

INVESTMENT TECHNOLOGY GROUP INC
Form 10-K
March 06, 2013

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

FORM 10-K

(Mark One)

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

For the fiscal year ended December 31, 2012

**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
(State of incorporation)

95-2848406
(IRS Employer Identification No.)

380 Madison Avenue, New York, New York
(Address of principal executive offices)

10017
(Zip Code)

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

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

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

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

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

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

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

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

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

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

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

Large accelerated filer <input type="checkbox"/>	Accelerated filer <input checked="" type="checkbox"/>	Non-accelerated filer <input type="checkbox"/>	Smaller reporting company <input type="checkbox"/>
		(Do not check if a smaller reporting company)	

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

Yes No

Aggregate market value of the voting stock held by non-affiliates of the Registrant at June 30, 2012:
\$349,526,796

Number of shares outstanding of the Registrant's Class of common stock at February 19, 2013:
37,239,869

DOCUMENTS INCORPORATED BY REFERENCE:

Proxy Statement relating to the 2013 Annual Meeting of Stockholders (incorporated, in part, in Form 10-K Part III)

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

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PRELIMINARY NOTES

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

FORWARD-LOOKING STATEMENTS

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

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

Certain of these factors, and other factors, are more fully discussed in Item 1A, *Risk Factors*, Item 7, *Management's Discussion and Analysis of Financial Condition and Results of Operations*, and Item 7A, *Quantitative and Qualitative Disclosures about Market Risk*, in this Annual Report on Form 10-K, which you are encouraged to read.

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

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PART I

Item 1. Business

Investment Technology Group, Inc. was formed as a Delaware corporation on July 22, 1983. Its principal subsidiaries include: (1) ITG Inc., AlterNet Securities, Inc. ("AlterNet") and ITG Derivatives LLC ("ITG Derivatives"), institutional broker-dealers in the United States ("U.S."), (2) Investment Technology Group Limited ("ITGL" or "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 The Macgregor Group, Inc., a provider of trade order 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 reportable operating segments are: U.S. Operations, Canadian Operations, European Operations and Asia Pacific Operations (see Note 23, *Segment Reporting*, to the consolidated financial statements, which also include financial information about geographic areas). The U.S. Operations segment provides electronic and high-touch trade execution, trade order and execution management, network connectivity, analytical products and investment research services. The Canadian and Asia Pacific Operations segments provide electronic and high-touch trade execution, trade execution management, network connectivity, analytical products and investment research services. The European Operations segment provides electronic and high-touch trade execution, trade order and execution management, network connectivity and analytical products and includes a technology research and development facility in Israel.

Products and Services

ITG offers a wide range of solutions for asset managers in the areas of electronic brokerage, research sales and trading, trading platforms and analytics. These offerings include trade execution services and solutions for portfolio management, as well as investment research, pre-trade analytics and post-trade analytics and processing, summarized below. Each product is offered in the U.S. and certain other jurisdictions, as further described in the section entitled *Non-U.S. Operations*.

Electronic Brokerage

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

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ITG Algorithms and ITG Smart Router

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

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

POSIT

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

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

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

ITG Derivatives

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

Commission Management Services

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

Securities Lending Services

Through stock borrow and stock loan transactions, ITG facilitates shortened or extended settlement periods to help clients meet their internal cash flow needs. ITG also locates and borrows securities for clients to accommodate short sales and reduce fails.

Research Sales & Trading

ITG Investment Research

ITG provides unique, unbiased, data-driven equity research through its ITG Investment Research subsidiary. This offering has expanded ITG's client relationships beyond the trading desk to chief investment officers, portfolio managers and analysts. Through the use of innovative data mining and

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analysis, as well as detailed analysis of energy asset plays, ITG Investment Research identifies the key metrics that may influence a company's future performance. ITG Investment Research currently provides research on more than 300 companies.

ITG Market Research

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

High-Touch Trading

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

Trading Platforms

Execution Management and Order Management

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

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

ITG Net

ITG Net is a global financial communications network that provides secure, reliable and fully supported connectivity between buy-side and sell-side firms for order routing and indication-of-interest messages from ITG and third-party trading platforms. ITG Net supports approximately 9,000 billable connections to more than 500 unique brokerage firms and execution venues worldwide. ITG Net also integrates the trading products of third-party brokers and ATSS into our OMS and EMS platforms.

ITG Single Ticket Clearing

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

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Analytics

ITG Trading Analytics

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

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

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

ITG Portfolio Analytics

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

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

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

Non-U.S. Operations

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

Canadian Operations

ITG Canada was founded in 2000 and ranks in the Top 10 investment dealers in Canada. ITG Canada provides electronic brokerage services, including ITG Algorithms, ITG Smart Router and the POSIT suite, as well as high-touch agency execution and portfolio trading services. In addition, ITG Canada provides Triton, Triton Derivatives, connectivity services, ITG Single Ticket Clearing, ITG Portfolio Optimization System, ITG Smart Trading Analytics, ITG TCA and investment research

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services. ITG Canada also engages in principal trading activities. ITG Canada's customers primarily consist of asset and investment managers, broker-dealers and hedge funds.

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

European Operations

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

Asia Pacific Operations

Australia

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

Hong Kong

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

Singapore

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

Competition

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

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

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

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

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

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

Regulation

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

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

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

ITG Derivatives is a U.S. broker-dealer registered with the SEC, FINRA, NYSE MKT, ARCA, BYX, BZX, BOX Options Exchange LLC, EDGA, EDGX, Chicago Board Options Exchange, C2 Options Exchange Incorporated, International Securities Exchange, NASDAQ, NASDAQ BX, NASDAQ OMX PHLX, Commodities and Futures Trading Commission, Miami International Securities Exchange, the NFA and 28 states.

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

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

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

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

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

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

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

ITG Inc., AlterNet, and ITG Derivatives are required by law to belong to the Securities Investor Protection Corporation ("SIPC"). In the event of a U.S. broker-dealer's insolvency, the SIPC fund provides protection for client accounts up to \$500,000 per customer, with a limitation of \$250,000 on claims for cash balances. ITG Canada and TriAct are required by Canadian law to belong to the Canadian Investors Protection Fund ("CIPF"). In the event of a Canadian broker-dealer's insolvency, CIPF provides protection for client accounts up to CAD \$1 million per customer. ITGL and ITGEL are required to be members of the Investor Compensation Protection Schemes which provides compensation to retail investors in the event of certain stated defaults by an investment firm. ITG Hong Kong is regulated by the SFC. The SFC operates the Investor Compensation Fund which provides compensation to retail investors. ITG Australia is obligated to contribute to the ACH Clearing Fund and/or the National Guarantee Fund if and when requested by ASIC. In the past twelve months, no such requests have been made of ITG Australia.

Regulation ATS

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

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Net Capital Requirement

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

ITG Inc. has elected to use the alternative method permitted by Rule 15c3-1, which requires that ITG Inc. maintain minimum net capital equal to the greater of \$1.0 million or 2% of aggregate debit balances arising from customer transactions. AlterNet and ITG Derivatives have elected to use the basic method permitted by Rule 15c3-1, which requires that they maintain minimum net capital equal to the greater of 6²/₃% 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 registered Futures Commission Merchant pursuant to Commodity Futures Trading Commission ("CFTC") Regulation 1.17.

For further information on our net capital position, see Note 18, *Net Capital Requirement*, to the consolidated financial statements.

Research and Product Development

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

The amounts expended for research and development costs for the years ended December 31, 2012, 2011 and 2010 are estimated at \$44.6 million, \$47.5 million and \$49.1 million, respectively.

Intellectual Property

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

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

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

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

Clients

For the years ended December 31, 2012, 2011 and 2010, no single client accounted for more than 5% of our consolidated revenue.

Employees

As of December 31, 2012, the Company employed 1,047 staff globally, of which 726, 82, 143 and 96 staff were employed by the U.S., Canadian, European and Asia Pacific Operations, respectively.

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Website and Availability of Public Reports

Our website can be found at <http://www.itg.com>. We are not including the information contained on our website as part of, or incorporating it by reference into, this Annual Report on Form 10-K.

Our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q and Current Reports on Form 8-K, together with any amendments to those reports, are available without charge on our website at <http://investor.itg.com>. We make this information available on our website as soon as reasonably practicable after we electronically file such information with, or furnish it to, the SEC. You may also obtain copies of our reports without charge by writing to: ITG, 380 Madison Avenue, New York, NY 10017, Attn: Investor Relations.

Item 1A. Risk Factors

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

While our management's long-term expectations are optimistic, we face risks or uncertainties that may affect our financial condition and results of operations. The following conditions, among others, should be considered in evaluating our business and growth outlook.

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

Declines in the trading activity of active fund managers would generally result in lower revenues from our trading solutions, which generate the majority of our revenues globally. In addition, securities' price declines would adversely affect our non-North American trading commissions, which are based on the value of transactions. The demand for our trading solutions is directly affected by factors such as economic, regulatory and political conditions that may lead to decreased trading activity and prices in the securities markets in the U.S. and in all of the foreign markets we serve. Over the past several years, global trading activity has declined significantly and may continue to do so. Increased risk aversion brought about by the impact of the financial crisis of 2008, ongoing concerns over sovereign debt levels and lower confidence in the functioning of financial markets has resulted in a significant flow of funds out of actively-managed equity funds, thereby curtailing their trading activity, which has weighed heavily on our buy-side trading volumes and the use of our higher value services. While there is a historical correlation between recovering share prices and the flow of money back into equity funds, there is uncertainty as to when a real, sustainable recovery in institutional equity activity will materialize, as well as the extent to which it will recover.

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

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

Our fixed costs may result in reduced profitability or losses.

We incur significant operating and capital expenditures to support our business that do not vary directly, at least in the short term, with fluctuations in executed transaction volumes or revenues. In addition, changes in market practices have required us, and may require us in the future, to invest in

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additional infrastructure to increase capacity levels without a corresponding increase in revenues. To ensure that we have the capacity to process projected increases in trade orders and executed transaction volumes, we have historically made substantial infrastructure investments in advance of such projected increases, including during periods of low revenues. We have also made substantial investments in our research products to attract additional trade flows from our buy-side clients. In the event of further reductions in trade executions and/or revenues, we may not be able to reduce such expenses quickly and, as a result, we could experience reduced profitability or losses. If the growth in executed volumes does not occur or we are not able to successfully implement and monetize our investments, including by failing to accurately forecast the demand for new products and by failing to effectively deploy new products and decommission legacy products, the expenses related to such investments could cause reduced profitability or losses.

The price of our common stock may be volatile, which may impact our ability to attract and retain clients and limit the amount of strategic investments we can make.

The periodic reporting of earnings and associated disclosures in this challenging environment for our business may result in significant fluctuations in the price of our stock and limit the extent to which our clients want to rely on us for core trading infrastructure and services. In addition, our ability to grow the Company through acquisitions and strategic initiatives may be negatively impacted by the dilutive effect of a low stock price and the need to preserve short-term profitability levels that are acceptable to stockholders.

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

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

If we fail to keep up with rapid changes in technology and continue to seek to provide leading products and services to our customers, our results of operations could be negatively impacted.

The institutional brokerage industry is subject to rapid technological change and evolving industry standards. Our customers' demands become greater and more sophisticated as the dissemination of products and information to customers increases. If we are unable to anticipate and respond to the demand for new services, products and technologies, innovate in a timely and cost-effective manner and adapt to technological advancements and changing standards, we may be unable to compete effectively, which could have a material adverse effect on our business. Many of our competitors have significantly greater resources than we do to fund such technological advances. Moreover, the development of technology-based services is a complex and time-consuming process. New products and enhancements to existing products can require long development and testing periods. Budgetary constraints on funding new product initiatives in the current environment, significant delays in new product releases, failure to meet key deadlines or significant problems in creating new products could negatively impact our revenues and profits.

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

Our business relies heavily on the computer and communications systems supporting our operations, which must monitor, process and support a large volume of transactions across numerous execution venues in many countries and multiple currencies. As our business expands, we will need to expand our systems to accommodate an increasing volume of transactions across a larger client base and more geographical locations. In addition, certain changes in market practices may require us to invest in infrastructure to increase capacity levels. Unexpectedly high volumes or times of unusual market volatility could cause our systems to operate slowly, decrease output or even fail for periods of time, as could general power or telecommunications failures, natural disasters or other business disruptions. The presence of computer viruses can also cause failure within our systems. If any of our systems do not operate properly, are disabled, breached or attacked by hackers or other disruptive problems, we could incur financial loss, liability to clients, regulatory intervention or reputational damage. System failure, degradation, breach or attack could adversely affect our ability to effectuate transactions and lead our customers to file formal complaints with industry regulatory organizations, initiate regulatory inquiries or proceedings, file lawsuits against us, trade less frequently through us or cease doing business with us.

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

Our business relies on the secure storage, processing and transmission of data, including our clients' confidential data, in our internal systems and through our vendor networks and communications infrastructure. Third parties who are able to breach or disrupt our, or our vendors', security systems may be able to cause system damage or failures or perform unauthorized trading that could result in significant losses. There is no guarantee that our systems can prevent all unauthorized access or that our third party vendors will be able to secure their networks and systems. If our or one of our vendors' security is breached and unauthorized access is obtained to the confidential information of our clients, it could cause us reputational harm and our clients may then reduce or cease their use of our services, which would adversely impact our results of operations.

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

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

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

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to provide our services or to meet our obligations to our customers and our business, financial condition and our operating results could be materially harmed.

Our securities and clearing business exposes us to material liquidity risk.

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

In addition, each of our broker-dealer subsidiaries worldwide is subject to regulatory capital requirements promulgated by the applicable regulatory and exchange authorities of the countries in which they operate. The failure by any of these subsidiaries to maintain its required regulatory capital may lead to suspension or revocation of its broker-dealer registration and its suspension or expulsion by its regulatory body. Historically, all regulatory capital needs of our broker-dealers have been provided by cash from operations. However, if cash from operations, together with existing financing facilities are not sufficient, we may not be able to obtain additional financing.

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

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

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

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

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

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

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

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

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

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

We incur limited principal trading risk.

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

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

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

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

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in the accuracy and completeness of our financial reports, which may have a material adverse effect on our stock price.

The business in which we operate is extremely competitive worldwide.

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

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

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

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

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

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

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

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

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

	% of Total Consolidated Revenue		
	2012	2011	2010
Largest customer	2.4%	2.9%	2.8%
Second largest customer	2.1%	2.0%	2.0%
Third largest customer	1.9%	1.7%	1.7%
Ten largest customers	14.9%	15.4%	15.8%

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

We currently operate POSIT in the U.S. under Regulation ATS, our European operations are subject to MiFID and we must comply with the requirements of the U.S. PATRIOT Act and its foreign equivalents for monitoring our customers and suspicious transactions. Moreover, most aspects of our broker-dealer operations are highly regulated, such as sales and reporting practices, operational compliance, capital requirements and licensure of employees. Accordingly, we face the risk of significant intervention by regulatory authorities in all jurisdictions in which we conduct business, such as the SEC and FINRA in the U.S. and their equivalents in other countries. As we expand our business, we may be exposed to increased and different types of regulatory requirements and it may be difficult for us to determine the exact requirements of local laws in every market.

In the future, we may become subject to new regulations or changes in the interpretation or enforcement of existing regulations, which may adversely affect our business. Also, regulatory changes that impact how our customers conduct their business may impact our business and results of operations. The current U.S. administration and other members of the U.S. federal government and other governments outside of the United States have indicated that they are considering new regulatory requirements for the financial services industry. We cannot predict the extent to which any future regulatory changes would affect our business.

In July 2011, the SEC approved Securities Exchange Act Rule 13h-1 ("Large Trader Rule"), which partially went into effect on November 30, 2012 and is scheduled for full implementation on May 1, 2013. The Large Trader Rule imposes new filing requirements on market participants that conduct substantial trading activity in exchange-listed securities, and new record keeping, reporting, and monitoring requirements on broker-dealers. Furthermore, in June 2012, the SEC approved the Plan to Address Extraordinary Market Volatility (Limit Up Limit Down Plan) and changes to the Market Wide Circuit Breakers that were proposed by national securities exchanges and FINRA in an effort to reduce volatility in the U.S. equity markets following the May 6, 2010 Flash Crash. Moreover, in July 2012, the SEC adopted the Consolidated Audit Trail rule that it proposed on May 26, 2010, which requires SROs to establish an order trail reporting system that would enable regulators to track, within 24 hours of the trade date, information related to trading orders received and executed across the securities markets.

In addition, new regulatory obligations have been proposed and adopted pertaining to markets outside of the United States which may have a material impact upon our business model. In Europe, these include proposed changes to MiFID (MiFID II) and financial transaction taxes that were imposed in 2012 by the French and Italian governments, and another equivalent tax that is being

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proposed at the European Union level. With regard to Canada, in 2012, the Investment Industry Regulatory Organization of Canada and the Canadian Securities Administrator's adopted new regulations that require certain minimum price improvement in dark liquidity pools. Similarly, in Australia, new regulations that are scheduled to take effect in May 2013 will require dark liquidity pools to offer meaningful price improvement over displayed market prices. Accordingly, Australian dark pool operators will be required to provide executions at the midpoint of the current NBBO for un-displayed orders. Compliance with certain of these adopted laws, rules or regulations of the various jurisdictions in which we operate could result in the loss of revenue and has caused us, and could cause us, to incur significant costs.

In addition, on October 2, 2012, the SEC invited representatives from exchanges, broker-dealers, consulting companies, and academic institutions to participate in a Market Technology Roundtable (the "Roundtable") that discussed the relationship between the operational stability and integrity of the securities markets and the ways that market participants design, implement, and manage complex and interconnected trading technologies. The Roundtable was held primarily in response to certain trading technology and systems issues that arose during the initial public offerings of common stock in BATS Global Markets Inc. and Facebook, Inc. on March 23, 2012 and May 18, 2012 respectively, and certain erroneous trading activity by Knight Capital Group, Inc. on August 1, 2012. As a result of these incidents and the issues and concerns raised during the Roundtable discussions, the SEC could propose new regulations and/or rules that require market participants to implement additional policies, procedures, and controls to improve their processes for: (1) preventing trading system and technology malfunctions; (2) detecting erroneous orders and transactions on a real-time basis and (3) responding to technology and/or trading errors. Such measures could include more stringent testing standards and requirements for trading systems, registration of trading systems with regulators, and "Kill Switches" that cut off a market participant's access to external markets if certain transaction thresholds are breached. Finally, on January 9, 2013, FINRA announced that it was planning to heighten its scrutiny over dark pools and high-speed trading.

If any regulatory obligations stemming from these developments are implemented, ITG and other market participants could incur significant costs to establish the appropriate processes, systems, and/or controls.

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

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

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

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

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

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

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

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

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

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

Over the last several years, we have undertaken several strategic acquisitions, including the acquisitions of RedSky Financial, LLC (now ITG Derivatives), Majestic Research Corp. and Ross Smith Energy Group, Ltd. (together now ITG Investment Research), as well as various organic strategic initiatives. We may elect to pursue strategic acquisitions and strategic initiatives in the future. Acquisitions entail numerous risks, including but not limited to difficulties in valuing the acquired businesses, combining personnel and firm cultures, integrating acquired products, services and operations, achieving anticipated synergies that were inherent in our valuation assumptions, the assumption of unknown material liabilities of acquired companies and the potential loss of key clients or employees of acquired companies. Similarly, strategic initiatives may be important to our business prospects and we may not be able to successfully execute such initiatives. In either case, we may have clients, with whom we have established trading relationships that seek to negatively bundle our products or services without increasing the amount of revenue they pay us resulting in loss revenues and profits. If we are unable to successfully complete acquisitions and integrate the acquired businesses, if we suffer a material loss due to an acquired business or if we fail to execute strategic initiatives, we

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may not achieve appropriate levels of return on these significant investments, which may have a material effect on our operating results.

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

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

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

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

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

Our inability to effectively manage any management structure changes could create uncertainty regarding our ability to execute our future business plans.

We have recently undertaken a review of our businesses in each region to measure our performance by product or service offering. Our inability to effectively manage any management structure changes related to this undertaking could challenge our ability to execute our business plans which could materially impact our financial results.

Item 1B. Unresolved Staff Comments

None

Item 2. Properties

U.S. Operations

Our principal offices are located at 380 Madison Avenue in New York, New York, where approximately 101,000 square feet of office space is currently being leased pursuant to coterminous leases expiring in January 2014. We occupy an additional 11,000 square feet of office space in New York City pursuant to a lease agreement expiring in May 2013. We are currently building out our new headquarters located in lower Manhattan, where we will occupy approximately 132,000 square feet pursuant to a lease agreement expiring January 2029.

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

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

We also have additional regional offices in Chicago, Illinois where we occupy approximately 10,300 square feet under a lease agreement expiring in October 2013, and in San Francisco, California where we occupy approximately 3,900 square feet under a lease agreement expiring in June 2018.

Canadian Operations

ITG Canada has an office in Toronto where we occupy approximately 19,900 square feet of office space pursuant to a lease expiring in December 2016. We also have an office in Calgary where we occupy approximately 9,600 square feet pursuant to a lease expiring in March 2015.

European Operations

ITG Europe has offices in Dublin and London where we occupy approximately 6,200 and 9,000 square feet of office space, respectively. The Dublin space is leased pursuant to an agreement that expires in November 2017, and the London space is leased pursuant to an agreement that expires in September 2013. ITG Europe also leases office space for its regional office in Paris, France.

We also have a technology research and development facility in Tel Aviv where approximately 13,500 square feet of office space is occupied pursuant to a lease agreement that expires in February 2014.

Asia Pacific Operations

ITG Australia has offices in Melbourne and Sydney, where we occupy approximately 5,600 and 3,400 square feet of office space, respectively pursuant to leases that expired or are expiring in February 2013 and June 2017. We are currently negotiating an extension of the Melbourne lease.

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

Item 3. Legal Proceedings

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

Item 4. Mine Safety Disclosures

Not applicable

Table of Contents**PART II****Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities****Common Stock Data**

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

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

	High	Low
2011:		
First Quarter	19.75	16.32
Second Quarter	18.73	13.38
Third Quarter	14.10	9.79
Fourth Quarter	12.12	9.24
2012:		
First Quarter	12.24	10.35
Second Quarter	11.85	8.34
Third Quarter	9.28	7.72
Fourth Quarter	9.63	7.85

On February 26, 2013, the closing price per share for our common stock as reported on the NYSE was \$11.93. On February 26, 2013, we believe that our common stock was held by approximately 5,363 stockholders of record or through nominees in street name accounts with brokers.

In July 2010, ITG's Board of Directors authorized the repurchase of 4.0 million shares. In October 2011, ITG's Board of Directors authorized the repurchase of an additional 4.0 million shares. These authorizations have no expiration date. As of December 31, 2012, there were 1.5 million shares remaining available for repurchase under ITG's stock repurchase program. The specific timing and amount of repurchases will vary based on market conditions and other factors.

During 2012, the Company repurchased approximately 2.7 million shares of our common stock at a cost of approximately \$26.3 million, which was funded from our available cash resources. Of these shares, approximately 2.5 million were purchased under our Board of Directors' authorization for a total cost of \$23.5 million (average cost of \$9.50 per share). An additional 0.3 million shares (\$2.8 million) pertained solely to the satisfaction of minimum statutory withholding tax upon the net settlement of equity awards.

The following table sets forth our stock repurchase activity during 2012, including the total number of shares purchased, the average price paid per share, the number of shares repurchased as part of a publicly announced plan or program, and the number of shares yet to be purchased under the plan or program.

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

Period	Total Number of Shares (or Units) Repurchased (a)	Average Price Paid per Share (or Unit)	Total Number of Shares (or Units) Repurchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares (or Units) that May Yet Be Purchased Under the Plans or Programs
From: January 1, 2012				
To: January 31, 2012	30,370	\$ 10.91		3,922,640
From: February 1, 2012				
To: February 29, 2012	552,967	10.85	401,800	3,520,840
From: March 1, 2012				
To: March 31, 2012	438,715	11.36	418,200	3,102,640
From: April 1, 2012				
To: April 30, 2012				3,102,640
From: May 1, 2012				
To: May 31, 2012	450,000	9.16	450,000	2,652,640
From: June 1, 2012				
To: June 30, 2012				2,652,640
From: July 1, 2012				
To: July 31, 2012	4,286	8.05		2,652,640
From: August 1, 2012				
To: August 31, 2012	190,894	8.45	190,000	2,462,640
From: September 1, 2012				
To: September 30, 2012	311,654	8.88	310,000	2,152,640
From: October 1, 2012				
To: October 31, 2012	60,840	8.29		2,152,640
From: November 1, 2012				
To: November 30, 2012	529,500	8.29	529,500	1,623,140
From: December 1, 2012				
To: December 31, 2012	171,241	8.97	170,500	1,452,640
Total	2,740,467	\$ 9.59	2,470,000	

(a) This column includes the acquisition of 270,467 shares of common stock from employees in order to satisfy minimum statutory withholding tax requirements upon settlement of equity awards.

We have not paid a cash dividend to stockholders during any period of time covered by this report. Our policy is to retain earnings to finance the operations and expansion of our businesses and to return capital to stockholders through repurchases. As a result, we currently have no intention of paying cash dividends on common stock.

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Performance Graph

The following line graph compares the total cumulative stockholder return on our common stock against the cumulative total return of the Russell 2000 index and the mean of the NASDAQ Other Finance Index and the AMEX Securities Broker/Dealer Index, for the five-year period ended December 31, 2012.

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

The selected Consolidated Statements of Operations data and the Consolidated Statements of Financial Condition data presented below for each of the years in the five-year period ended December 31, 2012, are derived from our consolidated financial statements. Such selected financial data should be read in connection with the consolidated financial statements contained in this report.

	Year Ended December 31,				
	2012	2011	2010	2009	2008
Consolidated Statements of Operations Data:					
(\$ in thousands, except per share amounts)					
Total revenues	\$ 504,436	\$ 572,037	\$ 570,754	\$ 633,069	\$ 762,983
Total expenses	774,891	778,665	521,421	556,618	567,457
(Loss) income before income tax expense	(270,455)	(206,628)	49,333	76,451	195,526
Income tax (benefit) expense	(22,596)	(26,839)	25,353	33,617	80,884
Net (loss) income	\$ (247,859)	\$ (179,789)	\$ 23,980	\$ 42,834	\$ 114,642
Basic (loss) earnings per share	\$ (6.45)	\$ (4.42)	\$ 0.56	\$ 0.98	\$ 2.64
Diluted (loss) earnings per share	\$ (6.45)	\$ (4.42)	\$ 0.55	\$ 0.97	\$ 2.61
Basic weighted average number of common shares outstanding (in millions)	38.4	40.7	42.8	43.5	43.5
Diluted weighted average number of common shares outstanding (in millions)	38.4	40.7	43.5	44.0	44.0
Consolidated Statements of Financial Condition Data:					
(\$ in thousands)					
Total assets	\$ 2,196,759	\$ 2,178,069	\$ 2,530,853	\$ 1,703,103	\$ 1,685,453
Cash and cash equivalents	\$ 245,875	\$ 284,188	\$ 317,010	\$ 330,879	\$ 352,960
Total debt	\$ 41,426	\$ 25,603	\$	\$ 46,900	\$ 119,400
Total stockholders' equity	\$ 409,770	\$ 671,114	\$ 870,068	\$ 867,700	\$ 787,380

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

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

Overview

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

Our reportable operating segments are: U.S. Operations, Canadian Operations, European Operations and Asia Pacific Operations (see Note 23, *Segment Reporting*, to the consolidated financial statements). The U.S. Operations segment provides electronic and high-touch trade execution, trade order and execution management, network connectivity, analytical products and investment research services. The Canadian and Asia Pacific Operations segments provide electronic and high-touch trade execution, trade execution management, network connectivity, analytical products and investment research services. The European Operations segment provides electronic and high-touch trade execution, trade order and execution management, network connectivity and analytical products and includes a technology research and development facility in Israel.

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Sources of Revenues

Our revenues consist of commissions and fees, recurring and other.

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

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

Other revenues include: (i) income from principal trading, including the net spread on foreign exchange contracts executed to facilitate equity trades by clients in different currencies, (ii) the net interest spread earned on securities borrowed and loaned matched book transactions, (iii) non-recurring consulting services, such as one-time implementation and customer training related activities, (iv) investment and interest income, (v) interest income on securities borrowed in connection with customers' settlement activities and (vi) market gains/losses resulting from temporary positions in securities assumed in the normal course of our agency trading business (including client errors and accommodations).

Expenses

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

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

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

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

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

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

Non-GAAP Financial Measures

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

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

Reconciliations of adjusted expenses and adjusted net income to expenses and net income (loss) and related per share amounts as determined in accordance with U.S. GAAP for the years ended December 31, 2012, 2011 and 2010 are provided below.

Year Ended December 31, 2012:	ITG Consolidated	U.S.	Canada	Non-U.S.	
				Europe	Asia Pacific
U.S. GAAP expenses	\$ 774,891	\$ 569,480	\$ 66,516	\$ 91,616	\$ 47,279
Less:					
Goodwill and other asset impairment charge (1)	274,285	245,103		28,481	701
Restructuring charges (2)	9,499	6,798	1,145	615	941
Duplicate rent expense (3)	1,378	1,378			
Adjusted expenses	\$ 489,729	\$ 316,201	\$ 65,371	\$ 62,520	\$ 45,637
U.S. GAAP net loss	\$ (247,859)				
Net effect of adjustments	256,034				
Adjusted net income	\$ 8,175				
U.S. GAAP diluted loss per share	\$ (6.45)				
Net effect of adjustments	6.66				
Adjusted diluted earnings per share	\$ 0.21				

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Year Ended December 31, 2011:	ITG Consolidated	U.S.	Canada	Non-U.S. Europe	Asia Pacific
U.S. GAAP expenses	\$ 778,665	\$ 597,858	\$ 65,515	\$ 68,407	\$ 46,885
Less:					
Goodwill and other asset impairment charge (4)	229,317	229,317			
Restructuring charges (5)	24,432	22,471	685	962	314
Acquisition-related costs (6)	2,523	2,523			
Adjusted expenses	\$ 522,393	\$ 343,547	\$ 64,830	\$ 67,445	\$ 46,571
U.S. GAAP net loss	\$ (179,789)				
Net effect of adjustments	208,375				
Adjusted net income	\$ 28,586				
U.S. GAAP diluted loss per share	\$ (4.42)				
Net effect of adjustments	5.11				
Adjusted diluted earnings per share	\$ 0.69				

Year Ended December 31, 2010:	ITG Consolidated	U.S.	Canada	Non-U.S. Europe	Asia Pacific
U.S. GAAP expenses	\$ 521,421	\$ 340,690	\$ 57,360	\$ 69,234	\$ 54,137
Less:					
Acquisition-related costs (7)	2,409	2,409			
Goodwill and other asset impairment charge (8)	11,466	6,091			5,375
Restructuring charges (9)	4,062	2,002	(16)		2,076
Adjusted expenses	\$ 503,484	\$ 330,188	\$ 57,376	\$ 69,234	\$ 46,686
U.S. GAAP net income	\$ 23,980				
Net effect of adjustments	14,140				
Adjusted net income	\$ 38,120				
U.S. GAAP diluted earnings per share	\$ 0.55				
Net effect of adjustments	0.33				
Adjusted diluted earnings per share	\$ 0.88				

(1) In the second quarter of 2012, goodwill with a carrying value of \$274.3 million was deemed impaired and its fair value was determined to be zero, resulting in a full impairment charge.

(2) During the fourth quarter of 2012, we implemented a restructuring plan to reduce operating costs by reducing workforce, market data and other general and administrative costs across our businesses. The charge consisted entirely of employee separation costs.

- (3) During the fourth quarter of 2012, we began to build out and ready our new lower Manhattan headquarters while continuing to occupy our existing headquarters in midtown Manhattan and as a result, incurred duplicate rent charges which are included in Occupancy and Equipment in the Consolidated Statements of Operations.
- (4) In the second quarter of 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. During the fourth quarter of 2011, we

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determined that the carrying value of our investment in Disclosure Insight, Inc. was fully impaired, resulting in a write-off of \$4.3 million.

- (5) In 2011, we decided to implement 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, including \$6.8 million recorded in the fourth quarter of 2011 and \$17.7 million recorded in the second quarter of 2011. These costs included employee separation and related costs of \$19.2 million and lease consolidation costs of \$5.2 million.
- (6) During the second quarter of 2011, we acquired Ross Smith Energy Group Ltd., a Calgary-based independent provider of research on the oil and gas industry. In connection with the acquisition, we incurred acquisition-related costs, including legal fees, contract settlement costs and other professional fees.
- (7) During 2010, we acquired Majestic Research Corp., a privately-held, independent provider of data-driven equity research for the institutional investment community. In connection with the acquisition, we incurred approximately \$2.4 million of acquisition-related costs, including legal fees and other professional fees, accelerated employee equity awards and severance costs.
- (8) In 2010, goodwill with a carrying value of \$5.4 million in the Asia Pacific operating segment relating to our Australian operations was deemed impaired and its fair value was determined to be zero, resulting in an impairment charge of \$5.4 million.
- (9) During the fourth quarter of 2010, in connection with the integration of Majestic Research Corp., we closed our Westchester, NY office and relocated the staff, primarily sales traders and support, to our midtown Manhattan office and incurred a restructuring charge of \$2.3 million. In the second quarter of 2010, we committed to a restructuring plan in the Asia Pacific region to close our on-shore operations in Japan, resulting in lower operating costs and reduced capital requirements. Restructuring charges primarily included employee severance, contract termination costs and non-cash write-offs of fixed assets and capitalized software.

Executive Summary for the Year Ended December 31, 2012

Consolidated Overview

During 2012, and in particular the second half of the year, trading activity declined sharply in North America, Europe and most of the Asia Pacific regions reducing our revenues and profitability. Investor anxiety over macroeconomic, regulatory and political uncertainties coupled with a heightened sense of risk aversion among investors drove the flight from assets with a higher perception of risk, such as equities, towards assets perceived to be a safe haven, such as corporate bonds and U.S. Treasuries. The historic outflows from domestic equity funds experienced since the 2008 financial crisis accelerated in the latter half of the year with the four highest monthly redemptions occurring in the September to December time period. According to the Investment Company Institute, outflows from domestic equity funds totaled more than \$155 billion during the year, eclipsing the \$148 billion in 2008 outflows during the height of the financial crisis.

In the face of this decline, we were able to mitigate the impact of lower U.S. market-wide volumes during the year through growth in our sell-side volumes. Although the revenue per share on our incremental sell-side volume is substantially lower than the rates we derive from active fund manager clients, the incremental revenue, together with revenues from our investment research products (including attributed commissions), our improved European results, and our cost management efforts lessened the impact of the unfavorable economic environment on our profitability. On a U.S. GAAP basis, our net loss for 2012 was \$247.9 million, or (\$6.45) per diluted share, compared to a net loss of \$179.8 million, or (\$4.42) per diluted share for 2011. Adjusted net income for 2012 was \$8.2 million, or

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\$0.21 per diluted share, compared to \$28.6 million, or \$0.69 per diluted share in 2011 (see *Non-GAAP Financial Measures*). Consolidated revenues of \$504.4 million were 12% lower than the \$572.0 million earned in 2011.

As we weather this period of uncertainty, we are focused on improving profitability while also maintaining flexibility to allocate additional resources as they are needed to execute our measured global product deployment and support. In December we announced a plan to reduce operating costs given the unfavorable business conditions. The cost reductions are primarily focused on headcount, market data and other general and administrative costs across all of our businesses. We believe these measures were necessary to ensure our long-term competitiveness and profitability and will not impair our ability to capitalize on any future improvements in global trading volumes. The cost reduction initiative resulted in restructuring charges of \$9.5 million or \$0.17 per share after taxes and is expected to generate annual cost savings of approximately \$20 million, or \$0.32 per share after taxes.

Our 2012 results also include \$274.2 million in goodwill impairment charges (or \$6.31 per share, after taxes) recorded in the second quarter as well as duplicate rent charges of \$1.4 million (or \$0.02 per share, after taxes) recorded in the fourth quarter associated with the build-out of our new headquarters. The non-cash goodwill impairment charge resulted from continued weak institutional trading activity as well as a decline in industry market multiples (see *Critical Accounting Estimates*) and had no impact on debt covenants, cash flows or day-to-day business operations. The duplicate rent charges result from the U.S. GAAP requirement for rental expense recognition during a leasehold build-out period and did not involve any 2012 cash rental payments.

It is still too early to predict whether the recent trend of strong inflows into domestic equity funds we have seen in early 2013 will last, but if so, the measures we have taken to improve our competitive position relative to other agency brokers and to improve our operating leverage by lowering our cost base positions us well for any improvement in market-wide trading activity.

Segment Discussions

While U.S. equity market valuations remain near multi-year highs, in 2012 investors pulled money out of domestic equity funds, whose active fund managers are a core client segment of ours. While these outflows have dampened our core buy-side client volumes, strong flows from our sell-side client segment have continued to represent a larger share of our volume mix. As a result, our U.S. average daily executed volumes for 2012 only decreased 6% to 181.6 million shares per day, outperforming the 15% decline in the overall combined average daily market volume of NYSE- and NASDAQ-listed securities during the same period. While the growing share of lower rate sell-side flows has reduced our overall average revenue capture per share, we benefit significantly from both the incremental margin generated by earning a return on our excess capacity as well as from the enhanced liquidity provided to our buy-side client base. As these lower-priced revenues only compensated in part for the reduced revenues from our core active fund manager clients, our U.S. commission revenues declined 17% in 2012 to \$231.2 million. Our total U.S. revenues were \$321.4 million in 2012, a comparatively smaller decline of 14% from the prior year, due to the impact of our more stable recurring revenue base.

In Canada, average daily trading volumes on all Canadian markets declined 21% from a year ago while our Canadian commission revenues fell only 15%. Overall Canadian revenues were down only 10% benefiting from a full year of revenues from our recent Ross Smith Energy Group, Ltd. ("RSEG") acquisition in June 2011, as well as increased connectivity revenues.

In Europe, equity trading activity fell 24% as continued concern over a range of political and macroeconomic issues dominated investor sentiment and weighed heavily on the demand for European equities. Financial regulators remain under pressure to reform financial markets by measures designed to reduce risk, improve transparency and limit trading activity deemed speculative. Our ability to grow market share through higher crossing activity in POSIT and a growth in sell-side activity helped

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mitigate the impact of the large fall in European trading activity, and as a result, our European commissions fell only 5.0%, including an unfavorable currency translation effect. As our European business continues to face strong headwinds, we also remained focused on operating efficiency, achieving a 7% reduction in adjusted expenses (see *Non-GAAP Financial Measures*).

In the Asia Pacific region, investment sentiment towards regional securities markets has also been suppressed. Growing global uncertainties have resulted in consumers being more cautious on spending, thereby dampening demand for China's exports, which are highly dependent on demand from the U.S. and Europe. As a result, market-wide trading activity in the region was down approximately 19% in markets where we operate, however our commissions in the region declined only 7% during 2012. Electronic trading across the region is still growing, albeit at a slower rate, and we continue to see increased market demand for our EMS, dark aggregation and TCA offerings. While the uptick in the adoption of electronic trading across Asia continues, commissions are still generally directed by portfolio managers and are tied to research commitments.

Capital Resource Allocation

In 2012, we returned \$23.5 million, far in excess of our \$8.2 million of adjusted net income (see *Non-GAAP Financial Measures*), to stockholders through the repurchase of nearly 2.5 million shares at an average price of \$9.50.

In August 2012, we entered into a \$25.0 million master lease facility with BMO Harris Equipment Finance Company ("BMO"). The primary purpose of this facility is to finance equipment and construction expenditures related to the build-out of our new headquarters, with \$14 million of the total facility available for funding leasehold improvements in connection therewith. The facility contains an initial interim funding agreement which is then succeeded by a capital lease. During 2012, we borrowed \$0.6 million under the master lease facility with BMO and also utilized an additional \$1.9 million of our capital lease financing facility, from Bank of America.

Going forward, we intend to utilize our capital resource flexibility, including our debt capacity, to pursue selective investment opportunities while we return profits to stockholders through stock repurchases. We currently intend, depending on market conditions and the prevailing price per share of our common stock, to return capital to shareholders at a level at or above our level of adjusted earnings.

Table of Contents**Results of Operations****Year Ended December 31, 2012 Compared to Year Ended December 31, 2011***U.S. Operations*

\$ in thousands	Year Ended December 31,		Change	% Change
	2012	2011		
Revenues:				
Commissions and fees	\$ 231,197	\$ 279,781	\$ (48,584)	(17)
Recurring	82,766	87,229	(4,463)	(5)
Other	7,416	8,511	(1,095)	(13)
Total revenues	321,379	375,521	(54,142)	(14)
Expenses:				
Compensation and employee benefits	128,458	145,905	(17,447)	(12)
Transaction processing	45,225	52,200	(6,975)	(13)
Other expenses	141,354	143,417	(2,063)	(1)
Goodwill and other asset impairment	245,103	229,317	15,786	7
Restructuring charges	6,798	22,471	(15,673)	(70)
Acquisition-related costs		2,523	(2,523)	(100)
Interest expense	2,542	2,025	517	26
Total expenses	569,480	597,858	(28,378)	(5)
Loss before income tax expense	\$ (248,101)	\$ (222,337)	\$ (25,764)	(12)

Following the acquisition of RSEG, a Calgary-based independent provider of research on the oil and gas industry in June 2011, the U.S. Operations in 2012 include a full year of revenues from RSEG's U.S. clients, which comprise a majority of its client base, along with all of RSEG's operating expenses, net of a charge to our Canadian Operations pursuant to a distribution agreement for costs attributable to RSEG revenue recognized in Canada.

Our average daily U.S. trading volumes fell 6% from 2011, while overall daily U.S. equity volumes (as measured by the combined share volume in NYSE- and NASDAQ-listed securities) were 15% lower. While trading activity by fund managers continues to be weak, our average daily volumes benefited from increased sell-side client activity, which offsets much of the reduced volume flows from our core fund manager clients. The sell-side client segment comprised 50% of our average daily volume in 2012, compared to 40% in 2011. The change in business mix was responsible for the 10% reduction in our average revenue per share as the average revenue per share from buy-side clients was up 5% over 2011.

U.S. Operations: Key Indicators*	Year Ended December 31,		Change	% Change
	2012	2011		
Total trading volume (in billions of shares)	45.4	48.8	(3.4)	(7)
Average trading volume per day (in millions of shares)	181.6	193.7	(12.1)	(6)
Average revenue per share	\$ 0.0044	\$ 0.0049	\$ (0.0005)	(10)
U.S. market trading days	250	252	(2)	(1)

* Excludes activity from ITG Derivatives and ITG Net commission share arrangements.

Recurring revenues declined 5% reflecting the impact of client attrition from our OMS product, resulting in lower OMS subscription revenues and connectivity fees.

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Other revenues decreased \$1.1 million as 2011 included a gain of \$0.5 million on the sale of our entire common stock holdings in NYSE Euronext, Inc. as well as a gain of \$0.5 million on the sale of two software patents.

Total expenses for 2012 of \$569.5 million include a goodwill impairment charge of \$245.1 million, restructuring charges of \$6.8 million and duplicate rent charges of \$1.4 million associated with the build out of our new headquarters in lower Manhattan while we still occupy our current headquarters in midtown Manhattan. Total expenses for 2011 of \$597.9 million include charges for goodwill and other asset impairment of \$229.3 million, restructuring charges of \$22.5 million and acquisition-related costs of \$2.5 million. Excluding these charges, adjusted expenses were \$316.2 million in 2012, 8% lower than the \$343.5 million of adjusted expenses for 2011 (see *Non-GAAP Financial Measures*).

Compensation and employee benefits decreased 12%, resulting from a reduction in headcount largely attributable to our restructuring activities in the second quarter of 2011, lower incentive compensation costs associated with lower revenue levels, and lower share-based compensation as a result of a change in accounting estimate related to forfeitures. These reductions were partially offset by lower capitalized compensation for software development and higher severance charges.

Transaction processing costs were down 13%, outpacing the 7% decline in total trading volume, due in part to lower execution costs as a result of improved routing capabilities and an increase in the portion of trades internally crossed through POSIT.

Other expenses decreased \$2.1 million primarily from lower software amortization and the consolidation of leased facilities, offset by \$1.4 million of duplicate rent charges associated with the build-out of our new headquarters in lower Manhattan. We expect to incur duplicate rent charges of approximately \$1.4 million per quarter in the first half of 2013 as we complete the build-out. Upon completion of the move we expect to incur a one-time charge of approximately \$5.0 million, including a reserve for the remaining lease obligations at our current headquarters.

In the second quarters of 2012 and 2011, we recorded goodwill impairment charges of \$245.1 million and \$225.0 million, respectively, reflecting the continued weakness in institutional trading volumes which resulted in lower estimated future cash flows for the U.S. Operations reporting unit, and a decline in industry market multiples (see *Critical Accounting Estimates*). In the fourth quarter of 2011, we wrote down the remaining \$4.3 million carrying value of a minority interest investment.

Restructuring charges in 2012 include costs related to employee separation. In 2011, restructuring charges reflect costs related to employee separation and lease consolidation.

Acquisition-related costs were incurred in connection with the June 2011 acquisition of RSEG, consisting of \$0.7 million in professional services, such as legal and accounting services, as well as \$1.8 million in costs to terminate a distribution agreement with a third party, net of a \$1.0 million recovery from RSEG's former owners.

Interest expense incurred in 2012 primarily relates to interest cost on our \$25.5 million term debt financing obtained in the second quarter of 2011 and commitment fees relating to the three-year, \$150 million revolving credit agreement we entered into in January 2011, including debt issuance cost amortization relating to both facilities.

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\$ in thousands	Year Ended December 31,		Change	% Change
	2012	2011		
Revenues:				
Commissions and fees	\$ 61,776	\$ 72,518	\$ (10,742)	(15)
Recurring	9,117	6,750	2,367	35
Other	6,020	6,282	(262)	(4)
Total revenues	76,913	85,550	(8,637)	(10)
Expenses:				
Compensation and employee benefits	22,795	23,230	(435)	(2)
Transaction processing	11,584	13,630	(2,046)	(15)
Other expenses	30,992	27,970	3,022	11
Restructuring charges	1,145	685	460	67
Total expenses	66,516	65,515	1,001	2
Income before income tax expense	\$ 10,397	\$ 20,035	\$ (9,638)	(48)

Currency translation decreased total Canadian revenues and expenses by \$0.9 million and \$0.7 million, respectively, resulting in a \$0.2 million reduction to pre-tax income. Our Canadian results in 2012 include a full year of revenues and expenses related to RSEG's Canadian clients following the June 2011 acquisition.

Trading across all Canadian markets declined 21% from last year, while our commissions and fees declined 15%. The decline was largely due to a decrease in the volume traded, as well as rate compression in our electronic brokerage products.

Recurring revenues increased due to Canadian client usage of investment research services for a full period in 2012, as well as an increase in the number of billable connections through ITG Net.

Compensation and employee benefits costs decreased due to lower incentive compensation, partially offset by increases in share-based compensation, and from new sales staff added to market our investment research products to Canadian clients.

Transaction processing costs decreased as a result of lower volumes and improved routing capabilities.

The increase in other expenses was primarily driven by a full period of distribution charges for rights granted by our U.S. operations to sell investment research in Canada, increases in telecommunications and occupancy costs related to moving the Canadian data center, software licenses for our foreign exchange trading and settlement operations and higher software amortization.

Restructuring charges in 2012 and 2011 include costs related to employee separation.

Table of Contents*European Operations*

\$ in thousands	Year Ended December 31,		Change	% Change
	2012	2011		
Revenues:				
Commissions and fees	\$ 54,390	\$ 57,280	\$ (2,890)	(5)
Recurring	12,971	13,182	(211)	(2)
Other	(95)	208	(303)	(146)
Total revenues	67,266	70,670	(3,404)	(5)
Expenses:				
Compensation and employee benefits	26,085	29,353	(3,268)	(11)
Transaction processing	15,156	16,978	(1,822)	(11)
Other expenses	21,279	21,114	165	1
Goodwill and other asset impairment	28,481		28,481	100
Restructuring charges	615	962	(347)	36
Total expenses	91,616	68,407	23,209	34
(Loss) income before income tax expense	\$ (24,350)	\$ 2,263	\$ (26,613)	NA

Currency translation decreased total European revenues and adjusted expenses (excluding the currency impact on the goodwill impairment and restructuring charges) by \$0.9 million and 1.6 million, respectively, resulting in a \$0.7 million increase to adjusted pre-tax income (see *Non-GAAP Financial Measures*).

Commissions and fees revenues decreased 5%, including unfavorable currency translation of \$0.7 million, while overall market turnover decreased 24%. The decrease in commissions is attributable to less institutional business, partially offset by higher crossing activity in POSIT and a growth in sell-side activity.

Recurring revenues were flat year on year, excluding the impact of currency translation, as growth in billable connections through ITG Net was offset by cancellations of OMS subscriptions. The decline in other revenues reflects the impact of client accommodations.

Our European expenses increased \$23.2 million due to goodwill impairment and restructuring charges totaling \$29.1 million, which more than offset significant savings in compensation and transaction processing costs, and adversely impacted our profitability for the year.

The decrease in compensation and employee benefits expenses was primarily driven by lower headcount and lower incentive compensation, partially offset by a decrease in capitalized compensation for software development and increases in share-based compensation and severance.

Transaction processing costs were lower due to the decrease in trading volumes as well as the impact of crossing a higher portion of traded value in POSIT.

Other expenses were relatively flat reflecting the offsetting impacts of increases from investments in our London and Stockholm data centers, which were established for the purpose of reducing latency, and the impact of lower allocations out from our Israeli development group and decreases in software amortization and various other costs.

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

Restructuring charges in 2012 and 2011 include costs related to employee separation.

Table of Contents*Asia Pacific Operations*

\$ in thousands	Year Ended December 31,		Change	% Change
	2012	2011		
Revenues:				
Commissions and fees	\$ 33,613	\$ 36,222	\$ (2,609)	(7)
Recurring	4,913	3,758	1,155	31
Other	352	316	36	11
Total revenues	38,878	40,296	(1,418)	(4)
Expenses:				
Compensation and employee benefits	19,024	20,819	(1,795)	(9)
Transaction processing	9,208	8,794	414	5
Other expenses	17,405	16,958	447	3
Goodwill and other asset impairment	701		701	100
Restructuring charges	941	314	627	200
Total expenses	47,279	46,885	394	1
Loss before income tax expense	\$ (8,401)	\$ (6,589)	\$ (1,812)	(28)

Currency translation had virtually no impact on Asia Pacific revenues or expenses, and thus no effect on pre-tax loss.

Asia Pacific commissions and fees decreased 7% due to reduced average commission rates primarily due to rate compression. Our executed value in the region remained flat during 2012 while overall market turnover in the Asia Pacific markets where we operate decreased approximately 19%.

The growth in recurring revenues primarily reflects growth in the number of billable network connections through ITG Net.

The decrease in compensation and employee benefits costs reflects lower incentive compensation and share-based compensation, as well as an increase in capitalized compensation for software development.

Transaction processing costs increased primarily due to an increase in the portion of trades being executed in costlier venues, such as Taiwan and the Philippines where we pay higher clearing and settlement costs.

The increase in other expenses reflects increases in market data and connectivity to support client growth and costs related to the restoration of former office space pursuant to the terms of the lease.

In the second quarter of 2012, we recorded a goodwill impairment charge of \$0.7 million reflecting the continued weakness in institutional trading activity, which resulted in lower estimated future cash flows for the Asia Pacific Operations reporting unit (see *Critical Accounting Estimates*).

Restructuring charges in 2012 primarily include costs related to employee separation while those recorded in 2011 reflect lease abandonment charges.

Consolidated Income Tax Expense

Our effective tax rate was 8.4% in 2012 compared to 13.0% in 2011. The low effective tax rates on the reported pre-tax loss in both periods are directly attributable to the significant impairment charges in the U.S., Europe and Asia Pacific in 2012 and in the U.S. in 2011 which are either only partially deductible or fully non-deductible. 2012 also includes the impact of a net benefit recorded of \$0.9 million following the resolution of a state tax contingency. Our consolidated effective tax rate can

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vary from period to period depending on, among other factors, the geographic and business mix of our earnings.

Year Ended December 31, 2011 Compared to Year Ended December 31, 2010*U.S. Operations*

\$ in thousands	Year Ended December 31,		Change	% Change
	2011	2010		
Revenues:				
Commissions and fees	\$ 279,781	\$ 310,924	\$ (31,143)	(10)
Recurring	87,229	71,948	15,281	21
Other	8,511	2,818	5,693	202
Total revenues	375,521	385,690	(10,169)	(3)
Expenses:				
Compensation and employee benefits	145,905	140,829	5,076	4
Transaction processing	52,200	46,183	6,017	13
Other expenses	143,417	142,505	912	1
Goodwill and other asset impairment	229,317	6,091	223,226	3,665
Restructuring charges	22,471	2,002	20,469	1,022
Acquisition-related costs	2,523	2,409	114	5
Interest expense	2,025	671	1,354	202
Total expenses	597,858	340,690	257,168	75
(Loss) income before income tax expense	\$ (222,337)	\$ 45,000	\$ (267,337)	(594)

The U.S. Operations in 2011 include a full year of activity for Majestic Research Corp. ("Majestic"), which was acquired in October 2010. Furthermore, following the acquisition of RSEG in June 2011, these results include revenues from RSEG's U.S. clients, which comprise a majority of its client base, along with all of RSEG's operating expenses, net of a charge to our Canadian Operations pursuant to a distribution agreement for costs attributable to RSEG revenue recognized in Canada.

Our U.S. trading volumes increased 9% over 2010 while the overall U.S. trading markets equity volumes (as measured by the combined share volume of NYSE- and NASDAQ-listed securities) decreased 10%. Our average daily volume growth was driven by increased order flow from our sell-side client segment. The sell-side client segment comprised 40% of our average daily volume in 2011 compared to 24% in 2010. The increased order flow from this lower-rate business combined with reduced trading activity from our active fund manager clients resulted in a reduction in our average revenue capture per share. As a result, commissions and fees decreased by 10% despite the higher volumes.

U.S. Operations: Key Indicators *	Year Ended December 31,		Change	% Change
	2011	2010		
Total trading volume (in billions of shares)	48.8	44.8	4.0	9
Average trading volume per day (in millions of shares)	193.7	177.8	15.9	9
Average revenue per share	\$ 0.0049	\$ 0.0060	\$ (0.0011)	(18)
U.S. market trading days	252	252		

*

Excludes activity from ITG Derivatives and ITG Net commission share arrangements.

Recurring revenues increased primarily due to the inclusion of the full year of subscription revenue from ITG Investment Research (Majestic since October 2010 and RSEG since June 2011) which added

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\$20.8 million of incremental subscription revenue. This more than offset lower revenues from our connectivity and OMS products and services.

Other revenues increased primarily from an increase in the net spread earned by our securities lending business and a decrease in trading errors and client accommodations.

Total expenses were up \$257.2 million compared to 2010. This increase was primarily due to the challenging economic environment, which led to significant charges for impairments and restructurings in 2011. The restructurings resulted in charges in the second and fourth quarters of 2011 related to reductions to our employee base (\$17.5 million) and lease consolidations (\$5.0 million, including additional costs from our 2009 and 2010 restructurings) and we recorded impairment charges in the U.S. during 2011 of \$229.3 million. In addition, we incurred acquisition costs of \$2.5 million related to our purchase of RSEG. Similarly, 2010 included a restructuring charge of \$2.0 million primarily related to lease consolidation, an impairment charge of \$6.1 million to write-off capitalized software and acquisition costs of \$2.4 million from our Majestic purchase. Excluding these charges, adjusted expenses (see *Non-GAAP Financial Measures* for adjusted amounts) were \$343.5 million in 2011, compared to \$330.2 million in 2010 due to \$31.7 million of incremental expenses from ITG Investment Research, offset in part by savings from prior cost reduction initiatives. The incremental costs from ITG Investment Research reflect a full year of expenses in 2011 for the Majestic business, which was acquired in October 2010, as well as the post-acquisition costs of our RSEG business acquired in the second quarter of 2011.

Compensation and employee benefits increased only 4% despite \$22.1 million of incremental personnel costs related to ITG Investment Research as cost savings initiatives from our restructuring efforts in 2011 and decreases in cash incentive compensation partially offset these additional costs.

Transaction processing costs increased due to higher trading volumes and a change in the mix of our executed trades.

Other expenses remained relatively flat year over year as \$8.3 million of incremental costs associated with the acquired research businesses were offset by various cost savings including a reduction in legal fees, reduced reserves for certain general taxes and lower software amortization, as well as an additional \$3.0 million of research and development costs allocated to other regions based on usage.

Goodwill and other asset impairment charges in 2011 were recorded in the second and fourth quarters of 2011. In the second quarter, we recorded a goodwill impairment charge of \$225.0 million, reflecting lower estimated future cash flows for the U.S. Operations reporting unit and a decline in industry market multiples (see *Critical Accounting Estimates* for further details). In the fourth quarter of 2011, we wrote down the remaining \$4.3 million carrying value of a minority interest. In 2010, we recorded a \$6.1 million charge for the write-down of certain capitalized software initiatives.

Restructuring charges in 2011 and 2010 primarily include costs related to employee separation and lease consolidation.

Acquisition-related costs were incurred in connection with the RSEG acquisition, consisting of \$0.7 million in professional services, such as legal and accounting services, as well as \$1.8 million in costs to terminate a distribution agreement with a third party, net of a \$1.0 million recovery from RSEG's former owners. Costs in 2010 relate to the acquisition of Majestic in October 2010.

Interest expense incurred in 2011 primarily relates to interest cost on our \$25.5 million term debt financing obtained in the second quarter of 2011 and commitment fees relating to the three-year, \$150 million revolving credit agreement we entered into in January 2011, as well as debt issuance cost amortization relating to both facilities (see *Liquidity and Capital Resources* and Note 15, *Borrowings*, to

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the consolidated financial statements for further detail). Interest expense incurred in 2010 relates to the term loan under our 2006 credit agreement, which was fully repaid as of December 31, 2010.

Canadian Operations

\$ in thousands	Year Ended December 31,		Change	% Change
	2011	2010		
Revenues:				
Commissions and fees	\$ 72,518	\$ 68,845	\$ 3,673	5
Recurring	6,750	4,062	2,688	66
Other	6,282	5,572	710	13
Total revenues	85,550	78,479	7,071	9
Expenses:				
Compensation and employee benefits	23,230	21,926	1,304	6
Transaction processing	13,630	15,173	(1,543)	(10)
Other expenses	27,970	20,277	7,693	38
Restructuring charges	685	(16)	701	NA
Total expenses	65,515	57,360	8,155	14
Income before income tax expense	\$ 20,035	\$ 21,119	\$ (1,084)	(5)

Currency translation increased total Canadian revenues and expenses by \$3.5 million and \$2.4 million, respectively, resulting in a \$1.1 million increase to pre-tax income. Our Canadian results include investment research revenues from Canadian clients along with a portion of research related expenses following the acquisition of RSEG in the second quarter of 2011.

Commissions and fees grew 5%, benefitting from favorable currency translation (\$3.0 million) and higher crossing revenues in MATCH Now. Average daily trading volumes in our Canadian Operations grew 31%, however, our average revenue per share declined 23% due to the mix of our business as well as pricing pressure.

Recurring revenues increased due to Canadian client usage of ITG Investment Research services, which contributed \$1.5 million in revenues, as well as an increase in the number of billable connections through ITG Net. Other revenues increased as a result of higher fees earned from our customers' foreign currency transactions for settlement of equity trades in currencies other than the local currency.

Compensation and employee benefits increased \$1.3 million due to unfavorable currency translation and research related costs. These increases were offset in part by lower share-based compensation, which fluctuates for our Canadian operations based on changes in the market price of our stock.

Transaction processing costs decreased \$1.5 million due to a reduction in clearance and settlement charges as a result of the migration to a new clearing broker in August 2010 and lower execution costs from improved crossing rates and routing strategies. These decreases were offset in part by unfavorable currency translation.

The increase in other expenses was primarily driven by consulting costs incurred to enhance our product offerings, costs related to enhancing our infrastructure, a \$1.5 million charge from the U.S. Operations for investment research distribution rights, a \$2.3 million increase in the amount allocated for research and development costs, higher data charges and unfavorable currency translation.

Restructuring charges primarily include employee separation costs.

Table of Contents*European Operations*

\$ in thousands	Year Ended December 31,		Change	% Change
	2011	2010		
Revenues:				
Commissions and fees	\$ 57,280	\$ 58,893	\$ (1,613)	(3)
Recurring	13,182	14,721	(1,539)	(10)
Other	208	(337)	545	162
Total revenues	70,670	73,277	(2,607)	(4)
Expenses:				
Compensation and employee benefits	29,353	32,959	(3,606)	(11)
Transaction processing	16,978	16,467	511	3
Other expenses	21,114	19,808	1,306	7
Restructuring charges	962		962	NA
Total expenses	68,407	69,234	(827)	(1)
Income before income tax expense	\$ 2,263	\$ 4,043	\$ (1,780)	(44)

Currency translation increased our total European revenues and expenses by \$2.7 million and \$3.1 million, respectively, resulting in a \$0.4 million decrease to pre-tax income.

European commissions and fees decreased \$1.6 million, despite a favorable currency translation of \$2.2 million. Excluding this currency translation impact, commissions and fees fell \$3.8 million largely due to reduced institutional flow. Offsetting this decrease was revenue from our new Single Ticket Clearing business and additional revenue from our sell-side clients.

Recurring revenues fell \$1.5 million due to OMS and analytical product subscription cancellations. Other revenues increased \$0.5 million due to fewer trading errors and accommodations and an increase in investment income.

Compensation and employee benefits decreased \$3.6 million due to lower incentive compensation and a 15% reduction in average headcount, partially offset by reduced capitalization of development compensation and an unfavorable currency translation impact of \$1.2 million.

Transaction processing costs increased \$0.5 million due primarily to unfavorable currency translation and the impact of higher interest costs to finance trade settlement activities.

Other expenses increased by \$1.3 million in 2011, including the effects of foreign currency, due to an investment in a new data center in Stockholm, Sweden to reduce latency in the Scandinavian markets, additional costs for surveillance and monitoring tools initiated due to European regulations and an increase in the amount allocated for research and development costs.

Restructuring charges primarily include employee separation costs.

Table of Contents*Asia Pacific Operations*

\$ in thousands	Year Ended December 31,		Change	% Change
	2011	2010		
Revenues:				
Commissions and fees	\$ 36,222	\$ 30,343	\$ 5,879	19
Recurring	3,758	2,455	1,303	53
Other	316	510	(194)	(38)
Total revenues	40,296	33,308	6,988	21
Expenses:				
Compensation and employee benefits	20,819	20,172	647	3
Transaction processing	8,794	7,564	1,230	16
Other expenses	16,958	18,950	(1,992)	(11)
Goodwill and other asset impairment		5,375	(5,375)	(100)
Restructuring charges	314	2,076	(1,762)	(85)
Total expenses	46,885	54,137	(7,252)	(13)
Loss before income tax expense	\$ (6,589)	\$ (20,829)	\$ 14,240	68

Currency translation increased total Asia Pacific revenues and expenses by \$1.6 million and \$1.8 million, respectively, reducing pre-tax income by \$0.2 million.

Commissions and fees increased 19% over the prior year due primarily to strong order flow by local clients and by U.S. clients trading into the region for the Hong Kong, Japan and Australia markets, as well as the strength of the Australian Dollar. Commissions and fees were also positively impacted by additional ITG Net commission sharing revenues.

Recurring revenues grew primarily from growth in the number of recurring billable network connections through ITG Net.

Compensation and employee benefits increased primarily due to unfavorable currency translation of \$0.9 million, as increases in headcount and incentive-based compensation were offset by decreases in severance and other employee-related expenses.

Transaction processing costs increased due to an increase in institutional value traded, partially offset by cost saving initiatives implemented for clearance and settlement.

Other expenses reflect the savings achieved from the closing of our on-shore Japanese operations in the second quarter of 2010 as well as vacating office space in Sydney, Australia and other cost savings efforts, partially offset by unfavorable currency translation of \$0.6 million.

The restructuring charges recorded in 2011 include lease abandonment charges while the 2010 charges include costs related to employee severance, contract termination costs and non-cash write-offs of fixed assets and capitalized software in connection with closing our on-shore Japanese operations. The goodwill impairment charge recorded in 2010 relates to the write-off of the entire balance of goodwill in our Australia reporting unit.

Consolidated Income Tax Expense

Our effective tax rate was 13.0% in 2011 compared to 51.4% in 2010. The decrease in the 2011 effective tax rate on the reported pre-tax loss is primarily attributed to the portion of goodwill impairment charges in the U.S. in the second quarter 2011 deemed non-deductible. The higher effective tax rate on the reported pre-tax income in 2010 resulted from significant pre-tax losses in the Asia Pacific region where we are not currently recording tax benefits. The pre-tax losses in the Asia Pacific Region during 2010 included restructuring charges of \$2.5 million and a goodwill impairment charge of \$5.4 million. Our consolidated effective tax rate can vary from period to period depending on, among other factors, the geographic and business mix of our earnings.

Table of Contents**Liquidity and Capital Resources***Liquidity*

Our primary source of liquidity is cash provided by operations. Our liquidity requirements result from our working capital needs, which include clearing and settlement activities, as well as our regulatory capital needs. A substantial portion of our assets are liquid, consisting of cash and cash equivalents or assets readily convertible into cash. Cash is principally invested in U.S. government money market mutual funds and other money market mutual funds. At December 31, 2012, unrestricted cash and cash equivalents totaled \$245.9 million.

As a self-clearing broker-dealer in the U.S., we are subject to cash deposit requirements with clearing organizations that may be large in relation to total liquid assets and may fluctuate significantly based upon the nature and size of customers' trading activity and market volatility. At December 31, 2012, we had interest-bearing security deposits totaling \$29.1 million with clearing organizations in the U.S. for the settlement of equity trades. In the normal course of our settlement activities, we may also need to temporarily finance customer securities positions from short settlements or delivery failures. These financings may be funded from existing cash resources, borrowings under stock loan transactions or short-term bank loans under our committed facility. In January 2011, we established a \$150 million three-year revolving credit agreement with a syndicate of banks and JP Morgan Chase Bank, N.A., as administrative agent to finance these temporary positions and to satisfy temporary spikes in clearing margin requirements.

We self-clear equity trades in Hong Kong and Australia and maintain restricted cash deposits of \$25.8 million to support overdraft facilities. In Europe, we maintain \$27.9 million in restricted cash deposits supporting working capital facilities primarily in the form of overdraft protection for our European clearing and settlement needs.

Capital Resources

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

Operating Activities

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

(in thousands)	Year Ended December 31,		
	2012	2011	2010
Net (loss) income	\$ (247,859)	\$ (179,789)	\$ 23,980
Non-cash items included in net income	321,199	278,620	89,169
Effect of changes in receivables/payables from/to customers and brokers	(32,563)	4,045	58,588
Effect of changes in other working capital and operating assets and liabilities	(13,985)	(35,817)	4,372
Net cash provided by operating activities	\$ 26,792	\$ 67,059	\$ 176,109

The decrease in operating cash flow during 2012 was due primarily to a decrease in net income, net of non-cash items, such as the goodwill charge, together with the impact of the increase in net receivables/payables from/to customers and brokers primarily related to European settlement activities at December 31, 2012, which were partially financed by an increase in a short-term bank loan of \$20.5 million.

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

Investing Activities

Net cash used in investing activities of \$58.1 million includes our investment in capitalizable software development projects and computer hardware, software and facilities, including the build-out of our new headquarters in lower Manhattan. Capital expenditures related to our new headquarters are expected to increase over the next six months and will be financed through our new master lease facility with BMO (see below).

Financing Activities

Net cash used in financing activities of \$7.8 million primarily reflects repurchases of ITG common stock, shares withheld for net settlements of share-based awards and repayments of long-term debt, offset by short-term bank borrowings from overdraft facilities arising from international clearing, proceeds from a sales-leaseback transaction, borrowings under our BMO facility and the reduction of deferred compensation amounts through issuances of our common stock.

In June 2012, \$1.9 million was drawn on a master lease facility to finance purchased assets. The lease is payable over 48 months in monthly installments of approximately \$38,000 and accrues interest at an annualized rate of 3% plus the average one month LIBOR for dollar deposits. The master lease facility expired on June 30, 2012.

In August 2012, Investment Technology Group, Inc. ("Parent Company") entered into a \$25.0 million master lease facility with BMO Harris Equipment Finance Company ("BMO"). The primary purpose of this facility is to finance equipment and construction expenditures related to the build-out of our new headquarters in lower Manhattan, with \$14 million of the total facility available for funding leasehold improvements in connection therewith. The facility contains an initial interim funding agreement which is then succeeded by a capital lease.

Under the terms of the interim funding agreement, Parent Company will be reimbursed for expenditures made during an interim funding period which ends on May 7, 2013, or up to 90 days later if an extension is requested and granted ("Interim Funding Period"). Interest-only payments on the aggregate outstanding borrowings during the Interim Funding Period are paid monthly at an annual rate of 2.25% plus 30-day LIBOR. Upon expiration of the Interim Funding Period, the interim funding agreement will be succeeded by fixed rate term financing structured as a capital lease with a 48-month term (from its inception date), at the end of which Parent Company may purchase the underlying equipment for \$1. The fixed rate will be based on the 4-year LIBOR Swap Rate at the lease inception date plus a spread of 2.25%.

At December 31, 2012, there was \$0.6 million outstanding under the BMO facility.

During 2012, the Company repurchased approximately 2.7 million shares of our common stock at a cost of approximately \$26.3 million, which was funded from our available cash resources. Of these shares, approximately 2.5 million were purchased under our Board of Directors' authorization for a total cost of \$23.5 million (average cost of \$9.50 per share). An additional 0.3 million shares (\$2.8 million) pertained solely to the satisfaction of minimum statutory withholding tax upon the net settlement of equity awards. As of December 31, 2012, the total remaining number of shares currently available for repurchase under ITG's stock repurchase program was 1.5 million. The specific timing and amount of repurchases will vary based on market conditions and other factors.

Table of Contents**Regulatory Capital**

Under the SEC's Uniform Net Capital Rule, our U.S. broker-dealer subsidiaries are required to maintain at least the minimum level of net capital required under Rule 15c3-1 at all times. Dividends or withdrawals of capital cannot be made from these entities if the capital is needed to comply with regulatory requirements.

Our net capital balances and the amounts in excess of required net capital at December 31, 2012 for our U.S. Operations are as follows (dollars in millions):

U.S. Operations	Net Capital	Excess Net Capital
ITG Inc.	\$ 104.4	\$ 103.4
AlterNet	4.6	4.5
ITG Derivatives	4.8	3.8

As of December 31, 2012, ITG Inc. had a \$5.9 million cash balance in Special Reserve Bank Accounts for the exclusive benefit of customers and brokers under the Customer Protection Rule pursuant to SEC Rule 15c3-3, *Computation for Determination of Reserve Requirements*.

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, 2012, are summarized in the following table (dollars in millions):

Canadian Operations	Net Capital	Excess Net Capital
Canada	\$ 40.3	\$ 39.8
European Operations		
Europe	49.4	26.8
Asia Pacific Operations		
Australia	3.5	1.3
Hong Kong	27.3	15.9
Singapore	0.4	0.2

Liquidity and Capital Resource Outlook

Historically, our working capital, stock repurchase and investment activity requirements have been funded from cash from operations and short-term loans, with the exception of strategic acquisitions, which at times have required long-term financing. We believe that our cash flow from operations, existing cash balances and our available credit facilities will be sufficient to meet our ongoing operating cash and regulatory capital needs, while also complying with the terms of our 2011 revolving credit agreement (see *Financing Activities*). However, our ability to borrow additional funds may be inhibited by financial lending institutions' ability or willingness to lend to us on commercially acceptable terms.

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

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

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We have not recorded any contingent liability in the consolidated financial statements for these agreements and believe that any potential requirement to make payments under these agreements is remote.

Aggregate Contractual Obligations

As of December 31, 2012, our contractual obligations and other commercial commitments amounted to \$215.3 million in the aggregate and consisted of the following (dollars in millions):

Contractual obligations	Total	Payments due by period			
		Less than 1 year	1-3 years	3-5 years	More than 5 years
Purchase of goods and services	\$ 53,015	\$ 30,714	\$ 16,533	\$ 5,768	\$
Long-term debt	15,388	5,837	9,551		
Capital lease obligations	3,280	1,064	2,216		
Operating lease obligations	137,723	15,139	27,082	29,849	65,653
Minimum payments under certain employment arrangements (a)	5,917	5,752	48	33	84
Total	\$ 215,323	\$ 58,506	\$ 55,430	\$ 35,650	\$ 65,737

(a) Pursuant to employment arrangements, in the event of termination of employment without cause on December 31, 2012, we would be obligated to pay separation payments totaling \$5.8 million.

The above information excludes \$13.7 million of unrecognized tax benefits discussed in Note 14, *Income Taxes*, to our consolidated financial statements because it is not possible to estimate the time period when, or if, it might be paid to tax authorities.

As part of the \$150 million, three-year credit agreement we entered into on January 31, 2011, we are required to pay a commitment fee of 0.50% on any unborrowed amounts.

Critical Accounting Estimates

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

Goodwill Impairment: Testing Methodology and Valuation Considerations

We obtained goodwill and intangible assets as a result of the acquisitions of subsidiaries. Goodwill represents the excess of the cost over the fair market value of net assets acquired. Prior to the full impairment of our goodwill in the second quarter of 2012 we tested goodwill for impairment at least annually and more frequently if an event occurred or circumstances changed that would more likely

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than not reduce the fair value of a reporting unit below its carrying value in accordance with ASC 350, Intangibles - Goodwill and other. Goodwill impairment testing uses a two-step process as follows:

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

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

The impairment assessment requires management to make estimates regarding the fair value of the reporting unit to which goodwill has been assigned. The fair values of our reporting units were determined by considering the income approach, and where appropriate, a combination of the income and market approaches to valuation.

Under the income approach, the fair value of the reporting unit is estimated based on the present value of expected future cash flows. The income approach is dependent on a discounted cash flow model for each of our reporting units, which incorporates a cash flow forecast plus a terminal value (a commonly used methodology to capture the present value of perpetual cash flows assuming an estimated sustainable long-term growth rate). Such forecasts consider business plans, historical and anticipated future results based upon our expectations for future product offerings, our market opportunities and challenges and other factors. The discount rates used to determine the present value of future cash flows are based upon an adjusted version of the Capital Asset Pricing Model ("CAPM") to estimate the required rate of return on equity capital. The CAPM measures the rate of return required by investors given a company's risk profile.

Under the market approach, the fair value is derived from multiples which are (i) based upon operating data of similar guideline companies, (ii) evaluated and adjusted based on the strengths and weaknesses of our company compared to the guideline companies and (iii) applied to our company's operating data to arrive at an indication of value. We also consider prices paid in recent transactions that have occurred in our industry or related industries. In the latter case, valuation multiples based upon actual transactions are used to arrive at an indication of value. Under the market approach, certain judgments are made about the selection of comparable guideline companies, comparable recent company and asset transactions and transaction control premiums. Although we had based the fair value estimate on assumptions we believed to be reasonable, those assumptions are inherently unpredictable and uncertain and actual results could differ from the estimate.

In our impairment testing, we also examined the sensitivity of the fair values of our reporting units by reviewing other scenarios relative to the initial assumptions we used to see if the resulting impact on fair values would have resulted in a different step one conclusion. Accordingly, we performed sensitivity analyses based on more conservative terminal growth scenarios and higher discount rates in which the fair values of these reporting units are recalculated. In the first sensitivity analysis, we lowered our terminal growth rate assumptions (holding all other critical assumptions constant), while in our second sensitivity analysis; we increased each reporting unit's discount rate (holding all other critical assumptions constant). We then evaluated the outcomes of the sensitivity analyses performed to assess their impact on our step one conclusions.

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As a corroborative source of fair value reasonability assessment, we reconciled the aggregate fair values of our reporting units to the market capitalization of ITG to derive an implied control premium (an adjustment reflecting the estimated incremental fair value of a controlling stake in a company). In performing this reconciliation, we used either the stock price on the valuation date or the average stock price over a range of dates around the valuation date, generally 30 days. We then compared the implied control premium to premiums paid in observable recent transactions of comparable companies to verify the reasonableness of the fair value of our reporting units obtained through our primary valuation methods.

We continually monitored and evaluated business and competitive conditions that affect our operations for indicators of potential impairment. As a result, we performed quarterly interim impairment testing in addition to our annual tests since 2010 due to the presence of adverse economic and business conditions such as significant outflows from domestic equity mutual funds (which comprise a core component of our client base), a prolonged decrease in our market capitalization below book value, a decline in our current and expected financial performance, and the significant near-term uncertainty related to both the global economic recovery and the outlook for our industry. Our interim impairment tests apply the same valuation techniques, terminal growth rates and sensitivity analyses used in our prior annual impairment tests to each updated quarterly cash flow forecast.

During the first two months of 2012, outflows from domestic equity funds moderated significantly, averaging less than \$2 billion per month before spiking to nearly \$12 billion in March. This moderation followed outflows averaging \$20 billion per month in the last six months of 2011. These somewhat mixed indications caused us to adjust our March 31 cash flow and earnings forecasts below the levels projected during our 2011 year-end impairment testing. These downwardly revised forecasts as well as current market data formed the basis upon which we performed our goodwill impairment testing at March 31. Based upon our assessments, we concluded that none of the goodwill allocated to any of our reporting units was impaired at that time.

In the second quarter, industry conditions deteriorated further. Outflows from domestic equity funds re-accelerated while trading activity in major global equity markets fell further below prior year levels, driving our revenues below the levels projected in our March 31 forecast. More significantly, the challenges previously experienced in our U.S. brokerage environment spread to our European and Asia Pacific businesses during the quarter, both of which reported second quarter revenues which were significantly below first quarter levels. These developments cast a decidedly more uncertain outlook on our near term business fundamentals as well as the length and severity of the decline in global institutional equity market activity. Consequently, we downwardly revised our earnings and cash flow forecasts to reflect our adjusted expectations for a significantly slower and more prolonged earnings recovery in our global businesses and reduced the multiple used in our market approach to reflect the decline in industry market multiples. Although the revised forecasts continued to result in a fair value for our Canadian reporting unit that was well above its carrying value (which does not include goodwill), the fair values for our U.S., European and Asia Pacific reporting units were determined to be below their carrying values, indicating a potential impairment of the goodwill held in these units and requiring us to proceed to step two impairment testing. Our step two valuation test yielded aggregate fair values for the tangible and (non-goodwill) intangible assets in our U.S., European and Asia Pacific 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 us to record a total goodwill impairment charge of \$274.3 million.

Intangible Assets Subject to Amortization

Intangible assets with definite useful lives are subject to amortization and are evaluated for recoverability when events or changes in circumstances indicate that an intangible asset's carrying amount may not be recoverable in accordance with ASC 360, Property, Plant, and Equipment. If such

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

Share-Based Compensation

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

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

Fair Value

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

Income Taxes and Uncertain Tax Positions

ASC 740, Income Taxes, establishes financial accounting and reporting standards for the effect of income taxes. The objectives of accounting for income taxes are to recognize the amount of taxes payable or refundable for the current year and deferred tax liabilities and assets for the future tax consequences of events that have been recognized in an entity's financial statements or tax returns. A valuation allowance may be recorded against deferred tax assets if it is more likely than not that such assets will not be realized. Judgment is required in assessing the future tax consequences of events that have been recognized in our financial statements or tax returns. Fluctuations in the actual outcome of these future tax consequences could materially impact our financial position or results of operations.

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

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

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

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

Interest Rate Risk

Our exposure to interest rate risk relates primarily to interest-sensitive financial instruments in our investment portfolio and our revolving credit facility. Since our \$150.0 million credit facility is specifically earmarked for limited short-term borrowings to support U.S. brokerage clearing operations, the impact of any adverse change in interest rates on this facility should not be material. Interest-sensitive financial instruments in our investment portfolio will decline in value if interest rates increase. Our interest-bearing investment portfolio primarily consists of short-term, high-credit quality money market mutual funds. The aggregate fair market value of our portfolio including restricted cash was \$243.5 million and \$277.4 million as of December 31, 2012 and 2011, respectively. Our interest-bearing investments are not insured and because of the short-term high quality nature of the investments are not likely to fluctuate significantly in market value.

Foreign Currency Risk

We currently operate and continue to expand globally, principally through our operations in Canada, Europe and Asia Pacific as well as through the development of specially tailored versions of our services to meet the needs of our clients who trade in international markets. Additionally, we maintain a technology development facility in Israel. Our investments and development activities in these countries expose us to currency exchange rate fluctuations primarily between the U.S. Dollar and the British Pound Sterling, Euro, Australian Dollar, Canadian Dollar, Hong Kong Dollar and Israeli New Shekel. When the U.S. Dollar strengthens against these currencies, the U.S. Dollar value of non-U.S. Dollar-based revenue decreases. To the extent that our international activities recorded in

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local currencies increase in the future, our exposure to fluctuations in currency exchange rates will correspondingly increase. We have not engaged in derivative financial instruments as a means of hedging this financial statement risk. Non-U.S. Dollar cash balances held overseas are generally kept at levels necessary to meet current operating and capitalization needs. The Company may at times hedge small amounts of the Non-U.S. Dollar cash balances to mitigate exposure.

Approximately 36% and 34% of our revenues for the years ended December 31, 2012 and 2011, respectively, were denominated in non-U.S. Dollar currencies. For the years ended December 31, 2012 and 2011, respectively, we estimate that a hypothetical 10% adverse change in the above mentioned foreign exchange rates would have resulted in a decrease in net income of \$4.3 million and \$0.7 million, respectively.

Equity Price Risk

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

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

Cash Management Risk

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

For working capital purposes, we invest only in money market instruments. Cash balances that are not needed for normal operations may be invested in a tax efficient manner in instruments with appropriate maturities and levels of risk to correspond to expected liquidity needs. To the extent that we invest in equity securities, we ensure portfolio liquidity by investing in marketable mutual fund securities with active secondary or resale markets. We do not use derivative financial instruments in our investment portfolio. At December 31, 2012 and 2011, our unrestricted cash and cash equivalents and mutual fund securities owned were \$250.5 million and \$288.8 million, respectively.

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Item 8. Financial Statements and Supplementary Data

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Report of Independent Registered Public Accounting Firm

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

We have audited the accompanying consolidated statements of financial condition of Investment Technology Group, Inc. and Subsidiaries (the Company) as of December 31, 2012 and 2011, and the related consolidated statements of operations, comprehensive (loss) income, changes in stockholders' equity and cash flows for each of the years in the three-year period ended December 31, 2012. 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, 2012 and 2011, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2012, 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, 2012, 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 6, 2013, expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

/s/ KPMG LLP

New York, New York
March 6, 2013

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

	December 31,	
	2012	2011
Assets		
Cash and cash equivalents	\$ 245,875	\$ 284,188
Cash restricted or segregated under regulations and other	61,117	71,496
Deposits with clearing organizations	29,149	25,538
Securities owned, at fair value	10,086	5,277
Receivables from brokers, dealers and clearing organizations	1,107,119	871,315
Receivables from customers	546,825	472,509
Premises and equipment, net	54,989	43,023
Capitalized software, net	43,994	51,258
Goodwill		274,292
Other intangibles, net	35,227	39,594
Income taxes receivable	7,460	6,838
Deferred taxes	39,155	16,493
Other assets	15,763	16,248
Total assets	\$ 2,196,759	\$ 2,178,069
Liabilities and Stockholders' Equity		
Liabilities:		
Accounts payable and accrued expenses	\$ 165,062	\$ 181,224
Short-term bank loans	22,154	1,606
Payables to brokers, dealers and clearing organizations	1,337,459	1,079,773
Payables to customers	226,892	207,738
Securities sold, not yet purchased, at fair value	5,249	438
Income taxes payable	10,608	11,460
Deferred taxes	293	719
Term debt	19,272	23,997
Total liabilities	1,786,989	1,506,955
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; 52,037,011 and 51,899,229 shares issued at December 31, 2012 and 2011, respectively	520	519
Additional paid-in capital	245,002	249,469
Retained earnings	405,485	653,344
Common stock held in treasury, at cost; 14,677,872 and 12,679,948 shares at December 31, 2012 and 2011, respectively	(253,111)	(240,559)
Accumulated other comprehensive income (net of tax)	11,874	8,341
Total stockholders' equity	409,770	671,114
Total liabilities and stockholders' equity	\$ 2,196,759	\$ 2,178,069

See accompanying Notes to the Consolidated Financial Statements.

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

	Year Ended December 31,		
	2012	2011	2010
Revenues:			
Commissions and fees	\$ 380,976	\$ 445,801	\$ 469,005
Recurring	109,767	110,919	93,186
Other	13,693	15,317	8,563
Total revenues	504,436	572,037	570,754
Expenses:			
Compensation and employee benefits	196,362	219,307	215,886
Transaction processing	81,173	91,602	85,387
Occupancy and equipment	62,637	60,191	59,905
Telecommunications and data processing services	59,850	58,460	53,473
Other general and administrative	88,543	90,808	94,253
Goodwill and other asset impairment	274,285	229,317	5,375
Restructuring charges	9,499	24,432	4,062
Acquisition-related costs		2,523	2,409
Interest expense	2,542	2,025	671
Total expenses	774,891	778,665	521,421
(Loss) income before income tax (benefit) expense	(270,455)	(206,628)	49,333
Income tax (benefit) expense	(22,596)	(26,839)	25,353
Net (loss) income	\$ (247,859)	\$ (179,789)	\$ 23,980
(Loss) earnings per share:			
Basic	\$ (6.45)	\$ (4.42)	\$ 0.56
Diluted	\$ (6.45)	\$ (4.42)	\$ 0.55
Basic weighted average number of common shares outstanding	38,418	40,691	42,767
Diluted weighted average number of common shares outstanding	38,418	40,691	43,496

See accompanying Notes to the Consolidated Financial Statements.

Table of Contents**INVESTMENT TECHNOLOGY GROUP, INC. AND SUBSIDIARIES****Consolidated Statements of Comprehensive (Loss) Income****(In thousands)**

	Year Ended December 31,		
	2012	2011	2010
Net (loss) income	\$ (247,859)	\$ (179,789)	\$ 23,980
Other comprehensive income (loss), net of tax:			
Currency translation adjustment	3,533	(2,066)	2,939
Net change in securities available for sale		(86)	155
Other comprehensive income (loss)	3,533	(2,152)	3,094
Comprehensive (loss) income	\$ (244,326)	\$ (181,941)	\$ 27,074

See accompanying Notes to the Consolidated Financial Statements.

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INVESTMENT TECHNOLOGY GROUP, INC.
Consolidated Statements of Changes in Stockholders' Equity
For the Years Ended December 31, 2012, 2011 and 2010
(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, 2009	\$	517	\$ 233,374	\$ 809,153	\$ (182,743)	\$ 7,399	\$ 867,700
Net income				23,980			23,980
Other comprehensive income						3,094	3,094
Issuance of common stock for stock options (125,268 shares), restricted share awards (317,489 shares) and employee stock unit awards (311,106 shares), including tax benefit shortfall and award cancellations of \$2.2 million			(9,925)		16,961		7,036
Issuance of common stock for the employee stock purchase plan (108,454 shares)		1	1,650				1,651
Majestic acquisition replacement awards			2,994				2,994
Purchase of common stock (3,151,828 shares)					(50,284)		(50,284)
Shares withheld for net settlements of share-based awards (235,075 shares)					(4,095)		(4,095)
Share-based compensation			17,992				17,992
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 loss						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

See accompanying Notes to the Consolidated Financial Statements.

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INVESTMENT TECHNOLOGY GROUP, INC.

Consolidated Statements of Cash Flows

(In thousands)

	Year ended December 31,		
	2012	2011	2010
Cash Flows from Operating Activities:			
Net (loss) income	\$ (247,859)	\$ (179,789)	\$ 23,980
Adjustments to reconcile net (loss) income to net cash provided by operating activities:			
Depreciation and amortization	56,493	59,057	62,373
Deferred income tax (benefit) expense	(27,156)	(32,593)	(4,315)
Provision for doubtful accounts	1,401	203	178
Share-based compensation	15,628	20,156	18,006
Capitalized software write-off			6,091
Non-cash restructuring charges, net	548	2,480	1,461
Goodwill and other asset impairment	274,285	229,317	5,375
Changes in operating assets and liabilities:			
Cash restricted or segregated under regulations and other	11,700	(2,625)	25,843
Deposits with clearing organizations	(3,611)	(11,303)	656
Securities owned, at fair value	(4,689)	18,403	(18,058)
Receivables from brokers, dealers and clearing organizations	(230,137)	(6,671)	(503,140)
Receivables from customers	(59,252)	134,913	(290,031)
Accounts payable and accrued expenses	(22,905)	(18,079)	(31,995)
Payables to brokers, dealers and clearing organizations	241,231	(59,605)	889,457
Payables to customers	15,595	(64,592)	(37,698)
Securities sold, not yet purchased, at fair value	4,695	(18,915)	18,347
Income taxes receivable/payable	(1,459)	(6,053)	10,446
Other, net	2,284	2,755	(867)
Net cash provided by operating activities	26,792	67,059	176,109
Cash Flows from Investing Activities:			
Acquisition of subsidiaries and minority interests, net of cash acquired		(36,185)	(48,926)
Capital purchases	(33,424)	(22,857)	(19,280)
Capitalization of software development costs	(24,635)	(29,061)	(33,897)
Proceeds from sale of investments		2,095	
Net cash used in investing activities	(58,059)	(86,008)	(102,103)
Cash Flows from Financing Activities:			
Proceeds of short-term bank loans	20,548	1,606	
Proceeds from term loans		25,469	
Repayments of term loans	(7,185)	(4,043)	(46,900)
Proceeds from interim funding facility	605		
Proceeds from sales-lease back transactions	1,855	2,571	
Debt issuance costs		(2,908)	
Common stock issued	2,674	9,753	10,896
Common stock repurchased	(23,457)	(38,928)	(50,284)
Shares withheld for net settlements of share-based awards	(2,817)	(5,984)	(4,095)
Net cash used in financing activities	(7,777)	(12,464)	(90,383)
Effect of exchange rate changes on cash and cash equivalents	731	(1,409)	2,508

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Net decrease in cash and cash equivalents	(38,313)	(32,822)	(13,869)
Cash and cash equivalents beginning of year	284,188	317,010	330,879
Cash and cash equivalents end of year	\$ 245,875	\$ 284,188	\$ 317,010
Supplemental cash flow information:			
Interest paid	\$ 2,673	\$ 2,453	\$ 1,343
Income taxes paid	\$ 5,495	\$ 15,508	\$ 19,345
Majestic acquisition replacement awards	\$	\$	\$ 2,994

See accompanying Notes to the Consolidated Financial Statements.

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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, an institutional broker-dealer in Europe, (3) ITG Australia Limited, an institutional broker-dealer in Australia, (4) ITG Canada Corp., an institutional broker-dealer in Canada, (5) ITG Hong Kong Limited, an institutional broker-dealer in Hong Kong, (6) ITG Software Solutions, Inc., our intangible property, software development and maintenance subsidiary in the U.S., and (7) ITG Solutions Network, Inc., a holding company for ITG Analytics, Inc., a provider of pre- and post- trade analysis, fair value and trade optimization services, ITG Investment Research, Inc., a provider of independent data-driven investment research, and The Macgregor Group, Inc., a provider of trade order 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 Company is headquartered in New York with offices in North America, Europe and the Asia Pacific region.

The Company's reportable operating segments are: U.S. Operations, Canadian Operations, European Operations and Asia Pacific Operations (see Note 23, *Segment Reporting*, which also includes financial information about geographic areas). The U.S. Operations segment provides electronic and high-touch trade execution, trade order and execution management, network connectivity, analytical products and investment research services. The Canadian and Asia Pacific Operations segments provide electronic and high-touch trade execution, trade execution management, network connectivity, analytical products and investment research services. The European Operations segment provides electronic and high-touch trade execution, trade order and execution management, network connectivity and analytical products and includes a technology research and development facility in Israel.

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 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

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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 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 exists, the fees are fixed or determinable and collectability is reasonably assured.

Other revenues include: (1) income from principal trading, including the net spread on foreign exchange contracts entered into to facilitate equity trades by clients in different currencies, (2) the net interest spread earned on securities borrowed and loaned matched book transactions, (3) non-recurring professional services, such as one-time implementation and customer training related activities,

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(4) investment and interest income, (5) interest income on securities borrowed in connection with customers' settlement activities and (6) 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 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

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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 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, 2012, 2011 and 2010 were as follows (dollars in millions):

	2012	2011	2010
Client commissions	\$ 112.1	\$ 130.8	\$ 155.8
Prepaid research, gross	\$ 5.1	\$ 3.7	\$ 4.6
Allowance for prepaid research	(0.4)	(0.4)	(0.4)
Prepaid research, net of allowance	\$ 4.7	\$ 3.3	\$ 4.2
Accrued research payable	\$ 38.6	\$ 50.7	\$ 41.6

Capitalized Software

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

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Research and Development

All research and development costs are expensed as incurred. Research and development costs, which are included in other general and administrative expenses and compensation and employee benefits in the Consolidated Statements of Operations, are estimated at \$44.6 million, \$47.5 million and \$49.1 million for the years ended December 31, 2012, 2011 and 2010, 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. For acquisitions that took place prior to January 1, 2009, the fair value of the consideration issued or issuable is recorded as an additional cost of the acquired entity when the contingency is resolved and additional consideration is distributable. For acquisitions occurring after January 1, 2009, the fair value of any contingent consideration would be 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 is assessed no less than annually for impairment. The fair values used in the Company's impairment testing are determined by the discounted cash flow method (an income approach) and where appropriate, a combination of the discounted cash flow method and the guideline company method (a market approach). An impairment loss is indicated if the estimated fair value of a reporting unit is less than its net book value. In such a case, the impairment loss is calculated as the amount by which the carrying value of goodwill exceeds its implied fair value. In determining the fair value of each of the Company's reporting units, the discounted cash flow analyses employed require significant assumptions and estimates about the future operations of each reporting unit. Significant judgments inherent in these analyses include the determination of appropriate discount rates, the amount and timing of expected future cash flows and growth rates. The cash flows employed in the Company's discounted cash flow analyses were based on financial budgets and forecasts developed

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INVESTMENT TECHNOLOGY GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

internally by management. The Company's discount rate assumptions are based on a determination of its required rate of return on equity capital.

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

Premises and Equipment

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

Impairment of Long-Lived Assets

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

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

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average number of shares of common stock adjusted for the dilutive effect of common stock equivalents by application of the treasury stock method. Common stock equivalents are excluded from the diluted calculation if their effect is anti-dilutive.

Share-based Compensation

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

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

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option pricing model with the following weighted average assumptions used for grants in 2011 and 2010:

	2011	2010
Dividend yield	0.0%	0.0%
Risk free interest rate	2.0%	1.5%
Expected volatility	40%	44%
Expected life (years)	4.76	4.00

No option awards were granted in 2012.

The risk free interest rate 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.

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.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

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

Foreign Currency Translation

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

Common Stock Held in Treasury, at Cost

The purchase of treasury stock is accounted for under the cost method with the shares of stock repurchased reflected as a reduction to stockholders' equity and included in common stock held in treasury, at cost in the Consolidated Statements of Financial Condition. When treasury shares are reissued, they are recorded at the average cost of the treasury shares acquired. The Company held 14,677,872 and 12,679,948 shares of common stock in treasury as of December 31, 2012 and 2011, respectively.

Recently Adopted Accounting Standards

In July 2012, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("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 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.

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

(3) Restructuring Charges*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 following table summarizes the pre-tax charges by segment (dollars in thousands). Employee severance costs relate to the termination of approximately 80 employees. These charges are classified as restructuring charges in the Consolidated Statements of Operations.

	U.S. Operations	Canadian Operations	European Operations	Asia Pacific Operations	Consolidated
Employee separation costs	\$ 6,797	\$ 1,145	\$ 615	\$ 942	\$ 9,499
Total	\$ 6,797	\$ 1,145	\$ 615	\$ 942	\$ 9,499

Activity and liability balances recorded as part of the 2012 restructuring plan through December 31, 2012 are as follows:

	Employee separation costs
Restructuring charges recognized in 2012	\$ 9,499
Cash payments	(2,026)
Acceleration of share-based compensation in additional paid-in capital	(548)
Other	(17)
Balance at December 31, 2012	\$ 6,908

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 (\$19.2 million) and lease abandonment costs (\$4.3 million).

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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, 2011	\$ 4,530	\$ 4,337	\$ 8,867
Utilized cash	(4,553)	(1,065)	(5,618)
Other	140	(174)	(34)
Balance at December 31, 2012	\$ 117	\$ 3,098	\$ 3,215

The remaining accrued employee separation costs reflect the settlement of restricted share awards, which will continue 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. The restructuring charge consisted of lease abandonment costs (\$2.2 million) and employee separation costs (\$0.1 million). During 2011, an additional charge of \$0.8 million was recorded after the Company reevaluated the potential of sub-leasing the vacated office space.

The following table summarizes the changes during 2012 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, 2011	\$ 2,553
Utilized cash	(381)
Balance at December 31, 2012	\$ 2,172

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

Asia Pacific

In the second quarter of 2010, the Company implemented a plan to close its on-shore operations in Japan to lower costs and reduce capital requirements. The annual expenses for the on-shore Japanese operations were approximately \$4 million and the amount of regulatory capital deployed exceeded \$20 million. In connection with this move, a one-time charge of \$2.3 million was recorded for employee severance, contract termination costs and non-cash write-offs of fixed assets and capitalized software, which was partially offset in the fourth quarter of 2010 by \$0.2 million for cumulative translation gains that were reclassified to operations following the substantial liquidation of the Japanese subsidiary.

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All charges related to this plan were fully paid by December 31, 2011.

2009 Restructuring

In the fourth quarter of 2009, the Company committed to a restructuring plan (aimed primarily at its U.S. Operations) to reengineer its operating model to focus on a leaner cost structure and a more selective deployment of resources towards those areas of its business that provide a sufficiently profitable return.

The following table summarizes the final changes during 2012 in the Company's liability balance related to the 2009 restructuring plan 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, 2011	\$ 53	\$ 235	\$ 288
Utilized cash	(26)	(220)	(246)
Other	(27)	(15)	(42)
Balance at December 31, 2012	\$	\$	\$

(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.

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.

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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, 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	\$	\$

December 31, 2011	Total	Level 1	Level 2	Level 3
Assets				
Cash and cash equivalents:				
Tax free money market mutual funds	\$ 2,041	\$ 2,041	\$	\$
U.S. government money market mutual funds	110,901	110,901		
Money market mutual funds	6,372	6,372		
Securities owned, at fair value:				
Corporate stocks trading securities	689	689		
Mutual funds	4,588	4,588		
Total	\$ 124,591	\$ 124,591	\$	\$

Liabilities

Securities sold, not yet purchased, at fair value:				
Corporate stocks trading securities	\$ 438	\$ 438	\$	\$
Total	\$ 438	\$ 438	\$	\$

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.

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Certain items are measured at fair value on a non-recurring basis. The table below details the portion of those items that were measured at fair value during 2012 and 2011 and the resultant loss recorded (dollars in thousands):

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

December 31, 2011	Fair Value Measurements					Total Losses
	Total	Level 1	Using Level 2	Level 3		
Goodwill U.S. Operations	\$ 245,118	\$	\$ 245,118	\$	\$	225,035
Equity Investment						4,282
Total	\$ 245,118	\$	\$ 245,118	\$	\$	229,317

Goodwill

Goodwill allocated to the Company's U.S. Operations reporting unit with a carrying value of \$470.1 million was written down to its implied fair value of \$245.1 million in the second quarter of 2011, resulting in an impairment charge of \$225.0. In the second quarter of 2012, the goodwill allocated to the Company's U.S., European and Asia Pacific Operations reporting units was written down 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.

Equity Method Investment

Equity method investments are also reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the investments may not be recoverable. During the fourth quarter of 2011, it became apparent that the Company was not likely to recover its remaining carrying value in Disclosure Insight, Inc. ("DI"), which it accounted for under the equity method. The Company measured the amount of impairment by calculating the amount by which the carrying value of its investment exceeded its estimated fair value. With DI's inability to sustain a revenue stream and obtain the additional funding required to effectively operate the business, management determined its fair value to be near zero, based upon projected discounted cash flows (Level 3 fair value measurement). As a result, the full \$4.3 million carrying value was written off. This charge is included in goodwill and other asset impairment in the Company's Consolidated Statements of Operations.

(5) Derivative Instruments*Derivative Contracts*

All derivative instruments are recorded on the Consolidated Statements of Financial Condition at fair value in other assets or accounts payable and accrued expenses. Recognition of the gain or loss that results from recording and adjusting a derivative to fair value depends on the intended purpose for

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INVESTMENT TECHNOLOGY GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

entering into the derivative contract and the formal designation for accounting purposes. Gains and losses from derivatives that are not formally designated as hedges are recognized immediately in income. For derivative instruments that are formally designated and qualify as a fair value hedge, the gains or losses from adjusting the derivative to its fair value will be immediately recognized in income and, to the extent the hedge is effective, offset the concurrent recognition of changes in the fair value of the hedged item. Gains or losses from derivative instruments that are formally designated and qualify as a cash flow hedge will be recorded on the Consolidated Statements of Financial Condition in accumulated other comprehensive income ("OCI") until the hedged transaction is recognized in income. However, to the extent the hedge is deemed ineffective, the ineffective portion of the change in fair value of the derivative will be recognized immediately in income. For discontinued cash flow hedges, prospective changes in the fair value of the derivative are recognized in income. Any gain or loss in accumulated OCI at the time the hedge is discontinued will continue to be deferred until the original forecasted transaction occurs. However, if it is determined that the likelihood of the original forecasted transaction is no longer probable, the entire related gain or loss in accumulated OCI is immediately reclassified into income.

The Company periodically enters into three month forward contracts to sell Euros and buy British Pounds to economically manage the risk of currency movements on Euro deposits held in banks across Europe for equity trade settlement. When a contract matures, an assessment is made as to whether or not the contract value needs to be amended prior to entering into another, to ensure continued economic hedge effectiveness. As these contracts are not formally designated as hedges for accounting purposes, the changes to their fair value are recognized immediately in income. The related counterparty agreements do not contain any credit-risk related contingent features. There were no open three month forward contracts outstanding at December 31, 2012 and 2011.

When clients request trade settlement in a currency other than the currency in which the trade was executed, the Company enters into foreign exchange contracts in order to close out the resulting foreign currency position. The foreign exchange contracts are executed the same day as the underlying trade. As these contracts are not formally designated as hedges for accounting purposes, the changes to their fair value are recognized immediately in income.

Asset derivatives are included in other assets while liability derivatives are included in accounts payable and accrued expenses on the Consolidated Statements of Financial Condition. The fair values of the Company's derivative instruments at December 31, 2012 and 2011 were not material. There were no derivatives designated as hedging instruments in either period.

The impact that derivative instruments not formally designated as hedging instruments had on the results of operations at December 31, 2012 and 2011, which are recorded in other general and administrative expense in the Consolidated Statements of Operations was not material.

(6) 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. RSEG provides detailed technical and financial analysis of North American resource plays, public and private corporations, as well as coverage of international and macroeconomic energy issues, for more than 200 clients in North America and Europe, a number of which are new clients for ITG. The acquisition of RSEG expands the ITG Investment Research platform to include differentiated views into the exploration and production activities of North American and international energy companies.

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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 segment, which is expected to be the primary beneficiary of the synergies achieved from the business combination. The goodwill 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.

(7) Goodwill and Other Intangibles*Goodwill*

The following table presents the changes in the carrying amount of goodwill by reportable segment for the years ended December 31, 2012, 2011, and 2010 (dollars in thousands):

	U.S. Operations	European Operations	Asia Pacific Operations	Total
Balance at December 31, 2010	\$ 439,294	\$ 28,484	\$ 701	\$ 468,479
<i>2011 Activity:</i>				
Impairment losses	(225,035)			(225,035)
Acquisition of RSEG	30,715			30,715
Majestic price adjustment	144			144
Currency translation adjustment	(13)	2		(11)
Balance at December 31, 2011	\$ 245,105	\$ 28,486	\$ 701	\$ 274,292
<i>2012 Activity:</i>				
Impairment losses	(245,103)	(28,481)	(701)	(274,285)
Currency translation adjustment	(2)	(5)		(7)
Balance at December 31, 2012	\$	\$	\$	\$

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INVESTMENT TECHNOLOGY GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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 unit. This impairment charge reflected continued weakness in institutional trading volumes, which lowered estimated future cash flows of the U.S. Operations reporting unit, 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 units. 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 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 does 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.

Table of Contents**INVESTMENT TECHNOLOGY GROUP, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)***Other Intangible Assets*

Acquired other intangible assets consisted of the following at December 31, 2012 and 2011 (dollars in thousands):

	2012		2011		Useful Lives (Years)
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization	
Trade names	\$ 10,400	\$ 2,000	\$ 10,400	\$ 1,293	4.0
Customer-related intangibles	27,851	6,712	27,851	4,497	13.1
Proprietary software	21,501	16,106	20,876	14,036	6.4
Trading rights	243		243		
Other	50		50		
Total	\$ 60,045	\$ 24,818	\$ 59,420	\$ 19,826	

At December 31, 2011, 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 \$5.0 million, \$4.2 million and \$3.0 million for the years ended December 31, 2012, 2011 and 2010, 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, 2012 is as follows (dollars in thousands):

Year	Estimated Amortization
2013	\$ 4,302
2014	3,811
2015	2,654
2016	2,654
2017	2,654
Thereafter	10,460
Total	\$ 26,535

The Company performed its annual impairment testing as of October 1, 2012 and determined that there was no impairment of the carrying values of other intangible assets in the periods presented.

(8) 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 and brokers ("Special Reserve Bank Account") maintained by ITG Inc. in accordance with Rule 15c3-3 of the Exchange Act ("Customer Protection Rule"), (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 Australian and Israeli leases.

Table of Contents**INVESTMENT TECHNOLOGY GROUP, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(9) 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	
	2012	2011	2012	2011
Corporate stocks trading securities	\$ 5,438	\$ 689	\$ 5,249	\$ 438
Mutual funds	4,648	4,588		
Total	\$ 10,086	\$ 5,277	\$ 5,249	\$ 438

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.

Available-for-Sale Securities

Unrealized holding gains and losses for available-for-sale securities, net of tax effects, are reported in accumulated OCI until realized. At December 31, 2012 and 2011, the Company did not hold any available-for-sale securities. During 2011, the Company sold all of the available-for-sale securities it held for gross proceeds of \$2.1 million and recorded a pre-tax gain of \$0.5 million.

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

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

	Receivables from		Payables to	
	2012	2011	2012	2011
Broker-dealers	\$ 297,916	\$ 205,975	\$ 513,529	\$ 370,146
Clearing organizations	12,391	2,365	728	14,945
Securities borrowed	798,228	663,293		
Securities loaned			823,202	694,682
Allowance for doubtful accounts	(1,416)	(318)		
Total	\$ 1,107,119	\$ 871,315	\$ 1,337,459	\$ 1,079,773

Table of Contents**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	
	2012	2011	2012	2011
Customers	\$ 548,287	\$ 473,852	\$ 226,892	\$ 207,738
Allowance for doubtful accounts	(1,462)	(1,343)		
Total	\$ 546,825	\$ 472,509	\$ 226,892	\$ 207,738

The Company maintains an allowance for doubtful accounts based upon estimated collectability of receivables. The allowance was increased by \$1.4 million in 2012 and \$0.2 million in both 2011 and 2010. Total write-offs against the allowance of \$0.2 million, \$0.1 million and \$0.1 million were recorded during 2012, 2011 and 2010, respectively.

Securities Borrowed and Loaned

As of December 31, 2012, securities borrowed as part of the Company's matched book operations with a fair value of \$790.8 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 2012 and 2011 were as follows (dollars in thousands):

	2012	2011
Interest earned	\$ 19,242	\$ 19,130
Interest incurred	(14,589)	(14,646)
Net	\$ 4,653	\$ 4,484

(11) Premises and Equipment

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

	2012	2011
Furniture, fixtures and equipment	\$ 142,235	\$ 141,497
Leasehold improvements	45,944	32,876
	188,179	174,373
Less: accumulated depreciation and amortization	133,190	131,350
Total	\$ 54,989	\$ 43,023

Depreciation and amortization expense relating to premises and equipment amounted to \$19.5 million, \$19.2 million and \$21.2 million during the years ended December 31, 2012, 2011 and 2010, respectively, and is included in occupancy and equipment expense in the Consolidated Statements of Operations.

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

	2012	2011
Capitalized software costs	\$ 94,177	\$ 132,544
Less: accumulated amortization	50,183	81,286
Total	\$ 43,994	\$ 51,258

Software costs totaling \$24.6 million and \$29.1 million were capitalized in 2012 and 2011, respectively, related to the continued development of new features and functionalities across the entire ITG product line. The development includes performance optimizations and usability enhancements for the Triton Black product and Algorithmic Trading Suite as well as efforts to globalize certain product lines such as POSIT Marketplace. The Company continued to develop new features for pre- and post-trade product offerings as well as build enhancements for its global market data system. The Company also continues to invest in its internal infrastructure. During 2012, capitalized software costs and related accumulated amortization were each reduced by \$64.7 million for fully amortized costs that are no longer in use.

As of December 31, 2012, there were no capitalized software costs not subject to amortization because all underlying products were available for release. As of December 31, 2011, \$1.3 million of capitalized software costs were not subject to amortization as the underlying products were not yet available for release. Other general and administrative expenses in the Consolidated Statements of Operations included \$32.1 million, \$35.7 million and \$38.2 million related to the amortization of capitalized software costs in 2012, 2011 and 2010, respectively.

(13) Accounts Payable and Accrued Expenses

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

	2012	2011
Accrued compensation and benefits	\$ 39,762	\$ 50,666
Accrued research payables	38,591	50,721
Trade payables	22,624	17,790
Accrued restructuring	12,295	11,708
Deferred revenue	12,177	15,493
Deferred compensation	4,650	7,579
Accrued transaction processing	3,359	2,986
Other	31,604	24,281
Total	\$ 165,062	\$ 181,224

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

	2012	2011	2010
Current:			
Federal	\$ 416	\$ (1,160)	\$ 18,524
State	782	1,282	5,026
Foreign	3,362	5,632	6,118
	4,560	5,754	29,668
Deferred:			
Federal	(19,423)	(25,146)	(4,289)
State	(7,565)	(8,409)	(766)
Foreign	(168)	962	740
	(27,156)	(32,593)	(4,315)
Total	\$ (22,596)	\$ (26,839)	\$ 25,353

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

	2012	2011	2010
U.S.	\$ (248,101)	\$ (222,337)	\$ 45,000
Foreign	(22,354)	15,709	4,333
Total	\$ (270,455)	\$ (206,628)	\$ 49,333

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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):

	2012	2011
Deferred tax assets:		
Compensation and benefits	\$ 9,474	\$ 9,565
Net operating loss and capital loss carry forward	19,012	15,810
Share-based compensation	8,506	12,430
Allowance for doubtful accounts	1,149	663
Tax benefits on uncertain tax positions	2,696	2,846
Goodwill and other intangibles	24,746	2,370
Depreciation	649	
Other	9,203	8,914
Total deferred tax assets	75,435	52,598
Less: valuation allowance	20,774	16,279
Total deferred tax assets, net of valuation allowance	54,661	36,319
Deferred tax liabilities:		
Depreciation		(2,038)
Capitalized software	(15,226)	(17,769)
Other	(573)	(738)
Total deferred tax liabilities	(15,799)	(20,545)
Net deferred tax assets (liabilities)	\$ 38,862	\$ 15,774

At December 31, 2012, 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	\$ 77,068	Indefinite
United States	3,909	17 years
	\$ 80,977	

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

	2012	2011	2010
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	1.8	2.2	6.0
Foreign tax impact, net	(3.6)	(0.9)	9.8
Non-deductible costs *	(24.3)	(23.7)	1.1
Other, net	(0.5)	0.4	(0.5)
Effective income tax rate	8.4%	13.0%	51.4%

*

Non-deductible costs reflect the goodwill impairment charges incurred in 2012 and 2011 and a portion of Majestic acquisition costs incurred in 2010.

For the years ended December 31, 2012, 2011 and 2010, the tax benefits realized on the exercises of employee stock options and the vesting of employee restricted share awards were less than the deferred benefits that were recorded based on grant date fair values. The resulting tax shortfalls on these awards, along with the impact of cancelled awards reduced additional paid-in capital by \$4.1 million, \$3.3 million and \$2.2 million in 2012, 2011 and 2010, respectively. For further discussion, see Note 20, *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 2012, uncertain tax positions in the U.S. were resolved for the 2005-2011 fiscal years resulting in a decrease in our liability of \$1.9 million and the related deferred tax asset of \$0.7 million. As a result of this, we recognized a tax benefit of \$0.9 million.

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

Uncertain Tax Benefits	2012	2011	2010
Balance, January 1	\$ 14,542	\$ 12,380	\$ 10,999
Additions based on tax positions related to the current year	568	2,402	2,088
Additions based on tax positions of prior years	857	647	897
Reductions for tax positions of prior years	(2,024)	(42)	(35)
Reductions due to settlements with taxing authorities	(217)	(516)	(758)
Reductions due to expiration of statute of limitations		(329)	(811)
Balance, December 31	\$ 13,726	\$ 14,542	\$ 12,380

Included in the balance at December 31, 2012, 2011 and 2010, are \$12.4 million, \$12.0 million, and \$10.8 million, respectively, of unrecognized tax benefits (net of federal benefits) which, if recognized, would affect the Company's effective tax rate.

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INVESTMENT TECHNOLOGY GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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, 2012, interest expense of \$3.3 million, gross of related tax effects of \$1.4 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 2012, 2011 and 2010, the Company recognized \$0.8 million, \$0.7 million and \$0.5 million, respectively, of tax-related interest expense. Penalties of \$0.1 million were recognized in 2010 as a component of income tax expense. No such penalties were incurred during 2011 or 2012.

(15) 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, 2012, the European Operations had \$22.2 million outstanding under these facilities for settlement transactions at a weighted average interest rate of approximately 1.4%.

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

On January 31, 2011, ITG Inc., as borrower, and Investment Technology Group, Inc. ("Parent Company"), as guarantor, entered into a \$150 million three-year revolving credit agreement ("Credit Agreement") with a syndicate of banks and JPMorgan Chase Bank, N.A., as Administrative Agent. The purpose of this credit line is to provide liquidity for ITG Inc.'s brokerage operations to satisfy clearing margin requirements and to finance temporary positions from delivery failures or non-standard settlements. The Credit Agreement includes an accordion feature that allows for potential expansion of the facility up to \$250 million. Under the Credit Agreement, interest accrues 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 are subject to an unused commitment fee of 0.50%. As a result, the Company has additional flexibility with its existing cash and future cash flows from operations to strategically invest in growth initiatives and to return profits to stockholders. Depending on the borrowing base, availability under the Credit Agreement is limited to either (i) a percentage of the clearing deposit required by the National Securities Clearing Corporation, or (ii) a percentage of the market value of temporary positions pledged as collateral. Among other restrictions, the terms of the Credit Agreement include negative covenants related to (a) liens, (b) maintenance of a consolidated leverage ratio (as defined) and a liquidity ratio (as defined), as well as maintenance of minimum levels of tangible net worth (as defined) and regulatory capital (as defined), and (c) restrictions on investments, dispositions and other restrictions customary for financings of this type.

The events of default under the Credit Agreement include, among others, payment defaults, cross defaults with certain other indebtedness, breaches of covenants, loss of collateral, judgments, changes in control and bankruptcy events. In the event of a default, the Credit Agreement requires 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

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payable, or the lenders may in their discretion terminate their commitments and declare due all unpaid amounts outstanding.

At December 31, 2012 there were no amounts outstanding under the Credit Agreement.

Term Debt

At December 31, 2012, term debt is comprised of the following (dollars in thousands):

	Aggregate Amount
Term loan	\$ 15,388
Obligations under capital lease	3,280
Interim funding facility under capital lease	604
Total	\$ 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. Among other obligations and restrictions, the terms of the Term Loan Agreement include compliance with the financial covenants of the Credit Agreement for as long as the Credit Agreement is outstanding.

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
2013	\$ 5,837
2014	6,367
2015	3,184
	\$ 15,388

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

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principal repayment on a monthly schedule and accrues interest at the same rate prescribed for the Term Loan.

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

Year	Aggregate Amount
2013	\$ 1,064
2014	1,086
2015	893
2016	237
	\$ 3,280

On August 10, 2012, Parent Company entered into a \$25.0 million master lease facility with BMO Harris Equipment Finance Company ("BMO"). The primary purpose of this facility is to finance equipment and construction expenditures related to the build-out of the Company's new headquarters in lower Manhattan, with \$14 million of the total facility available for funding leasehold improvements in connection therewith. The facility contains an initial interim funding agreement which is then succeeded by a capital lease.

Under the terms of the interim funding agreement, Parent Company will be reimbursed for expenditures made during an interim funding period which ends on May 7, 2013, or up to 90 days later if an extension is requested and granted ("Interim Funding Period"). Interest-only payments on the aggregate outstanding borrowings during the Interim Funding Period are paid monthly at an annual rate of 2.25% plus 30-day LIBOR. Upon expiration of the Interim Funding Period, the interim funding agreement will be succeeded by a fixed rate term financing structured as a capital lease with a 48-month term (from its inception date), at the end of which Parent Company may purchase the underlying equipment for \$1. The fixed rate will be based on the 4-year LIBOR Swap Rate at the lease inception date plus a spread of 2.25%.

At December 31, 2012, there was \$0.6 million outstanding under the BMO facility.

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 \$2.5 million and \$2.0 million in 2012 and 2011, respectively.

Table of Contents**INVESTMENT TECHNOLOGY GROUP, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(16) Accumulated Other Comprehensive Income**

The components and allocated tax effects of accumulated other comprehensive income for the periods ended December 31, 2012 and 2011 are as follows (dollars in thousands):

	Before Tax Effects	Tax Effects	After Tax Effects
December 31, 2012			
Currency translation adjustment	\$ 11,874	\$	\$ 11,874
Total	\$ 11,874	\$	\$ 11,874
December 31, 2011			
Currency translation adjustment	\$ 8,341	\$	\$ 8,341
Total	\$ 8,341	\$	\$ 8,341

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.

(17) 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.

Table of Contents**INVESTMENT TECHNOLOGY GROUP, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(18) 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 6²/₃% 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 CFTC Regulation 1.17. Dividends or withdrawals of capital cannot be made if capital is needed to comply with regulatory requirements.

Net capital balances and the amounts in excess of required net capital at December 31, 2012 for the U.S. Operations are as follows (dollars in millions):

	Net Capital	Excess Net Capital
<u>U.S. Operations</u>		
ITG Inc.	\$ 104.4	\$ 103.4
AlterNet	4.6	4.5
ITG Derivatives	4.8	3.8

As of December 31, 2012, ITG Inc. had a \$5.9 million cash balance in Special Reserve Bank Accounts for the exclusive benefit of customers and brokers under the Customer Protection Rule pursuant to SEC Rule 15c3-3, *Computation for Determination of Reserve Requirements*.

In addition, the Company's Canadian, European and Asia Pacific Operations have subsidiaries with regulatory capital requirements. The net capital balances and amount of regulatory capital in excess of the minimum requirements applicable to each business as of December 31, 2012, is summarized in the following table (dollars in millions):

	Net Capital	Excess Net Capital
<u>Canadian Operations</u>		
Canada	\$ 40.3	\$ 39.8
<u>European Operations</u>		
Europe	49.4	26.8
<u>Asia Pacific Operations</u>		
Australia	3.5	1.3
Hong Kong	27.3	15.9
Singapore	0.4	0.2

(19) Stockholders' Equity

The Company presently does not pay cash dividends on common stock as its policy is to retain earnings to finance the operations and expansion of its businesses as well as the repurchase of its common shares.

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

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INVESTMENT TECHNOLOGY GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

summarizes the Company's share repurchases beginning January 1, 2010 under its Board of Directors' authorizations:

Repurchase Program Authorization Date	Expiration Date	Amount Authorized by Board (Shares)		Shares Remaining Under Board Authorization (millions)	Shares Repurchased Under Board Authorization		
		in millions	Total Shares Purchased (millions)		2012	2011	2010
July 2008	none	4.0	4.0				2.1
July 2010	none	4.0	4.0			2.9	1.1
October 2011	none	4.0	2.6	1.5	2.5	0.1	
Total shares repurchased under authorization					2.5	3.0	3.2
Cost (millions)					\$ 23.5	\$ 38.9	\$ 50.3
Average share price					\$ 9.50	\$ 13.09	\$ 15.95

The Company also repurchased approximately 0.3 million, 0.3 million and 0.2 million shares of common stock during 2012, 2011 and 2010, respectively, to satisfy the minimum statutory employee withholding tax upon the net settlement of equity awards.

(20) 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 May 11, 2010. 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 amended and restated in November 2011, 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, 8,386,208 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

Table of Contents**INVESTMENT TECHNOLOGY GROUP, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

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, 2012. The Company did not grant any time-based option awards during 2012. 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 (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, 2012, 2011 and 2010 and changes during the years then ended:

Options Outstanding	Number of Shares	Weighted Average Exercise Price
Outstanding at December 31, 2009	703,467	\$ 36.28
Granted *	305,677	5.59
Exercised	(125,268)	2.69
Forfeited	(316,913)	27.08
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
Amount exercisable at December 31,		
2012	319,793	\$ 32.53
2011	221,344	41.18
2010	347,798	30.35

*

In conjunction with the acquisition of Majestic, the Company assumed certain outstanding incentive stock options to purchase shares of common stock of Majestic under the Majestic Research Corp. 2005 Stock Option Plan. Such stock options became exercisable to purchase 237,060 shares of ITG Common Stock at a weighted average exercise price of \$2.32 based on appropriate adjustments to reflect the terms of the acquisition.

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INVESTMENT TECHNOLOGY GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Range of Exercise Prices	Options Outstanding			Options Exercisable	
	Number Outstanding	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
\$12.17 - 18.71	321,081	4.89	\$ 17.10	129,899	\$ 17.06
18.72 - 37.51	33,569	1.14	25.97	33,569	25.97
37.52 - 47.59	156,325	0.04	46.81	156,325	46.81
	510,975	3.16	\$ 26.77	319,793	\$ 32.53

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 were 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. For the year ended December 31, 2010 the Company recorded share-based compensation expense of \$2.2 million (of which \$0.7 million related to the acquisition of Majestic) related to the Company's outstanding stock options, which were offset by related income tax benefits of approximately \$0.6 million.

The weighted average remaining contractual term of stock options currently exercisable is 3.16 years.

All of the stock options outstanding at December 31, 2012 were time-based.

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. During 2010, a tax shortfall of \$1.1 million occurred on exercises and the cancellation of stock options, which was the result of the tax deduction being less than the cumulative book compensation cost. Shortfalls are reflected as a decrease to additional paid-in capital.

The following table summarizes information about stock options at December 31, 2012, 2011 and 2010:

(\$ in thousands, except per share amounts)	2012	2011	2010
Total intrinsic value of stock options exercised	\$ 1,978	\$ 1,577	
Weighted average grant date fair value of stock options granted during period, per share *	6.44	6.06	
Cash received from stock option exercises	0.2	0.3	

* Excludes incentive stock options assumed in the acquisition of Majestic during 2010.

The outstanding and exercisable stock options at December 31, 2012 have no intrinsic value as the exercise price exceeds the current stock price.

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INVESTMENT TECHNOLOGY GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

As of December 31, 2012, there was \$0.7 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 1.18 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, (b) cliff vest in whole or in part only if the consolidated cumulative pre-tax operating income of the Company reaches certain levels and the award recipient is employed on such date (performance-based restricted stock units) and (c) 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 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, 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.

Table of Contents**INVESTMENT TECHNOLOGY GROUP, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

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, or shall vest, 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 \$12.4 million (\$0.5 million of which was recorded in restructuring charges), \$20.6 million (\$2.3 million of which was recorded in severance and restructuring charges), and \$15.4 million (\$0.4 million of which was recorded in severance and restructuring charges) for the years ended December 31, 2012, 2011 and 2010, respectively, related to restricted share awards which were offset by related income tax benefits of approximately \$5.0 million, \$8.4 million and \$6.2 million, respectively.

A summary of the status of the Company's restricted share awards as of December 31, 2012, 2011 and 2010 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, 2009	56,067	1,168,390	1,224,457	\$ 27.03
Granted	1,009,786	1,183,453	2,193,239	16.26
Vested	(28,249)	(289,240)	(317,489)	25.91
Forfeited	(54,723)	(110,161)	(164,884)	21.02
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

At December 31, 2012, 180,476 of the outstanding restricted share awards were performance-based restricted stock units and 497,355 were market-based restricted stock units.

Of the 1.1 million awards vested in 2012, 259,840 were modified in 2012 and settled in cash.

As of December 31, 2012, there was \$18.2 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 1.72 years. During 2012, restricted shares with a grant date fair value of approximately \$12.2 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 \$4.0 million, \$2.2 million and \$1.1 million related to the vesting and cancellation of restricted share awards for the years ended December 31, 2012, 2011 and 2010, 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.

Table of Contents**INVESTMENT TECHNOLOGY GROUP, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

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, 2012, 2011 and 2010, the Company recorded share-based compensation expense of \$2.6 million, \$1.1 million and \$1.1 million, respectively related to phantom share awards offset by related tax benefits of \$0.7 million, \$0.3 million and \$0.4 million, respectively.

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

	Number of Shares	Weighted Average Grant Date Fair Value
Outstanding at December 31, 2009	91,013	\$ 23.45
Granted	212,047	16.96
Vested	(25,285)	23.45
Forfeited	(18,405)	18.25
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

At December 31, 2012, 68,803 of the outstanding phantom share awards were market-based.

As of December 31, 2012, there was \$3.6 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 1.88 years.

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.

Table of Contents**INVESTMENT TECHNOLOGY GROUP, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

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 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 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. The Company recorded \$0.5 million in expense for the year ended December 31, 2010, as well as related income tax benefits of approximately \$0.2 million.

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

	Number of Shares	Weighted Average Grant Date Fair Value
Outstanding at December 31, 2009	677,379	\$ 29.32
Granted		
Vested	(311,106)	28.67
Forfeited	(2,106)	32.54
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		\$

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

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INVESTMENT TECHNOLOGY GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

ITG Employee and Non-Employee Director Benefit Plans

All U.S. employees are eligible to participate in the Investment Technology Group, Inc. Retirement Savings Plan ("RSP"). The RSP applies to all eligible compensation up to the Internal Revenue Service annual maximum which was \$250,000 during 2012. 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 6²/₃% 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 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 \$5.5 million, \$6.6 million and \$10.2 million in 2012, 2011 and 2010, 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 39,571 units or shares, 29,347 units or shares, and 16,819 units in 2012, 2011 and 2010, respectively. At December 31, 2012, there were 105,421 deferred share units outstanding. The cost of the Directors' Retainer Fee Subplan was approximately \$854,000, \$769,000, and \$647,000 in 2012, 2011 and 2010, 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 \$390,000, \$451,000, and \$394,000 for the years ended December 31, 2012, 2011 and 2010, respectively. Shares distributed under the ESPP are newly issued shares.

Table of Contents**INVESTMENT TECHNOLOGY GROUP, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(21) (Loss) Earnings 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):

	2012	2011	2010
Net (loss) income for basic and diluted earnings per share	\$ (247,859)	\$ (179,789)	\$ 23,980
Shares of common stock and common stock equivalents:			
Weighted average shares basic	38,418	40,691	42,767
Effect of dilutive securities			729
Weighted average shares diluted	38,418	40,691	43,496
(Loss) earnings per share:			
Basic	\$ (6.45)	\$ (4.42)	\$ 0.56
Diluted	\$ (6.45)	\$ (4.42)	\$ 0.55

The impact of all common stock equivalents on per share amounts for the years ended December 31, 2012 and 2011 is anti-dilutive due to the fact that the Company is reporting a loss. At December 31, 2012, 2011, and 2010, approximately 1.7 million, 2.0 million, and 0.6 million share equivalents (based on the treasury stock method), respectively, were not included in the computation of diluted earnings per share because their effects would have been anti-dilutive.

(22) 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 2021. Rent expense for each of the years ended December 31, 2012, 2011 and 2010 was \$13.2, \$12.9 million and \$14.0 million, respectively, and is recorded in occupancy and equipment expense in the Consolidated Statements of Operations. 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.

Table of Contents**INVESTMENT TECHNOLOGY GROUP, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

Minimum future rental commitments under non-cancelable operating leases follow (dollars in thousands):

Year Ending December 31,	
2013	\$ 15,139
2014	14,036
2015	13,046
2016	12,228
2017	8,628
2018 and thereafter	74,646
Total	\$ 137,723

Other Commitments

Pursuant to employment arrangements, in the event of termination of employment without cause on December 31, 2012, the Company would be obligated to pay separation payments totaling \$5.8 million.

Pursuant to contracts expiring through 2017, the Company is obligated to purchase market data, maintenance and other services totaling \$53.0 million.

(23) Segment Reporting

The Company is organized into four operating segments through which the Company's chief operating decision makers manage the Company's business. The U.S. Operations segment provides electronic and high-touch trade execution, trade order and execution management, network connectivity, analytical products and investment research services. The Canadian and Asia Pacific Operations segments provides electronic and high-touch trade execution, trade execution management, network connectivity, analytical products and investment research services. The European Operations segment provides electronic and high-touch trade execution, trade order and execution management, network connectivity and analytical products and includes a technology research and development facility in Israel.

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.

Table of Contents**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
2012					
Total revenues	\$ 321,379	\$ 76,913	\$ 67,266	\$ 38,878	\$ 504,436
(Loss) income before income tax expense					
(1) (2) (3)	(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					
(4) (5)	(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
2010					
Total revenues	\$ 385,690	\$ 78,479	\$ 73,277	\$ 33,308	\$ 570,754
Income (loss) before income tax expense					
(6) (7)	45,000	21,119	4,043	(20,829)	49,333
Identifiable assets	1,486,022	113,356	404,789	526,686	2,530,853
Capital purchases	15,472	1,724	1,660	424	19,280
Depreciation and amortization	50,089	2,425	8,169	1,690	62,373
Share-based compensation	14,336	1,344	1,380	946	18,006

- (1) 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.
- (2) (Loss) income before income tax expense in 2012 includes the impact of a \$9.5 million restructuring charge to reduce costs. The segment breakdown of this charge is as follows: U.S. Operations \$6.8 million, Canadian Operations \$1.1 million, European Operations \$0.6 million and Asia Pacific Operations \$1.0 million.
- (3) Loss before tax expense for the U.S. Operations for 2012 includes the impact of \$1.4 million in duplicate rent charges.
- (4) Loss before tax expense for the U.S. Operations for 2011 includes the impact of a \$229.3 million goodwill and other asset impairment charge.
- (5) (Loss) income before income tax expense in 2011 includes the impact of a \$24.4 million restructuring charge to reduce costs. The segment breakdown of this charge is as follows: U.S. Operations \$22.5 million, Canadian Operations \$0.6 million, European Operations \$1.0 million and Asia Pacific Operations \$0.3 million.

Table of Contents**INVESTMENT TECHNOLOGY GROUP, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

- (6) Income before income tax expense for the U.S. Operations for 2010 includes the impact of a \$6.1 million charge to write-off certain capitalized software initiatives, restructuring charges of \$2.3 million related to closing the Company's Westchester, NY office, including employee separation costs and \$2.4 million of acquisition-related charges associated with the purchases of Majestic.
- (7) Loss before income tax expense for the Asia Pacific Operations for 2010 includes the impact of a \$5.4 million impairment charge related to Australian goodwill and a restructuring charge of \$2.1 million to close the Company's on-shore Japanese operations.

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

	2012	2011	2010
Long-lived Assets at December 31,			
United States	\$ 115,726	\$ 360,309	\$ 554,879
Canada	7,174	6,873	7,237
Europe	10,260	40,052	42,121
Asia Pacific	2,305	3,162	3,132
Total	\$ 135,465	\$ 410,396	\$ 607,369

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

(24) Supplementary Financial Information (unaudited)

The following tables set forth certain unaudited financial data for the Company's quarterly operations in 2012 and 2011. The following information has been prepared on the same basis as the annual information presented elsewhere in this report and, in the opinion of management, includes all adjustments, consisting only of normal recurring adjustments, necessary for a fair presentation of the

Table of Contents**INVESTMENT TECHNOLOGY GROUP, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

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

\$ in thousands, except per share amounts	(Unaudited) December 31, 2012				(Unaudited) December 31, 2011			
	Fourth Quarter	Third Quarter	Second Quarter	First Quarter	Fourth Quarter	Third Quarter	Second Quarter	First Quarter
Total revenues	\$ 121,534	\$ 119,617	\$ 126,910	\$ 136,375	\$ 129,923	\$ 149,419	\$ 142,617	\$ 150,078
Expenses:								
Compensation and employee benefits	47,100	47,135	49,540	52,587	52,041	54,109	55,679	57,478
Transaction processing	19,965	19,336	19,649	22,223	20,632	24,840	23,104	23,026
Occupancy and equipment	16,892	16,033	15,063	14,649	15,282	14,904	15,063	14,942
Telecommunications and data processing services	15,037	15,034	14,712	15,067	13,960	14,559	14,870	15,071
Other general and administrative	21,049	21,220	23,597	22,677	22,705	23,181	22,762	22,160
Goodwill and other asset impairment			274,285		4,282		225,035	
Restructuring charges	9,499				6,754		17,678	
Acquisition-related costs							2,523	
Interest expense	562	678	624	678	625	636	494	270
Total expenses	130,104	119,436	397,470	127,881	136,281	132,229	377,208	132,947
(Loss) income before income tax expense	(8,570)	181	(270,560)	8,494	(6,358)	17,190	(234,591)	17,131
Income tax (benefit) expense	(2,117)	(51)	(23,464)	3,036	(2,686)	6,713	(38,448)	7,582
Net (loss) income	\$ (6,453)	\$ 232	\$ (247,096)	\$ 5,458	\$ (3,672)	\$ 10,477	\$ (196,143)	\$ 9,549
Basic (loss) earnings per share	\$ (0.17)	\$ 0.01	\$ (6.40)	\$ 0.14	\$ (0.09)	\$ 0.26	\$ (4.77)	\$ 0.23
Diluted (loss) earnings per share	\$ (0.17)	\$ 0.01	\$ (6.40)	\$ 0.14	\$ (0.09)	\$ 0.25	\$ (4.77)	\$ 0.23
Basic weighted average number of common shares outstanding	37,709	38,301	38,607	39,112	39,624	40,615	41,112	41,435
Diluted weighted average number of common shares outstanding	37,709	39,252	38,607	40,303	39,624	41,271	41,112	42,180

Table of Contents**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.

As a percentage of Total Revenues	(Unaudited) December 31, 2012				(Unaudited) December 31, 2011			
	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	38.8	39.4	39.0	38.6	40.1	36.2	39.0	38.3
Transaction processing	16.4	16.2	15.5	16.3	15.9	16.6	16.2	15.3
Occupancy and equipment	13.9	13.4	11.9	10.7	11.8	10.0	10.6	10.0
Telecommunications and data processing services	12.4	12.6	11.6	11.0	10.7	9.7	10.4	10.0
Other general and administrative	17.3	17.7	18.6	16.6	17.5	15.5	16.0	14.8
Goodwill and other asset impairment			216.1		3.3		157.8	
Restructuring charges	7.8				5.2		12.4	
Acquisition-related costs							1.8	
Interest expense	0.5	0.6	0.5	0.5	0.5	0.4	0.3	0.2
Total expenses	107.1	99.8	313.2	93.8	104.9	88.5	264.5	88.6
(Loss) income before income tax expense	(7.1)	0.2	(213.2)	6.2	(4.9)	11.5	(164.5)	11.4
Income tax (benefit) expense	(1.7)	(0.0)	(18.5)	2.2	(2.1)	4.5	(27.0)	5.1
Net (loss) income	(5.3)%	0.2%	(194.7)%	4.0%	(2.8)%	7.0%	(137.5)%	6.4%

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

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

Item 9A. Controls and Procedures

Conclusion Regarding the Effectiveness of Disclosure Controls and Procedures

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

Changes in Internal Control over Financial Reporting

There were no changes in the Company's internal control over financial reporting that occurred during the quarter ended December 31, 2012 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, 2012. 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, 2012.

The effectiveness of ITG's internal control over financial reporting as of December 31, 2012 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, 2012.

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Report of Independent Registered Public Accounting Firm

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

We have audited Investment Technology Group, Inc.'s (the Company) internal control over financial reporting as of December 31, 2012, 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, 2012, 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, 2012 and 2011, and the related consolidated statements of operations, comprehensive (loss) income, changes in stockholders' equity and cash flows for each of the years in the three-year period ended December 31, 2012, and our report dated March 6, 2013 expressed an unqualified opinion on those consolidated financial statements.

/s/ KPMG LLP

New York, New York

March 6, 2013

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Item 9B. Other Information

None

PART III

Item 10. Directors, Executive Officers and Corporate Governance

Information with respect to this item is contained in the Proxy Statement for the 2013 Annual Meeting of Stockholders, which is incorporated herein by reference.

Item 11. Executive Compensation

Information with respect to this item is contained in the Proxy Statement for the 2013 Annual Meeting of Stockholders, which is incorporated herein by reference.

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

Information with respect to this item is contained in the Proxy Statement for the 2013 Annual Meeting of Stockholders, which is incorporated herein by reference.

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

Information with respect to this item is contained in the Proxy Statement for the 2013 Annual Meeting of Stockholders, which is incorporated herein by reference.

Item 14. Principal Accounting Fees and Services

Information with respect to this item is contained in the Proxy Statement for the 2013 Annual Meeting of Stockholders, which is incorporated herein by reference.

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PART IV

Item 15. Exhibits, Financial Statement Schedules

(a)(1) Financial Statements

Included in Part II of this report:

	Page
<u>Report of Independent Registered Public Accounting Firm</u>	<u>50</u>
<u>Consolidated Statements of Financial Condition</u>	<u>51</u>
<u>Consolidated Statements of Operations</u>	<u>52</u>
<u>Consolidated Statements of Comprehensive (Loss) Income</u>	<u>53</u>
<u>Consolidated Statements of Changes in Stockholders' Equity</u>	<u>54</u>
<u>Consolidated Statements of Cash Flows</u>	<u>55</u>
<u>Notes to Consolidated Financial Statements</u>	<u>56</u>

(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.

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(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	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).
10.2.1	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).
10.2.2	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).
10.2.3	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).
10.2.4	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).
10.3	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).
10.4	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	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	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	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).

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Exhibits Number	Description
10.8	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).
10.9	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).
10.9.1	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	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).
10.11	Form of KEEP 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 10.3 to the Quarterly Report on Form 10-Q dated May 10, 2010).
10.12	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).
10.13	Form of KEEP 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 10.44 to the Annual Report on Form 10-K for the year ended December 31, 2010).
10.14	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).
10.15	Form of KEEP 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 10.44 to the Annual Report on Form 10-K for the year ended December 31, 2011).
10.16	Amended and Restated Investment Technology Group, Inc. Employee Stock Purchase Plan (incorporated by reference as Exhibit 10.3 to the Quarterly Report on Form 10-Q dated November 5, 2009).
10.17	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).
10.18	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).
10.18.1	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).

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Exhibits Number	Description
10.18.2	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).
10.18.3	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).
10.19	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).
10.20	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).
10.21	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).
10.21.1	Amended and Restated Investment Technology Group, Inc. Directors' Equity Subplan (incorporated by reference as Exhibit 10.1 to the Quarterly Report on Form 10-Q for the quarter ended March 31, 2012).
10.22	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).
10.23	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).
10.24	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).
10.25	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).
10.26	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).
10.27	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).
10.28	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).
10.29	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).
10.30	* Retirement Agreement and General Release, effective August 1, 2011 between Christopher Heckman and Investment Technology Group, Inc.

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Exhibits Number	Description
10.31	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).
10.32	*+ Agreement, effective December 24, 2012, between David J. Stevens and Investment Technology Group, Inc.
21.1	* Subsidiaries of Company.
23.1	* Consent of KPMG LLP.
31.1	* Rule 13a-14(a) Certification.
31.2	* Rule 13a-14(a) Certification.
32.1	* Section 1350 Certification.
101.INS	* XBRL Report Instance Document.
101.SCH	* XBRL Taxonomy Extension Schema Document.
101.PRE	* XBRL Taxonomy Presentation Linkbase Document.
101.CAL	* XBRL Calculation Linkbase Document.
101.LAB	* XBRL Taxonomy Label Linkbase Document.

*
Filed herewith.

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

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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.

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/s/ KEVIN J.P. O'HARA

Director

March 6, 2013

Kevin J.P. O'Hara

/s/ STEVEN S. WOOD

Director

March 6, 2013

Steven S. Wood

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