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

**FORM 10-Q**

(Mark One)

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

For the fiscal period ended **June 30, 2018**

- 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.)

**165 Broadway, New York, New York**  
(Address of Principal Executive Offices)

**10006**  
(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  No

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  No

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

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

Accelerated filer   
Smaller reporting company   
Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

At July 10, 2018, the Registrant had 32,989,116 shares of common stock, \$0.01 par value, outstanding.

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QUARTERLY REPORT ON FORM 10-Q

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#### **PRELIMINARY NOTES**

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

#### **FORWARD-LOOKING STATEMENTS**

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

Although we believe our expectations reflected in such forward-looking statements are based on reasonable assumptions and beliefs, and on information currently available to our management, there can be no assurance that such expectations will prove to have been correct. Important factors that could cause actual results to differ materially from the expectations reflected in the forward-looking statements herein include, among others, general economic, business, credit, political and financial market conditions, both internationally and domestically, financial market volatility, fluctuations in market trading volumes, effects of inflation, adverse changes or volatility in interest rates, fluctuations in foreign exchange rates, evolving industry regulations and increased regulatory scrutiny, the outcome of contingencies such as legal proceedings or governmental or regulatory investigations and customer or shareholder reaction to, or further proceedings or sanctions based on, such matters, the volatility of our stock price, changes in tax policy or accounting rules, the ability of the Company to utilize its loss and tax credit carryforwards, the actions of both current and potential new competitors, changes in commission pricing, rapid changes in technology, errors or malfunctions in our systems or technology, operational risks related to misconduct or errors by our employees or entities with which we do business, cash flows into or redemptions from equity mutual funds, ability to meet the capital and liquidity requirements of our securities businesses and the related 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 protect our intellectual property, our ability to execute on strategic initiatives or transactions, our ability to attract and retain talented employees, and our ability to pay dividends or repurchase our common stock in the future.

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, 2017 and Part II, Item 1A, Risk Factors in our Quarterly Reports on Form 10-Q, which you are encouraged to read. Our 2017 Annual Report on Form 10-K and Quarterly Reports on Form 10-Q are available through our website at <http://investor.itg.com> under “SEC Filings.”

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

**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)**

	<b>June 30, 2018</b>	<b>December 31, 2017</b>
<b>Assets</b>		
Cash and cash equivalents	\$ 236,446	\$ 287,452
Cash restricted or segregated under regulations and other	18,263	18,599
Deposits with clearing organizations	80,373	57,388
Securities owned, at fair value	939	1,559
Receivables from brokers, dealers and clearing organizations	259,982	193,907
Receivables from customers	164,583	74,695
Premises and equipment, net	52,091	53,960
Capitalized software, net	41,462	41,259
Goodwill	10,788	11,054
Intangibles, net	13,481	14,040
Income taxes receivable	128	3,917
Deferred tax assets	4,389	4,902
Other assets	44,009	22,124
Total assets	<u>\$ 926,934</u>	<u>\$ 784,856</u>
<b>Liabilities and Stockholders' Equity</b>		
<b>Liabilities:</b>		
Accounts payable and accrued expenses	\$ 198,193	\$ 166,495
Short-term bank loans	72,997	101,422
Payables to brokers, dealers and clearing organizations	178,886	119,278
Payables to customers	113,340	23,568
Securities sold, not yet purchased, at fair value	—	1
Income taxes payable	4,287	6,003
Deferred tax liabilities	1,768	1,750
Term debt	2,329	3,104
Total liabilities	<u>571,800</u>	<u>421,621</u>
<b>Commitments and contingencies</b>		
<b>Stockholders' Equity:</b>		
Preferred stock, \$0.01 par value; 1,000,000 shares authorized; no shares issued or outstanding	—	—
Common stock, \$0.01 par value; 100,000,000 shares authorized; 52,748,475 and 52,639,823 shares issued at June 30, 2018 and December 31, 2017, respectively	527	526
Additional paid-in capital	247,897	250,216
Retained earnings	483,639	486,957
Common stock held in treasury, at cost; 19,757,705 and 20,038,809 shares at June 30, 2018 and December 31, 2017, respectively	(349,906)	(353,067)
Accumulated other comprehensive loss (net of tax)	(27,023)	(21,397)
Total stockholders' equity	<u>355,134</u>	<u>363,235</u>
Total liabilities and stockholders' equity	<u>\$ 926,934</u>	<u>\$ 784,856</u>

See accompanying notes to unaudited condensed consolidated financial statements.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
<b>Revenues:</b>				
Commissions and fees	\$ 106,451	\$ 100,564	\$ 216,020	\$ 200,444
Recurring	20,082	18,933	39,644	37,883
Other	1,944	2,084	4,297	4,089
Total revenues	<u>128,477</u>	<u>121,581</u>	<u>259,961</u>	<u>242,416</u>
<b>Expenses:</b>				
Compensation and employee benefits	45,099	45,994	90,886	92,678
Transaction processing	25,969	25,482	53,049	50,338
Occupancy and equipment	15,055	14,680	29,830	30,302
Telecommunications and data processing services	12,988	12,129	25,591	24,156
Restructuring charges	—	—	7,165	—
Other general and administrative	29,132	17,699	46,823	35,014
Interest expense	488	510	974	1,030
Total expenses	<u>128,731</u>	<u>116,494</u>	<u>254,318</u>	<u>233,518</u>
(Loss) income before income tax expense	(254)	5,087	5,643	8,898
Income tax expense (benefit)	2,781	444	4,301	(1,047)
Net (loss) income	<u>\$ (3,035)</u>	<u>\$ 4,643</u>	<u>\$ 1,342</u>	<u>\$ 9,945</u>
<b>(Loss) income per share:</b>				
Basic	<u>\$ (0.09)</u>	<u>\$ 0.14</u>	<u>\$ 0.04</u>	<u>\$ 0.30</u>
Diluted	<u>\$ (0.09)</u>	<u>\$ 0.14</u>	<u>\$ 0.04</u>	<u>\$ 0.29</u>
Basic weighted average number of common shares outstanding	<u>33,035</u>	<u>33,125</u>	<u>32,963</u>	<u>33,037</u>
Diluted weighted average number of common shares outstanding	<u>33,035</u>	<u>34,222</u>	<u>33,986</u>	<u>34,180</u>

See accompanying notes to unaudited condensed consolidated financial statements.

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

	<b>Three Months Ended</b>		<b>Six Months Ended</b>	
	<b>June 30,</b>		<b>June 30,</b>	
	<b>2018</b>	<b>2017</b>	<b>2018</b>	<b>2017</b>
Net (loss) income	\$ (3,035)	\$ 4,643	\$ 1,342	\$ 9,945
Other comprehensive (loss) income, net of tax:				
Currency translation adjustment	(6,695)	4,730	(5,626)	6,756
Other comprehensive (loss) income	(6,695)	4,730	(5,626)	6,756
Comprehensive (loss) income	<u>\$ (9,730)</u>	<u>\$ 9,373</u>	<u>\$ (4,284)</u>	<u>\$ 16,701</u>

See accompanying notes to unaudited condensed consolidated financial statements.

**INVESTMENT TECHNOLOGY GROUP, INC. AND SUBSIDIARIES**  
**Condensed Consolidated Statement of Changes in Stockholders' Equity (unaudited)**  
**Six Months Ended June 30, 2018**  
(In thousands, except share amounts)

	Preferred Stock	Common Stock	Additional Paid-in Capital	Retained Earnings	Common Stock Held in Treasury	Accumulated Other Comprehensive Income/(Loss)	Total Stockholders' Equity
Balance at January 1, 2018	\$ —	\$ 526	\$ 250,216	\$486,957	\$(353,067)	\$ (21,397)	\$ 363,235
Net income	—	—	—	1,342	—	—	1,342
Other comprehensive loss	—	—	—	—	—	(5,626)	(5,626)
Issuance of common stock in connection with restricted stock unit awards (1,048,639 shares)	—	1	(17,005)	—	17,214	—	210
Issuance of common stock for the employee stock purchase plan (30,769 shares)	—	—	523	—	—	—	523
Shares withheld for net settlements of share-based awards (409,431 shares)	—	—	—	—	(8,366)	—	(8,366)
Purchase of common stock for treasury (282,980 shares)	—	—	—	—	(5,736)	—	(5,736)
Dividends declared on common stock	—	—	9	(4,614)	49	—	(4,556)
Share-based compensation	—	—	14,154	—	—	—	14,154
Cumulative effect of accounting change	—	—	—	(46)	—	—	(46)
Balance at June 30, 2018	\$ —	\$ 527	\$ 247,897	\$483,639	\$(349,906)	\$ (27,023)	\$ 355,134

See accompanying notes to unaudited condensed consolidated financial statements.

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

	<b>Six Months Ended June 30,</b>	
	<b>2018</b>	<b>2017</b>
<b>Cash Flows from Operating Activities:</b>		
Net income	\$ 1,342	\$ 9,945
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation and amortization	22,220	22,437
Deferred income tax expense (benefit)	729	(7,407)
Provision for doubtful accounts	192	155
Non-cash share-based compensation	14,154	10,818
Changes in operating assets and liabilities:		
Deposits with clearing organizations	(24,118)	(9,673)
Securities owned, at fair value	620	634
Receivables from brokers, dealers and clearing organizations	(74,048)	(83,582)
Receivables from customers	(93,681)	(117,877)
Accounts payable and accrued expenses	33,964	(29,254)
Payables to brokers, dealers and clearing organizations	63,422	90,673
Payables to customers	92,600	91,320
Securities sold, not yet purchased, at fair value	(1)	(249)
Income taxes receivable/payable	2,074	1,314
Other, net	(20,011)	290
Net cash provided by (used in) operating activities	<u>19,458</u>	<u>(20,456)</u>
<b>Cash Flows from Investing Activities:</b>		
Investment in venture	(612)	—
Capital purchases	(7,534)	(5,657)
Capitalization of software development costs	(13,380)	(14,357)
Net cash used in investing activities	<u>(21,526)</u>	<u>(20,014)</u>
<b>Cash Flows from Financing Activities:</b>		
Repayments of long term debt	(775)	(3,317)
Proceeds from (repayments of) borrowing under short-term bank loans	(26,623)	13,359
Debt issuance costs	(751)	(762)
Common stock issued	733	745
Common stock repurchased	(5,736)	(4,983)
Dividends paid	(4,581)	(4,595)
Shares withheld for net settlements of share-based awards	(8,366)	(9,882)
Net cash used in financing activities	<u>(46,099)</u>	<u>(9,435)</u>
Effect of exchange rate changes on cash, cash equivalents and restricted cash		
Net decrease in cash, cash equivalents and restricted cash	<u>(51,342)</u>	<u>(49,385)</u>
Cash, cash equivalents and restricted cash—beginning of period	306,051	318,330
Cash, cash equivalents and restricted cash—end of period	<u>\$ 254,709</u>	<u>\$ 268,945</u>
Supplemental cash flow information:		
Interest paid	\$ 2,775	\$ 2,326
Income taxes paid, net	\$ 1,496	\$ 4,859
Supplemental disclosure of non-cash investing and financing activities:		
Investment in venture	\$ 1,393	\$ —

See accompanying notes to unaudited condensed consolidated financial statements.



**INVESTMENT TECHNOLOGY GROUP, INC. AND SUBSIDIARIES**  
**Notes to Condensed Consolidated Financial Statements (unaudited)**

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

Investment Technology Group, Inc. (the “Company” or “ITG”) 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 (through February 16, 2018) (“ITG Derivatives”), institutional broker-dealers in the United States (“U.S.”), (2) ITG Canada Corp., an institutional broker-dealer in Canada, (3) Investment Technology Group Limited, an institutional broker-dealer in Europe, (4) ITG Australia Limited, an institutional broker-dealer in Australia, (5) ITG Hong Kong Limited, an institutional broker-dealer in Hong Kong, (6) ITG Software Solutions, Inc., the Company’s intangible property, software development and maintenance subsidiary in the U.S., and (7) ITG Solutions Network, Inc., a holding company for ITG Analytics, Inc., a provider of pre- and post-trade analysis, fair value and trade optimization services, and ITG Platforms Inc., a provider of workflow technology solutions and network connectivity services for the financial community.

ITG is a global financial technology company that helps leading brokers and asset managers improve returns for investors around the world. ITG empowers traders to reduce the end-to-end cost of implementing investments via liquidity, execution, analytics and workflow technology solutions. ITG has offices in Asia Pacific, Europe and North America and offers execution services in more than 50 countries.

The Company’s business is organized into four reportable operating segments: U.S. Operations, Canadian Operations, European Operations and Asia Pacific Operations (see Note 16, *Segment Reporting*).

The four operating segments offer a wide range of solutions for asset managers and broker-dealers in the areas of execution services, workflow technology and analytics. These offerings include trade execution services and solutions for portfolio management, as well as pre-trade analytics and post-trade analytics and processing.

Regional segment results exclude the impact of Corporate activity, which is presented separately and includes investment income from treasury activity, certain non-operating revenues and other gains as well as costs not associated with operating the businesses within the Company’s regional segments. These costs include, among others, (a) the costs of being a public company, such as certain staff costs, a portion of external audit fees, and reporting, filing and listing costs, (b) intangible asset amortization, (c) interest expense, (d) professional fees associated with the Company’s global transfer pricing structure, (e) foreign exchange gains or losses and (f) certain non-operating expenses.

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 the financial statements.

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, 2017.

***Recently Adopted Accounting Standards***

In May 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update 2014-09, *Revenue from Contracts with Customers*. This standard created Accounting Standards Codification (“ASC”) 606, *Revenue from Contracts with Customers*, (“ASC 606”), providing companies with a single five step revenue recognition model for use in accounting for revenue arising from contracts with customers and supersedes current revenue recognition guidance, including industry-specific revenue guidance. On January 1, 2018, the Company adopted

ASC 606, using the modified retrospective transition method applied to all contracts as of January 1, 2018. Results for reporting periods beginning after January 1, 2018 are presented under ASC 606, while prior period amounts are not adjusted and continue to be reported under the accounting standards in effect for the prior period. See Note 3, *Revenue from Contracts with Customers*, for additional information.

In May 2017, the FASB issued Accounting Standards Update (“ASU”) 2017-09, *Compensation – Stock Compensation (Topic 718): Scope of Modification Accounting*. The amendments in this ASU clarify which changes to the terms or conditions of a share-based payment award must be accounted for as modifications. The new guidance allows entities to make non-substantive changes to awards without accounting for them as modifications, which results in fewer changes to the terms of an award being accounted for as modifications and reduces diversity in practice when applying modification accounting. ASU 2017-09 is effective for annual periods beginning after December 15, 2017, including interim periods within those annual periods. This new guidance was adopted on January 1, 2018 and did not have a material effect on the Company’s financial statements.

In November 2016, the FASB issued ASU 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash*. The amendments in this ASU require that the statement of cash flows explain the change during the period in the total of cash, cash equivalents and restricted cash. Amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. ASU 2016-18 is effective for annual reporting periods beginning after December 15, 2017, including interim periods within those fiscal years, with early adoption permitted. This new guidance was adopted on January 1, 2018 and did not have a material effect on the Company’s financial statements.

## **(2) Fair Value Measurements**

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

- \* Level 1: Fair value measurements using unadjusted quoted market prices in active markets for identical, unrestricted assets or liabilities.
- \* Level 2: Fair value measurements using correlation with (directly or indirectly) observable market-based inputs, unobservable inputs that are corroborated by market data, or quoted prices in markets that are not active.
- \* Level 3: Fair value measurements using inputs that are significant and not readily observable in the market.

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

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

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

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

June 30, 2018	Total	Level 1	Level 2	Level 3
<b>Assets</b>				
Cash and cash equivalents:				
Money market mutual funds	\$ 1	\$ 1	\$ —	\$ —
Securities owned, at fair value:				
Corporate stocks - trading securities	1	1	—	—
Mutual funds	938	938	—	—
<b>Total</b>	<b>\$ 940</b>	<b>\$ 940</b>	<b>\$ —</b>	<b>\$ —</b>
<b>Liabilities</b>				
None				
December 31, 2017	Total	Level 1	Level 2	Level 3
<b>Assets</b>				
Securities owned, at fair value:				
Corporate stocks - trading securities	\$ 78	\$ 78	\$ —	\$ —
Mutual funds	1,481	1,481	—	—
<b>Total</b>	<b>\$ 1,559</b>	<b>\$ 1,559</b>	<b>\$ —</b>	<b>\$ —</b>
<b>Liabilities</b>				
Securities sold, not yet purchased, at fair value:				
Corporate stocks - trading securities	1	1	—	—
<b>Total</b>	<b>\$ 1</b>	<b>\$ 1</b>	<b>\$ —</b>	<b>\$ —</b>

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

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

Certain of the Company's assets and liabilities are carried at contracted amounts that approximate fair value. Assets and liabilities that are recorded at contracted amounts approximating fair value consist primarily of receivables from and payables to brokers, dealers, clearing organizations and customers. These receivables and payables to brokers, dealers, clearing organizations and customers are short-term in nature and, following June 30, 2018, substantially all have settled at the contracted amounts.

The Company believes the carrying amounts of its term-debt obligations at June 30, 2018 and December 31, 2017 approximate fair value because the interest rates on these instruments change with, or approximate, market interest rates.

**(3) Revenue from Contracts with Customers**

Under ASC 606, revenues are recognized when control of the promised goods or services is transferred to customers in an amount that reflects the consideration the Company expects to be entitled to in exchange for transferring those goods or services. The following is a description of the Company's revenue recognition policies and balances as it relates to revenue from contracts with customers.

Revenue from contracts with customers was \$127.0 million and \$256.9 million for the three and six months ended June 30, 2018, respectively. The majority of the Company's revenues fall under the scope of ASC 606, with the exception of investment and dividend income, gains and losses on temporary securities positions assumed and other miscellaneous income, all of which are presented within the other revenue line item on the condensed consolidated statements of operations. The tables within Note 16, *Segment Reporting*, provide revenue disaggregated by reportable geographic operating segment and by product group.

Upon adoption, the Company recorded a net cumulative-effect decrease to opening retained earnings of approximately \$50 thousand as of January 1, 2018, which is primarily related to:

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- (i) the deferral of commissions allocated to analytics products in bundled commission arrangements where the analytics services have not yet been transferred to the customer as of December 31, 2017, but whose commissions were appropriately recognized in the previous year under the superseded revenue recognition guidance; and
- (ii) the acceleration of revenue for certain product license fees associated with the licenses of software recognized at the point in time the customer is able to use and benefit from the license, instead of being appropriately recognized over the license period under the superseded revenue recognition guidance.

The net impacts to the condensed consolidated statements of operations of adopting ASC 606 for the three and six months ended June 30, 2018 were as follows:

	Three Months Ended June 30, 2018	Six Months Ended June 30, 2018
Net decrease in commissions and fees	\$ (1,068)	\$ (4,915)
Net increase in recurring revenues	442	868
Net decrease in total revenues	\$ (626)	\$ (4,047)

At June 30, 2018, the condensed consolidated statements of financial condition include an increase to receivables from customers of \$1.4 million related to the acceleration of license fees and an increase to accounts payable and accrued expenses of \$5.8 million related to the deferral of commissions in bundled commission arrangements.

The following provides detailed information on the Company's material performance obligations and how revenue is recognized.

*Execution Services*

The Company earns commissions for providing equity trade execution services to customers, with each trade executed on the client's behalf representing a separate performance obligation that is satisfied at a point in time. Commission rates are fixed and revenue is recognized on the trade date. These revenues are presented within the commissions and fees line item on the Company's condensed consolidated statements of operations.

The Company also permits institutional customers to allocate a portion of their gross commissions to pay for research, commonly known as soft dollars. The customer controls the use of the soft dollars and directs payments to third party service providers on its behalf. All amounts allocated to soft dollar arrangements are netted against commission revenues.

*Workflow Technology*

Through its front-end workflow solutions and network capabilities, the Company provides order and trade execution management and order routing services.

The Company provides trade order routing from its execution management system ("EMS") to its execution services offerings, with each trade order routed through the EMS representing a separate performance obligation that is satisfied at a point in time. A portion of the commissions earned on the trade is then allocated to Workflow Technology based on the stand-alone selling price paid by third-party brokers for order routing. The remaining commission is allocated to Execution Services using a residual allocation approach. Commissions earned are fixed and revenue is recognized on the trade date. Commissions are presented within the commissions and fees line item on the Company's condensed consolidated statements of operations.

The Company participates in commission share arrangements, where trade orders are routed to third-party brokers from its EMS and its order management system ("OMS"). Commission share revenues from third-party brokers are generally fixed and revenue is recognized at a point in time on the trade date. Commission share revenues are presented within the commissions and fees line item on the Company's condensed consolidated statements of operations.

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The Company provides OMS and related software products and connectivity services to customers and recognizes license fee revenues and monthly connectivity fees. License fee revenues, generated for the use of the Company's OMS and other software products, is fixed and recognized at the point in time at which the customer is able to use and benefit from the license. Connectivity revenue is variable in nature, based on the number of live connections, and is recognized over time on a monthly basis using a time-based measure of progress. These revenues are presented within the recurring line item on the Company's condensed consolidated statements of operations.

### *Analytics*

The Company provides customers with analytics products and services, including trading and portfolio analytics tools.

The Company provides analytics products and services to customers and recognizes subscription fees, which are fixed for the contract term, based on when the products and services are delivered. Analytics services can be delivered either over time (when customers are provided with distinct ongoing access to analytics data) or at a point in time (when reports are only delivered to the customer on a periodic basis). Over time performance obligations are recognized using a time-based measure of progress on a monthly basis, since the analytics products and services are continually provided to the client. Point in time performance obligations are recognized when the analytics reports are delivered to the client. These revenues are presented within the recurring line item on the Company's condensed consolidated statements of operations.

Analytics products and services can also be paid for through variable bundled arrangements with trade execution services. Customers agree to pay for analytics products and services with commissions generated from trade execution services, and commissions are allocated to the analytics performance obligation(s) using:

- (i) the commission value for each customer for the products and services it receives, which is priced using the value for similar stand-alone subscription arrangements; and
- (ii) a calculated ratio of the commission value for the products and services relative to the total amount of commissions generated from the customer.

For these bundled commission arrangements, the allocated commissions to each analytics performance obligation are then recognized as revenue when the analytics product is delivered, either over time or at a point in time. These allocated commissions may be deferred if the allocated amount exceeds the amount recognizable based on delivery. Commissions are presented within the commissions and fees line item on the Company's condensed consolidated statements of operations.

### *Remaining Performance Obligations and Revenue Recognized from Past Performance Obligations*

The Company elected not to disclose information about remaining performance obligations pertaining to (i) contracts with an original expected length of one year or less or (ii) contracts with variable consideration that cannot be estimated, as permitted under the guidance.

The Company's remaining unsatisfied performance obligations that do not meet the criteria above primarily relate to analytics products and services that have fixed subscription fees. As of June 30, 2018, the future revenue the Company expects to recognize for these performance obligations is not material.

For the three months ended June 30, 2018, the Company recognized revenue of \$0.8 million related to performance obligations satisfied in previous periods.

### *Contract Balances*

The timing of the Company's revenue recognition may differ from the timing of payment by customers. The Company records a receivable when revenue is recognized prior to payment and has an unconditional right to payment. Alternatively, when payment precedes the provision of the related services, the Company records deferred revenue until the performance obligations are satisfied.

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Receivables related to contracts with customers were \$41.4 million and \$38.2 million as of June 30, 2018 and December 31, 2017, respectively. The Company did not identify any contract assets. There were no impairment losses on receivables as of June 30, 2018.

Deferred revenue primarily relates to deferred commissions allocated to analytics products and subscription fees billed in advance of satisfying the performance obligations. Deferred revenue related to contracts with customers was \$12.6 million and \$6.9 million as of June 30, 2018 and December 31, 2017, respectively. During the three and six months ended June 30, 2018, the Company recognized revenue of \$7.4 million and \$14.5 million, respectively, that was initially recorded as deferred revenue.

The Company has not identified any costs to obtain or fulfill associated with its contracts under ASC 606.

**(4) Equity Investment**

In February 2018, the Company established a venture with Option Technology Solutions LLC (“Optech”) to form Matrix Holding Group (“Matrix”), a derivatives execution and technology business. Matrix offers derivatives trading technology and execution services to broker dealers, professional traders and select hedge funds. Matrix has dedicated sales, client services, operations, and technology staff located in Chicago and New York.

The Company contributed the ITG Derivatives entity, including its broker-dealer license and professional trader client base with revenues of \$5.3 million during the year ended December 31, 2017, along with certain derivatives-focused software and technology for an initial minority stake of approximately 20%. Optech contributed the management team, a retail-focused trading and analytics platform and capital. The board of directors of Matrix consists of two members appointed by Optech and one member appointed by the Company. Unanimous approval of the full board is required for all significant operating activities, including but not limited to: approval and amendment of annual business plans or operating budgets, establishing an incentive compensation plan, approving significant loans and expenditures, appointment of officers and entering into material agreements.

The Company’s initial investment in Matrix was recorded at \$2.0 million, representing the fair value of the net assets contributed. This investment included cash and restricted cash of \$0.6 million and net non-cash assets of \$1.4 million. No gain or loss was recognized upon the closing of this transaction as the book value of the contributed net assets approximated fair value. The Company’s interest in Matrix is accounted for in the condensed consolidated financial statements using the equity method.

**(5) Restructuring Charges**

*2018 Restructuring*

In the first quarter of 2018, the Company implemented a restructuring plan to improve margins and enhance stockholder returns through the elimination of certain positions in the U.S.

Activity and liability balances recorded as part of the restructuring plan through June 30, 2018 are as follows (dollars in thousands):

	<b>Amount</b>
Restructuring charges recognized	\$ 7,165
Cash payments (primarily severance related)	(3,328)
Acceleration of share-based compensation	(2,561)
Balance at June 30, 2018	<u>\$ 1,276</u>

The payment of the accrued costs for the 2018 restructuring is expected to continue through the first quarter of 2019.

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*2016 Restructuring*

As part of an end-to-end review of its business in 2016, the Company determined that its strategy is to increasingly focus its resources on its core capabilities in liquidity, execution, analytics and workflow technology solutions. To that end, in 2016, the Company implemented restructuring plans to (i) reduce headcount in its single stock sales trading and sales organizations, (ii) close its U.S. matched-book securities lending operations and its Canadian arbitrage trading desk and (iii) identify additional annual cost savings from management delayering and the elimination of certain positions.

Activity and liability balances recorded as part of the restructuring plan through June 30, 2018 are as follows (dollars in thousands):

	<b>Amount</b>
Balance at December 31, 2017	\$ 6
Asset write-off	(6)
Balance at June 30, 2018	<u>\$ —</u>

**(6) Cash**

*Cash and Cash Equivalents*

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

*Cash Restricted or Segregated Under Regulations and Other*

Cash restricted or segregated under regulations and other represents (i) a special reserve bank account for the exclusive benefit of customers (“Special Reserve Bank Account”) maintained by ITG Inc. in accordance with Rule 15c3-3 of the Securities Exchange Act of 1934, as amended (“Customer Protection Rule”), or agreements for proprietary accounts of broker dealers (“PABs”), (ii) funds on deposit for Canadian and European trade clearing and settlement activity, (iii) segregated balances under a collateral account control agreement for the benefit of certain customers, and (iv) funds relating to the securitization of bank guarantees supporting the Company’s Australian and French leases.

The following table provides a reconciliation of cash and cash equivalents together with restricted cash as reported within the condensed consolidated statements of financial condition to the sum of the same such amounts shown in the condensed consolidated statements of cash flows.

	<b>June 30, 2018</b>	<b>December 31, 2017</b>
Cash and cash equivalents	\$ 236,446	\$ 287,452
Cash restricted or segregated under regulations and other	18,263	18,599
Total cash, cash equivalents and restricted cash shown in the statement of cash flows	<u>\$ 254,709</u>	<u>\$ 306,051</u>

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

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

	<b>Securities Owned</b>		<b>Securities Sold, Not Yet Purchased</b>	
	<b>June 30, 2018</b>	<b>December 31, 2017</b>	<b>June 30, 2018</b>	<b>December 31, 2017</b>
Corporate stocks - trading securities	\$ 1	\$ 78	\$ —	\$ 1
Mutual funds	938	1,481	—	—
Total	<u>\$ 939</u>	<u>\$ 1,559</u>	<u>\$ —</u>	<u>\$ 1</u>

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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.

**(8) Income Taxes**

The U.S. Tax Cuts and Jobs Act of 2017 (the “Tax Cuts and Jobs Act”) was enacted on December 22, 2017, and introduced significant changes to U.S. income tax law. Effective in 2018, the Tax Cuts and Jobs Act reduced the U.S. statutory corporate tax rate from 35% to 21% and created new taxes in the U.S. on income in certain foreign controlled corporations, which are referred to as the global intangible low-taxed income tax (“GILTI”), and imposed a new tax on certain related party payments under the base erosion anti-abuse tax (“BEAT”). The inclusion of income earned in controlled foreign corporations under the GILTI regime did not result in any incremental U.S. tax expense during the three and six months ended June 30, 2018 due to the impact of a U.S. tax loss in the current period. The Company does not expect to be subject to the BEAT tax in 2018.

Due to the timing of the enactment and the complexity involved in applying the provisions of the Tax Cuts and Jobs Act, the Company has made reasonable estimates of the effects and recorded provisional amounts in its 2017 results. As the Company collects and prepares necessary data and interprets the Tax Cuts and Jobs Act and any additional guidance issued by the U.S. Treasury Department, the IRS, and other standard-setting bodies, additional adjustments to the provisional amounts may be made. Information needed to adjust provisional amounts include the completion of all international 2017 income tax returns. These additional adjustments may materially impact the provision for income taxes and effective tax rate in the period in which the adjustments are made. We expect the final accounting for the tax effects of the Tax Cuts and Jobs Act to be completed in 2018.

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

During the six months ended June 30, 2018, the Company realized a \$1.9 million tax benefit related to the resolution of a multi-year contingency in the U.S.

The Company maintained reserves for unrecognized tax benefits of \$5.6 million at June 30, 2018 and \$7.7 million at December 31, 2017. At June 30, 2018, \$4.2 million of the unrecognized tax benefits was netted against fully reserved U.S. deferred tax assets. The Company had accrued interest expense related to tax reserves of \$1.2 million and \$1.6 million, net of related tax effects, at June 30, 2018 and December 31, 2017, respectively.

**(9) Goodwill and Other Intangibles**

*Goodwill*

The following table presents the changes in the carrying amount of goodwill by the Company’s European Operations segment for the six months ended June 30, 2018 (dollars in thousands):

	<b>Total</b>
Balance at December 31, 2017	\$ 11,054
Currency translation adjustment	(266)
Balance at June 30, 2018	<u>\$ 10,788</u>



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*Other Intangible Assets*

Acquired other intangible assets consisted of the following at June 30, 2018 and December 31, 2017 (dollars in thousands):

	June 30, 2018		December 31, 2017		Useful Lives (Years)
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization	
Trade name	\$ 8,525	\$ —	\$ 8,529	\$ —	—
Customer-related intangibles	9,691	6,018	10,217	6,219	17
Proprietary software	23,278	22,384	23,321	22,197	8.4
Trading rights	339	—	339	—	—
Other	50	—	50	—	—
<b>Total</b>	<b>\$ 41,883</b>	<b>\$ 28,402</b>	<b>\$ 42,456</b>	<b>\$ 28,416</b>	

At June 30, 2018, indefinite-lived intangibles not subject to amortization amounted to \$8.9 million, of which \$8.4 million related to the POSIT trade name.

Amortization expense for definite-lived intangibles was \$0.3 million and \$0.5 million for the three and six months ended June 30, 2018, respectively, compared with \$0.4 million and \$0.7 million in the respective prior year periods. These amounts are included in other general and administrative expense in the condensed consolidated statements of operations.

The following table represents the changes in the carrying amount of net intangible assets for the six months ended June 30, 2018 (dollars in thousands):

	<b>Total</b>
Balance at December 31, 2017	\$ 14,040
Amortization	(513)
Currency translation adjustment	(46)
Balance at June 30, 2018	<u>\$ 13,481</u>

**(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	
	June 30, 2018	December 31, 2017	June 30, 2018	December 31, 2017
Broker-dealers	\$ 178,520	\$ 189,817	\$ 143,919	\$ 105,022
Clearing organizations	40,124	708	12,357	10,011
Securities borrowed	42,089	4,246	—	—
Securities loaned	—	—	22,610	4,245
Allowance for doubtful accounts	(751)	(864)	—	—
<b>Total</b>	<b>\$ 259,982</b>	<b>\$ 193,907</b>	<b>\$ 178,886</b>	<b>\$ 119,278</b>

\* See *Securities Borrowed and Loaned* below.

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*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	
	June 30, 2018	December 31, 2017	June 30, 2018	December 31, 2017
Customers	\$ 165,075	\$ 75,062	\$ 113,340	\$ 23,568
Allowance for doubtful accounts	(492)	(367)	—	—
Net	\$ 164,583	\$ 74,695	\$ 113,340	\$ 23,568

*Securities Borrowed and Loaned*

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

The Company's securities borrowing and lending is generally done under industry standard agreements ("Master Securities Lending Agreements") that may allow, following an event of default by either party, the prompt close-out of all transactions (including the liquidation of securities held) and the offsetting of obligations to return cash or securities, as the case may be, by the non-defaulting party. Events of default under the Master Securities Lending Agreements generally include, subject to certain conditions: (i) failure to timely deliver cash or securities as required under the transaction, (ii) a party's insolvency, bankruptcy, or similar proceeding, (iii) breach of representation, and (iv) a material breach of the agreement. The counterparty that receives the securities in these transactions generally has unrestricted access in its use of the securities. For financial statement purposes, the Company does not offset securities borrowed and securities loaned.

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

	Gross Amounts of Recognized Assets/ (Liabilities)	Gross Amounts Offset in the Consolidated Statement of Financial Condition	Net Amounts Presented in the Consolidated Statement of Financial Condition	Collateral Received or Pledged (including Cash)	Net Amount
<u>As of June 30, 2018:</u>					
Deposits paid for securities borrowed	\$ 42,089	\$ —	\$ 42,089	\$ 42,089	\$ —
Deposits received for securities loaned	(22,610)	—	(22,610)	(22,529)	(81)
<u>As of December 31, 2017:</u>					
Deposits paid for securities borrowed	\$ 4,246	\$ —	\$ 4,246	\$ 4,246	\$ —
Deposits received for securities loaned	(4,245)	—	(4,245)	(4,229)	(16)

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

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

	June 30, 2018	December 31, 2017
Accrued research payables	\$ 67,149	\$ 51,275
Accrued compensation and benefits	20,136	37,911
Accrued costs for potential class action lawsuit settlement	18,000	—
Accrued costs for potential SEC settlement	12,000	—
Accrued rent	13,864	14,821
Trade payables	17,372	20,820
Deferred revenue	13,861	8,057
Deferred compensation	2,030	2,525
Accrued restructuring	1,276	6
Accrued transaction processing	4,027	3,257
Other	28,478	27,823
Total	<u>\$ 198,193</u>	<u>\$ 166,495</u>

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

The Company's international securities clearance and settlement activities are funded with operating cash or with short-term bank loans in the form of overdraft facilities. At June 30, 2018, there was \$73.0 million outstanding under these facilities at a weighted average interest rate of approximately 1.80% associated with international settlement activities.

In the U.S., securities clearance and settlement activities are funded with operating cash, securities loaned or with short-term bank loans under a committed credit agreement described below.

ITG Inc., as borrower, and Investment Technology Group, Inc. ("Parent Company"), as guarantor, maintained a \$150 million 364-day revolving credit agreement with a syndicate of banks and JPMorgan Chase Bank, N.A., as Administrative Agent, that matured in January 2018. On January 26, 2018, ITG Inc., as borrower, and Parent Company, as guarantor, entered into a new \$150 million 364-day revolving credit agreement (the "Credit Agreement") with a syndicate of banks and JPMorgan Chase Bank, N.A., as Administrative Agent. The agreement expires on January 25, 2019. At June 30, 2018, there were no amounts outstanding under the Credit Agreement.

*Term Debt*

The Company had term loans of \$2.3 million and \$3.1 million outstanding at June 30, 2018 and December 31, 2017, respectively.

On December 21, 2017, the Company entered into a three year, \$0.7 million note and security agreement with Hewlett-Packard Financial Services ("H-P Veritas Loan"), under which purchases of new software licenses and support were financed. The loan principal is payable in three installments, of which approximately \$240 thousand was paid in January 2018 and two installments of approximately \$230 thousand are payable in January and March of 2019. The loan does not accrue interest.

On December 30, 2015, the Parent Company entered into a five year, \$3.6 million note and security agreement with Hewlett-Packard Financial Services ("H-P Loan"), under which purchases of new server equipment, software license fees, maintenance fees and fees for other services were financed. The loan principal is payable in twenty quarterly installments of \$195,000 that began in April 2016 and accrues interest at 2.95%. At June 30, 2018 and December 31, 2017, there was \$1.9 million and \$2.4 million, respectively, outstanding under the H-P Loan.

**(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):

	<u>June 30,</u>	
	<u>2018</u>	<u>2017</u>
<b>Three Months Ended</b>		
Net (loss) income for basic and diluted (loss) income per share	\$ (3,035)	\$ 4,643
Shares of common stock and common stock equivalents:		
Average common shares used in basic computation	33,035	33,125
Effect of dilutive securities	—	1,097
Average common shares used in diluted computation	<u>33,035</u>	<u>34,222</u>
(Loss) income per share:		
Basic	\$ (0.09)	\$ 0.14
Diluted	<u>\$ (0.09)</u>	<u>\$ 0.14</u>
<b>Six Months Ended</b>		
Net income for basic and diluted income per share	\$ 1,342	\$ 9,945
Shares of common stock and common stock equivalents:		
Average common shares used in basic computation	32,963	33,037
Effect of dilutive securities	1,023	1,143
Average common shares used in diluted computation	<u>33,986</u>	<u>34,180</u>
Income per share:		
Basic	\$ 0.04	\$ 0.30
Diluted	<u>\$ 0.04</u>	<u>\$ 0.29</u>

There were no anti-dilutive equity awards for the three months ended June 30, 2018 due to the fact that the Company recorded a loss. For the six months ended June 30, 2018, there were approximately 0.2 million average shares that were anti-dilutive and thus not included in the computation of diluted EPS. For both the three and six month periods ended June 30, 2017, there were approximately 0.1 million average shares that were anti-dilutive and thus not included in the computation of diluted EPS.

**(14) Accumulated Other Comprehensive (Loss) Income**

The components and allocated tax effects of accumulated other comprehensive (loss) income for the three and six months ended June 30, 2018 and 2017 are as follows (dollars in thousands):

<b>Three Months Ended June 30, 2018</b>	
Balance at March 31, 2018	\$ (20,328)
Other comprehensive loss	(6,695)
Balance at June 30, 2018	<u>\$ (27,023)</u>
<b>Three Months Ended June 30, 2017</b>	
Balance at March 31, 2017	\$ (31,951)
Other comprehensive income	4,730
Balance at June 30, 2017	<u>\$ (27,221)</u>
<b>Six Months Ended June 30, 2018</b>	
Balance at December 31, 2017	\$ (21,397)
Other comprehensive loss	(5,626)
Balance at June 30, 2018	<u>\$ (27,023)</u>
<b>Six Months Ended June 30, 2017</b>	
Balance at December 31, 2016	\$ (33,977)
Other comprehensive income	6,756
Balance at June 30, 2017	<u>\$ (27,221)</u>

Deferred taxes have not been provided on the cumulative undistributed earnings of foreign subsidiaries or the cumulative translation adjustment related to those investments due to the internal capital structure for the Company's foreign subsidiaries and the inclusion of foreign earnings and profits in U.S. taxable income pursuant to the Tax Cuts and Jobs Act.

**(15) Net Capital Requirement**

ITG Inc. and AlterNet 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 has elected to use the basic method permitted by Rule 15c3-1, which requires the maintenance of minimum net capital equal to the greater of 6 2/3% of aggregate indebtedness or \$100,000. 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 June 30, 2018 for the U.S. Operations are as follows (dollars in thousands):

<b>U.S. Operations</b>	<b>Net Capital</b>	<b>Excess</b>
ITG Inc.	\$ 81,659	80,659
AlterNet	5,447	5,347

As of June 30, 2018, ITG Inc. had \$9.2 million of cash in a Special Reserve Bank Account for the benefit of customers under the Customer Protection Rule pursuant to SEC Rule 15c3-3, *Computation for Determination of Reserve Requirements* and \$3.5 million under PABs.

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In addition, the Company's Canadian, European and Asia Pacific Operations have subsidiaries with regulatory capital requirements. The regulatory net capital balances and amount of regulatory capital in excess of the minimum requirements applicable to each business at June 30, 2018, is summarized in the following table (dollars in thousands):

	<u>Net Capital</u>	<u>Excess</u>
<b>Canadian Operations</b>		
Canada	\$ 23,118	22,738
<b>European Operations</b>		
Ireland	43,807	13,648
U.K.	1,513	526
<b>Asia Pacific Operations</b>		
Australia	29,273	15,746
Hong Kong	3,137	2,747
Singapore	1,122	1,049

### (16) Segment Reporting

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

- Execution Services — includes (a) liquidity matching through POSIT, (b) self-directed trading using algorithms (including single stocks and portfolio lists) and smart routing, (c) portfolio trading and single stock sales trading desks providing execution expertise and (d) futures and options trading
- Workflow Technology — includes trade order and execution management software applications in addition to network connectivity
- Analytics — includes (a) tools enabling portfolio managers and traders to improve pre-trade, real-time and post-trade execution performance, (b) portfolio construction and optimization decisions and (c) securities valuation

The accounting policies of the reportable segments are the same as those described in Note 2, *Summary of Significant Accounting Policies*, in the Company's Annual Report on Form 10-K for the year ended December 31, 2017. The Company allocates resources to, and evaluates the performance of, its reportable segments based on income or loss before income tax expense (benefit). Consistent with the Company's resource allocation and operating performance evaluation approach, the effects of inter-segment activities are eliminated except in limited circumstances where certain costs are allocated to a segment to support that segment's activities. Commissions and fees revenue for trade executions and commission share revenues are principally attributed to each segment based upon the location of execution of the related transaction except that commissions and fees for trade executions by Canadian clients in the U.S. market are attributed to the Canadian Operations instead of the U.S. Operations. Recurring revenues are principally attributed based upon the location of the client using the respective service.

Regional segment results exclude the impact of Corporate activity, which is presented separately and includes investment income from treasury activity, certain non-operating revenues and other gains as well as costs not associated with operating the businesses within the Company's regional segments. These costs include, among others, (a) the costs of being a public company, such as certain staff costs, a portion of external audit fees, and reporting, filing and listing costs, (b) intangible asset amortization, (c) interest expense, (d) professional fees associated with the Company's global transfer pricing structure, (e) foreign exchange gains or losses and (f) certain non-operating expenses.

In 2018, the Company changed the way it measures the profitability of its regional segments to reflect the global nature of its business operations. Certain costs for senior management, product management, marketing, management information systems and infrastructure that are incurred in the U.S. on behalf of the entire Company are now being allocated to the international segments. For comparability purposes, the Company has restated previously reported segment results for the three and six months ended June 30, 2017 to reflect these changes.

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

	<u>U.S. Operations</u>	<u>Canadian Operations</u>	<u>European Operations</u>	<u>Asia Pacific Operations</u>	<u>Corporate</u>	<u>Consolidated</u>
<b>Three Months Ended June 30, 2018</b>						
Total revenues	\$ 48,026	\$ 17,730	\$ 42,911	\$ 19,430	\$ 380	\$ 128,477
(Loss) income before income tax (benefit) expense (1)	(988)	3,050	10,440	4,000	(16,756)	(254)
Identifiable assets	400,709	110,536	341,736	73,953	—	926,934
<b>Three Months Ended June 30, 2017</b>						
Total revenues	\$ 52,763	\$ 15,984	\$ 38,739	\$ 13,720	\$ 375	\$ 121,581
(Loss) income before income tax (benefit) expense (2)	(2,370)	2,465	9,570	799	(5,377)	5,087
Identifiable assets	456,071	108,698	339,337	52,570	—	956,676
<b>Six Months Ended June 30, 2018</b>						
Total revenues	\$ 96,512	\$ 35,777	\$ 87,741	\$ 39,037	\$ 894	\$ 259,961
(Loss) income before income tax (benefit) expense (1)(3)	(2,354)	6,879	22,349	8,680	(29,911)	5,643
<b>Six Months Ended June 30, 2017</b>						
Total revenues	\$ 106,156	\$ 32,466	\$ 75,451	\$ 27,663	\$ 680	\$ 242,416
(Loss) income before income tax (benefit) expense (4)	(6,313)	5,296	19,508	1,913	(11,506)	8,898

Notes:

- (1) During the three and six months ended June 30, 2018, the Company incurred a charge to establish an accrual of \$12.0 million for a potential settlement with the SEC of an investigation into the operational features of U.S. POSIT and access to U.S. POSIT data, together with certain related disclosures, and incurred related legal fees of \$0.2 million. For more information, see Note 19, *Contingencies – Legal Matters*.
- (2) The Company has restated segment results for the three months ended June 30, 2017, resulting in a decrease in U.S. expenses of \$2.7 million and increases in expenses in Canada, Europe and Asia Pacific of \$0.7 million, \$1.3 million and \$0.7 million, respectively.
- (3) During the six months ended June 30, 2018, the Company incurred restructuring charges of \$7.2 million related to the elimination of certain positions in the U.S.
- (4) The Company has restated segment results for the six months ended June 30, 2017, resulting in a decrease in U.S. expenses of \$5.3 million and increases in expenses in Canada, Europe and Asia Pacific of \$1.3 million, \$2.5 million and \$1.5 million, respectively.

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

	<u>Three Months Ended June 30,</u>		<u>Six Months Ended June 30,</u>	
	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
<b>Revenues:</b>				
Execution Services	\$ 89,959	\$ 86,797	\$ 184,315	173,084
Workflow Technology	27,112	23,352	53,687	46,452
Analytics	11,026	11,057	21,065	22,200
Corporate (non-product)	380	375	894	680
Total Revenues	<u>\$ 128,477</u>	<u>\$ 121,581</u>	<u>\$ 259,961</u>	<u>\$ 242,416</u>

The product group revenues noted above are consistent with the revenues recognized under ASC 606, except that the table includes revenue of \$0.6 million and \$1.1 million, respectively, for the three and six months ended June 30, 2018 in Analytics for functionality that is not a separate performance obligation from products and services provided by Workflow Technology and Execution Services.

**(17) Dividend Program**

During the three months ended June 30, 2018, the Board of Directors declared, and the Company paid, a quarterly dividend of \$0.07 per share totaling \$2.3 million, including less than \$0.1 million in stock under the Company's equity award plans. Dividends declared and paid during the six months ended June 30, 2018 totaled \$0.14 per share for \$4.6 million, including less than \$0.1 million in stock under the Company's equity award plans.

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

The Company is a member of various U.S. and non-U.S. exchanges and clearing houses that trade and clear, respectively, equities and/or derivative contracts. Associated with the Company's membership, the Company may be required to pay a proportionate share of financial obligations of another member who may default on its obligations to the exchanges or the clearing house. While the rules governing different exchange or clearing house memberships vary, in general, the Company's obligations would arise only if the exchanges and clearing houses had previously exhausted other remedies. The maximum potential payout under these memberships cannot be estimated. The Company has not recorded any contingent liability in the condensed consolidated financial statements for these agreements and believes that any potential requirement to make payments under these agreements is remote. In the ordinary course of business, the Company guarantees obligations of subsidiaries which may arise from third-party clearing relationships and trading counterparties. The activities of the subsidiaries covered by these guarantees are included in the Company's condensed consolidated financial statements. The Company is also subject to indemnification provisions within agreements with third-party clearing brokers in certain jurisdictions whereby the Company is obligated to reimburse the clearing broker, without limit, for losses incurred due to a counterparty's failure to satisfy its contractual obligations.

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 financing counterparty is unable to meet its contractual obligation to return customer securities pledged as collateral, the Company may be exposed to the risk of acquiring the securities at prevailing market prices in order to satisfy its customer obligations. The Company controls this risk by monitoring the market value of securities pledged on a daily basis and by requiring adjustments of collateral levels in the event of excess market exposure.

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

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

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

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

### **(19) Contingencies – Legal Matters**

The Company is presently engaged in discussions with the SEC staff regarding a possible resolution of an investigation relating to the operational features of the U.S. POSIT alternative trading system and access to U.S. POSIT data, together with certain related disclosures.



With regard to the operational features of U.S. POSIT, the potential resolution is focused on: (i) the technological infrastructure supporting the matching engine from 2010 through mid-2014, which affected the ability of mainly clients engaged in low-latency trading to interact with other POSIT flow and (ii) a delay feature added in 2014 to ITG's Liquidity Guard anti-gaming technology designed to prevent latency arbitrage by temporarily preventing day orders submitted by certain clients engaged in low-latency trading from interacting with day orders from other clients. The potential resolution is also focused on: (i) overbroad internal access to, and internal sharing of, U.S. POSIT data, (ii) between October 2010 and July 2015, the sharing of anonymized lists of the top 100 symbols executed in U.S. POSIT and the top 100 symbols sent to U.S. POSIT as immediate-or-cancel orders on the prior trading day mainly with clients or prospective clients engaged in low-latency trading, (iii) between June 2009 and November 2017, the sharing of a venue analysis report that contained up to 15 symbols (and associated aggregated, anonymized volume) executed in U.S. POSIT on the prior trading day with users of the Company's algorithms and (iv) instances of sharing of anonymized U.S. POSIT execution information with clients.

The Company has taken meaningful remedial actions during the course of the SEC's investigation, including imposing additional limitations on access to U.S. POSIT data as well as enhancing POSIT's Form ATS and other disclosures.

While the Company is engaged in discussions with the SEC staff to resolve the investigation, there can be no assurance that these discussions will be successful. Based on recent discussions, the Company incurred a charge of \$12.0 million during the three and six months ended June 30, 2018 to establish an accrual for a potential settlement of this matter. The SEC staff has indicated that they will recommend this penalty amount to the Commission. The Company also incurred approximately \$0.2 million in legal fees associated with this matter during the second quarter of 2018. Resolution of the matter is subject to further discussions with the SEC staff and agreement with the SEC staff on the terms of a settlement, which would be subject to review and approval by the Commission. The Company cannot predict the timing of any settlement or the ultimate resolution of the SEC investigation. It is possible that a materially higher amount than the amount accrued could be required to achieve a resolution of the matter. In addition, the Company cannot predict the impact that the matter may have on its business going forward.

In addition to the above, the Company's broker-dealer subsidiaries are subject to, or involved in, investigations and other proceedings by government agencies and self-regulatory organizations, with respect to which the Company is cooperating. Such investigations and other proceedings may result in judgments, settlements, fines, disgorgements, penalties, injunctions or other relief. Given the inherent uncertainties and the current stage of these inquiries, and the Company's ongoing reviews, the Company is unable to predict the outcome of these matters at this time.

The Company is not a party to any pending material legal proceedings other than claims and lawsuits arising in the ordinary course of business, except a putative class action lawsuit and a derivative action have been filed with respect to the Company and certain of its current and former directors and/or executives in connection with the Company's announcement of the SEC matter described in the following paragraph (and other related actions could be filed).

On August 12, 2015, the Company reached a final settlement with the SEC in connection with the SEC's investigation into a proprietary trading pilot operated within AlterNet for sixteen months in 2010 through mid-2011. The investigation was focused on customer disclosures, Form ATS regulatory filings and customer information controls relating to the pilot's trading activity, which included (a) crossing against sell-side clients in POSIT and (b) violations of Company policy and procedures by a former employee. These violations principally involved information breaches for a period of several months in 2010 regarding sell-side parent orders flowing into ITG's algorithms and executions by all customers in non-POSIT markets that were not otherwise available to ITG clients. According to the terms of the settlement, the Company paid an aggregate amount of \$20.3 million, representing a civil penalty of \$18 million, disgorgement of approximately \$2.1 million in trading revenues and prejudgment interest of approximately \$0.25 million.

In connection with the announcement of the SEC investigation regarding AlterNet, two putative class action lawsuits were filed with respect to the Company and certain of its current and former executives, which were consolidated into a single action captioned *In re Investment Technology Group, Inc. Securities Litigation* before the U.S. District Court for the Southern District of New York. The complaint alleges, among other things, that the defendants made material misrepresentations or omitted to disclose material facts concerning, among other subjects, the matters that

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were the subject of the SEC settlement regarding AlterNet and the SEC investigation that led to the SEC settlement. The complaint seeks an unspecified amount of damages under the federal securities laws. On April 26, 2017, the court granted in part and denied in part the Company's motion to dismiss the complaint and granted the plaintiff leave to file a motion to amend its complaint. On June 12, 2017, the plaintiff filed a motion to amend its complaint against certain of the individual defendants who were dismissed from the case in the court's April opinion. On March 23, 2018, the court denied plaintiff's motion to amend, thereby affirming its dismissal of certain of the individual defendants from the case.

On April 19, 2018, the Company reached an agreement in principle to settle the consolidated securities class action lawsuit. In exchange for a release of claims and a dismissal with prejudice, the settlement includes a payment to class members of \$18 million, which is well within the policy limits of, and is expected to be paid by, the Company's insurance carrier. The condensed consolidated statements of financial condition as of June 30, 2018 include a payable to class members of \$18.0 million in accounts payable and accrued expenses (also, see Note 11, *Accounts Payable and Accrued Expenses*) that is fully offset by a receivable from the Company's insurance carrier in other assets. As a result, the settlement is not expected to impact the Company's results. The settlement reached is solely to eliminate the uncertainties, burden and expense of further protracted litigation and does not constitute an admission of liability by the Company or its current or former executives or directors. Specifically, the Company and its current and former executives and directors deny any liability or responsibility for the claims made and make no admission of any wrongdoing. The parties anticipate entering into a final settlement agreement outlining the complete terms of the settlement. The settlement is subject to certain conditions, including, among others, preliminary and final court approval and notice to the class of plaintiffs in the lawsuit. There is no assurance that a final settlement will be completed, court approval will be obtained or that class member participation will be sufficient.

On November 27, 2015, a purported shareholder of the Company filed a shareholder derivative action captioned *Watterson v. Gasser et al.* against eleven current or former officers and directors of the Company in the Supreme Court for the State of New York. The Company is named as a nominal defendant, and the plaintiff purports to seek recovery on its behalf. The complaint generally alleges that the individual defendants breached their fiduciary duties to the Company in connection with the matters that were the subject of the SEC settlement regarding AlterNet.

While the Company cannot predict the outcome of the derivative lawsuit, the Company intends to defend it as appropriate. No reserve has been established for the derivative lawsuit since the Company is unable to provide a reasonable estimate of any potential liability given the stage of the proceeding. The Company believes, based on information currently available, that the outcome of the derivative lawsuit will not likely have a material adverse effect on its consolidated financial position. In light of the inherent uncertainties of such proceeding, an adverse outcome may have a material impact on the results of operations for any particular period.

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

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

### Overview

ITG is a global financial technology company that helps leading brokers and asset managers improve returns for investors around the world. ITG empowers traders to reduce the end-to-end cost of implementing investments via liquidity, execution, analytics and workflow technology solutions. ITG has offices in Asia Pacific, Europe and North America and offers execution services in more than 50 countries.

Our business is organized into four reportable operating segments: U.S. Operations, Canadian Operations, European Operations and Asia Pacific Operations (see Note 16, *Segment Reporting*, to the condensed consolidated financial statements). These four operating segments provide the following categories of products and services:

- Execution Services — includes (a) liquidity matching through POSIT, (b) self-directed trading using algorithms (including single stocks and portfolio lists) and smart routing, (c) portfolio trading and single stock sales trading desks providing execution expertise and (d) futures and options trading
- Workflow Technology — includes trade order and execution management software applications in addition to network connectivity
- Analytics — includes (a) tools enabling portfolio managers and traders to improve pre-trade, real-time and post-trade execution performance, (b) portfolio construction and optimization decisions and (c) securities valuation

Regional segment results exclude the impact of Corporate activity, which is presented separately and includes investment income from treasury activity, certain non-operating revenues and other gains as well as costs not associated with operating the businesses within the Company's regional segments. These costs include, among others, (a) the costs of being a public company, such as certain staff costs, a portion of external audit fees, and reporting, filing and listing costs, (b) intangible asset amortization, (c) interest expense, (d) professional fees associated with our global transfer pricing structure, (e) foreign exchange gains or losses and (f) certain non-operating expenses.

In 2018, we changed the way we measure the profitability of our regional segments to reflect the global nature of our business operations. Certain costs for senior management, product management, marketing, management information systems and infrastructure that are incurred in the U.S. on behalf of the entire Company are now being allocated to the international segments. For comparability purposes, we have restated previously reported segment results for the prior-year periods to reflect these changes.

### *Sources of Revenues*

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

Commissions and fees are derived primarily from (i) commissions charged for trade execution services, (ii) income generated on net executions, whereby equity orders are filled at different prices within or at the National Best Bid and Offer ("NBBO") and (iii) commission sharing arrangements between ITG Net (our private value-added FIX-based financial electronic communications network) and third-party brokers and alternative trading systems whose trading products are made available to our clients on our order management system ("OMS"), and our execution management system ("EMS"), including the new Algo Wheel functionality we have embedded within Triton. The Algo Wheel is a broker-neutral tool for allocating trades to broker algorithms in an unbiased systematic fashion using a quantifiable method for evaluating and rewarding brokers for execution performance. We also have commission sharing arrangements for our Single Ticket Clearing service and our RFQ-hub request-for-quote service. Because commissions are earned on a per-transaction basis, such revenues fluctuate from period-to-period depending on (a) the volume of securities traded through our services in the U.S. and Canada, (b) the contract value of securities traded in Europe and the Asia Pacific region and (c) our commission rates. Certain factors that affect our volumes and contract values traded

include: (i) macro trends in the global equities markets that affect overall institutional equity trading activity, (ii) competitive pressure, including pricing, created by the existence of electronic execution competitors and (iii) potential changes in market structure in the U.S. and other regions. In addition to share volume, revenues from net executions are also impacted by the width of spreads within the NBBO. Trade orders are delivered to us from our OMS and EMS products and other vendors' products, direct computer-to-computer links to customers through ITG Net and third-party networks and phone orders from our customers.

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

Other revenues primarily include: (1) the net spread on foreign exchange transactions executed on a principal basis to facilitate equity trades by clients in different currencies, as well as on other foreign exchange transactions unrelated to equity trades, (2) non-recurring consulting services, such as one-time implementation and customer training related activities, (3) investment income from treasury activity, (4) interest income on securities borrowed in connection with customers' settlement activities, (5) market gains/losses resulting from temporary positions in securities assumed in the normal course of agency trading (including trade errors and client trade accommodations), (6) non-recurring gains and losses such as divestitures, (7) fees earned for clearing securities transactions on behalf of other broker-dealers and (8) fees earned for commission aggregation services.

As a result of adopting ASC 606 on January 1, 2018, we identified two key accounting changes that affect the timing of revenue recognition as it relates to bundled commission arrangements and fees for software licenses. The financial impact of these accounting changes includes (1) a deferral of revenues primarily generated in the first half of the year for commissions attributable to analytics products under bundled arrangements that will be recognized over the course of the year as the performance obligations for those analytics products are satisfied and (2) an acceleration of license fee revenues to the delivery date for software provided for a specified period. These changes only relate to the timing of when revenue is recognized and have no effect on the underlying transaction price of the products and services we perform. For more information on our evaluation of the revenue recognition standard and its impact on our financial statements, see Note 3, *Revenue from Contracts with Customers*, to the condensed consolidated financial statements.

#### *Expenses*

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

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

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

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

Other general and administrative expenses primarily include software amortization, professional (including legal) fees, consulting, business development and intangible asset amortization.

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

**Non-GAAP Financial Measures**

To supplement our financial information presented in accordance with accounting principles generally accepted in the U.S. (“U.S. GAAP”), management uses certain “non-GAAP financial measures” as such term is defined in Regulation G promulgated by the SEC. 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. Management believes the presentation of these measures provides investors with greater transparency and supplemental data relating to our financial condition and results of operations, and therefore a more complete understanding of factors affecting our business than U.S. GAAP measures alone. In addition, management believes the presentation of these measures is useful to investors for period-to-period comparison of results as the items described below reflect certain unique and/or non-operating items such as acquisitions, divestitures, restructuring charges, write-offs and impairments, charges associated with litigation or regulatory matters together with related expenses or items outside of management’s control.

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

Reconciliations of adjusted expenses, adjusted pre-tax income, adjusted income tax expense and adjusted net income to expenses, (loss) income before income tax expense, income tax expense and net (loss) income and related per share amounts as determined in accordance with U.S. GAAP for the three and six months ended June 30, 2018 are provided below (dollars in thousands except per share amounts). There were no such adjustments during the three and six months ended June 30, 2017.

	Three Months Ended June 30, 2018	Six Months Ended June 30, 2018
Total expenses	\$ 128,731	\$ 254,318
Less:		
SEC settlement accrual and related fees (1)	(12,216)	(12,216)
Restructuring (2)	—	(7,165)
Adjusted expenses	<u>\$ 116,515</u>	<u>\$ 234,937</u>
(Loss) income before income tax expense	\$ (254)	\$ 5,643
Effect of adjustments	12,216	19,381
Adjusted pre-tax income	<u>\$ 11,962</u>	<u>\$ 25,024</u>
Income tax expense	\$ 2,781	\$ 4,301
Tax effect of adjustments (1)(2)	—	—
Reduction in tax reserves (3)	—	\$ 1,862
Adjusted income tax expense	<u>\$ 2,781</u>	<u>\$ 6,163</u>
Net (loss) income	\$ (3,035)	\$ 1,342
Net effect of adjustments	12,216	17,519
Adjusted net income	<u>\$ 9,181</u>	<u>\$ 18,861</u>
Diluted (loss) income per share	\$ (0.09)	\$ 0.04
Net effect of adjustments	0.36	0.51
Adjusted diluted income per share	<u>\$ 0.27</u>	<u>\$ 0.55</u>

(1) During the three and six months ended June 30, 2018, we incurred a charge to establish an accrual of \$12.0 million for a potential settlement with the SEC of an investigation into the operational features of U.S. POSIT and access to U.S. POSIT data, together with certain related disclosures, and incurred related legal fees of \$0.2 million. Due to non-deductibility of the settlement charge and the full valuation allowance on U.S. deferred tax assets, there is no tax effect on this adjustment. For more information, see Note 19, *Contingencies – Legal Matters*, to the condensed consolidated financial statements.

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- (2) During the six months ended June 30, 2018, we incurred restructuring charges of \$7.2 million related to the elimination of certain positions in the U.S. Due to the full valuation on U.S. deferred tax assets, there is no tax effect on this adjustment.
- (3) During the six months ended June 30, 2018, we resolved a multi-year tax contingency in the U.S. and reduced tax reserves by \$1.9 million.

### ***Executive Summary for the Quarter Ended June 30, 2018***

#### *Consolidated Overview*

Our overall results for the second quarter were strong, with solid performance from our international operations and continued growth in global commission share revenues from our Workflow Technology products despite lower levels of market-wide trading activity. Our U.S. loss narrowed sequentially, due in part to improved market share as well as the impact of cost savings measures taken in the first quarter of 2018.

Our revenues during the second quarter of 2018 were \$128.5 million, up 6% from revenues of \$121.6 million in the second quarter of 2017. We incurred a GAAP net loss of \$3.0 million, or \$0.09 per diluted share inclusive of a charge of \$12.0 million to establish an accrual for a potential settlement of an SEC investigation along with related legal fees of \$0.2 million, for a combined impact of \$0.36 per share.

We are presently engaged in discussions with the SEC staff regarding the possible resolution of an investigation relating to operational features of the U.S. POSIT alternative trading system and access to U.S. POSIT data, together with certain related disclosures. We have taken meaningful remedial actions during the course of this investigation, including imposing additional limitations on access to U.S. POSIT data as well as enhancing POSIT's Form ATS and other disclosures. It is possible that an amount materially higher than the amount accrued could be required to achieve a resolution and we cannot predict the impact the matter will have on our business going forward. For more information, see Note 19, *Contingencies – Legal Matters*, to the condensed consolidated financial statements.

On an adjusted basis, we generated net income of \$9.2 million, or \$0.27 per diluted share, compared with net income of \$4.6 million, or \$0.14 per diluted share in the second quarter of 2017.

Second quarter 2018 results continued to reflect the impact of a new accounting rule, implemented in January 2018, which requires global commission revenues attributed to analytics products under bundled arrangements to be recognized over the course of the annual service period. This change resulted in the deferral of \$1.1 million in commission revenues in the second quarter of 2018, which was lower than the \$3.8 million commission revenue deferral in the first quarter of 2018. These revenue deferrals are expected to be recognized in the second half of the year. This accounting change also accelerated the recognition of software license fees, increasing revenues by \$0.4 million during the three months ended June 30, 2018.

We are continuing our focus on the execution of our Strategic Operating Plan ("SOP"), which aims to enhance global capabilities in liquidity, execution, analytics and workflow technology solutions. As of June 30, 2018, our total investment under the plan since its inception in late July 2016 is approximately \$32 million. The total cost reduction measures we have implemented since launching the SOP have resulted in annual savings of more than \$30 million. These savings are fully funding investments we are making under the SOP and in strategic hires.

#### *Segment Discussions*

In 2018, we changed the way we measure the profitability of our regional segments to reflect the global nature of our business operations. Certain expenses that are incurred in the U.S. on behalf of the entire Company are now being allocated to the international segments. For comparability purposes, we have restated previously reported segment results for the three and six months ended June 30, 2017. The impact on the previously reported results for the second quarter of 2017 was a decrease in U.S. expenses of \$2.7 million and increases in expenses in Canada, Europe and Asia Pacific of \$0.7 million, \$1.3 million and \$0.7 million, respectively.

In the U.S., our average daily volume ("ADV") was 3% lower than the first quarter of 2018 and 10% lower than the second quarter of 2017. Consolidated market-wide trading activity was down 10% from the volatile first quarter of 2018 and flat compared to the second quarter of 2017. Overall revenues were down 9% as compared to the prior-year quarter, reflecting in part decreased trading in our POSIT Alert block crossing system, a decline in lower-margin sell-

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side trading and the impact of the commission deferral. These decreases were offset in part by an increase in commission sharing revenues for trades executed with third-party brokers via Triton and the Algo Wheel.

Our trading activity in Canada was robust during the quarter, with commissions up 13% as compared to the second quarter of 2017. Average daily volume executed in our Canadian broker was 16% higher than the second quarter of 2017, while market-wide volumes were down 6% versus the prior-year quarter. Overall revenues were up 11% compared to the prior-year quarter.

In Europe, our executed daily value decreased 6% in British pound terms compared to the second quarter of 2017 versus a 1% decrease in daily market-wide trading activity due to implementation of the dark pool volume caps under the new Markets in Financial Instruments Directive (“MiFID”) II regulations. Despite the drop in value traded, overall revenues were up 11% versus the second quarter of 2017, driven in part by a 36% increase, in British pound terms, in value traded in our POSIT Alert block crossing system, whose large-in-scale executions are generally exempt from the volume caps, strong growth in commission sharing revenues for trades executed with third-party brokers via Triton and the Algo Wheel and currency movements.

In Asia Pacific, we achieved another quarter of strong performance, driven by increased use of algos, our POSIT Alert block crossing system and portfolio trading services. Market-wide daily value traded in our five largest regional markets was up 19% versus the second quarter of 2017, while our daily value traded was up 53%. Overall Asia Pacific revenues rose 42% over the prior-year quarter.

Corporate activity in the second quarter of 2018 reduced GAAP pre-tax income and adjusted pre-tax income by \$16.7 million and \$4.5 million, respectively. Corporate activity in the second quarter of 2017 reduced pre-tax income by \$5.4 million.

*Capital Resource Allocation*

During the second quarter of 2018, we repurchased 102,647 shares under our authorized repurchase program for \$2.2 million, or an average cost of \$21.09 per share. On a year-to-date basis, we have repurchased 292,980 shares for \$5.7 million, or \$20.27 per share. We also maintained our \$0.07 quarterly dividend program, paying out \$2.3 million in cash.

Our goal over the long term is to use our share repurchase program to offset dilution from the issuance of stock under employee compensation plans, although the number of shares repurchased may vary from period-to-period. We may repurchase additional shares opportunistically, depending on various factors including, among others, market conditions and competing needs for the use of our capital. We have suspended share repurchases under our program pending the final resolution of the U.S. POSIT matter with the SEC.

**Results of Operations — Three Months Ended June 30, 2018 Compared to Three Months Ended June 30, 2017**

*U.S. Operations*

<b>\$ in thousands</b>	<b>Three Months Ended June 30,</b>		<b>Change</b>	<b>% Change</b>
	<b>2018</b>	<b>2017*</b>		
<b>Revenues:</b>				
Commissions and fees	\$ 35,039	\$ 40,089	\$ (5,050)	(13)%
Recurring	12,191	11,882	309	3 %
Other	796	792	4	1 %
<b>Total revenues</b>	<b>48,026</b>	<b>52,763</b>	<b>(4,737)</b>	<b>(9)%</b>
<b>Expenses:</b>				
Compensation and employee benefits	21,477	24,230	(2,753)	(11)%
Transaction processing	7,900	10,047	(2,147)	(21)%
Other expenses	19,637	20,856	(1,219)	(6)%
<b>Total expenses</b>	<b>49,014</b>	<b>55,133</b>	<b>(6,119)</b>	<b>(11)%</b>
<b>Loss before income tax</b>	<b>\$ (988)</b>	<b>\$ (2,370)</b>	<b>\$ 1,382</b>	<b>58 %</b>

\* Restated for comparability purposes, resulting in a decrease in U.S. expenses of \$2.7 million for costs incurred in the U.S. on behalf of the global business that are now being allocated to the international segments.

The 13% decline in commissions and fees was attributable to reduced trading in our POSIT Alert block crossing system, a reduction in lower-margin sell-side trading and the spin-out of our derivatives business to the Matrix venture in mid-February of this year. Our average commission rate declined slightly to \$0.0035 in the second quarter of 2018 from \$0.0036 in the prior-year period. Although our market share increased sequentially to 1.93% in the second quarter of 2018 from 1.80% in the first quarter of 2018, it was still below the 2.15% share we achieved in the second quarter of 2017. In addition, the new revenue recognition standard we adopted at the beginning of the year resulted in a \$0.3 million reduction to commissions and fees attributable to bundled commission arrangements for analytics products during the second quarter of 2018. We expect to recognize these deferred commissions and the \$2.0 million of deferred commissions from the first quarter of 2018 in the second half of the year.

<b>U.S. Operations: Key Indicators*</b>	<b>Three Months Ended</b>		<b>Change</b>	<b>% Change</b>
	<b>2018</b>	<b>2017</b>		
Total trading volume (in billions of shares)	8.5	9.3	(0.8)	(9)%
Average trading volume per day (in millions of shares)	132.6	147.7	(15.1)	(10)%
Average revenue per share	\$ 0.0035	\$ 0.0036	\$ (0.0001)	(3)%
U.S. market trading days	64	63	1	2 %

\* Excludes activity from the trading of derivatives and Latin America equities, commission share arrangements and the deferral of commissions under bundled trading arrangements for analytics products.

Recurring revenues increased 3% from the second quarter of 2017 primarily due to an increase in OMS license fees from the revenue acceleration required by the new accounting standard that was offset by a decrease in connectivity revenue.

Other revenues increased slightly from the second quarter of 2017 as an increase in fees earned for commission aggregation services was mostly offset by a decrease in market data tape rebate revenue.

Compensation and employee benefits decreased 11% from the prior-year period primarily due to the impact of cost savings measures taken in the first quarter of 2018 and employee termination costs incurred in the second quarter of 2017 of \$1.2 million.

Transaction processing costs decreased 21% compared to the second quarter of 2017, outpacing the 10% reduction in ADV as a result of the impact of the spin-out of our derivatives business to the Matrix venture in mid-February 2018 and reduced trade execution costs from lower liquidity taking. As a percentage of commissions and fees, transaction processing costs decreased to 22.5% in the current period from 25.1% during the prior-year period due to the factors mentioned above, slightly offset by the impact of deferring commissions and fees attributable to bundled arrangements for analytics products.



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Other expenses decreased 6% compared to the prior-year period due to a decrease in occupancy and equipment costs related to the reduction of office space in our New York headquarters completed in late December 2017. We also had lower market data and travel and entertainment costs.

*Canadian Operations*

\$ in thousands	Three Months Ended June 30,		Change	% Change
	2018	2017*		
<b>Revenues:</b>				
Commissions and fees	\$ 15,438	\$ 13,604	\$ 1,834	13 %
Recurring	1,235	1,284	(49)	(4)%
Other	1,057	1,096	(39)	(4)%
<b>Total revenues</b>	<b>17,730</b>	<b>15,984</b>	<b>1,746</b>	<b>11 %</b>
<b>Expenses:</b>				
Compensation and employee benefits	5,106	4,905	201	4 %
Transaction processing	3,209	2,780	429	15 %
Other expenses	6,365	5,834	531	9 %
<b>Total expenses</b>	<b>14,680</b>	<b>13,519</b>	<b>1,161</b>	<b>9 %</b>
<b>Income before income tax</b>	<b>\$ 3,050</b>	<b>\$ 2,465</b>	<b>\$ 585</b>	<b>24 %</b>

\* Restated for comparability purposes, resulting in an increase in Canadian expenses of \$0.7 million for costs incurred in the U.S. on behalf of the global business that are now being allocated to the international segments.

Currency translation from a stronger Canadian Dollar increased total Canadian revenues and expenses by \$0.6 million and \$0.4 million, respectively, resulting in an increase of \$0.2 million to pre-tax income.

Overall commissions and fees increased 13% compared to the second quarter of 2017, including a \$0.5 million favorable currency impact. The ADV in our Canadian broker grew by 16% as compared to the prior-year period despite a 6% decline in market-wide volumes due to growth from both buy-side and sell-side clients. We also achieved growth in ADV of 20% in our MATCHNow marketplace as compared to the prior-year period.

Recurring revenues decreased 4% compared to the second quarter of 2017 due to a decrease in connectivity fees. Other revenues decreased 4% due to a decline in revenue earned on foreign exchange transactions.

Compensation and employee benefits costs increased 4% compared to the second quarter of 2017 primarily due to the impact of unfavorable currency movements.

Transaction processing costs increased 15% compared to the second quarter of 2017, in line with the 16% growth in the ADV of our Canadian broker. As a percentage of commissions and fees, transaction processing costs remained relatively unchanged at 20.8% in the second quarter of 2018 compared to 20.4% in the second quarter of 2017.

Other expenses increased 9% compared to the second quarter of 2017 due to increases in hardware and software maintenance, connectivity, consulting and legal expenses.

*European Operations*

<b>\$ in thousands</b>	<b>Three Months Ended June 30,</b>		<b>Change</b>	<b>% Change</b>
	<b>2018</b>	<b>2017*</b>		
<b>Revenues</b>				
Commissions and fees	\$ 38,373	\$ 34,859	\$ 3,514	10 %
Recurring	4,699	4,048	651	16 %
Other	(161)	(168)	7	4 %
<b>Total revenues</b>	<b>42,911</b>	<b>38,739</b>	<b>4,172</b>	<b>11 %</b>
<b>Expenses:</b>				
Compensation and employee benefits	11,356	10,038	1,318	13 %
Transaction processing	10,371	9,821	550	6 %
Other expenses	10,744	9,310	1,434	15 %
<b>Total expenses</b>	<b>32,471</b>	<b>29,169</b>	<b>3,302</b>	<b>11 %</b>
<b>Income before income tax</b>	<b>\$ 10,440</b>	<b>\$ 9,570</b>	<b>\$ 870</b>	<b>9 %</b>

\* Restated for comparability purposes, resulting in an increase in European expenses of \$1.3 million for costs incurred in the U.S. on behalf of the global business that are now being allocated to the international segments.

Overall currency rate changes in the European region increased revenues and expenses by \$2.3 million and \$1.6 million, respectively, resulting in an increase of \$0.7 million to pre-tax income. This increase in pre-tax income was largely attributable to the strengthening of the Euro as revenues and expenses originated in British pounds largely offset each other.

Commissions and fees increased 10% over the second quarter of 2017, which included \$2.1 million in growth from favorable currency movements. The remaining growth was attributable to a record level of value traded in our POSIT Alert block crossing system, growth in algorithmic trading and an increase in commission sharing revenues for trades executed with third-party brokers via Triton and the Algo Wheel. These increases were partially offset by reduced levels of non-block trading in POSIT from the implementation in March of the dark pool volume caps required under the MiFID II regulations.

Recurring revenues increased 16% from the prior-year period due to higher billed analytics revenues from delivery timing, new revenues for research payment account (“RPA”) administration fees as a result of MiFID II regulations for unbundling that went into effect in January 2018 and higher connectivity fees. Other revenues were comparable to the prior-year period, primarily reflecting the impact of client trade accommodations.

Compensation and employee benefits increased 13% from the second quarter of 2017 due to increases in salaries and incentive compensation, as well as the unfavorable impact of currency movements.

Transaction processing costs increased 6% from the second quarter of 2017, primarily due to a \$0.6 million increase from unfavorable currency movements. The less than 1% decline in transaction processing costs excluding the impact of currency was below the 6% reduction in average daily value traded in British pound terms due to an increase in rebates paid to introducing firms and the impact of a lower crossing rate in POSIT. As a percentage of commissions and fees, transaction processing costs decreased to 27.0% in the second quarter of 2018 from 28.2% in the prior-year quarter.

Other expenses increased 15% from the second quarter of 2017 due to higher costs for facilities, software, and market data. In addition, other expenses increased by \$0.4 million from the unfavorable impact of currency movements.

*Asia Pacific Operations*

\$ in thousands	Three Months Ended June 30,		Change	% Change
	2018	2017*		
<b>Revenues:</b>				
Commissions and fees	\$ 17,601	12,012	\$ 5,589	47 %
Recurring	1,957	1,719	238	14 %
Other	(128)	(11)	(117)	nm
<b>Total revenues</b>	<b>19,430</b>	<b>13,720</b>	<b>5,710</b>	<b>42 %</b>
<b>Expenses:</b>				
Compensation and employee benefits	5,395	5,165	230	4 %
Transaction processing	4,489	2,834	1,655	58 %
Other expenses	5,546	4,922	624	13 %
<b>Total expenses</b>	<b>15,430</b>	<b>12,921</b>	<b>2,509</b>	<b>19 %</b>
<b>Income before income tax</b>	<b>\$ 4,000</b>	<b>\$ 799</b>	<b>\$ 3,201</b>	<b>401 %</b>

\* Restated for comparability purposes, resulting in an increase in Asia Pacific expenses of \$0.7 million for costs incurred in the U.S. on behalf of the global business that are now being allocated to the international segments.  
nm – not meaningful

Currency translation increased total Asia Pacific revenues and expenses by \$0.2 million and \$0.1 million, respectively, resulting in an increase of \$0.1 million to pre-tax income.

Commissions and fees increased 47% over the second quarter of 2017 due to record trading in our POSIT Alert block crossing system and strong growth in algorithmic trading and portfolio trading. We also benefitted from higher commission sharing revenues from trades executed via our Triton EMS and the Algo Wheel. Our average daily value traded in the region increased by 53%, outperforming the 19% increase in average daily value traded market-wide.

Recurring revenues increased 14% compared to the second quarter of 2017 due primarily to an increase in connectivity fees, while other revenues decreased due to a larger impact from client trade accommodations.

Compensation and employee benefits increased 4% compared to the second quarter of 2017 primarily due to employee termination costs and higher incentive compensation, offset in part by an increase in capitalized compensation for software development.

Transaction processing costs increased 58% compared to the second quarter of 2017, which was slightly higher than the 53% growth in daily value executed, due primarily to the impact of a higher proportion of our trading in markets where costs are higher. As a percentage of commissions and fees, transaction processing costs increased to 25.5% from 23.6% in the second quarter of 2017 due primarily to the impact of a lower average commission rate.

Other expenses increased 13% over the second quarter of 2017 due to costs for expanded office space in Hong Kong, higher hardware and software costs and an increase in market data fees.

*Corporate*

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

In the second quarter of 2018, we incurred a pre-tax loss from Corporate activities of \$16.7 million, reflecting \$0.4 million of investment income and \$17.1 million of costs, compared to a pre-tax loss of \$5.4 million in the prior-year period, reflecting \$0.4 million of investment income and \$5.8 million of costs. Corporate costs in the second quarter of 2018 included a charge of \$12.0 million to establish an accrual for a potential settlement with the SEC of the U.S. POSIT matter along with related legal fees of \$0.2 million. For more information, see Note 19, *Contingencies – Legal Matters*, to the condensed consolidated financial statements. On an adjusted basis excluding this charge, corporate costs were \$4.9 million, a decrease from the prior-year period due to lower legal fees, offset in part by higher general taxes,

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corporate insurance premiums and tax consulting fees. We expect legal expenses within Corporate to increase in the third quarter of 2018 as we seek to resolve the U.S. POSIT matter. Corporate costs, including legal fees, can vary from period-to-period as we work through litigation, regulatory and other corporate matters.

*Consolidated income tax expense*

We incurred tax expense of \$2.8 million on a pre-tax loss of \$0.2 million during the three months ended June 30, 2018 due primarily to taxes incurred on pre-tax profits in Europe and Canada and the impact of the non-deductible \$12.0 million charge taken to establish a settlement accrual for the U.S. POSIT matter. We are not incurring tax expense on pre-tax profits in Asia Pacific due to fully reserved tax loss carryforwards. Our effective tax rate was 8.7% in the second quarter of 2017 due in part to a tax benefit recorded on losses in the U.S. In the third quarter of 2017, we recorded a full valuation allowance against our U.S. deferred tax assets and discontinued recording any tax benefits on U.S. losses.

Our consolidated effective tax rate can vary from period-to-period depending on, among other factors, the geographic and business mix of our earnings.

**Results of Operations — Six Months Ended June 30, 2018 Compared to Six Months Ended June 30, 2017***U.S. Operations*

<b>\$ in thousands</b>	<b>Six Months Ended June 30,</b>		<b>Change</b>	<b>% Change</b>
	<b>2018</b>	<b>2017*</b>		
<b>Revenues:</b>				
Commissions and fees	\$ 70,666	\$ 80,650	\$ (9,984)	(12)%
Recurring	24,079	23,803	276	1 %
Other	1,767	1,703	64	4 %
<b>Total revenues</b>	<b>96,512</b>	<b>106,156</b>	<b>(9,644)</b>	<b>(9)%</b>
<b>Expenses:</b>				
Compensation and employee benefits	43,886	49,221	(5,335)	(11)%
Transaction processing	16,209	20,995	(4,786)	(23)%
Other expenses	38,771	42,253	(3,482)	(8)%
<b>Total expenses</b>	<b>98,866</b>	<b>112,469</b>	<b>(13,603)</b>	<b>(12)%</b>
<b>(Loss) income before income tax</b>	<b>\$ (2,354)</b>	<b>\$ (6,313)</b>	<b>\$ 3,959</b>	<b>nm</b>

\* Restated for comparability purposes, resulting in a decrease in U.S. expenses of \$5.3 million for costs incurred in the U.S. on behalf of the global business that are now being allocated to the international segments.  
nm – not meaningful

We adopted the new revenue recognition standard on January 1, 2018, which resulted in a \$2.3 million reduction in commissions and fees from deferring revenue attributable to bundled commission arrangements for analytics products during the first half of the year. The remaining decline in commissions and fees was attributable to reduced trading in our POSIT Alert block crossing system, a reduction in lower-margin sell-side trading and the spin-out of our derivatives business to the Matrix derivatives venture in mid-February. Our ADV decreased 10% over the first half of 2017 and overall revenue per share remained unchanged from the prior-year period at \$0.0036. The decreases in

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commissions and fees noted above were offset in part by an increase in commission sharing revenues for trades executed with third-party brokers via Triton and the Algo Wheel.

U.S. Operations: Key Indicators*	Six Months Ended June 30,		Change	% Change
	2018	2017		
Total trading volume (in billions of shares)	16.9	18.7	(1.8)	(10)%
Average trading volume per day (in millions of shares)	135.0	149.3	(14.3)	(10)%
Average revenue per share	\$0.0036	\$ 0.0036	\$ —	— %
U.S. market trading days	125	125	—	— %

\* Excludes activity from the trading of derivatives and Latin America equities, commission share arrangements and the deferral of commissions under bundled trading arrangements for analytics products.

Recurring revenues were comparable to the first half of 2017 as an increase in OMS license fees from the revenue acceleration required by the new accounting standard was largely offset by a decrease in connectivity.

Other revenues increased 4% from the first half of 2017 primarily due to the recording of dividend income on short settlements in the current period and an increase in fees earned for commission aggregation services, offset in part by a decrease in market data tape rebate revenue.

Compensation and employee benefits decreased 11% from the prior-year period primarily due to the impact of cost savings measures taken in 2017 and the first quarter of 2018 and employee termination costs incurred in the first half of 2017 of \$3.7 million.

Transaction processing costs decreased 23% compared to the first half of 2017, outpacing the 10% reduction in ADV as a result of the impact of the spin-out of our derivatives business to the Matrix venture in mid-February 2018 and reduced trade execution costs from lower liquidity taking. As a percentage of commissions and fees, transaction processing costs decreased to 22.9% in the current period from 26.0% during the prior-year period due to the factors mentioned above, offset in part by the impact of deferring commissions attributable to bundled arrangements for analytics products.

Other expenses decreased 8% compared to the prior-year period due primarily to decreases in occupancy and equipment expenses related to the reduction of office space in our New York headquarters in late December 2017 and the reduction in office space in Boston in late March 2017. We also had lower market data and travel and entertainment costs.

*Canadian Operations*

\$ in thousands	Six Months Ended June 30,		Change	% Change
	2018	2017*		
<b>Revenues:</b>				
Commissions and fees	\$ 31,215	\$ 27,836	\$ 3,379	12 %
Recurring	2,567	2,587	(20)	(1)%
Other	1,995	2,043	(48)	(2)%
Total revenues	35,777	32,466	3,311	10 %
<b>Expenses:</b>				
Compensation and employee benefits	10,496	9,769	727	7 %
Transaction processing	6,152	5,711	441	8 %
Other expenses	12,250	11,690	560	5 %
Total expenses	28,898	27,170	1,728	6 %
Income before income tax	\$ 6,879	\$ 5,296	\$ 1,583	30 %

\* Restated for comparability purposes, resulting in an increase in Canadian expenses of \$1.3 million for costs incurred in the U.S. on behalf of the global business that are now being allocated to the international segments.

Currency translation from a stronger Canadian Dollar increased total Canadian revenues and expenses by \$1.2 million and \$0.9 million, respectively, resulting in an increase of \$0.3 million to pre-tax income.

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Overall commissions and fees increased 12% compared to the first half of 2017, including a \$1.1 million favorable currency impact. The ADV in our Canadian broker grew by 13% compared to the prior-year period while market-wide volumes declined 4% due to growth from both buy-side and sell-side clients. We also achieved growth in ADV of 28% compared to the first half of 2017.

Recurring revenues were comparable to the prior-year period as an increase in billed revenue for analytics products was offset by a decrease in connectivity fees. Other revenues decreased by 2% due primarily to a decline in revenue earned on foreign exchange transactions.

Compensation and employee benefits costs increased 7% compared to the prior-year period due to the impact of unfavorable currency movements and higher incentive compensation.

Transaction processing costs increased 8% compared to the prior-year period as the impact of a 13% growth in executed daily volume was offset by a higher crossing rate in MATCHNow and a reduction in costs from self-clearing trades in U.S. stocks by Canadian clients. As a percentage of commissions and fees, transaction processing costs decreased to 19.7% compared to 20.5% in the prior-year period.

Other expenses increased 5% from 2017 due to increases in connectivity, hardware and software maintenance, consulting, travel and entertainment and legal expenses.

*European Operations*

<b>\$ in thousands</b>	<b>Six Months Ended June 30,</b>		<b>Change</b>	<b>% Change</b>
	<b>2018</b>	<b>2017*</b>		
<b>Revenues</b>				
Commissions and fees	\$ 78,886	\$ 67,640	\$ 11,246	17 %
Recurring	9,062	8,030	1,032	13 %
Other	(207)	(219)	12	5 %
<b>Total revenues</b>	<b>87,741</b>	<b>75,451</b>	<b>12,290</b>	<b>16 %</b>
<b>Expenses:</b>				
Compensation and employee benefits	22,321	19,900	2,421	12 %
Transaction processing	21,894	17,967	3,927	22 %
Other expenses	21,177	18,076	3,101	17 %
<b>Total expenses</b>	<b>65,392</b>	<b>55,943</b>	<b>9,449</b>	<b>17 %</b>
<b>Income before income tax</b>	<b>\$ 22,349</b>	<b>\$ 19,508</b>	<b>\$ 2,841</b>	<b>15 %</b>

\* Restated for comparability purposes, resulting in an increase in European expenses of \$2.5 million for costs incurred in the U.S. on behalf of the global business that are now being allocated to the international segments.

Overall currency rate changes in the European region increased revenues and expenses by \$6.6 million and \$4.4 million, respectively, resulting in an increase of \$2.2 million to pre-tax income. This increase in pre-tax income was largely attributable to the strengthening of the Euro as revenues and expenses originated in British pounds largely offset.

Commissions and fees increased 17% compared to the first half of 2017, which included \$6.2 million in growth from favorable currency movements. The remaining growth was attributable to record trading in our POSIT Alert block crossing system, growth in algorithmic trading and an increase in commission sharing revenues for trades executed with third-party brokers via Triton and the Algo Wheel. These increases were partially offset by reduced levels of non-block trading in POSIT from the implementation in March of the dark pool volume caps required under the MiFID II regulations.

Recurring revenues increased 13% from the prior-year period due to higher billed analytics revenues from delivery timing, new revenues for RPA administration fees as a result of MiFID II regulations for unbundling that went into effect in January 2018 and higher connectivity fees. Other revenues were comparable to the prior-year period, primarily reflecting the impact of client trade accommodations.

Compensation and employee benefits increased 12% from the prior-year period due to increased salaries and incentive compensation, as well as the unfavorable impact of currency movements.

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Transaction processing costs increased 22% from the first half of 2017, which included a \$1.7 million increase from unfavorable currency movements. The remaining increase was attributable to an increase in rebates paid to introducing firms, higher costs to execute ETF trades, increased settlement financing and the impact of a lower crossing rate in POSIT. As a percentage of commissions and fees, transaction processing costs increased to 27.8% compared to 26.6% in the prior-year period.

Other expenses increased 17% from the prior-year period due to higher costs for facilities, hardware and software maintenance and market data costs. In addition, other expenses increased by \$1.1 million from the unfavorable impact of currency movements.

*Asia Pacific Operations*

<b>\$ in thousands</b>	<b>Six Months Ended</b>		<b>Change</b>	<b>% Change</b>
	<b>June 30,</b>			
	<b>2018</b>	<b>2017*</b>		
<b>Revenues:</b>				
Commissions and fees	\$ 35,253	\$ 24,318	\$ 10,935	45 %
Recurring	3,936	3,463	473	14 %
Other	(152)	(118)	(34)	(29)%
<b>Total revenues</b>	<b>39,037</b>	<b>27,663</b>	<b>11,374</b>	<b>41 %</b>
<b>Expenses:</b>				
Compensation and employee benefits	10,640	10,328	312	3 %
Transaction processing	8,794	5,665	3,129	55 %
Other expenses	10,923	9,757	1,166	12 %
<b>Total expenses</b>	<b>30,357</b>	<b>25,750</b>	<b>4,607</b>	<b>18 %</b>
<b>Income before income tax</b>	<b>\$ 8,680</b>	<b>\$ 1,913</b>	<b>\$ 6,767</b>	<b>nm</b>

\* Restated for comparability purposes, resulting in an increase in Asia Pacific expenses of \$1.5 million for costs incurred in the U.S. on behalf of the global business that are now being allocated to the international segments.  
nm – not meaningful

Currency translation increased total Asia Pacific revenues and expenses by \$0.6 million and \$0.2 million, respectively, resulting in an increase of \$0.4 million to pre-tax income.

Commissions and fees increased 45% over the prior-year period due to record trading in our POSIT Alert block crossing system and strong growth in algorithmic trading and portfolio trading. We also benefitted from higher commission sharing revenues from trades executed via our Triton EMS and the Algo Wheel and for trading technology licensed to regional broker-dealers. Our average daily value traded in the region increased by 60%, outperforming the 34% increase in average daily value traded market-wide.

Recurring revenues increased 14% over the first half of 2017 due primarily to an increase in connectivity revenue, while other revenues decreased due to a larger impact from client trade accommodations.

Compensation and employee benefits increased 3% over the prior-year period primarily due to employee termination costs and higher incentive compensation, offset in part by an increase in capitalized compensation for software development.

Transaction processing costs increased 55% over the first half of 2017, which was slightly less than the 60% growth in daily value executed. As a percentage of commissions and fees, transaction processing costs increased to 24.9% from 23.2% in the prior-year period.

Other expenses increased 12% over the prior-year period due to costs for expanded office space in Hong Kong, higher hardware and software costs and an increase in market data fees.

## *Corporate*

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

In the first half of 2018, we incurred a pre-tax loss from Corporate activities of \$29.9 million, reflecting \$0.9 million of investment income and \$30.8 million of costs, compared to a pre-tax loss of \$11.5 million in the prior-year period, reflecting \$0.7 million of investment income and \$12.2 million of costs. Corporate costs in the first half of 2018 included a charge of \$12.0 million to establish an accrual for a potential settlement of the U.S. POSIT matter along with related legal fees of \$0.2 million and a restructuring charge of \$7.2 million to eliminate certain positions in the U.S. On an adjusted basis excluding these charges, corporate costs were \$11.4 million, a decrease from the prior-year period due to lower legal fees, offset in part by higher general taxes, corporate insurance premiums and tax consulting fees. Corporate costs, including legal fees, can vary from period-to-period as we work through litigation, regulatory and other corporate matters.

### *Consolidated income tax expense*

Our effective tax rate was 76% on our pre-tax income in the first half of 2018 compared to a benefit rate of 11.8% on our pre-tax income in the first half of 2017. Our effective tax rate in the first half of 2018 primarily reflects the impact of the non-deductible \$12.0 million charge taken to establish a settlement accrual for the U.S. POSIT matter, offset in part by a \$1.9 million benefit to reverse tax reserves following the resolution of uncertain tax positions in the U.S. for fiscal years 2011 and 2012 and significantly higher profits generated in Asia Pacific, where we are not incurring tax expense due to fully reserved loss carryforwards. The benefit rate in the first half of 2017 included the impact of a tax benefit recorded on losses in the U.S. In the third quarter of 2017, we recorded a full valuation allowance against our U.S. deferred tax assets and discontinued recording any tax benefits on U.S. losses.

## **Liquidity and Capital Resources**

### *Liquidity*

Our primary source of liquidity is cash provided by operations. Our liquidity requirements result from our working capital needs, which include clearing and settlement activities, as well as our regulatory capital needs. A substantial portion of our assets is liquid, consisting of cash and cash equivalents or assets readily convertible into cash. Cash is principally invested in money market mutual funds. At June 30, 2018, unrestricted cash and cash equivalents totaled \$236.4 million. Included in this amount is \$90.8 million of cash and cash equivalents held by subsidiaries outside the United States. Due to the internal capital structure of our foreign subsidiaries and the inclusion of foreign earnings and profits in U.S. taxable income pursuant to the Tax Cuts and Jobs Act, we do not anticipate a need to repatriate funds from certain foreign subsidiaries to the U.S. by way of taxable dividends in the foreseeable future.

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 June 30, 2018, we had interest-bearing security deposits totaling \$39.1 million with clearing organizations in the U.S. for the settlement of equity trades. In the normal course of our U.S. settlement activities, we may also need to temporarily finance customer securities positions from non-standard settlements or delivery failures. These financings may be funded from existing cash resources, borrowings under stock loan transactions or short-term bank loans under our committed facility. On January 26, 2018, we entered into a new \$150 million 364-day revolving credit agreement (the "Credit Agreement") in the U.S. with a syndicate of banks and JPMorgan Chase Bank, N.A., as Administrative Agent (see Note 12, *Borrowings*, to the condensed consolidated financial statements).

We also self-clear equity trades in Australia, maintaining a deposit with clearing organizations of \$3.4 million at June 30, 2018. In Europe, we maintained \$5.1 million in restricted cash related to protected client funds and we had deposits with our clearing and settlement agents of \$37.9 million at June 30, 2018. As part of our European settlement



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activities, we may need to temporarily finance customer securities positions from non-standard settlements or delivery failures. These financings may be funded from existing cash resources or short-term bank loans under uncommitted overdraft facilities with our clearing agent and a commercial bank.

**Capital Resources**

Capital resource requirements relate to capital purchases, as well as business investments, and are generally funded from operations.

**Operating Activities**

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

(in thousands)	Six Months Ended June 30,	
	2018	2017
Net income	\$ 1,342	\$ 9,945
Non-cash items included in net income	37,295	26,003
Effect of changes in receivables/payables from/to customers and brokers	(11,707)	(19,466)
Effect of changes in other working capital and operating assets and liabilities	(7,472)	(36,938)
Net cash provided by (used in) operating activities	\$ 19,458	\$ (20,456)

Our operating activities resulted in net cash provided during the six months ended June 30, 2018, compared to a net use of cash in the prior-year period. This was due to an increase to the adjustment for non-cash items included in net income as the prior-year period included a significant negative adjustment for deferred taxes in the U.S. We also had a decrease in cash temporarily tied up in settlement receivables that was offset by reduced short-term bank borrowings in our financing activities. In addition, we had a lower reduction of cash from other working capital items due in part to the impact of the settlement accrual for the U.S. POSIT matter and an increase in accrued research payables under client commission arrangements.

In the normal course of our clearing and settlement activities worldwide, cash is typically used to fund restricted or segregated cash accounts (under regulations and otherwise), 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 value transacted and customer trading patterns.

**Investing Activities**

Net cash used in investing activities of \$21.5 million during the six months ended June 30, 2018 primarily includes investments in software development and asset purchases of computer hardware, software and office equipment, as well as \$0.6 million of cash included in our investment in the Matrix derivatives venture.

**Financing Activities**

Net cash used in financing activities of \$46.1 million primarily reflects repayment of short-term bank borrowings that are used to support our settlement activities, shares withheld for net settlements of share-based awards and capital returns through repurchases of our stock and our dividend program.

During the first six months of 2018, we repurchased approximately 0.7 million shares of our common stock at a cost of \$14.1 million, which was funded from our available cash resources. Nearly 0.3 million of these shares were purchased under our Board of Directors' authorization for a total cost of \$5.7 million (average cost of \$20.27 per share) and 0.4 million of these shares were repurchased for \$8.4 million pertaining solely to the satisfaction of minimum statutory withholding tax upon the net settlement of equity awards. In February 2018, the Board of Directors increased our share repurchase authorization by an additional 4.0 million shares. As of June 30, 2018, the total remaining number of shares currently available for repurchase under ITG's stock repurchase program was 4.3 million. The specific timing and amount of repurchases will vary depending on various factors, including, among others, market conditions and competing needs for the use of our capital. We may elect to conduct future share repurchases through open market

purchases, private transactions or automatic share repurchase programs under SEC Rule 10b5-1. We have suspended share repurchases under our program pending the final resolution of the U.S. POSIT matter with the SEC.

### **Regulatory Capital**

ITG Inc. and AlterNet 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 has elected to use the basic method permitted by Rule 15c3-1, which requires the maintenance of minimum net capital equal to the greater of 6<sup>2</sup>/<sub>3</sub>% of aggregate indebtedness or \$100,000. 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 June 30, 2018 for the U.S. Operations are as follows (dollars in thousands):

<b>U.S. Operations</b>	<b>Net Capital</b>	<b>Excess</b>
ITG Inc.	\$ 81,659	\$ 80,659
AlterNet	5,447	5,347

As of June 30, 2018, ITG Inc. had \$9.2 million of cash in a special reserve bank account for the benefit of customers under the Customer Protection Rule pursuant to SEC Rule 15c3-3 of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and \$3.5 million under proprietary accounts of broker dealers.

In addition, our Canadian, European and Asia Pacific Operations have subsidiaries with regulatory capital requirements. The regulatory net capital balances and amount of regulatory capital in excess of the minimum requirements applicable to each business at June 30, 2018, is summarized in the following table (dollars in thousands):

	<b>Net Capital</b>	<b>Excess</b>
<b><u>Canadian Operations</u></b>		
Canada	\$ 23,118	\$ 22,738
<b><u>European Operations</u></b>		
Ireland	43,807	13,648
U.K.	1,513	526
<b><u>Asia Pacific Operations</u></b>		
Australia	29,273	15,746
Hong Kong	3,137	2,747
Singapore	1,122	1,049

### **Liquidity and Capital Resource Outlook**

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

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

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

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

As of June 30, 2018, 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 compensation under employment agreements.

There has been no significant change to such arrangements and obligations since December 31, 2017.

### ***New Accounting Pronouncements***

In June 2018, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2018-07, *Compensation—Stock Compensation (Topic 718): Improvements to Nonemployee Share-Based Payment Accounting*. The amendments in this ASU expand the scope of ASC 718 to include share-based payment awards to nonemployees, which were previously covered under Subtopic 505-50: *Equity – Equity-Based Payments to Non-Employees*. ASU 2018-07 is effective for annual reporting periods beginning after December 15, 2018, including interim periods within that fiscal year. Early adoption is permitted, but no earlier than an entity’s adoption date of Topic 606. The new guidance is not expected to have any effect on our financial statements.

In January 2017, the FASB issued ASU 2017-04, *Intangibles – Goodwill and other (Topic 350): Simplifying the test for goodwill impairment*. The amendments in this ASU address concerns over the cost and complexity of the two-step goodwill impairment test and removes the second step of the test. An entity will apply a one-step quantitative test and record the amount of goodwill impairment as the excess of a reporting unit's carrying amount over its fair value, not to exceed the total amount of goodwill allocated to the reporting unit. The new guidance does not amend the optional qualitative assessment of goodwill impairment. ASU 2017-04 is effective for annual or any interim goodwill impairment tests in fiscal years beginning after December 15, 2019. We are currently evaluating the new guidance and have not yet determined the impact of adoption on our financial statements.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*, which requires lessees to recognize leases on the balance sheet and disclose key information about leasing arrangements. The new standard requires a lessee to recognize an asset and lease liability on the balance sheet for all leases with a term longer than 12 months. Leases will be classified as finance or operating, with classification affecting the pattern of expense recognition in the income statement. Classification will be based on criteria that are largely similar to those applied in current lease accounting, but more significant management judgment will be required. The new standard is effective for us on January 1, 2019, with early adoption permitted.

In July 2018, the FASB issued ASU 2018-11, *Leases (Topic 842) – Targeted Improvements*, which provides entities with an alternative transition method of adoption in addition to the previously required modified retrospective transition approach. Under the new transition method, comparative periods presented in the financial statements in the period of adoption will not need to be restated, whereas under the modified retrospective transition approach, leases are to be recognized and measured at the beginning of the earliest period presented in the financial statements. This additional transition method changes only when an entity is required to initially apply the transition requirements of the new leases standard; it does not change how those requirements apply. We have not yet selected a transition method of adoption.

We have completed the assessment phase of our evaluation of this guidance, where we identified and assessed the complete population of our lease arrangements, which includes real estate leases, equipment leases and equipment lease arrangements embedded within our service contracts. Real estate leases pertaining to office space and data centers make up the majority of our lease arrangements. We are currently in the design and implementation phase of our assessment, which includes collecting and reviewing the data inputs required to calculate the financial statement impact of the new guidance, evaluating the transition expedients and other accounting policy elections required to develop a formal accounting policy and developing preliminary updates to processes and internal controls as a result of adopting this new guidance.

***Critical Accounting Estimates***

There has been no significant change to our critical accounting estimates, which are more fully described in Item 7, *Management's Discussion and Analysis of Financial Condition and Results of Operations*, in our Annual Report on Form 10-K for the year ended December 31, 2017.

**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, 2017. There has been no material change in this information.

**Item 4. Controls and Procedures**

- a) *Conclusion Regarding the Effectiveness of Disclosure Controls and Procedures.* Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we conducted an evaluation of the effectiveness of our disclosure controls and procedures, as such term is defined under Rule 13a-15(e) promulgated under the Exchange Act. Based on this evaluation, our principal executive officer and our principal financial officer concluded that our disclosure controls and procedures were effective as of the end of the period covered by this quarterly report.
- b) *Changes in Internal Control over Financial Reporting.* There were no changes in our internal control over financial reporting during the quarter ended June 30, 2018 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## **PART II. — OTHER INFORMATION**

### **Item 1. Legal Proceedings**

Information pertaining to legal proceedings can be found in “Item 1. Financial Statements—Note 19. *Contingencies—Legal Matters*” and is incorporated herein by reference.

#### **Item 1A. Risk Factors**

Risk factors describing the major risks to our business can be found under Item 1A in our Annual Report on Form 10-K for the year ended December 31, 2017. Except for the addition of the risk factor below, there have been no material changes to the risk factors included in our Form 10-K.

#### **The SEC investigation regarding the operational features of U.S. POSIT and access to U.S. POSIT data, and any settlement and/or litigation resulting from such investigation, could negatively impact our business, reputation and financial condition.**

As discussed in Note 19, *Contingencies—Legal Matters*, to the condensed consolidated financial statements, we are presently engaged in discussions with the SEC staff regarding a possible resolution of an investigation relating to the operational features of U.S. POSIT and access to U.S. POSIT data, together with certain related disclosures. The Company has taken meaningful remedial actions during the course of the SEC’s investigation, including imposing additional limitations on access to U.S. POSIT data as well as enhancing POSIT’s Form ATS and other disclosures.

While the Company is engaged in discussions with the SEC staff to resolve the investigation, there can be no assurance that these discussions will be successful. Based on recent discussions, we incurred a charge of \$12.0 million during the second quarter 2018 to establish an accrual for a potential settlement of this matter. The SEC staff has indicated that they will recommend this penalty amount to the Commission. The Company also incurred approximately \$0.2 million in legal fees associated with this matter during the second quarter of 2018. Resolution of the matter is subject to agreement with the SEC staff on the terms of a settlement, followed by review and approval by the Commission. We cannot predict the timing of any settlement or what the ultimate resolution of the SEC investigation will be. It is possible that a materially higher amount than the amount accrued could be required to achieve a resolution of the matter. If we are not successful in settling the matter on acceptable terms or if the necessary settlement approvals do not occur, we may either enter into further discussions with the SEC staff to resolve such matter on different terms or conditions or we may enter into litigation with the SEC. We cannot predict the timing or outcome of any further discussions or subsequent litigation with the SEC.

Even if the investigation is resolved on acceptable terms, there are still potential risks we may face. Among other possible adverse impacts, customer reaction to the charges or the settlement could result in reputational and financial harm. In addition, we could be subject to further proceedings or sanctions based on the matters at issue in the SEC investigation, including other governmental investigations or private litigation.

The above-described contingencies and risks could materially and adversely affect our business, consolidated financial position, cash flows, or results of operations.

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

The following table sets forth our stock repurchase activity during the first six months of 2018, 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) (a)	Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs (b)	Maximum Number of Shares (or Units) that May Yet Be Purchased Under the Plans or Programs (b)
From: January 1, 2018				
To: January 31, 2018	163,434	\$ 21.36	13,425	548,130
From: February 1, 2018				
To: February 28, 2018	401,355	19.81	144,006	4,404,124
From: March 1, 2018				
To: March 31, 2018	22,902	19.69	22,902	4,381,222
From: April 1, 2018				
To: April 30, 2018	25,544	19.79	24,424	4,356,798
From: May 1, 2018				
To: May 31, 2018	2,955	20.44	2,500	4,354,298
From: June 1, 2018				
To: June 30, 2018	<u>76,221</u>	<u>21.56</u>	<u>75,723</u>	4,278,575
Total	<u>692,411</u>	<u>\$ 20.37</u>	<u>282,980</u>	

- (a) This column includes the acquisition of 409,431 common shares from employees in order to satisfy statutory withholding tax requirements upon net settlement of equity awards.
- (b) In February 2018, our Board of Directors authorized the repurchase of an additional 4.0 million shares. This authorization has no expiration date. As of June 30, 2018, there were 4.3 million shares remaining available for repurchase under ITG’s stock repurchase program. The specific timing and amount of repurchases will vary depending on various factors including, among others, market conditions and competing needs for the use of our capital.

During the first six months of 2018, we repurchased approximately 0.7 million shares of our common stock at a cost of \$14.1 million, which was funded from our available cash. Of these shares, nearly 0.3 million were purchased under our Board of Directors’ authorization for a total cost of \$5.7 million (average cost of \$20.27 per share). In addition, nearly 0.4 million shares repurchased for \$8.4 million pertained solely to the satisfaction of statutory withholding tax upon the net settlement of equity awards. As of June 30, 2018, the total remaining number of shares currently available for repurchase under ITG’s stock repurchase program was 4.3 million.

During the second quarter of 2018, the Board of Directors declared, and we paid, a quarterly dividend of \$0.07 per share, totaling \$2.3 million, including less than \$0.1 million in stock under the Company’s equity award plans.

**Item 3. Defaults Upon Senior Securities**

Not applicable.

**Item 4. Mine Safety Disclosures**

Not applicable.

**Item 5. Other Information**

On July 27, 2018, a former employee filed a Statement of Claim requesting a FINRA arbitration, which was followed by his filing of a parallel action in the Commercial Division of New York State Supreme Court on July 30, 2018. In each case, the former employee alleges that the Company breached the non-disparagement clause in his July 2011 separation agreement and tortiously interfered with his business relations. The Company intends to defend itself against these claims vigorously.

**Item 6. Exhibits**

10.1\*(†) [Investment Technology Group, Inc. Amended and Restated Employee Stock Purchase Plan.](#)

31.1\* [Rule 13a-14\(a\) Certification](#)

31.2\* [Rule 13a-14\(a\) Certification](#)

32.1\*\* [Section 1350 Certification](#)

101\* Interactive Data File

The following furnished materials from Investment Technology Group, Inc.'s Quarterly Report on Form 10-Q for the quarter ended June 30, 2018, formatted in XBRL (Extensible Business Reporting Language), are collectively included herewith as Exhibit 101:

- 101. INS XBRL Instance Document.
- 101. SCH XBRL Taxonomy Extension Schema.
- 101. CAL XBRL Taxonomy Extension Calculation Linkbase.
- 101. DEF XBRL Taxonomy Extension Definition Linkbase.
- 101. LAB XBRL Taxonomy Extension Label Linkbase.
- 101. PRE XBRL Taxonomy Extension Presentation Linkbase.

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\* Filed herewith.

\*\* Furnished herewith.

(†) Management contracts or compensatory plans or arrangements.

**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: August 8, 2018

By:

\_\_\_\_\_  
/s/ STEVEN R. VIGLIOTTI

Steven R. Vigliotti

*Chief Financial Officer and Chief Administrative  
Officer and Duly Authorized Signatory of Registrant*



INVESTMENT TECHNOLOGY GROUP, INC.

AMENDED AND RESTATED EMPLOYEE STOCK PURCHASE PLAN

Amended and Restated Effective June 7, 2018

1. Purpose. The purpose of this Amended and Restated Employee Stock Purchase Plan (the “Plan”) of Investment Technology Group, Inc. (the “Company”) is to encourage stock ownership by Employees (as defined below) of the Company and its Subsidiaries (as defined below) and thereby provide Employees with an incentive to contribute to the profitability and success of the Company, and to provide a benefit that will assist the Company in competing to attract and retain Employees of high quality. The Plan, which is intended to qualify as an “employee stock purchase plan” meeting the requirements of Section 423 of the Code for one or more Offerings, is for the exclusive benefit of eligible Employees of the Company and its Subsidiaries.

2. Definitions. For purposes of the Plan, in addition to the terms defined in Section 1, terms are defined as set forth below:

(a) “Account” means the account maintained on behalf of the Participant by the Custodian for the purpose of investing in Stock and engaging in other transactions permitted under the Plan.

(b) “Administrator” means a committee of two (2) or more Board members appointed by the Board to administer the Plan. Unless otherwise designated by the Board, the Administrator shall be the Compensation Committee of the Board as constituted by the Board from time to time.

(c) “Board” means the Board of Directors of the Company.

(d) “Code” means the Internal Revenue Code of 1986, as amended from time to time. References to any provision of the Code will be deemed to include successor provisions thereto and regulations thereunder.

(e) “Custodian” means Computershare, or such successor thereto as may be appointed by the Administrator.

(f) “Earnings” means that portion of a Participant’s compensation which constitutes gross salary under the payroll system of the Company and its Subsidiaries and payable to a Participant during a given pay period.

(g) “Employee” means a person classified as an employee of the Company or a Subsidiary (including an officer or director who is also an employee) for payroll purposes, as determined in the sole discretion of the Company. Notwithstanding the foregoing, if a person is engaged in a non-employee status (including, but not limited to, as an independent contractor, an individual being paid through an employee leasing company or other third party agency) and is subsequently reclassified by the Company, the Internal Revenue Service, or a court as an employee for payroll purposes, such person, for purposes of this Plan, shall be deemed an

Employee from the actual (and not the effective) date of such reclassification, unless expressly provided otherwise by the Company.

(h) "Enrollment Date" means the first day of each Offering Period.

(i) "Fair Market Value," unless otherwise required by an applicable provision of the Code, as of any date, means the closing sales price of the Stock as reported on the New York Stock Exchange on that date.

(j) "Offering" means an offering of Stock pursuant to Purchase Rights under the Plan.

(k) "Offering Period" means the period designated by the Administrator with respect to which Participants will be granted Purchase Rights, provided that in no event may an Offering Period exceed twenty-seven (27) months. Until such time as the Administrator specifies otherwise, Offering Period will mean the approximately six-month period beginning on the first trading day in November and ending on the last trading day of April or beginning on the first trading day in May and ending on the last trading day of October.

(l) "Participant" means an Employee of the Company or a Subsidiary who satisfies the eligibility criteria set forth in Section 5 and is participating in the Plan.

(m) "Purchase Date" means the last day of each Offering Period.

(n) "Purchase Right" means a Participant's option to purchase shares, which is deemed to be outstanding and exercisable during an Offering Period in accordance with the Plan. A Purchase Right represents an "option" as such term is used under Section 423 of the Code.

(o) "Stock" means the common stock, par value \$0.01 per share, of the Company, and such other securities as may be substituted or resubstituted for Stock under Section 4.

(p) "Subsidiary" or "Subsidiaries" means any corporation (other than the Company) in an unbroken chain of corporations beginning with the Company if each of the corporations (other than the last corporation in the unbroken chain) owns stock possessing more than 50% of the total combined voting power of all classes of stock in one of the other corporations in the chain, including a corporation that becomes a Subsidiary during the term of the Plan.

### 3. Administration.

(a) Administrator. The Plan will be administered by the Administrator. The Administrator will have full authority to adopt, amend, suspend, waive, and rescind such rules and regulations and appoint such agents as it may deem necessary or advisable to administer the Plan, to correct any defect or supply any omission or reconcile any inconsistency in the Plan and to construe and interpret the Plan and rules and regulations thereunder, and to make all other decisions and determinations under the Plan (including determinations relating to eligibility).

The Administrator shall have the authority to delegate routine day-to-day administration of the Plan to such officers and employees of the Company as the Administrator deems appropriate.

(b) Offerings. The Administrator may authorize one or more Offerings under the Plan that are not designed to comply with the requirements of Code Section 423 but with the requirements of the foreign jurisdictions in which those Offerings are conducted. Such Offerings shall be separate from any Offerings designed to comply with the Code Section 423 requirements but may be conducted concurrently with those Offerings. To the extent required by Code Section 423, the Participants in each separate Offering shall have equal rights and privileges under that Offering in accordance with the requirements of Section 423(b)(5) of the Code and the applicable Treasury Regulations thereunder.

(c) The Custodian. The Custodian will act as custodian under the Plan, and will perform such duties as are set forth in the Plan and in any agreement between the Company and the Custodian. The Custodian will establish and maintain, as agent for each Participant, an Account and any subaccounts as may be necessary or desirable for the administration of the Plan.

4. Stock Subject to Plan. Subject to adjustment as hereinafter provided, the maximum aggregate number of shares of Stock reserved and available for issuance upon exercise of Purchase Rights or otherwise under the Plan for Offering Periods beginning on and after November 1, 2017 shall be 534,816, including (i) 184,816 shares of Stock available for issuance under the Plan as of such date and (ii) an additional 350,000 shares of Stock, subject to the requisite approval of the Company's stockholders at the Company's 2018 Annual Meeting of Stockholders. Any shares of Stock delivered by the Company under the Plan may consist, in whole or in part, of authorized and unissued shares or treasury shares. Shares acquired in the open market through dividend reinvestment will not count against this limit. The number and kind of such shares of Stock subject to the Plan will be proportionately adjusted, as determined by the Board, in the event of any extraordinary dividend or other distribution, recapitalization, forward or reverse split, reorganization, merger, consolidation, spin-off, combination, repurchase, or share exchange, or other similar corporate transaction or event affecting the Stock.

5. Enrollment and Contributions.

(a) Eligibility. An Employee of the Company or a Subsidiary may enroll in the Plan for any Offering Period if such Employee is employed at the Enrollment Date, unless:

(i) At the time of enrollment, the Employee's customary employment is 20 hours or less per week or the Employee's customary employment is for not more than five months in any calendar year, or the Employee cannot legally enter into the obligations of a Participant;

(ii) Such person would upon enrollment be deemed to own, for purposes of Section 423(b)(3) of the Code, an aggregate of five percent or more of the total combined voting power or value of all outstanding shares of all classes of the Company or of any parent or Subsidiary (including in such person's ownership the maximum number of shares that he or she could acquire under Section 6(c)); or

(iii) with respect to a Subsidiary, the Administrator determines prior to the start date of an Offering Period, that Employees of that Subsidiary shall not participate in the Plan.

The Administrator may allow Employees who would otherwise be excluded under Section 5(a)(i) to participate in one or more separate Offerings under the Plan to the extent required under local law.

The Company will notify an Employee of the date as of which he or she is eligible to initially enroll in the Plan, and the prescribed enrollment procedures.

(b) Initial Enrollment. An Employee who is or who will become eligible on or before a given Enrollment Date under Section 5(a) may, after receiving current information about the Plan, initially enroll in the Plan by completing and submitting a properly completed enrollment form, including thereon the Employee's election as to the rate of payroll or other authorized form of contributions for the Offering Period in accordance with enrollment procedures prescribed by the Administrator (which may include accessing the Custodian's website and enrolling electronically) on or before the start date of the Offering Period.

(c) Reenrollment for Subsequent Offering Periods. A Participant whose enrollment in and payroll or other authorized form of contributions under the Plan continue throughout an Offering Period will automatically be reenrolled in the Plan for the next Offering Period unless (i) the Participant terminates enrollment before the Enrollment Date for the next Offering Period, (ii) on such Enrollment Date he or she is ineligible to participate under Section 5 or (iii) such other form of contributions are not permitted for such subsequent Offering Period. The rate of payroll or other authorized form of contributions for a Participant who is automatically reenrolled for an Offering Period will be the same as the rate of payroll or other authorized form of contributions in effect at the end of the preceding Offering Period, unless the Participant submits a new enrollment form on or prior to the Enrollment Date for the Offering Period designating a different rate of payroll or other authorized form of contributions.

(d) Payroll or Other Contributions. An enrolled Participant will make contributions under the Plan by means of payroll deductions from each payroll period which ends during the Offering Period or one or more other forms of contributions specified by the Administrator for a particular Offering during that Offering Period, at the rate elected by the Participant in his or her enrollment form submitted for the Offering Period. The rate of payroll or other authorized form of contributions elected by a Participant may not be more than ten percent of the Participant's Earnings for each payroll period; provided, however, that the Administrator may specify a higher or lower maximum rate, subject to Section 8(c) hereof. The Participant may specify, on the enrollment form, whether payroll or other authorized form of contributions shall be a percentage of Earnings or a fixed monetary amount. The foregoing and any election of a Participant notwithstanding, a Participant's rate of payroll or other authorized form of contributions will be adjusted downward by the Company at any time or from time to time as necessary to ensure that the limit on the amount of Stock purchased with respect to an Offering Period set forth in Section 6(c) is not exceeded. A Participant may elect to increase, decrease, or discontinue payroll or other authorized forms of contributions for future Offering Periods by submitting a new enrollment form on or prior to the Enrollment Date for the Offering

Period; any election to increase or decrease payroll deductions shall be effective as soon as practicable following the start date of that Offering Period. A Participant may not elect to increase or decrease payroll or other forms of permitted contributions during an Offering Period, except that a Participant's payroll or other forms of permitted contributions will be automatically discontinued upon the submission of an election to withdraw payroll or other forms of permitted contributions prior to a Purchase Date, as specified in Section 5(g).

(e) Contributing in Other Currency. Payroll deductions or other authorized forms of contribution collected in a currency other than U.S. Dollars shall be converted into U.S. Dollars on the last day of the Offering Period in which collected, with such conversion to be based on an exchange rate determined by the Administrator in its sole discretion.

(f) Holding of Payroll and Other Contributions. All payroll and other contributions by a Participant under the Plan will be received and held by the Company (and/or a Subsidiary) until the end of the Offering Period, and will represent unfunded obligations of the Company (or such Subsidiary) unless otherwise required by local law. Except to the extent required by local law, such amounts are not required to be segregated and may be used by the Company (or the Subsidiary) for any corporate purpose.

(g) Withdrawal of Payroll and Other Contributions; Refund of Payroll and Other Contributions Upon Termination of Employment. A Participant may elect to withdraw all (but not less than all) of his or her payroll and other contributions for a given Offering Period by submitting a notice of withdrawal (in accordance with the procedures prescribed by the Administrator (which may include accessing the Custodian's website and withdrawing electronically)) not later than the close of business the business day prior to the Purchase Date for such Offering Period. In addition, if the Participant ceases to be employed by the Company and its Subsidiaries prior to the Purchase Date, his or her payroll and other contributions for that Offering Period shall be refunded. In either case, the Company shall promptly pay to the Participant (or his or her estate, in the event of death) the amount of such payroll and other contributions. No further payroll or other contributions shall be made by the Participant in that Offering Period.

(h) Refund of Unused Payroll and Other Contributions. If any of a Participant's payroll or other permitted contributions are not applied to the purchase of shares on the Purchase Date (for example, if the number of shares purchased is limited under Section 6(c)), the portion of such payroll and other contributions not applied to the purchase of shares shall be promptly refunded to the Participant.

(i) No Interest Payable on Contributions. No amounts of interest will be credited or payable by the Company (or a Subsidiary) on payroll or other contributions pending investment in Stock, or upon withdrawal, refund upon termination, or refund of any unused portion, or in any other circumstance under the Plan.

6. Purchases of Stock.

(a) Purchase Rights. Enrollment in the Plan for any Offering Period by a Participant will constitute a grant by the Company, on the start date of such Offering Period, of a

Purchase Right to such Participant for such Offering Period. Each Purchase Right will be subject to the terms set forth in this Section 6.

(b) Purchase Price. The purchase price at which each share of Stock will be purchased under a Purchase Right will equal 85% of the lesser of (i) Fair Market Value of a share of Stock on the first trading day in the Offering Period and (ii) Fair Market Value of a share of Stock on the last trading day in the Offering Period.

(c) Number of Shares Purchased. The number of shares of Stock that will be purchased upon exercise of a Participant's Purchase Right for an Offering Period will equal the number of shares (including fractional shares) that can be purchased at the purchase price specified in Section 6(b) with the aggregate amount of the Participant's payroll and other permitted contributions during the Offering Period; provided, however, that the number of shares of Stock subject to a Participant's Purchase Right and purchasable in any Offering Period will not exceed the number derived by dividing \$12,500 by 100% of the Fair Market Value of one share of Stock determined as of the first day in the Offering Period. The number of shares of Stock subject to a Purchase Right shall also be subject to the limitations set forth in 6(e).

(d) Automatic Exercise and Purchase. The Purchase Right will be automatically exercised on the Purchase Date for the Offering Period. At or as promptly as practicable after the Purchase Date for an Offering Period, the aggregate amount of the Participant's payroll and other permitted contributions for the Offering Period will be applied by the Company to the purchase of shares of Stock, in accordance with the terms of the Plan. Thereupon, the Company will deliver the shares of Stock purchased to the Custodian for deposit into the Participant's Account. Payment for Stock purchased upon exercise of a Purchase Right will be made only through payroll or other authorized form of contributions in accordance with Section 5; no optional payments will be permitted.

(e) Accrual Limitations.

(i) No Participant shall be entitled to accrue rights to acquire Stock pursuant to any Purchase Right outstanding under the Plan if and to the extent such accrual, when aggregated with (A) rights to purchase Stock accrued under any other purchase right granted under the Plan and (B) similar rights accrued under other employee stock purchase plans (within the meaning of Section 423 of the Code) of the Company or any parent or Subsidiary, would otherwise permit such Participant to purchase more than \$25,000 worth of stock of the Company or any parent or Subsidiary (determined on the basis of the Fair Market Value of such stock on the date or dates such rights are granted) for each calendar year such rights are at any time outstanding.

(ii) For purposes of applying such accrual limitations, the following provisions shall be in effect:

(1) The right to acquire Stock under each outstanding Purchase Right shall accrue on the Purchase Date in effect for the Offering Period for which such right is granted.

(2) No right to acquire Stock under any outstanding Purchase Right shall accrue to the extent the Participant has already accrued in the same calendar year the right to acquire Stock under one (1) or more other purchase rights at a rate equal to \$25,000 worth of Stock (determined on the basis of the Fair Market Value of such stock on the date or dates of grant) for each calendar year such rights were at any time outstanding.

(f) If by reason of such accrual limitations, any Purchase Right of a Participant does not accrue for a particular Offering Period, then the payroll deductions and other contributions which the Participant made during that Offering Period with respect to such Purchase Right shall be refunded.

7. Restrictions on Sale; Restrictions on Transfer from Account; Withdrawal or Transfer of Shares, and Account Distribution Upon Termination.

(a) Restrictions on Sale. Notwithstanding anything to the contrary in the Plan or any policy of the Company, shares of Stock acquired under the Plan may not be sold or otherwise be disposed of for a period of six (6) months following the Purchase Date on which those shares were purchased. Shares of Stock acquired under the Plan must be held in the Participant's Account during such restriction period and may be subject to further transfer restrictions as set forth in Section 7(b). The foregoing restriction shall not apply in the event of Participant's death to the transfer of shares to the Participant's estate or to the subsequent sale of the shares by the estate.

(b) Transfer Restrictions. The Administrator may provide that, following the lapse of the restrictions under Section 7(a) and except as otherwise provided below, the shares of Stock acquired under the Plan may not be transferred (either electronically or in certificate form) from the Participant's Account until the end of the two (2)-year period measured from the start date of the Offering Period in which the shares were purchased. Such limitation shall apply both to transfers to different accounts with the Custodian and to transfers to other brokerage firms. Any shares held in the Account following the expiration of such two (2)-year period may thereafter be transferred (either electronically or in certificate form) to other accounts or to other brokerage firms.

The foregoing procedures in this Section 7(b) shall not in any way limit when the Participant may sell his or her shares. Those procedures are designed solely to assure that any sale of shares following the lapse of the restrictions under Section 7(a) but prior to the satisfaction of the specified two (2)-year period is made through the Account. In addition, following the lapse of the restrictions under Section 7(a), the Participant may request a stock certificate or share transfer from his or her Account prior to the satisfaction of the specified two (2)-year period under this Section 7(b) should the Participant wish to make a gift of any shares held in that account. However, shares may not be transferred (either electronically or in certificate form) from the Account for use as collateral for a loan during the specified two (2)-year under this Section 7(b).

The foregoing procedures shall apply to all shares purchased by each Participant, whether or not that Participant continues in Employee status.

(c) Stock Withdrawals and Transfers. Following the expiration of the restriction period under Section 7(a) and any restriction period imposed under Section 7(b), a Participant may elect to withdraw shares of Stock from his or her Account or to transfer such shares from his or her Account to an account of the Participant maintained with a broker-dealer or financial institution, in accordance with the procedures established by the Custodian. Unless otherwise determined by the Administrator, only whole shares shall be issued or transferred and the Participant shall receive cash in lieu of fractional shares based on the Fair Market Value of a share of Stock on the date of withdrawal or transfer. Other provisions of this Plan notwithstanding, if the Participant is then an Employee of the Company or its Subsidiaries, transfers will be made only to a broker-dealer or financial institution through which Employees are then permitted to sell Stock under the Company's policies governing employee trading in Company securities. Withdrawals and transfers will be subject to any fees imposed in accordance with Section 8(a) hereof.

(d) Distribution of Account Upon Termination. Upon termination of employment of a Participant and subject to Section 7(a) and Section 7(b), the Custodian will continue to maintain the Participant's Account until the earlier of such time as the Participant withdraws or transfers all Stock in the Account or one year after the Participant ceases to be employed by the Company and its Subsidiaries. At the expiration of such one year period (or longer restriction period under Section 7(a) or Section 7(b)), the assets in Participant's Account shall be withdrawn or transferred as elected by the Participant or, in the absence of such election, as determined by the Administrator. If a Participant dies while assets remain credited to his or her Account, all amounts payable to the Participant will be paid to his or her estate as promptly as practicable.

8. General.

(a) Costs. Costs and expenses incurred in the administration of the Plan and maintenance of Accounts will be paid by the Company, including annual fees of the Custodian. The Participant shall be solely responsible for any fees, costs and commissions imposed by the Custodian for the withdrawal, transfer or sale of Stock acquired under the Plan and for other services unrelated to the purchase of Stock under the Plan.

(b) Statements to Participants. The Custodian will reflect payroll (or other authorized forms of) contributions, purchases, dividends and distributions and any reinvestment thereof, withdrawals and transfers of shares of Stock and other Plan transactions by appropriate adjustments to the Participant's Account. The Custodian will, not less frequently than semi-annually, provide or cause to be provided a written statement to the Participant showing the transactions in his or her Account and the date thereof, the number of shares of Stock purchased, the aggregate purchase price paid, the purchase price per share, the brokerage fees and commissions paid (if any), the total shares of Stock held for the Participant's Account (computed to at least three decimal places), and other information provided by the Custodian.

(c) Compliance with Section 423. It is the intent of the Company that this Plan comply in all respects with applicable requirements of Section 423 of the Code and regulations thereunder with respect to Offerings designated by the Administrator to be Offerings under Section 423 of the Code. Accordingly, if any provision of this Plan with respect to such



designated Offerings does not comply with such requirements, such provision will be construed or deemed amended to the extent necessary to conform to such requirements.

9. General Provisions.

(a) Compliance with Legal and Other Requirements. The Plan, the granting and exercising of Purchase Rights hereunder, and the other obligations of the Company and the Custodian under the Plan will be subject to all applicable federal, state, local and foreign laws, rules, and regulations, and to such approvals by any regulatory or governmental agency as may be required. The Company may, in its discretion, postpone the issuance or delivery of Stock upon exercise of Purchase Rights until completion of such registration or qualification of such Stock or other required action under any federal, state, local or foreign law, rule, or regulation, listing or other required action with respect to any automated quotation system or stock exchange upon which the Stock or other Company securities are designated or listed, or compliance with any other contractual obligation of the Company, as the Company may consider appropriate, and may require any Participant to make such representations and furnish such information as it may consider appropriate in connection with the issuance or delivery of Stock in compliance with applicable laws, rules, and regulations, designation or listing requirements, or other contractual obligations.

(b) Limits on Encumbering Rights. No right or interest of a Participant under the Plan, including any Purchase Right, may be pledged, encumbered, or hypothecated to or in favor of any party, subject to any lien, obligation, or liability of such Participant, or otherwise assigned, transferred, or disposed of except pursuant to the laws of descent or distribution, and any right of a Participant under the Plan will be exercisable during the Participant's lifetime only by the Participant.

(c) No Right to Continued Employment. Neither the Plan nor any action taken hereunder, including the grant of a Purchase Right, will be construed as giving any Employee the right to be retained in the employ of the Company or any of its Subsidiaries, nor will it interfere in any way with the right of the Company or any of its Subsidiaries to terminate any Employee's employment at any time.

(d) Taxes. The purchase of Stock will be subject to withholding of all applicable income tax, employment tax, payroll tax, social security tax, social insurance, contributions, payment on account obligations or other payments required to be withheld, collected or accounted for in connection with purchase of Stock under the Plan ("Taxes"). The Company or any Subsidiary is authorized to withhold from any payment to be made to a Participant, including any payroll and other payments not related to the Plan, amounts of Taxes due in connection with any transaction under the Plan, and a Participant's enrollment in the Plan will be deemed to constitute his or her consent to such withholding. The Company may require a Participant to remit to the Company (or a Subsidiary) the amount of such Taxes and may take such other action as may be necessary in the opinion of the Company or any Subsidiary to satisfy withholding obligations for the payment of Taxes. In addition, the Administrator reserves the right to require Participants to advise the Company of sales and other dispositions of Stock acquired under the Plan in order to permit the Company to comply with tax laws and to claim any tax deductions to which the Company may be entitled with respect to the Plan.

(e) Changes to the Plan. The Board shall have the exclusive authority to increase the total number of shares of Stock available for issuance under the Plan and to terminate the Plan at any time. The Administrator may amend or alter the Plan (other than to increase the total number of shares of Stock available for issuance under the Plan) at any time; provided, however, that any such action will be subject to the approval of the Company's stockholders if such stockholder approval is required by any federal or state law or regulation or the rules of any automated quotation system or stock exchange on which the Stock may then be quoted or listed, or if such stockholder approval is necessary in order for the Plan to continue to meet the requirements of Section 423 of the Code. Upon termination of the Plan, the Board may elect to terminate all outstanding Purchase Rights at such time as the Board may designate; if such termination results in termination of any Purchase Right prior to its exercise, all of a Participant's payroll contributions not invested in Stock will be returned to the Participant (without interest) as promptly as practicable.

(f) No Rights to Participate; No Stockholder Rights. No Participant or Employee will have any claim to participate in the Plan with respect to Offering Periods that have not commenced, and the Company will have no obligation to continue the Plan. No Purchase Right will confer on any Participant any of the rights of a stockholder of the Company unless and until Stock is duly issued or transferred to the Custodian and credited to the Participant's Account.

(g) Fractional Shares. Unless otherwise determined by the Administrator, purchases of Stock under the Plan executed by the Custodian may result in the crediting of fractional shares of Stock to the Participant's Stock Account. Such fractional shares will be computed to at least three decimal places. Fractional shares will not, however, be issued by the Company, and certificates representing fractional shares will not be delivered to Participants under any circumstances. If at any time fractional shares will not be credited to Participants' Accounts, the Administrator shall determine whether a Participant's payroll and other contributions remaining after the purchase of the greatest possible number of whole shares on a given Purchase Date will be refunded or will be retained and applied to purchases in the next Offering Period.

(h) Nonexclusivity of the Plan. Neither the adoption of the Plan by the Board nor its submission to the stockholders of the Company for approval will be construed as creating any limitations on the power of the Board to adopt such other compensatory arrangements as it may deem desirable, including, without limitation, the granting of stock options otherwise than under the Plan, and such arrangements may be either applicable generally or only in specific cases.

(i) Governing Law. The Plan and all related documents shall be governed by, and construed in accordance with, the laws of the State of New York (except to the extent the Delaware General Corporation Law and provisions of federal law may be applicable), without reference to principles of conflict of laws. If any provision hereof shall be held by a court of competent jurisdiction to be invalid and unenforceable, the remaining provisions of the Plan shall continue to be fully effective.

(j) Effective Date. The Plan was originally effective February 1, 1998, and previously amended and restated effective on May 12, 2009, August 18, 2009, June 11, 2013 and August 11, 2015. The Plan as amended and restated herein is effective as of June 7, 2018.

## CERTIFICATION

I, Francis J. Troise, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Investment Technology Group, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting.
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 8, 2018

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/s/ FRANCIS J. TROISE  
Francis J. Troise  
Chief Executive Officer

## CERTIFICATION

I, Steven R. Vigliotti, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Investment Technology Group, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting.
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 8, 2018

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/s/ STEVEN R. VIGLIOTTI  
Steven R. Vigliotti  
*Chief Financial Officer and Chief Administrative Officer*

**Certification Under Section 906 of the Sarbanes-Oxley Act of 2002  
(18 U.S.C., Section 1350)**

In connection with the Quarterly Report on Form 10-Q of Investment Technology Group, Inc. (the "Company") for the quarter ended June 30, 2018, as filed with the SEC on the date hereof (the "Report"), Francis J. Troise, as Chief Executive Officer of the Company, and Steven R. Vigliotti, as Chief Financial Officer and Chief Administrative Officer of the Company, each hereby certifies, pursuant to 18 U.S.C. § 1350, that to his knowledge:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934, as amended (the "Exchange Act"); and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ FRANCIS J. TROISE	/s/ STEVEN R. VIGLIOTTI
Francis J. Troise	Steven R. Vigliotti
Chief Executive Officer	Chief Financial Officer and Chief Administrative Officer
August 8, 2018	August 8, 2018

The foregoing certification is being furnished solely pursuant to 18 U.S.C. § 1350 and shall not be deemed filed by the Company for purposes of Section 18 of the Exchange Act. Such certification will not be deemed to be incorporated by reference into any filing under the Securities Act of 1933, as amended, or the Exchange Act, except to the extent that the Company specifically incorporates it by reference.

