INVESTMENT TECHNOLOGY GROUP, INC.
Form 10-Q
May 11, 2015
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# UNITED STATES

# SECURITIES AND EXCHANGE COMMISSION

**WASHINGTON, D.C. 20549**

# FORM 10-Q

**(Mark One)**

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

**for the fiscal period ended March 31, 2015**

**o 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**

# INVESTMENT TECHNOLOGY GROUP, INC.

(Exact Name of Registrant as Specified in Its Charter)

| | |
|---|---|
| **Delaware**<br>(State or Other Jurisdiction of Incorporation or Organization) | **95 - 2848406**<br>(I.R.S. Employer Identification No.) |
| **165 Broadway, New York, New York**<br>(Address of Principal Executive Offices) | **10006**<br>(Zip Code) |

**(212) 588 - 4000**

(Registrant s Telephone Number, Including Area Code)

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 x No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, 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 x No o

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 o | Accelerated filer x |
| Non-accelerated filer o<br>(Do not check if a smaller reporting company) | Smaller reporting company o |

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act) Yes o No x

At April 17, 2015, the Registrant had 34,228,338 shares of common stock, $0.01 par value, outstanding.

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**QUARTERLY REPORT ON FORM 10-Q**

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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 Quarterly Report on Form 10-Q, 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, should, expect, plan, anticipate, believe, estimate, predict, potential or continue and the negative of these terms and other compa 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 our Annual Report on Form 10-K for the year ended December 31, 2014, which you are encouraged to read. Our 2014 Annual Report on Form 10-K is also available through our website at http://investor.itg.com under SEC Filings.

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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## PART I. FINANCIAL INFORMATION

### Item 1. Financial Statements

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

**Condensed Consolidated Statements of Financial Condition**

**(In thousands, except share amounts)**

| | March 31, 2015 (unaudited) | December 31, 2014 |
|---|---|---|
| **Assets** | | |
| Cash and cash equivalents | $ 205,762 | $ 275,210 |
| Cash restricted or segregated under regulations and other | 37,876 | 38,080 |
| Deposits with clearing organizations | 89,674 | 72,527 |
| Securities owned, at fair value | 12,204 | 12,073 |
| Receivables from brokers, dealers and clearing organizations | 881,887 | 644,614 |
| Receivables from customers | 110,225 | 107,935 |
| Premises and equipment, net | 56,967 | 60,306 |
| Capitalized software, net | 38,650 | 38,333 |
| Goodwill | 12,041 | 12,803 |
| Intangibles, net | 30,789 | 31,595 |
| Income taxes receivable | 2,114 | 105 |
| Deferred taxes | 28,270 | 37,209 |
| Other assets | 22,992 | 20,059 |
| Total assets | $ 1,529,451 | $ 1,350,849 |
| **Liabilities and Stockholders Equity** | | |
| Liabilities: | | |
| Accounts payable and accrued expenses | $ 163,795 | $ 199,211 |
| Short-term bank loans | 107,269 | 78,360 |
| Payables to brokers, dealers and clearing organizations | 788,964 | 600,041 |
| Payables to customers | 29,775 | 11,132 |
| Securities sold, not yet purchased, at fair value | 8,552 | 8,253 |
| Income taxes payable | 10,795 | 19,772 |
| Deferred taxes | | 703 |
| Term debt | 14,612 | 17,781 |
| Total liabilities | 1,123,762 | 935,253 |
| Commitments and contingencies | | |
| Stockholders Equity: | | |
| 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; 52,265,654 and 52,229,962 shares issued at March 31, 2015 and December 31, 2014, respectively | 522 | 522 |
| Additional paid-in capital | 231,273 | 240,135 |
| Retained earnings | 504,195 | 487,462 |
| Common stock held in treasury, at cost; 18,038,374 and 18,000,756 shares at March 31, 2015 and December 31, 2014, respectively | (313,560) | (306,629) |

| | | | | |
|---|---|---|---|---|
| Accumulated other comprehensive income (net of tax) | | (16,741) | | (5,894) |
| Total stockholders equity | | 405,689 | | 415,596 |
| Total liabilities and stockholders equity | $ | 1,529,451 | $ | 1,350,849 |

See accompanying notes to unaudited condensed consolidated financial statements.

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

**Condensed Consolidated Statements of Income (unaudited)**

**(In thousands, except per share amounts)**

| | Three Months Ended March 31, 2015 | Three Months Ended March 31, 2014 |
|---|---|---|
| **Revenues:** | | |
| Commissions and fees | $ 118,926 | $ 108,424 |
| Recurring | 26,932 | 25,577 |
| Other | 3,869 | 3,608 |
| Total revenues | 149,727 | 137,609 |
| | | |
| **Expenses:** | | |
| Compensation and employee benefits | 57,408 | 51,177 |
| Transaction processing | 24,573 | 20,496 |
| Occupancy and equipment | 14,372 | 15,078 |
| Telecommunications and data processing services | 12,772 | 12,697 |
| Other general and administrative | 17,757 | 19,105 |
| Interest expense | 505 | 636 |
| Total expenses | 127,387 | 119,189 |
| Income before income tax expense | 22,340 | 18,420 |
| Income tax expense | 5,607 | 4,800 |
| Net income | $ 16,733 | $ 13,620 |
| | | |
| Earnings per share: | | |
| Basic | $ 0.49 | $ 0.38 |
| Diluted | $ 0.47 | $ 0.37 |
| | | |
| Basic weighted average number of common shares outstanding | 34,268 | 36,081 |
| Diluted weighted average number of common shares outstanding | 35,451 | 37,185 |

See accompanying notes to unaudited condensed consolidated financial statements.

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

**Condensed Consolidated Statements of Comprehensive Income (unaudited)**

**(In thousands)**

| | Three Months Ended March 31, 2015 | Three Months Ended March 31, 2014 |
|---|---|---|
| Net Income | $ 16,733 | $ 13,620 |
| Other comprehensive (loss), net of tax: | | |
| Currency translation adjustment | (10,847) | (1,965) |
| Other comprehensive (loss) | (10,847) | (1,965) |
| Comprehensive income | $ 5,886 | $ 11,655 |

See accompanying notes to unaudited condensed consolidated financial statements.

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

**Condensed Consolidated Statement of Changes in Stockholders Equity (unaudited)**

**Three Months Ended March 31, 2015**

**(In thousands, except share amounts)**

| | Preferred Stock | Common Stock | Additional Paid-in Capital | Retained Earnings | Common Stock Held in Treasury | Accumulated Other Comprehensive Income | Total Stockholders Equity |
|---|---|---|---|---|---|---|---|
| Balance at January 1, 2015 | $ | $ 522 | $ 240,135 | $ 487,462 | $ (306,629) | $ (5,894) | $ 415,596 |
| Net income | | | | 16,733 | | | 16,733 |
| Other comprehensive (loss) | | | | | | (10,847) | (10,847) |
| Issuance of common stock in connection with employee stock option exercises (34,634 shares) and for restricted share awards (985,381 shares), including a net excess tax benefit of $2.7 million | | | (14,305) | | 17,563 | | 3,258 |
| Issuance of common stock for the employee stock purchase plan (35,693 shares) | | | 558 | | | | 558 |
| Shares withheld for net settlement of share-based awards (365,474 shares) | | | | | (8,069) | | (8,069) |
| Purchase of common stock for treasury (692,159 shares) | | | | | (16,425) | | (16,425) |
| Share-based compensation | | | 4,885 | | | | 4,885 |
| Balance at March 31, 2015 | $ | $ 522 | $ 231,273 | $ 504,195 | $ (313,560) | $ (16,741) | $ 405,689 |

See accompanying notes to unaudited condensed consolidated financial statements.

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

**Condensed Consolidated Statements of Cash Flows (unaudited)**

**(In thousands)**

| | Three Months Ended March, 2015 | Three Months Ended March, 2014 |
|---|---|---|
| **Cash flows from Operating Activities:** | | |
| Net income | $ 16,733 | $ 13,620 |
| Adjustments to reconcile net income to net cash provided by operating activities | | |
| Depreciation and amortization | 11,161 | 13,034 |
| Deferred income tax expense | 8,385 | 2,551 |
| Provision for doubtful accounts | 268 | 150 |
| Non-cash share-based compensation | 4,885 | 3,759 |
| | | |
| Changes in operating assets and liabilities: | | |
| Cash restricted or segregated under regulations and other | 187 | (11) |
| Deposits with clearing organizations | (17,147) | 27,952 |
| Securities owned, at fair value | (544) | (1,327) |
| Receivables from brokers, dealers and clearing organizations | (237,220) | 51,351 |
| Receivables from customers | (2,090) | 3,062 |
| Accounts payable and accrued expenses | (35,315) | (13,973) |
| Payables to brokers, dealers and clearing organizations | 188,964 | (65,062) |
| Payables to customers | 18,638 | 9,157 |
| Securities sold, not yet purchased, at fair value | 717 | 1,158 |
| Income taxes receivable/payable | (8,551) | 411 |
| Excess tax benefit from share-based payment arrangements | (2,476) | (990) |
| Other, net | (2,448) | (6,841) |
| Net cash (used in) provided by operating activities | (55,853) | 38,001 |
| | | |
| **Cash flows from Investing Activities:** | | |
| Capital purchases | (1,399) | (2,589) |
| Capitalization of software development costs | (6,467) | (6,745) |
| Net cash used in investing activities | (7,866) | (9,334) |
| | | |
| **Cash flows from Financing Activities:** | | |
| Repayments of long term debt | (3,169) | (3,120) |
| Proceeds from (repayments of) borrowing under short-term bank loans | 28,908 | (46,480) |
| Excess tax benefit from share-based payment arrangements | 2,476 | 990 |
| Common stock issued | 1,068 | 429 |
| Common stock repurchased | (16,425) | (12,717) |
| Shares withheld for net settlements of share-based awards | (8,069) | (5,238) |
| Net cash provided by (used in) financing activities | 4,789 | (66,136) |
| | | |
| Effect of exchange rate changes on cash and cash equivalents | (10,518) | (1,767) |
| Net decrease in cash and cash equivalents | (69,448) | (39,236) |
| Cash and cash equivalents beginning of year | 275,210 | 261,897 |
| Cash and cash equivalents end of period | $ 205,762 | $ 222,661 |
| | | |
| Supplemental cash flow information | | |
| Interest paid | $ 750 | $ 974 |
| Income taxes paid | $ 5,352 | $ 1,838 |

See accompanying notes to unaudited condensed consolidated financial statements.

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

**Notes to Condensed Consolidated Financial Statements (unaudited)**

**(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 broker and research provider 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 14, *Segment Reporting,* to the condensed consolidated financial statements):

- U.S. Operations
- Canadian Operations
- European Operations and
- 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.

Effective in the first quarter of 2015, the Company is presenting its regional segment results excluding the impact of corporate activity. For this purpose, corporate activity includes investment income from all treasury activity as well as costs not associated with operating the businesses within the Company s regional segments. These costs include, among others, (a) the costs of being a public company, such as certain staff costs, a portion of external audit fees, and reporting, filing and listing costs, (b) intangible asset amortization, (c) interest expense, (d) professional fees associated with our global transfer pricing structure and (e) foreign exchange gains or losses. Prior to this change in segment measure, corporate activity was included in the region where the income/expense was earned/incurred, which primarily was in the U.S. Operations segment. Prior period segment data has been restated to conform to the 2015 presentation.

The condensed 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 condensed consolidated financial statements reflect all adjustments which, in the opinion of management, are necessary for the fair presentation of results. Certain reclassifications have been made to the following prior year asset balances to conform to the current year presentation: (i) cash restricted or segregated under regulations and other, (ii) deposits with clearing organizations, (iii) receivables from brokers, dealers and clearing organizations and (iv) other assets.

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.

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Certain information and footnote disclosures normally included in financial statements prepared in accordance with U.S. GAAP have been condensed or omitted in accordance with Securities and Exchange Commission ( SEC ) rules and regulations; however, management believes that the disclosures herein are adequate to make the information presented not misleading. This report should be read in conjunction with the audited financial statements and the notes included in the Company s Annual Report on Form 10-K for the year ended December 31, 2014.

***Accounting Standard to be Adopted in Future Period***

In April 2015, the Financial Accounting Standards Board ( FASB ) issued Accounting Standards Update ( ASU ) 2015-03, *Simplifying the Presentation of Debt Issuance Costs* which changes the presentation of debt issuance costs in financial statements. ASU 2015-03 requires an entity to present such costs in the balance sheet as a direct deduction from the related debt liability rather than as an asset. Amortization of the costs will continue to be reported as interest expense. It is effective for annual reporting periods beginning after December 15, 2016. Early adoption is permitted. The new guidance will be applied retrospectively to each prior period presented. The Company is currently in the process of evaluating the impact of adoption of the ASU on its condensed consolidated balance sheets.

**(2) 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):

| **March 31, 2015** | **Total** | **Level 1** | **Level 2** | **Level 3** |
|---|---|---|---|---|
| **Assets** | | | | |
| Cash and cash equivalents: | | | | |
| Tax free money market mutual funds | $ 33 | $ 33 | $ | $ |
| Money market mutual funds | 4,587 | 4,587 | | |
| Securities owned, at fair value: | | | | |
| Corporate stocks-trading securities | 8,453 | 8,453 | | |
| Mutual funds | 3,751 | 3,751 | | |
| Total | **$** 16,824 | **$** 16,824 | **$** | **$** |
| | | | | |
| **Liabilities** | | | | |
| Securities sold, not yet purchased, at fair value: | | | | |
| Corporate stocks-trading securities | 8,552 | 8,552 | | |
| Total | $ 8,552 | $ 8,552 | $ | $ |

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| **December 31, 2014** | | **Total** | | **Level 1** | | **Level 2** | | **Level 3** |
|---|---|---|---|---|---|---|---|---|
| **Assets** | | | | | | | | |
| 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 | | | | |
| Total | **$** | 19,071 | **$** | 19,071 | **$** | | **$** | |
| | | | | | | | | |
| **Liabilities** | | | | | | | | |
| Securities sold, not yet purchased, at fair value: | | | | | | | | |
| Corporate stocks-trading securities | | 8,253 | | 8,253 | | | | |
| Total | $ | 8,253 | $ | 8,253 | $ | | $ | |

Cash and cash equivalents other than bank deposits are measured at fair value and primarily include U.S. government 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 and customers are short-term in nature, and following March 31, 2015, substantially all have settled at the contracted amounts.

The Company believes the carrying amounts of its term-debt obligations at March 31, 2015 and December 31, 2014 approximate fair value because the interest rates on these instruments change with, or approximate, market interest rates.

**(3) Restructuring Charges**

*2011 Restructuring*

In the second and fourth quarters of 2011, the Company implemented restructuring plans to improve margins and enhance stockholder returns.

Activity and liability balances recorded as part of the 2011 restructuring plan through March 31, 2015 are as follows (dollars in thousands):

| | | Consolidation of leased facilities |
|---|---|---|
| Balance at December 31, 2014 | $ | 833 |
| Utilized cash | | (146) |
| Balance at March 31, 2015 | $ | 687 |

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

*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.

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Activity and liability balances recorded as part of the 2010 restructuring plan through March 31, 2015 are as follows (dollars in thousands):

| | Consolidation of leased facilities |
|---|---|
| Balance at December 31, 2014 | $ 1,391 |
| Utilized cash | (118) |
| Balance at March 31, 2015 | $ 1,273 |

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

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

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

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

| | Securities Owned | | Securities Sold, Not Yet Purchased | |
|---|---|---|---|---|
| | March 31, 2015 | December 31, 2014 | March 31, 2015 | December 31, 2014 |
| Corporate stocks trading securities | $ 8,453 | $ 8,160 | $ 8,552 | $ 8,253 |
| Mutual funds | 3,751 | 3,913 | | |
| Total | $ 12,204 | $ 12,073 | $ 8,552 | $ 8,253 |

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.

**(6) 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 the three months ended March 31, 2015, no uncertain tax positions were resolved.

The Company had reserves for tax positions taken of $14.4 million at both March 31, 2015 and December 31, 2014. The Company had accrued interest expense related to tax reserves of $2.9 million and $2.8 million, net of related tax effects, at March 31, 2015 and December 31, 2014, respectively.

**(7) Goodwill and Other Intangibles**

The following table presents the changes in the carrying amount of goodwill by our European Operations segment for the three months ended March 31, 2015 (dollars in thousands):

| | | **Total** |
|---|---|---|
| Balance at December 31, 2014 | $ | 12,803 |
| *2015 Activity:* | | |
| Currency translation adjustment | | (762) |
| Balance at March 31, 2015 | $ | 12,041 |

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Acquired other intangible assets consisted of the following at March 31, 2015 and December 31, 2014 (dollars in thousands):

| | March 31, 2015 | | December 31, 2014 | | |
|---|---|---|---|---|---|
| | Gross Carrying Amount | Accumulated Amortization | Gross Carrying Amount | Accumulated Amortization | Useful Lives (Years) |
| Trade name | $ 8,545 | $ | $ 8,545 | $ | |
| Customer-related intangibles | 30,273 | 11,804 | 30,272 | 11,210 | 13.1 |
| Proprietary software | 23,558 | 20,172 | 23,558 | 19,959 | 6.1 |
| Trading rights | 339 | | 339 | | |
| Other | 50 | | 50 | | |
| Total | $ 62,765 | $ 31,976 | $ 62,764 | $ 31,169 | |

At March 31, 2015, 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 $0.8 million and $1.2 million for the three months ended March 31, 2015 and 2014, respectively. These amounts are included in other general and administrative expense in the Condensed Consolidated Statements of Income.

During the three months ended March 31, 2015, no intangibles were deemed impaired, and accordingly, no adjustment was required.

**(8) 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 (dollars in thousands):

| | Receivables from | | Payables to | |
|---|---|---|---|---|
| | March 31, 2015 | December 31, 2014 | March 31, 2015 | December 31, 2014 |
| Broker-dealers | $ 190,338 | $ 147,240 | $ 47,623 | $ 51,615 |
| Clearing organizations | 1,944 | 1,447 | 3,400 | 39,433 |
| Securities borrowed | 690,345 | 496,596 | | |
| Securities loaned | | | 737,941 | 508,993 |
| Allowance for doubtful accounts | (740) | (669) | | |
| Total | $ 881,887 | $ 644,614 | $ 788,964 | $ 600,041 |

*Receivables from, and Payables to, Customers*

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

| | Receivables from | | Payables to | |
|---|---|---|---|---|
| | March 31, 2015 | December 31, 2014 | March 31, 2015 | December 31, 2014 |
| Customers | $ 110,932 | $ 108,518 | $ 29,775 | $ 11,132 |
| Allowance for doubtful accounts | (707) | (583) | | |
| Net | $ 110,225 | $ 107,935 | $ 29,775 | $ 11,132 |

*Securities Borrowed and Loaned*

As of March 31, 2015, securities borrowed as part of the Company s matched book operations with a fair value of $692.0 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 Condensed Consolidated Statements of Income for the three months ended March 31, 2015 and 2014, respectively, were as follows (dollars in thousands):

| | Three Months Ended March 31, | |
|---|---|---|
| | 2015 | 2014 |
| Interest earned | $ 1,408 | $ 4,403 |
| Interest incurred | (1,046) | (3,066) |
| Net | $ 362 | $ 1,337 |

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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 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: (i) failure to timely deliver cash or securities as required under the transaction, (ii) a party s insolvency, bankruptcy, or similar proceeding, (iii) breach of representation, and (iv) 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):

| | Gross Amounts of Recognized Assets/ (Liabilities) | Gross Amounts Offset in the Consolidated Statement of Financial Condition | Net Amounts Presented in the Consolidated Statement of Financial Condition | Collateral Received or Pledged (including Cash) | Net Amount |
|---|---|---|---|---|---|
| As of March 31, 2015: | | | | | |
| Deposits paid for securities borrowed | $ 690,345 | $ | $ 690,345 | $ 690,345 | $ |
| Deposits received for securities loaned | (737,941) | | (737,941) | (718,439) | (19,502) |
| As of December 31, 2014: | | | | | |
| 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) |

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

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

| | March 31, 2015 | December 31, 2014 |
|---|---|---|
| Accrued research payables | $ 58,383 | $ 56,736 |
| Accrued compensation and benefits | 23,537 | 62,271 |
| Trade payables | 21,021 | 19,547 |
| Accrued rent | 18,803 | 19,169 |
| Deferred revenue | 14,156 | 13,836 |

| | | | | |
|---|---|---|---|---|
| Deferred compensation | | 3,755 | | 3,918 |
| Accrued transaction processing | | 3,335 | | 2,981 |
| Accrued restructuring | | 1,960 | | 2,224 |
| Other | | 18,845 | | 18,529 |
| Total | $ | 163,795 | $ | 199,211 |

**(10) Borrowings**

*Short-term Bank Loans*

The Company s international securities clearance and settlement activities are funded with operating cash or with short-term bank loans in the form of overdraft facilities. At March 31, 2015, there was $107.3 million outstanding under these facilities at a weighted average interest rate of approximately 1.3% associated with international settlement activities.

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In the U.S., securities clearance and settlement activities are funded with operating cash, securities loaned or with short-term bank loans under a committed credit agreement. On January 31, 2014, ITG Inc. as borrower, and Investment Technology Group, Inc. ( Parent Company ) as guarantor 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. At March 31, 2015, there were no amounts outstanding under the Credit Agreement.

*Term Debt*

Term debt is comprised of the following (dollars in thousands):

| | March 31, 2015 | December 31, 2014 |
|---|---|---|
| Term loan | $ 1,061 | $ 2,653 |
| Obligations under capital lease | 13,551 | 15,128 |
| Total | $ 14,612 | $ 17,781 |

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 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.

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. At March 31, 2015, there was $0.9 million outstanding under this facility.

On August 10, 2012, Parent Company entered into a $25.0 million master lease facility with BMO Harris Equipment Finance Company 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 March 31, 2015, there was $12.7 million outstanding under this facility.

**(11) Earnings Per Share**

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

**March 31,**

| | | 2015 | | 2014 |
|---|---|---|---|---|
| **Three Months Ended** | | | | |
| Net income for basic and diluted earnings per share | $ | 16,733 | $ | 13,620 |
| Shares of common stock and common stock equivalents: | | | | |
| Average common shares used in basic computation | | 34,268 | | 36,081 |
| Effect of dilutive securities | | 1,183 | | 1,104 |
| Average common shares used in diluted computation | | 35,451 | | 37,185 |
| Earnings per share: | | | | |
| Basic | $ | 0.49 | $ | 0.38 |
| Diluted | $ | 0.47 | $ | 0.37 |

Earnings per share computations for the three months ended March 31, 2014 did not include anti-dilutive equity awards of approximately 0.3 million shares. There are no anti-dilutive equity awards for the three months ended March 31, 2015.

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**(12) Accumulated Other Comprehensive Income**

The components and allocated tax effects of accumulated other comprehensive income for the periods ended March 31, 2015 and December 31, 2014 are as follows (dollars in thousands):

| | Before Tax Effects | Tax Effects | After Tax Effects |
|---|---|---|---|
| **March 31, 2015** | | | |
| Currency translation adjustment | $ (16,741) | $ | $ (16,741) |
| Total | $ (16,741) | $ | $ (16,741) |
| | | | |
| **December 31, 2014** | | | |
| Currency translation adjustment | $ (5,894) | $ | $ (5,894) |
| Total | $ (5,894) | $ | $ (5,894) |

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.

**(13) 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 2/3% 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 March 31, 2015 for the U.S. Operations are as follows (dollars in millions):

| | Net Capital | Excess |
|---|---|---|
| **U.S. Operations** | | |
| ITG Inc. | $ 84.9 | $ 83.9 |
| AlterNet | 2.7 | 2.4 |
| ITG Derivatives | 2.4 | 1.4 |

As of March 31, 2015, 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 $1.3 million under PABs.

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 March 31, 2015, is summarized in the following table (dollars in millions):

| | Net Capital | Excess |
|---|---|---|
| **Canadian Operations** | | |
| Canada | $ 29.8 | $ 29.4 |
| **European Operations** | | |
| Ireland | 67.1 | 20.8 |
| U.K. | 3.7 | 2.9 |
| **Asia Pacific Operations** | | |
| Australia | 14.4 | 4.8 |
| Hong Kong | 27.5 | 11.4 |
| Singapore | 0.4 | 0.2 |

**(14) 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 using algorithms, smart routing and matching through POSIT in cash equities (including single stocks and portfolio lists), futures and options

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- 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,* in our Annual Report on Form 10-K for the year ended December 31, 2014 except for the change reported in Note 1, *Organization and Basis of Presentation,* and described below. 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. Recurring revenues are principally attributed based upon the location of the client using the respective service.

Effective in the first quarter of 2015, the Company is presenting its regional segment results excluding corporate activity. For this purpose, corporate activity includes investment income from all treasury activity as well as costs not associated with operating the businesses within the Company s regional segments. These costs include, among others, (a) the costs of being a public company, such as certain staff costs, a portion of external audit fees, and reporting, filing and listing costs, (b) intangible asset amortization, (c) interest expense, (d) professional fees associated with our global transfer pricing structure and (e) foreign exchange gains or losses. Prior to this change in segment measure, corporate activity was included in the region where the income/expense was earned/incurred, which primarily was in the U.S. Operations segment. Prior period segment data has been restated to conform to the 2015 presentation. Identifiable assets all relate to an operating segment and are not separately identified as corporate activity.

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

| | U.S. Operations | Canadian Operations | European Operations | Asia Pacific Operations | Corporate | Consolidated Total |
|---|---|---|---|---|---|---|
| **Three Months Ended March 31, 2015** | | | | | | |
| Total revenues | $ 80,454 | $ 18,913 | $ 36,605 | $ 13,522 | $ 233 | $ 149,727 |
| Income before income tax expense | 11,056 | 3,756 | 11,129 | 1,107 | (4,708) | 22,340 |
| Identifiable assets | 1,098,740 | 78,782 | 281,637 | 70,292 | | 1,529,451 |
| **Three Months Ended March 31, 2014** | | | | | | |
| Total revenues | $ 75,607 | $ 19,218 | $ 32,790 | $ 9,697 | $ 297 | $ 137,609 |
| | 10,256 | 4,510 | 10,824 | (1,818) | (5,352) | 18,420 |

| | | | | | | |
|---|---|---|---|---|---|---|
| Income (loss) before income tax expense (benefit) | | | | | | |
| Identifiable assets | 1,068,577 | 97,016 | 1,268,145 | 596,822 | | 3,030,560 |

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

| | Three months ended March 31, 2015 | | 2014 | |
|---|---|---|---|---|
| **Revenues:** | | | | |
| Electronic Brokerage | $ | 80,454 | $ | 72,884 |
| Research, Sales and Trading | | 32,513 | | 29,245 |
| Platforms | | 25,073 | | 23,733 |
| Analytics | | 11,454 | | 11,450 |
| Corporate | | 233 | | 297 |
| Total Revenues | $ | 149,727 | $ | 137,609 |

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

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 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 condensed 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 condensed 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.

**(16) Contingencies Legal Matters**

The Company is not a party to any pending legal proceedings other than claims and lawsuits arising in the ordinary course of business. The Company s broker-dealer subsidiaries are involved in ongoing investigations and other proceedings by government agencies and self-regulatory organizations regarding its business, which may result in judgments, settlements, fines, penalties, injunctions or other relief. The Company is unable to provide a reasonable estimate of any potential liability given the stage of such proceedings. However, the Company believes, based on information currently available, that the outcome of such proceedings, individually or in the aggregate, will not likely have a material adverse effect on its consolidated financial position. In light of the inherent uncertainties of such proceedings, however, an adverse outcome of such proceedings may have a material impact on the results of operations for any particular period.

**(17) Subsequent Event**

In April 2015 the Company s Board of Directors initiated a dividend program under which the Company intends to pay quarterly dividends beginning in the second quarter of 2015, subject to quarterly declarations by the Board of Directors. For the second quarter of 2015, the Board of Directors declared a quarterly dividend of $0.07 per share. The dividend is payable on June 5, 2015, to shareholders of record on May 15, 2015.

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**Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations**

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

***Overview***

ITG is an independent execution broker and research provider that partners with global portfolio managers and traders to provide unique data-driven insights throughout the investment process. From investment decision through 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. ITG 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: U.S. Operations, Canadian Operations, European Operations and Asia Pacific Operations (see Note 14, *Segment Reporting,* to the condensed consolidated financial statements). Our four operating segments provide the following categories of products and services:

- Electronic Brokerage includes self-directed trading 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

Effective in the first quarter of 2015, we are presenting our regional segment results excluding the impact of corporate activity. For this purpose, corporate activity includes investment income from all treasury activity as well as costs not associated with operating the businesses within our regional segments. These costs include, among others, (a) the costs of being a public company, such as certain staff costs, a portion of external audit fees, and reporting, filing and listing costs, (b) intangible asset amortization, (c) interest expense, (d) professional fees associated with our global transfer pricing structure and (e) foreign exchange gains or losses. Prior to this change in segment measure, corporate activity was included in the region where the income/expense was earned/incurred, which primarily was in the U.S. Operations. Prior period segment data has been restated to conform to the 2015 presentation.

*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.

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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 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, consists 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 asset amortization.

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

***Executive Summary for the Quarter Ended March 31, 2015***

*Consolidated Overview*

Record revenues in both Europe and Asia Pacific and solid profitability in North America led to our highest quarterly earnings per share in more than six years. As compared to the first quarter of 2014, our revenues grew 9% to $149.7 million while our costs of $127.4 million increased 7%, largely driven by increased transaction processing costs associated with higher trading levels and higher compensation expense given our improved results. First quarter net income was $16.7 million, or $0.47 per diluted share compared to net income of $13.6 million, or $0.37 per diluted share in 2014. Our annualized return on average equity for the quarter was 16.3%, compared to a return of 13.1% for the first quarter of 2014.

The global trading environment remained active in the first quarter of 2015, following a strong finish to 2014. While consolidated market volumes in the U.S. were essentially flat in the first quarter compared to the first quarter of 2014, we saw increased market-wide trading in Asia Pacific, Canada and in particular Europe compared to the first quarter of 2014. This increased activity continues to be driven by the divergence in global central bank policies, creating dramatic movements in currencies and volatility in the equities markets. We are also continuing to focus on the profitability of our products and services as we strive to further improve our operating model and create flexibility for expansion.

*Segment Discussions*

Beginning with the first quarter of 2015, regional segment results exclude the impact of corporate activity. Corporate activity reduced overall net income by $2.6 million, or $0.07 per share.

Our U.S. average daily volume was 191 million shares, up 16% compared to the first quarter of 2014. This compares favorably to U.S. consolidated market volume, which was essentially flat versus a year ago. The proportion of volume from lower-rate sell-side clients increased to 56% in the first quarter of 2015, compared to 51% in the first quarter of 2014, driving down our

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overall revenue capture rate per share to $0.0045 compared to $0.0047 in the first quarter of 2014. We did, however, see an improvement in the revenue per share from buy-side clients as compared to the first quarter of 2014 due to higher rates for clients use of our POSIT Alert block crossing system and our high-touch trading services. These higher rates were attributable in part to clients paying for research through trading at a bundled rate.

Daily trading volumes on all Canadian markets were up 9% compared to the first quarter of 2014 while our Canadian commissions and fees increased 4% in U.S. dollar terms and 17% in local currency terms. Our dark pool, MATCH Now, had another strong quarter of gains with volumes up more than 50% over the first quarter of 2014.

The low interest rate environment continued to increase demand in Europe for equities and pushed daily market-wide trading activity up 18% over the first quarter of 2014. Our European commissions and fees were up 9% in U.S. dollar terms and 20% in local currency terms, keeping pace with market-wide growth. Increased activity from sell-side clients pushed our value traded in the region to a record quarterly high, but did dilute our average commission rate per share by 12%. We also saw growth in commissions and fees during the first quarter from our recent investments in our Paris- and London-based sales teams.

We continued to make progress in the Asia Pacific region as we achieved our third consecutive quarter of profitability and grew our pre-tax profit to $1.1 million. Asia Pacific commissions and fees increased 35% over the prior-year quarter, significantly outpacing the 5% growth in overall market-wide activity, driven by strong order flow by local and U.S. clients trading into the Australia, Hong Kong and Japan markets. Total revenues in the region reached a quarterly record of $13.5 million. POSIT Alert continues to be a key source of growth in Asia Pacific with Alert revenues increasing nearly eight-fold over the level achieved in the first quarter of 2014. Our record revenues coupled with improved margins from our efforts to reduce settlement and clearing costs significantly improved our reported results in the region.

*Capital Resource Allocation*

During the first quarter of 2015, we repurchased 692,159 shares for $16.4 million, representing 98% of our net income. Towards the end of the quarter, we announced a change in our targeted capital returns to stockholders for 2015, providing guidance that we would base our target on free cash flow instead of net income. For this purpose, we are calculating free cash flow as net income increased by non-cash stock-based compensation charges, depreciation and amortization, and reduced by capital expenditures and capitalized software. We expect our capital return activity to increase during the remainder of the year to achieve this new target and to be accomplished through a combination of increased share repurchases and our recently-announced quarterly dividend program. The robust cash flow generation we have established in our business model over the past few years has enabled us to incorporate dividends as part of our capital return activities. We may elect to conduct future share repurchases through open market purchases, private transactions or automatic share repurchase programs under SEC Rule 10b5-1.

***Results of Operations Three Months Ended March 31, 2015 Compared to Three Months Ended March 31, 2014***

*U.S. Operations*

| $ in thousands | Three Months Ended March 31, 2015 | 2014 | Change | % Change |
|---|---|---|---|---|
| Revenues: | | | | |
| Commissions and fees | $ 58,455 | $ 54,529 | $ 3,926 | 7 |
| Recurring | 19,988 | 18,452 | 1,536 | 8 |
| Other | 2,011 | 2,626 | (615) | (23) |
| Total revenues | 80,454 | 75,607 | 4,847 | 6 |
| | | | | |
| Expenses: | | | | |
| Compensation and employee benefits | 33,768 | 31,169 | 2,599 | 8 |
| Transaction processing | 11,466 | 8,940 | 2,526 | 28 |
| Other expenses | 24,164 | 25,242 | (1,078) | (4) |
| Total expenses | 69,398 | 65,351 | 4,047 | 6 |
| Income before income tax expense | $ 11,056 | $ 10,256 | $ 800 | 8 |

Commissions and fees increased $3.9 million as a result of a 16% increase in our average daily trading volumes, offset by a decline in the average revenue per share. The decline in rate was primarily attributable to an increase in the proportion of volume from lower-rate sell-side clients, which increased to 56% from 51% in the first quarter of 2014 and a decline in the sell-side rate. The impact of the changing mix and lower sell-side rate was partially offset by an improvement in the average revenue per share from buy-

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side clients due to higher rates for clients use of our POSIT Alert block crossing system and our high-touch trading services. These higher rates were attributable in part to clients paying for research through trading at a higher, bundled rate.

| | Three Months Ended March 31, | | | | |
|---|---|---|---|---|---|
| **U.S. Operations: Key Indicators*** | **2015** | | **2014** | **Change** | **% Change** |
| Total trading volume (in billions of shares) | 11.7 | | 10.0 | 1.7 | 17 |
| Trading volume per day (in millions of shares) | 191.2 | | 164.3 | 26.9 | 16 |
| Average revenue per share | $ 0.0045 | | $ 0.0047 | $ (0.0002) | (4) |
| U.S. market trading days | 61 | | 61 | | |

* Excludes activity from ITG Net commission share arrangements.

Recurring revenues increased due to higher research and analytical product subscriptions in addition to higher connectivity fees. Connectivity fees increased despite the impact of client attrition from our OMS product due to an increase in revenue from global connections from a change in the attribution method while research subscriptions increased, in part due to a shift in the recognition of energy research subscription revenue from corporations to the U.S. Operations segment from the Canadian Operations segment.

Other revenues decreased primarily due to a 73% decrease in revenues generated from our stock loan matched book transactions, offset by an increase in market data rebate income from exchanges and transaction advisory services.

Compensation and employee benefits increased as a result of headcount increases, higher incentive-based compensation to our executive management team associated with increased U.S. and global profitability and from higher deferred stock-based compensation associated with awards granted for the 2014 and 2013 fiscal years.

Transaction processing costs increased as a result of the increase in average daily volume traded as well as an increase in the proportion of trading by clients where liquidity was taken and higher costs from outsourcing the clearing of select accounts to a third party. As a percentage of commissions and fees, transaction processing costs increased to 19.6% from 16.4% in the first quarter of 2014 due to the impact of our increased lower-rate sell-side volumes and from the cost increases noted above.

Other expenses decreased $1.1 million due to lower software amortization, lower business promotion costs and a higher credit for research and development costs charged to other operating segments.

*Canadian Operations*

| | Three Months Ended March 31, | | | |
|---|---|---|---|---|
| **$ in thousands** | **2015** | **2014** | **Change** | **% Change** |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| Revenues: | | | | | | | |
| Commissions and fees | $ | 15,639 | $ | 15,079 | $ | 560 | 4 |
| Recurring | | 1,341 | | 2,432 | | (1,091) | (45) |
| Other | | 1,933 | | 1,707 | | 226 | 13 |
| Total revenues | | 18,913 | | 19,218 | | (305) | (2) |
| | | | | | | | |
| Expenses: | | | | | | | |
| Compensation and employee benefits | | 6,990 | | 5,706 | | 1,284 | 23 |
| Transaction processing | | 2,378 | | 2,566 | | (188) | (7) |
| Other expenses | | 5,789 | | 6,436 | | (647) | (10) |
| Total expenses | | 15,157 | | 14,708 | | 449 | 3 |
| Income before income tax expense | $ | 3,756 | $ | 4,510 | $ | (754) | (17) |

Currency translation from a weaker Canadian Dollar decreased total Canadian revenues and expenses by $2.2 million and $1.6 million, respectively, resulting in a decrease of $0.6 million to pre-tax income.

Canadian commissions and fees increased $0.6 million despite unfavorable currency translation of $1.8 million due to an increase in electronic brokerage commissions including increased use of our algorithms and MATCH Now.

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Recurring revenues decreased primarily from lower revenue from global connections due to a change in the attribution method and from a shift in the recognition of energy research subscription revenue from corporations to the U.S. Operations segment. Other revenues increased primarily due to lower client trade accommodations.

Compensation and employee benefits costs increased due to an increase in share-based compensation, which fluctuates for legacy awards to Canadian employees based on the changes in the market price of our stock. This was offset by a favorable impact from currency translation.

Despite a small growth in commissions and fees, transaction processing costs decreased due to lower rates for clearance and settlement.

Other expenses were down due to lower depreciation, software amortization, legal fees, research distribution fees paid to the U.S. Operations and the impact of currency translation.

*European Operations*

| | Three Months Ended March 31, | | | |
|---|---|---|---|---|
| **$ in thousands** | **2015** | **2014** | **Change** | **% Change** |
| Revenues: | | | | |
| Commissions and fees | $ 32,542 | $ 29,721 | $ 2,821 | 9 |
| Recurring | 4,138 | 3,173 | 965 | 30 |
| Other | (75) | (104) | 29 | 29 |
| Total revenues | 36,605 | 32,790 | 3,815 | 12 |
| | | | | |
| Expenses: | | | | |
| Compensation and employee benefits | 10,068 | 8,468 | 1,600 | 19 |
| Transaction processing | 7,815 | 6,458 | 1,357 | 21 |
| Other expenses | 7,593 | 7,040 | 553 | 8 |
| Total expenses | 25,476 | 21,966 | 3,510 | 16 |
| Income before income tax expense | $ 11,129 | $ 10,824 | $ 305 | 3 |

Currency translation from a weaker British Pound during the quarter decreased European revenues and expenses by $3.5 million and $2.3 million, respectively, reducing pre-tax income by $1.2 million.

European results include the results of RFQ-hub operations since the July 30, 2014 acquisition date, adding $1.2 million in revenues, mostly recurring, and $0.9 million in expenses, of which $0.7 million is in compensation and employee benefits.

Our European commissions and fees increased primarily from sell-side clients trading in POSIT and from Europe-based institutional clients using our algorithms. These increases were offset in part by the impact of currency translation.

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

Compensation and employee benefits increased due to the impact of the RFQ-hub acquisition and investment in our Paris- and London-based sales teams.  We also had higher deferred stock-based compensation associated with awards granted for the 2014 and 2013 fiscal years.

Transaction processing costs increased as a result of a 25% increase in average daily notional value traded.  As a percentage of commissions and fees, transaction processing costs increased to 24.0% from 21.7% in the first quarter of 2014 due to the impact of a higher proportion of value traded by lower-rate sell-side clients and higher execution costs from using our own exchange memberships.

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Other expenses increased $0.6 million due to higher charges for global research and development costs and due to the additional costs from RFQ-hub.

*Asia Pacific Operations*

| $ in thousands | Three Months Ended March 31, 2015 | 2014 | Change | % Change |
|---|---|---|---|---|
| Revenues: | | | | |
| Commissions and fees | $ 12,290 | $ 9,095 | $ 3,195 | 35 |
| Recurring | 1,465 | 1,520 | (55) | (4) |
| Other | (233) | (918) | 685 | 75 |
| Total revenues | 13,522 | 9,697 | 3,825 | 39 |
| | | | | |
| Expenses: | | | | |
| Compensation and employee benefits | 5,077 | 4,548 | 529 | 12 |
| Transaction processing | 2,914 | 2,532 | 382 | 15 |
| Other expenses | 4,424 | 4,435 | (11) | |
| Total expenses | 12,415 | 11,515 | 900 | 8 |
| Income (loss) before income tax expense (benefit) | $ 1,107 | $ (1,818) | $ 2,925 | 161 |

Currency translation from a weaker Australian Dollar decreased total Asia Pacific revenues and expenses by $0.8 million and $0.6 million, respectively, resulting in a decrease of $0.2 million to our pre-tax income.

Asia Pacific operating results improved significantly over the prior-year period in large part due to a 35% growth in commissions and fees. The growth in commissions and fees resulted from an increase in the use of our POSIT Alert block crossing system and our trading algorithms, as well as from higher commission sharing revenues from trades executed on our Triton EMS.

Other revenues improved over the prior-year period due to a decrease in client accommodations and errors.

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

Transaction processing costs increased due to the increase in average daily notional value traded. However, transaction costs declined as a percentage of commissions and fees to 23.7% from 27.8% in 2014 due to the impact of our initiatives to reduce settlement and clearing costs.

Other expenses were nearly flat but reflect a decrease from lower consulting, market data and connectivity costs, which was largely offset by higher charges for global research and development costs and higher software amortization.

*Corporate*

Corporate activity includes investment income from all treasury activity as well as costs not associated with operating the businesses within our regional segments. These costs include, among others, (a) the costs of being a public company, such as certain staff costs, a portion of external audit fees, and reporting, filing and listing costs, (b) intangible asset amortization, (c) interest expense, (d) professional fees associated with our global transfer pricing structure and (e) foreign exchange gains or losses.

For the first quarter of 2015, we incurred a pre-tax loss from these activities of $4.7 million, reflecting $0.2 million of investment income and $4.9 million of costs. For the first quarter of 2014, we incurred a pre-tax loss of $5.4 million from these activities, reflecting investment income of $0.3 million and costs of $5.7 million. The 13% decline in costs over the prior-year period was the result of lower intangible asset amortization due to the full amortization of certain assets and an increase in foreign exchange gains on intercompany activities, partially offset by an increase in legal fees related to the recent shareholder activist matter.

*Consolidated income tax expense*

Our effective tax rate was 25.1% in the first quarter of 2015 compared to 26.1% in the first quarter of 2014. The effective rate declined slightly due to the impact of profitability in Asia Pacific where we are offsetting reported income with fully-reserved operating losses. Our consolidated effective tax rate can vary from period to period depending on, among other factors, the geographic and business mix of our earnings.

**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 March 31, 2015, unrestricted cash and cash equivalents totaled

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$205.8 million. Included in this amount is $87.9 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. in 2015 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 March 31, 2015, we had interest-bearing security deposits totaling $38.5 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 $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 and had deposits with clearing organizations of $9.1 million at March 31, 2015. In Europe, we had a deposit with our settlement agent of $42.0 million at March 31, 2015.

***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.

***Operating Activities***

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

| **(in thousands)** | **Three Months Ended March 31, 2015** | | **2014** | |
|---|---|---|---|---|
| Net income | $ | 16,733 | $ | 13,620 |
| Non-cash items included in net income | | 24,699 | | 20,180 |
| Effect of changes in receivables/payables from/to customers and brokers | | (31,705) | | (1,492) |
| Effect of changes in other working capital and operating assets and liabilities | | (65,580) | | 5,693 |
| Net cash (used in) provided by operating activities | $ | (55,853) | $ | 38,001 |

The cash flow used in operating activities during the first three months of 2015 was driven by an increase in cash used in settlement activities, which was largely financed by an increase in short-term bank loans of $28.9 million that are included in financing activities below, a reduction in bonus accruals from paying full year 2014 incentive compensation in February 2015, an increase in deposits held by clearing organizations and taxes paid.

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 $7.9 million includes our investments in software development projects and computer hardware and software.

***Financing Activities***

Net cash provided by financing activities of $4.8 million primarily reflects net proceeds from short-term bank borrowings that are used to support our settlement activities offset by the repurchases of ITG common stock, shares withheld for net settlements of share-based awards and repayments of long-term debt.

On January 31, 2014, ITG Inc. as borrower, and Investment Technology Group, Inc. ( Parent Company ) as guarantor 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

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reference to the higher of the (1) federal funds rate or (2) the one month Eurodollar LIBOR 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 ITG Inc. s brokerage operations to satisfy clearing margin requirements and to finance temporary positions from delivery failures or non-standard settlements. As a result, we have additional flexibility with our existing cash and future cash flows from operations to strategically 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 negative covenants related to (a) liens, (b) maintenance of a consolidated leverage ratio (as defined) and a liquidity ratio (as defined), as well as maintenance of 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.

During the first three months of 2015, we repurchased approximately 1.1 million shares of our common stock at a cost of $24.5 million, which was funded from our available cash resources. Of these shares, 0.7 million were purchased under our Board of Directors authorization for a total cost of $16.4 million (average cost of $23.73 per share). An additional 0.4 million shares repurchased for $8.1 million pertained solely to the satisfaction of minimum statutory withholding tax upon the net settlement of equity awards. As of March 31, 2015, the total remaining number of shares currently available for repurchase under ITG s stock repurchase program was 4.1 million.

In March 2015, we noted a change in our targeted capital returns to stockholders for 2015, providing guidance that we would base our target on free cash flow instead of net income. For this purpose we are calculating free cash flow as net income increased by non-cash stock-based compensation charges, depreciation and amortization, and reduced by capital expenditures and capitalized software. We expect out capital return activity to increase during the remainder of the year to achieve this new target and to be accomplished through a combination of increased share repurchases and our recently-announced quarterly dividend program. The robust cash flow generation we have established in our business model over the past few years has enabled us to incorporate dividends as part of our capital return activities. 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 2/3% 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 March 31, 2015 for the U.S. Operations are as follows (dollars in millions):

| | Net Capital | Excess |
|---|---|---|
| **U.S. Operations** | | |
| ITG Inc. | $ 84.9 | $ 83.9 |
| AlterNet | 2.7 | 2.4 |

| | | |
|---|---|---|
| ITG Derivatives | 2.4 | 1.4 |

As of March 31, 2015, 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 $1.3 million under PABs.

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 March 31, 2015, is summarized in the following table (dollars in millions):

| | Net Capital | Excess |
|---|---|---|
| **Canadian Operations** | | |
| Canada | $ 29.8 | $ 29.4 |
| **European Operations** | | |
| Ireland | 67.1 | 20.8 |
| U.K. | 3.7 | 2.9 |
| **Asia Pacific Operations** | | |
| Australia | 14.4 | 4.8 |
| Hong Kong | 27.5 | 11.4 |
| Singapore | 0.4 | 0.2 |

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***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, 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 condensed consolidated financial statements for these agreements and believe that any potential requirement to make payments under these agreements is remote.

As of March 31, 2015, our other contractual obligations and commercial commitments consisted principally of fixed charges, including minimum future rentals under non-cancelable operating leases, minimum future purchases under non-cancelable purchase agreements and minimum compensation under employment agreements.

There has been no significant change to such arrangements and obligations since December 31, 2014.

***New Accounting Pronouncements***

In April 2015, the Financial Accounting Standards Board ( FASB ) issued Accounting Standards Update ( ASU ) 2015-03, *Simplifying the Presentation of Debt Issuance Costs* which changes the presentation of debt issuance costs in financial statements. ASU 2015-03 requires an entity to present such costs in the balance sheet as a direct deduction from the related debt liability rather than as an asset. Amortization of the costs will continue to be reported as interest expense. It is effective for annual reporting periods beginning after December 15, 2016. Early adoption is permitted. The new guidance will be applied retrospectively to each prior period presented. The Company is currently in the process of evaluating the impact of adoption of the ASU on its condensed consolidated balance sheets.

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers*. The standard provides companies with a single five step revenue recognition 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. 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. Entities have the option of using either a full retrospective or modified approach to adopt ASU 2014-09. The original standard was effective for fiscal years beginning after December 15, 2016, however, in April 2015, the FASB proposed a one-year deferral of this standard, with a new effective date of December 15, 2017. The Company is currently evaluating the new guidance and has not yet selected a transition method nor has it determined the impact of adoption on its financial statements.

***Critical Accounting Estimates***

There has been no significant change to our critical accounting estimates, which are more fully described in Item 7, *Management s Discussion and Analysis of Financial Condition and Results of Operations*, in our Annual Report on Form 10-K for the year ended December 31, 2014.

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**Item 3. Quantitative and Qualitative Disclosures About Market Risk**

Please see our Annual Report on Form 10-K (Item 7A) for the year ended December 31, 2014. There has been no material change in this information.

**Item 4. Controls and Procedures**

a) *Evaluation of Disclosure Controls and Procedures.* The Company s Chief Executive Officer and Chief Financial Officer, after evaluating the effectiveness of the Company s disclosure controls and procedures (as such term is defined in Rule 13a-15(e) and 15d-15(e) under the Exchange Act), as of the end of the period covered by this Quarterly Report on Form 10-Q, have concluded that, based on such evaluation, the Company s disclosure controls and procedures were effective in reporting, on a timely basis, information required to be disclosed by the Company in the reports that the Company files or submits under the Exchange Act and this Quarterly Report on Form 10-Q.

b) *Changes in Internal Controls over Financial Reporting.* There were no changes in the Company s internal control over financial reporting identified in connection with the evaluation of such internal control that occurred during the Company s latest fiscal quarter that have materially affected, or are reasonably likely to materially affect, the Company s internal control over financial reporting.

**PART II. OTHER INFORMATION**

**Item 1. Legal Proceedings**

We are not a party to any pending legal proceedings other than claims and lawsuits arising in the ordinary course of business. Our broker-dealer subsidiaries are involved in ongoing reviews, inquiries, examinations, investigations and other proceedings by government agencies and self-regulatory organizations regarding our business, which may result in judgments, settlements, fines, penalties, injunctions or other relief. We believe, based on information currently available, that the outcome of such proceedings, individually or in the aggregate, will not likely have a material adverse effect on our consolidated financial position. However, in light of the inherent uncertainties of such proceedings, an adverse outcome of such proceedings may have a material impact on the results of operations for any particular period.

**1A. Risk Factors**

There has been no significant change to the risks or uncertainties that may affect our results of operations since December 31, 2014. Please see Item 1A in our Annual Report on Form 10-K for the year ended December 31, 2014 .

**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds**

The following table sets forth our stock repurchase activity during the first three months of 2015, 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.

**ISSUER PURCHASES OF EQUITY SECURITIES**

| Period | Total Number of Shares (or Units) Purchased (a) | | Average Price Paid per Share (or Unit) | Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs | Maximum Number of Shares (or Units) that May Yet Be Purchased Under the Plans or Programs |
|---|---|---|---|---|---|
| From: January 1, 2015<br>To: January 31, 2015 | 108,037 | $ | 19.88 | 108,037 | 4,667,766 |
| From: February 1, 2015<br>To: February 28, 2015 | 595,954 | | 22.14 | 234,800 | 4,432,966 |
| From: March 1, 2015<br>To: March 31, 2015 | 353,642 | | 25.88 | 349,322 | 4,083,644 |
| Total | 1,057,633 | $ | 23.16 | 692,159 | |

(a) This column includes the acquisition of 365,474 common shares from employees in order to satisfy minimum statutory withholding tax requirements upon net settlement of restricted share awards.

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During the first three months of 2015, we repurchased approximately 1.1 million shares of our common stock at a cost of $24.5 million, which was funded from our available cash. Of these shares, 0.7 million were purchased under our Board of Directors authorization for a total cost of $16.4 million (average cost of $23.73 per share). An additional 0.4 million shares repurchased for $8.1 million pertained solely to the satisfaction of minimum statutory withholding tax upon the net settlement of equity awards. As of March 31, 2015, the total remaining number of shares currently available for repurchase under ITG s stock repurchase program was 4.1 million.

We have not paid a cash dividend to stockholders during any period of time covered by this report. In April 2015, the Board of Directors initiated a dividend program under which we intend to pay quarterly dividends beginning in the second quarter of 2015, subject to quarterly declarations by the Board of Directors. For the second quarter of 2015, the Board of Directors declared a quarterly dividend of $0.07 per share. The dividend is payable on June 5, 2015, to shareholders of record on May 15, 2015.

**Item 3. Defaults Upon Senior Securities**

Not applicable.

**Item 4. Mine Safety Disclosures**

Not applicable.

**Item 5. Other Information**

Not applicable.

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**Item 6. Exhibits**

(A) **EXHIBITS**

| | |
|---|---|
| 31.1* | Rule 13a-14(a) Certification |
| 31.2* | Rule 13a-14(a) Certification |
| 32.1** | Section 1350 Certification |
| 101* | Interactive Data File<br>The following furnished materials from Investment Technology Group, Inc.  s Quarterly Report on Form 10-Q for the quarter ended March 31, 2015, formatted in XBRL (Extensible Business Reporting Language), are collectively included herewith as Exhibit 101:<br><br>101. INS XBRL Instance Document.<br>101. SCH XBRL Taxonomy Extension Schema.<br>101. CAL XBRL Taxonomy Extension Calculation Linkbase.<br>101. DEF XBRL Taxonomy Extension Definition Linkbase.<br>101. LAB XBRL Taxonomy Extension Label Linkbase.<br>101. PRE XBRL Taxonomy Extension Presentation Linkbase. |

* Filed herewith.
** Furnished herewith.

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**SIGNATURE**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

INVESTMENT TECHNOLOGY GROUP, INC.
(Registrant)

Date: May 11, 2015 By: /s/ STEVEN R. VIGLIOTTI
Steven R. Vigliotti
*Chief Financial Officer and*
*Duly Authorized Signatory of Registrant*