Limited ("ITG Australia"), an institutional broker-dealer in Australia, (5) ITG Hong Kong Limited ("ITG Hong Kong"), an institutional broker-dealer in Hong Kong, (6) ITG Software Solutions, Inc., our intangible property, software development and maintenance subsidiary in the U.S., and (7) ITG Solutions Network, Inc., a holding company for ITG Analytics, Inc., a provider of pre- and post-trade analysis, fair value and trade optimization services, ITG Investment Research, Inc. ("ITG Investment Research"), a provider of independent data-driven investment research, and ITG Platforms Inc., a provider of trade order and execution management technology and network connectivity services for the financial community.

ITG is an independent execution and research broker that partners with global portfolio managers and traders to provide unique data-driven insights throughout the investment process. From investment decision through to settlement, ITG helps clients understand market trends, improve performance, mitigate risk and navigate increasingly complex markets. A leader in electronic trading since launching the POSIT crossing network in 1987, ITG takes a consultative approach in delivering the highest quality institutional liquidity, execution services, analytical tools and proprietary research. The firm is headquartered in New York with offices in North America, Europe, and the Asia Pacific region.

ITG's business is organized into four reportable operating segments (see Note 22, *Segment Reporting*, to the consolidated financial statements):

U.S. Operations

Canadian Operations

European Operations

Asia Pacific Operations

These four operating segments offer a wide range of solutions for asset managers and broker-dealers in the areas of electronic brokerage; research, sales and trading; platforms and analytics. These offerings include trade execution services and solutions for portfolio management, as well as investment research, pre-trade analytics and post-trade analytics and processing, summarized below.

**Electronic Brokerage**

ITG electronic brokerage services include self-directed trading by clients using algorithms, smart routing and matching in cash equities through POSIT (including single stocks and portfolio lists), futures and options.

*ITG Algorithms and ITG Smart Router*

ITG Algorithms and ITG Smart Router offer portfolio managers and traders a way to trade orders quickly, comprehensively and cost-efficiently from any ITG Execution Management System ("EMS") or ITG Order Management System ("OMS") and most third-party trading platforms. The algorithms execute orders anonymously and discreetly, thereby potentially lowering market impact costs and improving overall performance. ITG Algorithms help users pursue best execution through two suites: ITG Single-Stock Algorithms and ITG List-Based Algorithms.

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ITG Smart Router offers a solution for routing trades that can help capture liquidity with a combination of speed and confidentiality. These routers continuously scan markets for liquidity with an emphasis on trading without displaying the order. ITG Smart Router uses proprietary techniques to quickly execute at the best available prices.

*POSIT*

POSIT was launched in 1987 as a point-in-time electronic crossing network. Today, POSIT operates as an Alternative Trading System ("ATS"), providing anonymous continuous and scheduled crossing of non-displayed (or dark) equity orders and price improvement opportunities within the National Best Bid and Offer ("NBBO").

POSIT Alert is a block crossing mechanism within POSIT. POSIT Alert scans uncommitted shares from participating clients. When a crossing opportunity is detected, POSIT Alert notifies the relevant buy-side users that a matching opportunity exists.

POSIT Marketplace provides access to POSIT liquidity, the dark pools of other ATSS, and certain exchange dark order types. POSIT Marketplace is a dark pool aggregator that provides clients with access to a large range of non-displayed liquidity destinations. POSIT Marketplace uses advanced quantitative techniques in an effort to interact with quality liquidity while protecting clients from gaming.

*ITG Derivatives*

ITG Derivatives provides electronic listed futures and options trading, including algorithmic trading and direct market access. ITG Derivatives offers advanced options features for traders employing volatility-neutral or delta-neutral strategies and also provides low-latency application programming interfaces.

*Commission Management Services*

ITG offers guidance, administration, and consolidation of client commission arrangements across a wide range of our clients' preferred brokerage and research providers through ITG Commission Manager, a robust, multi-asset, web-based commission management portal.

*Securities Lending Services*

Through stock borrow and stock loan transactions, ITG facilitates shortened or extended settlement periods to help clients meet their internal cash flow needs. ITG can also borrow securities to help reduce failures to deliver stock.

**Research, Sales & Trading**

*ITG Investment Research*

ITG provides differentiated, unbiased, data-driven equity research through its ITG Investment Research subsidiary. This offering has expanded ITG's client relationships beyond the trading desk to chief investment officers, portfolio managers and analysts. Through the use of innovative data mining and analysis and exclusive data partnerships, as well as detailed analysis of energy asset plays, ITG Investment Research identifies key metrics that may influence a company's future performance. ITG Investment Research currently provides research on approximately 300 companies. We also provide our syndicated research products to, and perform custom analyses for, corporations and our energy research team provides transaction advisory services to potential purchasers of energy-related investments.

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*ITG Market Research*

ITG Market Research offers market research capabilities to corporate clients within the healthcare and telecom industries. The healthcare market research practice combines survey results with proprietary empirical data to deliver innovative syndicated and custom reporting capabilities. The telecom research practice uses multiple data sources to provide insights into the mobile handset market in North America.

*High-Touch Trading*

ITG provides high-touch sales trading and portfolio trading for institutional clients. ITG's high-touch trading desk is staffed with experienced trading professionals who provide ITG clients with execution expertise and also convey trading ideas based on ITG Investment Research's research and analysis.

**Platforms**

*Execution Management and Order Management*

ITG EMSs are designed to meet the needs of disparate trading styles. Triton is ITG's award-winning, multi-asset and broker-neutral EMS, which brings a complete set of integrated execution and analytical tools to the user's desktop for global list-based and single-stock trading, as well as futures and options capabilities and a fully integrated and supported financial services communications network (ITG Net). Triton Derivatives is a broker-neutral, direct-access EMS that provides traders with access to scalable, low-latency, multi-asset trading opportunities.

ITG OMS combines portfolio management, compliance functionality (ITG Compliance Monitoring System), and a fully integrated and supported financial services communications network (ITG Net) with a consolidated, outsourced service for global trade matching and settlement (ITG Trade Operations Outsourcing) that provides connectivity to the industry's post-trade utilities, as well as support for multiple, flexible settlement communication methods and a real-time process monitor.

ITG Position Manager ("PM") is a multi-prime, broker-neutral order management system, offering full support and real-time profit-and-loss information for multiple currencies, strategies, asset types and portfolios. ITG PM is fully integrated with Triton Black, ITG's next generation multi-broker global EMS built to deliver efficient workflows for the most demanding traders, as well as ITG Net to deliver a robust product suite engineered specifically for hedge funds.

*ITG Net*

ITG Net is a global financial communications network that provides secure, reliable and fully supported connectivity between buy-side and sell-side firms for multi-asset order routing and indication-of-interest messages with ITG and third-party trading platforms. ITG Net supports more than 8,500 billable connections to more than 350 unique brokerage firms and execution venues worldwide. ITG Net also integrates the trading products of third-party brokers and ATs into our OMS and EMS platforms.

*ITG RFQ-hub*

In July 2014, ITG acquired ID's, a Paris-based company that operates RFQ-hub, a multi-asset platform for global-listed and over-the-counter ("OTC") financial instruments. ITG RFQ-hub, as it is now known, connects buy-side trading desks and portfolio managers with a large network of sell-side market makers, allowing these trading desks to place requests-for-quotes in OTC-negotiated equities, futures, options, swaps, convertible bonds, structured products and commodities. ITG RFQ-hub is available as a stand-alone platform and is also integrated with Triton.

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*ITG Single Ticket Clearing*

ITG's commitment to best execution platforms also extends to broker-neutral operational services to help ensure that trades clear and settle efficiently, and to significantly lower the transaction costs associated with trade tickets. ITG Single Ticket Clearing is a broker-neutral service that aggregates executions across multiple destinations for settlement purposes. ITG Single Ticket Clearing helps reduce the number of trade tickets and resulting charges imposed by custodians, reducing the costs of trade processing due to market fragmentation.

**Analytics**

*ITG Trading Analytics*

The ITG Smart Trading Analytics suite enables portfolio managers and traders to improve execution performance before the trade happens (pre-trade) and during trading (real-time) by providing reliable trading analytics and risk models that help them perform predictive analyses, manage risk, change strategy and reduce trading costs. Trading costs are affected by multiple factors, such as execution strategies, time horizon, volatility, spread, volume and order size. ITG Smart Trading Analytics gauges the effects of these factors and aids in the understanding of the trade-off between market impact and opportunity cost.

ITG Transaction Cost Analysis ("TCA") offers unique measurement and reporting capabilities to analyze costs and performance across the trading continuum. ITG TCA assesses trading performance and implicit costs under various market conditions so users can adjust strategies and potentially reduce costs and boost investment performance. ITG TCA is also available for foreign exchange transactions (ITG TCA for FX).

ITG Alpha Capture Reporting measures cost at every point of the investment process and provides portfolio managers with quarterly analytical reviews, written interpretations and on-site consultative recommendations to enhance performance.

*ITG Portfolio Analytics*

ITG provides market-leading tools to assist asset managers with portfolio decision-making tasks from portfolio construction and optimization to the enterprise challenge of global, real-time portfolio performance monitoring.

ITG Portfolio Fair Value Service helps mutual fund managers meet their obligations to investors and regulators to fairly price the securities within their funds, and helps minimize the impact of market timing.

ITG Portfolio Optimization System allows portfolio managers to develop new portfolio construction strategies and solve complex optimization problems. ITG Portfolio Optimization System allows users to accurately model tax liability, transaction costs and long/short objectives, while adhering to diverse portfolio-specific constraints.

**Non-U.S. Operations**

ITG has established a strong and growing presence in key financial centers around the world to serve the needs of global institutional investors. In addition to its New York headquarters and its Boston, Chicago, Los Angeles and San Francisco offices in the U.S., ITG has offices in Canada in Toronto and Calgary. In Europe, ITG has offices in London, Dublin and Paris. In the Asia Pacific region, ITG has offices in Sydney, Melbourne, Hong Kong and Singapore. Local representation in regional markets provides an important competitive advantage for ITG. ITG also provides electronic and high-touch trading for Latin American equities from its New York headquarters, including



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algorithms for Brazil, Mexico and Chile, and POSIT Alert in Brazil and Mexico, as well as, high-touch trading access into Colombia and Peru.

***Canadian Operations***

ITG Canada was founded in 2000 and ranks in the Top 10 investment dealers in Canada. ITG Canada provides electronic brokerage services, including ITG Algorithms, ITG Smart Router and MATCH Now, as well as high-touch agency execution and portfolio trading services. In addition, ITG Canada provides Triton, Triton Derivatives, connectivity services, ITG Single Ticket Clearing, ITG Portfolio Optimization System, ITG Smart Trading Analytics, ITG TCA and investment research services. ITG Canada also engages in principal trading activities. ITG Canada's customers primarily consist of asset and investment managers, broker-dealers and hedge funds.

In July 2007, ITG Canada launched MATCH Now, an alternative marketplace for Canadian-listed equities, operated by ITG's wholly-owned subsidiary, TriAct Canada Marketplace LP ("TriAct"). MATCH Now is a leading anonymous crossing system in Canada, offering continuous execution opportunities within a fully confidential non-displayed book at the mid-point of the Canadian NBBO.

***European Operations***

ITG Europe was established as a broker-dealer in 1998. Today, ITG Europe focuses on trading European, Middle Eastern and African equities as well as providing ITG's technologies to its clients. ITG Europe provides electronic brokerage services including ITG Algorithms, ITG Smart Router, and the POSIT suite, as well as high-touch agency execution services, portfolio trading services and commission management services. In Europe, ITG provides Triton, ITG OMS, connectivity services, ITG Single Ticket Clearing, ITG RFQ-hub, ITG TCA, ITG Alpha Capture Reporting, ITG Smart Trading Analytics and ITG Portfolio Fair Value Service.

***Asia Pacific Operations***

***Australia***

In 1997, ITG launched ITG Australia, an institutional brokerage firm specializing in execution and analytics for Australia equities. ITG provides institutional investors with a range of products and services including trade execution, trade execution management through Triton, connectivity services and pre- and post-trade analysis through ITG TCA and ITG Smart Trading Analytics. Trade execution services include electronic brokerage products such as ITG Algorithms and the POSIT suite, as well as high-touch agency trading.

***Hong Kong***

In 2001, ITG formed ITG Hong Kong, an institutional broker-dealer focused on developing and applying ITG's technologies across the Asian markets. Execution services are provided through electronic brokerage products such as ITG Algorithms and the POSIT suite and through an experienced high-touch agency trading services team. Other trading and analytical tools provided by ITG Hong Kong include Triton, connectivity services, ITG TCA and ITG Smart Trading Analytics.

***Singapore***

In 2010, ITG Singapore Pte Limited ("ITG Singapore") obtained a Capital Markets Services License from the Monetary Authority of Singapore ("MAS"). ITG Singapore provides institutional investors in Singapore with a range of ITG's products and services including trade execution management through Triton and trading analysis through ITG TCA and ITG Smart Trading Analytics.

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**Competition**

The financial services industry generally, and the institutional securities brokerage business in which we operate, are extremely competitive, and we expect them to remain so for the foreseeable future. Our full suite of products does not directly compete with a particular firm; however, individual products compete with various firms and consortia:

Our trading and portfolio analytics compete with offerings from several sell-side-affiliated and independent companies.

POSIT competes with various national and regional securities exchanges, ATSS, Electronic Communication Networks, Multilateral Trading Facilities ("MTFs"), and systematic internalizers for trade execution services. These venues have proliferated in recent years.

Our EMSs, OMSs and connectivity services compete with offerings from independent vendors, agency-only firms and other sell-side firms.

Our algorithmic and smart routing products, as well as our high-touch agency execution and portfolio trading services, compete with agency-only and other sell-side firms.

Our ITG Investment Research offering competes with the research divisions of large and regional investment banks and brokerages as well as a number of independent research firms.

**Regulation**

Certain of our subsidiaries are subject to various securities regulations and capital adequacy requirements promulgated by the regulatory and exchange authorities of the countries in which they operate. In the U.S., the SEC is the federal agency responsible for the administration of the federal securities laws, with the regulation of broker-dealers primarily delegated to self-regulatory organizations ("SROs"), principally the Financial Industry Regulatory Authority ("FINRA") as well as other national securities exchanges. In addition to federal and SRO oversight, securities firms are also subject to regulation by state securities administrators in those states in which they conduct business. Furthermore, our non-U.S. subsidiaries are subject to regulation by central banks and regulatory bodies in those jurisdictions where each subsidiary is authorized to do business, as further discussed below. The SROs, central banks and regulatory bodies conduct periodic examinations of our broker-dealer subsidiaries in accordance with the rules they have adopted and amended from time to time.

ITG's principal regulated subsidiaries are listed below. The principal self-regulator of all our U.S. broker-dealers is FINRA.

ITG Inc. is a U.S. broker-dealer registered with the SEC, FINRA, The NASDAQ Stock Market ("NASDAQ"), New York Stock Exchange, NYSE Arca, Inc. ("ARCA"), NYSE MKT LLC ("NYSE MKT"), BATS Y-Exchange, Inc. ("BYX"), BATS Z-Exchange, Inc. ("BZX"), Chicago Stock Exchange Inc., EDGA Exchange, Inc. ("EDGA"), EDGX Exchange, Inc. ("EDGX"), NASDAQ OMX BX, Inc. ("NASDAQ BX"), NASDAQ OMX PHLX, Inc. ("NASDAQ OMX PHLX"), National Futures Association ("NFA"), Ontario Securities Commission ("OSC"), all 50 states, Puerto Rico and the District of Columbia.

ITG Derivatives is a U.S. broker-dealer registered with the SEC, FINRA, NYSE MKT, ARCA, BYX, BZX, BOX Options Exchange LLC, CBOE, C2 Options Exchange Incorporated, International Securities Exchange, ISE Gemini, LLC, NASDAQ, NASDAQ BX, NASDAQ OMX PHLX, Commodities and Futures Trading Commission ("CFTC"), Miami International Stock Exchange, the NFA and 28 states.

AlterNet is a U.S. broker-dealer registered with the SEC, FINRA, NASDAQ, EDGA, EDGX and 14 states.



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ITG Canada is a Canadian broker-dealer registered as an investment dealer with the Investment Industry Regulatory Organization of Canada ("IIROC"), the OSC, the Autorité Des Marchés Financiers in Quebec, Alberta Securities Commission, British Columbia Securities Commission, Manitoba Securities Commission, New Brunswick Securities Commission, Nova Scotia Securities Commission and Saskatchewan Financial Services Commission. ITG Canada is also registered as a Futures Commission Merchant in Ontario and Manitoba and Derivatives Dealer in Quebec. ITG Canada is a member of the Toronto Stock Exchange ("TSX"), TSX Venture Exchange, the Canadian National Stock Exchange and the Montreal Exchange. TriAct operates MATCH Now, an ATS under National Instrument 21-101, and is registered as an investment dealer with IIROC, the OSC and the Alberta Securities Commission.

Our European operations include ITG Ventures Limited, ITG Europe, ITG Europe's wholly-owned broker-dealer subsidiary Investment Technology Group Europe Limited ("ITGEL") and AlterNet (UK) Limited a U.K. broker ("AlterNet UK"). ITG Europe and ITGEL are authorized and regulated by the Central Bank of Ireland under the European Communities (Markets in Financial Instruments) Regulations 2007. ITG Europe is a member of the main national European exchanges, including the London Stock Exchange, Deutsche Börse and Euronext, as well as most of the European-domiciled MTFs. It also operates the POSIT crossing system in Europe as a MTF under the Markets in Financial Instruments Directive ("MiFID"). ITGEL's London Branch is registered with the Prudential Regulation Authority and the Financial Conduct Authority ("FCA") and ITGEL's Paris branch is registered with the Banque de France. AlterNet UK is also registered with the FCA.

ITG Australia is a market participant of the Australian Securities Exchange ("ASX") and Chi-X Australia Limited. It is also a holder of an Australian Financial Services License issued by the Australian Securities and Investments Commission ("ASIC"). ITG Australia's principal regulators are the ASX and ASIC.

ITG Hong Kong is a participating organization of the Hong Kong Stock Exchange and a holder of a securities dealer's license issued by the Securities and Futures Commission of Hong Kong ("SFC"), with the SFC acting as its principal regulator.

ITG Singapore is a holder of a Capital Markets Services License from the MAS, with the MAS acting as its principal regulator.

Broker-dealers are subject to regulations covering all aspects of the securities trading business, including sales methods, trade practices, investment research distribution, use and safekeeping of clients' funds and securities, capital structure, record keeping and conduct of directors, officers and employees. Additional legislation or changes in the interpretation or enforcement of existing laws and rules may directly affect the mode of operation and profitability of broker-dealers. The SEC, SROs, state securities commissions and foreign regulatory authorities may conduct administrative proceedings or commence judicial actions, which can result in censure, fines, the issuance of cease-and-desist orders or the suspension or expulsion of a broker-dealer, its directors, officers or employees.

ITG Inc., AlterNet, and ITG Derivatives are required by law to belong to the Securities Investor Protection Corporation ("SIPC"). In the event of a U.S. broker-dealer's insolvency, the SIPC fund provides protection for client accounts up to \$500,000 per customer, with a limitation of \$250,000 on claims for cash balances. ITG Canada and TriAct are required by Canadian law to belong to the Canadian Investors Protection Fund ("CIPF"). In the event of a Canadian broker-dealer's insolvency, CIPF provides protection for client accounts up to CAD \$1 million per customer. ITG Europe and ITGEL are required to be members of the Investor Compensation Protection Schemes which provides compensation to retail investors in the event of certain stated defaults by an investment firm. ITG Hong Kong is regulated by the SFC. The SFC operates the Investor Compensation Fund which provides compensation to retail investors in the event of a default by a regulated financial institution.

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ITG Australia is obligated to contribute to the ACH Clearing Fund and/or the National Guarantee Fund if and when requested by ASIC. In the past twelve months, no such requests have been made of ITG Australia.

*Regulation ATS*

Regulation ATS permits "alternative trading systems" such as POSIT to match orders submitted by buyers and sellers without having to register as a national securities exchange. Accordingly, POSIT is not registered with the SEC as an exchange. We continue to review and monitor POSIT's systems and procedures to ensure compliance with Regulation ATS.

*Net Capital Requirement*

ITG Inc., AlterNet and ITG Derivatives are subject to the Uniform Net Capital Rule (Rule 15c3-1) under the Exchange Act, which requires the maintenance of minimum net capital.

ITG Inc. has elected to use the alternative method permitted by Rule 15c3-1, which requires that ITG Inc. maintain minimum net capital equal to the greater of \$1.0 million or 2% of aggregate debit balances arising from customer transactions. AlterNet and ITG Derivatives have elected to use the basic method permitted by Rule 15c3-1, which requires that they maintain minimum net capital equal to the greater of 6<sup>2</sup>/<sub>3</sub>% of aggregate indebtedness or \$100,000, and in the case of ITG Derivatives, \$1 million, which is due to the fact that ITG Derivatives is a registered Futures Commission Merchant pursuant to CFTC Regulation 1.17.

For further information on our net capital position, see Note 16, *Net Capital Requirement*, to the consolidated financial statements.

*Research and Product Development*

We devote a significant portion of our resources to the development and improvement of technology-based services. Important aspects of our research and development efforts include enhancements of existing software, the ongoing development of new software and services and investment in technology to enhance our efficiency.

The amounts expensed for research and development costs, excluding routine maintenance, for the years ended December 31, 2014, 2013 and 2012 are estimated at \$35.8 million, \$41.7 million and \$45.4 million, respectively.

*Intellectual Property*

Patents and other proprietary rights are important to our business. We also rely upon trade secrets, know-how, continuing technological innovations, and licensing opportunities to maintain and improve our competitive position.

We own a portfolio of patents that principally relate to financial services. Patents for individual products extend for varying periods according to the date of patent filing or grant and the legal term of patents in the various countries where patent protection is obtained. We also own and maintain a portfolio of trademarks. The extent and duration of trademark rights are dependent upon national laws and use of the trademarks.

While we consider our patents and trademarks to be valued assets, we do not believe that our competitive position is heavily dependent on patent or trademark protection or that our operations are dependent upon any single patent or group of related patents.

It is our practice to enter into confidentiality and intellectual property ownership agreements with our clients, employees, independent contractors and business partners, and to control access to, and distribution of, our intellectual property.

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***Clients***

For the years ended December 31, 2014, 2013 and 2012, no single client accounted for more than 5% of our consolidated revenue.

***Employees***

On December 31, 2014, the Company employed 1,087 staff globally, of whom 753, 88, 133 and 113 staff were employed by the U.S., Canadian, European and Asia Pacific Operations, respectively.

***Website and Availability of Public Reports***

Our website can be found at <http://www.itg.com>. From time to time, we may use our website as a channel of distribution of material company information. Financial and other material information is routinely posted and accessible on the investor relations section of our corporate website, [investor.itg.com](http://investor.itg.com). We are not including the information contained on our website as part of, or incorporating it by reference into, this Annual Report on Form 10-K.

We are required to file reports and other information with the SEC. Our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q and Current Reports on Form 8-K, together with any amendments to those reports are available without charge on our website at <http://investor.itg.com>. We make this information available on our website as soon as reasonably practicable after we electronically file such information with, or furnish it to, the SEC. A copy of these filings is also available at the SEC's website ([www.sec.gov](http://www.sec.gov)). Additionally, you may read and copy any documents filed by us at the SEC's Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information on the Public Reference Room.

**Item 1A. Risk Factors**

**Certain Factors That May Affect Our Financial Condition and Results of Operations**

We face risks and uncertainties that may affect our financial condition and results of operations. The following risk factors should be considered in evaluating our business and growth outlook and may be important to understanding any statement in this Annual Report on Form 10-K. These risk factors should be read in conjunction with Part II, Item 7, *Management's Discussion and Analysis of Financial Condition and Results of Operations*, and the consolidated financial statements and related notes in Part II, Item 8, *Financial Statements and Supplementary Data*, of this Form 10-K.

***Decreases in equity trading activity by active fund managers and declining securities prices could harm our business and profitability.***

Declines in the trading activity of active fund managers generally result in lower revenues from our trading solutions, which generate the majority of our revenues globally. In addition, securities' price declines adversely affect our non-North American trading commissions, which are based on the value of transactions. The demand for our trading solutions is directly affected by factors such as economic, regulatory and political conditions that may lead to decreased trading activity and prices in the securities markets in the U.S. and in all of the foreign markets we serve. Significant flows of funds out of actively-managed equity funds has curtailed their trading activity, which has weighed heavily on our buy-side trading volumes and the use of our higher value services. Volatility levels also impact the amount of trading activity. Sustained periods of low volatility brought on from the quantitative easing programs of central banks can result in lower levels of trading activity. In addition, trading activity in periods following extreme levels of volatility tends to decline.

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***Decreases in our commission rates and other transactional revenues could adversely affect our operating results.***

Commission rates on institutional trading activity have declined historically and we anticipate a continuation of the competitive pricing environment for the foreseeable future. In addition, reduced activity from our active fund manager clients has resulted in a shift in the mix of our business to include an increased portion from higher-turnover lower-rate clients, particularly sell-side firms. A decline in commission rates or revenue capture from future mix shifts or from rate reductions within client segments could materially reduce our margins and harm our financial condition and operating results.

***Our fixed costs may result in reduced profitability or losses.***

We incur significant operating and capital expenditures to support our business that do not vary directly, at least in the short term, with fluctuations in executed transaction volumes or revenues. In addition, changes in market practices have required us, and may require us in the future, to invest in additional infrastructure to increase capacity levels without a corresponding increase in revenues. To ensure that we have the capacity to process projected increases in trade orders and executed transaction volumes, we have historically made substantial infrastructure investments in advance of such projected increases, including during periods of low revenues. We have also made substantial investments in our research products to attract additional trade flows from our buy-side clients. In the event of reductions in trade executions and/or revenues, we may not be able to reduce such expenses quickly and, as a result, we could experience reduced profitability or losses. If the growth in our executed volumes does not occur or we are not able to successfully implement and monetize our investments, including by failing to accurately forecast the demand for new products, effectively deploy new products or decommission legacy products, the expenses related to such investments could cause reduced profitability or losses.

***A failure in the design, operation or configuration of our technology could adversely affect our profitability and reputation.***

A technological failure or error of one or more of our products or systems, including but not limited to POSIT, our algorithms, smart routers, and order and execution management systems, could result in lost revenues and/or significant market losses. We operate complex trading systems, algorithms and analytical products that may fail to correctly model interacting or conflicting trading objectives, unusual market conditions, available trading venues and other factors, which may cause unintended results. Similarly, the operation and configuration of our systems can be quite complex and departure from standard procedures can result in adverse trading outcomes. Such problems could cause us to incur trading losses, lose clients or experience other reputational harm resulting in lost revenues and profits. Our quality assurance testing cannot test for all potential scenarios or ensure that the technology will function as designed and intended in all cases.

***Failure to keep up with rapid changes in technology while continuing to seek to provide leading products and services to our customers could negatively impact our results of operations.***

The institutional brokerage industry is subject to rapid technological change and evolving industry standards. Our customers' demands become greater and more sophisticated as the dissemination of products and information to customers increases. If we are unable to anticipate and respond to the demand for new services, products and technologies, innovate in a timely and cost-effective manner and adapt to technological advancements and changing standards, we may be unable to compete effectively, which could have a material adverse effect on our business. Many of our competitors have significantly greater resources than we do to fund such technological advances. Moreover, the development of technology-based services is a complex and time-consuming process. New products and enhancements

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to existing products can require long development and testing periods. Budgetary constraints on funding new product initiatives related to our core business or strategic initiatives in the current environment, significant delays in new product releases, failure to meet key deadlines, or significant problems in creating new products could negatively impact our revenues and profits.

***Insufficient system capacity, system operating failures, or disasters could materially harm our reputation, financial position and profitability.***

The success of our business is dependent on the computer and communications systems supporting our operations, which must monitor, process and support a large volume of transactions across numerous execution venues in many countries and multiple currencies. As our business continues to expand, we will need to continue to expand our systems to accommodate an increasing volume of transactions across a larger client base and more geographical locations. In addition, certain changes in market practices may require us to invest in infrastructure to increase capacity levels. Unexpectedly high volumes or times of unusual market volatility could cause our systems to operate slowly, decrease output or even fail for periods of time, as could general power or telecommunications failures, hardware failures, software errors, human error, computer viruses, acts of vandalism, natural disasters, terrorist activities, cybersecurity breaches or other business disruptions. System failure or degradation could adversely affect our ability to effectuate transactions and lead our customers to file formal complaints with industry regulatory organizations, initiate regulatory inquiries or proceedings, file lawsuits against us, trade less frequently through us or cease doing business with us. In turn, we could incur financial loss, liability to clients, regulatory intervention or reputational damage.

Our corporate headquarters and largest concentration of employees and technology is in the New York metropolitan area. Our other offices are also located in major cities around the globe. If a business system disruption were to occur, especially in New York, for any reason, including widespread health emergencies, natural disasters or terrorist activities, and we were unable to execute our disaster recovery plan, or our disaster recovery plan proves insufficient, it could have a material effect on our business. Moreover, we have varying levels of disaster recovery plan coverage among our non-U.S. subsidiaries.

Any system capacity or operational failure or business system disruption could result in regulatory or legal claims. We could incur significant costs in defending such regulatory or legal claims, even those without merit. Moreover, such failures could result in the need to remediate issues and repair or expand our networks and systems. Any obligation to expend significant resources to defend claims or repair and expand infrastructure could have an adverse effect on our financial condition and results of operations.

***Our systems and those of our third-party service providers may be vulnerable to cybersecurity risks.***

Our business relies on the secure collection, storage, processing and transmission of proprietary information, including our clients' confidential data, in our internal systems and through our vendor networks and communications infrastructure. Increased cybersecurity threats pose a risk to this information, in addition to our and our third party service providers' systems and networks. While we have not been the victim of cyber-attacks that have had a material impact on our operations or financial condition, we have experienced cyber security incidents such as denial of service attempts, malware infections, phishing attempts, and other attempts at compromising our information technology that are typical for a company of our size that operates in the global financial marketplace. Despite our efforts to implement industry-standard security measures, we face the risk that our security measures may prove insufficient as attacks have resulted in material breaches against other financial services companies with significant security controls. Successful security breaches of our systems or the systems of certain of our vendors could expose us to a risk of misappropriation of our or our clients' confidential information, the corruption or deletion of data, and the disruption of our services to our



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clients. These outcomes could result in reputational damage, loss of clients, lower trading volumes, a negative impact on our competitive position, significant expense in implementing future security measures, litigation, and regulatory inquiries or proceedings, all of which could adversely impact our financial results.

***We are dependent on certain third party vendors for key services.***

We depend on a number of third parties to supply elements of our trading systems, computers, market and research data, data centers, FIX connectivity, communication network infrastructure, other equipment and related support and maintenance. We cannot be certain that any of these providers will be willing or able to continue to provide these services in an efficient and cost-effective manner or to meet our evolving needs. Moreover, we are dependent on our communications network providers for interconnectivity with our clients, markets and clearing agents to service our customers and operate effectively. If our vendors fail to meet their obligations, provide poor, inaccurate or untimely service, or we are unable to make alternative arrangements for the supply of these services, we may fail, in turn, to provide our services or to meet our obligations to our customers, and our business, financial condition and our operating results could be materially harmed.

***Our securities business and related clearing operations expose us to material liquidity risk.***

We self-clear equity transactions in the U.S., Hong Kong and Australia. In those markets, we may be required to provide considerable additional funds with clearing and settlement organizations, such as the National Securities Clearing Corporation or Depository Trust and Clearing Corporation in the U.S., especially during periods of high market volatility. In addition, regulatory agencies have recently required these clearing and settlement organizations to increase the level of margin deposit requirements and they may continue to do so in the future. We rely on our excess cash, certain established credit facilities and the use of outsourced clearing arrangements to meet those demands. While we have historically met requests for additional margin deposits, there is no guarantee that our excess cash and our established credit facilities and clearing arrangements will be sufficient for future needs, particularly if there is an increase in requirements. There is also no guarantee that these established credit facilities will be extended beyond their expiration.

In addition, each of our broker-dealer subsidiaries worldwide is subject to regulatory capital requirements promulgated by the applicable regulatory and exchange authorities of the countries in which they operate. Growth in our non-North American trading activity has led, and could continue to lead to, higher regulatory capital requirements. The failure by any of these subsidiaries to maintain its required regulatory capital may lead to suspension or revocation of its broker-dealer registration and its suspension or expulsion by its regulatory body. Historically, all regulatory capital needs of our broker-dealers have been provided by existing cash and cash from operations. However, if existing cash together with cash from operations are not sufficient, we may need to reject orders from clients and we may ultimately breach regulatory capital requirements.

***As a clearing member firm in certain jurisdictions we are subject to significant default risk.***

We are required to finance our clients' unsettled positions from time to time and we could be held responsible for the defaults of our clients. Default by our clients may also give rise to our incurring penalties imposed by execution venues, regulatory authorities and settlement systems. Although we regularly review our credit exposure, default risk may arise from events or circumstances that may be difficult to detect or foresee. In addition, concerns about, or a default by, one institution could lead to significant liquidity problems, losses or defaults by other institutions that could in turn adversely affect us.

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***Our equity trading operations in jurisdictions other than the U.S., Hong Kong and Australia are dependent on their clearing agents and any failures by such clearing agents could materially impact our business and operating results.***

Certain of our international operations are dependent on agents for the clearing and settlement of securities transactions. If our agents fail to properly facilitate the clearing and settlement of our customer trades, we could be subject to financial, legal and regulatory risks and costs that may impact our business and operating results. In addition, it could cause our clients to reduce or cease their trading with us, which would adversely affect our revenues and financial results.

Moreover, certain of our agreements with clearing agents may be terminated upon short notice. There is no guarantee that we could obtain alternative services in a timely manner and any interruption of the normal course of our trading and clearing operations could have a material impact on our business and results of operations.

***Our business exposes us to credit risk that could affect our operating results and profitability.***

We are exposed to credit risk from third parties that owe us money, securities or other obligations, including our customers and trading counterparties. These parties may default on their obligations to us due to bankruptcy, lack of liquidity, operational failure or other reasons, and we could be held responsible for such defaults. In addition, client trading errors which they are unable to cover may cause us to incur financial losses. Volatile securities markets, credit markets and regulatory changes may increase our exposure to our customers' credit profiles, which could adversely affect our financial condition and operating results. While our broker-dealer subsidiaries that are not self-clearing have clearing agreements with their clearing agents who review the credit risk of trading counterparties, we have no assurances that those reviews or our own are adequate to provide sufficient protection from this risk.

***We may incur material losses on foreign exchange transactions entered into on behalf of clients and be exposed to material liquidity risk due to counterparty defaults or errors.***

We enable clients to settle cross-border equity transactions in their local currency through the use of foreign exchange contracts. These arrangements typically involve the delivery of securities or cash to a counterparty that is not processed through a central clearing facility in exchange for a simultaneous receipt of cash or securities. We may operate as either a principal or agent in these transactions. As a result, a default by one of our counterparties prior to the settlement of their obligation could materially impact our liquidity and have a material adverse affect on our financial condition and results of operations.

In addition, we are exposed to operational risk. Employee and technological errors in executing, recording or reporting foreign exchange transactions may result in material losses due to the large size of such transactions and the underlying market risk in correcting such errors.

***We incur limited principal trading risk in our Canadian Operations.***

A limited portion of our revenues is derived from principal trading in our Canadian Operations, including arbitrage trading and the net spread on foreign exchange contracts executed to facilitate equity trades by clients in different currencies. As a result of this trading, we may incur losses relating to the purchase or sale of securities and currencies for our own account. Although we attempt to close out all of our positions by the end of the day, we bear the risk of market fluctuations and we may incur losses due to changes in the prices of such securities and currencies. Any principal gains or losses resulting from these positions could have a disproportionate effect, positive or negative, on our revenues and profits, and could also result in reputational damage.

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Our Canadian Operations also derive a limited portion of its revenues from the principal trading of spot and short-dated forward foreign exchange contracts with clients, unrelated to equity trades. Although we seek to execute offsetting foreign exchange contracts concurrently with any client trades, earning a net spread, there can be no assurances that the trades are in fact concurrent (and therefore we bear the risk of market fluctuations). In addition, foreign exchange contracts are not centrally cleared and therefore we bear counterparty and settlement risk on such trades.

***Our Canadian market making activities expose us to the risk of significant losses.***

ITG Canada is registered as a market maker in a limited number of ETFs and inter-listed stocks. In our role as a market maker, we are required to maintain active bids and offers that may be executed against, resulting in inventory positions that subject us to market risk. There can be no assurance that we will be able to manage such risk successfully or that we will not experience significant losses from such activities.

***Our risk management policies and procedures may not be effective and may leave us exposed to unidentified or unexpected risks.***

We seek to monitor and control our risk exposure through a risk and control framework encompassing a variety of separate but complementary financial, credit, operational, technological, compliance and legal reporting systems, internal controls, management review processes and other mechanisms that rely on a combination of technical and human controls and supervision. These policies, procedures and practices used to identify, monitor and control a variety of risks may fail to be effective. As a result, we face the risk of losses, including, for example, losses resulting from trading errors, customer defaults, fraud and money laundering.

Internal control over financial reporting, no matter how well designed, has inherent limitations. Therefore, internal control over financial reporting determined to be effective can provide only reasonable assurance with respect to financial statement preparation and may not prevent or detect all misstatements. Moreover, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate. As such, we could lose investor confidence in the accuracy and completeness of our financial reports, which may have a material adverse effect on our stock price.

***The business in which we operate is extremely competitive worldwide.***

Many of our competitors have substantially greater financial, technical, marketing and other resources than we do, which, among other things, enable them to compete with the services we provide on the basis of price, including lowering prices for certain of our key services to gain business in their higher margin areas, and a willingness to commit their firms' capital to service their clients' trading needs on a principal, rather than on an agency basis. In addition, many of our competitors bundle multiple services as part of their equity trading offering. To the extent we seek to unbundle any of our products or services, we may lose clients which would also result in a loss of revenues and profits. Many of them offer a wider range of services, have broader name recognition, and have larger customer bases than we do. Some of our competitors have long-standing, well-established relationships with their clients, and also hold dominant positions in their trading markets. Moreover, new entrants may enter the market with alternative methods of providing trade execution and related services, and existing competitors often launch new initiatives. Many of our competitors have undertaken measures to link various electronic trading systems and platforms in an effort to attract order flow to off-exchange venues and increase internal executions.

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Although we believe that our products and services have established certain competitive advantages, our ability to maintain these advantages will require continued enhancements to our products, investment in the development of our services, additional marketing activities and enhanced customer support services. There can be no assurance that we will have sufficient resources to continue to make this investment, that our competitors will not devote significantly more resources to competing services or that we will otherwise be successful in maintaining our market position. If competitors offer superior services, our market share would be affected and this would adversely impact our business and results of operations.

***We face certain challenges and risks to our international business that may adversely affect our strategy.***

Global client coverage is a key component of our business plan. We have invested significant resources in our foreign operations and the globalization of our products and services. However, there are certain risks inherent in the operation of our business outside of the U.S., including, but not limited to, additional regulatory capital requirements, less developed technology and infrastructure, and higher costs for infrastructure. These risks may limit our ability to provide services to clients in certain markets. There also may be difficult processes for obtaining regulatory approvals. This could result in delays in our global business plans, difficulties in staffing foreign operations and adapting our products to foreign markets, practices and languages, exchange rate risks and the need to meet foreign regulatory requirements. Each of these could force us to alter our operational plans and this may adversely impact our strategy.

***We incur risks related to our international business due to currency exchange rate fluctuations that could impact our financial results and financial position.***

A significant amount of our business is conducted in foreign currencies. Conducting business in currencies other than the U.S. Dollar subjects us to exchange rate fluctuations. These fluctuations can materially impact our financial results.

***We are dependent on certain major customers and a decline in their use of our services could materially impact our revenues.***

Our customers may discontinue their use of our trading services at any time. The loss of any significant customer could have a material adverse effect on our results of operations.

The chart below sets forth our dependence on our three largest clients individually, as well as on our ten largest clients in the aggregate, expressed as a percentage of total revenues:

	% of Total Consolidated Revenue		
	2014	2013	2012
Largest customer	2.7%	2.4%	2.4%
Second largest customer	2.0%	2.1%	2.1%
Third largest customer	1.7%	1.8%	1.9%
Ten largest customers	16.9%	16.8%	14.9%

***The securities markets and the brokerage industry in which we operate globally are subject to extensive, evolving regulation that could materially impact our business.***

We currently operate POSIT in the U.S. under Regulation ATS, our European operations are subject to MiFID and we must comply with the requirements of the U.S. PATRIOT Act and its foreign equivalents for monitoring our customers and suspicious transactions. Moreover, most aspects of our broker-dealer operations are highly regulated, such as sales and reporting practices, operational compliance, capital requirements and licensure of employees. Accordingly, we face the risk of

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significant intervention by regulatory authorities in all jurisdictions in which we conduct business, such as the SEC and FINRA in the U.S. and their equivalents in other countries. As we expand our business, we may be exposed to increased and different types of regulatory requirements.

We are subject to, and in the future, we may become subject to new regulations or changes in the interpretation or enforcement of existing regulations, which may adversely affect our business. Also, regulatory changes that impact how our customers conduct their business may impact our business and results of operations. The current U.S. administration and other members of the U.S. federal government and other governments outside of the United States have implemented new regulatory requirements for the financial services industry and have indicated that there may be more to come. These newly-implemented rules could cause us to expend more significant compliance, business and technology resources, incur additional operational costs and create additional regulatory exposure. In addition, we cannot predict the extent to which any future regulatory changes would affect our business.

On June 24, 2014, the SEC issued an order mandating the U.S. exchanges to implement the National Market System Plan to Implement a Tick Size Pilot Program (the "Pilot"). The plan for the Pilot was released by 11 national exchanges and FINRA on August 25, 2014 and it was published in the Federal Register on November 7, 2014. The comment period for the Pilot ended on December 22, 2014 and the plan is pending approval by the SEC. The Pilot will last for one year and it will change the minimum 'tick sizes' (quoting and trading increments) for 1,200 Regulation NMS common stocks with smaller market capitalizations. The proposal would also include a 'trade-at' prohibition for 400 of the Regulation NMS stocks covered by the Pilot that would prevent price matching by a trading center, such as a dark pool, that is not displaying a protected bid or protected offer, subject to certain exceptions. The proposed Pilot is intended to allow the SEC, SROs, and the public to evaluate and assess the impact of increment conventions on the liquidity and trading of stocks of smaller capitalization companies. If the Pilot (specifically the trade-at prohibition) is expanded to more securities, the program could impact our U.S. trading volumes and operational costs. Moreover, the SEC adopted the Consolidated Audit Trail rule ("CAT") in July 2012, which requires SROs to establish an order trail reporting system that would enable regulators to track, within 24 hours of the trade date, information related to trading orders received and executed across the securities markets. On September 30, 2014, the exchanges submitted a Regulation NMS plan for implementation of the CAT to the SEC for approval. The implementation schedule is based on the SEC approval date. Within one year of SEC approval, each exchange will start reporting CAT data to the established central repository. Non-small industry members and small industry members will start reporting CAT data within two and three years of approval, respectively.

On November 19, 2014, the SEC unanimously adopted Regulation Systems Compliance and Integrity ("Regulation SCI"). The regulation became effective on February 3, 2015 and the compliance date is currently scheduled for November 3, 2015. The rule requires SCI entities (i.e., exchanges, SROs, clearing and settlement agencies, and certain ATSS including POSIT) to establish extensive policies, procedures, and/or controls to ensure the capacity, stability, integrity, and resiliency of their trading and regulatory reporting systems. Regulation SCI, among other things, also requires the reporting of certain systems issues, testing of business continuity and disaster recovery plans with mandatory participation by customers and members, the establishment of geographically diverse backup capabilities, the completion of an objective annual review of systems, and the maintenance and preservation of certain books and records concerning matters covered by the rule.

In addition, new regulatory obligations have been proposed, adopted or implemented pertaining to markets outside of the United States, which may also have a material impact upon our business model.

In Europe, these include MiFID II which is currently in the rulemaking process with implementation planned for January of 2017. In particular, under MiFID II, multilateral trading

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facilities ("MTF") the European equivalent to an SEC-registered ATS that trade in dark cash equity orders would be required to cross such orders at the midpoint, open, or closing prices of the primary venue (where displayed orders in those securities are traded) and adhere to volume limits on dark trading. These limits would be set at 4% of all the displayed and dark regulated venue trading volume for any individual dark venue and 8% of such volume for all dark trading venues in the aggregate. The calculations would be performed at an individual stock level over a 12-month rolling period. In the event that the relevant limit is breached, the crossing of that particular stock in the individual dark trading venue or in all such venues (as applicable depending on whether the 4% or 8% threshold is breached) would cease for the following 6 months. MiFID II provides an exception from these requirements for large sized orders, which may be crossed at any price point and without regard to the above-mentioned volume limits.

In addition, a financial transaction tax (the "European FTT") is being considered which would include at least ten of the twenty-eight members of the European Union. In addition to the impact that such tax would have on the affected securities and signatory countries, certain alternative versions of the proposals could include an extra-territorial scope that may impact the trading activities of entities which are, and trade entirely outside, the European FTT zone. Ministers from the relevant member states have reiterated that they intend to implement the European FTT by January 1, 2016.

Hong Kong is awaiting new regulations related to dark liquidity pools. These regulations are likely to limit access to dark pools to institutional clients only, require increased monitoring of dark pools, mandatory disclosure of dark pool operations, and increased client documentation for those accessing dark pools via a Hong Kong broker.

Compliance with certain of these adopted laws, rules or regulations of the various jurisdictions in which we operate could result in the loss of revenue and has caused us, and could cause us, to incur significant costs. In addition, if any new regulatory obligations are implemented, ITG could incur significant costs to establish the appropriate processes, systems, and/or controls. Last, if we fail to comply adequately with any of these laws, rules or regulations, we may be subject to censure, fines, cease-and-desist orders, suspension of our business, suspensions of personnel, or other sanctions, including revocation of our exchange or self-regulatory organization memberships or our broker-dealer registrations.

***Increased regulatory scrutiny may lead to increased costs for compliance and the potential for monetary penalties, negatively impacting our profitability.***

In the recent past, there has been increased regulatory scrutiny of our industry by regulators and other governmental authorities, including in the areas of trading risk management controls, undisclosed trading practices and dark pool operations, resulting in an increase in regulatory investigations and reviews. Such enhanced scrutiny could cause ITG to incur significant costs in light of the legal and compliance resources needed to respond to such investigations and reviews, in addition to the potential for monetary penalties arising from such investigations and reviews.

***If we are unable to obtain sources of data to create our differentiated research product, we could see a reduction in revenues and profitability.***

Our investment research product leverages data derived from, among other sources, industry data providers and web harvesting technology. If there is a limitation on the availability of data from these sources or if new regulations or laws restrict their use in investment research products, the quality of our research product could be negatively impacted along with the amount of revenue and profitability we derive from this offering.

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***We could be subject to challenges by U.S. and foreign tax authorities that could result in additional taxes and penalties.***

We are subject to income and other taxes in each jurisdiction in which we operate. We are also subject to reviews and audits by U.S. and foreign tax authorities. Our determination of our tax obligations in each jurisdiction requires us and our advisers to make judgment calls and estimations. Our determination may differ, even materially, from the judgment of the tax authorities and therefore cause us to incur additional taxes and related interest and penalties, which could impact our financial results.

***Inability to protect our intellectual property may result in increased competition, loss of business or other negative results on our business and financial condition.***

Our success is dependent, in part, upon our proprietary intellectual property. We generally rely upon patents, copyrights, trademarks and trade secrets to establish and protect our rights in our proprietary technology, methods, products and services. We cannot assure that any of the rights granted under any patent, copyright or trademark that we may obtain will protect our competitive advantages. A third party may still try to challenge, invalidate or circumvent the protective mechanisms that we select. In addition, the laws of some foreign countries do not protect our proprietary rights to the same extent as the laws of the U.S., so we cannot predict our ability to properly protect our intellectual property in those jurisdictions. Third parties operating in jurisdictions in which we have not filed for protection may obtain rights in intellectual property that we have protected in the U.S. and other jurisdictions or may be able to misappropriate our intellectual property with impunity.

There can be no assurance that we will be able to protect our proprietary intellectual property from improper disclosure or use, or that others will not develop technologies that are similar or superior to our technology without violating our intellectual property. Violations of our intellectual property by third parties could have an adverse effect on our competitiveness and business. In addition, the cost of seeking to enforce our intellectual property rights could have an adverse effect on our financial results.

***If we were to unknowingly infringe third party intellectual property or be accused of doing so without merit, we would bear significant costs of defense and litigation, which could impact our financial results.***

In the past several years, there has been a proliferation of patents applicable to the technology and financial services industries. Under current law, U.S. patent applications remain secret for 18 months and may, depending on how they are prosecuted, remain secret until the issuance of a patent. In light of these factors, it is not always possible to determine in advance whether any of our products or services may infringe the present or future patent rights of others. From time to time, we may receive notices from others of claims or potential claims of intellectual property infringement or we may be called upon to defend our products, customers, vendees or licensees against such third party claims. Responding to these kinds of claims, regardless of merit, could consume valuable time and result in costly litigation that could have a material adverse effect on us. Such claims could also result in our entering into royalty or licensing agreements with the third parties claiming infringement on terms that could have a material impact on our profitability.

***Financial and operational problems with our acquisitions and strategic initiatives could have a material impact on our results of operation.***

Over the last several years, we have undertaken several strategic acquisitions, including the acquisitions of RFQ-hub, a multi-asset platform for global-listed and OTC financial instruments, Majestic Research Corp. and Ross Smith Energy Group, Ltd. (together now ITG Investment Research), as well as various organic strategic initiatives. We may elect to pursue strategic acquisitions and

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strategic initiatives in the future. Acquisitions entail numerous risks, including but not limited to difficulties in valuing the acquired businesses, combining personnel and firm cultures, integrating acquired products, services and operations, achieving anticipated synergies that were inherent in our valuation assumptions, the assumption of unknown material liabilities of acquired companies and the potential loss of key clients or employees of acquired companies. Similarly, strategic initiatives may be important to our business prospects and we may not be able to successfully execute such initiatives. In either case, we may have clients with whom we have established trading relationships that seek to negatively bundle our products or services without increasing the amount of revenue they pay us resulting in lost revenues and profits. If we are unable to successfully complete acquisitions and integrate the acquired businesses, suffer a material loss due to an acquired business or fail to execute strategic initiatives, we may not achieve appropriate levels of return on these significant investments, which may have a material effect on our operating results.

***Our business could be adversely affected by our inability to attract and retain talented employees, including sales, technology and development professionals.***

Our business operations require highly specialized knowledge of the financial industry and of technological innovation as it applies to the financial industry. If we are unable to hire or retain the services of talented management, sales, research, technology and development professionals, we would be at a competitive disadvantage. In addition, recruitment and retention of qualified staff could result in substantial additional costs.

***Misconduct and errors of our employees could cause us reputational and financial harm.***

Employee errors in recording or executing transactions for customers can cause us to enter into transactions that customers may disavow and refuse to settle. These transactions expose us to risk of loss, which can be material, until we detect the errors in question and unwind or reverse the transactions. As with any unsettled transaction, adverse movements in the prices of the securities involved in these transactions before we unwind or reverse them can increase this risk. We may incur losses as a result of these transactions that could materially impact our financial results.

In addition to trading errors, other employee errors or misconduct could subject us to financial losses or regulatory sanctions and seriously harm our reputation. It is not always possible to prevent employee errors or misconduct and the precautions we take to prevent and detect this activity may not be effective in all cases. Misconduct by our employees could include hiding unauthorized activities from us, improper or unauthorized activities on behalf of customers or improper use of confidential information. Such misconduct could result in losses, litigation or other material adverse effects on the Company.

***Our business exposes us to the risk of litigation.***

Many aspects of our business, and the businesses of our clients, involve substantial risks of liability. These risks include, among other things, liability arising from disputes relating to the delay or failure of trade executions, trade settlement terms or the inadequacy or inaccuracy of research products. We could incur significant legal expenses defending claims, even those without merit. An adverse resolution of any lawsuits or claims against us could have a material adverse effect on our business, financial condition and results of operations.

***The market price of our common stock could be volatile.***

The market price of our common stock may be volatile and could be significantly affected by any number of factors like volatility in the broader stock market, changes in analyst earnings estimates, quarterly variations in our results of operations, shifting investor perceptions, a large purchase or sale by a significant stockholder, the announcement of new products or the occurrence of events described in the other risk factors in this Annual Report on Form 10-K.



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**Item 1B. Unresolved Staff Comments**

None

**Item 2. Properties**

*U.S.*

Our principal offices are located at One Liberty Plaza, in New York, New York, where we occupy approximately 132,000 square feet of office space pursuant to a lease agreement expiring in January 2029.

We maintain a facility in Los Angeles, California where we occupy approximately 54,000 square feet of office space pursuant to a lease agreement expiring in December 2016. This facility is used primarily for technology research and development and support services.

We have a regional office in Boston, Massachusetts where we occupy approximately 54,000 square feet of office space pursuant to a lease expiring in May 2021.

We also have additional regional offices in Chicago, Illinois where we occupy approximately 10,300 square feet pursuant to a lease agreement expiring in October 2016, and in San Francisco, California where we occupy approximately 3,900 square feet pursuant to a lease agreement expiring in June 2018.

*Canada*

ITG Canada has an office in Toronto where we occupy approximately 19,900 square feet of office space pursuant to a lease expiring in December 2016. We also have an office in Calgary where we occupy approximately 7,600 square feet pursuant to a lease expiring in February 2016.

*Europe*

In Europe, ITG has offices in Dublin, London and Paris where we occupy approximately 6,200, 12,200 and 3,100 square feet of office space, respectively. The Dublin space is leased pursuant to an agreement that expires in November 2017, the London space is leased pursuant to an agreement that expires in July 2018, and the space in Paris is leased pursuant to an agreement that expires in January 2022.

*Asia Pacific*

ITG Australia has offices in Melbourne and Sydney, where we occupy approximately 5,600 and 3,400 square feet of office space, respectively, pursuant to leases expiring in February 2016 and June 2017.

ITG Hong Kong occupies approximately 7,500 square feet of office space in Hong Kong pursuant to a lease that expires in September 2015. We also lease space for our regional office in Singapore.

**Item 3. Legal Proceedings**

We are not a party to any pending legal proceedings other than claims and lawsuits arising in the ordinary course of business. In addition, our broker-dealers are regularly involved in reviews, inquiries, examinations, investigations and proceedings by government agencies and self-regulatory organizations regarding our business, which may result in judgments, settlements, fines, penalties, injunctions or other relief. Although there can be no assurances, at this time, the Company believes, based on information currently available, that the outcome of any such proceeding, review, inquiry, examination and investigation will not have a material adverse effect on our consolidated financial position or results of operations.

**Item 4. Mine Safety Disclosures**

Not applicable



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Our common stock trades on the NYSE under the symbol "ITG".

The following table sets forth, for the periods indicated, the range of the intra-day high and low sales prices of our common stock as reported on the NYSE.

	High	Low
<b>2013:</b>		
First Quarter	12.81	9.12
Second Quarter	14.64	9.82
Third Quarter	17.89	14.07
Fourth Quarter	20.87	14.66
<b>2014:</b>		
First Quarter	20.79	16.07
Second Quarter	20.80	15.83
Third Quarter	19.36	15.55
Fourth Quarter	21.27	14.65

On February 23, 2015, the closing price per share for our common stock as reported on the NYSE was \$22.04. On February 23, 2015, we believe that our common stock was held by approximately 5,416 stockholders of record or through nominees in street name accounts with brokers.

In May 2013, our Board of Directors authorized the repurchase of 4.0 million shares. In October 2014, our Board of Directors authorized the repurchase of an additional 4.0 million shares. Neither of these authorizations has an expiration date. As of December 31, 2014, there were 4.8 million shares remaining available for repurchase under ITG's stock repurchase program. The specific timing and amount of repurchases will vary based on market conditions and other factors.

During 2014, the Company repurchased approximately 3.0 million shares of our common stock at a cost of approximately \$54.4 million, which was funded from our available cash resources. Of these shares, approximately 2.7 million were purchased under our Board of Directors' authorization for a total cost of \$48.2 million (average cost of \$18.03 per share). An additional 0.4 million shares (\$6.2 million) pertained solely to the satisfaction of minimum statutory withholding tax upon the net settlement of equity awards.

The following table sets forth our stock repurchase activity during 2014, including the total number of shares purchased, the average price paid per share, the number of shares repurchased as part of a publicly announced plan or program, and the number of shares yet to be purchased under the plan or program.

Table of Contents**ISSUER PURCHASES OF EQUITY SECURITIES**

<b>Period</b>	<b>Total Number of Shares (or Units) Purchased (a)</b>	<b>Average Price Paid per Share (or Unit)</b>	<b>Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs</b>	<b>Maximum Number of Shares (or Units) that May Yet Be Purchased Under the Plans or Programs</b>
From: January 1, 2014				
To: January 31, 2014		\$		3,447,440
From: February 1, 2014				
To: February 28, 2014	869,072	16.80	560,000	2,887,440
From: March 1, 2014				
To: March 31, 2014	186,214	18.00	183,800	2,703,640
From: April 1, 2014				
To: April 30, 2014	1,810	19.55		2,703,640
From: May 1, 2014				
To: May 31, 2014	458,952	18.82	458,600	2,245,040
From: June 1, 2014				
To: June 30, 2014	314,020	18.25	312,237	1,932,803
From: July 1, 2014				
To: July 31, 2014	2,051	17.55		1,912,803
From: August 1, 2014				
To: August 31, 2014	303,355	17.76	300,000	1,632,803
From: September 1, 2014				
To: September 30, 2014	223,711	17.06	220,000	1,412,803
From: October 1, 2014				
To: October 31, 2014	263,277	17.39	225,400	5,187,403
From: November 1, 2014				
To: November 30, 2014	202,975	19.56	199,500	4,987,903
From: December 1, 2014				
To: December 31, 2014	213,567	19.88	212,100	4,775,803
<b>Total</b>	<b>3,039,004</b>	<b>\$ 17.90</b>	<b>2,671,637</b>	

(a)

This column includes the acquisition of 367,367 shares of common stock from employees in order to satisfy minimum statutory withholding tax requirements upon settlement of equity awards.

We have not paid a cash dividend to stockholders during any period of time covered by this report. Our current policy, which is reviewed continually, is to retain earnings to finance the operations and expansion of our businesses and to return capital to stockholders through

repurchases. As a result, we are not currently paying cash dividends on common stock.

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**Performance Graph**

The following line graph compares the total cumulative stockholder return on our common stock against the cumulative total return of the Russell 2000 Index and the mean of the NASDAQ Other Finance Index and the AMEX Securities Broker/Dealer Index, for the five-year period ended December 31, 2014.

Table of Contents**Item 6. Selected Financial Data**

The selected Consolidated Statements of Operations data and the Consolidated Statements of Financial Condition data presented below for each of the years in the five-year period ended December 31, 2014, are derived from our consolidated financial statements. Such selected financial data should be read in connection with the consolidated financial statements contained in this report.

	Year Ended December 31,				
	2014	2013	2012	2011	2010
<b>Consolidated Statements of Operations Data:</b>					
(\$ in thousands, except per share amounts)					
Total revenues	\$ 559,814	\$ 530,801	\$ 504,436	\$ 572,037	\$ 570,754
Total expenses	494,827	487,746	774,891	778,665	521,421
Income (loss) before income tax expense (benefit)	64,987	43,055	(270,455)	(206,628)	49,333
Income tax expense (benefit)	14,095	11,970	(22,596)	(26,839)	25,353
Net income (loss)	\$ 50,892	\$ 31,085	\$ (247,859)	\$ (179,789)	\$ 23,980
Basic earnings (loss) per share	\$ 1.44	\$ 0.84	\$ (6.45)	\$ (4.42)	\$ 0.56
Diluted earnings (loss) per share	\$ 1.40	\$ 0.82	\$ (6.45)	\$ (4.42)	\$ 0.55
Basic weighted average number of common shares outstanding (in millions)	35.3	36.8	38.4	40.7	42.8
Diluted weighted average number of common shares outstanding (in millions)	36.4	38.1	38.4	40.7	43.5
<b>Consolidated Statements of Financial Condition Data:</b>					
(\$ in thousands)					
Total assets	\$ 1,350,849	\$ 1,539,472	\$ 1,492,976	\$ 1,604,332	\$ 1,784,083
Cash and cash equivalents	\$ 275,210	\$ 261,897	\$ 245,875	\$ 284,188	\$ 317,010
Short-term bank loans	\$ 78,360	\$ 73,539	\$ 22,154	\$ 1,606	\$
Term debt	\$ 17,781	\$ 30,332	\$ 19,272	\$ 23,997	\$
Total stockholders' equity	\$ 415,596	\$ 417,432	\$ 409,770	\$ 671,114	\$ 870,068

**Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations**

The following discussion and analysis should be read in conjunction with our consolidated financial statements, including the notes thereto.

**Overview**

ITG is an independent execution and research broker that partners with global portfolio managers and traders to provide innovative financial technology and unique data-driven insights throughout the investment process. From investment decision through to settlement, ITG helps clients understand market trends, improve performance, mitigate risk and navigate increasingly complex markets. A leader in electronic trading since launching the POSIT crossing tools network in 1987, ITG takes a consultative approach in delivering the highest quality institutional liquidity, execution services, analytical tools and proprietary research. The firm is headquartered in New York with offices in North America, Europe, and the Asia Pacific region.

Our business is organized into four reportable operating segments (see Note 22, *Segment Reporting*, to the consolidated financial statements):

U.S. Operations

Canadian Operations



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European Operations

Asia Pacific Operations

Our four operating segments provide the following types of products and services:

**Electronic Brokerage** includes self-directed trading by clients using algorithms, smart routing and matching through POSIT in cash equities (including single stocks and portfolio lists), futures and options

**Research, Sales and Trading** includes (a) differentiated, unbiased, data-driven equity research through the use of innovative data mining and analysis, as well as detailed analysis of energy asset plays, and (b) portfolio trading and high-touch trading desks providing execution expertise and trading ideas based on investment research

**Platforms** includes trade order and execution management software applications in addition to network connectivity

**Analytics** includes (a) tools enabling portfolio managers and traders to improve pre-trade and real-time execution performance, (b) portfolio construction and optimization decisions and (c) securities valuation

*Sources of Revenues*

Revenues from our products and services are generated from commissions and fees, recurring (subscriptions) and other sources.

Commissions and fees are derived primarily from (i) commissions charged for trade execution services, (ii) income generated on net executions, whereby equity orders are filled at different prices within or at the National Best Bid and Offer ("NBBO") and (iii) commission sharing arrangements between ITG Net (our private value-added FIX-based financial electronic communications network) and third-party brokers and alternative trading systems whose trading products are made available to our clients on our order management system ("OMS") and execution management system ("EMS") applications in addition to commission sharing arrangements for our ITG Single Ticket Clearing Service and our RFQ-hub request-for-quote service. Because commissions are earned on a per-transaction basis, such revenues fluctuate from period to period depending on (a) the volume of securities traded through our services in the U.S. and Canada, (b) the contract value of securities traded in Europe and the Asia Pacific region and (c) our commission rates. Certain factors that affect our volumes and contract values traded include: (i) macro trends in the global equities markets that affect overall institutional equity trading activity, (ii) competitive pressure, including pricing, created by a proliferation of electronic execution competitors and (iii) potential changes in market structure in the U.S. and other regions. In addition to share volume, revenues from net executions are also impacted by the width of spreads within the NBBO. Trade orders are delivered to us from our OMS and EMS products and other vendors' products, direct computer-to-computer links to customers through ITG Net and third-party networks and phone orders from our customers.

Recurring revenues are derived from the following primary sources: (i) connectivity fees generated through ITG Net for the ability of the sell-side to receive orders from, and send indications of interest to, the buy-side and for the sell-side to receive requests-for-quotes through RFQ-hub, (ii) subscription revenue generated from providing research, (iii) software and analytical products and services and (iv) maintenance and customer technical support for our OMS.

Other revenues include: (i) income from principal trading in Canada, including arbitrage trading, (ii) the net spread on foreign exchange transactions executed on a principal basis to facilitate equity trades by clients in different currencies as well as on other foreign exchange transactions unrelated to equity trades, (iii) the net interest spread earned on securities borrowed and loaned matched book

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transactions, (iv) transaction advisory services provided to potential purchasers of energy-related investments, (v) non-recurring consulting services, such as one-time implementation and customer training related activities, (vi) investment and interest income, (vii) interest income on securities borrowed in connection with customers' settlement activities and (viii) market gains/losses resulting from temporary positions in securities assumed in the normal course of our agency trading business (including errors and accommodations).

*Expenses*

Compensation and employee benefits, our largest expense, consist of salaries and wages, incentive compensation, employee benefits and taxes. Incentive compensation fluctuates based on revenues, profitability and other measures, taking into account the landscape for key talent. Incentive compensation includes a combination of cash and deferred share-based awards. Only the cash portion, which represents a lesser portion of our total compensation costs, is expensed in the current period. As a result, our ratio of compensation expense to revenues may fluctuate from period-to-period based on revenue levels.

Transaction processing expense consists of costs to access various third-party execution destinations and to process, clear and settle transactions. These costs tend to fluctuate with share and trade volumes, the mix of trade execution services used by clients and the rates charged by third parties.

Occupancy and equipment expense consists primarily of rent and utilities related to leased premises, office equipment and depreciation and amortization of fixed assets and leasehold improvements.

Telecommunications and data processing expenses primarily consist of costs for obtaining market data, telecommunications services and systems maintenance.

Other general and administrative expenses primarily include software amortization, consulting, business development, professional fees and intangible amortization.

Interest expense consists primarily of costs associated with outstanding debt and credit facilities.

***Non-GAAP Financial Measures***

To supplement our financial information presented in accordance with U.S. GAAP, management uses certain "non-GAAP financial measures" as such term is defined in SEC Regulation G, to clarify and enhance understanding of past performance and prospects for the future. Generally, a non-GAAP financial measure is a numerical measure of a company's operating performance, financial position or cash flows that excludes or includes amounts that are included in, or excluded from, the most directly comparable measure calculated and presented in accordance with U.S. GAAP. For example, non-GAAP measures may exclude the impact of certain unique and/or non-operating items such as acquisitions, divestitures, restructuring charges, large write-offs or items outside of management's control. Management believes that the following non-GAAP financial measures described below provide investors and analysts useful insight into our financial position and operating performance.

Adjusted expenses and adjusted net income (loss) together with related per share amounts are non-GAAP performance measures that we believe are useful to assist investors in gaining an understanding of the trends and operating results for our core business. These measures should be viewed in addition to, and not in lieu of, results reported under U.S. GAAP.

Reconciliations of adjusted expenses and adjusted net income to expenses and net income (loss) and related per share amounts as determined in accordance with U.S. GAAP for the years ended

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December 31, 2013 and 2012 are provided below. There were no such adjustments during the year ended December 31, 2014.

<b>Year Ended December 31, 2013:</b>	<b>ITG Consolidated</b>	<b>U.S.</b>	<b>Canada</b>	<b>Non-U.S. Europe</b>	<b>Asia Pacific</b>
Total expenses	\$ 487,746	\$ 302,349	\$ 63,553	\$ 73,686	\$ 48,158
Less:					
Restructuring charges(1)	75	1,264	348	(1,537)	
Duplicate rent expense(2)	(2,568)	(2,568)			
Office move(3)	(3,910)	(3,910)			
Adjusted expenses	\$ 481,343	\$ 297,135	\$ 63,901	\$ 72,149	\$ 48,158

Income tax expense	\$ 11,970
Net effect of adjustments(1)	405
Adjusted income tax expense	\$ 12,375

Net income	\$ 31,085
Net effect of adjustments	5,998
Adjusted net income	\$ 37,083

Diluted earnings per share	\$ 0.82
Net effect of adjustments	0.15
Adjusted diluted earnings per share	\$ 0.97

<b>Year Ended December 31, 2012:</b>	<b>ITG Consolidated</b>	<b>U.S.</b>	<b>Canada</b>	<b>Non-U.S. Europe</b>	<b>Asia Pacific</b>
Total expenses	\$ 774,891	\$ 569,480	\$ 66,516	\$ 91,616	\$ 47,279
Less:					
Goodwill and other asset impairment charge(4)	274,285	245,103		28,481	701
Restructuring charges(1)	9,499	6,798	1,145	615	941
Duplicate rent expense(2)	1,378	1,378			
Adjusted expenses	\$ 489,729	\$ 316,201	\$ 65,371	\$ 62,520	\$ 45,637
Net loss	\$ (247,859)				
Net effect of adjustments	256,034				

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Adjusted net income	\$	8,175
Diluted loss per share	\$	(6.45)
Net effect of adjustments		6.66
Adjusted diluted earnings per share	\$	0.21

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(1)

In the second quarter of 2013, we incurred a \$1.6 million charge to implement a restructuring plan to close our technology research and development facility in Israel and migrate that function to an outsourced-service-provider model effective January 1, 2014. This plan primarily focused on reducing costs by limiting our geographic footprint while maintaining the necessary technological expertise via a consulting arrangement. This restructuring plan triggered the recognition of a tax charge of \$1.6 million in the second quarter of 2013 associated with the anticipated withdrawal of capital from Israel. We also reduced previously-recorded 2012 and 2011 restructuring accruals of \$1.6 million to reflect the sub-lease of previously-vacated office space and certain legal and other

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employee-related charges deemed unnecessary. During the fourth quarter of 2012, we incurred a \$9.5 million charge to implement a restructuring plan to reduce operating costs by reducing workforce, market data and other general and administrative costs across our businesses. The charge consisted entirely of employee separation costs.

- (2) During the fourth quarter of 2012, we began to build out and ready our new lower Manhattan headquarters while continuing to occupy our then-existing headquarters in midtown Manhattan and as a result incurred duplicate rent charges through June 2013.
- (3) In the second quarter of 2013, we moved into our new headquarters and incurred a non-operating charge, which included a reserve for the remaining lease obligation for the previous midtown Manhattan headquarters.
- (4) In the second quarter of 2012, goodwill with a carrying value of \$274.3 million in the U.S. Operations and European Operations reporting segments was deemed impaired and its fair value was determined to be zero, resulting in a full impairment charge.

***Executive Summary for the Year Ended December 31, 2014***

*Consolidated Overview*

Our 2014 results reflect the benefits of the targeted investments we have made in our international capabilities and the enhanced operating efficiency we have established through a focus on the profitability of our products and services. In 2014, we had significant growth in revenues and profitability in Europe, ended the year with two consecutive quarters of profitability in Asia Pacific and posted record revenues in Canada during the fourth quarter. Our revenues grew 5% over 2013 to \$559.8 million while our costs of \$494.8 million were up only 1% compared to expenses and 3% compared to adjusted expenses in 2013 (*see Non-GAAP Financial Measures*). Our net income for 2014 was \$50.9 million, or \$1.40 per diluted share compared to net income of \$31.1 million, or \$0.82 per diluted share and adjusted net income of \$37.1 million, or \$0.97 per diluted share in 2013 (*see Non-GAAP Financial Measures*). Our annualized return on average equity for the year was 12.2%, compared to a return of 7.6% for 2013.

Business conditions in the U.S. remained weak for most of 2014. The average daily combined volume of NYSE- and NASDAQ-listed securities for 2014 was up only 3.7% from the multi-year low in 2013. The weakness was also apparent in domestic equity fund flow activity. Following an improved start to the year, domestic equity funds continued to see outflows, totaling nearly \$60 billion during 2014. On the positive side, during the fourth quarter we saw a surge in volatility as central bank policies from around the world began to diverge, creating movements in currencies and commodities that triggered volatility in equity prices and increased volumes.

While the recent period of higher volatility and increased trading volumes has continued into the early part of 2015, it is unclear whether such activity will be sustainable over the long term. As a result, our strategy is to continue to expand our business across different asset classes and client constituencies and to grow our international businesses. Our July acquisition of RFQ-hub, a Paris-based request-for-quote technology platform for global listed and over-the-counter financial instruments is closely aligned with these strategic goals. We continue to focus on the profitability of our products and services as we strive to improve our operating model and create flexibility for expansion.

*Segment Discussions*

In the U.S., the overall combined average daily market volume of NYSE- and NASDAQ-listed securities for 2014 was 3.7% above the low levels of 2013, benefitting from a rebound in the fourth quarter. Our average daily trading volumes in the U.S. remained under pressure, falling 3.3% compared to 2013.

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Our overall revenue earned per share remained at \$0.0047, despite a higher proportion of volume from our lower-rate sell-side clients. The proportion of this lower-rate business increased to 52% versus 50% for 2013, adversely impacting our revenue per share. While we saw lower revenue per share from sell-side clients, we continued to see improvement in the revenue per share from buy-side clients. The higher revenue per share from buy-side clients was driven by higher rates for clients' use of our POSIT Alert block crossing system and our high-touch and portfolio trading services. These higher rates were attributable in part to clients paying for research through trading at a bundled rate. During the year, our energy research capabilities also provided additional sources of revenue in the form of transaction advisory services provided to potential purchasers of energy-related investments.

For the year, average daily trading volumes on all Canadian markets increased 9% from 2013 while commissions and fees from our Canadian Operations were 4% higher in U.S. dollar terms and 12% higher in local currency terms. Overall market trading was particularly strong in the fourth quarter when volumes increased 33% over the fourth quarter of 2013. Our strong performance for the year was driven in part by significantly higher volumes in MATCH Now, which were up more than 80% from 2013.

Our European commission and fees grew by 43% compared to 2013, far outpacing the 16% growth in market-wide trading activity in the region due in large part to higher trading in POSIT. Our success in Europe reflects the investments we have made in our infrastructure and in our global product capabilities, including POSIT Alert. Our strong revenue growth together with our continued efforts to manage costs led to an 88% increase in pre-tax income in comparison to 2013. We continued to make targeted strategic investments during the second half of the year through the acquisition of RFQ-hub and the expansion of our Paris- and London-based sales teams. While these initiatives have not had a material impact on our results thus far, we expect them to contribute to profitability in 2015 and beyond.

In the Asia-Pacific region, we achieved two consecutive quarters of profitability in the second half of 2014 despite incurring \$0.5 million in employee termination charges late in the year to lower our local cost base going forward. Though overall market-wide trading activity in the markets in which we participate decreased 8%, our commissions and fees in the region grew by 3%, benefitting from the growth in commissions from buy-side clients using our POSIT Alert block crossing system and from higher commission sharing revenues derived from Triton. POSIT Alert continues to be a key source of growth in Asia Pacific with value traded having increased for six straight quarters.

*Capital Resource Allocation*

During 2014, we repurchased 2.7 million shares for \$48.2 million, or \$18.03 per share. We intend to continue to use share repurchases to offset dilution from the issuance of stock under employee compensation plans and to opportunistically return capital to stockholders depending on market conditions. We may elect to conduct future share repurchases through open market purchases, private transactions or automatic share repurchase programs under SEC Rule 10b5-1.

Table of Contents**Results of Operations Year Ended December 31, 2014 Compared to Year Ended December 31, 2013***U.S. Operations*

\$ in thousands	Year Ended December 31,		Change	% Change
	2014	2013		
<b>Revenues:</b>				
Commissions and fees	\$ 220,567	\$ 231,140	\$ (10,573)	(5)
Recurring	73,807	76,720	(2,913)	(4)
Other	12,559	10,176	2,383	23
<b>Total revenues</b>	<b>306,933</b>	<b>318,036</b>	<b>(11,103)</b>	<b>(3)</b>
<b>Expenses:</b>				
Compensation and employee benefits	135,498	125,672	9,826	8
Transaction processing	39,178	41,995	(2,817)	(7)
Other expenses	114,156	133,231	(19,075)	(14)
Restructuring charges		(1,264)	1,264	
Interest expense	2,322	2,715	(393)	(14)
<b>Total expenses</b>	<b>291,154</b>	<b>302,349</b>	<b>(11,195)</b>	<b>(4)</b>
<b>Income before income tax expense</b>	<b>\$ 15,779</b>	<b>\$ 15,687</b>	<b>\$ 92</b>	<b>1</b>

Commissions and fees decreased due to a 3% reduction in our average daily trading volumes. Although our average revenue per share remained unchanged year over year at \$0.0047, the proportion of average daily volumes executed by lower-priced sell-side clients increased to 52% of our volumes compared to 50% in 2013, adversely impacting our revenue per share. While we also saw lower revenue per share from sell-side clients, we continued to see improvement in the revenue per share from buy-side clients. The higher revenue per share from buy-side clients was driven by higher rates for clients' use of our POSIT Alert block crossing system and our high-touch and portfolio trading services. These higher rates were attributed in part to clients paying for research through trading at a higher, bundled rate.

U.S. Operations: Key Indicators*	Year Ended December 31,		Change	% Change
	2014	2013		
Total trading volume (in billions of shares)	40.9	42.4	(1.5)	(4)
Average trading volume per day (in millions of shares)	162.5	168.1	(5.6)	(3)
Average revenue per share	\$ 0.0047	\$ 0.0047	\$	
U.S. market trading days	252	252		

\*

Excludes activity from ITG Net commission share arrangements.

Recurring revenues decreased due to the impact of client attrition from our OMS product, resulting in lower OMS subscription revenues and connectivity fees, partially offset by higher research subscriptions.

Other revenues increased primarily due to an increase in transaction advisory services revenues generated by our energy research team. This increase more than offset a reduction in revenues generated by our stock loan matched book business, which included a gain of \$2.5 million in 2013 related to adjustments to historical dividend withholdings.

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Total expenses in 2014 decreased \$11.2 million compared to 2013. In 2013, we incurred \$2.6 million of duplicate rent charges associated with the build out of our new headquarters in lower Manhattan while we still occupied our then-existing headquarters in midtown Manhattan and \$3.9 million related to our office move, including a reserve for the remaining lease obligation. This was partially offset by a \$1.3 million reversal of previously-recorded 2012 and 2011 restructuring liabilities as a portion of the space vacated in our Los Angeles office was sub-let and certain legal and other employee-related accruals were deemed unnecessary. Total expenses declined \$6.0 million compared to 2013 excluding these charges (see *Non-GAAP Financial Measures*).

Compensation and employee benefits increased as a result of headcount increases and from higher incentive-based compensation to our management team associated with increased global profitability. Deferred stock-based compensation expense associated with awards granted for the 2014 and 2013 fiscal years to U.S. employees is expected to increase by approximately \$2 million in 2015.

Transaction processing costs declined more than the decrease in commissions and fees due to lower options volumes, which incur higher costs proportionally than our cash equity trading and lower execution costs from client use of our algorithm technology. As a percentage of commissions and fees, transaction processing costs declined to 17.8% from 18.2% during 2013.

Other expenses decreased \$19.1 million, of which \$6.5 million represented the impact of the duplicate rent charges and office move expenses incurred during the prior-year period as described above. In addition, we (a) incurred lower data center, data and connectivity expenses from our cost reduction initiatives, (b) had lower depreciation, software amortization and consulting fees, (c) reduced our bad debt reserves. There was also a higher credit for research and development costs charged to other segments. These reductions were partially offset by an increase in employee recruiting and legal fees.

In the second quarter of 2013, previously-recorded restructuring accruals from 2012 and 2011 were adjusted to reflect our then-current expectations.

Interest expense primarily relates to interest costs on our term debt and commitment fees relating to our \$150 million revolving credit facility, including debt issuance cost amortization.

*Canadian Operations*

\$ in thousands	Year Ended December 31,		Change	% Change
	2014	2013		
<b>Revenues:</b>				
Commissions and fees	\$ 59,992	\$ 57,507	\$ 2,485	4
Recurring	9,575	9,294	281	3
Other	8,526	8,193	333	4
<b>Total revenues</b>	<b>78,093</b>	<b>74,994</b>	<b>3,099</b>	<b>4</b>
<b>Expenses:</b>				
Compensation and employee benefits	23,901	25,929	(2,028)	(8)
Transaction processing	9,710	10,691	(981)	(9)
Other expenses	27,753	27,281	472	2
Restructuring charges		(348)	348	100
<b>Total expenses</b>	<b>61,364</b>	<b>63,553</b>	<b>(2,189)</b>	<b>(3)</b>
Income before income tax expense	\$ 16,729	\$ 11,441	\$ 5,288	46



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Currency translation from a weaker Canadian Dollar decreased total Canadian revenues and expenses by \$5.2 million and \$3.8 million, respectively, resulting in a decrease of \$1.4 million to pre-tax income.

Canadian commissions and fees increased \$2.5 million despite an unfavorable currency translation of \$4.0 million, principally due to the growth in MATCH Now volumes of more than 80%.

Recurring revenues increased due to a higher number of billable network connections through ITG Net and our billing for market data consumed by clients.

Other revenues increased slightly due to an increase in income earned on foreign exchange transactions and principal arbitrage trading, partially offset by losses on client accommodations and the impact of currency translation.

Compensation and employee benefits costs decreased 8% primarily due to a decrease in share-based compensation, which fluctuates for legacy awards to Canadian employees based on the changes in the market price of our stock and the impact of currency translation, partially offset by an increase in incentive-based compensation related to increased profitability.

Transaction processing costs decreased due to lower rates for clearing and settlement from contract renegotiation with our clearing provider, lower execution costs as a higher percentage of our volume was executed in MATCH Now and the impact of currency translation. As a percentage of commission and fees, transaction processing costs declined to 16.2% from 18.6% in 2013.

The increase in other expenses was primarily driven by higher charges for historical market data and legal-related expenses, partially offset by lower connectivity expenses as well as the impact of currency translation.

In the second quarter of 2013, previously-recorded restructuring accruals from 2012 and 2011 were adjusted to reflect our then-current expectations.

### *European Operations*

<b>\$ in thousands</b>	<b>Year Ended December 31,</b>		<b>Change</b>	<b>% Change</b>
	<b>2014</b>	<b>2013</b>		
<b>Revenues</b>				
Commissions and fees	\$ 113,989	\$ 79,639	\$ 34,350	43
Recurring	13,924	12,508	1,416	11
Other	(350)	(355)	5	(1)
<b>Total revenues</b>	<b>127,563</b>	<b>91,792</b>	<b>35,771</b>	<b>39</b>
<b>Expenses:</b>				
Compensation and employee benefits	35,977	30,216	5,761	19
Transaction processing	26,796	19,567	7,229	37
Other expenses	30,786	22,366	8,420	38
Restructuring charges		1,537	(1,537)	(100)
<b>Total expenses</b>	<b>93,559</b>	<b>73,686</b>	<b>19,873</b>	<b>27</b>
<b>Income before income tax expense</b>	<b>\$ 34,004</b>	<b>\$ 18,106</b>	<b>\$ 15,898</b>	<b>88</b>

Currency translation from a stronger average British Pound increased European revenues and expenses by \$6.8 million and \$5.2 million, respectively, adding \$1.6 million to pre-tax income.

European results include substantially all the RFQ-hub operations since the July 30, 2014 acquisition date, adding \$2.0 million in revenues, mostly recurring, and \$2.5 million in expenses.



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Our European commissions and fees grew 43% in 2014 as compared to 2013, far outpacing the 16% growth in market-wide value traded. We are continuing to benefit from the investments we have made in our infrastructure and our product suite resulting in increased activity from buy-side and sell-side clients using our electronic brokerage offerings, including our trading algorithms and POSIT, and from clients using our POSIT Alert block crossing system. We also saw increased commissions from the use of our high-touch trading services. Commissions and fees also benefitted from \$5.9 million in favorable currency translation.

Recurring revenues increased primarily from the new connectivity revenue from RFQ-hub.

Compensation and employee benefits increased due to higher incentive-based compensation related to improved performance, increase in headcount, including employees from the RFQ-hub acquisition, and the impact of the unfavorable currency translation of \$1.7 million. This increase was offset, in part, by \$3.1 million in lower compensation associated with the outsourcing of our research and development facility in Israel to a third-party service provider. Deferred stock-based compensation expense associated with awards granted for the 2014 and 2013 fiscal years to European employees is expected to increase by approximately \$2 million in 2015.

Transaction processing costs increased due to the significant increase in value traded. However, transaction processing costs declined as a percentage of commissions and fees to 23.5% from 24.6% in 2013 due to the impact of a higher percentage of our value traded crossed in POSIT, including our POSIT Alert block crossing system, and our initiatives to reduce settlement and clearing costs.

Other expenses increased due to higher charges for (a) global research and development costs, (b) historical market data, (c) consulting costs, net of capitalization, attributable to the outsourcing of our research and development facility in Israel to a third-party service provider, (d) marketing costs and due to the additional costs added by RFQ-hub.

*Asia Pacific Operations*

\$ in thousands	Year Ended December 31,		Change	% Change
	2014	2013		
<b>Revenues:</b>				
Commissions and fees	\$ 41,624	\$ 40,333	\$ 1,291	3
Recurring	6,488	5,650	838	15
Other	(887)	(4)	(883)	NA
<b>Total revenues</b>	<b>47,225</b>	<b>45,979</b>	<b>1,246</b>	<b>3</b>
<b>Expenses:</b>				
Compensation and employee benefits	20,382	19,437	945	5
Transaction processing	10,716	11,539	(823)	(7)
Other expenses	17,652	17,182	470	3
<b>Total expenses</b>	<b>48,750</b>	<b>48,158</b>	<b>592</b>	<b>1</b>
<b>Loss before income tax benefit</b>	<b>\$ (1,525)</b>	<b>\$ (2,179)</b>	<b>\$ 654</b>	<b>(30)</b>

Currency translation from a weaker Australian Dollar decreased total Asia Pacific revenues and expenses both by \$1.3 million, resulting in no impact on our pre-tax loss.

Asia Pacific commissions and fees increased despite a reduction in market-wide trading activity and unfavorable currency translation due to the growth in commissions from clients using our POSIT Alert block crossing system and algorithmic trading capabilities as well as from higher commission-sharing revenues.

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The growth in recurring revenues primarily reflects growth in the number of billable network connections through ITG Net and the decrease in other revenues is due to higher client trade accommodations, which totaled \$1.2 million in 2014, compared to \$0.3 million in 2013.

Compensation and employee benefits increased due to increases in headcount and employee termination charges, partially offset by higher capitalized compensation for software development and favorable currency translation.

Transaction processing costs decreased due to a reduction in value traded and our efforts to reduce execution and settlement costs. As a percentage of commissions and fees, transaction processing costs declined to 25.7% from 28.6% in 2013.

The increase in other expenses reflects higher charges for historical market data and global research and development, as well as increases in hardware and software maintenance and connectivity, partially offset by reductions in market data costs and lower foreign exchange transaction losses.

### *Consolidated income tax expense*

Our effective tax rate was 21.7% for 2014 compared to 27.8% for 2013. The low rate in both periods is the result of a significantly higher proportion of our pre-tax income arising from our European Operations, which is taxed at a lower rate. Additionally, in the U.S. we recorded a \$2.7 million tax benefit in 2014 for the net impact of settling multi-year tax return positions and establishing additional reserves for other tax positions. In 2013, our effective tax rate was favorably impacted by the resolution of a tax contingency in Europe and the recognition of the full-year 2012 research and experimentation credit in the U.S. during the first quarter of 2013 due to the timing of tax legislation. Our consolidated effective tax rate can vary from period to period depending on, among other factors, the geographic and business mix of our earnings.

### *Year Ended December 31, 2013 Compared to Year Ended December 31, 2012*

#### *U.S. Operations*

<b>\$ in thousands</b>	<b>Year Ended December 31,</b>		<b>Change</b>	<b>% Change</b>
	<b>2013</b>	<b>2012</b>		
<b>Revenues:</b>				
Commissions and fees	\$ 231,140	\$ 231,197	\$ (57)	
Recurring	76,720	82,766	(6,046)	(7)
Other	10,176	7,416	2,760	37
<b>Total revenues</b>	<b>318,036</b>	<b>321,379</b>	<b>(3,343)</b>	<b>(1)</b>
<b>Expenses:</b>				
Compensation and employee benefits	125,672	128,458	(2,786)	(2)
Transaction processing	41,995	45,225	(3,230)	(7)
Other expenses	133,231	141,354	(8,123)	(6)
Goodwill and other asset impairment		245,103	(245,103)	(100)
Restructuring charges	(1,264)	6,798	(8,062)	(119)
Interest expense	2,715	2,542	173	7
<b>Total expenses</b>	<b>302,349</b>	<b>569,480</b>	<b>(267,131)</b>	<b>(47)</b>
<b>Income (loss) before income tax expense (benefit)</b>	<b>\$ 15,687</b>	<b>\$ (248,101)</b>	<b>\$ 263,788</b>	<b>106</b>

Commissions and fees remained flat as a 7% reduction in our average daily trading volumes was offset by a 7% increase in our average revenue per share to \$0.0047. The increase in our average revenue per share was primarily attributable to increased use of our POSIT Alert block crossing system

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as well as more clients paying for research through trading at a higher bundled rate. The proportion of our average daily volume from sell-side clients remained relatively constant at 50% for both 2013 and 2012.

U.S. Operations: Key Indicators*	Year Ended December 31,		Change	% Change
	2013	2012		
Total trading volume (in billions of shares)	42.4	45.4	(3.0)	(7)
Average trading volume per day (in millions of shares)	168.1	181.6	(13.5)	(7)
Average revenue per share	\$ 0.0047	\$ 0.0044	\$ 0.0003	7
U.S. market trading days	252	250	2	1

\*

Excludes activity from ITG Derivatives and ITG Net commission-sharing arrangements.

Recurring revenues decreased 7% reflecting the impact of client attrition from our OMS product, which resulted in lower OMS subscription revenues and connectivity fees, as well as lower research subscription revenues.

Other revenues increased 37% due primarily to an increase in revenues generated by our stock loan matched book business, which included a gain of \$2.5 million related to adjustments to historical dividend withholdings.

Total expenses for 2013 of \$302.3 million include duplicate rent charges of \$2.6 million associated with the build out of our new headquarters in lower Manhattan while we still occupied our then-current headquarters in midtown Manhattan, \$3.9 million related to our office move and a \$1.3 million reversal of previously-recorded 2012 and 2011 restructuring liabilities. Total expenses for 2012 of \$569.5 million include a goodwill impairment charge of \$245.1 million, restructuring charges of \$6.8 million and duplicate rent charges of \$1.4 million. Excluding these items, adjusted expenses decreased 6% in 2013 to \$297.1 million compared to \$316.2 million in 2012 (see *Non-GAAP Financial Measures*).

Compensation and employee benefits decreased from a reduction in headcount largely attributable to our restructuring in 2012, partially offset by higher incentive-based compensation costs associated with improved profitability in 2013.

Transaction processing costs decreased due to the lower level of trading volumes. As a percentage of commissions and fees, transaction processing costs declined due primarily to the increased revenue per share described above.

Other expenses decreased \$8.1 million despite an increase of \$1.2 million in duplicate rent charges associated with the build-out of our new headquarters in lower Manhattan and the \$3.9 million charge we incurred upon completion of the move, which includes a reserve for the remaining lease obligations at our previous headquarters. This decrease was attributable to lower market data and connectivity costs resulting from our cost reduction initiatives, lower marketing costs due to our 2012 rebranding efforts, lower software amortization and a reduction of bad debt reserves from improved collection efforts. These reductions were partially offset by a reduced credit for research and development costs charged to other regional segments.

In 2012, we recorded goodwill impairment charges of \$245.1 million, reflecting the weakness in institutional trading volumes which resulted in lower estimated future cash flows of the U.S. Operations reporting segment, and a decline in industry market multiples (see *Critical Accounting Estimates*).

In the second quarter of 2013, previously-recorded 2012 and 2011 restructuring accruals were reduced to reflect the sub-lease of previously-vacated office space in Los Angeles and certain legal and other employee-related charges deemed unnecessary.

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Interest expense incurred in 2013 and 2012 primarily relates to interest cost on our term debt and commitment fees relating to the three-year, \$150 million revolving credit agreement we entered into in January 2011, including debt issuance cost amortization.

*Canadian Operations*

\$ in thousands	Year Ended December 31,		Change	% Change
	2013	2012		
<b>Revenues:</b>				
Commissions and fees	\$ 57,507	\$ 61,776	\$ (4,269)	(7)
Recurring	9,294	9,117	177	2
Other	8,193	6,020	2,173	36
<b>Total revenues</b>	<b>74,994</b>	<b>76,913</b>	<b>(1,919)</b>	<b>(2)</b>
<b>Expenses:</b>				
Compensation and employee benefits	25,929	22,795	3,134	14
Transaction processing	10,691	11,584	(893)	(8)
Other expenses	27,281	30,992	(3,711)	(12)
Restructuring charges	(348)	1,145	(1,493)	(130)
<b>Total expenses</b>	<b>63,553</b>	<b>66,516</b>	<b>(2,963)</b>	<b>(4)</b>
Income before income tax expense	\$ 11,441	\$ 10,397	\$ 1,044	10

Currency translation decreased total Canadian revenues and expenses by \$2.1 million and \$1.8 million, respectively, resulting in a \$0.3 million reduction to pre-tax income.

Canadian commissions and fees declined 7%, primarily due to lower revenue from high-touch desk trading services and from unfavorable currency translation, offset in part by an increase in activity from clients using our electronic brokerage services.

Recurring revenues increased slightly due to an increase in the number of billable connections through ITG Net and from our billing for market data consumed by clients, offset by lower research subscription revenues.

Other revenues increased as a result of additional income earned on foreign exchange transactions and on principal trading, as well as from lower trading errors and client trade accommodations.

Compensation and employee benefits costs increased primarily due to an increase in share-based compensation, partially offset by a decrease from reduced headcount. The increase in share-based compensation related to the impact of an increase in the price of our stock on legacy awards settled in cash.

Transaction processing costs decreased due to the impact of lower execution costs on lower volumes and the elimination of an accrual for sales tax on exchange fees due to the resolution of a contingency, offset in part by higher clearing and settlement charges due to an increase in the number of trade tickets settled.

The decrease in other expenses was primarily driven by lower data-center-related costs following our migration to a new location, lower consulting and market data costs from our cost reduction efforts and lower research and development costs.

In the second quarter of 2013, previously-recorded restructuring accruals were adjusted to reflect our current expectations. Restructuring charges in 2012 include costs related to employee separation.

Table of Contents*European Operations*

\$ in thousands	Year Ended December 31,		Change	% Change
	2013	2012		
<b>Revenues:</b>				
Commissions and fees	\$ 79,639	\$ 54,390	\$ 25,249	46
Recurring	12,508	12,971	(463)	(4)
Other	(355)	(95)	(260)	(274)
<b>Total revenues</b>	<b>91,792</b>	<b>67,266</b>	<b>24,526</b>	<b>36</b>
<b>Expenses:</b>				
Compensation and employee benefits	30,216	26,085	4,131	16
Transaction processing	19,567	15,156	4,411	29
Other expenses	22,366	21,279	1,087	5
Goodwill and other asset impairment		28,481	(28,481)	(100)
Restructuring charges	1,537	615	922	150
<b>Total expenses</b>	<b>73,686</b>	<b>91,616</b>	<b>(17,930)</b>	<b>(20)</b>
<b>Income (loss) before income tax expense (benefit)</b>	<b>\$ 18,106</b>	<b>\$ (24,350)</b>	<b>\$ 42,456</b>	<b>174</b>

Currency translation decreased total European revenues and expenses by \$1.3 million and \$0.5 million, respectively, resulting in a \$0.8 million reduction to pre-tax income.

European commissions and fees increased 46%, far outpacing the 9% growth in market-wide trading activity due primarily to the impact from the investments we made in our infrastructure and our products helping us expand our client base. This has led to increased activity from buy-side and sell-side clients using our electronic brokerage offerings, including our trading algorithms and POSIT, and from clients using our POSIT Alert block crossing system.

Recurring and other revenue declined due to the cancellation of OMS subscriptions and an increase in trading errors and client trade accommodations, which totaled \$0.5 million in 2013, compared to \$0.4 million in 2012.

Compensation and employee benefits expense increased due primarily to increased incentive-based compensation related to improved performance.

Transaction processing costs increased 29% due to the significantly higher value traded in 2013, but fell as a percentage of commissions and fees due to the impact of a higher percentage of our value traded crossed in POSIT and our initiatives to reduce settlement and clearing costs.

Other expenses increased 5% due primarily to increases in market data costs and facility costs relating to our new London office and London data center partially offset by lower research and development costs.

In the second quarter of 2012, we recorded a goodwill impairment charge of \$28.5 million reflecting the continued weakness in institutional trading activity experienced in 2012, which resulted in lower estimated future cash flows for the European Operations reporting segment (see *Critical Accounting Estimates*).

In the second quarter of 2013, we implemented a restructuring plan to close our technology research and development facility in Israel and outsource that function to a third-party service provider effective January 1, 2014. Restructuring charges in 2012 include costs related to employee separation.

Table of Contents*Asia Pacific Operations*

\$ in thousands	Year Ended December 31,		Change	% Change
	2013	2012		
<b>Revenues:</b>				
Commissions and fees	\$ 40,333	\$ 33,613	\$ 6,720	20
Recurring	5,650	4,913	737	15
Other	(4)	352	(356)	(101)
<b>Total revenues</b>	<b>45,979</b>	<b>38,878</b>	<b>(7,101)</b>	<b>18</b>
<b>Expenses:</b>				
Compensation and employee benefits	19,437	19,024	413	2
Transaction processing	11,539	9,208	2,331	25
Other expenses	17,182	17,405	(223)	(1)
Goodwill and other asset impairment		701	(701)	(100)
Restructuring charges		941	(941)	(100)
<b>Total expenses</b>	<b>48,158</b>	<b>47,279</b>	<b>879</b>	<b>2</b>
<b>Loss before income tax expense</b>	<b>\$ (2,179)</b>	<b>\$ (8,401)</b>	<b>\$ 6,222</b>	<b>74</b>

Currency translation decreased total Asia Pacific revenues and expenses by \$1.4 million and \$1.3 million, respectively, resulting in a \$0.1 million increase to our pre-tax loss.

Asia Pacific commissions and fees increased 20% over the prior year period primarily due to strong order flow by U.S. clients and local Asian clients trading into Japan, Korea and Hong Kong.

The growth in recurring revenues primarily reflects growth in the number of billable network connections through ITG Net. The decrease in other revenues is due primarily to lower investment income and higher trading errors and client trade accommodations, which totaled \$0.3 million in 2013, compared to \$0.2 million in 2012.

Compensation and employee benefits increased slightly due to an increase in incentive-based compensation related to improved performance.

Transaction processing costs increased due to the higher value of securities traded and a higher proportion of our trades executed in Japan where costs are higher.

The slight increase in other expenses reflects the additional connectivity and market data fees related to business growth and higher rental expenses for our Hong Kong office, partially offset by lower research and development costs.

In the second quarter of 2012, we recorded a goodwill impairment charge of \$0.7 million reflecting the continued weakness in institutional trading volumes (see *Critical Accounting Estimates*). Restructuring charges in 2012 primarily include costs related to employee separation.

*Consolidated Income Tax Expense*

Our effective tax rate was 27.8% on our pre-tax income in 2013 compared to 8.4% on our pre-tax loss in 2012. In 2013, our low effective tax rate was favorably impacted by a higher proportion of earnings coming from our European Operations, where we incur lower tax rates, together with the resolution of a tax contingency in Europe and the recognition of the full year 2012 research and experimentation credit in the U.S. during the first quarter of 2013 due to the timing of tax legislation. These reductions to our effective tax rate were partially offset by increases associated with the lack of a deduction on the restructuring charge related to closing the Israel technology research and development facility and the tax charges associated with the anticipated withdrawal of capital from Israel. The low rate in 2012 was primarily attributable to the significant impairment charges in the U.S.,





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Europe and Asia Pacific, which were either partially or fully non-deductible. Furthermore, 2012 was favorably impacted by a net benefit recorded of \$0.9 million following the resolution in the U.S. of a state tax contingency.

**Liquidity and Capital Resources**

***Liquidity***

Our primary source of liquidity is cash provided by operations. Our liquidity requirements result from our working capital needs, which include clearing and settlement activities, as well as our regulatory capital needs. A substantial portion of our assets is liquid, consisting of cash and cash equivalents or assets readily convertible into cash. Cash is principally invested in U.S. government money market mutual funds and other money market mutual funds. At December 31, 2014, unrestricted cash and cash equivalents totaled \$275.2 million. Included in this amount is \$122.3 million of cash and cash equivalents held by subsidiaries outside the United States. Due to our current capital structure, we currently do not foresee a need to repatriate funds from certain foreign subsidiaries to the U.S. by way of dividends. Should we need to do so in the future, our effective tax rate may increase.

As a self-clearing broker-dealer in the U.S., we are subject to cash deposit requirements with clearing organizations that may be large in relation to total liquid assets and may fluctuate significantly based upon the nature and size of customers' trading activity and market volatility. At December 31, 2014, we had interest-bearing security deposits totaling \$36.4 million with clearing organizations in the U.S. for the settlement of equity trades. In the normal course of our U.S. settlement activities, we may also need to temporarily finance customer securities positions from short settlements or delivery failures. These financings may be funded from existing cash resources, borrowings under stock loan transactions or short-term bank loans under our committed facility. In January 2014, we entered into a new \$150 million two-year revolving credit agreement with a syndicate of banks and JP Morgan Chase Bank, N.A. as administrative agent to finance these temporary positions and to satisfy temporary spikes in clearing margin requirements.

We self-clear equity trades in Hong Kong and Australia and maintain restricted cash deposits of \$25.8 million to support overdraft facilities. In Europe, we maintain \$31.7 million in restricted cash deposits primarily supporting working capital facilities in the form of overdraft protection for our European clearing and settlement needs.

***Capital Resources***

Capital resource requirements relate to capital purchases, as well as business investments, and are generally funded from operations. When required, as in the case of a major acquisition, our strong cash generating ability has historically allowed us to access U.S. capital markets.

Table of Contents**Operating Activities**

The table below summarizes the effect of the major components of operating cash flow.

(in thousands)	Year Ended December 31,		
	2014	2013	2012
Net income (loss)	\$ 50,892	\$ 31,085	\$ (247,859)
Non-cash items included in net income (loss)	62,478	78,220	321,199
Effect of changes in receivables/payables from/to customers and brokers	(34,627)	(25,274)	(32,563)
Effect of changes in other working capital and operating assets and liabilities	63,797	(38,839)	(13,985)
<b>Net cash provided by operating activities</b>	<b>\$ 142,540</b>	<b>\$ 45,192</b>	<b>\$ 26,792</b>

The cash flow provided by operating activities for 2014 was driven by an increase in net income, an increase in accounts payable and accrued expenses primarily from the build-up of accrued bonuses and a decrease in deposits held by clearing organizations. These increases to cash were offset by an increase in cash used for settlement activities. The decrease in deposits with clearing organizations was offset by a \$35.0 million repayment in short-term bank loans in the U.S., while the increase in cash used in settlement activities was offset by an increase of \$39.8 million in international short-term bank loans. The net change of \$4.8 million in short-term bank loan financing is included in financing activities below.

In the normal course of our clearing and settlement activities worldwide, cash is typically used to fund restricted or segregated cash accounts (under regulations and other), broker and customer fails to deliver/receive, securities borrowed, deposits with clearing organizations and net activity related to receivables/payables from/to customers and brokers. The cash requirements vary from day to day depending on volume transacted and customer trading patterns.

**Investing Activities**

Net cash used in investing activities of \$61.1 million includes our acquisition of RFQ-hub, investments in software development projects, computer hardware and software and a minority interest investment.

**Financing Activities**

Net cash used in financing activities of \$62.0 million primarily reflects repurchases of ITG common stock, shares withheld for net settlements of share-based awards and repayments of long-term debt, offset by net proceeds from short-term bank borrowings that are used to support our settlement activities.

On January 31, 2014, ITG Inc. as borrower, and Investment Technology Group, Inc. as guarantor entered into a new \$150 million two-year revolving credit agreement (the "Credit Agreement") with a syndicate of banks and JPMorgan Chase Bank, N.A., as Administrative Agent. The Credit Agreement includes an accordion feature that allows for potential expansion of the facility up to \$225 million. The terms and conditions of the Credit Agreement are substantially the same as the initial Credit Agreement that matured on January 31, 2014.

During 2014, the Company repurchased approximately 3.0 million shares of our common stock at a cost of approximately \$54.4 million, which was funded from our available cash resources. Of these shares, approximately 2.7 million were purchased under our Board of Directors' authorization for a total cost of \$48.2 million (average cost of \$18.03 per share). An additional 0.4 million shares (\$6.2 million) pertained solely to the satisfaction of minimum statutory withholding tax upon the net

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settlement of equity awards. On October 15, 2014, the Board of Directors authorized the repurchase of an additional 4.0 million shares, bringing the total number of shares available for repurchase at that time to 5.4 million shares. This additional authorization has no expiration date. As of December 31, 2014, the total remaining number of shares currently available for repurchase under ITG's stock repurchase program was 4.8 million. The specific timing and amount of repurchases will vary based on market conditions and other factors. We may elect to conduct future share repurchases through open market purchases, private transactions or automatic share repurchase programs under SEC Rule 10b5-1.

**Regulatory Capital**

ITG Inc., AlterNet and ITG Derivatives are subject to the SEC's Uniform Net Capital Rule (Rule 15c3-1), which requires the maintenance of minimum net capital. ITG Inc. has elected to use the alternative method permitted by Rule 15c3-1, which requires that ITG Inc. maintain minimum net capital equal to the greater of \$1.0 million or 2% of aggregate debit balances arising from customer transactions, as defined. AlterNet and ITG Derivatives have elected to use the basic method permitted by Rule 15c3-1, which requires that they each maintain minimum net capital equal to the greater of 6<sup>2</sup>/<sub>3</sub>% of aggregate indebtedness or \$100,000 and \$1.0 million, respectively. Dividends or withdrawals of capital cannot be made if capital is needed to comply with regulatory requirements.

Net capital balances and the amounts in excess of required net capital at December 31, 2014 for the U.S. Operations are as follows (dollars in millions):

U.S. Operations	Net Capital	Excess
ITG Inc.	\$ 99.8	\$ 98.8
AlterNet	5.5	5.3
ITG Derivatives	2.4	1.4

As of December 31, 2014, ITG Inc. had \$10.1 million of cash in a Special Reserve Bank Account for the benefit of customers under the Customer Protection Rule pursuant to SEC Rule 15c3-3, *Computation for Determination of Reserve Requirements* and \$1.0 million under agreements for proprietary accounts of broker-dealers.

In addition, the Company's Canadian, European and Asia Pacific Operations have subsidiaries with regulatory capital requirements. The regulatory net capital balances and amount of regulatory capital in excess of the minimum requirements applicable to each business at December 31, 2014, is summarized in the following table (dollars in millions):

Canadian Operations	Net Capital	Excess
Canada	\$ 36.8	\$ 36.4
<b>European Operations</b>		
Ireland	63.2	39.0
U.K.	3.9	3.0
<b>Asia Pacific Operations</b>		
Australia	12.3	8.2
Hong Kong	26.8	14.1
Singapore	0.4	0.2

**Liquidity and Capital Resource Outlook**

Historically, our working capital, stock repurchase and investment activity requirements have been funded from cash from operations and short-term loans, with the exception of strategic acquisitions, which at times have required long-term financing. We believe that our cash flow from operations,

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existing cash balances and our available credit facilities will be sufficient to meet our ongoing operating cash and regulatory capital needs, while also complying with the terms of our Credit Agreement. However, our ability to borrow additional funds may be inhibited by financial lending institutions' ability or willingness to lend to us on commercially acceptable terms.

**Off-Balance Sheet Arrangements and Aggregate Contractual Obligations**

We are a member of various U.S. and non-U.S. exchanges and clearing houses that trade and clear, respectively, equities and/or derivative contracts. Associated with our membership, we may be required to pay a proportionate share of financial obligations of another member who may default on its obligations to the exchanges or the clearing house. While the rules governing different exchange or clearinghouse memberships vary, in general, our guarantee obligations would arise only if the exchange had previously exhausted its resources. The maximum potential payout under these memberships cannot be estimated. We have not recorded any contingent liability in the consolidated financial statements for these agreements and believe that any potential requirement to make payments under these agreements is remote.

**Aggregate Contractual Obligations**

As of December 31, 2014, our contractual obligations and other commercial commitments amounted to \$190.5 million in the aggregate and consisted of the following (dollars in millions):

Contractual obligations	Total	Payments due by period			More than 5 years
		Less than 1 year	1-3 years	3-5 years	
Purchase of goods and services	\$ 42,292	\$ 32,957	\$ 9,335	\$	\$
Long-term debt	2,653	2,653			
Capital lease obligations	15,128	6,167	5,692	3,269	
Operating lease obligations	125,056	17,214	24,779	17,618	65,445
Minimum payments under certain employment arrangements(a)	5,363	5,231	28	28	76
Total	\$ 190,492	\$ 64,222	\$ 39,832	\$ 20,915	\$ 65,521

(a)

Pursuant to employment arrangements, in the event of termination of employment without cause on December 31, 2014, we would be obligated to pay separation payments totaling \$5.4 million.

The above information excludes \$14.4 million of gross unrecognized tax benefits discussed in Note 9, *Income Taxes*, to our consolidated financial statements because it is not possible to estimate the time period when, or if, it might be paid to tax authorities.

As part of the \$150 million, two-year credit agreement we entered into on January 31, 2014, we are required to pay a commitment fee of 0.50% on any unborrowed amounts.

**New Accounting Pronouncements**

In May 2014, the Financial Accounting Standards Board (the "FASB") issued Accounting Standards Update ("ASU") No. 2014-09, ("ASU 2014-09"), *Revenue from Contracts with Customers*. The standard provides companies with a single model for use in accounting for revenue arising from contracts with customers and supersedes current revenue recognition guidance, including industry-specific revenue guidance. The core principle of the model is to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Application of the new guidance involves five steps: (1) identifying contracts with customers; (2) identifying the separate performance obligations within the contracts; (3) determining the transaction price; (4) allocating the

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transaction price to the separate performance obligations; and (5) recognizing revenue when (or as) the performance obligations are satisfied. ASU 2014-09 applies to all contracts with customers except those that are within the scope of other topics in the FASB Accounting Standards Codification. The standard will also require significant additional qualitative and quantitative disclosures describing the nature, amount, timing, and uncertainty of revenues. The new guidance is effective for annual reporting periods (including interim periods within those periods) beginning after December 15, 2016 for public companies. Early adoption is not permitted. Entities have the option of using either a full retrospective or modified approach to adopt ASU 2014-09. We are currently evaluating the new guidance and have not yet selected a transition method nor have we determined the impact of adoption on our financial statements.

***Critical Accounting Estimates***

Our consolidated financial statements and accompanying notes are prepared in accordance with accounting principles generally accepted in the U.S. In many instances, the application of such principles requires management to make estimates or to apply subjective principles to particular facts and circumstances. A change in the estimates or a variance in the application, or interpretation of accounting principles generally accepted in the U.S. could yield a materially different accounting result. Below is a summary of our critical accounting estimates where we believe that the estimations, judgments or interpretations that we made, if different, would have yielded the most significant differences in our consolidated financial statements. In addition, for a summary of all of our significant accounting policies see Note 2, *Summary of Significant Accounting Policies*, in the notes to the consolidated financial statements.

***Goodwill Impairment: Testing Methodology and Valuation Considerations***

We obtained goodwill and intangible assets as a result of the acquisitions of subsidiaries. Goodwill represents the excess of the cost over the fair market value of net assets acquired. We are required to periodically assess whether any of our goodwill is impaired. In order to do this, we apply judgment in determining our reporting units, which represent our business segments. Our annual goodwill impairment assessment involves assessing qualitative factors to determine whether the existence of events or circumstances leads to a determination that it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If the results of our qualitative analysis suggests that the carrying value of the reporting unit exceeds its fair value, additional steps are required to calculate a potential impairment loss using a two-step impairment test. The two-step impairment testing process is as follows:

Step one the fair value of each reporting unit is compared to its carrying value in order to identify potential impairment. If the fair value of a reporting unit exceeds the carrying value of its net assets, goodwill is not considered impaired and no further testing is required. If the carrying value of the net assets exceeds the fair value of a reporting unit, potential impairment is indicated at the reporting unit level and step two of the impairment test is performed in order to determine the implied fair value of the reporting unit's goodwill and measure the potential impairment loss.

Step two when potential impairment is indicated in step one, we compare the implied fair value of goodwill with the carrying amount of that goodwill. Determining the implied fair value of goodwill requires a valuation of the reporting unit's tangible and (non-goodwill) intangible assets and liabilities in a manner similar to the allocation of the purchase price in a business combination. Any excess in the value of a reporting unit over the amounts assigned to its assets and liabilities is referred to as the implied fair value of goodwill. If the carrying amount of the reporting unit goodwill exceeds the implied fair value of that goodwill, an impairment loss is recognized in an amount equal to that excess.

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*Intangible Assets Subject to Amortization*

Intangible assets with definite useful lives are subject to amortization and are evaluated for recoverability when events or changes in circumstances indicate that an intangible asset's carrying amount may not be recoverable in accordance with ASC 360, *Property, Plant, and Equipment*. If such an event or change occurs, we estimate cash flows directly associated with the use of the intangible asset to test its recoverability and assess its remaining useful life. The projected cash flows require assumptions related to revenue growth, operating margins and other relevant market, economic and regulatory factors. If the expected undiscounted future cash flows from the use and eventual disposition of a finite-lived intangible asset or asset group are not sufficient to recover the carrying value of the asset, we then compare the carrying amount to its current fair value. We estimate the fair value using market prices for similar assets, if available, or by using a discounted cash flow model. We then recognize an impairment loss for the amount by which the carrying amount exceeds its fair value. While we believe our assumptions are reasonable, changes in these assumptions may have a material impact on our financial results.

*Share-Based Compensation*

In accordance with ASC 718, *Compensation - Stock Compensation*, share-based payment transactions require the application of a fair value methodology that involves various assumptions. The fair value of options awarded is estimated on the date of grant using the Black-Scholes option valuation model that uses the following assumptions: expected life of the option, risk-free interest rate, expected volatility of our common stock price and expected dividend yield. We estimate the expected life of the options using historical data and the volatility of our common stock is estimated based on a combination of the historical volatility and the implied volatility from traded options. The fair value of restricted share awards with a market condition is estimated on the date of grant using a Monte Carlo simulation model. A Monte Carlo simulation is an iterative technique designed to estimate future payouts by taking into account our current stock price, the volatility of our common stock, risk-free rates, and a risk-neutral valuation methodology.

Although both models meet the requirements of ASC 718, the fair values generated by the model may not be indicative of the actual fair values of the underlying awards, as it does not consider other factors important to those share-based compensation awards, such as continued employment, periodic vesting requirements and limited transferability.

*Fair Value*

Securities owned, at fair value, and securities sold, not yet purchased, at fair value in the Consolidated Statements of Financial Condition are carried at fair value or amounts that approximate fair value, with the related unrealized gains or losses recognized in our results of operations. The fair value of these instruments is the amount at which these instruments could be exchanged in a current transaction between willing parties, other than in a forced liquidation. Where available, we use the prices from independent sources such as listed market prices or broker/dealer quotations. For investments in illiquid and privately held securities that do not have readily determinable fair values, we use estimated fair values as determined by management.

*Income Taxes and Uncertain Tax Positions*

ASC 740, *Income Taxes*, establishes financial accounting and reporting standards for the effect of income taxes. The objectives of accounting for income taxes are to recognize the amount of taxes payable or refundable for the current year and deferred tax liabilities and assets for the future tax consequences of events that have been recognized in an entity's financial statements or tax returns. A valuation allowance may be recorded against deferred tax assets if it is more likely than not that those

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assets will not be realized. Judgment is required in assessing the future tax consequences of events that have been recognized in our financial statements or tax returns. Fluctuations in the actual outcome of these future tax consequences could materially impact our financial position or results of operations.

We recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The tax benefits recognized in the financial statements from such a position are measured based on the largest benefit for each such position that has a greater than fifty percent likelihood of being realized upon ultimate resolution. We consider many factors when evaluating and estimating our tax positions and tax benefits. Such estimates involve interpretations of regulations, rulings, case law, etc. and are inherently complex. Our estimates may require periodic adjustments and may not accurately anticipate actual outcomes as resolution of income tax treatments in individual jurisdictions typically would not be known for several years after completion of any fiscal year. The impact of our reassessment of uncertain tax positions in accordance with ASC 740 did not have a material impact on the results of operations, financial condition or liquidity.

**Item 7A. Quantitative and Qualitative Disclosures About Market Risk**

Market risk refers to the potential for adverse changes in the value of a company's financial instruments as a result of changes in market conditions. We are exposed to market risk associated with changes in interest rates, foreign currency exchange rates and equity prices. We do not hold financial instruments for trading purposes on a long-term basis. We continually evaluate our exposure to market risk and oversee the establishment of policies, procedures and controls to ensure that market risks are identified and analyzed on an ongoing basis.

We have performed sensitivity analyses on different tests of market risk as described in the following sections to estimate the impacts of a hypothetical change in market conditions on the U.S. Dollar value of non-U.S. Dollar-based revenues associated with our Canadian, European and Asia Pacific Operations. Estimated potential losses assume the occurrence of certain adverse market conditions. Such estimates do not consider the potential effect of favorable changes in market factors and also do not represent management's expectations of projected losses in fair value. We do not foresee any significant changes in the strategies we use to manage interest rate risk, foreign currency risk or equity price risk in the near future.

***Interest Rate Risk***

Our exposure to interest rate risk relates primarily to interest-sensitive financial instruments in our investment portfolio and our revolving credit facility as well as our variable rate term debt. Given that our \$150 million credit facility is specifically earmarked for limited short-term borrowings to support U.S. brokerage clearing operations, the impact of any adverse change in interest rates on this facility should not be material. Similarly, because only a small portion of our term debt is subject to a variable rate, the impact of any adverse change in interest rates should not be material. Interest-sensitive financial instruments in our investment portfolio will decline in value if interest rates increase. Our interest-bearing investment portfolio primarily consists of short-term, high-credit-quality money market mutual funds. The aggregate fair market value of our portfolio including restricted cash was \$321.8 million and \$320.0 million as of December 31, 2014 and 2013, respectively. Our interest-bearing investments are not insured and, because of the short-term high quality nature of the investments, are not likely to fluctuate significantly in market value.

***Foreign Currency Risk***

We currently operate and continue to expand globally, principally through our operations in Canada, Europe and Asia Pacific as well as through the development of specially tailored versions of



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our services to meet the needs of our clients who trade in international markets. Our investments and development activities in these countries expose us to currency exchange rate fluctuations primarily between the U.S. Dollar and the British Pound Sterling, Euro, Australian Dollar, Canadian Dollar and Hong Kong Dollar. When the U.S. Dollar strengthens against these currencies, the U.S. Dollar value of non-U.S. Dollar-based revenue decreases. To the extent that our international activities recorded in local currencies increase in the future, our exposure to fluctuations in currency exchange rates will correspondingly increase. We have not engaged in derivative financial instruments as a means of hedging this financial statement risk. Non-U.S. Dollar cash balances held overseas are generally kept at levels necessary to meet current operating and capitalization needs. At times, we may hedge small amounts of the Non-U.S. Dollar cash balances to mitigate exposure.

Approximately 45% and 40% of our revenues for the years ended December 31, 2014 and 2013, respectively, were denominated in non-U.S. Dollar currencies. For the years ended December 31, 2014 and 2013, respectively, we estimate that a hypothetical 10% adverse change in the above mentioned foreign exchange rates would have resulted in a decrease in net income of \$4.5 million and \$2.5 million, respectively.

***Equity Price Risk***

Equity price risk results from exposure to changes in the prices of equity securities on positions held due to trading errors, including client errors and our own errors, and from principal trading activities, primarily on an intra-day basis. Equity price risk can arise from liquidating all such principal positions. Accordingly, we maintain policies and procedures regarding the management of our principal trading accounts, which require review by a supervisory principal. It is our policy to attempt to trade out of all positions by the end of the day. However, at times, we hold positions overnight if we are unable to trade out of positions during the day. In addition, certain positions may be liquidated over a period of time in an effort to minimize market impact, and we may incur losses relating to such positions. We may also have positions in exchange-traded funds ("ETFs") with offsetting positions in the underlying securities as part of an ETF creation and redemption service that we provide to clients.

We manage equity price risk associated with open positions through the establishment and monitoring of trading policies and through controls and review procedures that ensure communication and timely resolution of trading issues. In addition, our operations and trading departments review all trades that are open at the end of the day.

***Cash Management Risk***

Our cash management strategy seeks to optimize excess liquid assets by preserving principal, maintaining liquidity to satisfy capital requirements, minimizing risk and maximizing our after-tax rate of return. Our policy is to invest in high quality credit issuers, limit the amount of credit exposure to any one issuer and invest in tax efficient strategies. Our first priority is to reduce the risk of principal loss. We seek to preserve our invested funds by limiting default risk, market risk, and re-investment risk. We attempt to mitigate default risk by investing principally in U.S. government money market mutual funds and other short-term government debt-based instruments.

For working capital purposes, we invest only in money market instruments. Cash balances that are not needed for normal operations may be invested in a tax efficient manner in instruments with appropriate maturities and levels of risk to correspond to expected liquidity needs. To the extent that we invest in equity securities, we ensure portfolio liquidity by investing in marketable mutual fund securities with active secondary or resale markets. We do not use derivative financial instruments in our investment portfolio. At December 31, 2014 and 2013, our unrestricted cash and cash equivalents and mutual fund securities owned were \$279.1 million and \$266.4 million, respectively.

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**Item 8. Financial Statements and Supplementary Data**

	<b>Pages</b>
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<u>Consolidated Statements of Financial Condition</u>	<u>49</u>
<u>Consolidated Statements of Operations</u>	<u>50</u>
<u>Consolidated Statements of Comprehensive Income (Loss)</u>	<u>51</u>
<u>Consolidated Statements of Changes in Stockholders' Equity</u>	<u>52</u>
<u>Consolidated Statements of Cash Flows</u>	<u>53</u>
<u>Notes to Consolidated Financial Statements</u>	<u>54</u>

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**Report of Independent Registered Public Accounting Firm**

The Board of Directors and Stockholders  
Investment Technology Group, Inc.:

We have audited the accompanying consolidated statements of financial condition of Investment Technology Group, Inc. and Subsidiaries (the Company) as of December 31, 2014 and 2013, and the related consolidated statements of operations, comprehensive income (loss), changes in stockholders' equity and cash flows for each of the years in the three-year period ended December 31, 2014. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Investment Technology Group, Inc. and Subsidiaries as of December 31, 2014 and 2013, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2014, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Investment Technology Group, Inc.'s internal control over financial reporting as of December 31, 2014, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated March 13, 2015, expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

/s/ KPMG LLP

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New York, New York  
March 13, 2015

Table of Contents**INVESTMENT TECHNOLOGY GROUP, INC. AND SUBSIDIARIES****Consolidated Statements of Financial Condition****(In thousands, except share amounts)**

	<b>December 31,</b>	
	<b>2014</b>	<b>2013</b>
<b>Assets</b>		
Cash and cash equivalents	\$ 275,210	\$ 261,897
Cash restricted or segregated under regulations and other	69,738	71,202
Deposits with clearing organizations	36,424	74,771
Securities owned, at fair value	12,073	7,436
Receivables from brokers, dealers and clearing organizations	646,330	866,271
Receivables from customers	107,935	72,660
Premises and equipment, net	60,306	66,171
Capitalized software, net	38,333	37,892
Goodwill, net	12,803	
Intangibles, net	31,595	31,201
Income taxes receivable	105	54
Deferred taxes	37,209	34,130
Other assets	22,788	15,787
<b>Total assets</b>	<b>\$ 1,350,849</b>	<b>\$ 1,539,472</b>
<b>Liabilities and Stockholders' Equity</b>		
<b>Liabilities:</b>		
Accounts payable and accrued expenses	\$ 199,211	\$ 175,931
Short-term bank loans	78,360	73,539
Payables to brokers, dealers and clearing organizations	600,041	807,320
Payables to customers	11,132	16,797
Securities sold, not yet purchased, at fair value	8,253	2,953
Income taxes payable	19,772	14,805
Deferred taxes	703	363
Term debt	17,781	30,332
<b>Total liabilities</b>	<b>935,253</b>	<b>1,122,040</b>
<b>Commitments and contingencies</b>		
<b>Stockholders' Equity:</b>		
Preferred stock, \$0.01 par value; 1,000,000 shares authorized; no shares issued or outstanding		
Common stock, \$0.01 par value; 100,000,000 shares authorized; 52,229,962 and 52,158,374 shares issued at December 31, 2014 and 2013, respectively	522	522
Additional paid-in capital	240,135	240,057
Retained earnings	487,462	436,570
Common stock held in treasury, at cost; 18,000,756 and 16,005,500 shares at December 31, 2014 and 2013, respectively	(306,629)	(268,253)
Accumulated other comprehensive income (net of tax)	(5,894)	8,536
<b>Total stockholders' equity</b>	<b>415,596</b>	<b>417,432</b>
<b>Total liabilities and stockholders' equity</b>	<b>\$ 1,350,849</b>	<b>\$ 1,539,472</b>

See accompanying Notes to Consolidated Financial Statements.

Table of Contents**INVESTMENT TECHNOLOGY GROUP, INC. AND SUBSIDIARIES****Consolidated Statements of Operations****(In thousands, except per share amounts)**

	Year Ended December 31,		
	2014	2013	2012
<b>Revenues:</b>			
Commissions and fees	\$ 436,172	\$ 408,619	\$ 380,976
Recurring	103,794	104,172	109,767
Other	19,848	18,010	13,693
<b>Total revenues</b>	<b>559,814</b>	<b>530,801</b>	<b>504,436</b>
<b>Expenses:</b>			
Compensation and employee benefits	215,758	201,254	196,362
Transaction processing	86,400	83,792	81,173
Occupancy and equipment	59,811	69,022	62,637
Telecommunications and data processing services	51,187	53,607	59,850
Other general and administrative	79,349	77,431	88,543
Goodwill and other asset impairment			274,285
Restructuring charges		(75)	9,499
Interest expense	2,322	2,715	2,542
<b>Total expenses</b>	<b>494,827</b>	<b>487,746</b>	<b>774,891</b>
Income (loss) before income tax expense (benefit)	64,987	43,055	(270,455)
Income tax expense (benefit)	14,095	11,970	(22,596)
<b>Net income (loss)</b>	<b>\$ 50,892</b>	<b>\$ 31,085</b>	<b>\$ (247,859)</b>
<b>Income (loss) per share:</b>			
Basic	\$ 1.44	\$ 0.84	\$ (6.45)
Diluted	\$ 1.40	\$ 0.82	\$ (6.45)
Basic weighted average number of common shares outstanding	35,349	36,788	38,418
Diluted weighted average number of common shares outstanding	36,365	38,114	38,418

See accompanying Notes to Consolidated Financial Statements.

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**INVESTMENT TECHNOLOGY GROUP, INC. AND SUBSIDIARIES**

**Statements of Comprehensive Income (Loss)**

(In thousands)

	Year Ended December 31,		
	2014	2013	2012
Net income (loss)	\$ 50,892	\$ 31,085	\$ (247,859)
Other comprehensive (loss) income, net of tax:			
Currency translation adjustment	(14,430)	(3,338)	3,533
Other comprehensive (loss) income	(14,430)	(3,338)	3,533
Comprehensive income (loss)	\$ 36,462	\$ 27,747	\$ (244,326)

See accompanying Notes to Consolidated Financial Statements.

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**INVESTMENT TECHNOLOGY GROUP, INC. AND SUBSIDIARIES**  
**Statement of Changes in Stockholders' Equity**  
**For the Years Ended December 31, 2014, 2013 and 2012**  
(In thousands, except share amounts)

	Preferred Stock	Common Stock	Additional Paid-in Capital	Retained Earnings	Common Stock Held in Treasury	Accumulated Other Comprehensive Income/(Loss)	Total Stockholders' Equity
Balance at December 31, 2011		519	249,469	653,344	(240,559)	8,341	671,114
Net loss				(247,859)			(247,859)
Other comprehensive income						3,533	3,533
Issuance of common stock for restricted share awards (670,933 shares) and employee stock unit awards (71,580 shares), including tax benefit shortfall and award cancellations of \$4.1 million			(16,306)		13,722		(2,584)
Awards reclassified to liability for cash settlement (259,840 shares)			(2,838)				(2,838)
Issuance of common stock for the employee stock purchase plan (137,782 shares)		1	1,130				1,131
Purchase of common stock for treasury (2,470,000 shares)					(23,457)		(23,457)
Shares withheld for net settlements of share-based awards (270,467 shares)					(2,817)		(2,817)
Share-based compensation			13,547				13,547
Balance at December 31, 2012	\$	\$ 520	\$ 245,002	\$ 405,485	\$ (253,111)	\$ 11,874	\$ 409,770
Net income				31,085			31,085
Other comprehensive loss						(3,338)	(3,338)
Issuance of common stock for restricted share awards (1,029,623 shares), including tax benefit shortfall and award cancellations of \$1.5 million			(19,774)		17,559		(2,215)
Issuance of common stock for the employee stock purchase plan (121,363 shares)		2	933				935
Purchase of common stock for treasury (2,005,200 shares)					(28,169)		(28,169)
Shares withheld for net settlements of share-based awards (352,051 shares)					(4,532)		(4,532)
Share-based compensation			13,896				13,896
Balance at December 31, 2013	\$	\$ 522	\$ 240,057	\$ 436,570	\$ (268,253)	\$ 8,536	\$ 417,432
Net income				50,892			50,892
Other comprehensive loss						(14,430)	(14,430)
Issuance of common stock in connection with the employee stock option plan (14,228 shares) and for restricted share awards (1,029,520 shares), including net excess tax benefit of \$0.6 million			(16,244)		16,020		(224)
Issuance of common stock for the employee stock purchase plan (71,587 shares)			963				963
Purchase of common stock for treasury (2,671,637 shares)					(48,165)		(48,165)
Shares withheld for net settlements of share-based awards (367,367 shares)					(6,231)		(6,231)
Share-based compensation			15,359				15,359
Balance at December 31, 2014	\$	\$ 522	\$ 240,135	\$ 487,462	\$ (306,629)	\$ (5,894)	\$ 415,596



See accompanying Notes to Consolidated Financial Statements.

Table of Contents**INVESTMENT TECHNOLOGY GROUP, INC. AND SUBSIDIARIES****Consolidated Statements of Cash Flows****(In thousands)**

	<b>Year ended December 31,</b>		
	<b>2014</b>	<b>2013</b>	<b>2012</b>
<b>Cash Flows from Operating Activities:</b>			
Net income (loss)	\$ 50,892	\$ 31,085	\$ (247,859)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation and amortization	49,384	53,606	56,493
Deferred income tax expense (benefit)	(4,979)	3,051	(27,156)
Provision for doubtful accounts	(801)	(405)	1,401
Share-based compensation	18,874	20,861	15,628
Fixed asset disposal		649	
Non-cash restructuring charges, net		357	548
Goodwill and other asset impairment		101	274,285
Changes in operating assets and liabilities:			
Cash restricted or segregated under regulations and other	(616)	(9,491)	11,700
Deposits with clearing organizations	38,347	(45,622)	(3,611)
Securities owned, at fair value	(5,489)	2,445	(4,689)
Receivables from brokers, dealers and clearing organizations	211,491	43,612	(163,605)
Receivables from customers	(37,238)	(63,376)	4,261
Accounts payable and accrued expenses	23,868	2,614	(22,905)
Payables to brokers, dealers and clearing organizations	(203,805)	(48,338)	125,919
Payables to customers	(5,075)	42,828	862
Securities sold, not yet purchased, at fair value	6,162	(2,086)	4,695
Income taxes receivable/payable	6,194	12,148	(1,459)
Excess tax benefit	(1,278)	(510)	
Other, net	(3,391)	1,663	2,284
Net cash provided by operating activities	142,540	45,192	26,792
<b>Cash Flows from Investing Activities:</b>			
Investment in unconsolidated affiliates	(2,669)	(474)	
Acquisition of subsidiaries and minority interests, net of cash acquired	(18,293)		
Capital purchases	(13,798)	(33,549)	(33,424)
Capitalization of software development costs	(26,331)	(22,579)	(24,635)
Net cash used in investing activities	(61,091)	(56,602)	(58,059)
<b>Cash Flows from Financing Activities:</b>			
Repayments of term loans	(12,551)	(9,505)	(7,185)
Proceeds of short-term bank loans, net	4,821	51,385	20,548
Proceeds from interim funding facility			605
Proceeds from sales-lease back transactions		20,565	1,855
Excess tax benefit	1,278	510	
Debt issuance costs	(1,200)		
Common stock issued	96	177	2,674
Common stock repurchased	(48,165)	(28,169)	(23,457)
Shares withheld for net settlements of share-based awards	(6,231)	(4,532)	(2,817)
Net cash (used in) provided by financing activities	(61,952)	30,431	(7,777)

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Effect of exchange rate changes on cash and cash equivalents	(6,184)	(2,999)	731
Net increase (decrease) in cash and cash equivalents	13,313	16,022	(38,313)
Cash and cash equivalents beginning of year	261,897	245,875	284,188
Cash and cash equivalents end of year	\$ 275,210	\$ 261,897	\$ 245,875

Supplemental cash flow information:

Interest paid	\$ 3,979	\$ 3,343	\$ 2,673
Income taxes paid (refunded)	\$ 11,909	\$ (4,079)	\$ 5,495

See accompanying Notes to Consolidated Financial Statements.

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**INVESTMENT TECHNOLOGY GROUP, INC. AND SUBSIDIARIES**

**Notes to Consolidated Financial Statements**

**(1) Organization and Basis of Presentation**

Investment Technology Group, Inc. was formed as a Delaware corporation on July 22, 1983. Its principal subsidiaries include: (1) ITG Inc., AlterNet Securities, Inc. ("AlterNet") and ITG Derivatives LLC ("ITG Derivatives"), institutional broker-dealers in the United States ("U.S."), (2) ITG Canada Corp., an institutional broker-dealer in Canada, (3) Investment Technology Group Limited, an institutional broker-dealer in Europe, (4) ITG Australia Limited, an institutional broker-dealer in Australia, (5) ITG Hong Kong Limited, an institutional broker-dealer in Hong Kong, (6) ITG Software Solutions, Inc., our intangible property, software development and maintenance subsidiary in the U.S., and (7) ITG Solutions Network, Inc., a holding company for ITG Analytics, Inc., a provider of pre- and post-trade analysis, fair value and trade optimization services, ITG Investment Research, Inc., a provider of independent data-driven investment research, and ITG Platforms Inc., a provider of trade order and execution management technology and network connectivity services for the financial community.

ITG is an independent execution and research broker that partners with global portfolio managers and traders to provide unique data-driven insights throughout the investment process. From investment decision through to settlement, ITG helps clients understand market trends, improve performance, mitigate risk and navigate increasingly complex markets. A leader in electronic trading since launching the POSIT crossing network in 1987, ITG takes a consultative approach in delivering the highest quality institutional liquidity, execution services, analytical tools and proprietary research. The firm is headquartered in New York with offices in North America, Europe, and the Asia Pacific region.

The Company's business is organized into four reportable operating segments (see Note 22, *Segment Reporting*, to the consolidated financial statements):

U.S. Operations

Canadian Operations

European Operations

Asia Pacific Operations

The four operating segments offer a wide range of solutions for asset managers and broker-dealers in the areas of electronic brokerage; research, sales and trading; platforms; and analytics. These offerings include trade execution services and solutions for portfolio management, as well as investment research, pre-trade analytics and post-trade analytics and processing.

The consolidated financial statements and accompanying notes are prepared in accordance with accounting principles generally accepted in the U.S. ("U.S. GAAP"). All material intercompany balances and transactions have been eliminated in consolidation. The consolidated financial statements reflect all adjustments which, in the opinion of management, are necessary for the fair presentation of results.

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses and the disclosure of contingent assets, liabilities, revenues and expenses. Actual results could differ from those estimates.

The Company has changed its accounting for receivables from brokers, dealers and clearing organizations, receivables from customers, payables to brokers, dealers and clearing organizations and payables to customers which resulted in revisions to the prior year balances to conform to the current



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**INVESTMENT TECHNOLOGY GROUP, INC. AND SUBSIDIARIES**

**Notes to Consolidated Financial Statements (Continued)**

period accounting to reflect the Company's agent capacity for executing transactions on behalf of clients in the Europe and Asia-Pacific regions. As a result, prior year receivables and payables related to brokers, dealers and clearing organizations and customer balances were reduced by \$670 million respectively.

**(2) Summary of Significant Accounting Policies**

***Principles of Consolidation***

The consolidated financial statements represent the consolidation of the accounts of ITG and its subsidiaries in conformity with U.S. GAAP. All intercompany accounts and transactions have been eliminated in consolidation. Investments in unconsolidated companies (generally 20 to 50 percent ownership), in which the Company has the ability to exercise significant influence but neither has a controlling interest nor is the primary beneficiary, are accounted for under the equity method. Investments in entities in which the Company does not have the ability to exercise significant influence are accounted for under the cost method. Under certain criteria indicated in Accounting Standards Codification ("ASC") 810, *Consolidation*, a partially-owned affiliate would be consolidated when it has less than a 50% ownership if the Company was the primary beneficiary of that entity. At the present time, there are no interests in variable interest entities.

***Use of Estimates***

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses and the disclosure of contingent assets, liabilities, revenues and expenses. The allowance for doubtful accounts represents management's estimate of the amount of potential credit losses in existing accounts receivable, as determined from a review of past due balances and other specific account data.

***Revenue Recognition***

Transactions in securities, commissions and fees and related expenses are recorded on a trade date basis. Commissions and fees are derived primarily from (1) commissions charged for trade execution services, (2) income generated from net executions, whereby equity orders are filled at different prices within or at the National Best Bid and Offer and (3) commission sharing arrangements.

Recurring revenues are derived from the following primary sources: (1) connectivity fees, (2) investment and market research services, (3) software and analytical products and services and (4) maintenance and customer technical support for the Company's order management system.

Substantially all of the Company's recurring revenue arrangements do not require significant modification or customization of the underlying software. Accordingly, the vast majority of software revenue is recognized pursuant to the requirements of ASC 985, *Software*. Specifically, revenue recognition from subscriptions, maintenance, customer technical support and professional services commences when all of the following criteria are met: (1) persuasive evidence of a legally binding arrangement with a customer exists, (2) delivery has occurred, (3) the fee is deemed fixed or determinable and free of contingencies or significant uncertainties and (4) collection is probable. Where software is provided under a hosting arrangement, revenue is accounted for as a service arrangement since the customer does not have the contractual right to take possession of the software at any time during the hosting period without significant penalty (or it is not feasible for the customer to run the software on either its own hardware or third party hardware).

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**INVESTMENT TECHNOLOGY GROUP, INC. AND SUBSIDIARIES**

**Notes to Consolidated Financial Statements (Continued)**

Subscription agreements for software products generally include provisions that, among other things, allow customers to receive unspecified future software upgrades for no additional fee, as well as the right to use the software products with maintenance for the term of the agreement, typically one to three years. Under these agreements, once all four of the above noted revenue recognition criteria are met, revenue is recognized ratably over the term of the subscription agreement. If a subscription agreement includes an acceptance provision, revenue is not recognized until the earlier of the receipt of written acceptance from the customer or, if not notified by the customer to cancel the license agreement, the expiration of the acceptance period.

Revenues for investment research and analytical products sold on a subscription basis are recognized when services are rendered provided that persuasive evidence of a legally binding arrangement exists, the fees are fixed or determinable and collectability is reasonably assured.

Other revenues include: (1) income from principal trading in our Canadian Operations, including arbitrage trading, (2) the net spread on foreign exchange transactions executed on a principal basis to facilitate equity trades by clients in different currencies, as well as on other foreign currency transactions unrelated to equity trading, (3) the net interest spread earned on securities borrowed and loaned matched book transactions, (4) transaction advisory services provided to potential purchasers of energy-related investments, (5) non-recurring consulting services, such as one-time implementation and customer-training-related activities, (6) investment and interest income, (7) interest income on securities borrowed in connection with customers' settlement activities and (8) market gains/losses resulting from temporary positions in securities assumed in the normal course of agency trading (including client errors and accommodations).

Revenues from professional services, which are sold as a multiple-element arrangement with the implementation of software, are deferred until go-live (or acceptance, if applicable) of the software and recognized in the same manner as the subscription over the remaining term of the initial contract. Professional services that are not connected with the implementation of software are recognized on a time and material basis as incurred.

***Cash and Cash Equivalents***

The Company considers all highly liquid investments with original maturities of three months or less to be cash equivalents.

***Fair Value of Financial Instruments***

Substantially all of the Company's financial instruments are carried at fair value or amounts approximating fair value. Cash and cash equivalents, securities owned and securities sold, not yet purchased and certain payables are carried at market value or estimated fair value.

***Securities Transactions***

Receivables from brokers, dealers and clearing organizations include amounts receivable for fails to deliver, cash deposits for securities borrowed, the net amounts receivable on open transactions from clearing organizations and non-U.S. broker-dealers and billed amounts for commissions and fees and balance transfers on client commission arrangements, net of an allowance for doubtful accounts. Payables to brokers, dealers and clearing organizations include amounts payable for fails to receive, securities loaned and execution cost payables. Receivables from customers consist of fails to deliver, the net amounts receivable on open transactions from non-U.S. customers, as well as prepaid research and billed amounts for commissions and fees and research services, net of an allowance for doubtful

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**INVESTMENT TECHNOLOGY GROUP, INC. AND SUBSIDIARIES**

**Notes to Consolidated Financial Statements (Continued)**

accounts. Payables to customers primarily consist of fails to receive. Commissions and fees and related expenses for all securities transactions are recorded on a trade date basis.

Securities owned, at fair value consist of common stock and mutual funds. Securities sold, not yet purchased, at fair value consist of common stock. Marketable securities owned are valued using market quotes from third parties. Unrealized gains and losses are included in other revenues in the Consolidated Statements of Operations.

***Securities Borrowed and Loaned***

Securities borrowed and securities loaned transactions are reported as collateralized financings. Securities borrowed transactions require the Company to deposit cash, letters of credit, or other collateral with the lender. With respect to securities loaned, the Company receives collateral in the form of cash or other collateral in amounts generally in excess of the fair value of securities loaned. The Company monitors the fair value of securities borrowed and loaned on a daily basis, with additional collateral obtained or refunded as necessary. Securities borrowed and securities loaned transactions are recorded at the amount of cash collateral advanced or received, adjusted for additional collateral advanced or received.

The Company engages in securities borrowed and securities loaned transactions as part of its U.S. self-clearing process primarily to facilitate customer transactions, including shortened or extended settlement activities and for failed settlements. On these transactions, interest income for securities borrowed is recorded in other revenue while interest expense from securities loaned is recorded in transaction processing expense on the Consolidated Statements of Operations.

The Company also operates a matched book business where securities are borrowed from one party for the express purpose of loaning such securities to another party, generating a net interest spread. The Company records the net interest earned on these transactions in other revenue on the Consolidated Statements of Operations.

***Client Commission Arrangements***

Institutional customers are permitted to allocate a portion of their gross commissions to pay for research products and other services provided by third parties and the Company's subsidiaries. The amounts allocated for those purposes are commonly referred to as client commission arrangements. The cost of independent research and directed brokerage arrangements is accounted for on an accrual basis. Commission revenue is recorded when earned on a trade date basis. Payments relating to client commission arrangements are netted against the commission revenues. Prepaid research, including balance transfer receivables due from other broker-dealers, net of an allowance is included in receivables from customers and receivables from brokers, dealers and clearing organizations, while accrued research payable is classified as accounts payable and accrued expenses in the Consolidated Statements of Financial Condition.



Table of Contents**INVESTMENT TECHNOLOGY GROUP, INC. AND SUBSIDIARIES****Notes to Consolidated Financial Statements (Continued)**

Client commissions allocated for research and related prepaid and accrued research balances for the years ended December 31, 2014, 2013 and 2012 were as follows (dollars in millions):

	<b>2014</b>	<b>2013</b>	<b>2012</b>
Client commissions	\$ 119.4	\$ 123.0	\$ 112.1
Prepaid research, gross	\$ 4.3	\$ 4.5	\$ 5.1
Allowance for prepaid research		(0.2)	(0.4)
Prepaid research, net of allowance	\$ 4.3	\$ 4.3	\$ 4.7
Accrued research payable	\$ 56.7	\$ 52.0	\$ 38.6

***Capitalized Software***

Software development costs are capitalized when the technological feasibility of a product has been established. Technological feasibility is established when all planning, designing, coding and testing activities have been devised to ensure that the product can be produced to meet its design specifications, including functions, features, and technical performance requirements. All costs incurred to establish technological feasibility are expensed as incurred. Capitalized software costs are amortized using the straight-line method over a three-year period beginning when the product is available for general release to customers.

***Research and Development***

All research and development costs are expensed as incurred. Research and development costs, which are primarily included in other general and administrative expenses and compensation and employee benefits in the Consolidated Statements of Operations, are estimated at \$35.8 million, \$41.7 million and \$45.4 million for the years ended December 31, 2014, 2013 and 2012, respectively.

***Business Combinations, Goodwill and Other Intangibles***

Assets acquired and liabilities assumed are recorded at their fair values on the date of acquisition. The cost to be allocated in a business combination includes consideration paid to the sellers, including cash and the fair values of assets distributed and the fair values of liabilities assumed. Both direct (e.g., legal and professional fees) and indirect costs of the business combination are expensed as incurred. Certain agreements to acquire entities include potential additional consideration that is payable, contingent on the acquired company maintaining or achieving specified earnings levels in future periods. The fair value of any contingent consideration is recognized on the acquisition date with subsequent changes in that fair value reflected in income. The consolidated financial statements and results of operations reflect an acquired business from the date of acquisition.

An intangible asset is recognized as an asset apart from goodwill if it arises from contractual or other legal rights or if it is separable (i.e., capable of being separated or divided from the acquired entity and sold, transferred, licensed, rented, or exchanged). Goodwill represents the excess of the cost of each acquired entity over the amounts assigned to the tangible and identifiable intangible assets acquired and liabilities assumed.

The judgments that are made in determining the estimated fair value assigned to each class of assets acquired and liabilities assumed, as well as asset lives, can materially impact net income in periods following a business combination. Traditional approaches used to determine fair

value include

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**INVESTMENT TECHNOLOGY GROUP, INC. AND SUBSIDIARIES**

**Notes to Consolidated Financial Statements (Continued)**

the income, cost and market approaches. The income approach presumes that the value of an asset can be estimated by the net economic benefit to be received over the life of the asset, discounted to present value. The cost approach presumes that an investor would pay no more for an asset than its replacement or reproduction cost. The market approach estimates value based on what other participants in the market have paid for reasonably similar assets. Although each valuation approach is considered in valuing the assets acquired, the approach or combination of approaches ultimately selected is based on the characteristics of the asset and the availability of information.

Any goodwill is assessed no less than annually for impairment. The guidance for goodwill impairment testing allows an entity to assess qualitative factors to determine whether the existence of events or circumstances leads to a determination that it is more likely than not that the fair value of a reporting unit is less than its carrying amount or to proceed directly to performing the two-step impairment test. The fair values used in the Company's two-step impairment testing are determined by the discounted cash flow method (an income approach) and where appropriate, a combination of the discounted cash flow method and the guideline company method (a market approach). An impairment loss is indicated if the estimated fair value of a reporting unit is less than its net book value. In such a case, the impairment loss is calculated as the amount by which the carrying value of goodwill exceeds its implied fair value. In determining the fair value of each of the Company's reporting units, the discounted cash flow analyses employed require significant assumptions and estimates about the future operations of each reporting unit. Significant judgments inherent in these analyses include the determination of appropriate discount rates, the amount and timing of expected future cash flows and growth rates. The cash flows employed in the Company's discounted cash flow analyses are based on financial budgets and forecasts developed internally by management. The Company's discount rate assumptions are based on a determination of its required rate of return on equity capital.

Other intangibles with definite lives are amortized over their useful lives. All other intangibles are assessed at least annually for impairment. If impairment is indicated, an impairment loss is calculated as the amount by which the carrying value of an intangible asset exceeds its estimated fair value.

***Premises and Equipment***

Furniture, fixtures and equipment are carried at cost and are depreciated using the straight-line method over the estimated useful lives of the assets (generally three to seven years). Leasehold improvements are carried at cost and are amortized using the straight-line method over the lesser of the estimated useful lives of the related assets or the non-cancelable lease term.

***Impairment of Long-Lived Assets***

Long-lived assets to be held and used are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. Determination of recoverability is generally based on an estimate of undiscounted future cash flows resulting from the use of the asset and its eventual disposition, as well as specific appraisal in certain instances. Measurement of an impairment loss for long-lived assets that management expects to hold and use is based on the fair value of the asset as estimated using a cash flow model. Long-lived assets to be disposed of are reported at the lower of carrying amount or fair value less costs to sell.

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**INVESTMENT TECHNOLOGY GROUP, INC. AND SUBSIDIARIES**

**Notes to Consolidated Financial Statements (Continued)**

***Income Taxes***

Income taxes are accounted for using the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. A valuation allowance is recorded against deferred tax assets if it is more likely than not that such assets will not be realized. Contingent income tax liabilities are recorded when the criteria for loss recognition have been met. An uncertain tax position is recognized based on the determination of whether or not a tax position is more likely than not to be sustained upon examination based upon the technical merits of the position. If this recognition threshold is met, the tax benefit is then measured based on the largest benefit that has a greater than fifty percent likelihood of being realized upon ultimate resolution.

***Taxes Collected from Customers and Remitted to Governmental Authorities***

Taxes assessed by a governmental authority that are directly imposed on a revenue producing transaction between the Company and its customers, including but not limited to sales, use, value added and some excise taxes are presented in the consolidated financial statements on a net basis (excluded from revenues).

***Earnings per Share***

Basic earnings per share is determined by dividing earnings by the average number of shares of common stock outstanding, while diluted earnings per share is determined by dividing earnings by the average number of shares of common stock adjusted for the dilutive effect of common stock equivalents by application of the treasury stock method. Common stock equivalents are excluded from the diluted calculation if their effect is anti-dilutive.

***Share-based Compensation***

Share-based compensation expense requires measurement of compensation cost for share-based awards at fair value and recognition of compensation cost over the vesting period, net of estimated forfeitures. For awards with graded vesting schedules that only have service conditions, the Company recognizes compensation cost evenly over the requisite service period for the entire award using the straight-line attribution method. For awards with service conditions as well as performance or market conditions, the Company recognizes compensation cost on a straight-line basis over the requisite service period for each separately vesting portion of the award as if the award was, in-substance, multiple awards.

The fair value of stock options granted is estimated using the Black-Scholes option-pricing model, which considers, among other factors, the expected term of the award and the expected volatility of the Company's stock price. Although the Black-Scholes model meets the requirements of ASC 718, *Compensation - Stock Compensation*, the fair values generated by the model may not be indicative of the actual fair values of the underlying awards, as it does not consider other factors important to those share-based compensation awards, such as continued employment, periodic vesting requirements and limited transferability.

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**INVESTMENT TECHNOLOGY GROUP, INC. AND SUBSIDIARIES**

**Notes to Consolidated Financial Statements (Continued)**

The risk-free interest rate used in the Black-Scholes option-pricing model is based on the U.S. Treasury yield curve in effect at the time of grant. The expected option life is based on historical experience of employee exercise behavior. Expected volatility is based on historical volatility, implied volatility, price observations taken at regular intervals and other factors deemed appropriate. Expected dividend is based upon the current dividend rate. No options were granted during the three years ended December 31, 2014.

The fair value of restricted share awards is based on the fair value of the Company's common stock on the grant date.

Certain restricted stock awards granted have both service and market conditions. Awards with market conditions are valued based on (a) the grant date fair value of the award for equity-based awards or (b) the period-end fair value for liability-based awards. Fair value for market condition based awards is determined using a Monte Carlo simulation model to simulate a range of possible future stock prices for the Company's common stock. Compensation costs for awards with market conditions are recognized for each separately vesting portion of the award over the estimated service period calculated by the Monte Carlo simulation model.

Phantom stock awards are settled in cash and are therefore classified as liability awards. The fair value of the liability is remeasured at each reporting date until final settlement using the fair value of the Company's common stock on that date.

Cash flows related to income tax deductions in excess of the compensation cost recognized on share-based awards exercised during the period presented (excess tax benefit) are classified in financing cash flows in the Consolidated Statements of Cash Flows.

***Foreign Currency Translation***

Assets and liabilities denominated in non-U.S. currencies are translated at rates of exchange prevailing on the date of the Consolidated Statements of Financial Condition, and revenues and expenses are translated at average rates of exchange during the fiscal year. Gains or losses on translation of the financial statements of a foreign operation, where the functional currency is other than the U.S. Dollar, together with the after-tax effect of exchange rate changes on intercompany transactions of a long-term investment nature, are reflected as a component of accumulated other comprehensive income in stockholders' equity. Gains or losses on foreign currency transactions are included in other general and administrative expenses in the Consolidated Statements of Operations.

***Common Stock Held in Treasury, at Cost***

The purchase of treasury stock is accounted for under the cost method with the shares of stock repurchased reflected as a reduction to stockholders' equity and included in common stock held in treasury, at cost, in the Consolidated Statements of Financial Condition. When treasury shares are reissued, they are recorded at the average cost of the treasury shares acquired. The Company held 18,000,756 and 16,005,500 shares of common stock in treasury as of December 31, 2014 and 2013, respectively.

***Recently Adopted Accounting Standards***

In July 2013, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2013-11, *Income Taxes (Topic 740), Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists*. These

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**INVESTMENT TECHNOLOGY GROUP, INC. AND SUBSIDIARIES**

**Notes to Consolidated Financial Statements (Continued)**

provisions require unrecognized tax benefits to be presented as a decrease in a net operating loss, similar tax loss or tax credit carryforward if certain criteria are met. The adoption of these provisions did not have a material impact on ITG's consolidated financial statements.

In February 2013, the FASB issued ASU 2013-02, *Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income*, which amends certain provisions in FASB ASC 220, *Comprehensive Income*. These provisions require the disclosure of significant amounts that are reclassified out of other comprehensive income into net income in their entirety during the reporting period. These provisions are effective for fiscal and interim periods beginning after December 15, 2012. The adoption of these provisions did not have a material impact on ITG's consolidated financial statements.

In December 2011, the FASB issued ASU 2011-11, *Disclosures about Offsetting Assets and Liabilities*, which amends certain provisions in ASC Topic 210, *Balance Sheet*. Subsequently in January 2013, the FASB issued ASU 2013-01, *Clarifying the Scope of Disclosures about Offsetting Assets and Liabilities*, which amends the scope of ASU 2011-11. ASU 2013-01 clarifies that ASU 2011-11 applies only to derivatives, repurchase agreements and reverse purchase agreements, and securities borrowing and securities lending transactions that are either offset in accordance with specific criteria contained in ASC Topics 210 and 815, *Derivatives and Hedging*, or subject to a master netting arrangement or similar agreement. These provisions require additional disclosures for the abovementioned financial instruments and are effective for fiscal and interim periods beginning on or after January 1, 2013. The adoption of these provisions did not have a material impact on ITG's consolidated financial statements.

In July 2012, the FASB issued ASU 2012-02, *Testing Indefinite-lived Intangible Assets for Impairment*, an update to existing guidance on the impairment assessment of indefinite-lived intangibles. This update simplifies the impairment assessment of indefinite-lived intangibles by allowing companies to consider qualitative factors to determine whether it is more likely than not that the fair value of an indefinite-lived intangible asset is less than its carrying amount. This option is in lieu of performing a quantitative fair value assessment. The Company elected to early adopt this update effective for the interim reporting period, which began on October 1, 2012. The adoption of this update did not have a material impact on the Company's consolidated financial statements.

In September 2011, the FASB issued ASU 2011-08, *Intangibles - Goodwill and Other (Topic 350) Testing Goodwill for Impairment*, in an effort to simplify goodwill impairment testing. The amendments permit companies to first assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform the two-step goodwill impairment test described in Topic 350. The more-likely-than-not threshold is defined as having a likelihood of more than 50%. This standard became effective for the Company on January 1, 2012, the adoption of which changed the process and procedures for the Company's goodwill impairment testing, but did not have an impact on its results of operations, financial position or cash flows.

In June 2011, the FASB issued ASU 2011-5, *Comprehensive Income (Topic 220)*. Companies now have two choices of how to present items of net income, comprehensive income and total comprehensive income. Companies can create one continuous statement of comprehensive income or two separate consecutive statements. This standard became effective for the Company on January 1, 2012, the adoption of which changed the presentation of its comprehensive income, but did not have an impact on its results of operations, financial position or cash flows.

Table of Contents**INVESTMENT TECHNOLOGY GROUP, INC. AND SUBSIDIARIES****Notes to Consolidated Financial Statements (Continued)****(3) Fair Value Measurements**

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. In determining fair value, various methods are used including market, income and cost approaches. Based on these approaches, certain assumptions that market participants would use in pricing the asset or liability are used, including assumptions about risk and/or the risks inherent in the inputs to the valuation technique. These inputs can be readily observable, market-corroborated, or generally unobservable firm inputs. Valuation techniques that are used maximize the use of observable inputs and minimize the use of unobservable inputs. Based on the observability of the inputs used in the valuation techniques, fair value measured financial instruments are categorized according to the fair value hierarchy prescribed by ASC 820, *Fair Value Measurements and Disclosures*. The fair value hierarchy ranks the quality and reliability of the information used to determine fair values. Financial assets and liabilities carried at fair value are classified and disclosed in one of the following three categories:

Level 1: Fair value measurements using unadjusted quoted market prices in active markets for identical, unrestricted assets or liabilities.

Level 2: Fair value measurements using correlation with (directly or indirectly) observable market-based inputs, unobservable inputs that are corroborated by market data, or quoted prices in markets that are not active.

Level 3: Fair value measurements using inputs that are significant and not readily observable in the market.

Level 1 consists of financial instruments whose value is based on quoted market prices such as exchange-traded mutual funds and listed equities.

Level 2 includes financial instruments that are valued based upon observable market-based inputs.

Level 3 is comprised of financial instruments whose fair value is estimated based on internally developed models or methodologies utilizing significant inputs that are generally less readily observable.

Fair value measurements for those items measured on a recurring basis are as follows (dollars in thousands):

<b>December 31, 2014</b>	<b>Total</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
<b>Assets</b>				
Cash and cash equivalents:				
Tax free money market mutual funds	\$ 33	\$ 33	\$	\$
Money market mutual funds	6,965	6,965		
Securities owned, at fair value:				
Corporate stocks-trading securities	8,160	8,160		
Mutual funds	3,913	3,913		
<b>Total</b>	<b>\$ 19,071</b>	<b>\$ 19,071</b>	<b>\$</b>	<b>\$</b>
<b>Liabilities</b>				
Securities sold, not yet purchased, at fair value:				
Corporate stocks-trading securities	8,253	8,253		

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Total \$ 8,253 \$ 8,253 \$ \$



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## INVESTMENT TECHNOLOGY GROUP, INC. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements (Continued)

December 31, 2013	Total	Level 1	Level 2	Level 3
<b>Assets</b>				
Cash and cash equivalents:				
Tax free money market mutual funds	\$ 33	\$ 33	\$	\$
Money market mutual funds	2,695	2,695		
Securities owned, at fair value:				
Corporate stocks-trading securities	2,894	2,894		
Mutual funds	4,542	4,542		
Total	\$ 10,164	\$ 10,164	\$	\$
<b>Liabilities</b>				
Securities sold, not yet purchased, at fair value:				
Corporate stocks-trading securities	2,953	2,953		
Total	\$ 2,953	\$ 2,953	\$	\$

Cash and cash equivalents other than bank deposits are measured at fair value and primarily include U.S. government money market mutual funds and other money market mutual funds.

Securities owned, at fair value and securities sold, not yet purchased, at fair value include corporate stocks, equity index mutual funds and bond mutual funds, all of which are exchange traded.

Certain of the Company's assets and liabilities are carried at contracted amounts that approximate fair value. Assets and liabilities that are recorded at contracted amounts approximating fair value consist primarily of receivables from and payables to brokers, dealers, clearing organizations and customers. These receivables and payables to brokers, dealers and clearing organizations are short-term in nature, and following December 31, 2014, substantially all have settled at the contracted amounts.

The Company believes the carrying amounts of its term-debt obligations at December 31, 2014 and 2013 approximate fair value because the interest rates on these instruments change with, or approximate, market interest rates.

**(4) Restructuring Charges***2013 Restructuring*

In the second quarter of 2013, the Company implemented a strategic plan to close its technology research and development facility in Israel and outsource that function to a third party service provider effective January 1, 2014. The Company incurred a charge of \$1.6 million related to this restructuring, substantially all of which was for employee separation costs. During 2014, \$0.3 million of this charge was reversed as actual payments made were less than originally estimated.

Table of Contents**INVESTMENT TECHNOLOGY GROUP, INC. AND SUBSIDIARIES****Notes to Consolidated Financial Statements (Continued)**

Activity and liability balances recorded as part of the 2013 restructuring plan through December 31, 2014 are as follows (dollars in thousands):

	<b>Employee separation costs</b>	<b>Consolidation of leased facilities</b>	<b>Total</b>
Balance at December 31, 2013	\$ 235	\$ 100	\$ 335
Cash payments	(37)		(37)
Other	(198)	(100)	(298)
Balance at December 31, 2014	\$	\$	\$

*2012 Restructuring*

In the fourth quarter of 2012, the Company implemented a restructuring plan to reduce annual operating costs. The Company incurred a charge of \$9.5 million related to this restructuring, entirely for employee separation costs. During 2014 and 2013, the Company reversed \$0.1 million and \$0.8 million of this expense, respectively, as actual payments made were less than originally estimated.

Activity and liability balances recorded as part of the 2012 restructuring plan through December 31, 2014 are as follows (dollars in thousands):

	<b>Employee separation costs</b>
Balance at December 31, 2013	\$ 75
Utilized cash	(23)
Other	(52)
Balance at December 31, 2014	\$

*2011 Restructuring*

In the second and fourth quarters of 2011, the Company implemented restructuring plans to improve margins and enhance stockholder returns. The restructuring charges consisted of employee separation costs and lease abandonment costs. During 2013, the Company reversed \$0.7 million of these charges as the Company sub-let vacated office space and actual payments made were less than originally estimated.

Activity and liability balances recorded as part of the 2011 restructuring plan through December 31, 2014 are as follows (dollars in thousands):

	<b>Employee separation costs</b>	<b>Consolidation of leased facilities</b>	<b>Total</b>
Balance at December 31, 2013	\$ 7	\$ 1,567	\$ 1,574
Utilized cash	(7)	(734)	(741)
Balance at December 31, 2014	\$	\$ 833	\$ 833

The payment of the remaining accrued costs related to the vacated leased facilities will continue through December 2016.

Table of Contents**INVESTMENT TECHNOLOGY GROUP, INC. AND SUBSIDIARIES****Notes to Consolidated Financial Statements (Continued)***2010 Restructuring*

In the fourth quarter of 2010, the Company closed its Westchester, NY office and relocated the staff, primarily sales traders and support, to its New York City office.

Activity and liability balances recorded as part of the 2010 restructuring plan through December 31, 2014 are as follows (dollars in thousands):

	<b>Consolidation of leased facilities</b>
Balance at December 31, 2013	\$ 1,784
Utilized cash	(393)
<b>Balance at December 31, 2014</b>	<b>\$ 1,391</b>

The payment of the remaining accrued costs related to the vacated leased facilities will continue through December 2016.

**(5) Acquisitions***ID'S*

On July 30, 2014, the Company acquired 100% of ID'S for \$22.5 million, including acquired cash of \$4.2 million. ID'S is a Paris-based company that operates RFQ-hub, a multi-asset platform for global-listed and over-the-counter ("OTC") financial instruments. RFQ-hub connects buy-side trading desks and portfolio managers with a large network of sell-side market makers, allowing these trading desks to place requests-for-quotes in OTC-negotiated equities, futures, options, swaps, convertible bonds, structured products and commodities. The platform will remain available on a standalone basis and will also be integrated into ITG's Triton execution management system.

The results of ID'S have been included in the Company's consolidated financial statements since its acquisition date. At closing, \$22.5 million was paid. Contingent payments of approximately \$4.8 million are available to the sellers if certain revenue targets are achieved in 2015, of which \$3.8 million would be expensed as compensation due to required service conditions through 2017. None of the contingent payments have been recognized as of December 31, 2014.

The following table summarizes the estimated fair values of assets acquired and liabilities assumed at the date of the acquisition (dollars in thousands):

Cash consideration	\$ 22,499
<b>Total purchase price</b>	<b>\$ 22,499</b>
Cash	\$ 4,206
Accounts receivable, net	1,035
Customer related intangible asset	2,674
Computer software	2,273
Trade Name	160
Deferred Tax Liability	(1,650)
Goodwill	13,801

Total purchase price \$ 22,499

Table of Contents**INVESTMENT TECHNOLOGY GROUP, INC. AND SUBSIDIARIES****Notes to Consolidated Financial Statements (Continued)**

The above purchase price allocation is based upon preliminary calculations and valuations and our estimates and assumptions are subject to change as we obtain additional information for our estimates during the measurement period.

The goodwill and intangibles assets were assigned to the European Operations segment. The acquired customer relationships and internal developed software are amortized over 15 and 5 years, respectively. The trade name has an indefinite life. The goodwill and intangible assets are not deductible for tax purposes.

The Company incurred professional fees related to this transaction of \$0.8 million, which has been included in other general and administrative expenses in the Consolidated Statements of Operations.

**(6) Goodwill and Other Intangibles***Goodwill*

The following table presents the changes in the carrying amount of goodwill by reportable segment for the year ended December 31, 2014 (dollars in thousands):

	<b>European Operations</b>	<b>Total</b>
Balance at December 31, 2013	\$	\$
<i>2014 Activity:</i>		
Acquisition of ID'S	13,801	13,801
Currency translation adjustment	(998)	(998)
Balance at December 31, 2014	\$ 12,803	\$ 12,803

*Other Intangible Assets*

Acquired other intangible assets consisted of the following at December 31, 2014 and 2013 (dollars in thousands):

	<b>2014</b>		<b>2013</b>		<b>Useful Lives (Years)</b>
	<b>Gross Carrying Amount</b>	<b>Accumulated Amortization</b>	<b>Gross Carrying Amount</b>	<b>Accumulated Amortization</b>	
Trade name	\$ 8,545	\$	\$ 8,400	\$	
Customer-related intangibles	30,272	11,210	27,851	8,923	13.3
Proprietary software	23,558	19,959	21,501	17,921	6.3
Trading rights	339		243		
Other	50		50		
Total	\$ 62,764	\$ 31,169	\$ 58,045	\$ 26,844	

At December 31, 2014, indefinite-lived intangibles not subject to amortization amounted to \$8.9 million, of which \$8.4 million related to the POSIT trade name.

Amortization expense for definite-lived intangibles was \$4.3 million, \$4.0 million and \$5.0 million for the years ended December 31, 2014, 2013 and 2012, respectively. These amounts are included in other general and administrative expense in the Consolidated Statements of

Operations.

Table of Contents**INVESTMENT TECHNOLOGY GROUP, INC. AND SUBSIDIARIES****Notes to Consolidated Financial Statements (Continued)**

During the year ended December 31, 2014, no intangibles were deemed impaired, and accordingly, no adjustment was required.

The Company's estimate of future amortization expense for acquired other intangibles that exist at December 31, 2014 is as follows (dollars in thousands):

Year	Estimated Amortization
2015	\$ 3,252
2016	3,252
2017	3,102
2018	2,891
2019	2,891
Thereafter	7,273
<b>Total</b>	<b>\$ 22,661</b>

**(7) Cash Restricted or Segregated Under Regulations and Other**

Cash restricted or segregated under regulations and other represents (a) funds on deposit for the purpose of securing working capital facilities for clearing and settlement activities in Hong Kong, (b) a special reserve bank account for the exclusive benefit of customers ("Special Reserve Bank Account") maintained by ITG Inc. in accordance with Rule 15c3-3 of the Exchange Act ("Customer Protection Rule") or agreements for proprietary accounts of broker dealers ("PABs"), (c) funds on deposit for Canadian and European trade clearing and settlement activity, (d) segregated balances under a collateral account control agreement for the benefit of certain customers, and (e) funds relating to the securitization of bank guarantees supporting the Company's Australian lease.

**(8) Securities Owned and Sold, Not Yet Purchased**

The following is a summary of securities owned and securities sold, not yet purchased (dollars in thousands):

	Securities Owned		Securities Sold, Not Yet Purchased	
	2014	2013	2014	2013
Corporate stocks trading securities	\$ 8,160	\$ 2,894	\$ 8,253	\$ 2,953
Mutual funds	3,913	4,542		
<b>Total</b>	<b>\$ 12,073</b>	<b>\$ 7,436</b>	<b>\$ 8,253</b>	<b>\$ 2,953</b>

Trading securities owned and sold, not yet purchased primarily consists of temporary positions obtained in the normal course of agency trading activities, including positions held in connection with the creation and redemption of exchange-traded funds on behalf of clients.



Table of Contents**INVESTMENT TECHNOLOGY GROUP, INC. AND SUBSIDIARIES****Notes to Consolidated Financial Statements (Continued)****(9) Income Taxes**

Income tax expense (benefit) consisted of the following components (dollars in thousands):

	2014	2013	2012
Current:			
Federal	\$ 4,802	\$ 2,628	\$ 416
State	4,823	1,634	782
Foreign	9,449	4,657	3,362
	19,074	8,919	4,560
Deferred:			
Federal	(4,701)	1,606	(19,423)
State	1,026	992	(7,565)
Foreign	(1,304)	453	(168)
	(4,979)	3,051	(27,156)
Total	\$ 14,095	\$ 11,970	\$ (22,596)

Income (loss) before income taxes consisted of the following (dollars in thousands):

	2014	2013	2012
U.S.	\$ 15,779	\$ 15,687	\$ (248,101)
Foreign	49,208	27,368	(22,354)
Total	\$ 64,987	\$ 43,055	\$ (270,455)

Table of Contents**INVESTMENT TECHNOLOGY GROUP, INC. AND SUBSIDIARIES****Notes to Consolidated Financial Statements (Continued)**

Deferred income taxes are provided for temporary differences in reporting certain items. The tax effects of temporary differences that gave rise to the net deferred tax assets (liabilities) at December 31 were as follows (dollars in thousands):

	2014	2013
Deferred tax assets:		
Compensation and benefits	\$ 17,252	\$ 12,844
Net operating loss and capital loss carryover	16,949	17,121
Share-based compensation	7,719	6,959
Allowance for doubtful accounts	452	889
Tax benefits on uncertain tax positions	3,507	2,697
Goodwill and other intangibles	16,256	21,138
Other	8,568	9,757
<b>Total deferred tax assets</b>	<b>70,703</b>	<b>71,405</b>
Less: valuation allowance	20,400	20,541
<b>Total deferred tax assets, net of valuation allowance</b>	<b>50,303</b>	<b>50,864</b>
Deferred tax liabilities:		
Depreciation	(1,575)	(3,916)
Capitalized software	(11,870)	(12,838)
Other	(352)	(343)
<b>Total deferred tax liabilities</b>	<b>(13,797)</b>	<b>(17,097)</b>
<b>Net deferred tax assets</b>	<b>\$ 36,506</b>	<b>\$ 33,767</b>

The deferred tax assets and deferred tax liabilities detailed above are presented on a net basis on the accompanying Statements of Financial Condition by tax jurisdictions in which the deferred tax assets and deferred tax liabilities relate to. At December 31, 2014, the Company believes that it is more likely than not that future reversals of its existing taxable temporary differences and the results of future operations will generate sufficient taxable income to realize the deferred tax assets, net of the valuation allowance. The Company's valuation allowance is primarily the result of historical operating losses in the Asia Pacific entities, where we maintain a full valuation for all deferred tax assets and net operating losses, and on certain tax credits taken in the U.S.

Net operating loss carry forwards expire as follows (dollars in thousands):

	Amount	Years remaining
Hong Kong and Australia	\$ 74,937	Indefinite
	\$ 74,937	

Table of Contents**INVESTMENT TECHNOLOGY GROUP, INC. AND SUBSIDIARIES****Notes to Consolidated Financial Statements (Continued)**

The effective tax rate varied from the U.S. federal statutory income tax rate due to the following:

	2014	2013	2012
U.S. federal statutory income tax rate	35.0%	35.0%	35.0%
State and local income taxes, net of U.S. federal income tax effect	5.5	3.9	1.8
Foreign tax impact, net	(12.8)	(6.4)	(3.6)
Non-deductible costs *	0.9	1.0	(24.3)
Other, net	(6.9)	(5.7)	(0.5)
Effective income tax rate	21.7%	27.8%	8.4%

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Non-deductible costs in 2012 include goodwill impairment charges.

The excess tax benefits realized on the exercises of stock options and the vesting of employee restricted share awards reduced current taxes payable by \$1.1 million (net of \$0.2 million of tax shortfalls) during 2014. For the years ended December 31, 2013 and 2012, the tax benefits realized on the exercises of stock options and the vesting of employee restricted share awards were less than the deferred benefits that were recorded based on grant date fair values. The resulting net tax shortfalls on these awards, along with the impact of cancelled awards reduced additional paid-in capital by \$1.5 million and \$4.1 million in 2013 and 2012, respectively. For further discussion, see Note 19, *Employee and Non-Employee Director Stock and Benefit Plans*.

*Tax Uncertainties*

Under ASC 740, *Income Taxes*, a tax benefit from an uncertain tax position may be recognized only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities. The tax benefits recognized in the financial statements from such a position are measured based on the largest benefit that has a greater than fifty percent likelihood of being realized upon ultimate resolution.

During 2014, the Company (a) amended certain prior-year tax returns in the U.S. for deductions in those years not previously taken, (b) resolved uncertain tax positions in the U.S. for fiscal years 2007 through 2010, reducing tax reserves, (c) revised estimates for certain tax positions for other prior years, increasing tax reserves and (d) adjusted accruals for prior year returns. The net effect was a decrease in tax expense of \$2.7 million.

During 2013, uncertain tax positions in the U.S. were resolved for the 2003-2006 and 2008-2010 fiscal years resulting in a decrease in the recorded liability of \$0.5 million and the related deferred tax asset of \$0.2 million. Also, in 2013, an uncertain tax position in Europe for the 2011 year was resolved, resulting in a decrease in the recorded liability of \$0.9 million. As a result of these resolutions, the Company recognized a tax benefit of \$1.2 million. Additionally, we reduced reserves related to prior years following the resolution of tax contingencies primarily in Europe.

Table of Contents**INVESTMENT TECHNOLOGY GROUP, INC. AND SUBSIDIARIES****Notes to Consolidated Financial Statements (Continued)**

A reconciliation of the beginning and ending amounts of unrecognized tax benefits is as follows (dollars in thousands):

<b>Uncertain Tax Benefits</b>	<b>2014</b>	<b>2013</b>	<b>2012</b>
Balance, January 1	\$ 13,074	\$ 13,726	\$ 14,542
Additions based on tax positions related to the current year	309	404	568
Additions based on tax positions of prior years	3,681	434	857
Reductions for tax positions of prior years	(84)	(148)	(2,024)
Reductions due to settlements with taxing authorities	(1,108)	(124)	(217)
Reductions due to expiration of statute of limitations	(1,477)	(1,218)	
<b>Balance, December 31</b>	<b>\$ 14,395</b>	<b>\$ 13,074</b>	<b>\$ 13,726</b>

Included in the balance at December 31, 2014, 2013 and 2012, are \$12.7 million, \$11.9 million, and \$12.4 million, respectively, of unrecognized tax benefits (net of federal benefits) which, if recognized, would affect the Company's effective tax rate.

With limited exception, the Company is no longer subject to U.S. federal, state, local or foreign income tax audits by taxing authorities for years preceding 2008. The Internal Revenue Service is currently examining the Company's U.S. federal income tax returns for 2008 through 2011. Certain state and local returns are also currently under various stages of audit. The Company does not anticipate a significant change to the total of unrecognized tax benefits within the next twelve months.

At December 31, 2014, interest expense of \$4.6 million, gross of related tax effects of \$1.9 million, was accrued related to unrecognized tax benefits. As a continuing policy, interest accrued related to unrecognized tax benefits is recorded as income tax expense. During 2014, 2013 and 2012, the Company recognized \$0.8 million, \$0.5 million and \$0.8 million, respectively, of tax-related interest expense. No penalties were incurred during 2014, 2013 or 2012.

**(10) Receivables and Payables***Receivables from, and Payables to, Brokers, Dealers and Clearing Organizations*

The following is a summary of receivables from, and payables to, brokers, dealers and clearing organizations at December 31 (dollars in thousands):

	<b>Receivables from</b>		<b>Payables to</b>	
	<b>2014</b>	<b>2013</b>	<b>2014</b>	<b>2013</b>
Broker-dealers	\$ 148,956	\$ 119,268	\$ 51,615	\$ 66,733
Clearing organizations	1,447	5,725	39,433	2,798
Securities borrowed	496,596	742,307		
Securities loaned			508,993	737,789
Allowance for doubtful accounts	(669)	(1,029)		
<b>Total</b>	<b>\$ 646,330</b>	<b>\$ 866,271</b>	<b>\$ 600,041</b>	<b>\$ 807,320</b>

Table of Contents**INVESTMENT TECHNOLOGY GROUP, INC. AND SUBSIDIARIES****Notes to Consolidated Financial Statements (Continued)***Receivables from, and Payables to, Customers*

The following is a summary of receivables from, and payables to, customers at December 31 (dollars in thousands):

	Receivables from		Payables to	
	2014	2013	2014	2013
Customers	\$ 108,518	\$ 73,795	\$ 11,132	\$ 16,797
Allowance for doubtful accounts	(583)	(1,135)		
Net	\$ 107,935	\$ 72,660	\$ 11,132	\$ 16,797

*Allowance for Doubtful Accounts*

The Company maintains an allowance for doubtful accounts based upon an estimate of the amount of potential credit losses in existing accounts receivable, as determined from a review of past due balances, historical collection experience and other specific account data. Account balances are written off against the allowance when we determine the receivable is uncollectible. The allowance was decreased by \$0.8 million in 2014 and \$0.4 million in 2013 and was increased by \$1.4 million in 2012. The decrease in 2014 included a \$1.0 million reduction from revising the allowance estimation methodology after evaluating historical trends, the number of days invoices were outstanding, client patterns and the Company's write-off history.

*Securities Borrowed and Loaned*

As of December 31, 2014, securities borrowed as part of the Company's matched book operations with a fair value of \$481 million were delivered for securities loaned. The gross amounts of interest earned on cash provided to counterparties as collateral for securities borrowed, and interest incurred on cash received from counterparties as collateral for securities loaned, and the resulting net amount included in other revenue on the Consolidated Statements of Operations for 2014, 2013 and 2012 were as follows (dollars in thousands):

	2014	2013	2012
Interest earned	\$ 15,072	\$ 17,756	\$ 19,242
Interest incurred	(10,218)	(10,786)	(14,589)
Net	\$ 4,854	\$ 6,970	\$ 4,653

Interest earned in 2013 includes a gain of \$2.5 million related to adjustments to historical dividend withholdings on securities borrowed.

Deposits paid for securities borrowed and deposits received for securities loaned are recorded at the amount of cash collateral advanced or received. Deposits paid for securities borrowed transactions require the Company to deposit cash with the lender. With respect to deposits received for securities loaned, the Company receives collateral in the form of cash in an amount generally in excess of the market value of the securities loaned. The Company monitors the market value of the securities borrowed and loaned on a daily basis, with additional collateral obtained or refunded, as necessary.

The Company's securities borrowing and lending is generally done under industry standard agreements ("Master Securities Lending Agreements") that may allow, following an event of default by either party, the prompt close-out of all transactions (including the liquidation of securities held) and



Table of Contents**INVESTMENT TECHNOLOGY GROUP, INC. AND SUBSIDIARIES****Notes to Consolidated Financial Statements (Continued)**

the offsetting of obligations to return cash or securities, as the case may be, by the non-defaulting party. Events of default under the Master Securities Lending Agreements generally include, subject to certain conditions: (a) failure to timely deliver cash or securities as required under the transaction, (b) a party's insolvency, bankruptcy, or similar proceeding, (c) breach of representation, and (d) a material breach of the agreement. The counterparty that receives the securities in these transactions generally has unrestricted access in its use of the securities. For financial statement purposes, the Company does not offset securities borrowed and securities loaned.

The following table summarizes the transactions under certain Master Securities Lending Agreements that may be eligible for offsetting if an event of default occurred and a right of offset was legally enforceable (dollars in thousands):

	<b>Gross Amounts of Recognized Assets/ (Liabilities)</b>	<b>Gross Amounts Offset in the Consolidated Statement of Financial Condition</b>	<b>Net Amounts Presented in the Consolidated Statement of Financial Condition</b>	<b>Collateral Received or Pledged (including Cash)</b>	<b>Net Amount</b>
<i>As of December 31, 2014:</i>					
Deposits paid for securities borrowed	\$ 496,596	\$	\$ 496,596	\$ 496,374	\$ 222
Deposits received for securities loaned	(508,993)		(508,993)	(497,462)	(11,531)
<i>As of December 31, 2013:</i>					
Deposits paid for securities borrowed	\$ 742,307	\$	\$ 742,307	\$ 742,083	\$ 224
Deposits received for securities loaned	(737,789)		(737,789)	(721,821)	(15,968)

**(11) Premises and Equipment**

The following is a summary of premises and equipment at December 31 (dollars in thousands):

	<b>2014</b>	<b>2013</b>
Furniture, fixtures and equipment	\$ 152,885	\$ 145,226
Leasehold improvements	49,951	49,554
	202,836	194,780
Less: accumulated depreciation and amortization	142,530	128,609
<b>Total</b>	<b>\$ 60,306</b>	<b>\$ 66,171</b>

Depreciation and amortization expense relating to premises and equipment amounted to \$19.2 million; \$21.0 million and \$19.5 million during the years ended December 31, 2014, 2013 and 2012, respectively, and are included in occupancy and equipment expense in the Consolidated Statements of Operations. During 2014, premises and equipment costs and related accumulated depreciation and amortization were reduced by \$2.5 million and \$2.4 million, respectively, for assets that are no longer in use.

Table of Contents**INVESTMENT TECHNOLOGY GROUP, INC. AND SUBSIDIARIES****Notes to Consolidated Financial Statements (Continued)****(12) Capitalized Software**

The following is a summary of capitalized software costs at December 31 (dollars in thousands):

	2014	2013
Capitalized software costs	\$ 79,966	\$ 88,912
Less: accumulated amortization	41,633	51,020
<b>Total</b>	<b>\$ 38,333</b>	<b>\$ 37,892</b>

Software costs totaling \$26.3 million and \$22.6 million were capitalized in 2014 and 2013, respectively, related to the continued development of new features and functionalities across the entire ITG product line. During 2014, capitalized software costs and related accumulated amortization were each reduced by \$34.8 million for fully amortized costs that are no longer in use.

As of December 31, 2014, capitalized software costs of \$0.6 million were not subject to amortization as the underlying products were not yet available for release. As of December 31, 2013, capitalized software costs of \$0.2 million were not subject to amortization as the underlying products were not yet available for release. Other general and administrative expenses in the Consolidated Statements of Operations included \$25.8 million, \$28.5 million and \$32.1 million related to the amortization of capitalized software costs in 2014, 2013 and 2012, respectively.

**(13) Accounts Payable and Accrued Expenses**

The following is a summary of accounts payable and accrued expenses at December 31 (dollars in thousands):

	2014	2013
Accrued research payables	\$ 56,736	\$ 52,015
Accrued compensation and benefits	62,271	47,622
Accrued rent	19,169	19,938
Trade payables	19,547	15,222
Deferred revenue	13,836	12,533
Deferred compensation	3,918	4,552
Accrued restructuring	2,224	3,768
Accrued transaction processing	2,981	2,972
Other	18,529	17,309
<b>Total</b>	<b>\$ 199,211</b>	<b>\$ 175,931</b>

**(14) Borrowings***Short-term Bank Loans*

The Company's international securities clearing and settlement activities are funded with operating cash or with short-term bank loans in the form of overdraft facilities. At December 31, 2014, there was \$78.4 million outstanding under these facilities at a weighted average interest rate of approximately 1.5% associated with international settlement activities.

In the U.S., securities clearing and settlement activities are funded with operating cash, securities loaned or with short-term bank loans under the Credit Agreement described below.





Table of Contents**INVESTMENT TECHNOLOGY GROUP, INC. AND SUBSIDIARIES****Notes to Consolidated Financial Statements (Continued)**

On January 31, 2014, ITG Inc., as borrower, and Investment Technology Group, Inc., as guarantor (the "Parent Company"), entered into a \$150 million two-year revolving credit agreement (the "Credit Agreement") with a syndicate of banks and JPMorgan Chase Bank, N.A., as Administrative Agent. The Credit Agreement includes an accordion feature that allows for potential expansion of the facility up to \$225 million. Under the Credit Agreement, interest accrues at a rate equal to (a) a base rate, determined by reference to the federal funds rate plus (b) a margin of 2.50%. Available but unborrowed amounts under the Credit Agreement are subject to an unused commitment fee of 0.50%. The purpose of this credit line is to provide liquidity for the Company's U.S. brokerage operations to satisfy clearing margin requirements and to finance temporary positions from delivery failures or non-standard settlements. As a result, the Parent Company will have additional flexibility with its existing cash and future cash flows from operations to selectively invest in growth initiatives and to return capital to stockholders. Depending on the borrowing base, availability under the Credit Agreement is limited to either (i) a percentage of the clearing deposit required by the National Securities Clearing Corporation, or (ii) a percentage of the market value of temporary positions pledged as collateral. Among other restrictions, the terms of the Credit Agreement include (a) negative covenants related to liens, (b) financial covenant requirements for maintaining a consolidated leverage ratio (as defined) and a liquidity ratio (as defined), as well as requirements for maintaining minimum levels of tangible net worth (as defined) and regulatory capital (as defined), and (c) restrictions on investments, dispositions and other restrictions customary for financings of this type.

The events of default under the Credit Agreement include, among others, payment defaults, cross defaults with certain other indebtedness, breaches of covenants, loss of collateral, judgments, and changes in control and bankruptcy events. In the event of non-payment, the Credit Agreement requires ITG Inc. to pay incremental interest at the rate of 2.0%. In the event of a default and depending on the nature thereof, the commitments will either automatically terminate and all unpaid amounts immediately become due and payable, or the lenders may in their discretion terminate their commitments and declare due all unpaid amounts outstanding.

At December 31, 2014, there were no amounts outstanding under the Credit Agreement. At December 31, 2013, there was \$35.0 million outstanding under the committed credit agreement that immediately preceded, and was substantially similar to, the Credit Agreement.

*Term Debt*

At December 31, term debt is comprised of the following (dollars in thousands):

	<b>2014</b>	<b>2013</b>
Term Loan	\$ 2,653	\$ 9,020
Obligations under capital lease	15,128	21,312
<b>Total</b>	<b>\$ 17,781</b>	<b>\$ 30,332</b>

On June 1, 2011, Parent Company as borrower, entered into a \$25.5 million Master Loan and Security Agreement ("Term Loan Agreement") with Banc of America Leasing & Capital, LLC ("Bank of America"). The four-year term loan established under this agreement ("Term Loan") is secured by a security interest in existing furniture, fixtures and equipment owned by the Parent Company and certain U.S. subsidiaries as of June 1, 2011. The primary purpose of this financing was to provide capital for strategic initiatives. The events of default under the Term Loan Agreement include, among others, cross default on the Credit Agreement, default on payment, failure to maintain required equipment insurance, certain negative judgments and bankruptcy events. In the event of a default, the terms of the

Table of Contents**INVESTMENT TECHNOLOGY GROUP, INC. AND SUBSIDIARIES****Notes to Consolidated Financial Statements (Continued)**

Term Loan Agreement require the Parent Company to pay additional interest at a rate of 3.0% and, the lender may in its discretion terminate the loan agreement and declare all unpaid amounts outstanding to be immediately due and payable.

The Term Loan is payable in monthly principal installments of \$530,600 through May 2015 and accrues interest at 3.0% plus the average one month London Interbank Offered Rate ("LIBOR") for dollar deposits.

Along with the Term Loan Agreement, Parent Company entered into a \$5.0 million master lease facility with Bank of America ("Master Lease Agreement"), under which purchases of new equipment may be financed. Each equipment lease under the Master Lease Agreement is structured as a capital lease and has a separate 48-month term from its inception date, at the end of which Parent Company may purchase the underlying equipment for \$1. Each lease under the Master Lease Agreement requires principal repayment on a monthly schedule and accrues interest at the same rate prescribed for the Term Loan.

In September 2011, \$2.6 million was drawn on the lease facility to finance purchased assets that had a fair value of \$2.4 million on the date of financing, resulting in the recording of a principal balance of \$2.4 million and deferred gain of \$0.2 million. In June 2012, \$1.9 million was drawn on the lease facility to finance purchased assets that had a fair value slightly under \$1.9 million on the date of financing, resulting in the recording of a principal balance of nearly \$1.9 million and a negligible deferred gain. The leases are payable in straight-line monthly installments plus interest at the average one month LIBOR for dollar deposits plus 3.0%. The reductions to the remaining principal balance applying the interest method to the estimated minimum lease payments are as follows (dollars in thousands):

<b>Year</b>	<b>Aggregate Amount</b>
2015	\$ 893
2016	237
	\$ 1,130

On August 10, 2012, Parent Company entered into a \$25.0 million master lease facility with BMO Harris Equipment Finance Company ("BMO") to finance equipment and construction expenditures related to the build-out of the Company's new headquarters in lower Manhattan. The original amount borrowed of \$21.2 million has a 3.39% fixed-rate term financing structured as a capital lease with a 48-month term, at the end of which Parent Company may purchase the underlying assets for \$1. At December 31, 2014, there was \$14 million outstanding under the BMO facility. The reductions to the remaining principal balance applying the interest method to the estimated minimum lease payments are as follows (dollars in thousands):

<b>Year</b>	<b>Amount</b>
2015	\$ 5,274
2016	5,455
2017	3,269
	\$ 13,998

The Term Loan Agreement, Master Lease Agreement and the BMO facility all require compliance with the financial covenants of the Credit Agreement.

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Interest expense on the Credit Agreement, the Term Loan Agreement, the Master Lease Agreement and the BMO facility, including commitment fees and the amortization of debt issuance costs totaled \$2.3 million, \$2.7 million and \$2.5 million in 2014, 2013 and 2012, respectively.

**(15) Accumulated Other Comprehensive Income**

The components and allocated tax effects of other comprehensive income for the periods ended December 31, 2014 and December 31, 2013 are as follows (dollars in thousands):

	Before Tax Effects	Tax Effects	After Tax Effects
<b>December 31, 2014</b>			
Currency translation adjustment	\$ (5,894)	\$	\$ (5,894)
<b>Total</b>	<b>\$ (5,894)</b>	<b>\$</b>	<b>\$ (5,894)</b>

<b>December 31, 2013</b>			
Currency translation adjustment	\$ 8,536	\$	\$ 8,536
<b>Total</b>	<b>\$ 8,536</b>	<b>\$</b>	<b>\$ 8,536</b>

Deferred taxes have not been provided on the cumulative undistributed earnings of foreign subsidiaries or the cumulative translation adjustment related to those investments since there is currently no need to repatriate funds from certain foreign subsidiaries to the U.S. by way of dividends.

**(16) Net Capital Requirement**

ITG Inc., AlterNet and ITG Derivatives are subject to the SEC's Uniform Net Capital Rule (Rule 15c3-1), which requires the maintenance of minimum net capital. ITG Inc. has elected to use the alternative method permitted by Rule 15c3-1, which requires that ITG Inc. maintain minimum net capital equal to the greater of \$1.0 million or 2% of aggregate debit balances arising from customer transactions, as defined. AlterNet and ITG Derivatives have elected to use the basic method permitted by Rule 15c3-1, which requires that they each maintain minimum net capital equal to the greater of 6<sup>2</sup>/<sub>3</sub>% of aggregate indebtedness or \$100,000 and \$1.0 million, respectively. Dividends or withdrawals of capital cannot be made if capital is needed to comply with regulatory requirements.

Net capital balances and the amounts in excess of required net capital at December 31, 2014 for the U.S. Operations are as follows (dollars in millions):

	Net Capital	Excess
<b>U.S. Operations</b>		
ITG Inc.	\$ 99.8	\$ 98.8
AlterNet	5.5	5.3
ITG Derivatives	2.4	1.4

As of December 31, 2014, ITG Inc. had \$10.0 million of cash in a Special Reserve Bank Account for the benefit of customers under the Customer Protection Rule pursuant to SEC Rule 15c3-3, *Computation for Determination of Reserve Requirements* and \$1.0 million under PABs.

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In addition, the Company's Canadian, European and Asia Pacific Operations have subsidiaries with regulatory capital requirements. The regulatory net capital balances and amount of regulatory capital in

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## INVESTMENT TECHNOLOGY GROUP, INC. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements (Continued)

excess of the minimum requirements applicable to each business at December 31, 2014, is summarized in the following table (dollars in millions):

	Net Capital	Excess (Deficit)
<b>Canadian Operations</b>		
Canada	\$ 36.8	\$ 36.4
<b>European Operations</b>		
Ireland	63.2	39.0
U.K.	3.9	3.0
<b>Asia Pacific Operations</b>		
Australia	12.3	8.2
Hong Kong	26.8	14.1
Singapore	0.4	0.2

**(17) Stockholders' Equity**

The Company's current policy, which is reviewed continually, is to retain earnings to finance the operations and expansion of its businesses and to return capital to stockholders through repurchases. As a result, the Company is not currently paying dividends on common stock.

*Stock Repurchase Program*

To facilitate its stock repurchase program, designed to return value to stockholders and minimize dilution from stock issuances, the Company repurchases shares in the open market. The table below summarizes the Company's share repurchases beginning January 1, 2010 under its Board of Directors' authorizations:

Repurchase Program Authorization Date	Expiration Date	Amount Authorized by Board (Shares)		Total Repurchases (Shares)	Shares Remaining Under Board Authorization (millions)	Shares Repurchased Under Board Authorization		
		in millions	in millions			2014	2013	2012
October 2011	none	4.0	4.0			1.5	2.5	
May 2013	none	4.0	3.2	0.8	2.7	0.5		
October 2014	none	4.0		4.0				
Total shares repurchased under authorization						2.7	2.0	2.5
Cost (millions)						\$ 48.2	\$ 28.2	\$ 23.5
Average share price						\$ 18.03	\$ 14.05	\$ 9.50

The Company also repurchased approximately 0.4 million, 0.4 million and 0.3 million shares of common stock during 2014, 2013 and 2012, respectively, to satisfy the minimum statutory employee withholding tax upon the net settlement of equity awards.

**(18) Off-Balance Sheet Risk and Concentration of Credit Risk**

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The Company is a member of various U.S. and non-U.S. exchanges and clearing houses that trade and clear, respectively, equities and/or derivative contracts. Associated with the Company's membership, the Company may be required to pay a proportionate share of financial obligations of another member

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**INVESTMENT TECHNOLOGY GROUP, INC. AND SUBSIDIARIES**

**Notes to Consolidated Financial Statements (Continued)**

who may default on its obligations to the exchanges or the clearing house. While the rules governing different exchange or clearing house memberships vary, in general, the Company's obligations would arise only if the exchanges and clearing houses had previously exhausted other remedies. The maximum potential payout under these memberships cannot be estimated. The Company has not recorded any contingent liability in the consolidated financial statements for these agreements and believes that any potential requirement to make payments under these agreements is remote. In the ordinary course of business, the Company guarantees obligations of subsidiaries which may arise from third-party clearing relationships and trading counterparties. The activities of the subsidiaries covered by these guarantees are included in the Company's consolidated financial statements.

The Company's customer financing and securities settlement activities may require the Company to pledge customer securities as collateral in support of various secured financing transactions such as bank loans. In the event the counterparty is unable to meet its contractual obligation to return customer securities pledged as collateral, the Company may be exposed to the risk of acquiring the securities at prevailing market prices in order to satisfy its customer obligations. The Company controls this risk by monitoring the market value of securities pledged on a daily basis and by requiring adjustments of collateral levels in the event of excess market exposure.

Financial instruments that potentially subject the Company to concentrations of credit risk are primarily cash and cash equivalents, securities owned at fair value, receivables from brokers, dealers and clearing organizations and receivables from customers. Cash and cash equivalents and securities owned, at fair value are deposited with high credit quality financial institutions.

The Company loans securities temporarily to other brokers in connection with its securities lending activities. The Company receives cash as collateral for the securities loaned. Increases in security prices may cause the market value of the securities loaned to exceed the amount of cash received as collateral. In the event the counterparty to these transactions does not return the loaned securities, the Company may be exposed to the risk of acquiring the securities at prevailing market prices in order to satisfy its client obligations. The Company controls this risk by requiring credit approvals for counterparties, by monitoring the market value of securities loaned on a daily basis, and by requiring additional cash as collateral or returning collateral when necessary.

The Company borrows securities temporarily from other brokers in connection with its securities borrowing activities. The Company deposits cash as collateral for the securities borrowed. Decreases in security prices may cause the market value of the securities borrowed to fall below the amount of cash deposited as collateral. In the event the counterparty to these transactions does not return collateral, the Company may be exposed to the risk of selling the securities at prevailing market prices. The Company controls this risk by requiring credit approvals for counterparties, by monitoring the collateral values on a daily basis, and by depositing additional collateral with counterparties or receiving cash when deemed necessary.

The Company may at times maintain inventories in equity securities on both a long and short basis. Whereas long inventory positions represent the Company's ownership of securities, short inventory positions represent obligations of the Company to deliver specified securities at a contracted price, which may differ from market prices prevailing at the time of completion of the transaction. Accordingly, both long and short inventory positions may result in losses or gains to the Company as market values of securities fluctuate. To mitigate the risk of losses, long and short positions are marked to market daily and are continuously monitored by the Company.



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**INVESTMENT TECHNOLOGY GROUP, INC. AND SUBSIDIARIES**

**Notes to Consolidated Financial Statements (Continued)**

**(19) Employee and Non-Employee Director Stock and Benefit Plans**

The 2007 Omnibus Equity Compensation Plan (the "2007 Plan") was approved by the Company's stockholders and became effective on May 8, 2007 (the "Effective Date") and was last amended and restated effective February 5, 2014. As of the Effective Date, the Amended and Restated Investment Technology Group, Inc. Directors' Retainer Fee Subplan (the "Directors' Retainer Fee Subplan") and the Amended and Restated Investment Technology Group, Inc. Directors' Equity Subplan (the "Directors' Equity Subplan," and collectively with the Directors' Retainer Fee Subplan, the "Subplans") were merged with and into the 2007 Plan. Since the Effective Date, the Subplans have continued to be, and shall continue to be, in effect as subplans of the 2007 Plan and grants and/or deferrals may continue to be made. In October 2008, the compensation committee adopted the Equity Deferral Award Program, another subplan under the 2007 Plan. This subplan was last amended and restated on February 3, 2015, is now known as the Variable Compensation Stock Unit Award Program Subplan, and continues to be a subplan under the 2007 Plan (the "VCSUA Subplan").

Under the 2007 Plan, 10,468,208 shares of the Company's common stock are authorized. Shares of common stock which are attributable to awards which have expired, terminated, cash settled or been canceled or forfeited during any calendar year are generally available for issuance or use in connection with future awards. Options that have been granted under the 2007 Plan are exercisable on dates ranging through February 2019. The 2007 Plan will remain in effect until May 7, 2017, unless terminated, or extended, by the Board of Directors with the approval of the Company's stockholders. After this date, no further awards shall be granted pursuant to the 2007 Plan, but previously-granted awards will remain outstanding in accordance with their applicable terms and conditions.

In January 2006, the Board of Directors adopted the Directors' Equity Subplan which became effective January 1, 2006 and merged into the 2007 Plan as referenced above. The Directors' Equity Subplan was amended and restated on February 7, 2008 and more recently on April 30, 2012. The Directors' Equity Subplan provides for the grant of restricted stock unit awards to non-employee directors of the Company. Under the Directors' Equity Subplan, a newly appointed non-employee director will be granted restricted stock unit awards valued at \$100,000 at, or shortly after, the time of appointment to the Board of Directors. Such initial restricted stock unit award will vest annually in three equal installments, beginning on the first anniversary of the date of grant. In addition, non-employee directors will be granted restricted stock unit awards valued at \$72,000 annually on the day of each of the Company's annual meetings of stockholders at which directors are elected or reelected by the Company's stockholders. Such annual restricted stock unit awards will vest in full on the day immediately preceding the Company's next annual meeting of stockholders at which directors are elected or reelected by the Company's stockholders.

Under the 2007 Plan, the Company is permitted to grant time-based stock options, in addition to performance-based option awards to employees and directors, however the Company did not grant any option awards under the 2007 Plan during the three years ended December 31, 2014. Outstanding time-based option awards vest annually in three equal installments, beginning on the first anniversary of the date of grant, if the employee has remained continuously employed or if the director has continued to serve on the board of directors from the grant date to the applicable vesting date. The Company recognizes share-based compensation expense (see Note 2, *Summary of Significant Accounting Policies*) for time-based option awards over the vesting period.

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## INVESTMENT TECHNOLOGY GROUP, INC. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements (Continued)

The tables below summarize the Company's outstanding stock options as of December 31, 2014, 2013 and 2012 and changes during the years then ended:

Options Outstanding	Number of Shares	Weighted Average Exercise Price
Outstanding at December 31, 2011	526,970	\$ 27.27
Granted		
Exercised		
Forfeited	(15,995)	43.15
Outstanding at December 31, 2012	510,975	26.77
Granted		
Exercised		
Forfeited	(167,649)	46.18
Outstanding at December 31, 2013	343,326	17.29
Granted		
Exercised	(14,228)	14.28
Forfeited	(22,245)	20.09
Outstanding at December 31, 2014	306,853	\$ 17.23

Amount exercisable at December 31,		
2014	306,853	\$ 17.23
2013	262,017	17.28
2012	319,793	32.53

Range of Exercise Prices	Options Outstanding			Options Exercisable	
	Number Outstanding	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
\$12.17 - 15.82	51,198	1.58	\$ 12.17	51,198	\$ 12.17
15.83 - 17.43	34,447	0.52	16.30	34,447	16.30
17.44 - 18.70	28,475	0.48	17.44	28,475	17.44
18.71 - 18.71	192,733	4.15	18.71	192,733	18.71
	306,853	2.97	\$ 17.23	306,853	\$ 17.23

For the years ended December 31, 2014, 2013 and 2012, the Company recorded share-based compensation expense of \$0.1 million, \$0.6 million and \$0.7 million, respectively, related to the Company's outstanding stock options, which was offset by related income tax benefits of less than \$0.1 million, \$0.3 million and \$0.3 million, respectively.

The weighted average remaining contractual term of stock options currently exercisable is 2.97 years.

All of the stock options outstanding at December 31, 2014 were time-based.

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The provision for income taxes excludes excess current tax benefits related to the exercise of stock options. During 2014, the exercise of 14,228 stock options did not give rise to an excess current tax benefit, however a tax shortfall occurred on exercises and cancellations totaling \$0.1 million was recognized. During 2013 and 2012, no stock options were exercised and as a result the provision for income taxes did not include current tax benefits related to the exercise of stock options. A tax shortfall related to cancellations of \$0.3 million and \$0.1 million was recognized in 2013 and 2012, respectively. These tax shortfalls are reflected as decreases to additional paid-in capital as a result of the tax deduction being less than the cumulative book compensation cost.

The following table summarizes information about stock options at December 31, 2014, 2013 and 2012:

(\$ in thousands)	2014	2013	2012
Total intrinsic value of stock options exercised	\$ 74	\$	\$
Weighted average grant date fair value of stock options granted during period, per share			
Cash received from stock option exercises	203		

The total intrinsic value for both outstanding and exercisable stock options at December 31, 2014 was \$1.1 million.

As of December 31, 2014, all costs related to outstanding stock options has been fully recognized.

Stock option exercises are settled from issuance of shares of the Company's common stock held in treasury to the extent available.

Under the 2007 Plan, the Company is permitted to grant restricted share awards to employees. Generally, and except for awards granted under the VCSUA Subplan, restricted share awards granted since 2007 vest in one of the following manners: (a) cliff vest on the third anniversary of the grant date so long as the award recipient is employed on such date, or (b) serial vest on each of the second, third and fourth anniversaries of the date of grant so long as the award recipient is employed on the applicable vesting date and the 90-day average of the Company's common stock price preceding each of the vesting dates is greater than the 90-day average of the Company's common stock price preceding the grant date (market-based restricted stock units). Accordingly, not all restricted shares awarded will vest and be delivered. The Company recognizes share-based compensation expense (see Note 2, *Summary of Significant Accounting Policies*) over this three-year period or four-year period, as applicable.

Under the VCSUA Subplan, each eligible participant is granted a number of basic stock units on the date the year-end cash bonus would otherwise be paid to the participant equal to (i) the amount by which the participant's variable compensation is reduced as determined by the Compensation Committee of the Board of Directors, divided by (ii) the fair market value of a share of the Company's common stock on the date of grant. In addition, each participant is granted an additional number of matching stock units on the date of grant equal to 10% of the number of basic stock units granted. Basic stock units under the VCSUA Subplan that are time-based vest in equal annual installments on each of the first, second and third anniversaries of the date of grant, if the participant remains continuously employed by the Company on each applicable vesting date. Matching stock units on time-based awards will vest 100% on the third anniversary of the date of grant, if the participant remains continuously employed by the Company through such vesting date. Basic units under the VCSUA Subplan that are market-based vest in equal installments on each of the second, third and fourth anniversaries of the date of grant so long as the award recipient is employed on the applicable

Table of Contents**INVESTMENT TECHNOLOGY GROUP, INC. AND SUBSIDIARIES****Notes to Consolidated Financial Statements (Continued)**

vesting date and the 90-day average of the Company's common stock price preceding each of the vesting dates is greater than the 90-day average of the Company's common stock price preceding the grant date. Matching stock units on market-based awards will vest 100% on the fourth anniversary of the date of grant so long as the award recipient is employed on the applicable vesting date and the 90-day average of the Company's common stock price preceding the vesting date is greater than the 90-day average of the Company's common stock price preceding the grant date. All vested stock units are settled in shares of ITG common stock within 30 days after the date on which such stock units vest.

During 2010, in conjunction with the acquisition of Majestic Research Corp. ("Majestic"), the Company granted "employment inducement awards" under Section 303A.08 of the New York Stock Exchange Listed Company Manual ("Inducement Awards") to certain Majestic employees. Stock units for 319,674 shares vested in equal installments on each of the first four anniversaries of the grant date of the awards. Stock units for 415,579 shares were performance-based and vested over the first four anniversaries of the award grant dates, based upon achievement of certain metrics as of the first and second anniversaries of the award grant dates.

During 2011, in conjunction with the acquisition of RSEG, the Company granted Inducement Awards to certain RSEG employees. Stock units for 181,623 shares vested in equal installments on December 31, 2011, 2012 and 2013 and stock units for 181,328 shares vested in equal installments on each of the first three anniversaries of the grant date of the awards.

The Company recorded share-based compensation expense of \$15.0 million, \$13.0 million (\$0.4 million of which was recorded in restructuring charges), and \$12.4 million (\$0.5 million of which was recorded in restructuring charges) for the years ended December 31, 2014, 2013 and 2012, respectively, related to restricted share awards which were offset by related income tax benefits of approximately \$6.0 million, \$5.2 million and \$5.0 million, respectively.

A summary of the status of the Company's restricted share awards as of December 31, 2014, 2013 and 2012 and changes during the years then ended are presented below:

	<b>Number of Shares underlying Performance-Based or Market-Based Restricted Stock Units</b>	<b>Number of Shares underlying Time-Based Restricted Stock Units</b>	<b>Total Number of Shares</b>	<b>Weighted Average Grant Date Fair Value</b>
Outstanding at December 31, 2011	792,058	2,263,246	3,055,304	\$ 17.49
Granted	216,740	1,176,006	1,392,746	10.63
Vested	(86,769)	(963,991)	(1,050,760)	17.99
Forfeited	(244,198)	(91,757)	(335,955)	26.10
Outstanding at December 31, 2012	677,831	2,383,504	3,061,335	13.25
Granted	91,932	898,869	990,801	12.00
Vested	(64,865)	(1,138,277)	(1,203,142)	14.47
Forfeited	(246,155)	(197,622)	(443,777)	12.20
Outstanding at December 31, 2013	458,743	1,946,474	2,405,217	12.31
Granted	219,644	1,239,029	1,458,673	15.45
Vested	(145,786)	(977,934)	(1,123,720)	13.63
Forfeited	(94,579)	(38,089)	(132,668)	12.10
Outstanding at December 31, 2014	438,022	2,169,480	2,607,502	\$ 13.51

Table of Contents**INVESTMENT TECHNOLOGY GROUP, INC. AND SUBSIDIARIES****Notes to Consolidated Financial Statements (Continued)**

At December 31, 2014, 438,022 of the outstanding restricted share awards were market-based restricted stock units.

As of December 31, 2014, there was \$20.8 million of total unrecognized compensation cost related to outstanding restricted share awards. These costs are expected to be recognized over a weighted average period of approximately 1.93 years. During 2014, restricted shares with a fair value of approximately \$18.6 million vested.

The provision for income taxes excludes excess current tax benefits related to the vesting of restricted share awards. For the year ended December 31, 2014, the excess tax benefits totaled \$1.3 million while tax shortfalls from cancellations were \$0.4 million. Such tax benefits are reflected as an increase in additional paid-in capital while tax shortfalls arising from the tax deduction being less than the cumulative book compensation cost is reflected as a decrease in additional paid-in capital. During 2013 and 2012, there were no such tax benefits, but rather tax shortfalls of \$1.2 million and \$4.0 million related to the vesting and cancellation of restricted share awards, respectively.

Under the 2007 Plan and the VCSUA Subplan, the Company is permitted to grant phantom share awards. Phantom share awards vest like any other award granted under the 2007 Plan and VCSUA Subplan as described above and are settled in cash. The Company recognizes share-based compensation expense (see Note 2, *Summary of Significant Accounting Policies*) over the applicable vesting period. For the years ended December 31, 2014, 2013 and 2012, the Company recorded share-based compensation expense of \$3.5 million, \$7.3 million and \$2.6 million, respectively related to phantom share awards offset by related tax benefits of \$0.9 million, \$2.0 million and \$0.7 million, respectively.

A summary of the status of the Company's phantom share awards as of December 31, 2014, 2013 and 2012 and changes during the years then ended are presented below:

	Number of Shares	Weighted Average Grant Date Fair Value
Outstanding at December 31, 2011	397,747	\$ 18.47
Granted	447,353	11.33
Vested	(135,049)	19.46
Forfeited	(14,341)	17.21
Outstanding at December 31, 2012	695,710	13.72
Granted	249,365	12.01
Vested	(245,296)	14.52
Forfeited	(28,017)	14.92
Outstanding at December 31, 2013	671,762	12.74
Granted		
Vested	(310,121)	14.06
Forfeited	(3,292)	11.73
Outstanding at December 31, 2014	358,349	\$ 11.61

At December 31, 2014, 48,751 of the outstanding phantom share awards were market-based.

As of December 31, 2014, there was \$2.3 million of total unrecognized compensation cost related to grants of phantom share awards. These costs are expected to be recognized over a weighted average period of approximately 1.02 years. The Company discontinued granting phantom share awards effective January 1, 2014.



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**INVESTMENT TECHNOLOGY GROUP, INC. AND SUBSIDIARIES**

**Notes to Consolidated Financial Statements (Continued)**

***ITG Employee and Non-Employee Director Benefit Plans***

All U.S. employees are eligible to participate in the Investment Technology Group, Inc. Retirement Savings Plan ("RSP"). The RSP applies to all eligible compensation up to the Internal Revenue Service annual maximum which was \$260,000 during 2014. Since January 1, 2012, the Company matching contribution applies to 50% of voluntary employee contributions, on a maximum of 4% of eligible compensation per year. The Company may still make discretionary contributions based on consolidated profits. Most of the Company's international employees are eligible to participate in similar defined contribution plans. The costs for these benefits were approximately \$4.3 million, \$4.6 million and \$5.5 million in 2014, 2013 and 2012, respectively, and are included in compensation and employee benefits in the Consolidated Statements of Operations.

Non-employee directors receive an annual retainer fee of \$60,000, with the exception of the chairman who receives \$160,000 under the Directors' Retainer Fee Subplan, which was adopted in 2002. This retainer fee is payable, at the election of each director, either in (i) cash, (ii) Company common stock with a value equal to the retainer fee on the grant date or (iii) under a deferred compensation plan which provides deferred share units with a value equal to the retainer fee on the grant date which convert to freely sellable shares when the director retires from the Board of Directors. Directors who chose common stock or deferred share units, in the aggregate, received 18,716 units or shares, 33,010 units or shares, and 39,571 units in 2014, 2013 and 2012, respectively. At December 31, 2014, there were 200,690 deferred share units outstanding. The cost of the Directors' Retainer Fee Subplan was approximately \$738,000, \$714,000, and \$854,000 in 2014, 2013 and 2012, respectively, and is included in other general and administrative expenses in the Consolidated Statements of Operations.

In November 1997, the Board of Directors approved the ITG Employee Stock Purchase Plan ("ESPP"), an employee stock purchase plan qualified under Section 423 of the Internal Revenue Code. The ESPP became effective February 1, 1998 and allows all full-time employees in the U.S. and Canada to purchase shares of ITG common stock at a 15% discount through automatic payroll deductions. In accordance with the provisions of ASC 718, the ESPP is compensatory. The Company recorded share-based compensation expense related to the ESPP of \$272,000, \$242,000, and \$390,000 for the years ended December 31, 2014, 2013 and 2012, respectively. Shares distributed under the ESPP are newly-issued shares.



Table of Contents**INVESTMENT TECHNOLOGY GROUP, INC. AND SUBSIDIARIES****Notes to Consolidated Financial Statements (Continued)****(20) Earnings (Loss) Per Share**

The following is a reconciliation of the basic and diluted earnings per share computations (dollars in thousands, except per share amounts):

	2014	2013	2012
Net income (loss) for basic and diluted earnings per share	\$ 50,892	\$ 31,085	\$ (247,859)
Shares of common stock and common stock equivalents:			
Weighted average shares basic	35,349	36,788	38,418
Effect of dilutive securities	1,016	1,326	
Weighted average shares diluted	36,365	38,114	38,418
Earnings (loss) per share:			
Basic	\$ 1.44	\$ 0.84	\$ (6.45)
Diluted	\$ 1.40	\$ 0.82	\$ (6.45)

At December 31, 2014 and 2013, approximately 0.4 million and 0.2 million share equivalents (based on the treasury stock method), respectively, were not included in the computation of diluted earnings per share because their effects would have been anti-dilutive. The impact of all 3.6 million common stock equivalents in 2012 was anti-dilutive due to the fact that the Company reported a loss.

**(21) Commitments and Contingencies*****Legal Matters***

The Company is periodically involved in litigation and various legal matters that arise in the normal course of business, including proceedings relating to regulatory matters. Such matters are subject to many uncertainties and outcomes that are not predictable. At the current time, the Company does not believe that any of these matters will have a material adverse effect on its financial position or future results of operations.

***Lease Commitments***

The Company has entered into lease and sublease agreements with third parties for certain offices and equipment, which expire at various dates through 2029. Rent expense for each of the years ended December 31, 2014, 2013 and 2012 was \$12.4 million, \$17.6 million and \$13.2 million, respectively, and is recorded in occupancy and equipment expense in the Consolidated Statements of Operations. Rent expense for 2013 includes duplicate rent charges of \$2.6 million while the Company built-out its new headquarters and a charge of \$2.3 million recorded in the second quarter of 2013 for the remaining rent expense at its old headquarters, which was incurred upon completion of the move. Rent expense for 2012 includes duplicate rent charges of \$1.4 million. The Company recognizes rent expense for escalation clauses, rent holidays, leasehold improvement incentives and other concessions using the



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straight-line method over the minimum lease term. Minimum future rental commitments under non-cancelable operating leases follow (dollars in thousands):

<b>Year Ending December 31,</b>		
2015	\$	17,214
2016		15,361
2017		9,418
2018		8,835
2019 and thereafter		74,228
Total	\$	125,056

***Other Commitments***

Pursuant to employment arrangements, in the event of termination of employment without cause on December 31, 2014, the Company would be obligated to pay separation payments totaling \$5.4 million.

Pursuant to contracts expiring through 2017, the Company is obligated to purchase market data, maintenance and other services totaling \$42.3 million.

**(22) Segment Reporting**

The Company is organized into four geographic operating segments through which the Company's chief operating decision maker manages the Company's business. The U.S., Canadian, European and Asia Pacific Operations segments provide the following categories of products and services:

**Electronic Brokerage** includes self-directed trading by clients using algorithms, smart routing and matching through POSIT in cash equities (including single stocks and portfolio lists), futures and options

**Research, Sales and Trading** includes (a) differentiated, unbiased, data-driven equity research through the use of innovative data mining and analysis, as well as detailed analysis of energy plays, and (b) portfolio trading and high-touch trading desks providing execution expertise and trading ideas based on investment research

**Platforms** includes trade order and execution management software applications in addition to network connectivity

**Analytics** includes tools enabling portfolio managers and traders to improve pre-trade and real-time execution performance, portfolio construction and optimization decisions and securities valuation.

The accounting policies of the reportable segments are the same as those described in Note 2, *Summary of Significant Accounting Policies*. The Company allocates resources to, and evaluates the performance of, its reportable segments based on income or loss before income tax expense. Consistent with the Company's resource allocation and operating performance evaluation approach, the effects of inter-segment activities are eliminated except in limited circumstances where certain technology related costs are allocated to a segment to support that segment's revenue producing activities. Commissions and fees revenue for trade executions and commission share revenues are principally attributed to each segment based upon the location of execution of the related transaction except that commissions and fees for trade executions

by Canadian clients in the U.S. market are attributed to the Canadian

Table of Contents**INVESTMENT TECHNOLOGY GROUP, INC. AND SUBSIDIARIES****Notes to Consolidated Financial Statements (Continued)**

Operations instead of the U.S. Operations. Recurring revenues are principally attributed based upon the location of the client using the respective service.

A summary of the segment financial information is as follows (dollars in thousands):

	U.S. Operations	Canadian Operations	European Operations	Asia Pacific Operations	Consolidated
<b>2014</b>					
Total revenues	\$ 306,933	\$ 78,093	\$ 127,563	\$ 47,225	\$ 559,814
Income (loss) before income tax expense	15,779	16,729	34,004	(1,525)	64,987
Identifiable assets	929,062	105,898	249,702	66,187	1,350,849
Capital purchases	10,645	1,656	1,114	383	13,798
Depreciation and amortization	38,659	3,153	6,422	1,150	49,384
Share-based compensation	11,209	3,795	2,891	979	18,874
<b>2013</b>					
Total revenues	\$ 318,036	\$ 74,994	\$ 91,792	\$ 45,979	\$ 530,801
(Loss) income before income tax expense (1) (2) (3)	15,687	11,441	18,106	(2,179)	43,055
Identifiable assets	1,183,986	88,503	202,015	64,968	1,539,472
Capital purchases	28,367	1,188	3,323	671	33,549
Depreciation and amortization	43,017	3,437	6,012	1,140	53,606
Share-based compensation	10,932	6,852	2,223	854	20,861
<b>2012</b>					
Total revenues	\$ 321,379	\$ 76,913	\$ 67,266	\$ 38,878	\$ 504,436
(Loss) income before income tax expense (1) (2) (4)	(248,101)	10,397	(24,350)	(8,401)	(270,455)
Identifiable assets	1,238,822	99,625	108,675	45,854	1,492,976
Capital purchases	29,159	2,575	923	767	33,424
Depreciation and amortization	44,585	3,711	6,918	1,279	56,493
Share-based compensation	10,449	2,543	2,091	545	15,628

- (1) In the second quarter of 2013, the Company incurred \$1.6 million to implement a restructuring plan to close its technology research and development facility in Israel and migrate that function to an outsourced service provider model effective January 1, 2014. This plan primarily focused on reducing costs by limiting ITG's geographic footprint while maintaining the necessary technological expertise via a consulting arrangement. The Company also reduced previously-recorded 2012 and 2011 restructuring accruals of \$1.6 million to reflect the sub-lease of previously-vacated office space and certain legal and other employee-related charges deemed unnecessary.
- (2) During the fourth quarter of 2012, ITG began its build-out of its new lower Manhattan headquarters while continuing to occupy its then-existing headquarters in midtown Manhattan. As a result, ITG incurred duplicate rent charges of \$2.6 million during the first half of 2013 and \$1.4 million in 2012.
- (3) In the second quarter of 2013, ITG moved into its new headquarters and incurred a one-time charge of \$3.9 million, which includes a reserve for the remaining lease obligation at the previous midtown Manhattan headquarters.
- (4) Loss before tax expense in 2012 includes the impact of a \$274.3 million goodwill impairment charge. The segment breakdown of this charge is as follows: U.S. Operations \$245.1 million, European Operations \$28.5 million and Asia Pacific Operations \$0.7 million.



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The table below details the total revenues for the categories of products and services provided by the Company (dollars in thousands):

	2014	2013	2012
<b>Revenues:</b>			
Electronic Brokerage	\$ 294,529	\$ 279,830	\$ 250,882
Research, Sales and Trading	122,042	107,383	106,427
Platforms	95,926	96,127	99,334
Analytics	46,012	46,004	46,508
Corporate (non-product)	1,305	1,457	1,285
<b>Total Revenues</b>	<b>\$ 559,814</b>	<b>\$ 530,801</b>	<b>\$ 504,436</b>

Long-lived assets, classified by the geographic region in which the Company operates, are as follows (dollars in thousands):

	2014	2013	2012
<b>Long-lived Assets at December 31,</b>			
United States	\$ 107,746	\$ 116,812	\$ 115,726
Canada	7,070	5,676	7,174
Europe	29,531	11,413	10,260
Asia Pacific	2,377	2,046	2,305
<b>Total</b>	<b>\$ 146,724</b>	<b>\$ 135,947</b>	<b>\$ 135,465</b>

The Company's long-lived assets primarily consist of premises and equipment, capitalized software, goodwill, other intangibles and debt issuance costs.

**(23) Supplementary Financial Information (unaudited)**

The following tables set forth certain unaudited financial data for the Company's quarterly operations in 2014 and 2013. The following information has been prepared on the same basis as the annual information presented elsewhere in this report and, in the opinion of management, includes all adjustments, consisting only of normal recurring adjustments, necessary for a fair presentation of the

Table of Contents**INVESTMENT TECHNOLOGY GROUP, INC. AND SUBSIDIARIES****Notes to Consolidated Financial Statements (Continued)**

information for the quarterly periods presented. The operating results for any quarter are not necessarily indicative of results for any future period.

\$ in thousands, except per share amounts	(Unaudited) December 31, 2014				(Unaudited) December 31, 2013			
	Fourth Quarter	Third Quarter	Second Quarter	First Quarter	Fourth Quarter	Third Quarter	Second Quarter	First Quarter
Total revenues	\$ 148,966	\$ 134,773	\$ 138,466	\$ 137,609	\$ 131,900	\$ 127,558	\$ 139,293	\$ 132,050
Expenses:								
Compensation and employee benefits	59,453	52,408	52,720	51,177	50,839	49,664	51,202	49,549
Transaction processing	24,234	21,561	20,109	20,496	19,971	19,790	22,499	21,532
Occupancy and equipment	14,811	14,937	14,985	15,078	15,940	15,821	20,720	16,541
Telecommunications and data processing services	12,893	12,942	12,655	12,697	13,142	12,649	13,718	14,098
Other general and administrative	19,248	20,281	20,715	19,105	20,544	18,351	19,760	18,776
Restructuring charges							(75)	
Interest expense	526	566	594	636	821	593	699	602
Total expenses	131,165	122,695	121,778	119,189	121,257	116,868	128,523	121,098
Income before income tax expense	17,801	12,078	16,688	18,420	10,643	10,690	10,770	10,952
Income tax expense	4,820	713	3,762	4,800	981	2,975	5,684	2,330
Net income	\$ 12,981	\$ 11,365	\$ 12,926	\$ 13,620	\$ 9,662	\$ 7,715	\$ 5,086	\$ 8,622
Basic earnings per share	\$ 0.38	\$ 0.32	\$ 0.36	\$ 0.38	\$ 0.27	\$ 0.21	\$ 0.14	\$ 0.23
Diluted earnings (loss) per share	\$ 0.36	\$ 0.32	\$ 0.35	\$ 0.37	\$ 0.26	\$ 0.20	\$ 0.13	\$ 0.22
Basic weighted average number of common shares outstanding	34,521	35,093	35,720	36,081	36,287	36,544	36,956	37,378
Diluted weighted average number of common shares outstanding	35,640	36,026	36,641	37,185	37,685	37,781	38,000	38,615

Earnings per share for quarterly periods are based on the weighted average common shares outstanding in individual quarters; thus, the sum of earnings per share of the quarters may not equal the amounts reported for the full year.

As a percentage of Total Revenues	(Unaudited) December 31, 2014				(Unaudited) December 31, 2013			
	Fourth Quarter	Third Quarter	Second Quarter	First Quarter	Fourth Quarter	Third Quarter	Second Quarter	First Quarter



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Total revenues	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Expenses:								
Compensation and employee benefits	39.9	38.9	38.1	37.2	38.5	38.9	36.8	37.5
Transaction processing	16.3	16.0	14.5	14.9	15.1	15.5	16.2	16.3
Occupancy and equipment	9.9	11.1	10.8	11.0	12.1	12.4	14.9	12.5
Telecommunications and data processing services	8.7	9.6	9.1	9.2	10.0	9.9	9.8	10.7
Other general and administrative	12.9	15.0	15.0	13.9	15.6	14.4	14.2	14.2
Restructuring charges							(0.1)	
Interest expense	0.4	0.4	0.4	0.4	0.6	0.5	0.5	0.5
Total expenses	88.1	91.0	87.9	86.6	91.9	91.6	92.3	91.7
Income before income tax expense	11.9	9.0	12.1	13.4	8.1	8.4	7.7	8.3
Income tax expense	3.2	0.5	2.7	3.5	0.7	2.3	4.1	1.8
Net income	8.7%	8.5%	9.4%	9.9%	7.3%	6.0%	3.7%	6.5%

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**Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure**

There were no changes in, or disagreements with, accountants reportable herein.

**Item 9A. Controls and Procedures**

**Conclusion Regarding the Effectiveness of Disclosure Controls and Procedures**

Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we conducted an evaluation of our disclosure controls and procedures, as such term is defined under Rule 13a-15(e) promulgated under the Exchange Act. Based on this evaluation, our principal executive officer and our principal financial officer concluded that our disclosure controls and procedures were effective as of the end of the period covered by this annual report.

**Changes in Internal Control over Financial Reporting**

There were no changes in the Company's internal control over financial reporting that occurred during the quarter ended December 31, 2014 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

**Management's Report on Internal Control Over Financial Reporting**

The management of ITG is responsible for establishing and maintaining adequate internal control over financial reporting. ITG's internal control over financial reporting is a process designed under the supervision of ITG's chief executive and chief financial officers, and affected by ITG's board of directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of ITG's financial statements for external reporting purposes in accordance with U.S. GAAP and includes policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of ITG, (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with U.S. GAAP, and that receipts and expenditures of ITG are being made only in accordance with authorizations of ITG's management and directors and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of ITG's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of the effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with policies and procedures may deteriorate.

Management assessed the effectiveness of ITG's internal control over financial reporting as of December 31, 2014. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in *Internal Control - Integrated Framework (2013)*. Based on its assessment and those criteria, management has concluded that ITG maintained effective internal control over financial reporting as of December 31, 2014.

The effectiveness of ITG's internal control over financial reporting as of December 31, 2014 has been audited by KPMG LLP, ITG's independent registered public accounting firm, as stated in their report on the following page, which expressed an unqualified opinion on the effectiveness of ITG's internal control over financial reporting as of December 31, 2014.

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**Report of Independent Registered Public Accounting Firm**

The Board of Directors and Stockholders  
Investment Technology Group, Inc.:

We have audited Investment Technology Group, Inc.'s (the Company) internal control over financial reporting as of December 31, 2014, based on criteria established in *Internal Control Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Investment Technology Group, Inc. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2014, based on criteria established in *Internal Control Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated statements of financial condition of Investment Technology Group, Inc. and Subsidiaries as of December 31, 2014 and 2013, and the related consolidated statements of operations, comprehensive income (loss), changes in stockholders' equity and cash flows for each of the years in the three-year period ended December 31, 2014, and our report dated March 13, 2015 expressed an unqualified opinion on those consolidated financial statements.

/s/ KPMG LLP

New York, New York

March 13, 2015

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**Item 9B. Other Information**

None

**PART III**

**Item 10. Directors, Executive Officers and Corporate Governance**

Information with respect to this item is contained in the Proxy Statement for the 2015 Annual Meeting of Stockholders, which is incorporated herein by reference.

**Item 11. Executive Compensation**

Information with respect to this item is contained in the Proxy Statement for the 2015 Annual Meeting of Stockholders, which is incorporated herein by reference.

**Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters**

Information with respect to this item is contained in the Proxy Statement for the 2015 Annual Meeting of Stockholders, which is incorporated herein by reference.

**Item 13. Certain Relationships and Related Transactions, and Director Independence**

Information with respect to this item is contained in the Proxy Statement for the 2015 Annual Meeting of Stockholders, which is incorporated herein by reference.

**Item 14. Principal Accounting Fees and Services**

Information with respect to this item is contained in the Proxy Statement for the 2015 Annual Meeting of Stockholders, which is incorporated herein by reference.

**PART IV**

**Item 15. Exhibits, Financial Statement Schedules**

**(a)(1) Financial Statements**

Included in Part II of this report:

	<b>Page</b>
<u>Report of Independent Registered Public Accounting Firm</u>	<u>48</u>
<u>Consolidated Statements of Financial Condition</u>	<u>49</u>
<u>Consolidated Statements of Operations</u>	<u>50</u>
<u>Consolidated Statements of Comprehensive Income (Loss)</u>	<u>51</u>
<u>Consolidated Statements of Changes in Stockholders' Equity</u>	<u>52</u>
<u>Consolidated Statements of Cash Flows</u>	<u>53</u>
<u>Notes to Consolidated Financial Statements</u>	<u>54</u>
<b>(a)(2) Schedules</b>	

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Schedules are omitted because the required information either is not applicable or is included in the financial statements or the notes thereto.

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#### (a)(3) Exhibits

<b>Exhibits Number</b>	<b>Description</b>
3.1	Certificate of Incorporation of the Company (incorporated by reference as Exhibit 3.1 to the Annual Report on Form 10-K for the year ended December 31, 1999).
3.2	Amended and Restated By-laws of the Company (incorporated by reference as Exhibit 3.1 to the Current Report on Form 8-K dated November 14, 2014).
4.1	Form of Certificate for Common Stock of the Company (incorporated by reference as Exhibit 4.1 to the Annual Report on Form 10-K for the year ended December 31, 1999).
10.1	+ Credit Agreement, dated January 31, 2011 by and among ITG Inc., Investment Technology Group, Inc., the several banks and other financial institutions or entities from time to time parties thereto as lenders, Bank of America, N.A., as syndication agent, Bank of Montreal as document agent, and JPMorgan Chase Bank, N.A. as administrative agent (incorporated by reference as Exhibit 10.2 to the Annual Report on Form 10-K for the year ended December 31, 2010).
10.2	Credit Agreement, dated January 31, 2014 by and among ITG Inc., Investment Technology Group, Inc., the several banks and other financial institutions or entities from time to time parties thereto as lenders, Bank of America, N.A. and Bank of Montreal, as syndication agents, and JPMorgan Chase Bank, N.A. as administrative agent (incorporated by reference as Exhibit 10.2 to the Amended Annual Report on Form 10-K/A (Amendment No. 2) for the year ended December 31, 2013).
10.3	Lease, dated October 4, 1996 between Spartan Madison Corp. and the Company (incorporated by reference as Exhibit 10.5.3 to the Annual Report on Form 10-K for the year ended December 31, 1997).
10.3.1	First Supplemental Agreement, dated as of January 29, 1997 between Spartan Madison Corp. and the Company (incorporated by reference as Exhibit 10.5.4 to the Annual Report on Form 10-K for the year ended December 31, 1997).
10.3.2	Second Supplemental Agreement, dated as of November 25, 1997 between Spartan Madison Corp. and the Company (incorporated by reference as Exhibit 10.5.5 to the Annual Report on Form 10-K for the year ended December 31, 1997).
10.3.3	Third Supplemental Agreement, dated as of September 29, 1999 between Spartan Madison Corp. and the Company (incorporated by reference as Exhibit 10.5.9 to the Annual Report on Form 10-K for the year ended December 31, 1999).
10.3.4	Fourth Supplemental Agreement, dated as of February 21, 2006 between TAG 380, LLC and the Company (incorporated by reference as Exhibit 10.4.17 to the Annual Report on Form 10-K for the year ended December 31, 2006).
10.4	Lease, dated as of February 24, 2012, between Brookfield Properties OLP Co. LLC and Investment Technology Group, Inc. (incorporated by reference as Exhibit 10.47 to the Annual Report on Form 10-K for the year ended December 31, 2011).
10.5	Amended and Restated Investment Technology Group, Inc. Pay-For-Performance Incentive Plan (incorporated by reference as Exhibit 10.13.2 to the Annual Report on Form 10-K for the year ended December 31, 2007).
10.5.1	Amended and Restated Investment Technology Group, Inc. Pay-For-Performance Incentive Plan (2014) (incorporated by reference as Exhibit 10.5.1 to the Annual Report on Form 10-K for the year ended December 31, 2013).

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<b>Exhibits Number</b>	<b>Description</b>
10.6	Investment Technology Group, Inc. Amended and Restated 2007 Omnibus Equity Compensation Plan (incorporated by reference as Exhibit 10.1 to the Quarterly Report on Form 10-Q dated August 5, 2010).
10.6.1	Investment Technology Group, Inc. Amended and Restated 2007 Omnibus Equity Compensation Plan (2014) (incorporated by reference as Exhibit 10.6.1 to the Annual Report on Form 10-K for the year ended December 31, 2013).
10.7	Form of Investment Technology Group, Inc. Stock Unit Grant Agreement for Employees (incorporated by reference as Exhibit 10.25 to the Annual Report on Form 10-K for the year ended December 31, 2007).
10.7.1	Form of Investment Technology Group, Inc. Stock Unit Grant Agreement for Employees (2014).
10.8	Investment Technology Group, Inc. 2007 Omnibus Equity Compensation Plan Variable Compensation Stock Unit Award Program Subplan (incorporated by reference as Exhibit 10.2 to the Quarterly Report on Form 10-Q dated November 8, 2011).
10.8.1	Amended and Restated Investment Technology Group, Inc. 2007 Omnibus Equity Compensation Plan Variable Compensation Stock Unit Award Program Subplan (2014) (incorporated by reference as Exhibit 10.10.2 to the Annual Report on Form 10-K for the year ended December 31, 2013).
10.8.2	Amended and Restated Investment Technology Group, Inc. 2007 Omnibus Equity Compensation Plan Variable Compensation Stock Unit Award Program Subplan (2015) (incorporated by reference as Exhibit 10.2 to the Current Report on Form 8-K dated February 3, 2015).
10.9	Form of Grant Notice under the Investment Technology Group, Inc. Variable Compensation Stock Unit Award Program Subplan between the Company and certain employees of the Company (incorporated by reference as Exhibit 10.43 to the Annual Report on Form 10-K for the year ended December 31, 2011).
10.10	Form of KEEP Grant Notice under the Investment Technology Group, Inc. Variable Compensation Stock Unit Award Program Subplan between the Company and Executive Committee Members of the Company (incorporated by reference as Exhibit 10.44 to the Annual Report on Form 10-K for the year ended December 31, 2011).
10.11	* Form of Grant Notice under the Investment Technology Group, Inc. Variable Compensation Stock Unit Award Program Subplan between the Company and certain employees of the Company (2014).
10.12	Form of Grant Notice under the Investment Technology Group, Inc. Variable Compensation Stock Unit Award Program Subplan between the Company and Executive Committee Members of the Company (2014) (incorporated by reference as Exhibit 10.1 to the Current Report on Form 8-K dated February 3, 2015).
10.13	Form of Grant Notice (ExCo ROE Awards) under the Investment Technology Group, Inc. Variable Compensation Stock Unit Award Program Subplan between the Company and Executive Committee Members of the Company (2015) (incorporated by reference as Exhibit 10.1 to the Current Report on Form 8-K dated February 3, 2015).
10.14	* Form of Grant Notice (MD ROE Awards) under the Investment Technology Group, Inc. Variable Compensation Stock Unit Award Program Subplan between the Company and certain employees of the Company (2015).

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<b>Exhibits Number</b>	<b>Description</b>
10.15	Amended and Restated Investment Technology Group, Inc. Employee Stock Purchase Plan (incorporated by reference as Exhibit 10.19 to the Annual Report on Form 10-K for the year ended December 31, 2013).
10.16	Investment Technology Group, Inc. Deferred Compensation Plan, dated as of January 1, 1999 (incorporated by reference as Exhibit 10.4.7 to the Annual Report on Form 10-K for the year ended December 31, 1999).
10.17	Form of Amended and Restated Change in Control Agreement (incorporated by reference as Exhibit 10.10 to the Annual Report on Form 10-K for the year ended December 31, 2010).
10.18	Amended and Restated Investment Technology Group, Inc. Directors' Retainer Fee Subplan (incorporated by reference as Exhibit 10.19.2 to the Annual Report on Form 10-K for the year ended December 31, 2007).
10.19	Amended and Restated Investment Technology Group, Inc. Directors' Equity Subplan (incorporated by reference as Exhibit 10.5.3 to the Annual Report on Form 10-K for the year ended December 31, 2007).
10.19.1	Amended and Restated Investment Technology Group, Inc. Directors' Equity Subplan (incorporated by reference as Exhibit 10.1 to the Quarterly Report on Form 10-Q for the quarter ended March 31, 2012).
10.20	Form of Investment Technology Group, Inc. Stock Unit Grant Agreement for Non-Employee Directors (incorporated by reference as Exhibit 10.4 to Form 10-Q dated November 8, 2007).
10.21	Form of Investment Technology Group, Inc. Stock Unit Grant Agreement (Annual Stock Units) for Non-Employee Directors (incorporated by reference as Exhibit 10.2 to the Quarterly Report on Form 10-Q for the quarter ended March 31, 2012).
10.22	Form of Investment Technology Group, Inc. Non-Qualified Stock Option Grant Agreement for Non-Employee Directors (incorporated by reference as Exhibit 10.7 to Form 10-Q dated November 8, 2007).
10.23	Amended and Restated Employment Agreement, dated April 20, 2010, between Investment Technology Group, Inc. and Robert C. Gasser (incorporated by reference as Exhibit 10.1 to the Quarterly Report on Form 10-Q dated May 10, 2010).
10.24	Form of Non-Qualified Stock Option Grant Agreement between Investment Technology Group, Inc and Robert C. Gasser (incorporated by reference as Exhibit 10.36 to the Annual Report on Form 10-K for the year ended December 31, 2007).
10.25	Offer letter dated December 21, 2009 between Steven R. Vigliotti and Investment Technology Group, Inc. (incorporated by reference as Exhibit 10.40 to the Annual Report on Form 10-K for the year ended December 31, 2009).
10.26	Amended and Restated Employee Advisor Agreement, dated May 30, 2008, between Investment Technology Group, Inc. and Raymond L. Killian, Jr. (incorporated by reference as Exhibit 10.1 to Form 10-Q dated August 7, 2008).
10.27	Retirement Agreement and General Release, effective August 1, 2011 between Christopher Heckman and Investment Technology Group, Inc. (incorporated by reference as Exhibit 10.30 to the Annual Report on Form 10-K for the year ended December 31, 2012).
10.28	*^ Agreement, effective December 24, 2012, between David J. Stevens and Investment Technology Group, Inc.



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<b>Exhibits Number</b>	<b>Description</b>
21.1	* Subsidiaries of Company.
23.1	* Consent of KPMG LLP.
31.1	* Rule 13a-14(a) Certification.
31.2	* Rule 13a-14(a) Certification.
32.1	* Section 1350 Certification.
101.INS	* XBRL Report Instance Document.
101.SCH	* XBRL Taxonomy Extension Schema Document.
101.PRE	* XBRL Taxonomy Presentation Linkbase Document.
101.CAL	* XBRL Calculation Linkbase Document.
101.LAB	* XBRL Taxonomy Label Linkbase Document.
101.DEF	* XBRL Taxonomy Extension Definition Linkbase Document.

\*  
Filed herewith.

+  
Portions of this agreement have been omitted pursuant to a request for confidential treatment filed on February 28, 2011.

^  
Portions of this agreement filed as Exhibit 10.32 to the Annual Report on Form 10-K for the year ended December 31, 2012 were previously omitted pursuant to a request for confidential treatment filed on March 5, 2013.

See list of exhibits at Item 15(a)(3) above and exhibits following.



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/s/ KEVIN J.P. O'HARA

Director

March 13, 2015

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Kevin J.P. O'Hara

/s/ STEVEN S. WOOD

Director

March 13, 2015

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Steven S. Wood