INVESTMENT TECHNOLOGY GROUP INC
Form 10-Q
November 08, 2011
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

for the fiscal period ended September 30, 2011

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

for the transition period from to

Commission File Number 001-32722

INVESTMENT TECHNOLOGY GROUP, INC.

(Exact Name of Registrant as Specified in Its Charter)

Delaware (State or Other Jurisdiction of Incorporation or Organization)	**95 - 2848406** (I.R.S. 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)

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

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

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

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

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

At October 27, 2011 the Registrant had 40,004,673 shares of common stock, $0.01 par value, outstanding.

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QUARTERLY REPORT ON FORM 10-Q

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Investment Technology Group, ITG, the ITG logo, AlterNet, ITG Net, and POSIT are registered trademarks or service marks of the Investment Technology Group, Inc. companies. ITG Derivatives is a service mark of the Investment Technology Group, Inc. companies.

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PRELIMINARY NOTES

The use of the terms ITG, the Company, we, us and our , refers to Investment Technology Group, Inc. and its consolidated subsidiaries.

FORWARD-LOOKING STATEMENTS

In addition to the historical information contained throughout this Quarterly Report on Form 10-Q, there are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (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 th 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, internationally and nationally, 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, potential impairment charges related to goodwill and other long-lived assets, 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 our Annual Report on Form 10-K, for the year ended December 31, 2010, which you are encouraged to read. Our 2010 Annual Report on Form 10-K is also available through our website at http://investor.itg.com.

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

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

INVESTMENT TECHNOLOGY GROUP, INC. AND SUBSIDIARIES

Condensed Consolidated Statements of Financial Condition

(In thousands, except share amounts)

	September 30, 2011 (unaudited)	December 31, 2010
Assets		
Cash and cash equivalents	$ 247,471	$ 317,010
Cash restricted or segregated under regulations and other	68,181	68,965
Deposits with clearing organizations	40,299	14,235
Securities owned, at fair value	5,890	25,789
Receivables from brokers, dealers and clearing organizations	1,073,994	865,251
Receivables from customers	827,134	606,256
Premises and equipment, net	36,805	34,790
Capitalized software, net	60,129	62,507
Goodwill	274,284	468,479
Other intangibles, net	40,720	36,784
Income taxes receivable	6,148	5,561
Deferred taxes	13,207	4,902
Other assets	23,064	20,324
Total assets	$ 2,717,326	$ 2,530,853
Liabilities and Stockholders Equity		
Liabilities:		
Accounts payable and accrued expenses	$ 179,999	$ 195,109
Short-term bank loans	63,794	
Payables to brokers, dealers and clearing organizations	1,119,645	1,139,958
Payables to customers	635,460	272,027
Securities sold, not yet purchased, at fair value	1,395	19,362
Income taxes payable	11,690	16,215
Deferred taxes	343	18,114
Term debt	25,787	
Total liabilities	2,038,113	1,660,785
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; 51,899,229 and 51,790,608 shares issued at September 30, 2011 and December 31, 2010, respectively	519	518
Additional paid-in capital	247,200	246,085
Retained earnings	657,016	833,133

Common stock held in treasury, at cost; 11,772,062 and 10,524,757 shares at September 30, 2011 and December 31, 2010, respectively		(232,355)		(220,161)
Accumulated other comprehensive income (net of tax)		6,833		10,493
Total stockholders equity		679,213		870,068
Total liabilities and stockholders equity	$	2,717,326	$	2,530,853

See accompanying notes to unaudited condensed consolidated financial statements.

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INVESTMENT TECHNOLOGY GROUP, INC. AND SUBSIDIARIES

Condensed Consolidated Statements of Operations (unaudited)

(In thousands, except per share amounts)

	Three Months Ended September 30, 2011	Three Months Ended September 30, 2010	Nine Months Ended September 30, 2011	Nine Months Ended September 30, 2010
Revenues:				
Commissions and fees	$ 117,648	$ 105,948	$ 348,174	$ 358,366
Recurring	28,548	21,912	82,283	66,644
Other	3,223	2,536	11,657	7,398
Total revenues	149,419	130,396	442,114	432,408
Expenses:				
Compensation and employee benefits	54,109	50,627	167,266	158,678
Transaction processing	24,840	19,401	70,970	63,641
Occupancy and equipment	14,904	14,423	44,909	44,589
Telecommunications and data processing services	14,559	12,759	44,500	39,365
Other general and administrative	23,181	21,652	68,103	71,737
Goodwill impairment			225,035	5,375
Restructuring charges			17,678	2,250
Acquisition related costs			2,523	
Interest expense	636	158	1,400	588
Total expenses	132,229	119,020	642,384	386,223
Income (loss) before income tax expense (benefit)	17,190	11,376	(200,270)	46,185
Income tax expense (benefit)	6,713	5,166	(24,153)	24,035
Net income (loss)	$ 10,477	$ 6,210	$ (176,117)	$ 22,150
Earnings (loss) per share:				
Basic	$ 0.26	$ 0.15	$ (4.29)	$ 0.51
Diluted	$ 0.25	$ 0.14	$ (4.29)	$ 0.51
Basic weighted average number of common shares outstanding	40,615	42,407	41,051	43,148
Diluted weighted average number of common shares outstanding	41,271	42,941	41,051	43,776

See accompanying notes to unaudited condensed consolidated financial statements.

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INVESTMENT TECHNOLOGY GROUP, INC. AND SUBSIDIARIES

Condensed Consolidated Statement of Changes in Stockholders Equity (unaudited)

Nine Months Ended September 30, 2011

(In thousands, except share amounts)

	Preferred Stock	Common Stock	Additional Paid-in Capital	Retained Earnings	Common Stock Held in Treasury	Accumulated Other Comprehensive Income	Total Stockholders Equity
Balance at January 1, 2011	$	$ 518	$ 246,085	$ 833,133	$ (220,161)	$ 10,493	$ 870,068
Net (loss)				(176,117)			(176,117)
Other comprehensive income:							
Currency translation adjustment						(3,574)	(3,574)
Unrealized holding gain on securities available-for-sale (net of tax)						(86)	(86)
Comprehensive (loss) income							$ (179,777)
Issuance of common stock for stock options (111,792 shares) share awards (641,733 shares) and employee stock unit awards (271,623 shares), including tax benefit decrease of $2.6 million			(15,928)		21,322		5,394
Issuance of common stock for the employee stock purchase plan (108,622 shares)		1	1,253				1,254
Shares withheld for net settlements of share-based awards (307,953 shares)					(5,312)		(5,312)
Purchase of common stock for treasury (1,964,500 shares)					(28,204)		(28,204)
Share-based compensation			15,790				15,790
Balance at September 30, 2011	$	$ 519	$ 247,200	$ 657,016	$ (232,355)	$ 6,833	$ 679,213

See accompanying notes to unaudited condensed consolidated financial statements.

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INVESTMENT TECHNOLOGY GROUP, INC. AND SUBSIDIARIES

Condensed Consolidated Statements of Cash Flows (unaudited)

(In thousands)

	Nine Months Ended September 30, 2011	2010
Cash flows from Operating Activities:		
Net (loss) income	$ (176,117)	$ 22,150
Adjustments to reconcile net (loss) income to net cash (used in) provided by operating activities		
Depreciation and amortization	44,176	47,256
Deferred income tax (benefit) expense	(28,864)	2,018
Provision for doubtful accounts	254	445
Share-based compensation	13,817	12,504
Capitalized software write-off		6,091
Non-cash restructuring charges	2,298	836
Goodwill impairment	225,035	5,375
Changes in operating assets and liabilities:		
Cash restricted or segregated under regulations and other	698	11,779
Deposits with clearing organizations	(26,064)	(12,224)
Securities owned, at fair value	17,738	(347)
Receivables from brokers, dealers and clearing organizations	(215,331)	(659,824)
Receivables from customers	(229,721)	(435,846)
Accounts payable and accrued expenses	(18,651)	(46,228)
Payables to brokers, dealers and clearing organizations	(16,302)	746,089
Payables to customers	375,009	391,943
Securities sold, not yet purchased, at fair value	(17,896)	1,218
Income taxes receivable/payable	(5,160)	9,300
Other, net	(305)	(5,233)
Net cash (used in) provided by operating activities	(55,386)	97,302
Cash flows from Investing Activities:		
Acquisition of subsidiaries, net of acquired cash	(36,185)	(3,000)
Capital purchases	(16,369)	(9,135)
Capitalization of software development costs	(24,483)	(28,798)
Proceeds from sale of investments	2,095	
Net cash used in investing activities	(74,942)	(40,933)
Cash flows from Financing Activities:		
Proceeds from short-term bank loans	63,794	20,374
Proceeds from term loans	25,469	
Repayments of term loans	(2,122)	(35,700)
Proceeds from sales-lease back transactions	2,571	
Debt issuance costs	(2,908)	
Common stock issued	9,232	9,017
Common stock repurchased	(28,204)	(38,879)
Shares withheld for net settlements of share-based awards	(5,312)	(3,798)
Net cash provided by (used in) financing activities	62,520	(48,986)
Effect of exchange rate changes on cash and cash equivalents	(1,731)	1,211
Net decrease in cash and cash equivalents	(69,539)	8,594
Cash and cash equivalents beginning of year	317,010	330,879

Cash and cash equivalents end of period	$	247,471	$	339,473
Supplemental cash flow information				
Interest paid	$	1,472	$	1,006
Income taxes paid	$	9,528	$	14,761

See accompanying notes to unaudited condensed consolidated financial statements.

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INVESTMENT TECHNOLOGY GROUP, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements (unaudited)

(1) Organization and Basis of Presentation

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

ITG is an independent agency research broker that partners with asset managers globally to improve performance throughout the investment process. 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 insights grounded in data. Asset managers rely on ITG s independence, experience and intellectual capital to help mitigate risk, improve performance and navigate increasingly complex markets. The firm 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 16, *Segment Reporting,* to the consolidated financial statements, which also includes financial information about geographic areas). The U.S. Operations segment provides trade execution, trade order management, network connectivity and research services. The Canadian Operations segment provides trade execution, network connectivity and research services. The European Operations segment provides trade execution, trade order management, network connectivity and research services in Europe and includes a technology research and development facility in Israel. The Asia Pacific Operations segment provides trade execution, network connectivity and research services.

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

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.

Certain information and footnote disclosures normally included in financial statements prepared in accordance with U.S. GAAP have been condensed or omitted in accordance with Securities and Exchange Commission (SEC) rules and regulations; however, management believes that the disclosures herein are adequate to make the information presented not misleading. This report should be read in conjunction with the audited financial statements and the notes included in the Company s Annual Report on Form 10-K for the year ended December 31, 2010.

Recent Accounting Pronouncements

In September 2011, the FASB issued Accounting Standards Update (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%. The amendments will be effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011 with early adoption permitted.

In June 2011, the FASB issued ASU 2011-5, Comprehensive Income (Topic 220). Companies will have two choices of how to present items of net income, items of comprehensive income and total comprehensive income. Companies can create one continuous statement of comprehensive income or two separate consecutive statements and will be required to present reclassification

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adjustments in both other comprehensive income and net income. The guidance is effective for interim and annual periods beginning after December 15, 2011 with early adoption permitted. The Company will apply the new presentation beginning in 2012.

The adoption of these standards is not expected to have a material impact on our consolidated results of operations or financial condition.

(2) Fair Value Measurements

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

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

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

- Level 3: Fair value measurements using significant inputs that are 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 using models or other valuation methodologies. These models are primarily standard models that consider various assumptions including time value, yield curve and other relevant economic measures. Substantially all of these assumptions are observable in the marketplace, can be derived from observable data or are supported by observable levels at which transactions are executed in the marketplace. Financial instruments in this category include non-exchange-traded derivatives such as currency forward contracts.

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):

September 30, 2011	Total	Level 1	Level 2	Level 3
Assets				
Cash and cash equivalents:				
Tax free money market mutual funds	$ 4,590	$ 4,590	$	$
U.S. government money market mutual funds	128,845	128,845		
Money market mutual funds	6,048	6,048		
Securities owned, at fair value:				
Corporate stocks - trading securities	1,348	1,348		
Mutual funds	4,542	4,542		
Total	$ 145,373	$ 145,373	$	$
Liabilities				
Accounts payable and accrued expenses:				
Currency forward contracts	$ 12	$	$ 12	$
Securities sold, not yet purchased, at fair value:				
Common stock	1,395	1,395		
Total	$ 1,407	$ 1,395	$ 12	$

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December 31, 2010	Total	Level 1	Level 2	Level 3
Assets				
Cash and cash equivalents:				
Tax free money market mutual funds	$ 5,061	$ 5,061	$	$
U.S. government money market mutual funds	192,617	192,617		
Money market mutual funds	7,971	7,971		
Securities owned, at fair value:				
Corporate stocks - trading securities	19,051	19,051		
Corporate stocks - available-for-sale securities	1,662	1,662		
Mutual funds	5,076	5,076		
Total	$ 231,438	$ 231,438	$	$
Liabilities				
Accounts payable and accrued expenses:				
Currency forward contracts	$ 9	$	$ 9	$
Securities sold, not yet purchased, at fair value:				
Common stock	19,362	19,362		
Total	$ 19,371	$ 19,362	$ 9	$

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

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

Currency forward contracts are valued based upon forward exchange rates and approximate the credit risk adjusted discounted net cash flow that would have been realized if the contracts had been sold at the balance sheet date.

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 the nine months ended September 30, 2011 and the resultant loss recorded (dollars in thousands):

		Fair Value Measurements Using			
	September 30, 2011	Level 1	Level 2	Level 3	Total Losses
Goodwill U.S. Operations	245,118			245,118	225,035
Total	$ 245,118	$	$	$ 245,118	$ 225,035

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 resulting in an impairment charge of $225.0 million in the second quarter of 2011.

(3) Restructuring Charges

2011 Restructuring

In the second quarter of 2011, the Company decided to implement a restructuring plan to improve margins and enhance stockholder returns primarily focused on reducing workforce, consulting and infrastructure costs in the U.S. and Europe. The following table summarizes the pre-tax charges by segment (dollars in thousands). Employee severance costs relate to the termination of approximately 100 employees and the lease consolidation costs relate to office space that was vacated. These charges are classified as restructuring charges in the Condensed Consolidated Statements of Operations.

	U.S. Operations	Canadian Operations	European Operations	Asia Pacific Operations	Consolidated
Employee separation and related costs	15,444	685	1,235		17,364
Consolidation of leased facilities				314	314
Total	$ 15,444	$ 685	$ 1,235	$ 314	$ 17,678

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Most of the accrued costs are expected to be paid in 2011, except payments related to the vacated leased facilities, which will continue until March 2013, certain cash severance payments which will continue until August 2012 and the settlement of restricted share awards which will continue through February 2014.

Activity and liability balances recorded as part of the 2011 restructuring plan through September 30, 2011 are as follows:

	Employee separation and related costs	Consolidation of leased facilities	Total
Balance at June 30, 2011	$ 17,364	$ 314	$ 17,678
Cash payments	(9,812)	(72)	(9,884)
Acceleration of share-based compensation in additional paid-in capital	(2,298)		(2,298)
Other	(56)	7	(49)
Balance at September 30, 2011	$ 5,198	$ 249	$ 5,447

Westchester Office Closing - 2010

In the fourth quarter of 2010, the Company decided to close its Westchester, NY office, relocate 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 severance costs ($0.1 million).

The following table summarizes the changes in the Company s liability balance related to the Westchester office restructuring plan, which is included in accounts payable and accrued expenses in the Condensed Consolidated Statements of Financial Condition (dollars in thousands):

	Employee separation and related costs	Consolidation of leased facilities	Total
Balance at December 31, 2010	$ 90	$ 2,164	$ 2,254
Utilized cash	(86)	(378)	(464)
Balance at September 30, 2011	$ 4	$ 1,786	$ 1,790

The remaining accrued costs related to employee separation are expected to be paid during 2011 while the payments related to the leased facilities will continue through 2016.

Asia Pacific Restructuring - 2010

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.

The following table summarizes the changes in the Company s liability balance related to the Asia Pacific restructuring plan, which is included in accounts payable and accrued expenses in the Condensed Consolidated Statements of Financial Condition (dollars in thousands):

		Contract termination charges
Balance at December 31, 2010	$	11
Utilized cash		(11)
Balance at September 30, 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 our business that provide a sufficiently profitable return. As a result, a $25.4 million restructuring charge was recorded, which

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included costs related to employee separation, the consolidation of leased facilities and write-offs of capitalized software and certain intangible assets primarily due to changes in product priorities. Employee separation and related costs pertain to the termination of 144 employees primarily from the U.S. Operations. The consolidation of leased facilities charges relate to non-cancelable leases which were vacated.

The following table summarizes the changes 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 and related costs	Consolidation of leased facilities	Total
Balance at December 31, 2010	$ 77	$ 853	$ 930
Utilized cash	(27)	(548)	(575)
Other	3		3
Balance at September 30, 2011	$ 53	$ 305	$ 358

The remaining accrued costs relate to payments related to the leased facilities and the settlement of restricted share awards which will continue through April 2012.

(4) Derivative Instruments

Derivative Contracts

All derivative instruments are recorded on the Condensed 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 entering into the derivative contract. Gains and losses from derivatives that are not accounted for as hedges under ASC 815, Derivatives and Hedging, are recognized immediately in income. For derivative instruments that are 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 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.

Economic Hedges

The Company enters into three month forward contracts to sell Euros and buy British Pounds to economically hedge against 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 designated as hedges, 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 September 30, 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 deals are executed the same day as the underlying equity trade. As these contracts are not designated as hedges, the changes to their fair value are recognized immediately in income. These foreign exchange contracts are reflected in the tables below.

Fair Values and Effects of Derivatives Held

Asset derivatives are included in other assets while liability derivatives are included in accounts payable and accrued expenses on the Condensed Consolidated Statements of Financial Condition. The following table summarizes the fair values of our derivative instruments at September 30, 2011 and December 31, 2010 (dollars in thousands). There were no derivatives designated as hedging instruments in either period.

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	Asset / (Liability) Derivatives Fair Value September 30, 2011		December 31, 2010	
Derivatives not designated as hedging instruments:				
Currency forward contracts	$	(12)	$	(9)
Total derivatives not designated as hedging instruments		(12)		(9)
Total derivatives	$	(12)	$	(9)

The following table summarizes the impact that derivative instruments not designated as hedging instruments under ASC 815 had on the results of operations for the three and nine month periods ended September 30, which are recorded in other general and administrative expense in the Condensed Consolidated Statements of Operations (dollars in thousands).

	Gain/(Loss) Recognized in Income September 30, 2011		September 30, 2010	
Three Months Ended				
Currency forward contracts	$	138	$	(152)
Total	$	138	$	(152)
Nine Months Ended				
Currency forward contracts	$	(42)	$	116
Total	$	(42)	$	116

(5) 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 relating to the collateralization of a letter of credit and a bank guarantee supporting two MacGregor leases, (iv) funds on deposit for European trade clearing and settlement activity, (v) segregated balances under a collateral account control agreement for the benefit of certain customers, (vi) funds relating to the securitization of bank guarantees supporting Australian and Israeli leases and (vii) funds relating to the securitization of a letter of credit supporting an ITG Investment Research lease.

(6) Securities Owned and Sold, Not Yet Purchased

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

	Securities Owned				Securities Sold, Not Yet Purchased			
	September 30, 2011		December 31, 2010		September 30, 2011		December 31, 2010	
Corporate stocks trading securities	$	1,348	$	19,051	$	1,395	$	19,362
Corporate stocks available-for-sale				1,662				

Mutual funds		4,542		5,076				
Total	$	5,890	$	25,789	$	1,395	$	19,362

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 on available-for-sale securities, net of tax effects, which are reported in accumulated other comprehensive income until realized, are as follows (dollars in thousands):

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	After-Tax Unrealized Holding Gain/(Loss)	
	September 30, 2011	December 31, 2010
Positions with net gains	$	$ 86
Positions with net (losses)		
Total gain/(loss)	$	$ 86

Unrealized holding gains on securities, available-for-sale as of December 31, 2010 relates to shares of NYSE Euronext, Inc. the Company received as part of the merger of the New York Stock Exchange and Archipelago Holdings Inc. on March 9, 2006. During the first quarter of 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 in other revenues. There were no sales of available-for-sale securities during the nine month period ending September 30, 2010.

(7) Income Taxes

The tax benefit from an uncertain tax position is recognized only if it is more likely than not that the tax position will be sustained upon 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 that has a greater than fifty percent likelihood of being realized upon ultimate resolution.

During the nine months ended September 30, 2010, uncertain tax positions in the U.S. were resolved for the 2006 and 2008 fiscal years resulting in a decrease in our tax liability of $1.7 million and the related deferred tax asset of $0.3 million. As a result of this, we recognized a net tax benefit of $0.9 million.

During the nine months ended September 30, 2011, no uncertain tax positions in the U.S. were resolved.

The Company had unrecognized tax benefits for tax positions taken of $13.6 million and $12.4 million at September 30, 2011 and December 31, 2010, respectively. The Company had accrued interest expense of $1.5 million and $1.2 million, net of related tax effects, related to unrecognized tax benefits at September 30, 2011 and December 31, 2010, respectively.

(8) 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.

The results of RSEG have been included in the Company s condensed consolidated financial statements since its acquisition date. The $38.6 million purchase price for RSEG consists 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 Condensed 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):

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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

The goodwill and 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 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 result of operations.

(9) Goodwill and Other Intangibles

The following table presents the changes in the carrying amount of goodwill by reportable segment for the period ended September 30, 2011 (dollars in thousands):

		U.S. Operations		European Operations		Asia Pacific Operations		Total
Balance as of December 31, 2010	$	439,294	$	28,484	$	701	$	468,479
Impairment loss		(225,035)						(225,035)
Acquisition of Ross Smith Energy		30,715						30,715
ITG Investment Research price adjustment		144						144
Currency translation adjustment		(20)		1				(19)
Balance as of September 30, 2011	$	245,098	$	28,485	$	701	$	274,284

Goodwill impairment

The Company tests the carrying value of goodwill for impairment at least annually and more frequently if an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying amount.

During 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 recent 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 have not improved, the Company continued to perform interim goodwill impairment testing at the end of each quarter during 2011. The interim impairment tests apply the same valuation techniques and sensitivity analyses used in the Company s prior annual impairment test 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 reflects continued weakness in institutional trading volumes, which lowered estimated future cash flows of the U.S. Operations reporting unit, and a decline in industry market multiples.

Based on the results of the September 30, 2011 step one interim testing, no further impairment was indicated for the U.S Operations reporting unit, as its fair value was determined to be in excess of its carrying value by 29%. There was also no impairment indicated for the European or Hong Kong Operations as the fair values of these reporting units were determined to be in excess of their respective carrying values by 29% and 233%. In addition, none of the outcomes of the Company s sensitivity analyses performed led to a conclusion that goodwill was further impaired.

Although no further impairment of goodwill was indicated during the September 30, 2011 interim testing, the Company recognizes the reasonable possibility of additional goodwill impairment charges in future periods given the persistently unfavorable environment for the Company s business. It is not possible at this time to determine if any such future impairment charges would result or, if it does, whether such charges would be material. The use of the term reasonable possibility refers to a potential

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occurrence that is more than remote, but less than probable in management s judgment. The Company will continue to monitor economic trends related to its business as well as re-examine the key assumptions used in its impairment testing.

Other Intangible Assets

Acquired other intangible assets consisted of the following at September 30, 2011 and December 31, 2010 (dollars in thousands):

	September 30, 2011		December 31, 2010		
	Gross Carrying Amount	**Accumulated Amortization**	**Gross Carrying Amount**	**Accumulated Amortization**	**Useful Lives (Years)**
Trade names	$ 10,400	$ 1,229	$ 10,400	$ 1,036	5.0
Customer related intangibles	27,851	3,943	20,901	2,571	7.8
Proprietary software	20,876	13,527	20,876	12,001	17.6
Trading rights	242		165		
Other	50		50		
Total	$ 59,419	$ 18,699	$ 52,392	$ 15,608	

During 2011, the Company recorded a $7.0 million customer related intangible asset with a useful life of 10 years related to the acquisition of RSEG.

At September 30, 2011, other intangibles not subject to amortization amounted to $8.7 million, of which $8.4 million related to the POSIT trade name.

Amortization expense of other intangibles was $1.1 million and $3.1 million for the three months and nine months ended September 30, 2011, respectively, compared with $0.7 million and $2.1 million in the respective prior year periods. These amounts are included in other general and administrative expense in the Condensed Consolidated Statements of Operations.

During the nine months ended September 30, 2011, no other intangible assets were deemed impaired, and accordingly, no adjustment was required.

(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 (dollars in thousands):

	Receivables from		Payables to	
	September 30, 2011	December 31, 2010	September 30, 2011	December 31, 2010
Broker-dealers	$ 549,743	$ 246,560	$ 497,914	$ 403,432
Clearing organizations	11,345	413	63,761	108,526
Securities borrowed	513,384	618,662		
Securities loaned			557,970	628,000
Allowance for doubtful accounts	(478)	(384)		
Total	$ 1,073,994	$ 865,251	$ 1,119,645	$ 1,139,958

Receivables from, and Payables to, Customers

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

	Receivables from		Payables to	
	September 30, 2011	December 31, 2010	September 30, 2011	December 31, 2010
Customers	$ 828,381	$ 607,286	$ 635,460	$ 272,027
Allowance for doubtful accounts	(1,247)	(1,030)		
Total	$ 827,134	$ 606,256	$ 635,460	$ 272,027

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Securities Borrowed and Loaned

As of September 30, 2011, securities borrowed as part of the Company s matched book operations with a fair value of $467.7 million were delivered for securities loaned. The gross amounts of interest earned on cash provided to counterparties as collateral for securities borrowed, and interest incurred on cash received from counterparties as collateral for securities loaned, and the resulting net amount included in other revenue on the Condensed Consolidated Statements of Operations for the three and nine months ended September 30, were as follows (dollars in thousands):

	Three Months Ended September 30, 2011	Three Months Ended September 30, 2010	Nine Months Ended September 30, 2011	Nine Months Ended September 30, 2010
Interest earned	$ 5,114	$ 1,372	$ 14,794	$ 2,699
Interest incurred	(4,053)	(958)	(11,473)	(1,802)
Net	$ 1,061	$ 414	$ 3,321	$ 897

(11) Accounts Payable and Accrued Expenses

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

	September 30, 2011	December 31, 2010
Accrued research payables	$ 55,808	$ 41,569
Accrued compensation and benefits	40,517	63,423
Trade payables	23,203	24,235
Deferred revenue	16,247	15,852
Deferred compensation	8,076	16,531
Accrued restructuring	7,595	3,196
Accrued transaction processing	3,583	3,336
Acquisition payment obligation	500	9,314
Other	24,470	17,653
Total	$ 179,999	$ 195,109

(12) Borrowings

Short-term Bank Loans

The Company s international securities clearance and settlement operations are funded with operating cash, securities loaned or with short-term bank loans in the form of overdraft facilities. At September 30, 2011, there was $63.8 million outstanding under these facilities at a weighted average interest rate of 2.5% primarily associated with European settlement transactions.

On January 31, 2011, ITG Inc., as borrower, and Investment Technology Group, Inc., 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 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%. The purpose of this credit line is to provide liquidity for ITG Inc. s brokerage operations to satisfy clearing margin requirements and to finance temporary positions from delivery failures or non-standard settlements. As a result, 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 (NSCC), 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

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commitments will either automatically terminate and all unpaid amounts immediately become due and payable, or the lenders may in their discretion terminate their commitments and declare due all unpaid amounts outstanding.

At September 30, 2011 there were no amounts outstanding under the Credit Agreement.

Term Debt

At September 30, 2011, term debt is comprised of the following (dollars in thousands):

		Aggregate Amount
Term loan	$	23,346
Obligations under capital lease		2,441
Total	$	25,787

On June 1, 2011, Investment Technology Group, Inc. (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 is 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
2011	$	1,061
2012		6,367
2013		6,367
2014		6,367
2015		3,184
	$	23,346

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 shall be structured as a capital lease and will have 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 will require principal repayment on a monthly schedule and will accrue interest at the same rate prescribed for the Term Loan.

In September 2011, $2.6 million was drawn on the lease facility to finance recently 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. The lease is payable in monthly installments of approximately $54,000 beginning in October 2011 plus interest at 3.0% plus the average one month LIBOR for dollar deposits. 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**
2011	$	199
2012		590
2013		606
2014		622
2015		424
	$	2,441

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(13) Earnings Per Share

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

	September 30, 2011		September 30, 2010	
Three Months Ended				
Net income for basic and diluted earnings per share	$	10,477	$	6,210
Shares of common stock and common stock equivalents:				
Average common shares used in basic computation		40,615		42,407
Effect of dilutive securities		656		534
Average common shares used in diluted computation		41,271		42,941
Earnings per share:				
Basic	$	0.26	$	0.15
Diluted	$	0.25	$	0.14
Nine Months Ended				
Net (loss) income for basic and diluted earnings per share	$	(176,117)	$	22,150
Shares of common stock and common stock equivalents:				
Average common shares used in basic computation		41,051		43,148
Effect of dilutive securities				628
Average common shares used in diluted computation		41,051		43,776
(Loss) earnings per share:				
Basic	$	(4.29)	$	0.51
Diluted	$	(4.29)	$	0.51

The following is a summary of anti-dilutive equity awards not included in the detailed earnings per share computations (amounts in thousands):

	September 30, 2011	September 30, 2010
Three months ended	1,451	680
Nine months ended	2,233	657

The impact of all common stock equivalents on per share amounts for the nine month period ending September 30, 2011 is anti-dilutive due to the fact that the Company is reporting a loss.

(14) Other Comprehensive Income

The components and allocated tax effects of other comprehensive income for the periods ended September 30, 2011 and December 31, 2010 are as follows (dollars in thousands):

	Before Tax Effects	Tax Effects	After Tax Effects
September 30, 2011			
Currency translation adjustment	$ 6,833	$	$ 6,833
Unrealized holding gain/(loss) on securities, available-for-sale			
Beginning balance	144	(58)	86
Less: Reclassification adjustment for gains recognized in net income	(144)	58	(86)
Net unrealized holding gain/(loss) on securities, available-for-sale			
Total	$ 6,833	$	$ 6,833
December 31, 2010			
Currency translation adjustment	$ 10,407	$	$ 10,407
Unrealized holding gain/(loss) on securities, available-for-sale	144	(58)	86
Total	$ 10,551	$ (58)	$ 10,493

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Unrealized holding gains and losses on securities, available-for-sale relates to shares of NYSE Euronext, Inc. the Company received as part of the merger of the New York Stock Exchange and Archipelago Holdings Inc. on March 9, 2006. During the first quarter of 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.

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.

(15) Net Capital Requirement

ITG Inc., AlterNet, Blackwatch Brokerage Inc. (Blackwatch) 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, ITG Derivatives and Blackwatch have elected to use the basic method permitted by Rule 15c3-1, which requires that they maintain minimum net capital equal to the greater of 6 2/3% of aggregate indebtedness or $100,000, $1.0 million and $5,000, respectively. Dividends or withdrawals of capital cannot be made if capital is needed to comply with regulatory requirements.

Net capital balances and the amounts in excess of required net capital at September 30, 2011 for the U.S. Operations are as follows (dollars in millions):

	Net Capital	Excess Net Capital
U.S. Operations		
ITG Inc.	$ 67.3	$ 66.3
AlterNet	4.2	4.0
Blackwatch	2.8	2.6
ITG Derivatives	2.5	1.5

As of September 30, 2011, ITG Inc. had a $10.8 million cash balance in a Special Reserve Bank Account for the 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 at September 30, 2011, is summarized in the following table (dollars in millions):

	Net Capital	Excess Net Capital
Canadian Operations		
Canada	$ 48.6	$ 48.1
European Operations		

Europe	44.5	20.9
Asia Pacific Operations		
Australia	8.0	2.2
Hong Kong	31.7	9.5
Singapore	0.3	0.1

(16) 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 trade execution, trade order management, network connectivity and research services. The Canadian Operations segment provides trade execution, network connectivity and research services. The European Operations segment provides trade execution, trade order management, network connectivity and research services in Europe, and includes a technology research and development facility in Israel. The Asia Pacific Operations segment provides trade execution, network connectivity and research services.

The accounting policies of the reportable segments are the same as those described in Note 2, *Summary of Significant Accounting Policies*, in our Annual Report on Form 10-K for the year ended December 31, 2010. 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

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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.

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

	U.S. Operations (1)(2)(3)(4)	Canadian Operations (1)	European Operations (1)	Asia Pacific Operations (1)(5)	Consolidated
Three Months Ended September 30, 2011					
Total revenues	$ 97,999	$ 21,682	$ 18,611	$ 11,127	$ 149,419
Income (loss) before income tax (benefit) expense	11,471	5,623	1,335	(1,239)	17,190
Identifiable assets	1,229,009	131,311	660,219	696,787	2,717,326
Three Months Ended September 30, 2010					
Total revenues	$ 88,138	$ 17,364	$ 16,771	$ 8,123	$ 130,396
Income (loss) before income tax expense (benefit)	10,131	4,312	381	(3,448)	11,376
Identifiable assets	1,529,236	105,835	535,595	613,434	2,784,100
Nine Months Ended September 30, 2011					
Total revenues	$ 292,402	$ 64,350	$ 54,487	$ 30,875	$ 442,114
(Loss) income before income tax (benefit) expense	(211,231)	15,267	935	(5,241)	(200,270)
Nine Months Ended September 30, 2010					
Total revenues	$ 296,135	$ 57,294	$ 55,080	$ 23,899	$ 432,408
Income (loss) before income tax expense (benefit)	47,517	15,194	2,861	(19,387)	46,185

(1) Income (loss) before income tax expense for the nine months ended September 30, 2011 includes the impact of restructuring charges of $15.4 million, $0.7 million, $1.2 million and $0.3 million for the U.S., Canadian, European and Asia Pacific Operations, respectively.

(2) Income (loss) before income tax expense for the nine months ended September 30, 2011 includes the impact of a $225.0 million goodwill impairment charge.

(3) Income (loss) before income tax expense for the nine months ended September 30, 2011 includes the impact of acquisition related costs of $2.5 million.

(4) Income (loss) before income tax expense for the nine months ended September 30, 2010 includes the impact of a $6.1 million charge to write-off certain capitalized software initiatives.

(5) Income (loss) before income tax expense for the nine months ended September 30, 2010 includes the impacts of a $5.4 million impairment charge related to Australian goodwill and a restructuring charge of $2.5 million to close the Company s on-shore Japanese operations.

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

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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.

(18) Subsequent Event

In October 2011, the Company incurred additional restructuring charges estimated at a range of $6.5 million to $7.5 million related to further workforce reductions and lease consolidation. The workforce reduction related to the reorganization of the U.S. Operations in which the Company combined certain business units and streamlined certain trading, sales and support functions. The lease consolidation primarily relates to a reduction in office space used following the reduction of approximately 100 employees earlier in 2011.

In the third quarter of 2011, the Company repurchased 950,000 shares for $10.4 million, or an average price of $10.92. As of September 30, 2011, the Company had 0.9 million shares available for repurchase under available authorizations. In October 2011, the Company s Board of Directors authorized the repurchase of an additional 4.0 million shares. This additional authorization has no expiration date. The specific timing and amount of repurchases will vary based on market conditions and other factors.

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

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

Overview

ITG is an independent agency research broker that partners with asset managers globally to improve performance throughout the investment process. 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 insights grounded in data. Asset managers rely on ITG s independence, experience and intellectual capital to identify investment and trading opportunities, help mitigate risk, improve performance and navigate increasingly complex markets. 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. The U.S. Operations segment provides trade execution, trade order management, network connectivity and research services. The Canadian Operations segment provides trade execution, network connectivity and research services. The European Operations segment provides trade execution, trade order management, network connectivity and research services in Europe, and includes a technology research and development facility in Israel. The Asia Pacific Operations segment provides trade execution, network connectivity and research services.

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, (ii) income generated on net executions, whereby equity orders are filled at different prices within or at the National Best Bid and Offer (NBBO) and (iii) commission sharing arrangements between ITG Net (our private value-added FIX-based financial electronic communications network) and third-party brokers and alternative trading systems whose trading products are made available to our buy-side clients on our order management system (OMS) and execution management system (EMS) applications. 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: (x) macro trends in the global equities markets that affect overall institutional equity trading activity, (y) competitive pressure, including pricing, created by a proliferation of electronic execution competitors and (z) 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

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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 on our OMS and (iv) subscription revenue generated from the usage of our investment research.

Other revenues include: (i) income from principal trading, (ii) the net interest spread earned on securities borrowed and loaned matched book transactions, (iii) non-recurring professional 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, share-based compensation and related employee benefits and taxes. Incentive compensation fluctuates based primarily on revenues, profitability and other measures, including market compensation levels.

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

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

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

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

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, such as foreign currency exchange rates. Management believes that the non-GAAP financial measures described below provide investors and analysts useful insight into our financial position and operating performance.

Disclosures of commissions and fees excluding currency translation, which exclude the impact of fluctuations in foreign currency exchange rates, is provided to facilitate relevant period-to-period comparisons of the underlying growth in commissions and fees by excluding these fluctuations outside of management s control that impact the overall comparability. Underlying commissions and fees should be viewed in addition to, and not as an alternative to, commissions and fees as determined in accordance with U.S. GAAP.

Executive Summary for the Quarter Ended September 30, 2011

Consolidated Overview

In the third quarter, economic uncertainty fueled by the growing perception of downside risks to the U.S. economy as well as concerns regarding Greek sovereign debt and the European banking sector was manifested in higher market volatility and trading volumes, falling stock indices, and an overall heightened sense of risk aversion. Seeking a safe haven, investors pulled $68.1 billion out of U.S. domestic mutual funds in the third quarter of this year, the highest quarterly net outflow since 2008, following

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nearly $25 billion in redemptions in the second quarter. Amidst this uncertainty, our global trading volumes were sharply higher, outpacing the growth in overall market volumes. Even though the volume growth was primarily attributable to lower-rate clients such as sell-side and active quantitative investors, the magnitude of the third quarter volume increase combined with improved international results and our cost management efforts led to a significant improvement in our profitability. Net income for the quarter was $10.5 million, or $0.25 per diluted share, compared to $6.2 million, or $0.14 per diluted share, during the third quarter of 2010. Consolidated revenues increased 15% to $149.4 million compared to $130.4 million generated in the third quarter of 2010.

As investors continue to pull money out of domestic stock funds, the contracting pool of available equity commissions continues to challenge securities brokers. Execution-only brokers have been particularly challenged as research-driven commission spending is generally given priority by investment managers. In this highly competitive environment for commission dollars, we are continuing our efforts to transform our business into a combined execution and differentiated research content model, which we believe will enable us to capture additional commission dollars and market share. Last year we took the first major step by acquiring Majestic Research Corp. (Majestic   ), followed by our acquisition of RSEG (together with Majestic, now ITG Investment Research) last quarter. We are proceeding with the integration of these acquisitions as well as the expansion of our research offering. During the quarter, we hired a well-known restaurant analyst to further enhance our coverage in the restaurant industry and continued to establish new trading relationships with accounts to pay for our research.

Consolidated expenses for the quarter were $132.2 million compared to $119.0 million in the third quarter of 2010. As compared to the prior year quarter, third quarter consolidated expenses included $10.7 million of new costs from ITG Investment Research, together with increases of $5.4 million in variable transaction processing costs. These additional expenses were partially offset by decreases in other expenses, primarily due to our cost reduction efforts. In the U.S., expenses were $86.5 million compared to expenses of $78.0 million during the third quarter of 2010. U.S. expense growth includes new expenses for our research operations of $9.8 million and a volume driven increase in transaction processing costs of $3.1 million, partially offset by decreases in other costs of $4.4 million. Our non-U.S. expenses were $45.7 million during the third quarter of 2011 compared to $41.0 million in the third quarter of 2010 reflecting $2.3 million of higher volume driven transaction processing costs, $2.3 million in higher costs from currency translations and $0.9 million in new expenses for our research operations, partially offset by other cost decreases of $0.8 million.

The accumulating outflows from domestic equity mutual funds are likely to remain a significant headwind for some time. The prevailing negative investor sentiment continues to cast uncertainty as to when a real, sustainable recovery in domestic institutional equity activity will materialize, as well as the extent to which it will recover. As a result, we are proceeding cautiously through rigorous expense discipline to improve our operating leverage and to provide us with the flexibility we need to allocate additional resources to our research build-out. Cost management will be an ongoing endeavor for us as evidenced by the measures we recently took in October 2011 to consolidate leased office space and further reduce headcount (see Note 18, *Subsequent Events,* to the condensed consolidated financial statements for further detail). We expect these measures to further reduce annual costs in 2012 by more than $3.0 million. The improvement in our results this quarter demonstrates the enhanced operating leverage we have established, which positions us well for both cyclical and secular rises in equity volumes going forward.

Segment Discussions

During the third quarter, our average daily executed volumes in the U.S. increased by 30% to 210.1 million shares per day as compared to the third quarter of 2010, outperforming the 11% increase in the overall combined average daily market volume of NYSE and NASDAQ-listed securities during the same period. Increased flows from our sell-side client segment, including those that trade through us on a net basis, as well as funds employing quantitative strategies compensated in part for the reduced flows from our core actively managed institutional accounts. While we benefit significantly from the incremental margin generated by the higher sell-side volumes, the shift in our volume mix has reduced our overall average revenue capture per share, resulting in a net increase to commissions and fees of 5% versus the third quarter of 2010. Our total U.S. revenues were $98.0 million, versus the $88.1 million generated in the third quarter of 2010.

Canadian revenues were modestly improved over the second quarter of 2011 but well ahead of the third quarter of 2010. Third quarter revenues increased $4.3 million, or 25%, versus the prior year on sharply higher volumes. Canadian revenues also benefited from a stronger Canadian Dollar and activity from RSEG s Canadian clients. As in the U.S., we plan to expand our market reach in Canada with research services.

In Europe, global sovereign debt and banking liquidity concerns have prompted investors to cut back on equity holdings, fueling a high degree of volatility in equity financial markets over the last quarter. This volatility was no more apparent than in August where the traditional European holiday month saw market turnover spike to an annual high only to be followed by a slowdown in September. In the third quarter, speculative trading based on macro themes drove up market turnover by 44% compared with the same quarter last year. In comparison, the turnover in our European business grew approximately 50% resulting in market share gains, commission revenue growth of 17% and a pre-tax profit of $1.3 million. There remains considerable uncertainty surrounding the economic climate in the region, which could have a significant impact on our near-term results.

Our Asia Pacific Operations posted record revenues of $11.1 million, 37% higher than the third quarter of 2010. We continue to view Asia Pacific as a significant opportunity for ITG. As a result of the improved revenues and various cost savings initiatives implemented throughout 2010, we were able to significantly reduce our pre-tax operating loss in the region to $1.2 million.

Capital Resource Allocation

In the third quarter of 2011, we returned $10.4 million to stockholders through the repurchase of 950,000 shares for an average price of $10.92. This brings the total of our year-to-date repurchases to $28.2 million, higher than our year-to-date adjusted net income. In addition, we utilized $2.6 million of our capital lease financing facility during the quarter. Going forward, we intend to utilize our capital resource flexibility, including our debt capacity, to continue to capitalize on strategic investment opportunities while we return profits to stockholders through stock repurchases.

Results of Operations Three Months Ended September 30, 2011 Compared to Three Months Ended September 30, 2010

U.S. Operations

	Three Months Ended September 30,			
$ in thousands	**2011**	**2010**	**Change**	**% Change**
Revenues				
Commissions and fees	$ 74,027	$ 70,387	$ 3,640	5
Recurring	22,343	16,527	5,816	35
Other	1,629	1,224	405	33
Total revenues	97,999	88,138	9,861	11
Expenses				
Compensation and employee benefits	36,503	32,611	3,892	12
Transaction processing	14,064	10,957	3,107	28
Other expenses	35,325	34,281	1,044	3
Interest expense	636	158	478	303
Total expenses	86,528	78,007	8,521	11
Income before income tax expense	$ 11,471	$ 10,131	$ 1,340	13
Pre-tax margin	11.7%	11.5%	0.2%	

The U.S. results in 2011 include the operations of Majestic which was acquired in late October 2010. Furthermore, following the acquisition of RSEG in early June 2011, the U.S. results include revenues from RSEG s U.S. clients along with RSEG s operating expenses, net of a charge to our Canadian operations for costs attributable to the amount of RSEG revenue recognized in Canada.

Our U.S. trading volumes increased 30% over the third quarter of 2010 while the overall U.S. equity volumes (as measured by the combined share volume in NYSE and NASDAQ-listed securities) increased 11%. Our average daily volume increase was driven by sharply higher market volatility and significantly higher order flow from the sell-side client segment, including those clients that trade with us on a net basis, as well as from funds employing quantitative strategies. The increased order flow from this lower revenue capture business combined with the continued contraction in business activity from our core actively-managed institutional clients resulted in further compression in our average revenue capture per share. The combined effect increased commissions and fees by 5%. Average daily executed volumes in POSIT increased 57% from the third quarter of 2010 to a record 96.6 million shares.

	Three Months Ended September 30, 2011	2010	Change	% Change
U.S. Operations: Key Indicators*				
Total trading volume (in billions of shares)	13.4	10.3	3.1	30
Trading volume per day (in millions of shares)	210.1	161.5	48.6	30
Average revenue per share ($)	$ 0.0047	$ 0.0058	$ (0.0011)	(19)
U.S. market trading days	64	64		

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

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Recurring revenues increased primarily due to the $7.4 million of subscription revenue from ITG Investment Research (not present in the 2010 quarter), which more than offset lower revenues from our connectivity and OMS products. A portion of the revenue attributable to ITG Investment Research during the third quarter of 2011 was recognized as commissions and fees as certain clients pay for research services through higher trading flows as part of bundled commission arrangements. The use of this payment method is an important part of our research content strategy as it provides an opportunity for revenue synergies through the use of our trading products and a more flexible way to up-sell additional research.

Other revenues increased primarily from higher stock borrow net spread income from our matched book business and a $0.5 million gain on the sale of two patents, partially offset by an increase in trading errors and client accommodations.

Total expenses were up $8.5 million compared to the third quarter of 2010 due to the inclusion of $9.8 million of expenses from ITG Investment Research and higher volume driven transaction processing costs, offset in part by savings from prior cost reduction initiatives, primarily in compensation expense.

Compensation and employee benefits increased 12% due to $7.2 million in personnel costs related to ITG Investment Research, offset in part by cost savings initiatives from our restructuring effort taken in June 2011 and decreases in incentive compensation, which is primarily based on revenues, profitability and other financial measures, including market compensation levels.

The increase in transaction processing costs was consistent with the increase in our executed volumes.

Other expenses increased primarily due to $2.6 million of costs associated with the acquired research businesses, including costs for data providers, offset in part by various cost savings and an increase of $0.8 million to the allocation of research and development costs to other regions.

The interest expense incurred in the third quarter of 2011 relates primarily to debt issuance cost amortization and commitment fees relating to the three-year $150 million revolving credit agreement we entered into in January 2011 and the long-term debt financing we obtained in the second quarter of 2011 (see *Liquidity and Capital Resources* and Note 12, *Borrowings*, to the condensed consolidated financial statements for further detail). Interest expense incurred in the third quarter of 2010 relates to the term loan under our 2006 credit agreement, which was fully repaid as of December 31, 2010.

Canadian Operations

	Three Months Ended September 30,			
$ in thousands	**2011**	**2010**	**Change**	**% Change**
Revenues				
Commissions and fees	$ 17,915	$ 14,912	$ 3,003	20
Recurring	2,036	1,070	966	90

Other	1,731	1,382	349	25
Total revenues	21,682	17,364	4,318	25
Expenses				
Compensation and employee benefits	5,112	4,775	337	7
Transaction processing	3,471	3,223	248	8
Other expenses	7,476	5,054	2,422	48
Total expenses	16,059	13,052	3,007	23
Income before income tax expense	$ 5,623	$ 4,312	$ 1,311	30
Pre-tax margin	25.9%	24.8%	1.1%	

Currency translation from a weakened U.S. Dollar increased total Canadian revenues and expenses by $1.2 million and $0.8 million, respectively, resulting in a $0.4 million increase to pre-tax income.

Commissions and fees grew 20% compared to the prior year period due to sharply higher volume as well as favorable currency translation. Our client trading volumes executed in Canadian markets grew 30% over the third quarter of last year, outpacing the 14% growth on all Canadian markets. Offsetting this volume growth was a 9% decrease in revenue capture per share.

Recurring revenues nearly doubled in comparison to the prior year due to Canadian client usage of ITG Investment Research products of $0.7 million and an increase in the number of billable connections in our ITG Net connectivity business.

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Other revenues reflect growth in foreign exchange trading, partially offset by an increase in errors and client accommodations.

Compensation and employee benefits increased 7% due to an increase in headcount, higher incentive-based compensation based on improved operating results in the region and unfavorable currency translations. These increases were partially offset by lower stock-based compensation, which fluctuates for our Canadian operations based on changes in the market price of our stock.

Transaction processing expenses increased due to higher volumes and unfavorable currency translation. The higher expenses were mitigated by lower per trade ticket costs as a result of transitioning to a new carrying broker in August 2010 and improved crossing rates and routing strategies.

Other expenses were higher reflecting higher consulting costs incurred to enhance our product offerings, a $0.7 million charge allocated for investment research costs, a $0.4 million increase in the amount allocated for research and development costs, higher connectivity charges and unfavorable currency translation.

European Operations

	Three Months Ended September 30,			
$ in thousands	**2011**	**2010**	**Change**	**% Change**
Revenues				
Commissions and fees	$ 15,466	$ 13,205	$ 2,261	17
Recurring	3,208	3,668	(460)	(13)
Other	(63)	(102)	39	38
Total revenues	18,611	16,771	1,840	11
Expenses				
Compensation and employee benefits	7,246	8,089	(843)	(10)
Transaction processing	4,680	3,433	1,247	36
Other expenses	5,350	4,868	482	10
Total expenses	17,276	16,390	886	5
Income before income tax expense	$ 1,335	$ 381	$ 954	250
Pre-tax margin	7.2%	2.3%	4.9%	

Currency translation from a weakened U.S. Dollar increased our total European revenues and expenses by $0.7 million and $0.8 million, respectively, with no material impact on pre-tax income.

Ongoing concerns about sovereign debt and banking liquidity have prompted investors to cut back on equity holdings, fueling a high degree of volatility in equity financial markets driving up market turnover by 44% as compared to the same quarter last year. Volatility was particularly pronounced in August where the traditional European holiday month saw market turnover spike to an annual high, driven by speculative trading based on macro themes, only to be followed by a slowdown in September.

Our European volumes grew by approximately 50% over the third quarter of last year due primarily to the growth in activity from new sell-side liquidity partners at commission rates substantially lower than our traditional buy-side institutions. Commissions and fees increased 17%, including a favorable currency translation effect of nearly $0.6 million. The average daily value crossed in POSIT during the third quarter was a record $278.3 million, 150% higher than the third quarter of 2010. We also generated $0.4 million of revenue from our new Single Ticket Clearing offering, which commenced operations in late 2010.

Recurring revenues fell $0.5 million due primarily to OMS subscription cancellations.

The decrease in compensation and employee benefits was due primarily to a 20% reduction in headcount and lower incentive compensation, partially offset by an unfavorable currency translation impact of $0.3 million.

Transaction processing costs increased 36% due to the higher turnover level described above and an unfavorable currency translation impact, offset in part by the positive impact of having a greater percentage of our European volumes crossed in POSIT.

Other expenses increased $0.5 million related to investments in a new data center in Stockholm, Sweden to reduce latency in the Scandinavian market and additional monitoring tools related to market surveillance systems.

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Asia Pacific Operations

$ in thousands	Three Months Ended September 30, 2011	2010	Change	% Change
Revenues				
Commissions and fees	$ 10,240	$ 7,444	$ 2,796	38
Recurring	961	647	314	49
Other	(74)	32	(106)	(331)
Total revenues	11,127	8,123	3,004	37
Expenses				
Compensation and employee benefits	5,248	5,152	96	2
Transaction processing	2,625	1,788	837	47
Other expenses	4,493	4,631	(138)	(3)
Total expenses	12,366	11,571	795	7
Loss before income tax expense	$ (1,239)	$ (3,448)	$ 2,209	64
Pre-tax margin	NA	NA	NA	

Currency translation, primarily from the stronger Australian dollar, increased total Asia Pacific revenues and expenses by $0.6 million each, with no material impact on pre-tax income.

Commission and fees increased 38% over the prior year quarter driven by increased market turnover from both U.S. and local clients into the region, as well as additional ITG Net commission sharing revenues and favorable currency translation.

Recurring revenues increased primarily from the growth of billable network connections in our ITG Net connectivity business.

Compensation and employee benefits remained relatively flat despite an increase in headcount and an unfavorable translation impact of $0.3 million, which were partially offset by a decline in incentive compensation expense.

Transaction processing costs increased due to higher trading values but grew at a faster pace than related trading revenues as a higher percentage of trades were executed in costlier venues increasing our clearing and settlement costs.

Other expenses reflect the savings achieved from vacating office space in Sydney, Australia and other cost savings efforts, partially offset by unfavorable currency translation of $0.2 million.

Consolidated income tax expense

Our effective tax rate was 39.1% in the third quarter of 2011 compared to 45.4% in the third quarter of 2010. The lower effective rate was primarily attributable to the improved profitability of our international operations, particularly the significant reduction in losses incurred in the Asia Pacific region where we are currently not recording any tax benefits. Our consolidated effective tax rate can vary from period to period depending on, among other factors, the geographic and business mix of our earnings.

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Results of Operations   Nine Months Ended September 30, 2011 Compared to Nine Months Ended September 30, 2010

U.S. Operations

$ in thousands	**Nine Months Ended September 30, 2011**	**2010**	**Change**	**% Change**
Revenues				
Commissions and fees	$ 220,361	$ 241,873	$ (21,512)	(9)
Recurring	65,074	50,959	14,115	28
Other	6,967	3,303	3,664	111
Total revenues	292,402	296,135	(3,733)	(1)
Expenses				
Compensation and employee benefits	111,673	102,556	9,117	9
Transaction processing	40,449	34,208	6,241	18
Other expenses	107,109	111,518	(4,409)	(4)
Goodwill impairment	225,035		225,035	
Restructuring charges	15,444	(252)	15,696	
Acquisition related costs	2,523		2,523	
Interest expense	1,400	588	812	138
Total expenses	503,633	248,618	255,015	103
(Loss) income before income tax expense	$ (211,231)	$ 47,517	$ (258,748)	(545)
Pre-tax margin	NA	16.0%	NA	

Our U.S. trading volumes increased 11% over the first nine months of 2010, while overall U.S. equity volumes (as measured by the combined share volume in NYSE and NASDAQ-listed securities) were 11% lower. Our average daily volume increase was driven by significantly higher order flow from the sell-side-client segment, including those clients that trade with us on a net basis, as well as from funds employing quantitative strategies. The increased order flow from this lower revenue capture business combined with the continued contraction in business activity from our core actively managed institutional clients resulted in further compression in our average revenue capture per share. The combined effect decreased commissions and fees by 9%.

	Nine Months Ended September 30, 2011	**2010**	**Change**	**% Change**
U.S. Operations: Key Indicators*				
Total trading volume (in billions of shares)	37.4	33.8	3.6	11
Trading volume per day (in millions of shares)	197.7	179.8	17.9	10
Average revenue per share ($)	$ 0.0051	$ 0.0062	$ (0.0011)	(18)
U.S. market trading days	189	188	1	1

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

Recurring revenues increased as a result of the $18.6 million of billed revenue from ITG Investment Research which more than offset lower revenues from our connectivity and OMS products. A portion of the revenue attributable to ITG Investment Research during the year was recognized as commissions and fees as certain clients are paying for research services through higher trading flows as part of bundled commission arrangements.

Other revenues primarily increased from a $2.4 million increase in stock borrow net spread income from our matched book business (which started in April 2010), a gain of $0.5 million on the sale of our entire common stock holdings in NYSE Euronext, Inc. and a gain of $0.5 million on the sale of two software patents.

Total 2011 expenses of $503.6 million include the following non-operating costs: a goodwill impairment charge ($225.0 million), restructuring charges ($15.4 million), acquisition related costs ($2.5 million) as well as the inclusion of costs for ITG Investment Research ($25.2 million), while 2010 expenses include a $6.1 million write-off of certain capitalized software initiatives.

Compensation and employee benefits increased 9% due to $17.6 million in personnel costs related to ITG Investment Research, offset in part by cost savings initiatives from the recent restructuring activities in the second quarter of 2011 and lower incentive compensation.

Transaction processing costs increased 18% primarily due to higher volumes and the change in the mix of our executed trades.

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Other expenses decreased primarily due to the $6.1 million write-off of certain capitalized software initiatives in the first quarter of 2010, an additional $2.5 million allocation of research and development costs to other regions and other cost savings during 2011. These decreases were offset by $7.4 million of other expenses from the acquired research businesses.

In the second quarter of 2011, we recorded goodwill impairment charges of $225.0 million reflecting continued weakness in institutional trading volumes, which lowered estimated future cash flows of the U.S. Operations reporting unit, and a decline in industry market multiples (see *Critical Accounting Estimates* for further detail).

Restructuring charges primarily include employee separation and related costs. Related savings are estimated to exceed $16.9 million in 2012.

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.

The interest expense incurred in 2011 relates primarily to debt issuance cost amortization and commitment fees relating to the three-year $150 million revolving credit agreement we entered into in January 2011 to provide liquidity for our U.S. brokerage operations and the long-term debt financing we obtained in the second quarter of 2011 to provide capital for strategic initiatives (see *Liquidity and Capital Resources* and Note 12, *Borrowings*, to the condensed 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

	Nine Months Ended September 30,			
$ in thousands	**2011**	**2010**	**Change**	**% Change**
Revenues				
Commissions and fees	$ 55,061	$ 50,123	$ 4,938	10
Recurring	4,789	2,912	1,877	64
Other	4,500	4,259	241	6
Total revenues	64,350	57,294	7,056	12
Expenses				
Compensation and employee benefits	16,816	15,837	979	6
Transaction processing	10,809	11,224	(415)	(4)
Other expenses	20,773	15,055	5,718	38
Restructuring charges	685	(16)	701	
Total expenses	49,083	42,100	6,983	17
Income before income tax expense	$ 15,267	$ 15,194	$ 73	0
Pre-tax margin	23.7%	26.5%	(2.8)%	

Currency translation from a weakened U.S. Dollar increased total Canadian revenues and expenses by $3.7 million and $2.5 million, respectively, resulting in a $1.2 million increase to pre-tax income.

Our Canadian average daily volume increased by 8% compared to the prior year period primarily due to growth from sell-side clients. The shift in business mix along with continued pricing pressure from institutions reduced the amount of growth in commissions and fees to $4.9 million, including $3.2 million from favorable currency translation.

Recurring revenues increased due to Canadian client usage of ITG Investment Research services, which contributed $0.9 million in revenues, as well as an increase in the number of billable connections in our ITG Net business.

Compensation and employee benefits increased $1.0 million due to increases in headcount and incentive-based compensation, as well as unfavorable currency translation. These increases were offset in part by lower equity-based compensation, which fluctuates for our Canadian operations based on changes in the market price of our stock.

Transaction processing decreased $0.4 million from last year 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.

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The increase in other expenses was primarily driven by consulting costs incurred to enhance our product offerings, a $0.9 million charge allocated for investment research costs, a $1.8 million increase in the amount allocated for research and development costs, higher connectivity charges and unfavorable currency translation.

European Operations

$ in thousands	Nine Months Ended September 30, 2011	2010	Change	% Change
Revenues				
Commissions and fees	$ 44,744	$ 44,604	$ 140	
Recurring	9,711	11,013	(1,302)	(12)
Other	32	(537)	569	(106)
Total revenues	54,487	55,080	(593)	(1)
Expenses				
Compensation and employee benefits	23,013	24,933	(1,920)	(8)
Transaction processing	12,977	12,707	270	2
Other expenses	16,327	14,579	1,748	12
Restructuring charges	1,235		1,235	
Total expenses	53,552	52,219	1,333	3
Income before income tax expense	$ 935	$ 2,861	$ (1,926)	(67)
Pre-tax margin	1.7%	5.2%	(3.5)%	

Currency translation from a weakened U.S. Dollar increased our total European revenues and expenses by $2.9 million and $3.4 million, respectively, resulting in a $0.5 million decrease to pre-tax income.

European commissions and fees remained flat, despite a favorable currency translation effect of $2.3 million. Excluding this currency translation impact, commissions and fees fell $2.3 million (see *Non-GAAP Financial Measures*). All products were affected by reduced institutional flow, offset by increased turnover from sell-side liquidity partners and $1.0 million in revenue from Single Ticket Clearing, which is a new offering that commenced in late 2010.

Recurring revenues fell $1.3 million, despite a favorable currency impact of $0.6 million, due to OMS and analytical product subscription cancellations. Other revenues increased $0.6 million due to fewer trading errors and accommodations and an increase in investment income.

Compensation and employee benefits decreased $1.9 million due to a 20% reduction in headcount and lower incentive compensation, partially offset by an unfavorable currency translation impact of $1.2 million.

Transaction processing costs increased only $0.3 million compared to the same period last year, despite unfavorable currency translation impact of $1.1 million, as we benefitted from cost reduction initiatives such as changing settlement agents, negotiating lower rates and implementing our own books and records for our clearance and settlement activities offset by an increase in trading in higher-cost markets.

Other expenses increased $1.7 million primarily due to unfavorable currency translation impact of $1.0 million. We also incurred higher costs related to investments in a new data center in Stockholm, Sweden to reduce latency in the Scandinavian market and additional monitoring tools related to market surveillance systems.

Restructuring charges primarily include employee separation and related costs. Cost savings are estimated to exceed $2.4 million in 2012.

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Asia Pacific Operations

$ in thousands	Nine Months Ended September 30, 2011	2010	Change	% Change
Revenues				
Commissions and fees	$ 28,008	$ 21,766	$ 6,242	29
Recurring	2,709	1,760	949	54
Other	158	373	(215)	(58)
Total revenues	30,875	23,899	6,976	29
Expenses				
Compensation and employee benefits	15,764	15,352	412	3
Transaction processing	6,735	5,502	1,233	22
Other expenses	13,303	14,539	(1,236)	(9)
Goodwill impairment		5,375	(5,375)	
Restructuring charges	314	2,518	(2,204)	(88)
Total expenses	36,116	43,286	(7,170)	(17)
Loss before income tax expense	$ (5,241)	$ (19,387)	$ 14,146	73
Pre-tax margin	NA	NA	NA	

Currency translation, primarily from the stronger Australian dollar, increased total Asia Pacific revenues and expenses by $1.6 million and $1.8 million, respectively, reducing pre-tax income by $0.2 million.

Commission and fees increased 29% over the prior year driven by increased market turnover from both U.S. and local clients into the region, as well as additional ITG Net commission sharing revenues and favorable currency translation.

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

Compensation and employee benefits costs reflects unfavorable currency translation of $0.8 million, partially offset by decreases in headcount and other employee related expenses.

Transaction processing costs grew at a slower pace than related trading revenues as a higher percentage of trades were executed in lower cost venues, and cost saving initiatives implemented for our clearance and settlement activities reduced transaction processing costs.

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 $0.7 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 12.1% in the first nine months of 2011 compared to 52.0% in the first nine months of 2010. The decrease in the 2011 effective tax rate on the reported pre-tax loss is directly attributed to the significant impairment charge in the U.S., which is only partially deductible. The higher effective 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 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.

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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 September 30, 2011, unrestricted cash and cash equivalents totaled $247.5 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 September 30, 2011, we had interest-bearing security deposits totaling $40.3 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 for short settlements or delivery failures. These financings may be funded from existing cash resources, borrowings under stock loan transactions or short-term bank loans.

On January 31, 2011, we entered into a $150 million three-year revolving credit agreement with a syndicate of banks and JPMorgan Chase Bank, N.A., as administrative agent. As described in more detail below, this credit agreement is specifically designed to meet the liquidity needs of our U.S. broker-dealer clearance and settlement operations.

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 $26.6 million in restricted cash deposits supporting working capital facilities primarily in the form of overdraft protection for our European clearing and settlement activities.

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)	Nine Months Ended September 30, 2011	2010
Net (loss) income	$ (176,117)	$ 22,150
Non-cash items included in net income	256,716	74,525
Effect of changes in receivables/payables from/to customers and brokers	(86,345)	42,362
Effect of changes in other working capital and operating assets and liabilities	(49,640)	(41,735)
Net cash (used in) provided by operating activities	$ (55,386)	$ 97,302

The net decrease in operating cash flow during the first nine months of 2011 from receivables/payables from/to customers and brokers primarily related to European settlement activities at September 30, 2011 that were partially financed by a short-term bank loan of $63.8 million. The net decrease during the first nine months of 2011 from the changes in other working capital and operating assets and liabilities reflected in part an increase in deposits with clearing organizations and the reduction of accounts payable and accrued expenses, which included the payment of the cash portion of our 2010 incentive compensation program and the payment of acquisition obligations.

In the normal course of clearing and settlement operations 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 $74.9 million includes our acquisition of RSEG, investments in capitalizable software development projects and computer hardware, software and facilities, reduced by proceeds received from the sale of common stock holdings.

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Financing Activities

Net cash provided by financing activities of $62.5 million primarily reflects short-term bank borrowings from overdraft facilities arising from international clearing and settlement activities, proceeds from term debt (described below) and the reduction of deferred compensation amounts through issuances of our common stock, partially offset by repurchases of ITG common stock and debt issuance cost incurred related to the credit agreement and the term loan, which were both entered into during 2011.

On January 31, 2011, we entered into a $150 million three-year revolving credit agreement with a syndicate of banks and JPMorgan Chase Bank, N.A., as administrative agent. The credit agreement includes an accordion feature that allows for potential expansion of the facility up to $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 LIBOR rate, plus (b) a margin of 2.50%. Available but unborrowed amounts under the credit agreement are subject to an unused commitment fee of 0.50%. The purpose of this credit line is to provide liquidity for our U.S. brokerage operations to satisfy clearing margin requirements and to finance temporary positions from delivery failures and non-standard settlements. As a result, we will have additional flexibility with our existing cash and future cash flows from operations to strategically invest in growth initiatives and to return capital to stockholders (see Note 12, *Borrowings*, to the consolidated financial statements for more details).

On June 1, 2011, we entered into a $25.5 million Term Loan Agreement featuring a four-year term loan secured by a security interest in equipment owned by Investment Technology Group, Inc. and certain U.S. subsidiaries as of June 1, 2011. The primary purpose of this financing is to provide capital for strategic initiatives. Among other obligations and restrictions, the terms of the Term Loan Agreement include compliance with the terms and financial covenants of the three-year revolving credit agreement while that agreement is still outstanding. The term loan is payable in monthly principal installments of $530,600 and accrues interest at an annualized rate of 3.0% plus the average one month LIBOR for dollar deposits.

The Term Loan Agreement also provides a $5 million master lease financing commitment expiring on June 28, 2012, to finance new purchases of equipment. Each equipment lease would have a separate 48-month term from its inception date and a $1 purchase provision at the end of its term. In September 2011, $2.6 million was drawn on the lease facility to finance recently purchased assets. The lease is payable in monthly principal installments of approximately $54,000 beginning in October 2011 and accrues interest at an annualized rate of 3.0% plus the average one month LIBOR for dollar deposits.

During the first nine months of 2011, we repurchased approximately 2.3 million shares of our common stock at a cost of approximately $33.5 million, which was funded from our available cash resources. Of these shares, 2.0 million were purchased under our Board of Directors authorization for a total cost of $28.2 million (average cost of $14.36 per share). An additional 0.3 million shares repurchased ($5.3 million) pertained solely to the satisfaction of minimum statutory withholding tax upon the net settlement of equity awards. The total remaining number of shares available for repurchase under ITG s stock repurchase program as of September 30, 2011 was 0.9 million. In October 2011, ITG s Board of Directors authorized the repurchase of an additional 4.0 million shares. This additional authorization has no expiration date. The specific timing and amount of repurchases will vary based on market conditions and other factors.

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 September 30, 2011 for our U.S. Operations are as follows (dollars in millions):

	Net Capital	Excess Net Capital
U.S. Operations		
ITG Inc.	$ 67.3	$ 66.3
AlterNet	4.2	4.0
Blackwatch	2.8	2.6
ITG Derivatives	2.5	1.5

As of September 30, 2011, ITG Inc. had a $10.8 million cash balance in a Special Reserve Bank Account 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*.

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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 September 30, 2011, are summarized in the following table (dollars in millions):

	Net Capital	Excess Net Capital
Canadian Operations		
Canada	$ 47.4	$ 46.8
European Operations		
Europe	44.5	20.9
Asia Pacific Operations		
Australia	8.0	2.2
Hong Kong	31.7	9.5
Singapore	0.3	0.1

Liquidity and Capital Resource Outlook

Historically, our working capital and stock repurchase requirements as well as most investment activity have been funded from cash from operations and short-term loans. 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

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

As of September 30, 2011, our other contractual obligations and commercial commitments consisted principally of fixed charges, including minimum future rentals under non-cancelable operating leases, minimum future purchases under non-cancelable purchase agreements and minimum compensation under employment agreements.

There has been no significant change to such arrangements and obligations since December 31, 2010.

Critical Accounting Estimates

The following describes an update to our critical accounting estimates, which are more fully described in Item 7, *Management s Discussion and Analysis of Financial Condition and Results of Operations*, in our Annual Report on Form 10-K for the year ended December 31, 2010.

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. In accordance with ASC 350, *Intangibles Goodwill and Other*, we test goodwill for impairment at least annually and more frequently if an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying value. Goodwill is tested for impairment using 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.

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- 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 are 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. Significant revisions to any of these estimates could lead to an impairment of all or a portion of goodwill in future periods.

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, we make certain judgments about the selection of comparable guideline companies, comparable recent company and asset transactions and transaction control premiums. Although we have based the fair value estimate on assumptions we believe to be reasonable, those assumptions are inherently unpredictable and uncertain and actual results could differ from the estimate.

In our impairment testing, we also examine 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 perform 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 lower our terminal growth rate assumptions (holding all other critical assumptions constant), while in our second sensitivity analysis, we increase each reporting unit s discount rate (holding all other critical assumptions constant). We then evaluate the outcomes of the sensitivity analyses performed to assess their impact on our step one conclusions.

As a corroborative source of fair value reasonability assessment, we reconcile 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 may, depending on the volatility of our stock price, use 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 compare 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 monitor and evaluate business and competitive conditions that affect our operations for indicators of potential impairment. As a result, we performed quarterly interim impairment testing in 2010 in addition to our annual test 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. As these adverse circumstances indicating potential impairment have not subsided, we continued to perform interim impairment testing in 2011. Our interim impairment tests apply the same valuation techniques, terminal growth rates and sensitivity analyses used in our prior annual impairment test to each updated quarterly cash flow forecast.

During the first two months of 2011, domestic equity fund flows turned positive with inflows of approximately $20.7 billion (according to the Investment Company Institute), before reverting back to outflows of $5.0 billion in March. While our first quarter 2011 average daily executed volumes increased by 7% in the U.S. over the first quarter of 2010, a significantly higher portion of our volume was from our lower-priced sell-side clients resulting in a contraction in our overall average revenue per share. Based upon

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these mixed results, it was not readily apparent whether the strong inflows in the first two months indicated the early stages of an asset allocation shift back to domestic equity mutual funds, or merely a brief respite from an ongoing redirection of funds from domestic equity mutual funds into other asset classes. Our first quarter interim testing at March 31 did not indicate any step one goodwill impairment as fair value of each of our U.S., European and Hong Kong reporting units was determined to be in excess of its carrying value by 17%, 50% and 158%, respectively. Also, none of the outcomes of the sensitivity analyses performed impacted the step one conclusions.

In the second quarter, outflows from domestic equity mutual funds re-accelerated driving our revenues sharply below the levels projected in our March 31 forecast. Consequently, we revised our assumptions, in light of the increased uncertainty regarding the recovery of our core client trading activity, to reflect our adjusted expectations for a slower, more prolonged recovery in our revenue growth and to reduce the multiple used in our market approach to reflect the decline in industry market multiples. These revisions resulted in a fair value for our U.S. reporting unit that was determined to be $34.6 million (or 5%) below its carrying value, indicating a potential impairment and causing us to proceed to step two. Our required step two valuation test yielded an aggregate fair value for the tangible and (non-goodwill) intangible assets in our U.S. Operations of $190.4 million above their aggregate carrying value, which reduced the amount of the implied fair value attributable to goodwill. As a result, we recorded a $225.0 million impairment charge for goodwill in our U.S. Operations.

Fair value for our U.S. Operations is based upon a valuation approach combining the discounted cash flow method (income approach) and the guideline company method (market approach). The relative weighting of these two components of our fair value calculation and our 5% terminal value growth rate assumptions have been consistently applied in both our annual and interim testing. Our June 30 U.S. discount rate of 13.0% was only 50 basis points higher than the prior quarter impairment test and, was not a significant factor in our fair value diminution. We did, however, reduce the multiple applied to our 2012 forecasted earnings under the guideline company method to 15.1 from the 18.0 used in the prior quarter s test to reflect further weakness in industry and market conditions.

Based on the results of the September 30, 2011 step one interim testing, no further impairment was indicated for the U.S Operations reporting unit, as its fair value was determined to be in excess of its carrying value by 29%. There was also no impairment indicated for the European or Hong Kong Operations as the fair values of these reporting units were determined to be in excess of their respective carrying values by 29% and 233%. In addition, none of the outcomes of the Company s sensitivity analyses performed led to a conclusion that goodwill was further impaired.

Although no further impairment of goodwill was indicated during the September 30, 2011 interim testing, we recognize the reasonable possibility of additional impairment charges in future periods given the persistently unfavorable environment for our business. It is not possible at this time to determine if any such future impairment charge would result or, if it does, whether such charge would be material. Our use of the term reasonable possibility refers to a potential occurrence that is more than remote, but less than probable in our judgment. We will continue to monitor economic trends related to our business as well as re-examine the key assumptions used in our impairment testing.

As events and circumstances have not yet shown any meaningful signs of imminent improvement, we continue to maintain a heightened awareness of such trends and their resultant impact on our near-term profitability as well as the market price of our common stock, which has consistently traded below book value for most of the last twenty-one months. Accordingly, we will continue to perform interim goodwill impairment evaluation until such indicators of potential impairment subside.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Please see our Annual Report on Form 10-K (Item 7A) for the year ended December 31, 2010. There has been no material change in this information.

Item 4. Controls and Procedures

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

b) *Changes in Internal Controls over Financial Reporting.* There were no changes in the Company s internal control over financial reporting identified in connection with the evaluation of such internal control that occurred during the

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Company s latest fiscal quarter that have materially affected, or are reasonably likely to materially affect, the Company s internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

We are not a party to any pending legal proceedings other than claims and lawsuits arising in the ordinary course of business. We do not believe these proceedings will have a material adverse effect on our financial position or results of operations.

Item 1A. Risk Factors

There has been no significant change to the risks or uncertainties that may affect our results of operations since December 31, 2010. Please see Item 1A in our Annual Report on Form 10-K for the year ended December 31, 2010.

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

The following table sets forth our share repurchase activity during the first nine months of 2011, including the total number of shares purchased, the average price paid per share, the number of shares repurchased as part of a publicly announced plan or program, and the number of shares yet to be purchased under the plan or program.

ISSUER PURCHASES OF EQUITY SECURITIES

Period	Total Number of Shares (or Units) Purchased (a)	Average Price Paid per Share (or Unit)	Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares (or Units) that May Yet Be Purchased Under the Plans or Programs
From: January 1, 2011 To: January 31, 2011	92,404	$ 16.79		2,896,840
From: February 1, 2011 To: February 28, 2011	499,548	18.85	354,500	2,542,340
From: March 1, 2011 To: March 31, 2011	350,023	18.45	320,000	2,222,340

From: April 1, 2011 To: April 30, 2011	11,402	16.97		2,222,340
From: May 1, 2011 To: May 31, 2011	320,000	15.31	320,000	1,902,340
From: June 1, 2011 To: June 30, 2011	20,000	14.89	20,000	1,882,340
From: July 1, 2011 To: July 31, 2011	27,142	11.00		1,882,340
From: August 1, 2011 To: August 31, 2011	731,934	10.99	730,000	1,152,340
From: September 1, 2011 To: September 30, 2011	220,000	10.68	220,000	932,340
Total	2,272,453	$ 14.75	1,964,500	

(a) This column includes the acquisition of 307,953 common shares from employees in order to satisfy minimum statutory withholding tax requirements upon net settlement of restricted share awards.

During the first nine months of 2011, we repurchased approximately 2.3 million shares of our common stock at a cost of approximately $33.5 million, which was funded from our available cash resources. Of these shares, 2.0 million were purchased under our Board of Directors authorization for a total cost of $28.2 million (average cost of $14.36 per share). An additional 0.3 million shares repurchased ($5.3 million) pertained solely to the satisfaction of minimum statutory withholding tax upon the net settlement of

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equity awards. The total remaining number of shares available for repurchase under ITG s stock repurchase program as of September 30, 2011 was 0.9 million. In October 2011, ITG s Board of Directors authorized the repurchase of an additional 4.0 million shares. This additional authorization has no expiration date. The specific timing and amount of repurchases will vary based on market conditions and other factors.

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.

Item 3. Defaults Upon Senior Securities

Not applicable.

Item 6. Exhibits

(A) **EXHIBITS**

10.1*+	Retirement Agreement and General Release, effective August 1, 2011 between Christopher Heckman and Investment Technology Group, Inc.
10.2*	Investment Technology Group, Inc. 2007 Omnibus Equity Compensation Plan Variable Compensation Stock Unit Award Program Subplan (formerly the Equity Deferral Award Program Subplan)
10.3*	Offer letter dated as of September 14, 2011 between David J. Stevens and Investment Technology Group, Inc.
31.1*	Rule 13a-14(a) Certification
31.2*	Rule 13a-14(a) Certification
32.1*	Section 1350 Certification
101.1	XBRL Instance Document
101.2	XBRL Taxonomy Extension Schema Document
101.3	XBRL Taxonomy Extension Calculation Linkbase Document
101.4	XBRL Taxonomy Extension Definition Linkbase Document
101.5	XBRL Taxonomy Extension Label Linkbase Document
101.6	XBRL Taxonomy Extension Presentation Linkbase Document

* Filed herewith.

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Portions of this agreement have been omitted pursuant to a request for confidential treatment filed on November 4, 2011.

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SIGNATURE

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

INVESTMENT TECHNOLOGY GROUP, INC.
(Registrant)

Date: November 8, 2011 By: /s/ STEVEN R. VIGLIOTTI
Steven R. Vigliotti
Chief Financial Officer and
Duly Authorized Signatory of Registrant