CHEMUNG FINANCIAL CORP
Form 4
January 16, 2015

FORM 4

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

OMB APPROVAL

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STATEMENT OF CHANGES IN BENEFICIAL OWNERSHIP OF SECURITIES

Filed pursuant to Section 16(a) of the Securities Exchange Act of 1934, Section 17(a) of the Public Utility Holding Company Act of 1935 or Section 30(h) of the Investment Company Act of 1940

(Print or Type Responses)

1. Name and Address of Reporting Person *
LOUNSBERRY STEPHEN M III

(Last) (First) (Middle)

3186 EAST RIVER ROAD

(Street)

NICHOLS, NY 13812

(City) (State) (Zip)

2. Issuer Name **and** Ticker or Trading Symbol
CHEMUNG FINANCIAL CORP [CHMG]

3. Date of Earliest Transaction (Month/Day/Year)
01/15/2015

4. If Amendment, Date Original Filed(Month/Day/Year)

5. Relationship of Reporting Person(s) to Issuer

(Check all applicable)

__X__ Director
_____ 10% Owner
_____ Officer (give title below)
_____ Other (specify below)

6. Individual or Joint/Group Filing(Check Applicable Line)
_X_ Form filed by One Reporting Person
___ Form filed by More than One Reporting Person

Table I - Non-Derivative Securities Acquired, Disposed of, or Beneficially Owned

1.Title of Security (Instr. 3)	2. Transaction Date (Month/Day/Year)	2A. Deemed Execution Date, if any (Month/Day/Year)	3. Transaction Code (Instr. 8)		4. Securities Acquired (A) or Disposed of (D) (Instr. 3, 4 and 5)			5. Amount of Securities Beneficially Owned Following Reported Transaction(s) (Instr. 3 and 4)	6. Ownership Form: Direct (D) or Indirect (I) (Instr. 4)	7. Nature of Indirect Beneficial Ownership (Instr. 4)
			Code	V	Amount	(A) or (D)	Price			
COMMON STOCK	01/15/2015		A		763	A	$ 28.05	14,450.097 (1)	D	

Reminder: Report on a separate line for each class of securities beneficially owned directly or indirectly.

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SEC 1474 (9-02)

Table II - Derivative Securities Acquired, Disposed of, or Beneficially Owned
(*e.g.*, puts, calls, warrants, options, convertible securities)

1. Title of Derivative Security (Instr. 3)	2. Conversion or Exercise Price of Derivative Security	3. Transaction Date (Month/Day/Year)	3A. Deemed Execution Date, if any (Month/Day/Year)	4. Transaction Code (Instr. 8)		5. Number of Derivative Securities Acquired (A) or Disposed of (D) (Instr. 3, 4, and 5)		6. Date Exercisable and Expiration Date (Month/Day/Year)		7. Title and Amount of Underlying Securities (Instr. 3 and 4)		8. Price of Derivative Security (Instr. 5)	9. Nu Deriv Secur Bene Owne Follo Repo Trans (Instr
				Code	V	(A)	(D)	Date Exercisable	Expiration Date	Title	Amount or Number of Shares		

Reporting Owners

Reporting Owner Name / Address	Relationships			
	Director	10% Owner	Officer	Other
LOUNSBERRY STEPHEN M III 3186 EAST RIVER ROAD NICHOLS, NY 13812	X			

Signatures

Kathleen S. McKillip, Attorney-in-Fact, pursuant to Power of Attorney dated June 20, 2012.	01/16/2015
**Signature of Reporting Person	Date

Explanation of Responses:

* If the form is filed by more than one reporting person, *see* Instruction 4(b)(v).

** Intentional misstatements or omissions of facts constitute Federal Criminal Violations. *See* 18 U.S.C. 1001 and 15 U.S.C. 78ff(a).

(1) Includes dividends issued periodically under issuer's dividend reinvestment plan.

Note: File three copies of this Form, one of which must be manually signed. If space is insufficient, *see* Instruction 6 for procedure.
Potential persons who are to respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB number. rder="0" cellspacing="0" cellpadding="0" width="100%" style="border-collapse:collapse;width:100.0%;">

September 30, 2014

December 31, 2013

	Gross Carrying Amount	**Accumulated Amortization**	**Gross Carrying Amount**	**Accumulated Amortization**	**Useful Lives (Years)**
Trade name	$ 8,552	$	$ 8,400	$	

Customer-related intangibles	
	30,377
	10,589
	27,851
	8,923
	13.3
Proprietary software	
	23,649
	19,678
	21,501
	17,921
	6.2
Trading rights	

	339
	243
Other	
	50
	50
Total	
$	
	62,967
$	

Explanation of Responses:

30,267

$

58,045

$

26,844

At September 30, 2014, indefinite-lived intangibles not subject to amortization amounted to $8.6 million, of which $8.4 million related to the POSIT trade name.

Amortization expense for definite-lived intangibles was $0.9 million and $3.4 million for the three months and nine months ended September 30, 2014, respectively, compared with $1.0 and $3.1 million in the respective prior-year periods. These amounts are included in other general and administrative expense in the Condensed Consolidated Statements of Income.

During the nine months ended September 30, 2014, no intangibles were deemed impaired, and accordingly, no adjustment was required.

(9) Receivables and Payables

Receivables from, and Payables to, Brokers, Dealers and Clearing Organizations

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

	Receivables from		Payables to	
	September 30, 2014	December 31, 2013	September 30, 2014	December 31, 2013
Broker-dealers	$ 1,304,286	$ 254,031	$ 1,035,548	$ 284,681
Clearing organizations	246,525	23,033	7,347	2,798
Securities borrowed	544,980	742,307		
Securities loaned			617,334	737,789
Allowance for doubtful accounts	(1,323)	(1,029)		

Total	$	2,094,468	$	1,018,342	$	1, 660,229	$	1,025,268

Receivables from, and Payables to, Customers

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

	Receivables from				Payables to			
	September 30, 2014		**December 31, 2013**		**September 30, 2014**		**December 31, 2013**	
Customers	$	1,377,191	$	592,139	$	1,611,985	$	469,264
Allowance for doubtful accounts		(1,144)		(1,135)				
Net	$	1,376,047	$	591,004	$	1,611,985	$	469,264

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Securities Borrowed and Loaned

As of September 30, 2014, securities borrowed as part of the Company s matched book operations with a fair value of $515.5 million were delivered for securities loaned. The gross amounts of interest earned on cash provided to counterparties as collateral for securities borrowed, and interest incurred on cash received from counterparties as collateral for securities loaned, and the resulting net amount included in other revenue on the Condensed Consolidated Statements of Income for the three and nine months ended September 30, 2014 and 2013, respectively, were as follows (dollars in thousands):

	Three Months Ended September 30, 2014		Three Months Ended September 30, 2013		Nine Months Ended September 30, 2014		Nine Months Ended September 30, 2013	
Interest earned	$	2,763	$	2,882	$	13,621	$	11,662
Interest incurred		(1,799)		(1,938)		(9,203)		(8,242)
Net	$	964	$	944	$	4,418	$	3,420

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

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

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

	Gross Amounts of Recognized Assets/ (Liabilities)		Gross Amounts Offset in the Consolidated Statement of Financial Condition		Net Amounts Presented in the Consolidated Statement of Financial Condition		Collateral Received or Pledged (including Cash)		Net Amount
As of September 30, 2014:									
Deposits paid for securities borrowed	$	544,980	$		$	544,980	$	544,879	$	101
Deposits received for securities loaned		(617,334)				(617,334)		(602,306)		(15,028)
As of December 31, 2013:									
Deposits paid for securities borrowed	$	742,307	$		$	742,307	$	742,083	$	224

Deposits received for securities loaned	(737,789)	(737,789)	(722,091)	(15,698)

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(10) Accounts Payable and Accrued Expenses

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

	September 30, 2014	December 31, 2013
Accrued research payables	$ 59,165	$ 52,015
Accrued compensation and benefits	45,795	47,622
Accrued rent	19,516	19,938
Trade payables	20,153	15,222
Deferred revenue	13,323	12,533
Deferred compensation	4,081	4,552
Accrued restructuring	2,411	3,768
Accrued transaction processing	3,001	2,972
Other	18,700	17,309
Total	$ 186,145	$ 175,931

(11) 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 September 30, 2014, there was $89.9 million outstanding under these facilities at a weighted average interest rate of approximately 1.3% 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. On January 31, 2014, ITG Inc. as borrower, and Investment Technology Group, Inc. (Parent Company) as guarantor entered into a new $150 million two-year revolving credit agreement (the Credit Agreement) with a syndicate of banks and JPMorgan Chase Bank, N.A., as Administrative Agent. The Credit Agreement includes an accordion feature that allows for potential expansion of the facility up to $225 million. At September 30, 2014, there were no amounts outstanding under the Credit Agreement.

Term Debt

At September 30, 2014, term debt is comprised of the following (dollars in thousands):

Term loan	$ 4,245

Obligations under capital lease		16,692
Total	$	20,937

On June 1, 2011, Parent Company as borrower, entered into a $25.5 million Master Loan and Security Agreement (Term Loan Agreement) with Banc of America Leasing & Capital, LLC (Bank of America). The four-year term loan established under this agreement (Term Loan) is secured by a security interest in existing furniture, fixtures and equipment owned by the Parent Company and certain U.S. subsidiaries as of June 1, 2011. The primary purpose of this financing was to provide capital for strategic initiatives.

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

On August 10, 2012, Parent Company entered into a $25.0 million master lease facility with BMO Harris Equipment Finance Company (BMO) to finance equipment and construction expenditures related to the build-out of the Company s new headquarters in lower Manhattan. The original amount borrowed of $21.2 million has a 3.39% fixed-rate term financing structured as a capital lease with a 48-month term, at the end of which Parent Company may purchase the underlying assets for $1.

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(12) Earnings Per Share

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

	September 30, 2014		September 30, 2013	
Three Months Ended				
Net income for basic and diluted earnings per share	$	11,365	$	7,715
Shares of common stock and common stock equivalents:				
Average common shares used in basic computation		35,093		36,544
Effect of dilutive securities		933		1,237
Average common shares used in diluted computation		36,026		37,781
Earnings per share:				
Basic	$	0.32	$	0.21
Diluted	$	0.32	$	0.20
Nine Months Ended				
Net income for basic and diluted earnings per share	$	37,911	$	21,423
Shares of common stock and common stock equivalents:				
Average common shares used in basic computation		35,628		36,956
Effect of dilutive securities		971		1,258
Average common shares used in diluted computation		36,599		38,214
Earnings per share:				
Basic	$	1.06	$	0.58
Diluted	$	1.04	$	0.56

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

	September 30, 2014	September 30, 2013
Three months ended	471	284
Nine months ended	421	282

(13) Other Comprehensive Income

The components and allocated tax effects of other comprehensive income for the periods ended September 30, 2014 and December 31, 2013 are as follows (dollars in thousands):

	Before Tax Effects		Tax Effects		After Tax Effects	
September 30, 2014						
Currency translation adjustment	$	1,050	$		$	1,050

Total	$	1,050	$		$	1,050
December 31, 2013						
Currency translation adjustment	$	8,536	$		$	8,536
Total	$	8,536	$		$	8,536

Deferred taxes have not been provided on the cumulative undistributed earnings of foreign subsidiaries or the cumulative translation adjustment related to those investments since there is currently no need to repatriate funds from certain foreign subsidiaries to the U.S. by way of dividends.

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(14) Net Capital Requirement

ITG Inc., AlterNet and ITG Derivatives are subject to the SEC s Uniform Net Capital Rule (Rule 15c3-1), which requires the maintenance of minimum net capital. ITG Inc. has elected to use the alternative method permitted by Rule 15c3-1, which requires that ITG Inc. maintain minimum net capital equal to the greater of $1.0 million or 2% of aggregate debit balances arising from customer transactions, as defined. AlterNet and ITG Derivatives have elected to use the basic method permitted by Rule 15c3-1, which requires that they each maintain minimum net capital equal to the greater of 6 2/3% of aggregate indebtedness or $100,000 and $1.0 million, respectively. Dividends or withdrawals of capital cannot be made if capital is needed to comply with regulatory requirements.

Net capital balances and the amounts in excess of required net capital at September 30, 2014 for the U.S. Operations are as follows (dollars in thousands):

	Net Capital	Excess
U.S. Operations		
ITG Inc.	$ 73,147	$ 72,147
AlterNet	4,817	4,597
ITG Derivatives	4,626	3,626

As of September 30, 2014, ITG Inc. had $10.7 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 $0.4 million under PABs.

In addition, the Company s Canadian, European and Asia Pacific Operations have subsidiaries with regulatory capital requirements. The regulatory net capital balances and amount of regulatory capital in excess of the minimum requirements applicable to each business at September 30, 2014, is summarized in the following table (dollars in thousands):

	Net Capital	Excess (Deficit)
Canadian Operations		
Canada	$ 40,364	$ 39,916
European Operations		
Ireland	72,948	21,802
U.K.	4,060	3,140
Asia Pacific Operations		
Australia	18,931	7,946
Hong Kong	28,037	12,243
Singapore	367	171

(15) Segment Reporting

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

- Electronic Brokerage includes self-directed trading using algorithms, smart routing and matching through POSIT in cash equities (including single stocks and portfolio lists), futures and options

- Research, Sales and Trading includes (a) differentiated, unbiased, data-driven equity research through the use of innovative data mining and analysis, as well as detailed analysis of energy plays, and (b) portfolio trading and high-touch trading desks providing execution expertise and trading ideas based on investment research

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

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

The accounting policies of the reportable segments are the same as those described in Note 2, *Summary of Significant Accounting Policies,* in our Annual Report on Form 10-K (as amended) for the year ended December 31, 2013. The Company allocates resources to, and evaluates the performance of, its reportable segments based on income or loss before income tax expense. Consistent with the Company s resource allocation and operating performance evaluation approach, the effects of inter-segment activities are eliminated except in limited circumstances where certain technology related costs are allocated to a segment to support that segment s revenue producing activities. Commissions and fees revenue for trade executions and commission share revenues are principally attributed to each segment based upon the location of execution of the related transaction. Recurring revenues are principally attributed based upon the location of the client using the respective service.

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

	U.S. Operations	Canadian Operations	European Operations	Asia Pacific Operations	Consolidated
Three Months Ended September 30, 2014					
Total revenues	$ 72,540	$ 17,946	$ 31,677	$ 12,610	$ 134,773
Income before income tax expense	1,049	3,203	7,518	308	12,078
Identifiable assets	978,246	110,224	2,262,568	673,956	4,024,994
Three Months Ended September 30, 2013					
Total revenues	$ 76,843	$ 17,575	$ 22,663	$ 10,477	$ 127,558
Income (loss) before income tax expense (benefit)	4,478	2,749	4,115	(652)	10,690
Identifiable assets	1,377,616	137,389	1,128,133	514,172	3,157,310
Nine Months Ended September, 2014					
Total revenues	$ 225,531	$ 55,194	$ 95,605	$ 34,518	$ 410,848
Income (loss) before income tax expense (benefit)	10,542	11,306	26,968	(1,630)	47,186
Nine Months Ended September 30, 2013					
Total revenues	$ 242,687	$ 56,224	$ 65,407	$ 34,583	$ 398,901
Income (loss) before income tax expense (benefit) (1)(2)(3)	14,779	9,120	10,436	(1,923)	32,412

(1) In the second quarter of 2013, the Company incurred $1.6 million to implement a restructuring plan to close its technology research and development facility in Israel and migrate that function to an outsourced service provider model effective January 1, 2014. This plan primarily focused on reducing costs by limiting ITG s geographic footprint while maintaining the necessary technological expertise via a consulting arrangement. The Company also reduced previously-recorded 2012 and 2011 restructuring accruals of $1.6 million to reflect the sub-lease of previously-vacated office space and certain legal and other employee-related charges deemed unnecessary.

(2) During the fourth quarter of 2012, ITG began its build out of its new lower Manhattan headquarters while continuing to occupy its then-existing headquarters in midtown Manhattan. As a result, ITG incurred duplicate rent charges of $2.6 million during the first half of 2013.

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

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

	Three Months Ended September 30, 2014	Three Months Ended September 30, 2013	Nine Months Ended September 30, 2014	Nine Months Ended September 30, 2013
Revenues by Product Group:				
Electronic Brokerage	$ 68,663	$ 66,234	$ 214,740	$ 210,597
Research, Sales and Trading	30,470	26,683	90,026	80,236
Platforms	23,570	23,151	70,636	72,845
Analytics	11,612	11,177	34,413	34,447
Corporate (non-product)	458	313	1,033	776
Total Revenues	$ 134,773	$ 127,558	$ 410,848	$ 398,901

(16) Off-Balance Sheet Risk and Concentration of Credit Risk

The Company is a member of various U.S. and non-U.S. exchanges and clearing houses that trade and clear, 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

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clearing relationships and trading counterparties. The activities of the subsidiaries covered by these guarantees are included in the Company s consolidated financial statements.

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

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

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

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

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

(17) Subsequent Event

In the third quarter of 2014, the Company repurchased 520,000 shares for $9.1 million. As of September 30, 2014, the Company had 1.4 million shares available for repurchase under available authorizations. On October 15, 2014, the Company s Board of Directors authorized the repurchase of an additional 4.0 million shares. This additional authorization has no expiration date. The specific timing and amount of repurchases will vary based on market conditions and other factors.

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

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

Overview

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

Our business is organized into four reportable operating segments: U.S. Operations, Canadian Operations, European Operations and Asia Pacific Operations (see Note 15, *Segment Reporting,* to the condensed consolidated financial statements). Our four operating segments provide the following categories of products and services:

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- Electronic Brokerage includes self-directed trading using algorithms, smart routing and matching through POSIT in cash equities (including single stocks and portfolio lists), futures and options

- Research, Sales and Trading includes (a) differentiated, unbiased, data-driven equity research through the use of innovative data mining and analysis, as well as detailed analysis of energy plays, and (b) portfolio trading and high-touch trading desks providing execution expertise and trading ideas based on investment research

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

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

Sources of Revenues

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

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

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

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

Expenses

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

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

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

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

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

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

Non-GAAP Financial Measures

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

Adjusted expenses and adjusted net income together with related per share amounts are non-GAAP performance measures that 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 and adjusted net income to expenses and net income and related per share amounts as determined in accordance with U.S. GAAP for the three months and nine months ended September 30, 2013 are provided below (dollars in thousands except per share amounts).

Nine Months Ended September 30, 2013:	**ITG Consolidated**	**U.S.**	**Canada**	**Europe**	**Asia Pacific**
Total revenues	$ 398,901	$ 242,687	$ 56,224	$ 65,407	$ 34,583
Total expenses	$ 366,489	$ 227,908	$ 47,104	$ 54,971	$ 36,506
Less:					
Duplicate rent charges (1)	(2,568)	(2,568)			
Office move (2)	(3,910)	(3,910)			
Restructuring charges (3)	75	1,264	348	(1,537)	
Adjusted operating expenses	$ 360,086	$ 222,694	$ 47,452	$ 53,434	$ 36,506
Income before income tax	32,412				
Effect of adjustments	6,403				
Adjusted pre-tax operating income	$ 38,815				
Income tax expense	10,989				
Tax effect of adjustments	405				
Adjusted operating income tax expense	$ 11,394				

Net income	$	21,423
Net effect of adjustments		5,998
Adjusted operating net income	$	27,421
Diluted earnings per share	$	0.56
Net effect of adjustments		0.16
Adjusted diluted operating earnings per share	$	0.72

(1) During the fourth quarter of 2012, we began our build-out of our new lower Manhattan headquarters while continuing to occupy our then-existing headquarters in midtown Manhattan. As a result, we incurred duplicate rent charges through June 2013.

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(2) In the second quarter of 2013, we moved into our new headquarters and incurred a one-time charge, which includes a reserve for the remaining lease obligation at the previous midtown Manhattan headquarters.

(3) In the second quarter of 2013, we incurred $1.6 million to implement a restructuring plan to close our technology research and development facility in Israel and migrate that function to an outsourced service provider model effective January 1, 2014. This plan primarily focused on reducing costs by limiting our geographic footprint while maintaining the necessary technological expertise via a consulting arrangement. We also reduced previously-recorded 2012 and 2011 restructuring accruals of $1.6 million to reflect the sub-lease of previously-vacated office space and certain legal and other employee-related charges deemed unnecessary.

Executive Summary for the Quarter Ended September 30, 2014

Consolidated Overview

Our third quarter results continue to reflect the benefits of our strategy of geographic diversification as we continued to generate strong profitability in Europe and we achieved profitability in Asia Pacific. In Europe, we are continuing to benefit from the investments we made in our infrastructure and our global product suite as well as from our efforts to diversify our client base and grow liquidity in POSIT. Our net income for the third quarter of 2014 was $11.4 million, or $0.32 per diluted share compared to net income of $7.7 million, or $0.20 per diluted share in the third quarter of 2013. Revenues were $134.8 million, or nearly 6% above the third quarter of 2013. Our annualized return on average equity for the quarter was 10.9%, compared to a return of 7.6% in the third quarter of 2013.

Business conditions in the U.S. remained weak for most of the third quarter of 2014. The average daily combined volume of NYSE- and NASDAQ-listed securities in the third quarter of 2014 was down 7% from the second quarter of 2014 and virtually even with the multi-year low in the third quarter of 2013. The weak conditions were also apparent in domestic equity fund flow activity. Following an improved start to the year, domestic equity funds continue to see outflows, including more than $30 billion during the third quarter of 2014. Towards the end of the recent quarter, we saw a surge in volatility as central bank policies from around the world began to diverge, creating movements in currencies and commodities that triggered volatility in equity prices and increased volumes.

While the recent period of higher volatility and increased U.S. trading volumes has continued into the early part of the fourth quarter, it is unclear how sustainable it will be over the long-term. As a result, our strategy is to continue to expand our business across different asset classes and client constituencies and to grow our international businesses. Our recent acquisition of RFQ-hub, a Paris-based request-for-quote technology platform for global listed and over-the-counter financial instruments is closely aligned with these strategic goals. We expect this investment to be neutral to earnings for the remainder of 2014 and to be modestly accretive in 2015. We will also continue our focus on the profitability of the products and services within each of our operating regions to ensure that we realize the full value of our combined offering and that we operate our business as efficiently as possible.

Segment Discussions

In the U.S., the overall combined average daily market volume of NYSE- and NASDAQ-listed securities in the third quarter was virtually even with the depressed levels of the third quarter of 2013 and down 7% sequentially. Our overall U.S. trading volumes also remained under pressure, falling 5% from the third quarter of 2013 and 2% sequentially.

During the quarter, the proportion of volume from our sell-side clients grew to 56% versus 51% in the third quarter of 2013, adversely impacting our overall revenue earned per share, which fell to $0.0046 compared with $0.0049 in the third quarter of 2013. While we also saw lower revenue per share from sell-side clients, we continued to see improvement in the revenue per share from buy-side clients to the highest level we have seen in more than five years. The higher revenue per share from buy-side clients was driven by rate increases for clients use of our POSIT Alert block crossing system and our high-touch trading services. These rate increases were attributable in part to clients paying for research through trading at a higher, bundled rate. During the quarter, our energy research capabilities again provided additional sources of revenue in the form of transaction advisory services provided to potential purchasers of energy-related investments.

Average daily trading volumes on all Canadian markets increased 1% from the third quarter of 2013 while commissions and fees from our Canadian Operations were 1% higher in U.S. Dollar terms and 6% higher in local currency terms. While the market environment remains challenging, we are generating significantly higher volumes in MATCH Now, which have grown more than 50% from the third quarter of 2013.

The growth in our European commissions and fees of 42% versus the third quarter of 2013 significantly outpaced the 7% growth in market-wide trading. Our European results continue to reflect the investments we made in our infrastructure and in our

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global product capabilities including POSIT Alert, where average daily value executed more than doubled compared to the prior-year quarter. Our strong revenue growth together with our efforts to reduce settlement and clearing costs significantly improved our pre-tax results in the region by more than 80% in comparison to the third quarter of 2013.

In the Asia-Pacific region, we moved into profitability in the third quarter as revenues rose 20% compared to the prior-year period primarily due to increased order flow from local clients trading into Australia and Hong Kong. POSIT Alert continues to be a key source of growth in Asia Pacific with Alert revenues up more than 40% compared to the second quarter of 2014. While overall market-wide trading activity remained flat across the region, market-wide trading in Hong Kong was up 23% over the prior-year quarter. The increased activity in Hong Kong was attributable, in part, to the recent announcement of the Shanghai-Hong Kong Stock Connect, a proposed mutual market access program that will allow investors in Hong Kong and Mainland China to trade and settle shares listed on the other market via the exchange and clearing house in their respective local market.

Capital Resource Allocation

During the third quarter of 2014, we repurchased 520,000 shares for $9.1 million. During October 2014, the Board of Directors increased our share repurchase authorization by an additional 4.0 million shares. We intend to continue to use share repurchases to offset dilution from the issuance of stock under employee compensation plans and to opportunistically return capital to stockholders depending on market conditions.

Results of Operations Three Months Ended September 30, 2014 Compared to Three Months Ended September 30, 2013

U.S. Operations

$ in thousands	**Three Months Ended September 30, 2014**	**2013**	**Change**	**% Change**
Revenues:				
Commissions and fees	$ 50,429	$ 56,056	$ (5,627)	(10)
Recurring	18,707	18,982	(275)	(1)
Other	3,404	1,805	1,599	89
Total revenues	72,540	76,843	(4,303)	(6)
Expenses:				
Compensation and employee benefits	32,403	31,304	1,099	4
Transaction processing	9,830	10,115	(285)	(3)
Other expenses	28,692	30,353	(1,661)	(5)
Interest expense	566	593	(27)	(5)
Total expenses	71,491	72,365	(874)	(1)
Income before income tax expense	$ 1,049	$ 4,478	$ (3,429)	(77)

Commissions and fees decreased $5.6 million as a result of a 5% reduction in our average daily trading volumes and a 6% decline in our average revenue per share to $0.0046. This decrease was primarily attributable to an increase in the proportion of our volume from sell-side clients, which rose to 56% from 51% in the third quarter 2013. We also saw a decline in the average revenue per share from sell-side clients, however, this was offset by the continued increase in the average revenue per share from buy-side clients, which was at its highest level in more than five years. The higher revenue per share from buy-side clients was driven by rate increases for clients use of our POSIT Alert block crossing system and our high-touch trading services. These rate increases were attributable in part to clients paying for research through trading at a higher, bundled rate.

	Three Months Ended September 30,			
U.S. Operations: Key Indicators*	**2014**	**2013**	**Change**	**% Change**
Total trading volume (in billions of shares)	9.4	9.9	(0.5)	(5)
Trading volume per day (in millions of shares)	146.7	154.6	(7.9)	(5)
Average revenue per share	$ 0.0046	$ 0.0049	$ (0.0003)	(6)
U.S. market trading days	64	64		

* Excludes activity from ITG Net commission share arrangements.

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Recurring revenues decreased due to the impact of client attrition from our OMS product, resulting in lower OMS subscription revenues and connectivity fees, partially offset by higher research and analytical product subscriptions.

Other revenues increased primarily due to an increase in transaction advisory services revenues generated by our energy research team.

Compensation and employee benefits increased due to an increase in headcount, primarily in our technology areas, as well as higher incentive-based compensation to our executive management team associated with increased global profitability. These increases were partially offset by higher capitalized compensation for software development and lower severance payments.

Transaction processing costs declined as a result of the decline in both average daily volume and rate per share earned. As a percentage of commissions and fees, transaction processing costs increased to 19.5% from 18.0% in the third quarter of 2013 due to the impact of our increased sell-side volumes.

Other expenses decreased $1.7 million due to lower costs for data centers and software amortization and a higher credit for research and development costs charged to other operating segments. These reductions were partially offset by an increase in legal and employee recruiting fees.

Interest expense primarily relates to interest cost on our term debt and commitment fees relating to our $150 million revolving credit facility, including debt issuance cost amortization.

Canadian Operations

	Three Months Ended September 30,			
$ in thousands	**2014**	**2013**	**Change**	**% Change**
Revenues:				
Commissions and fees	$ 13,490	$ 13,376	$ 114	1
Recurring	2,352	2,324	28	1
Other	2,105	1,875	230	12
Total revenues	17,947	17,575	372	2
Expenses:				
Compensation and employee benefits	5,369	5,968	(599)	(10)
Transaction processing	2,535	1,950	585	30
Other expenses	6,840	6,908	(68)	(1)
Total expenses	14,744	14,826	(82)	(1)
Income before income tax expense	$ 3,203	$ 2,749	$ 454	17

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

Canadian commissions and fees remained relatively unchanged from the third quarter of 2013 reflecting the offsetting impacts of higher MATCH Now volumes, which were up more than 50% from the third quarter of 2013, and unfavorable currency translation.

Other revenues increased primarily due to lower client trade accommodations and higher income earned on foreign exchange transactions and principal arbitrage trading.

Compensation and employee benefits costs decreased primarily due to a decrease in share-based compensation, which fluctuates for legacy awards to Canadian employees based on the changes in the market price of our stock and the impact of currency translation.

Transaction processing costs increased due to the impact of reversing an accrual for sales tax on exchange fees in the third quarter of 2013, which more than offset lower clearing and settlement charges from our clearing provider following a contract renegotiation and the favorable impact of currency translation.

Other expenses were down slightly as decreases in software licensing fees were offset by higher charges for historical market data.

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European Operations

$ in thousands	Three Months September 30, 2014	2013	Change	% Change
Revenues				
Commissions and fees	$ 28,018	$ 19,766	$ 8,252	42
Recurring	3,771	3,103	668	22
Other	(112)	(206)	94	(46)
Total revenues	31,677	22,663	9,014	40
Expenses:				
Compensation and employee benefits	9,469	7,883	1,586	20
Transaction processing	6,405	5,141	1,264	25
Other expenses	8,284	5,524	2,760	50
Total expenses	24,158	18,548	5,610	30
Income before income tax expense	$ 7,519	$ 4,115	$ 3,404	83

Currency translation from a stronger average British Pound during the quarter increased European revenues and expenses by $2.3 million and $1.8 million, respectively, adding $0.5 million to pre-tax income.

European results include substantially all of the RFQ-hub operations since the July 30, 2014 acquisition date, adding $0.9 million in revenues, mostly recurring, and $1.0 million in expenses, of which $0.7 is in compensation and employee benefits.

Our European commissions and fees increased as a result of our increased use of our trading algorithms and POSIT Alert block crossing system.

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

Compensation and employee benefits increased due to the impact of the RFQ-hub acquisition and higher incentive-based compensation related to improved performance. This increase was offset, in part, by the impact of $0.9 million in lower compensation associated with the outsourcing of our research and development facility in Israel to a third-party service provider.

Transaction processing costs increased as a result of the increase in value traded. However, transaction processing costs declined as a percentage of commissions and fees from 26% in the third quarter of 2013 to 24% this quarter due to the impact of a higher percentage of our value traded crossed in POSIT, including our POSIT Alert block crossing system, and our initiatives to reduce settlement and clearing costs.

Other expenses increased due to higher charges for global research and development costs and historical market data, higher consulting costs, net of capitalization, from outsourcing our research and development facility in Israel to a third-party service provider and new costs incurred by RFQ-hub.

Asia Pacific Operations

$ in thousands	Three Months Ended September 30, 2014	2013	Change	% Change
Revenues:				
Commissions and fees	$ 10,963	$ 9,180	$ 1,783	19
Recurring	1,622	1,352	270	20
Other	24	(55)	79	144
Total revenues	12,609	10,477	2,132	20
Expenses:				
Compensation and employee benefits	5,167	4,509	658	15
Transaction processing	2,791	2,584	207	8
Other expenses	4,344	4,036	308	8
Total expenses	12,302	11,129	1,173	11
Income (loss) before income tax expense (benefit)	$ 307	$ (652)	$ 959	147

Currency translation in the Asia Pacific region had virtually no impact on revenues, expenses or pre-tax income.

The increase in Asia Pacific commissions and fees was driven primarily by increased order flow from local Asia clients trading into Australia and Hong Kong, the growth in commissions from clients using our POSIT Alert block crossing system and higher commission sharing revenues.

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

Compensation and employee benefits increased due to increases in headcount and incentive-based compensation, partially offset by higher capitalized compensation for software development.

Transaction processing costs increased due to a higher value traded but fell as a percentage of commissions and fees due to our efforts to reduce execution and settlement costs. As a percentage of revenue, transaction processing costs declined to 25.5% from 28.1% in the third quarter of 2013.

Other expenses increased primarily due to higher charges for historical market data and global research and development costs, partially offset by lower consulting service fees.

Consolidated income tax expense

Our effective tax rate was 5.9% in the third quarter of 2014 compared to 27.8% in the third quarter of 2013. The low rate in the third quarter of 2014 primarily reflects a $2.4 million tax benefit recorded for the net impact of settling multi-year tax return positions and establishing additional reserves for other tax positions. In addition, a significantly higher portion of our pre-tax income came from our European Operations, which is taxed at a lower rate. 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 Nine Months Ended September 30, 2014 Compared to Nine Months Ended September 30, 2013

U.S. Operations

$ in thousands	**Nine Months Ended September 30, 2014**	**2013**	**Change**	**% Change**
Revenues:				
Commissions and fees	$ 159,252	$ 179,815	$ (20,563)	(11)
Recurring	55,041	56,975	(1,934)	(3)
Other	11,238	5,897	5,341	91
Total revenues	225,531	242,687	(17,156)	(7)

Expenses:				
Compensation and employee benefits	98,871	93,993	4,878	5
Transaction processing	28,001	32,929	(4,928)	(15)
Other expenses	86,321	100,356	(14,035)	(14)
Restructuring charges		(1,264)	1,264	(100)
Interest expense	1,796	1,894	(98)	(5)
Total expenses	214,989	227,908	(12,919)	(6)
Income before income tax expense	$ 10,542	$ 14,779	$ (4,237)	(29)

Commissions and fees decreased as a result of a 13% reduction in our average daily trading volumes, offset in part by a 2% increase in our average revenue per share. Our average revenue per share increased even though the proportion of our volumes executed by sell-side clients increased to 52% compared to 50% in the first nine months of 2013 due to an increase in our average revenue per share from buy-side clients. The higher revenue per share from buy-side clients was driven by rate increases for clients use of our high-touch trading services, as well as clients trading via our POSIT Alert block crossing system. These rate increases were attributable in part to clients paying for research through trading at a higher, bundled rate.

	Nine Months Ended September 30,			
U.S. Operations: Key Indicators*	**2014**	**2013**	**Change**	**% Change**
Total trading volume (in billions of shares)	28.8	32.9	(4.1)	(12)
Trading volume per day (in millions of shares)	153.2	175.1	(21.9)	(13)
Average revenue per share	$ 0.0048	$ 0.0047	$ (0.0001)	2
U.S. market trading days	188	188		

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* Excludes activity from ITG Net commission share arrangements.

Recurring revenues decreased due to the impact of client attrition from our OMS product, resulting in lower OMS subscription revenues and connectivity fees, partially offset by an increase in subscriptions for our research products.

Other revenues increased due primarily to an increase in transaction advisory services revenues generated by our energy research team and higher revenues generated by our stock loan matched book transactions.

Total expenses in the nine months of 2014 decreased $12.9 million compared to the first nine months of 2013. The first nine months of 2013 included $2.6 million of duplicate rent charges associated with building out our new headquarters in lower Manhattan while we still occupied our then-existing headquarters in midtown Manhattan and a one-time charge of $3.9 million upon the completion of the move, that included a reserve for the remaining lease obligation at our then-existing headquarters. Total expenses in the third quarter of 2013 were also reduced by reversals of our remaining 2012 and 2011 restructuring liabilities totaling $1.3 million as a portion of the space vacated in our Los Angeles office was sub-let and certain legal and other employee-related accruals were deemed unnecessary. Total expenses declined $7.7 million compared to the first nine months of 2013 excluding these charges (see *Non-GAAP Financial Measures*).

Compensation and employee benefits increased as a result of higher incentive-based compensation to our management team associated with increased global profitability and salary increase from an increase in headcount.

Transaction processing costs declined more than the decrease in commissions and fees due to lower options volumes, which incur higher costs proportionally than our cash equity trading and lower execution costs from client use of our algorithm technology. As a percentage of commissions and fees, transaction processing costs declined to 17.6% from 18.3% during the first nine months of 2013.

Other expenses decreased $14.0 million, of which $6.5 million represented the impact of duplicate rent charges incurred and the one-time charge recognized upon the completion of our move during the prior-year period as described above. In addition, we incurred lower data center, data and connectivity expenses from our cost reduction initiatives, as well as lower software amortization and consulting fees and a higher credit for research and development costs charged to other segments. These reductions were partially offset by an increase in employee recruiting and legal fees.

Interest expense primarily relates to interest cost on our term debt and commitment fees relating to our $150 million revolving credit facility, including debt issuance cost amortization.

Canadian Operations

$ in thousands	Nine Months Ended September 30, 2014	2013	Change	% Change
Revenues:				
Commissions and fees	$ 42,109	$ 43,587	$ (1,478)	(3)
Recurring	7,204	6,864	340	5
Other	5,881	5,773	108	2
Total revenues	55,194	56,224	(1,030)	(2)
Expenses:				
Compensation and employee benefits	15,856	18,717	(2,861)	(15)
Transaction processing	7,162	7,947	(785)	(10)
Other expenses	20,870	20,788	82	
Restructuring charges		(348)	348	(100)
Total expenses	43,888	47,104	(3,216)	(7)
Income before income tax expense	$ 11,306	$ 9,120	$ 2,186	24

Currency translation from a weaker Canadian Dollar decreased total Canadian revenues and expenses by $3.5 million and $2.6 million, respectively, resulting in a decrease of $0.9 million to pre-tax income.

Canadian commissions and fees declined 3% primarily as a result of unfavorable currency translation, offset by the growth in MATCH Now volumes of more than 70%.

Recurring revenues primarily reflects growth in the number of billable network connections through ITG Net and our billing for market data consumed by clients.

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Other revenues decreased slightly due to an increase in losses on client accommodations and lower revenues from principal trading, partially offset by additional income earned on foreign exchange transactions.

Compensation and employee benefits costs decreased primarily due to a decrease in share-based compensation, which fluctuates for legacy awards to Canadian employees based on the changes in the market price of our stock, as well as the impact of currency translation.

Transaction processing costs decreased due to lower rates for clearance and settlement and the impact of currency translation.

The increase in other expenses was primarily driven by higher historical market data charges and legal-related expenses partially offset by lower connectivity and the impact of currency translation.

In the second quarter of 2013, previously-recorded restructuring accruals from 2012 and 2011 were adjusted to reflect our then-current expectations.

European Operations

$ in thousands	**Nine Months Ended September 30, 2014**	**2013**	**Change**	**% Change**
Revenues:				
Commissions and fees	$ 85,830	$ 56,400	$ 29,430	52
Recurring	10,075	9,379	696	7
Other	(300)	(372)	72	(19)
Total revenues	95,605	65,407	30,198	46
Expenses:				
Compensation and employee benefits	26,623	22,831	3,792	17
Transaction processing	18,961	14,207	4,754	33
Other expenses	23,053	16,396	6,657	41
Restructuring charges		1,537	(1,537)	(100)
Total expenses	68,637	54,971	13,666	25
Income before income tax expense	$ 26,968	$ 10,436	$ 16,532	158

Currency translation from a stronger average British Pound increased European revenues and expenses by $7.4 million and $5.5 million, respectively, adding $1.9 million to pre-tax income.

European results include substantially all the RFQ-hub operations since the July 30, 2014 acquisition date, adding $0.9 million in revenues, mostly recurring, and $1.0 million in expenses, of which $0.7 is in compensation and employee benefits.

While daily European market-wide value traded increased 11%, the 52% growth in our European commissions and fees far outpaced that rate. We are continuing to benefit from the investments we have made in our infrastructure and our product suite resulting in increased activity from buy-side and sell-side clients using our electronic brokerage offerings, including our trading algorithms and POSIT, and from clients using our POSIT Alert block crossing system. We also saw increased commissions from the use of our high-touch trading services. Commissions and fees also benefitted from $6.5 million in favorable currency translation.

Recurring revenue increased primarily from the new connectivity revenue from RFQ-hub.

Compensation and employee benefits increased due to the impact of the RFQ-hub acquisition and higher incentive compensation related to improved performance. This increase was offset, in part, by the impact of $2.7 million in lower compensation associated with the outsourcing of our research and development facility in Israel to a third-party service provider.

Transaction processing costs increased due to the significant increase in value traded, but decreased as a percentage of commissions and fees due to the impact of a higher percentage of our value traded crossed in POSIT, including our POSIT Alert block crossing system, and our initiatives to reduce settlement and clearing costs.

Other expenses increased due to higher charges for global research and development costs and historical market data, higher consulting costs, net of capitalization, from outsourcing our research and development facility in Israel to a third-party service provider and new costs incurred by RFQ-hub.

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In the second quarter of 2013, we implemented a restructuring plan to close our technology research and development facility in Israel and outsource that function to a third party service provider effective January 1, 2014.

Asia Pacific Operations

$ in thousands	Nine Months Ended September 30, 2014	2013	Change	% Change
Revenues:				
Commissions and fees	$ 30,586	$ 30,452	$ 134	
Recurring	4,684	4,166	518	12
Other	(752)	(35)	(717)	NA
Total revenues	34,518	34,583	(65)	
Expenses:				
Compensation and employee benefits	14,955	14,874	81	1
Transaction processing	8,042	8,738	(696)	(8)
Other expenses	13,151	12,894	257	2
Total expenses	36,148	36,506	(358)	(1)
Loss before income tax benefit	$ (1,630)	$ (1,923)	$ 293	(15)

Currency translation from a weaker Australian Dollar decreased total Asia Pacific revenues and expenses both by $0.9 million, resulting in no impact on the year-to-date pre-tax loss.

Asia Pacific commissions and fees remained flat from the prior-year period despite a reduction in market-wide trading activity and unfavorable currency translation, due to the growth in commissions from clients using our POSIT Alert block crossing system and higher commission sharing revenues.

The growth in recurring revenues primarily reflects growth in the number of billable network connections through ITG Net and the decrease in other revenues is due to an increase in client trade accommodations of $0.8 million.

Compensation and employee benefits increased due to an increase in headcount and employee benefits partially offset by an increase in capitalization related to software development, lower incentive compensation and the impact of currency translation.

Transaction processing costs decreased due to a reduction in the value traded and our efforts to reduce execution and settlement costs. As a percentage of commissions and fees, transaction processing costs declined to 26.3% from 28.7% in the first nine months of 2013.

The decrease in other expenses reflects lower foreign currency transaction losses, partially offset by an increase in charges for historical market data and global research and development.

Consolidated income tax expense

Our effective tax rate was 19.7% in the first nine months of 2014 compared to 33.9% in the first nine months of 2013. The rate in 2014 remained relatively low as more than half of our pre-tax income came from our European Operations, which are taxed at a lower rate. Furthermore, in the U.S., we recorded $2.7 million in tax benefits for the net impact of settling multi-year tax return positions and establishing additional reserves for other tax positions. This reduction in rate was partially offset by a higher U.S. effective tax rate in the first nine months of 2014 due in part to tax legislation extending the research and experimental tax credit into 2014 not being passed. In the first nine months of 2013, although one third of our pre-tax income came from the lower tax rates in our European Operations, the U.S. was significantly aided by the full year of 2012 research and experimental credits recorded in 2013 from the timing of tax legislation. Our consolidated effective tax rate can vary from period to period depending on, among other factors, the geographic and business mix of our earnings.

Liquidity and Capital Resources

Liquidity

Our primary source of liquidity is cash provided by operations. Our liquidity requirements result from our working capital needs, which include clearing and settlement activities, as well as our regulatory capital needs. A substantial portion of our assets is liquid, consisting of cash and cash equivalents or assets readily convertible into cash. Cash is principally invested in U.S. government money market mutual funds and other money market mutual funds. At September 30, 2014, unrestricted cash and cash equivalents

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totaled $228.5 million. Included in this amount is $114.2 million of cash and cash equivalents held by subsidiaries outside the United States. Due to our current capital structure, we currently do not foresee a need to repatriate funds from certain foreign subsidiaries to the U.S. by way of dividends. Should we need to do so in the future, our effective tax rate may increase.

As a self-clearing broker-dealer in the U.S., we are subject to cash deposit requirements with clearing organizations that may be large in relation to total liquid assets and may fluctuate significantly based upon the nature and size of customers trading activity and market volatility. At September 30, 2014, we had interest-bearing security deposits totaling $33.6 million with clearing organizations in the U.S. for the settlement of equity trades. In the normal course of our U.S. settlement activities, we may also need to temporarily finance customer securities positions from short settlements or delivery failures. These financings may be funded from existing cash resources, borrowings under stock loan transactions or short-term bank loans under our committed facility. In January 2014, we entered into a new $150 million two-year revolving credit agreement with a syndicate of banks and JP Morgan Chase Bank, N.A. as administrative agent to finance these temporary positions and to satisfy temporary spikes in clearing margin requirements.

We self-clear equity trades in Hong Kong and Australia and maintain restricted cash deposits of $25.8 million to support overdraft facilities. In Europe, we maintain $28.0 million in restricted cash deposits supporting working capital facilities primarily in the form of overdraft protection for our European clearing and settlement needs.

Capital Resources

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

Operating Activities

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

(in thousands)	**Nine Months Ended September 30, 2014**		**2013**	
Net income	$	37,911	$	21,423
Non-cash items included in net income		52,417		56,793
Effect of changes in receivables/payables from/to customers and brokers		(87,149)		(38,364)
Effect of changes in other working capital and operating assets and liabilities		49,479		7,451
Net cash provided by operating activities	$	52,658	$	47,303

The cash flow provided by operating activities during the first nine months of 2014 was driven by an increase in net income and a decrease in deposits held by clearing organizations offset by an increase in cash used for settlement activities. The decrease in deposits with clearing organizations was offset by a $35.0 million repayment in short-term bank loans in the U.S., while the increase in cash used in settlement activities was offset by an increase of $51.4 million in international short-term bank loans. The net change of $16.4 million in short-term bank loan financing is included in financing activities below.

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

Investing Activities

Net cash used in investing activities of $49.1 million includes our acquisition of RFQ-hub, investments in software development projects, computer hardware and software and a minority interest investment.

Financing Activities

Net cash used in financing activities of $33.7 million primarily reflects repurchases of ITG common stock, shares withheld for net settlements of share-based awards and repayments of long-term debt, offset by net proceeds from short-term bank borrowings that are used to support our settlement activities.

On January 31, 2014, ITG Inc. as borrower, and Investment Technology Group, Inc. (Parent Company) as guarantor entered into a new $150 million two-year revolving credit agreement (the Credit Agreement) with a syndicate of banks and JPMorgan Chase Bank, N.A., as Administrative Agent. The Credit Agreement includes an accordion feature that allows for potential

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expansion of the facility up to $225 million. The terms and conditions of the Credit Agreement are substantially the same as the initial Credit Agreement that matured on January 31, 2014.

During the first nine months of 2014, we repurchased approximately 2.4 million shares of our common stock at a cost of $41.6 million, which was funded from our available cash resources. Of these shares, 2.0 million were purchased under our Board of Directors authorization for a total cost of $36.1 million (average cost of $17.76 per share). An additional 0.4 million shares repurchased ($5.5 million) pertained solely to the satisfaction of minimum statutory withholding tax upon the net settlement of equity awards. As of September 30, 2014, the total remaining number of shares currently available for repurchase under ITG s stock repurchase program was 1.4 million. On October 15, 2014, the Board of Directors authorized the repurchase of an additional 4.0 million shares, bringing the total number of shares available for repurchase at that time to 5.4 million shares. This additional authorization has no expiration date. The specific timing and amount of repurchases will vary based on market conditions and other factors.

Regulatory Capital

ITG Inc., AlterNet and ITG Derivatives are subject to the SEC s Uniform Net Capital Rule (Rule 15c3-1), which requires the maintenance of minimum net capital. ITG Inc. has elected to use the alternative method permitted by Rule 15c3-1, which requires that ITG Inc. maintain minimum net capital equal to the greater of $1.0 million or 2% of aggregate debit balances arising from customer transactions, as defined. AlterNet and ITG Derivatives have elected to use the basic method permitted by Rule 15c3-1, which requires that they each maintain minimum net capital equal to the greater of 6 2/3% of aggregate indebtedness or $100,000 and $1.0 million, respectively. Dividends or withdrawals of capital cannot be made if capital is needed to comply with regulatory requirements.

Net capital balances and the amounts in excess of required net capital at September 30, 2014 for the U.S. Operations are as follows (dollars in thousands):

	Net Capital	Excess
U.S. Operations		
ITG Inc.	$ 73,147	$ 72,147
AlterNet	4,817	4,597
ITG Derivatives	4,626	3,626

As of September 30, 2014, ITG Inc. had $10.7 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 $0.4 million under PABs.

In addition, the Company s Canadian, European and Asia Pacific Operations have subsidiaries with regulatory capital requirements. The regulatory net capital balances and amount of regulatory capital in excess of the minimum requirements applicable to each business at September 30, 2014, is summarized in the following table (dollars in thousands):

	Net Capital	Excess (Deficit)

Canadian Operations		
Canada	$ 40,364	$ 39,916
European Operations		
Ireland	72,948	21,802
U.K.	4,060	3,140
Asia Pacific Operations		
Australia	18,931	7,946
Hong Kong	28,037	12,243
Singapore	367	171

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Liquidity and Capital Resource Outlook

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

Off-Balance Sheet Arrangements and Aggregate Contractual Obligations

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

As of September 30, 2014, our other contractual obligations and commercial commitments consisted principally of fixed charges, including minimum future rentals under non-cancelable operating leases, minimum future purchases under non-cancelable purchase agreements and minimum compensation under employment agreements.

There has been no significant change to such arrangements and obligations since December 31, 2013.

New Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (the FASB) issued Accounting Standards Update (ASU) No. 2014-09, (ASU 2014-09), *Revenue from Contracts with Customers*. The standard provides companies with a single model for use in accounting for revenue arising from contracts with customers and supersedes current revenue recognition guidance, including industry-specific revenue guidance. The core principle of the model is to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Application of the new guidance involves five steps: (1) identifying contracts with customers; (2) identifying the separate performance obligations within the contracts; (3) determining the transaction price; (4) allocating the transaction price to the separate performance obligations; and (5) recognizing revenue when (or as) the performance obligations are satisfied. ASU 2014-09 applies to all contracts with customers except those that are within the scope of other topics in the FASB Accounting Standards Codification. The standard will also require significant additional qualitative and quantitative disclosures describing the nature, amount, timing, and uncertainty of revenues. The new guidance is effective for annual reporting periods (including interim periods within those periods) beginning after December 15, 2016 for public companies. Early adoption is not permitted. Entities have the option of using either a full retrospective or modified approach to adopt ASU 2014-09. We are currently evaluating the new guidance and have not yet selected a transition method nor have we determined the impact of adoption on our financial statements.

Critical Accounting Estimates

There has been no significant change to our critical accounting estimates, which are more fully described in Item 7, *Management s Discussion and Analysis of Financial Condition and Results of Operations*, in our Annual Report on Form 10-K for the year ended December 31, 2013 (as amended).

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, 2013 (as amended). There has been no material change in this information.

Item 4. Controls and Procedures

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

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

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

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

1A. Risk Factors

There has been no significant change to the risks or uncertainties that may affect our results of operations since December 31, 2013. Please see Item 1A in our Annual Report on Form 10-K for the year ended December 31, 2013 (as amended).

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

The following table sets forth our stock repurchase activity during the first nine months of 2014, including the total number of shares purchased, the average price paid per share, the number of shares repurchased as part of a publicly-announced plan or program, and the number of shares yet to be purchased under the plan or program.

ISSUER PURCHASES OF EQUITY SECURITIES

Period	**Total Number of Shares (or Units) Purchased (a)**	**Average Price Paid per Share (or Unit)**	**Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs**	**Maximum Number of Shares (or Units) that May Yet Be Purchased Under the Plans or Programs**
From: January 1, 2014				

To: January 31, 2014		$			3,447,440
From: February 1, 2014 To: February 28, 2014	869,072		16.80	560,000	2,887,440
From: March 1, 2014 To: March 31, 2014	186,214		18.00	183,800	2,703,640
From: April 1, 2014 To: April 30, 2014	1,810		19.55		2,703,640
From: May 1, 2014 To: May 31, 2014	458,952		18.82	458,600	2,245,040
From: June 1, 2014 To: June 30, 2014	314,020		18.25	312,237	1,932,803
From: July 1, 2014 To: July 31, 2014	2,051		17.55		1,912,803
From: August 1, 2014 To: August 31, 2014	303,355		17.76	300,000	1,632,803
From: September 1, 2014 To: September 30, 2014	223,711		17.06	220,000	1,412,803
Total	2,359,185	$	17.63	2,034,637	

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(a) This column includes the acquisition of 324,548 common shares from employees in order to satisfy minimum statutory withholding tax requirements upon net settlement of restricted share awards.

During the first nine months of 2014, we repurchased approximately 2.4 million shares of our common stock at a cost of $41.6 million, which was funded from our available cash resources. Of these shares, 2.0 million were purchased under our Board of Directors authorization for a total cost of $36.1 million (average cost of $17.76 per share). An additional 0.4 million shares repurchased ($5.5 million) pertained solely to the satisfaction of minimum statutory withholding tax upon the net settlement of equity awards. As of September 30, 2014, the total remaining number of shares currently available for repurchase under ITG s stock repurchase program was 1.4 million. On October 15, 2014, the Board of Directors authorized the repurchase of an additional 4.0 million shares, bringing the total number of shares available for repurchase at that time to 5.4 million shares. The specific timing and amount of repurchases will vary based on market conditions and other factors.

We have not paid a cash dividend to stockholders during any period of time covered by this report. Our current policy, which is reviewed continually, is to retain earnings to finance the operations and expansion of our businesses and to return capital to stockholders through repurchases. As a result, we are not currently paying cash dividends on common stock.

Item 3. Defaults Upon Senior Securities

Not applicable.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

Not applicable.

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Item 6. Exhibits

(A) **EXHIBITS**

31.1*	Rule 13a-14(a) Certification
31.2*	Rule 13a-14(a) Certification
32.1**	Section 1350 Certification
101*	Interactive Data File The following furnished materials from Investment Technology Group, Inc. s Quarterly Report on Form 10-Q for the quarter ended September 30, 2014, 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.

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SIGNATURE

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

INVESTMENT TECHNOLOGY GROUP, INC.
(Registrant)

Date: November 10, 2014 By: /s/ STEVEN R. VIGLIOTTI
Steven R. Vigliotti
Chief Financial Officer and Duly Authorized Signatory of Registrant