INVESTMENT TECHNOLOGY GROUP, INC.
Form 10-K/A
April 11, 2014

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K/A

(Amendment No. 1)

(Mark One)

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

For the fiscal year ended December 31, 2013

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	**95-2848406**
(State of incorporation)	(IRS Employer Identification No.)
165 Broadway, New York, New York	**10006**
(Address of principal executive offices)	(Zip Code)

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

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

Common Stock, $0.01 par value	**New York Stock Exchange**
(Title of class)	(Name of exchange on which registered)

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

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

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

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 ý No o

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K 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 ý	Non-accelerated filer o (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 by Rule 12b-2 of the Act)

Yes o No ý

Aggregate market value of the voting stock held by non-affiliates of the Registrant at June 30, 2013:	Number of shares outstanding of the Registrant's Class of common stock at February 19, 2014:
$506,073,889	**35,839,452**

DOCUMENTS INCORPORATED BY REFERENCE:

Proxy Statement relating to the 2014 Annual Meeting of Stockholders (incorporated, in part, in Form 10-K Part III)

EXPLANATORY NOTE

Investment Technology Group, Inc. (the "Company") is filing this Amendment No. 1 on Form 10-K/A (this "Amendment") to its Annual Report on Form 10-K for the year ended December 31, 2013 filed with the U.S. Securities and Exchange Commission ("SEC") on March 17, 2014 (the "Original Filing") solely to (a) include a reference to the XBRL Taxonomy Extension Definition Linkbase Document in the Exhibit List in Item 15 that was inadvertently omitted in the Original Filing and (b) to correct typographical errors, as follows:

(i) Item 8: Amend (a) the Report of Independent Registered Public Accounting Firm relating to the consolidated financial statements on page 50 of the Original Filing (the "KPMG Financial Statement Report") to reflect the correct date of the referenced Report of Independent Registered Public Accounting Firm relating to the effectiveness of the Company's internal control over financial reporting (the "KPMG Internal Control Report"), which was the date of the Original Filing, March 17, 2014 and (b) the net amount for deposits received for securities loaned as of December 31, 2013 on page 74 of the Original Filing to "(15,968)" from "(15,698)";

(ii) Item 9A: Amend the KPMG Internal Control Report on page 99 of the Original Filing to reflect the correct date of the referenced KPMG Financial Statement Report, which was the date of the Original Filing, March 17, 2014; and

(iii) Item 15: Amend Exhibit 23.1 (Consent of Independent Registered Public Accounting Firm) to reflect the correct date of the referenced KPMG Financial Statement Report and KPMG Internal Control Report, which, in each case, was the date of the Original Filing, March 17, 2014.

This Amendment also hereby amends the date of the signature of the Chief Financial Officer on behalf of the Company on page 105 of the Original Filing, which was the date of the Original Filing, March 17, 2014.

Although Items 8, 9A and 15 are restated in their entirety, this Amendment does not amend or otherwise update any information in the Original Filing, except as set forth above. Specifically, no information in the Company's financial statements was altered or restated. Accordingly, this Amendment should be read in conjunction with the Original Filing and with our filings with the SEC subsequent to the Original Filing, if any.

Item 8. Financial Statements and Supplementary Data

Report of Independent Registered Public Accounting Firm

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

We have audited the accompanying consolidated statements of financial condition of Investment Technology Group, Inc. and Subsidiaries (the Company) as of December 31, 2013 and 2012, and the related consolidated statements of operations, comprehensive income (loss), changes in stockholders' equity and cash flows for each of the years in the three-year period ended December 31, 2013. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Investment Technology Group, Inc. and Subsidiaries as of December 31, 2013 and 2012, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2013, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Investment Technology Group, Inc.'s internal control over financial reporting as of December 31, 2013, based on criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated March 17, 2014, expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

/s/ KPMG LLP

New York, New York
March 17, 2014

INVESTMENT TECHNOLOGY GROUP, INC. AND SUBSIDIARIES

Consolidated Statements of Financial Condition

(In thousands, except par value and share amounts)

	December 31, 2013	December 31, 2012
Assets		
Cash and cash equivalents	$ 261,897	$ 245,875
Cash restricted or segregated under regulations and other	71,202	61,117
Deposits with clearing organizations	74,771	29,149
Securities owned, at fair value	7,436	10,086
Receivables from brokers, dealers and clearing organizations	1,018,342	1,107,119
Receivables from customers	591,004	546,825
Premises and equipment, net	66,171	54,989
Capitalized software, net	37,892	43,994
Other intangibles, net	31,201	35,227
Income taxes receivable	54	7,460
Deferred taxes	34,130	39,155
Other assets	15,787	15,763
Total assets	$ 2,209,887	$ 2,196,759
Liabilities and Stockholders' Equity		
Liabilities:		
Accounts payable and accrued expenses	$ 175,931	$ 165,062
Short-term bank loans	73,539	22,154
Payables to brokers, dealers and clearing organizations	1,025,268	1,337,459
Payables to customers	469,264	226,892
Securities sold, not yet purchased, at fair value	2,953	5,249
Income taxes payable	14,805	10,608
Deferred taxes	363	293
Term debt	30,332	19,272
Total liabilities	1,792,455	1,786,989
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; 52,158,374 and 52,037,011 shares issued at December 31, 2013 and 2012, respectively	522	520
Additional paid-in capital	240,057	245,002
Retained earnings	436,570	405,485
Common stock held in treasury, at cost; 16,005,500 and 14,677,872 shares at December 31, 2013 and 2012, respectively	(268,253)	(253,111)
Accumulated other comprehensive income (net of tax)	8,536	11,874
Total stockholders' equity	417,432	409,770

Total liabilities and stockholders' equity	$ 2,209,887	$ 2,196,759

See accompanying Notes to the Consolidated Financial Statements.

INVESTMENT TECHNOLOGY GROUP, INC. AND SUBSIDIARIES

Consolidated Statements of Operations

(In thousands, except per share amounts)

	Year Ended December 31,		
	2013	**2012**	**2011**
Revenues:			
Commissions and fees	$ 408,619	$ 380,976	$ 445,801
Recurring	104,172	109,767	110,919
Other	18,010	13,693	15,317
Total revenues	530,801	504,436	572,037
Expenses:			
Compensation and employee benefits	201,254	196,362	219,307
Transaction processing	83,792	81,173	91,602
Occupancy and equipment	69,022	62,637	60,191
Telecommunications and data processing services	53,607	59,850	58,460
Other general and administrative	77,431	88,543	90,808
Goodwill and other asset impairment		274,285	229,317
Restructuring charges	(75)	9,499	24,432
Acquisition-related costs			2,523
Interest expense	2,715	2,542	2,025
Total expenses	487,746	774,891	778,665
Income (loss) before income tax expense (benefit)	43,055	(270,455)	(206,628)
Income tax expense (benefit)	11,970	(22,596)	(26,839)
Net income (loss)	$ 31,085	$ (247,859)	$ (179,789)
Earnings (loss) per share:			
Basic	$ 0.84	$ (6.45)	$ (4.42)
Diluted	$ 0.82	$ (6.45)	$ (4.42)
Basic weighted average number of common shares outstanding	36,788	38,418	40,691

Diluted weighted average number of common shares outstanding	38,114	38,418	40,691

See accompanying Notes to the Consolidated Financial Statements.

INVESTMENT TECHNOLOGY GROUP, INC. AND SUBSIDIARIES

Consolidated Statements of Comprehensive Income (Loss)

(In thousands)

	Year Ended December 31,		
	2013	2012	2011
Net income (loss)	$ 31,085	$ (247,859)	$ (179,789)
Other comprehensive income (loss), net of tax:			
Currency translation adjustment	(3,338)	3,533	(2,066)
Net change in securities available for sale			(86)
Other comprehensive income (loss)	(3,338)	3,533	(2,152)
Comprehensive income (loss)	$ 27,747	$ (244,326)	$ (181,941)

See accompanying Notes to the Consolidated Financial Statements.

INVESTMENT TECHNOLOGY GROUP, INC. AND SUBSIDIARIES

Consolidated Statements of Changes in Stockholders' Equity

For the Years Ended December 31, 2013, 2012 and 2011

(In thousands, except share amounts)

	Preferred Stock	Common Stock	Additional Paid-in Capital	Retained Earnings	Common Stock Held in Treasury	Accumulated Other Comprehensive Income/(Loss)	Total Stockholders' Equity
Balance at December 31, 2010		518	246,085	833,133	(220,161)	10,493	870,068
Net loss				(179,789)			(179,789)
Other comprehensive loss						(2,152)	(2,152)
Issuance of common stock for stock options (111,792 shares), restricted share awards (787,399 shares) and employee stock unit awards (288,917 shares), including tax benefit shortfall and award cancellations of $3.3 million			(19,285)		24,514		5,229
Issuance of common stock for the employee stock purchase plan (108,621 shares)		1	1,253				1,254
Purchase of common stock for treasury (2,974,200 shares)					(38,928)		(38,928)
Shares withheld for net settlements of share-based awards (369,099 shares)					(5,984)		(5,984)
Share-based compensation			21,416				21,416
Balance at December 31, 2011		519	249,469	653,344	(240,559)	8,341	671,114
Net loss				(247,859)			(247,859)
Other comprehensive income						3,533	3,533
Issuance of common stock for restricted share awards (670,933 shares) and employee stock unit awards (71,580 shares), including tax benefit shortfall and award cancellations of $4.1 million			(16,306)		13,722		(2,584)
Awards reclassified to liability for cash settlement (259,840 shares)			(2,838)				(2,838)
Issuance of common stock for the employee stock purchase plan (137,782 shares)		1	1,130				1,131
Purchase of common stock for treasury (2,470,000 shares)					(23,457)		(23,457)
Shares withheld for net settlements of share-based awards (270,467 shares)					(2,817)		(2,817)
Share-based compensation			13,547				13,547
Balance at December 31, 2012	$	$ 520	$ 245,002	$ 405,485	$ (253,111)	$ 11,874	$ 409,770
Net income				31,085			31,085
Other comprehensive loss						(3,338)	(3,338)
Issuance of common stock for restricted share awards (1,029,623 shares), including tax benefit shortfall and award cancellations of $1.5 million			(19,774)		17,559		(2,215)
Issuance of common stock for the employee stock purchase plan (121,363 shares)		2	933				935
Purchase of common stock for treasury (2,005,200 shares)					(28,169)		(28,169)
Shares withheld for net settlements of share-based awards (352,051 shares)					(4,532)		(4,532)
Share-based compensation			13,896				13,896

Balance at December 31, 2013	$	$ 522	$ 240,057	$ 436,570	$ (268,253)	$ 8,536	$ 417,432

See accompanying Notes to the Consolidated Financial Statements.

INVESTMENT TECHNOLOGY GROUP, INC. AND SUBSIDIARIES

Consolidated Statements of Cash Flows

(In thousands)

	Year ended December 31,		
	2013	**2012**	**2011**
Cash Flows from Operating Activities:			
Net income (loss)	$ 31,085	$ (247,859)	$ (179,789)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation and amortization	53,606	56,493	59,057
Deferred income tax expense (benefit)	3,051	(27,156)	(32,593)
Provision for doubtful accounts	(405)	1,401	203
Share-based compensation	20,861	15,628	20,156
Fixed asset disposal	649		
Non-cash restructuring charges, net	357	548	2,480
Goodwill and other asset impairment	101	274,285	229,317
Changes in operating assets and liabilities:			
Cash restricted or segregated under regulations and other	(9,491)	11,700	(2,625)
Deposits with clearing organizations	(45,622)	(3,611)	(11,303)
Securities owned, at fair value	2,445	(4,689)	18,403
Receivables from brokers, dealers and clearing organizations	86,593	(230,137)	(6,671)
Receivables from customers	(72,989)	(59,252)	134,913
Accounts payable and accrued expenses	2,614	(22,905)	(18,079)
Payables to brokers, dealers and clearing organizations	(315,724)	241,231	(59,605)
Payables to customers	276,846	15,595	(64,592)
Securities sold, not yet purchased, at fair value	(2,086)	4,695	(18,915)
Income taxes receivable/payable	12,148	(1,459)	(6,053)
Excess tax benefit	(510)		
Other, net	1,663	2,284	2,755
Net cash provided by operating activities	45,192	26,792	67,059
Cash Flows from Investing Activities:			
Acquisition of subsidiaries and minority interests, net of cash acquired	(474)		(36,185)
Capital purchases	(33,549)	(33,424)	(22,857)
Capitalization of software development costs	(22,579)	(24,635)	(29,061)
Proceeds from sale of investments			2,095
Net cash used in investing activities	(56,602)	(58,059)	(86,008)
Cash Flows from Financing Activities:			
Proceeds of short-term bank loans, net	51,385	20,548	1,606
Proceeds from term loans			25,469
Repayments of term loans	(9,505)	(7,185)	(4,043)
Proceeds from interim funding facility		605	
Proceeds from sales-lease back transactions	20,565	1,855	2,571
Debt issuance costs			(2,908)
Excess tax benefit	510		
Common stock issued	177	2,674	9,753
Common stock repurchased	(28,169)	(23,457)	(38,928)
Shares withheld for net settlements of share-based awards	(4,532)	(2,817)	(5,984)

Net cash provided by (used in) financing activities	30,431	(7,777)	(12,464)
Effect of exchange rate changes on cash and cash equivalents	(2,999)	731	(1,409)
Net increase (decrease) in cash and cash equivalents	16,022	(38,313)	(32,822)
Cash and cash equivalents beginning of year	245,875	284,188	317,010
Cash and cash equivalents end of year	$ 261,897	$ 245,875	$ 284,188
Supplemental cash flow information:			
Interest paid	$ 3,343	$ 2,673	$ 2,453
Income taxes (refunded) paid	$ (4,079)	$ 5,495	$ 15,508

See accompanying Notes to the Consolidated Financial Statements.

INVESTMENT TECHNOLOGY GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(1) Organization and Basis of Presentation

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

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

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

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

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

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

(2) Summary of Significant Accounting Policies

Principles of Consolidation

The consolidated financial statements represent the consolidation of the accounts of ITG and its subsidiaries in conformity with U.S. GAAP. All intercompany accounts and transactions have been eliminated in consolidation. Investments in unconsolidated companies (generally 20 to 50 percent

INVESTMENT TECHNOLOGY GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

ownership), in which the Company has the ability to exercise significant influence but neither has a controlling interest nor is the primary beneficiary, are accounted for under the equity method. Investments in entities in which the Company does not have the ability to exercise significant influence are accounted for under the cost method. Under certain criteria indicated in Accounting Standards Codification ("ASC") 810, *Consolidation*, a partially-owned affiliate would be consolidated when it has less than a 50% ownership if the Company was the primary beneficiary of that entity. At the present time, there are no interests in variable interest entities.

Use of Estimates

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

Revenue Recognition

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

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

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

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

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

INVESTMENT TECHNOLOGY GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

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

Cash and Cash Equivalents

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

Fair Value of Financial Instruments

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

Securities Transactions

Receivables from brokers, dealers and clearing organizations include amounts receivable for fails to deliver, cash deposits for securities borrowed, amounts receivable on open transactions from clearing organizations and non-U.S. broker-dealers and commissions and fees receivable. Payables to brokers, dealers and clearing organizations include amounts payable for fails to receive, amounts payable on open transactions to clearing organizations and non-U.S. broker-dealers, securities loaned and execution cost payables. Receivables from customers consist of customer fails to deliver, amounts receivable on open transactions from non-U.S. customers, commissions and fees earned and receivables billed for research services, net of an allowance for doubtful accounts. Payables to customers primarily consist of customer fails to receive and amounts payable on open transactions to non-U.S. customers. Commissions and fees and related expenses for all securities transactions are recorded on a trade date basis.

Securities owned, at fair value consist of common stock and mutual funds. Securities sold, not yet purchased, at fair value consist of common stock. Marketable securities owned are valued using market quotes from third parties. Unrealized gains and losses are included in other revenues in the Consolidated Statements of Operations, except for unrealized gains and losses on available-for-sale securities which are reported in other accumulated comprehensive income unless there is an other than temporary impairment in their carrying value.

Securities Borrowed and Loaned

Securities borrowed and securities loaned transactions are reported as collateralized financings. Securities borrowed transactions require the Company to deposit cash, letters of credit, or other

INVESTMENT TECHNOLOGY GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

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

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

Client Commission Arrangements

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

Client commissions allocated for research and related prepaid and accrued research balances for the years ended December 31, 2013, 2012 and 2011 were as follows (dollars in millions):

	2013	**2012**	**2011**
Client commissions	$ 122.8	$ 112.1	$ 130.8
Prepaid research, gross	$ 4.5	$ 5.1	$ 3.7
Allowance for prepaid research	(0.2)	(0.4)	(0.4)
Prepaid research, net of allowance	$ 4.3	$ 4.7	$ 3.3
Accrued research payable	$ 52.0	$ 38.6	$ 50.7

Capitalized Software

Software development costs are capitalized when the technological feasibility of a product has been established. Technological feasibility is established when all planning, designing, coding and testing activities have been devised to ensure that the product can be produced to meet its design specifications, including functions, features, and technical performance requirements. All costs incurred to establish technological feasibility are expensed as incurred. Capitalized software costs are amortized

INVESTMENT TECHNOLOGY GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

using the straight-line method over a three-year period beginning when the product is available for general release to customers.

Research and Development

All research and development costs are expensed as incurred. Research and development costs, which are primarily included in other general and administrative expenses and compensation and employee benefits in the Consolidated Statements of Operations, are estimated at $40.9 million, $44.6 million and $47.5 million for the years ended December 31, 2013, 2012 and 2011, respectively.

Business Combinations, Goodwill and Other Intangibles

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

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

The judgments that are made in determining the estimated fair value assigned to each class of assets acquired and liabilities assumed, as well as asset lives, can materially impact net income in periods following a business combination. Traditional approaches used to determine fair value include the income, cost and market approaches. The income approach presumes that the value of an asset can be estimated by the net economic benefit to be received over the life of the asset, discounted to present value. The cost approach presumes that an investor would pay no more for an asset than its replacement or reproduction cost. The market approach estimates value based on what other participants in the market have paid for reasonably similar assets. Although each valuation approach is considered in valuing the assets acquired, the approach or combination of approaches ultimately selected is based on the characteristics of the asset and the availability of information.

Any goodwill was previously assessed no less than annually for impairment. The fair values used in the Company's impairment testing were determined by the discounted cash flow method (an income approach) and where appropriate, a combination of the discounted cash flow method and the guideline company method (a market approach). An impairment loss is indicated if the estimated fair value of a reporting unit was less than its net book value. In such a case, the impairment loss was calculated as the amount by which the carrying value of goodwill exceeded its implied fair value. In determining the fair value of each of the Company's reporting units, the discounted cash flow analyses employed required significant assumptions and estimates about the future operations of each reporting unit. Significant judgments inherent in these analyses included the determination of appropriate discount rates, the amount and timing of expected future cash flows and growth rates. The cash flows employed in the Company's discounted cash flow analyses were based on financial budgets and forecasts developed internally by management. The Company's discount rate assumptions were based on a determination of its required rate of return on equity capital.

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

Premises and Equipment

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

Impairment of Long-Lived Assets

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

Income Taxes

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

Taxes Collected from Customers and Remitted to Governmental Authorities

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

Earnings per Share

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

INVESTMENT TECHNOLOGY GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Share-based Compensation

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

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

The risk-free interest rate used in the Black-Scholes option-pricing model is based on the U.S. Treasury yield curve in effect at the time of grant. The expected option life is based on historical experience of employee exercise behavior. Expected volatility is based on historical volatility, implied volatility, price observations taken at regular intervals and other factors deemed appropriate. Expected dividend is based upon the current dividend rate. No options were granted in 2013 or 2012.

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

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

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

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

Foreign Currency Translation

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

INVESTMENT TECHNOLOGY GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

comprehensive income in stockholders' equity. Gains or losses on foreign currency transactions are included in other general and administrative expenses in the Consolidated Statements of Operations.

Common Stock Held in Treasury, at Cost

The purchase of treasury stock is accounted for under the cost method with the shares of stock repurchased reflected as a reduction to stockholders' equity and included in common stock held in treasury, at cost in the Consolidated Statements of Financial Condition. When treasury shares are reissued, they are recorded at the average cost of the treasury shares acquired. The Company held 16,005,500 and 14,677,872 shares of common stock in treasury as of December 31, 2013 and 2012, respectively.

Recently Adopted Accounting Standards

In July 2013, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2013-11, *Income Taxes* (Topic 740), *Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carrryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists*. These provisions require unrecognized tax benefits to be presented as a decrease in a net operating loss, similar tax loss or tax credit carryforward if certain criteria are met. The adoption of these provisions did not have a material impact on ITG's consolidated financial statements.

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

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

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

In September 2011, the FASB issued ASU 2011-08, *Intangibles Goodwill and Other* (Topic 350)*Testing Goodwill for Impairment*, in an effort to simplify goodwill impairment testing. The amendments

INVESTMENT TECHNOLOGY GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

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

(3) Restructuring Charges

2013 Restructuring

In the second quarter of 2013, the Company implemented a strategic plan to close its technology research and development facility in Israel and outsource that function to a third party service provider effective January 1, 2014. This plan is primarily focused on reducing costs through limiting the Company's geographic footprint while maintaining the necessary technological expertise via a consulting arrangement.

The following table summarizes the pre-tax charges incurred in the European Operations reporting segment (dollars in thousands). Employee severance costs relate to the termination of approximately 40 employees. These charges are classified as restructuring charges in the Consolidated Statements of Operations.

	Total
Employee separation and related costs	$ 1,452
Consolidation of leased facilities	100
Total	$ 1,552

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

	Employee separation costs	**Consolidation of leased facilities**	**Total**
Restructuring charges recognized in 2013	$ 1,452	$ 100	$ 1,552
Cash payments	(915)		(915)
Acceleration of share-based compensation in additional paid-in capital	(357)		(357)
Other	55		55
Balance at December 31, 2013	$ 235	$ 100	$ 335

The remaining accrued costs are expected to be paid by the first quarter of 2014.

INVESTMENT TECHNOLOGY GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

In addition to the charges noted above, this restructuring also triggered the recognition of a tax charge of $1.6 million in the second quarter of 2013 associated with the anticipated withdrawal of capital from Israel.

2012 Restructuring

In the fourth quarter of 2012, the Company implemented a restructuring plan to reduce annual operating costs by approximately $20 million. The initiative was designed to improve financial performance and enhance stockholder returns while maintaining ITG's competitiveness and high standard of client service. This plan primarily focused on reducing workforce, market data and other general and administrative costs across ITG's businesses. The Company incurred a charge of $9.5 million related to this restructuring, entirely for employee separation costs. During the second quarter of 2013, the Company reversed $0.8 million of this expense as actual payments made were less than originally estimated.

Activity and liability balances recorded as part of the 2012 restructuring plan through December 31, 2013 are as follows (dollars in thousands):

	Employee separation costs
Balance at December 31, 2012	$ 6,908
Cash payments	(5,087)
Other	(1,746)
Balance at December 31, 2013	$ 75

The remaining accrued costs are expected to be paid by the end of 2014.

2011 Restructuring

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

The following table summarizes the changes during 2012 in the Company's liability balance related to the 2011 restructuring plans, which is included in accounts payable and accrued expenses in the Consolidated Statements of Financial Condition (dollars in thousands):

	Employee separation costs	Consolidation of leased facilities	Total
Balance at December 31, 2012	$ 117	$ 3,098	$ 3,215
Adjustment for sub-lease		(700)	(700)
Utilized cash	(12)	(831)	(843)
Other	(98)		(98)
Balance at December 31, 2013	$ 7	$ 1,567	$ 1,574

INVESTMENT TECHNOLOGY GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The remaining accrued employee separation costs reflect the settlement of restricted share awards, which continued through February 2014. The payment of the remaining accrued costs related to the vacated leased facilities will continue through December 2016.

2010 Restructuring

U.S.

In the fourth quarter of 2010, the Company closed its Westchester, NY office, relocated the staff, primarily sales traders and support, to its New York City office, and incurred a restructuring charge of $2.3 million for lease abandonment and employee separation. The following table summarizes the changes during 2013 in the Company's liability balance related to the 2010 U.S. restructuring plan, which is included in accounts payable and accrued expenses in the Consolidated Statements of Financial Condition (dollars in thousands):

	Consolidation of leased facilities
Balance at December 31, 2012	$ 2,172
Utilized cash	(388)
Balance at December 31, 2013	$ 1,784

The remaining accrued costs related to the leased facilities will continue to be paid through December 2016.

(4) 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.

INVESTMENT TECHNOLOGY GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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):

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

December 31, 2012	Total	Level 1	Level 2	Level 3
Assets				
Cash and cash equivalents:				
Tax free money market mutual funds	$ 4,555	$ 4,555	$	$
U.S. government money market mutual funds	97,203	97,203		
Money market mutual funds	6,231	6,231		
Securities owned, at fair value:				
Corporate stocks trading securities	5,438	5,438		
Mutual funds	4,648	4,648		
Total	$ 118,075	$ 118,075	$	$

Liabilities							
Securities sold, not yet purchased, at fair value:							
Corporate stocks trading securities	$	5,249	$	5,249	$		$
Total	$	5,249	$	5,249	$		$

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.

INVESTMENT TECHNOLOGY GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Certain items are measured at fair value on a non-recurring basis. The table below details the portion of those items that were re-measured at fair value during 2012 and the resultant loss recorded (dollars in thousands):

		Fair Value Measurements Using			
December 31, 2012	**Total**	**Level 1**	**Level 2**	**Level 3**	**Total Losses**
Goodwill U.S. Operations	$	$	$	$	$ 245,103
Goodwill European Operations					28,481
Goodwill Asia Pacific Operations					701
Total	$	$	$	$	$ 274,285

Goodwill

Goodwill allocated to the Company's U.S., European and Asia Pacific Operations reporting segments was written down in the second quarter of 2012 to their implied fair value of zero. These charges are included in goodwill and other asset impairment in the Company's Consolidated Statements of Operations.

(5) Acquisitions

Ross Smith Energy Group Ltd.

On June 3, 2011, the Company completed its acquisition of Ross Smith Energy Group Ltd. ("RSEG"), a Calgary-based independent provider of research on the oil and gas industry.

The results of RSEG have been included in the Company's consolidated financial statements since its acquisition date. The $38.6 million purchase price for RSEG consisted of all cash with no contingent payment provisions. In connection with the acquisition, the Company also incurred approximately $0.7 million of acquisition-related costs, including legal fees and other professional fees, as well as $1.8 million in connection with the termination of a distribution agreement with a third party, net of a $1.0 million recovery from RSEG's former owners. These costs were classified in the Consolidated Statements of Operations as acquisition-related costs.

The assets and liabilities of RSEG were recorded as of the acquisition date, at their respective fair values, under business combination accounting. The purchase price allocation is based on estimates of the fair value of assets acquired and liabilities assumed as follows (dollars in thousands):

Cash	$ 2,540
Accounts receivable, net	1,422
Customer related intangible asset	6,950
Accounts payable and accrued liabilities	(1,505)
Deferred income	(2,151)
Other assets and liabilities, net	611
Goodwill	30,715
Total purchase price	$ 38,582

Goodwill and the customer-related intangible asset were assigned to the U.S. Operations reporting segment, which, at the time of the acquisition, was expected to be the primary beneficiary of the

INVESTMENT TECHNOLOGY GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

synergies achieved from the business combination. The goodwill, although written down to zero in 2012, (see Note 6, *Goodwill and Other Intangibles*, below) is deductible for corporate income tax purposes over 15 years. The acquired customer-related intangible asset of $7.0 million has a 10 year useful life. The pro forma results of the RSEG acquisition would not have been material to the Company's results of operations.

(6) Goodwill and Other Intangibles

Goodwill

The following table presents the changes in the carrying amount of goodwill by reportable segment for the year ended December 31, 2012 (dollars in thousands). There was no goodwill activity for 2013.

	U.S. Operations	European Operations	Asia Pacific Operations	Total
Balance at December 31, 2011	$ 245,105	$ 28,486	$ 701	$ 274,292
2012 Activity:				
Impairment losses	(245,103)	(28,481)	(701)	(274,285)
Currency translation adjustment	(2)	(5)		(7)
Balance at December 31, 2012	$	$	$	$

Goodwill Impairment

Prior to the full goodwill impairment charge taken in the second quarter of 2012, the Company tested the carrying value of goodwill for impairment at least annually and more frequently if an event occurred or circumstances changed that indicated a potential impairment had occurred. The impairment tests were conducted at the reporting unit level, which for the Company is based on geographic segments and not products and services.

Since 2010, indicators of potential impairment prompted the Company to perform goodwill impairment tests at the end of each quarterly interim period. These indicators included a prolonged decrease in market capitalization, a decline in operating results in comparison to prior years, and the significant near-term uncertainty related to both the global economic recovery and the outlook for the Company's industry. As the indicators of potential impairment did not improve, the Company continued to perform interim goodwill impairment testing at the end of each quarterly period through the second quarter of 2012. All interim impairment tests applied the same valuation techniques and sensitivity analyses used in the Company's annual impairment tests to updated cash flow and profitability forecasts.

Based upon tests performed for the June 30, 2011 interim test, the Company recorded an impairment charge of $225.0 million in connection with the goodwill allocated to its U.S. Operations reporting segment. This impairment charge reflected continued weakness in institutional trading volumes, which lowered estimated future cash flows of the U.S. Operations reporting segment, as well as a decline in industry market multiples.

Based upon tests performed during the second quarter of 2012, the Company recorded an impairment charge of $274.3 million in connection with the goodwill allocated to its U.S., European and Asia Pacific reporting segments. This impairment charge reflected continued weakness in global institutional trading volumes and an increasingly uncertain outlook on then near-term business fundamentals as well as the length and severity of the decline in global institutional equity market

INVESTMENT TECHNOLOGY GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

activity. Consequently, the Company downwardly revised its earnings and cash flow forecasts to reflect adjusted expectations for a significantly slower recovery and more prolonged downturn in its global businesses and reduced the multiple used in its market approach to reflect the decline in industry market multiples. Although the revised forecasts continued to result in a fair value for the Canadian reporting unit that was well in excess of its carrying value (which did not include goodwill), the fair values for the U.S., European and Asia Pacific reporting units were determined to be below their carrying values, indicating potential impairment of the goodwill held in these units and requiring step two impairment testing. The step two valuation test yielded aggregate fair values for the tangible and (non- goodwill) intangible assets in each of these reporting units above their aggregate carrying values, which reduced the amount of the implied fair value attributable to goodwill. As a result, goodwill in each of these reporting units was determined to be fully impaired requiring the Company to record a goodwill impairment charge in the second quarter of 2012.

Other Intangible Assets

Acquired other intangible assets consisted of the following at December 31, 2013 and 2012 (dollars in thousands):

	2013		2012		
	Gross Carrying Amount	**Accumulated Amortization**	**Gross Carrying Amount**	**Accumulated Amortization**	**Useful Lives (Years)**
Trade names	$ 8,400	$	$ 10,400	$ 2,000	
Customer-related intangibles	27,851	8,923	27,851	6,712	13.1
Proprietary software	21,501	17,921	21,501	16,106	6.4
Trading rights	243		243		
Other	50		50		
Total	$ 58,045	$ 26,844	$ 60,045	$ 24,818	

At December 31, 2013, indefinite-lived intangibles not subject to amortization amounted to $8.7 million, of which $8.4 million related to the POSIT trade name. Amortization expense for definite-lived intangibles was $4.0 million, $5.0 million and $4.2 million for the years ended December 31, 2013, 2012 and 2011, respectively and was included in other general and administrative expense in the Consolidated Statements of Operations.

The Company's estimate of future amortization expense for acquired other intangibles that exist at December 31, 2013 is as follows (dollars in thousands):

Year	**Estimated Amortization**
2014	4,087
2015	2,654
2016	2,654
2017	2,500
2018	2,294
Thereafter	8,320
Total	$ 22,509

INVESTMENT TECHNOLOGY GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The Company performed its annual impairment testing as of October 1, 2013 and determined that there was no impairment of the carrying values of other intangible assets in the periods presented.

(7) 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 Rule 15c3-3 of the Exchange Act ("Customer Protection Rule") or agreements for proprietary accounts of introducing brokers ("PAIB"), (iii) funds on deposit for European 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 and Israeli lease.

(8) Securities Owned and Sold, Not Yet Purchased

The following is a summary of securities owned and sold, not yet purchased at December 31 (dollars in thousands):

	Securities Owned		Securities Sold, Not Yet Purchased	
	2013	**2012**	**2013**	**2012**
Corporate stocks trading securities	$ 2,894	$ 5,438	$ 2,953	$ 5,249
Mutual funds	4,542	4,648		
Total	$ 7,436	$ 10,086	$ 2,953	$ 5,249

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.

(9) Receivables and Payables

Receivables from and Payables to Brokers, Dealers and Clearing Organizations

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

	Receivables from		Payables to	
	2013	**2012**	**2013**	**2012**
Broker-dealers	$ 254,031	$ 297,916	$ 284,681	$ 513,529
Clearing organizations	23,033	12,391	2,798	728
Securities borrowed	742,307	798,228		
Securities loaned			737,789	823,202
Allowance for doubtful accounts	(1,029)	(1,416)		
Total	$ 1,018,342	$ 1,107,119	$ 1,025,268	$ 1,337,459

24

INVESTMENT TECHNOLOGY GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Receivables from and Payables to Customers

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

	Receivables from		Payables to	
	2013	**2012**	**2013**	**2012**
Customers	$ 592,139	$ 548,287	$ 469,264	$ 226,892
Allowance for doubtful accounts	(1,135)	(1,462)		
Total	$ 591,004	$ 546,825	$ 469,264	$ 226,892

The Company maintains an allowance for doubtful accounts based upon estimated collectability of receivables. The allowance was decreased by $0.4 million in 2013 and increased by $1.4 million in 2012 and $0.2 million in 2011. Total write-offs against the allowance of $0.3 million, $0.2 million and $0.1 million were recorded during 2013, 2012 and 2011, respectively.

Securities Borrowed and Loaned

As of December 31, 2013, securities borrowed as part of the Company's matched book operations with a fair value of $710.6 million were delivered for securities loaned. The gross amounts of interest earned on cash provided to counterparties as collateral for securities borrowed, and interest incurred on cash received from counterparties as collateral for securities loaned, and the resulting net amount included in other revenue on the Consolidated Statements of Operations for 2013, 2012 and 2011 were as follows (dollars in thousands):

	2013	**2012**	**2011**
Interest earned	$ 17,756	$ 19,242	$ 19,130
Interest incurred	(10,786)	(14,589)	(14,646)
Net	$ 6,970	$ 4,653	$ 4,484

Interest earned in 2013 includes a gain of $2.5 million related to adjustments to historical dividend withholdings on securities borrowed. Deposits paid for securities borrowed and deposits received for securities loaned are recorded at the amount of cash collateral advanced or received. Deposits paid for securities borrowed transactions require the Company to deposit cash with the lender. With respect to deposits received for securities loaned, the Company receives collateral in the form of cash in an amount generally in excess of the market value of the securities loaned. The Company monitors the market value of the securities borrowed and loaned on a daily basis, with additional collateral obtained or refunded, as necessary.

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

INVESTMENT TECHNOLOGY GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

has unrestricted access in its use of the securities. For financial statement purposes, the Company does not offset securities borrowed and securities loaned.

In accordance with ASU 2013-01, 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 December 31, 2013:					
Deposits paid for securities borrowed	$ 742,307	$	$ 742,307	$ 742,083	$ 224
Deposits received for securities loaned	(737,789)		(737,789)	(721,821)	(15,968)
As of December 31, 2012:					
Deposits paid for securities borrowed	798,228		798,228	789,317	8,911
Deposits received for securities loaned	(823,202)		(823,202)	(822,382)	(820)

(10) Premises and Equipment

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

	2013	2012
Furniture, fixtures and equipment	$ 145,226	$ 142,235
Leasehold improvements	49,554	45,944
	194,780	188,179
Less: accumulated depreciation and amortization	128,609	133,190
Total	$ 66,171	$ 54,989

Depreciation and amortization expense relating to premises and equipment amounted to $21.0 million; $19.5 million and $19.2 million during the years ended December 31, 2013, 2012 and 2011, respectively, and is included in occupancy and equipment expense in the Consolidated Statements of Operations. During 2013, premises and equipment costs and related accumulated depreciation and amortization were reduced by $ 23.8 million and $22.8 million, respectively, for assets that are no longer in use.

INVESTMENT TECHNOLOGY GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(11) Capitalized Software

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

	2013	2012
Capitalized software costs	$ 88,912	$ 94,177
Less: accumulated amortization	51,020	50,183
Total	$ 37,892	$ 43,994

Software costs totaling $22.6 million and $24.6 million were capitalized in 2013 and 2012, respectively, related to the continued development of new features and functionalities across the entire ITG product line. During 2013, capitalized software costs and related accumulated amortization were each reduced by $27.5 million for fully amortized costs that are no longer in use.

As of December 31, 2013, capitalized software costs of $0.2 million were not subject to amortization as the underlying products were not yet available for release. As of December 31, 2012, there were no capitalized software costs not subject to amortization because all underlying products were available for release. Other general and administrative expenses in the Consolidated Statements of Operations included $28.5 million, $32.1 million and $35.7 million related to the amortization of capitalized software costs in 2013, 2012 and 2011, respectively.

(12) Accounts Payable and Accrued Expenses

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

	December 31, 2013	December 31, 2012
Accrued research payables	$ 52,015	$ 38,591
Accrued compensation and benefits	47,622	39,762
Trade payables	15,222	22,624
Accrued rent	19,938	10,947
Deferred revenue	12,533	12,177
Deferred compensation	4,552	4,650
Accrued restructuring	3,768	12,295
Accrued transaction processing	2,972	3,359
Other	17,309	20,657
Total	$ 175,931	$ 165,062

INVESTMENT TECHNOLOGY GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(13) Income Taxes

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

	2013	2012	2011
Current:			
Federal	$ 2,628	$ 416	$ (1,160)
State	1,634	782	1,282
Foreign	4,657	3,362	5,632
	8,919	4,560	5,754
Deferred:			
Federal	1,606	(19,423)	(25,146)
State	992	(7,565)	(8,409)
Foreign	453	(168)	962
	3,051	(27,156)	(32,593)
Total	$ 11,970	$ (22,596)	$ (26,839)

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

	2013	2012	2011
U.S.	$ 15,687	$ (248,101)	$ (222,337)
Foreign	27,368	(22,354)	15,709
Total	$ 43,055	$ (270,455)	$ (206,628)

INVESTMENT TECHNOLOGY GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

	2013	2012
Deferred tax assets:		
Compensation and benefits	$ 12,844	$ 9,474
Net operating loss and capital loss carryover	17,121	19,012
Share-based compensation	6,959	8,506
Allowance for doubtful accounts	889	1,149
Tax benefits on uncertain tax positions	2,697	2,696
Goodwill and other intangibles	21,138	24,746
Depreciation		649
Other	9,757	9,203
Total deferred tax assets	71,405	75,435
Less: valuation allowance	20,541	20,774
Total deferred tax assets, net of valuation allowance	50,864	54,661
Deferred tax liabilities:		
Depreciation	(3,916)	
Capitalized software	(12,838)	(15,226)
Other	(343)	(573)
Total deferred tax liabilities	(17,097)	(15,799)
Net deferred tax assets	$ 33,767	$ 38,862

The deferred tax assets and deferred tax liabilities above are presented on a net basis on the accompanying Statements of Financial Condition by tax jurisdictions in which the deferred tax assets and deferred tax liabilities relate to. At December 31, 2013, the Company believes that it is more likely than not that future reversals of its existing taxable temporary differences and the results of future operations will generate sufficient taxable income to realize the deferred tax assets, net of valuation allowance. The Company's valuation allowance is primarily the result of historical operating losses in the Asia Pacific entities, where we maintain a full valuation for all deferred tax assets and net operating losses and in certain entities in the European Operations where we currently have net operating losses.

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

	Amount	Years remaining
Hong Kong, Australia, U.K. and Ireland operating losses	$ 72,943	Indefinite
	$ 72,943	

INVESTMENT TECHNOLOGY GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

	2013	2012	2011
U.S. federal statutory income tax rate	35.0%	35.0%	35.0%
State and local income taxes, net of U.S. federal income tax effect	3.9	1.8	2.2
Foreign tax impact, net	(6.4)	(3.6)	(0.9)
Non-deductible costs *	1.0	(24.3)	(23.7)
Other, net	(5.7)	(0.5)	0.4
Effective income tax rate	27.8%	8.4%	13.0%

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* Non-deductible costs in 2012 and 2011 include goodwill impairment charges.

For the years ended December 31, 2013, 2012 and 2011, the tax benefits realized on the exercises of employee stock options and the vesting of employee restricted share awards in total were less than the deferred benefits that were recorded based on grant date fair values. The resulting net tax shortfalls on these awards, along with the impact of cancelled awards reduced additional paid-in capital by $1.5 million, $4.1 million and $3.3 million in 2013, 2012 and 2011, respectively. For further discussion, see Note 19, *Employee and Non-Employee Director Stock and Benefit Plans*.

Tax Uncertainties

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

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

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

Uncertain Tax Benefits	**2013**	**2012**	**2011**
Balance, January 1	$ 13,726	$ 14,542	$ 12,380
Additions based on tax positions related to the current year	404	568	2,402
Additions based on tax positions of prior years	434	857	647
Reductions for tax positions of prior years	(148)	(2,024)	(42)
Reductions due to settlements with taxing authorities	(124)	(217)	(516)
Reductions due to expiration of statute of limitations	(1,218)		(329)
Balance, December 31	$ 13,074	$ 13,726	$ 14,542

INVESTMENT TECHNOLOGY GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Included in the balance at December 31, 2013, 2012 and 2011, are $11.9 million, $12.4 million, and $12.0 million, respectively, of unrecognized tax benefits (net of federal benefits) which, if recognized, would affect the Company's effective tax rate.

With limited exception, the Company is no longer subject to U.S. federal, state, local or foreign income tax audits by taxing authorities for years preceding 2007. The Internal Revenue Service is currently examining the Company's U.S. federal income tax returns for 2007 through 2010. Certain state and local returns are also currently under various stages of audit. The Company does not anticipate a significant change to the total of unrecognized tax benefits within the next twelve months.

At December 31, 2013, interest expense of $3.8 million, gross of related tax effects of $1.6 million, was accrued related to unrecognized tax benefits. As a continuing policy, interest accrued related to unrecognized tax benefits is recorded as income tax expense. During 2013, 2012 and 2011, the Company recognized $0.5 million, $0.8 million and $0.7 million, respectively, of tax-related interest expense. No penalties were incurred during 2013, 2012 or 2011.

(14) Borrowings

Short Term Bank Loans

The Company's international securities clearance and settlement operations are funded with operating cash or with short-term bank loans in the form of overdraft facilities. At December 31, 2013, there was $38.5 million outstanding under these facilities for settlement transactions and margin requirements at a weighted average interest rate of approximately 2.2%.

The Company's U.S. securities clearance and settlement operations are funded with operating cash, securities loaned or with short-term bank loans.

ITG Inc., as borrower, and Investment Technology Group, Inc. ("Parent Company"), as guarantor, maintained a $150 million three-year revolving credit agreement ("Credit Agreement") with a syndicate of banks and JPMorgan Chase Bank, N.A., as Administrative Agent that matured on January 31, 2014 (see Note 24, *Subsequent Event*). The purpose of this credit line was 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. Under the Credit Agreement, interest accrued at a rate equal to (a) a base rate, determined by reference to the higher of the (1) federal funds rate or (2) the one month Eurodollar London Interbank Offered Rate (LIBOR) rate, plus (b) a margin of 2.50%. Available but unborrowed amounts under the Credit Agreement were subject to an unused commitment fee of 0.50%. Depending on the borrowing base, availability under the Credit Agreement was 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 included (a) negative covenants related to liens, (b) financial covenant requirements for maintaining a consolidated leverage ratio (as defined) and a liquidity ratio (as defined), as well as 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.

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

INVESTMENT TECHNOLOGY GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

At December 31, 2013 there was $35.0 million outstanding under the Credit Agreement. At December 31, 2012, there were no amounts outstanding.

Term Debt

The following is a summary of term debt at December 31 (dollars in thousands):

	2013	2012
Term loan	$ 9,020	$ 15,388
Obligations under capital leases	21,312	3,884
Total	$ 30,332	$ 19,272

On June 1, 2011, Parent Company as borrower, entered into a $25.5 million Master Loan and Security Agreement ("Term Loan Agreement") with Banc of America Leasing & Capital, LLC ("Bank of America"). The four-year term loan established under this agreement ("Term Loan") is secured by a security interest in existing furniture, fixtures and equipment owned by the Parent Company and certain U.S. subsidiaries as of June 1, 2011. The primary purpose of this financing was to provide capital for strategic initiatives. The events of default under the Term Loan Agreement include, among others, cross default on the Credit Agreement, default on payment, failure to maintain required equipment insurance, certain negative judgments and bankruptcy events. In the event of a default, the terms of the Term Loan Agreement require the Company to pay additional interest at a rate of 3.0% and, the lender may in its discretion terminate the loan agreement and declare all unpaid amounts outstanding to be immediately due and payable.

The Term Loan is payable in monthly principal installments of $530,600 and accrues interest at 3.0% plus the average one month LIBOR for dollar deposits. The remaining scheduled principal repayments are as follows (dollars in thousands):

Year	Aggregate Amount
2014	$ 6,367
2015	2,653
	$ 9,020

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

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

32

INVESTMENT TECHNOLOGY GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

applying the interest method to the estimated minimum lease payments are as follows (dollars in thousands):

Year	Aggregate Amount
2014	$ 1,086
2015	893
2016	237
	$ 2,216

On August 10, 2012, Parent Company entered into a $25.0 million master lease facility with BMO Harris Equipment Finance Company ("BMO") to finance equipment and construction expenditures related to the build-out of the Company's new headquarters in lower Manhattan. The facility contained an initial interim funding agreement, which was succeeded by a capital lease. During 2013, the Parent Company borrowed $20.6 million under the BMO facility following borrowings of $0.6 million in 2012.

Under the terms of the interim funding agreement, Parent Company was reimbursed for expenditures made during an interim funding period which ended on July 29, 2013 ("Interim Funding Period"). Interest-only payments on the aggregate outstanding borrowings during the Interim Funding Period were paid monthly at an annual rate of 2.25% plus the 30-day LIBOR. On July 29, 2013 the $21.2 million of interim borrowings were converted to a 3.39% fixed-rate term financing structured as a capital lease with a 48-month term, at the end of which Parent Company may purchase the underlying assets for $1. At December 31, 2013, there was $19.1 million outstanding under the BMO facility. The reductions to the remaining principal balance applying the interest method to the estimated minimum lease payments are as follows (dollars in thousands):

Year	Aggregate Amount
2014	$ 5,098
2015	5,274
2016	5,455
2017	3,269
	$ 19,096

The Term Loan, Master Lease Agreement and the BMO facility all required compliance with the financial covenants of the Credit Agreement while the Credit Agreement was outstanding (see Note 24, *Subsequent Event*).

Interest expense on the Credit Agreement, the Term Loan Agreement, the Master Lease Agreement and the BMO facility, including commitment fees and the amortization of debt issuance costs totaled $2.7 million $2.5 million and $2.0 million in 2013, 2012 and 2011, respectively.

INVESTMENT TECHNOLOGY GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(15) Accumulated Other Comprehensive Income

The components and allocated tax effects of accumulated other comprehensive income for the periods ended December 31, 2013 and 2012 are as follows (dollars in thousands):

	Before Tax Effects	Tax Effects	After Tax Effects
December 31, 2013			
Currency translation adjustment	$ 8,536	$	$ 8,536
Total	$ 8,536	$	$ 8,536
December 31, 2012			
Currency translation adjustment	$ 11,874	$	$ 11,874
Total	$ 11,874	$	$ 11,874

Deferred taxes have not been provided on the cumulative undistributed earnings of foreign subsidiaries or the cumulative translation adjustment related to those investments since such amounts are expected to be reinvested indefinitely.

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

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

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

INVESTMENT TECHNOLOGY GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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.

(17) 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 in the case of ITG Derivatives, $1 million, which is due to the fact that ITG Derivatives is a regulated Futures Commission Merchant pursuant to Commodity Futures Trading Commission Regulation 1.17. Dividends or withdrawals of capital cannot be made if capital is needed to comply with regulatory requirements.

Our net capital balances and the amounts in excess of required net capital at December 31, 2013 for our U.S. Operations are as follows (dollars in millions):

	Net Capital	Excess Net Capital
U.S. Operations		
ITG Inc.	$ 106.5	$ 105.5
AlterNet	5.9	5.8
ITG Derivatives	5.5	4.5

As of December 31, 2013, ITG Inc. had a $10.6 million cash balance in a Special Reserve Bank Account for the benefit of customers under the Customer Protection Rule pursuant to SEC

INVESTMENT TECHNOLOGY GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Rule 15c3-3, *Computation for Determination of Reserve Requirements* and $0.4 million under Proprietary Accounts for Introducing Brokers agreements.

In addition, the Company's Canadian, European and Asia Pacific Operations have subsidiaries with regulatory requirements. The net capital balances and the amount of regulatory capital in excess of the minimum requirements applicable to each business as of December 31, 2013, are summarized in the following table (dollars in millions):

	Net Capital	Excess Net Capital
Canadian Operations		
Canada	$ 43.9	$ 43.5
European Operations		
Europe	57.5	35.9
Asia Pacific Operations		
Australia	11.9	4.1
Hong Kong	28.3	21.0
Singapore	0.4	0.2

(18) Stockholders' Equity

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

Stock Repurchase Program

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

					Shares Repurchased Under Board Authorization		
Repurchase Program Authorization Date	**Expiration Date**	**Amount Authorized by Board (Shares in millions)**	**Total Shares Purchased (millions)**	**Shares Remaining Under Board Authorization (millions)**	**2013**	**2012**	**2011**
July 2010	none	4.0	4.0				2.9
October 2011	none	4.0	4.0		1.5	2.5	0.1
May 2013	none	4.0	0.5	3.5	0.5		
Total shares repurchased under authorization					2.0	2.5	3.0
Cost (millions)					$ 28.2	$ 23.5	$ 38.9
Average share price					$ 14.05	$ 9.50	$ 13.09

The Company also repurchased approximately 0.4 million, 0.3 million and 0.3 million shares of common stock during 2013, 2012 and 2011, respectively, to satisfy the minimum statutory employee withholding tax upon the net settlement of equity awards.

INVESTMENT TECHNOLOGY GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

The 2007 Omnibus Equity Compensation Plan (the "2007 Plan") was approved by the Company's stockholders and became effective on May 8, 2007 (the "Effective Date") and was last amended and restated effective February 5, 2014. As of the Effective Date, the Amended and Restated Investment Technology Group, Inc. Directors' Retainer Fee Subplan (the "Directors' Retainer Fee Subplan"), the Amended and Restated Investment Technology Group, Inc. Directors' Equity Subplan (the "Directors' Equity Subplan") and the Stock Unit Award Program Subplan, as amended and restated (the "SUA Subplan" and, collectively with the Directors' Retainer Fee Subplan and the Directors' Equity Subplan, the "Subplans") were merged with and into the 2007 Plan. Since the Effective Date, the Subplans (except for the SUA Subplan which was frozen on January 1, 2009 as described below) have continued to be, and shall continue to be, in effect as subplans of the 2007 Plan and grants and/or deferrals may continue to be made under the Directors' Equity Subplan and the Directors' Retainer Fee Subplan. In October 2008, the compensation committee adopted the Equity Deferral Award Program, another subplan under the 2007 Plan. This subplan was last amended and restated on February 5, 2014, is now known as the Variable Compensation Stock Unit Award Program Subplan, and continues to be a subplan under the 2007 Plan (the "VCSUA Subplan").

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

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

Under the 2007 Plan, the Company is permitted to grant performance-based stock options, in addition to time-based option awards to employees and directors, however the Company did not grant any performance-based option awards under the 2007 Plan during the three years ended December 31, 2013. The Company did not grant any time-based option awards during 2013. Time-based option awards either vest in full on the third anniversary of the grant or annually in three equal installments, beginning on the first anniversary of the date of grant, in each case, if the employee has remained continuously employed or if the director has continued to serve on the board of directors from the grant date to the applicable vesting date. The Company recognizes share-based compensation expense

INVESTMENT TECHNOLOGY GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(see Note 2, *Summary of Significant Accounting Policies*) for time-based option awards over the vesting period.

The tables below summarize the Company's stock options as of December 31, 2013, 2012 and 2011 and changes during the years then ended:

Options Outstanding	Number of Shares	Weighted Average Exercise Price
Outstanding at December 31, 2010	566,963	$ 32.30
Granted	252,464	17.16
Exercised	(111,792)	1.91
Forfeited	(180,665)	44.62
Outstanding at December 31, 2011	526,970	27.27
Granted		
Exercised		
Forfeited	(15,995)	43.15
Outstanding at December 31, 2012	510,975	26.77
Granted		
Exercised		
Forfeited	(167,649)	46.18
Outstanding at December 31, 2013	343,326	$ 17.29
Amount exercisable at December 31,		
2013	262,017	$ 17.28
2012	319,793	32.53
2011	221,344	41.18

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Number Outstanding	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
$12.17 - 17.44	128,348	0.70	$ 14.68	111,284	$ 15.07
17.45 - 18.71	192,733	2.89	18.71	128,488	18.71
18.72 - 20.09	22,245	0.03	20.09	22,245	20.09
	343,326	3.62	$ 17.29	262,017	$ 17.28

For the year ended December 31, 2013, the Company recorded share-based compensation expense of $0.6 million related to the Company's outstanding stock options, which was offset by related income tax benefits of approximately $0.3 million. For the year ended December 31, 2012, the Company recorded share-based compensation expense of $0.7 million related to the Company's outstanding stock options, which was offset by related income tax benefits of approximately $0.3 million. For the year ended December 31, 2011, the Company recorded an expense reversal of $0.2 million related to the recognition of forfeitures during the year, partially offset by income tax expense of $0.1 million.

The weighted average remaining contractual term of stock options currently exercisable is 3.31 years.

INVESTMENT TECHNOLOGY GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

All of the stock options outstanding at December 31, 2013 were time-based.

During 2013, no stock options were exercised and as a result the provision for income taxes did not include current tax benefits related to the exercise of stock options. During 2013, a tax shortfall related to cancellations of $0.3 million was recognized. During 2012, no stock options were exercised and as a result the provision for income taxes did not include current tax benefits related to the exercise of stock options. During 2012, a tax shortfall related to cancellations of $0.1 million was recognized. During 2011, only incentive stock options were exercised for which the Company does not receive a tax deduction.

The following table summarizes information about stock options at December 31, 2013, 2012 and 2011:

($ in thousands, except per share amounts)	**2013**	**2012**	**2011**
Total intrinsic value of stock options exercised			$ 1,978
Weighted average grant date fair value of stock options granted during period, per share			6.44
Cash received from stock option exercises			0.2

The total intrinsic value of outstanding and exercisable stock options at December 31, 2013 was $1.1 million and $0.9 million, respectively.

As of December 31, 2013, there was $0.1 million of total unrecognized compensation costs related to outstanding stock options. These costs are expected to be recognized ratably over a weighted average period of approximately 0.24 years.

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

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

Under the VCSUA Subplan, each eligible participant is granted a number of basic stock units on the date the year-end cash bonus would otherwise be paid to the participant equal to (i) the amount by which the participant's variable compensation is reduced as determined by the compensation committee, divided by (ii) the fair market value of a share of the Company's common stock on the date of grant. In addition, each participant is granted an additional number of matching stock units on the date of grant equal to 10% of the number of basic stock units granted (20% prior to 2012). Basic stock units under the VCSUA Subplan that are time-based vest in equal annual installments on each of the first, second and third anniversaries of the date of grant, if the participant remains continuously employed by the Company on each applicable vesting date. Matching stock units on time-based awards will vest 100% on the third anniversary of the date of grant, if the participant remains continuously

INVESTMENT TECHNOLOGY GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

employed by the Company through such vesting date. Basic units under the VCSUA Subplan that are market-based vest in equal installments on each of the second, third and fourth anniversaries of the date of grant so long as the award recipient is employed on the applicable vesting date and the 90- day average of the Company's common stock price preceding each of the vesting dates is greater than the 90-day average of the Company's common stock price preceding the grant date. Matching stock units on market-based awards will vest 100% on the fourth anniversary of the date of grant so long as the award recipient is employed on the applicable vesting date and the 90-day average of the Company's common stock price preceding the vesting date is greater than the 90-day average of the Company's common stock price preceding the grant date. All vested stock units are settled in shares of ITG common stock within 30 days after the date on which such matching stock units vest.

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

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

The Company recorded share-based compensation expense of $13.0 million ($0.4 million of which was recorded in restructuring charges), $12.4 million ($0.5 million of which was recorded in restructuring charges), and $20.6 million ($2.3 million of which was recorded in severance and restructuring charges) for the years ended December 31, 2013, 2012 and 2011, respectively, related to restricted share awards which were offset by related income tax benefits of approximately $5.2 million, $5.0 million and $8.4 million, respectively.

INVESTMENT TECHNOLOGY GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

A summary of the status of the Company's restricted share awards as of December 31, 2013, 2012 and 2011 and changes during the years then ended are presented below:

	Number of Shares underlying Performance-Based or Market-Based Restricted Stock Units	Number of Shares underlying Time-Based Restricted Stock Units	Total Number of Shares	Weighted Average Grant Date Fair Value
Outstanding at December 31, 2010	982,881	1,952,442	2,935,323	19.44
Granted	128,208	1,214,964	1,343,172	16.65
Vested	(66,271)	(776,782)	(843,053)	23.29
Forfeited	(252,760)	(127,378)	(380,138)	16.71
Outstanding at December 31, 2011	792,058	2,263,246	3,055,304	17.49
Granted	216,740	1,176,006	1,392,746	10.63
Vested	(86,769)	(963,991)	(1,050,760)	17.99
Forfeited	(244,198)	(91,757)	(335,955)	26.10
Outstanding at December 31, 2012	677,831	2,383,504	3,061,335	13.25
Granted	91,932	931,879	1,023,811	12.00
Vested	(64,865)	(1,138,277)	(1,203,142)	14.47
Forfeited	(246,155)	(197,622)	(443,777)	12.20
Outstanding at December 31, 2013	458,743	1,979,484	2,438,227	$ 12.31

At December 31, 2013, 45,668 of the outstanding restricted share awards were performance-based restricted stock units and 413,075 were market-based restricted stock units.

As of December 31, 2013, there was $13.6 million of total unrecognized compensation cost related to outstanding restricted share awards. These costs are expected to be recognized over a weighted average period of approximately 1.69 years. During 2013, restricted shares with a grant date fair value of approximately $15.7 million vested.

The provision for income taxes excludes excess current tax benefits related to the vesting of restricted share awards. There were no such tax benefits, but rather tax shortfalls of $1.2 million, $4.0 million and $2.2 million related to the vesting and cancellation of restricted share awards for the years ended December 31, 2013, 2012 and 2011, respectively. The tax shortfalls that occurred were the result of the tax deduction being less than the cumulative book compensation cost and are reflected as a decrease to additional paid-in capital.

Under the 2007 Plan and the VCSUA Subplan, the Company is permitted to grant phantom share awards. Phantom share awards vest like any other award granted under the 2007 Plan and VCSUA Subplan as described above and are settled in cash. The Company recognizes share-based compensation expense (see Note 2, *Summary of Significant Accounting Policies*) over the applicable vesting period. For the years ended December 31, 2013, 2012 and 2011, the Company recorded share-based compensation expense of $7.3 million, $2.6 million and $1.1 million, respectively related to phantom share awards offset by related tax benefits of $2.0 million, $0.7 million and $0.3 million, respectively.

INVESTMENT TECHNOLOGY GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

	Number of Shares	Weighted Average Grant Date Fair Value
Outstanding at December 31, 2010	259,370	18.51
Granted	205,760	18.67
Vested	(67,383)	19.21
Forfeited		
Outstanding at December 31, 2011	397,747	18.47
Granted	447,353	11.33
Vested	(135,049)	19.46
Forfeited	(14,341)	17.21
Outstanding at December 31, 2012	695,710	13.72
Granted	249,365	12.01
Vested	(245,296)	14.52
Forfeited	(28,017)	14.92
Outstanding at December 31, 2013	671,762	$ 12.74

At December 31, 2013, 74,207 of the outstanding phantom share awards were market-based.

As of December 31, 2013, there was $6.9 million of total unrecognized compensation cost related to grants of phantom share awards. These costs are expected to be recognized over a weighted average period of approximately 1.68 years. Effective January 1, 2014, the Company will no longer be granting phantom share awards.

SUA Subplan

Effective June 30, 2003, employees earning total cash compensation per annum of $200,000 and greater participated in the SUA Subplan, a mandatory tax- deferred compensation program, which merged into the 2007 Plan as referenced above. Under the SUA Subplan, these employee participants were required to defer receipt of (and thus taxation on) a graduated portion of participants' total cash compensation for units representing the Company's common stock equal in value to 130% of the compensation deferred. The units representing 100% of the total compensation deferred were at all times fully vested and non- forfeitable; however the units were restricted to settlement to common shares half of which were distributed on the third anniversary of the deferral and the remaining half on the sixth anniversary of the deferral. The match representing 30% of the compensation deferred was contingent only on employment with the Company and vested 50% on the third anniversary of the deferral and the remaining 50% on the sixth year of the deferral.

Effective January 1, 2006, the SUA Subplan was amended to make participation in the plan among eligible participants (employees earning total cash compensation per annum of $200,000 and greater) elective, rather than mandatory. In addition, beginning January 1, 2006, the plan deferred receipt of (and thus taxation on) a graduated portion of participants' total cash compensation for units representing the Company's common stock equal in value to 120% of the compensation deferred. The units representing 100% of the total compensation deferred were at all times fully vested and non-forfeitable; however the units were restricted to settlement to common shares distributed in whole

INVESTMENT TECHNOLOGY GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

on the third anniversary of the deferral. The match representing 20% of the compensation deferred was contingent only on employment with the Company and vested 100% on the third anniversary of the deferral.

Effective January 1, 2009, the SUA Subplan was further amended and restated. The amendment froze the SUA Subplan such that it did not apply to compensation earned for any calendar year after 2008 and provided participants with a special transition election with respect to cessation of participation in the SUA Subplan for bonus payments for 2008 that were due after December 31, 2008 and on or before March 15, 2009. Certain other amendments were made to the SUA Subplan in order to comply with section 409A of the Internal Revenue Code.

While the Company did not record any additional share-based compensation costs during 2013 or 2012, approximately $0.2 million was reversed in 2011 as a result of forfeitures. Related income tax expense of less than $0.1 million was also recorded during 2011.

A summary of activity under the SUA Subplan is as follows:

	Number of Shares	Weighted Average Grant Date Fair Value
Outstanding at December 31, 2010	364,167	29.82
Granted		
Vested	(288,917)	28.98
Forfeited	(3,670)	15.40
Outstanding at December 31, 2011	71,580	33.95
Granted		
Vested	(71,580)	33.95
Forfeited		
Outstanding at December 31, 2012		
Granted		
Vested		
Forfeited		
Outstanding at December 31, 2013		$

Shares issued under the SUA Subplan are from common shares held in treasury, to the extent available.

ITG Employee and Non-Employee Director Benefit Plans

All U.S. employees are eligible to participate in the Investment Technology Group, Inc. Retirement Savings Plan ("RSP"). The RSP applies to all eligible compensation up to the Internal Revenue Service annual maximum which was $255,000 during 2013. Prior to January 1, 2011, the RSP's features included a guaranteed Company contribution of 3% of eligible compensation, a discretionary Company contribution between 0% and 8% of eligible compensation based on consolidated Company profits for the year and a $66^2/_3$% Company matching contribution applied to a maximum of 6% of eligible compensation per year. Effective as of January 1, 2011, the guaranteed Company contribution of 3% was eliminated, and until December 31, 2011, the Company matching contribution applied to 50% of voluntary employee contributions, on a maximum of 6% of eligible compensation per year. Effective as

INVESTMENT TECHNOLOGY GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

of January 1, 2012, the Company matching contribution applies to 50% of voluntary employee contributions, on a maximum of 4% of eligible compensation per year. The Company may still make discretionary contributions based on consolidated profits. Most of the Company's international employees are eligible to participate in similar defined contribution plans. The costs for these benefits were approximately $4.6 million, $5.5 million and $6.6 million in 2013, 2012 and 2011, respectively, and are included in compensation and employee benefits in the Consolidated Statements of Operations.

Non-employee directors receive an annual retainer fee of $60,000, with the exception of the chairman who receives $160,000 under the Directors' Retainer Fee Subplan, which was adopted in 2002. This retainer fee is payable, at the election of each director, either in (i) cash, (ii) Company common stock with a value equal to the retainer fee on the grant date or (iii) under a deferred compensation plan which provides deferred share units with a value equal to the retainer fee on the grant date which convert to freely sellable shares when the director retires from the Board of Directors. Directors who chose common stock or deferred share units, in the aggregate, received 33,010 units or shares, 39,571 units or shares, and 29,347 units in 2013, 2012 and 2011, respectively. At December 31, 2013, there were 131,855 deferred share units outstanding. The cost of the Directors' Retainer Fee Subplan was approximately $714,000, $854,000, and $769,000 in 2013, 2012 and 2011, respectively, and is included in other general and administrative expenses in the Consolidated Statements of Operations.

In November 1997, the Board of Directors approved the ITG Employee Stock Purchase Plan ("ESPP"), an employee stock purchase plan qualified under Section 423 of the Internal Revenue Code. The ESPP became effective February 1, 1998 and allows all full-time employees to purchase shares of ITG common stock at a 15% discount through automatic payroll deductions. In accordance with the provisions of ASC 718, the ESPP is compensatory. The Company recorded share-based compensation expense related to the ESPP of $242,000, $390,000, and $451,000 for the years ended December 31, 2013, 2012 and 2011, respectively. Shares distributed under the ESPP are newly-issued shares.

(20) Earnings (Loss) Per Share

The following is a reconciliation of the basic and diluted earnings per share computations for the years ended December 31 (dollars in thousands, except per share amounts):

	2013	2012	2011
Net income (loss) for basic and diluted earnings per share	$ 31,085	$ (247,859)	$ (179,789)
Shares of common stock and common stock equivalents:			
Weighted average shares basic	36,788	38,418	40,691
Effect of dilutive securities	1,326		
Weighted average shares diluted	38,114	38,418	40,691
Earnings (loss) per share:			
Basic	$ 0.84	$ (6.45)	$ (4.42)
Diluted	$ 0.82	$ (6.45)	$ (4.42)

At December 31, 2013 approximately 0.2 million share equivalents (based on the treasury stock method) were not included in the computation of diluted earnings per share because their effects

INVESTMENT TECHNOLOGY GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

would have been anti-dilutive. The impact of all 3.6 million common stock equivalents in both 2012 and 2011 was anti-dilutive due to the fact that the Company reported a loss.

(21) Commitments and Contingencies

Legal Matters

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

Lease Commitments

The Company has entered into lease and sublease agreements with third parties for certain offices and equipment, which expire at various dates through 2029. Rent expense for each of the years ended December 31, 2013, 2012 and 2011 was $17.6 million, $13.2 million and $12.9 million, respectively, and is recorded in occupancy and equipment expense in the Consolidated Statements of Operations. Rent expense for 2013 includes duplicate rent charges of $2.6 million while the Company built-out its new headquarters and a charge of $2.3 million recorded in the second quarter of 2013 for the remaining rent expense at its old headquarters upon completion of the move. Rent expense for 2012 includes duplicate rent charges of $1.4 million. The Company recognizes rent expense for escalation clauses, rent holidays, leasehold improvement incentives and other concessions using the straight-line method over the minimum lease term. Minimum future rental commitments under non-cancelable operating leases follow (dollars in thousands):

Year Ending December 31,	
2014	16,265
2015	16,288
2016	15,144
2017	9,367
2018	8,841
2019 and thereafter	74,228
Total	$ 140,133

Other Commitments

Pursuant to employment arrangements, in the event of termination of employment without cause on December 31, 2013, the Company would be obligated to pay separation payments totaling $4.8 million.

Pursuant to contracts expiring through 2018, the Company is obligated to purchase market data, maintenance and other services totaling $55.5 million.

INVESTMENT TECHNOLOGY GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(22) Segment Reporting

The Company is organized into four geographic operating segments through which the Company's chief operating decision maker manages the Company's business. The U.S., Canadian, European and Asia Pacific Operations segments provide the following types 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 asset plays, and (b) portfolio trading and high-touch trading desks providing execution expertise and trading ideas based on investment research

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

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

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

INVESTMENT TECHNOLOGY GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

	U.S. Operations	Canadian Operations	European Operations	Asia Pacific Operations	Consolidated
2013					
Total revenues	$ 318,036	$ 74,994	$ 91,792	$ 45,979	$ 530,801
Income (loss) before income tax expense (1) (2) (3)	15,687	11,441	18,106	(2,179)	43,055
Identifiable assets	1,183,986	88,503	508,625	428,773	2,209,887
Capital purchases	28,367	1,188	3,323	671	33,549
Depreciation and amortization	43,017	3,437	6,012	1,140	53,606
Share-based compensation	10,932	6,852	2,223	854	20,861
2012					
Total revenues	$ 321,379	$ 76,913	$ 67,266	$ 38,878	$ 504,436
(Loss) income before income tax expense (1) (2) (4)	(248,101)	10,397	(24,350)	(8,401)	(270,455)
Identifiable assets	1,238,822	99,625	518,335	339,977	2,196,759
Capital purchases	29,159	2,575	923	767	33,424
Depreciation and amortization	44,585	3,711	6,918	1,279	56,493
Share-based compensation	10,449	2,543	2,091	545	15,628
2011					
Total revenues	$ 375,521	$ 85,550	$ 70,670	$ 40,296	$ 572,037
(Loss) income before income tax expense (1) (5) (6)	(222,337)	20,035	2,263	(6,589)	(206,628)
Identifiable assets	1,351,062	83,453	336,454	407,100	2,178,069
Capital purchases	18,684	1,525	1,448	1,200	22,857
Depreciation and amortization	47,004	2,882	7,636	1,535	59,057
Share-based compensation	16,436	1,076	1,509	1,135	20,156

(1) In 2013, the Company incurred $1.6 million to implement a restructuring plan to close its technology research and development facility in Israel and migrate that function to an outsourced service provider model effective January 1, 2014. This plan primarily focused on reducing costs by limiting ITG's geographic footprint while maintaining the necessary technological expertise via a consulting arrangement. The Company also reduced previously-recorded 2012 and 2011 restructuring accruals of $1.6 million to reflect the sub-lease of previously-vacated office space and certain legal and other employee-related charges deemed unnecessary. During 2012, ITG implemented a restructuring plan to reduce operating costs by reducing workforce, market data and other general and administrative costs across ITG's businesses. The $9.5 million charge consisted entirely of employee separation costs. In 2011, the Company implemented a restructuring plan to improve margins and enhance shareholder returns primarily focused on reducing costs in workforce, consulting and infrastructure in the U.S. and Europe. The cost reduction plan resulted in a restructuring charge totaling $24.4 million for employee separation and lease consolidation costs.

(2) During 2012, ITG began to build out and ready its new lower Manhattan headquarters while continuing to occupy its then-existing headquarters in midtown Manhattan and as a result incurred duplicate rent charges of $2.6 million in 2013 and $1.4 million in 2012.

INVESTMENT TECHNOLOGY GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(3) In the second quarter of 2013, ITG moved into its new headquarters and incurred a non-operating charge of $3.9 million, which included a reserve for the remaining lease obligation for the previous midtown Manhattan headquarters.

(4) Loss before tax expense in 2012 includes the impact of a $274.3 million goodwill impairment charge. The segment breakdown of this charge is as follows: U.S. Operations $245.1 million, European Operations $28.5 million and Asia Pacific Operations $0.7 million.

(5) In 2011, goodwill with a carrying value of $470.1 million in the U.S. operating segment was deemed impaired and its fair value was determined to be $245.1 million, resulting in an impairment charge of $225.0 million. Also during 2011, the Company determined that the carrying value of its investment in Disclosure Insight, Inc. was fully impaired, resulting in a write-off of $4.3 million.

(6) During 2011, the Company acquired Ross Smith Energy Group Ltd., a Calgary-based independent provider of research on the oil and gas industry. In connection with the acquisition, the Company incurred acquisition-related costs of $2.5 million, including legal fees, contract settlement costs and other professional fees.

The table below details the total revenues for the products and services provided by our geographic segments (dollars in thousands):

	Year Ended December 31,	
	2013	2012
Revenues:		
Electronic Brokerage	$ 279,830	$ 250,882
Research, Sales and Trading	107,383	106,427
Platforms	96,127	99,334
Analytics	46,004	46,508
Corporate (non-product)	1,457	1,285
Total Revenues	$ 530,801	$ 504,436

Prior to 2012, the Company considered all of its products and services as part of one integrated offering from each of its geographic segments. As a result, revenues by types of products and services for 2011 are not available.

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

	2013	2012	2011
Long-lived Assets at December 31,			
United States	$ 116,812	$ 115,726	$ 360,309
Canada	5,676	7,174	6,873
Europe	11,413	10,260	40,052
Asia Pacific	2,046	2,305	3,162
Total	$ 135,947	$ 135,465	$ 410,396

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

INVESTMENT TECHNOLOGY GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(23) Supplementary Financial Information (unaudited)

The following tables set forth certain unaudited financial data for the Company's quarterly operations in 2013 and 2012. The following information has been prepared on the same basis as the annual information presented elsewhere in this report and, in the opinion of management, includes all adjustments, consisting only of normal recurring adjustments, necessary for a fair presentation of the information for the quarterly periods presented. The operating results for any quarter are not necessarily indicative of results for any future period.

	(Unaudited) December 31, 2013				(Unaudited) December 31, 2012			
$ in thousands, expect per share amounts	**Fourth Quarter**	**Third Quarter**	**Second Quarter**	**First Quarter**	**Fourth Quarter**	**Third Quarter**	**Second Quarter**	**First Quarter**
Total revenues	$ 131,900	$ 127,558	$ 139,293	$ 132,050	$ 121,534	$ 119,617	$ 126,910	$ 136,375
Expenses:								
Compensation and employee benefits	50,839	49,664	51,202	49,549	47,100	47,135	49,540	52,587
Transaction processing	19,971	19,790	22,499	21,532	19,965	19,336	19,649	22,223
Occupancy and equipment	15,940	15,821	20,720	16,541	16,892	16,033	15,063	14,649
Telecommunications and data processing services	13,142	12,649	13,718	14,098	15,037	15,034	14,712	15,067
Other general and administrative	20,544	18,351	19,760	18,776	21,049	21,220	23,597	22,677
Goodwill and other asset impairment							274,285	
Restructuring charges			(75)		9,499			
Interest expense	821	593	699	602	562	678	624	678
Total expenses	121,257	116,868	128,523	121,098	130,104	119,436	397,470	127,881
Income (loss) before income tax expense	10,643	10,690	10,770	10,952	(8,570)	181	(270,560)	8,494
Income tax expense (benefit)	981	2,975	5,684	2,330	(2,117)	(51)	(23,464)	3,036
Net income (loss)	$ 9,662	$ 7,715	5,086	$ 8,622	$ (6,453)	232	$ (247,096)	$ 5,458
Basic earnings (loss) per share	$ 0.27	$ 0.21	$ 0.14	$ 0.23	$ (0.17)	$ 0.01	$ (6.40)	$ 0.14
Diluted earnings (loss) per share	$ 0.26	$ 0.20	$ 0.13	$ 0.22	$ (0.17)	$ 0.01	$ (6.40)	$ 0.14
Basic weighted average number of common shares outstanding	36,287	36,544	36,956	37,378	37,709	38,301	38,607	39,112

Diluted weighted average number of common shares outstanding	37,685	37,781	38,000	38,615	37,709	39,252	38,607	40,303

INVESTMENT TECHNOLOGY GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

	(Unaudited) December 31, 2013				(Unaudited) December 31, 2012			
As a percentage of Total Revenues	**Fourth Quarter**	**Third Quarter**	**Second Quarter**	**First Quarter**	**Fourth Quarter**	**Third Quarter**	**Second Quarter**	**First Quarter**
Total revenues	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Expenses:								
Compensation and employee benefits	38.5	38.9	36.8	37.5	38.8	39.4	39.0	38.6
Transaction processing	15.1	15.5	16.2	16.3	16.4	16.2	15.5	16.3
Occupancy and equipment	12.1	12.4	14.9	12.5	13.9	13.4	11.9	10.7
Telecommunications and data processing services	10.0	9.9	9.8	10.7	12.4	12.6	11.6	11.0
Other general and administrative	15.6	14.4	14.2	14.2	17.3	17.7	18.6	16.6
Goodwill and other asset impairment							216.1	
Restructuring charges			(0.1)		7.8			
Interest expense	0.6	0.5	0.5	0.5	0.5	0.6	0.5	0.5
Total expenses	91.9	91.6	92.3	91.7	107.1	99.8	313.2	93.8
Income (loss) before income tax expense	8.1	8.4	7.7	8.3	(7.1)	0.2	(213.2)	6.2
Income tax expense (benefit)	0.7	2.3	4.1	1.8	(1.7)	(0.0)	(18.5)	2.2
Net income (loss)	7.3%	6.0%	3.7%	6.5%	(5.3)%	0.2%	(194.7)%	4.0%

(24) Subsequent Event

On January 31, 2014, ITG Inc. as borrower, and Parent Company as guarantor entered into a new $150 million two-year revolving credit agreement (the "New Credit Agreement") with a syndicate of banks and JPMorgan Chase Bank, N.A., as Administrative Agent. The New Credit Agreement includes an accordion feature that allows for potential expansion of the facility up to $225 million. The terms and conditions of the New Credit Agreement are substantially the same as the initial Credit Agreement that matured on January 31, 2014 (see Note 14, *Borrowings*).

The Term Loan, Master Lease Agreement and the BMO facility were all amended in January 2014 to require compliance with the financial covenants of the New Credit Agreement for as long as the New Credit Agreement is outstanding.

Item 9A. Controls and Procedures

Conclusion Regarding the Effectiveness of Disclosure Controls and Procedures

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

Changes in Internal Control over Financial Reporting

There were no changes in the Company's internal control over financial reporting that occurred during the quarter ended December 31, 2013 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Management's Report on Internal Control Over Financial Reporting

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

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

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

The effectiveness of ITG's internal control over financial reporting as of December 31, 2013 has been audited by KPMG LLP, ITG's independent registered public accounting firm, as stated in their report on the following page, which expressed an unqualified opinion on the effectiveness of ITG's internal control over financial reporting as of December 31, 2013.

Report of Independent Registered Public Accounting Firm

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

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

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

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

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

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

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated statements of financial condition of Investment Technology Group, Inc. and Subsidiaries as of December 31, 2013 and 2012, and the related consolidated statements of operations, comprehensive income (loss), changes in stockholders' equity and cash flows for each of the years in the three-year period ended December 31, 2013, and our report dated March 17, 2014 expressed an unqualified opinion on those consolidated financial statements.

/s/ KPMG LLP

New York, New York

March 17, 2014

PART IV

Item 15. Exhibits, Financial Statement Schedules

(a)(1) Financial Statements

Included in Part II of this report:

(a)(2) Schedules

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

(a)(3) Exhibits

Exhibits Number		Description
3.1		Certificate of Incorporation of the Company (incorporated by reference as Exhibit 3.1 to the Annual Report on Form 10-K for the year ended December 31, 1999).
3.2		Amended and Restated By-laws of the Company (incorporated by reference as Exhibit 3 to the Form 8-K dated February 15, 2007).
4.1		Form of Certificate for Common Stock of the Company (incorporated by reference as Exhibit 4.1 to the Annual Report on Form 10-K for the year ended December 31, 1999).
10.1	+	Credit Agreement, dated January 31, 2011 by and among ITG Inc., Investment Technology Group, Inc., the several banks and other financial institutions or entities from time to time parties thereto as lenders, Bank of America, N.A., as syndication agent, Bank of Montreal as document agent, and JPMorgan Chase Bank, N.A. as administrative agent (incorporated by reference as Exhibit 10.2 to the Annual Report on Form 10-K for the year ended December 31, 2010).
10.2	×	Credit Agreement, dated January 31, 2014 by and among ITG Inc., Investment Technology Group, Inc., the several banks and other financial institutions or entities from time to time parties thereto as lenders, Bank of America, N.A. and Bank of Montreal, as syndication agents, and JPMorgan Chase Bank, N.A. as administrative agent (incorporated by reference as Exhibit 10.2 to the Annual Report on Form 10-K for the year ended December 31, 2013).
10.3		Lease, dated October 4, 1996 between Spartan Madison Corp. and the Company (incorporated by reference as Exhibit 10.5.3 to the Annual Report on Form 10-K for the year ended December 31, 1997).
10.3.1		First Supplemental Agreement, dated as of January 29, 1997 between Spartan Madison Corp. and the Company (incorporated by reference as Exhibit 10.5.4 to the Annual Report on Form 10-K for the year ended December 31, 1997).
10.3.2		Second Supplemental Agreement, dated as of November 25, 1997 between Spartan Madison Corp. and the Company (incorporated by reference as Exhibit 10.5.5 to the Annual Report on Form 10-K for the year ended December 31, 1997).
10.3.3		Third Supplemental Agreement, dated as of September 29, 1999 between Spartan Madison Corp. and the Company (incorporated by reference as Exhibit 10.5.9 to the Annual Report on Form 10-K for the year ended December 31, 1999).
10.3.4		Fourth Supplemental Agreement, dated as of February 21, 2006 between TAG 380, LLC and the Company (incorporated by reference as Exhibit 10.4.17 to the Annual Report on Form 10-K for the year ended December 31, 2006).
10.4		Lease, dated as of February 24, 2012, between Brookfield Properties OLP Co. LLC and Investment Technology Group, Inc. (incorporated by reference as Exhibit 10.47 to the Annual Report on Form 10-K for the year ended December 31, 2011).
10.5		Amended and Restated Investment Technology Group, Inc. Pay-For-Performance Incentive Plan (incorporated by reference as Exhibit 10.13.2 to the Annual Report on Form 10-K for the year ended December 31, 2007).
10.5.1		Amended and Restated Investment Technology Group, Inc. Pay-For-Performance Incentive Plan (2014) (incorporated by reference as Exhibit 10.5.1 to the Annual Report on Form 10-K for the year ended December 31, 2013).

Exhibits Number	Description
10.6	Investment Technology Group, Inc. Amended and Restated 2007 Omnibus Equity Compensation Plan (incorporated by reference as Exhibit 10.1 to the Quarterly Report on Form 10-Q dated August 5, 2010).
10.6.1	Investment Technology Group, Inc. Amended and Restated 2007 Omnibus Equity Compensation Plan (2014) (incorporated by reference as Exhibit 10.6.1 to the Annual Report on Form 10-K for the year ended December 31, 2013).
10.7	Form of Investment Technology Group, Inc. Stock Unit Grant Agreement for Employees (incorporated by reference as Exhibit 10.25 to the Annual Report on Form 10-K for the year ended December 31, 2007).
10.7.1	Form of Investment Technology Group, Inc. Stock Unit Grant Agreement for Employees (2014) (incorporated by reference as Exhibit 10.7.1 to the Annual Report on Form 10-K for the year ended December 31, 2013).
10.8	Form of Investment Technology Group, Inc. Performance Stock Unit Grant Agreement for Employees (incorporated by reference as Exhibit 10.26 to the Annual Report on Form 10-K for the year ended December 31, 2007).
10.9	Form of Investment Technology Group, Inc. Nonqualified Stock Option Agreement for Employees (incorporated by reference as Exhibit 10.24 to the Annual Report on Form 10-K for the year ended December 31, 2007).
10.10	Investment Technology Group, Inc. 2007 Omnibus Equity Compensation Plan Equity Deferral Award Program Subplan (incorporated by reference as Exhibit 10.37 to the Annual Report on Form 10-K for the year ended December 31, 2009).
10.10.1	Investment Technology Group, Inc. 2007 Omnibus Equity Compensation Plan Variable Compensation Stock Unit Award Program Subplan (formerly the Equity Deferral Award Program Subplan) (incorporated by reference as Exhibit 10.2 to the Quarterly Report on Form 10-Q dated November 8, 2011).
10.10.2	Amended and Restated Investment Technology Group, Inc. 2007 Omnibus Equity Compensation Plan Variable Compensation Stock Unit Award Program Subplan (formerly the Equity Deferral Award Program Subplan) (2014) (incorporated by reference as Exhibit 10.10.2 to the Annual Report on Form 10-K for the year ended December 31, 2013).
10.11	Form of Grant Notice under the Investment Technology Group, Inc. Equity Deferral Award Program Subplan between the Company and certain employees of the Company (2010) (incorporated by reference as Exhibit 10.38 to the Annual Report on Form 10-K for the year ended December 31, 2009).
10.12	Form of KEEP Grant Notice under the Investment Technology Group, Inc. Equity Deferral Award Program Subplan between the Company and Executive Committee Members of the Company (2010) (incorporated by reference as Exhibit 10.3 to the Quarterly Report on Form 10-Q dated May 10, 2010).
10.13	Form of Grant Notice under the Investment Technology Group, Inc. Equity Deferral Award Program Subplan between the Company and certain employees of the Company (2011) (incorporated by reference as Exhibit 10.43 to the Annual Report on Form 10-K for the year ended December 31, 2010).
10.14	Form of KEEP Grant Notice under the Investment Technology Group, Inc. Equity Deferral Award Program Subplan between the Company and Executive Committee Members of the Company (2011) (incorporated by reference as Exhibit 10.44 to the Annual Report on Form 10-K for the year ended December 31, 2010).

Exhibits Number	Description
10.15	Form of Grant Notice under the Investment Technology Group, Inc. Variable Compensation Stock Unit Award Program Subplan between the Company and certain employees of the Company (incorporated by reference as Exhibit 10.43 to the Annual Report on Form 10-K for the year ended December 31, 2011).
10.16	Form of KEEP Grant Notice under the Investment Technology Group, Inc. Variable Compensation Stock Unit Award Program Subplan between the Company and Executive Committee Members of the Company (incorporated by reference as Exhibit 10.44 to the Annual Report on Form 10-K for the year ended December 31, 2011).
10.17	Form of Grant Notice under the Investment Technology Group, Inc. Variable Compensation Stock Unit Award Program Subplan between the Company and certain employees of the Company (2014) (incorporated by reference as Exhibit 10.17 to the Annual Report on Form 10-K for the year ended December 31, 2013).
10.18	Form of Grant Notice under the Investment Technology Group, Inc. Variable Compensation Stock Unit Award Program Subplan between the Company and Executive Committee Members of the Company (2014) (incorporated by reference as Exhibit 10.18 to the Annual Report on Form 10-K for the year ended December 31, 2013).
10.19	Amended and Restated Investment Technology Group, Inc. Employee Stock Purchase Plan (incorporated by reference as Exhibit 10.19 to the Annual Report on Form 10-K for the year ended December 31, 2013).
10.20	Investment Technology Group, Inc. Deferred Compensation Plan, dated as of January 1, 1999 (incorporated by reference as Exhibit 10.4.7 to the Annual Report on Form 10-K for the year ended December 31, 1999).
10.21	Sixth Amended and Restated Stock Unit Award Program Subplan (incorporated by reference as Exhibit 10.3.21 to the Annual Report on Form 10-K for the year ended December 31, 2006).
10.21.1	Amended and Restated Investment Technology Group, Inc. Stock Unit Award Program Subplan (incorporated by reference as Exhibit 10.3 to Form 10-Q dated November 8, 2007).
10.21.2	Amended and Restated Investment Technology Group, Inc. Stock Unit Award Program Subplan (incorporated by reference as Exhibit 10.14.2 to the Annual Report on Form 10-K for the year ended December 31, 2007).
10.21.3	Amended and Restated Investment Technology Group, Inc. Stock Unit Award Program Subplan (incorporated by reference as Exhibit 10.2 to the Form 8-K dated October 14, 2008).
10.22	Form of Amended and Restated Change in Control Agreement (incorporated by reference as Exhibit 10.10 to the Annual Report on Form 10-K for the year ended December 31, 2010).
10.23	Amended and Restated Investment Technology Group, Inc. Directors' Retainer Fee Subplan (incorporated by reference as Exhibit 10.19.2 to the Annual Report on Form 10-K for the year ended December 31, 2007).
10.24	Amended and Restated Investment Technology Group, Inc. Directors' Equity Subplan (incorporated by reference as Exhibit 10.5.3 to the Annual Report on Form 10-K for the year ended December 31, 2007).
10.24.1	Amended and Restated Investment Technology Group, Inc. Directors' Equity Subplan (incorporated by reference as Exhibit 10.1 to the Quarterly Report on Form 10-Q for the quarter ended March 31, 2012).

Exhibits Number		Description
10.25		Form of Investment Technology Group, Inc. Stock Unit Grant Agreement for Non-Employee Directors (incorporated by reference as Exhibit 10.4 to Form 10-Q dated November 8, 2007).
10.26		Form of Investment Technology Group, Inc. Stock Unit Grant Agreement (Annual Stock Units) for Non-Employee Directors (incorporated by reference as Exhibit 10.2 to the Quarterly Report on Form 10-Q for the quarter ended March 31, 2012).
10.27		Form of Investment Technology Group, Inc. Non-Qualified Stock Option Grant Agreement for Non-Employee Directors (incorporated by reference as Exhibit 10.7 to Form 10-Q dated November 8, 2007).
10.28		Amended and Restated Employment Agreement, dated April 20, 2010, between Investment Technology Group, Inc. and Robert C. Gasser (incorporated by reference as Exhibit 10.1 to the Quarterly Report on Form 10-Q dated May 10, 2010).
10.29		Form of Non-Qualified Stock Option Grant Agreement between Investment Technology Group, Inc and Robert C. Gasser (incorporated by reference as Exhibit 10.36 to the Annual Report on Form 10-K for the year ended December 31, 2007).
10.30		Offer letter dated December 21, 2009 between Steven R. Vigliotti and Investment Technology Group, Inc. (incorporated by reference as Exhibit 10.40 to the Annual Report on Form 10-K for the year ended December 31, 2009).
10.31		Amended and Restated Employee Advisor Agreement, dated May 30, 2008, between Investment Technology Group, Inc. and Raymond L. Killian, Jr. (incorporated by reference as Exhibit 10.1 to Form 10-Q dated August 7, 2008).
10.32		Separation Agreement dated as of February 3, 2010 between Howard C. Naphtali and Investment Technology Group, Inc. (incorporated by reference as Exhibit 10.40 to the Annual Report on Form 10-K for the year ended December 31, 2011).
10.33		Retirement Agreement and General Release, effective August 1, 2011 between Christopher Heckman and Investment Technology Group, Inc. (incorporated by reference as Exhibit 10.30 to the Annual Report on Form 10-K for the year ended December 31, 2012)
10.34		Offer Letter dated as of September 14, 2011 between David J. Stevens and Investment Technology Group, Inc. (incorporated by reference as Exhibit 10.3 to the Quarterly Report on Form 10-Q dated November 8, 2011).
10.35	^	Agreement, effective December 24, 2012, between David J. Stevens and Investment Technology Group, Inc. (incorporated by reference as Exhibit 10.32 to the Annual Report on Form 10-K for the year ended December 31, 2012)
21.1		Subsidiaries of Company (incorporated by reference as Exhibit 21.1 to the Annual Report on Form 10-K for the year ended December 31, 2013).
23.1	*	Consent of KPMG LLP.
31.1	*	Rule 13a-14(a) Certification.
31.2	*	Rule 13a-14(a) Certification.
32.1	*	Section 1350 Certification.
101.INS	*	XBRL Report Instance Document.
101.SCH	*	XBRL Taxonomy Extension Schema Document.
101.PRE	*	XBRL Taxonomy Presentation Linkbase Document.
101.CAL	*	XBRL Calculation Linkbase Document.

Exhibits Number		Description
101.LAB	*	XBRL Taxonomy Label Linkbase Document.
101.DEF	*	XBRL Taxonomy Extension Definition Linkbase Document.

* Filed herewith.

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

× Portions of this agreement have been omitted pursuant to a request for confidential treatment filed on March 11, 2014.

^ Portions of this agreement have been omitted pursuant to a request for confidential treatment filed on March 5, 2013.

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

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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.

By: /s/ STEVEN R. VIGLIOTTI

Steven R. Vigliotti
Chief Financial Officer and
Duly Authorized Signatory of Registrant

Dated: April 11, 2014