

INVESTMENT TECHNOLOGY GROUP INC
Form 10-Q
May 10, 2010
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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 March 31, 2010

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)

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Delaware
(State or Other Jurisdiction of Incorporation or
Organization)

95 - 2848406
(I.R.S. Employer Identification No.)

380 Madison Avenue, New York, New York
(Address of Principal Executive Offices)

10017
(Zip Code)

(212) 588 - 4000

(Registrant's Telephone Number, Including Area Code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes 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, or a smaller reporting company. See definitions of large accelerated filer, accelerated filer, and smaller reporting company in Rule 12b-2 of the Exchange Act.:

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

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

At April 30, 2010 the Registrant had 43,576,003 shares of common stock, \$0.01 par value, outstanding.

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QUARTERLY REPORT ON FORM 10-Q

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Investment Technology Group, ITG, AlterNet, ITG Net, Macgregor XIP, POSIT and POSIT Marketplace are registered trademarks or service marks of the Investment Technology Group, Inc. companies. ITG Derivatives is a trademark of the Investment Technology Group, Inc. companies.

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PRELIMINARY NOTES

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

FORWARD-LOOKING STATEMENTS

In addition to the historical information contained throughout this Quarterly Report on Form 10-Q, there are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the Securities Act), Section 21E of the Securities Exchange Act of 1934, as amended (the Exchange Act) and the Private Securities Litigation Reform Act of 1995. All statements regarding our expectations related to our future financial position, results of operations, revenues, cash flows, dividends, financing plans, business and product strategies, competitive positions, as well as the plans and objectives of management for future operations, and all expectations concerning securities markets, client trading and economic trends are forward-looking statements. In some cases, you can identify these statements by forward-looking words such as may, might, will, should, expect, plan, anticipate, believe, estimate, predict, potential or continue, and the negative of the 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, the actions of both current and potential new competitors, fluctuations in market trading volumes, financial market volatility, changes in commission pricing, potential impairment charges related to goodwill and other long-lived assets, evolving industry regulations, errors or malfunctions in our systems or technology, rapid changes in technology, cash flows into or redemptions from equity mutual funds, effects of inflation, ability to meet liquidity requirements related to the clearing of our customers' trades, customer trading patterns, the success of our products and service offerings, our ability to continue to innovate and meet the demands of our customers for new or enhanced products, our ability to successfully integrate companies we have acquired, changes in tax policy or accounting rules, fluctuations in foreign exchange rates, adverse changes or volatility in interest rates, our ability to attract and retain talented employees, as well as general economic, business, credit and financial market conditions, internationally and nationally.

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, 2009, which you are encouraged to read. Our 2009 Annual Report on Form 10-K is also available through our website at <http://investor.itg.com>.

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

Table of Contents**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)**

	March 31, 2010 (unaudited)	December 31, 2009
Assets		
Cash and cash equivalents	\$ 322,024	\$ 330,879
Cash restricted or segregated under regulations and other	92,627	95,787
Deposits with clearing organizations	19,451	14,891
Securities owned, at fair value	7,147	6,768
Receivables from brokers, dealers and clearing organizations	976,731	364,436
Receivables from customers	1,059,125	298,342
Premises and equipment, net	41,469	41,437
Capitalized software, net	64,139	68,913
Goodwill	425,346	425,301
Other intangibles, net	26,530	27,263
Income taxes receivable	7,682	13,897
Deferred taxes	2,515	2,910
Other assets	15,355	12,279
Total assets	\$ 3,060,141	\$ 1,703,103
Liabilities and Stockholders' Equity		
Liabilities:		
Accounts payable and accrued expenses	\$ 167,590	\$ 209,496
Payables to brokers, dealers and clearing organizations	953,207	248,664
Payables to customers	1,004,814	299,200
Securities sold, not yet purchased, at fair value	87	31
Income taxes payable	11,900	14,113
Deferred taxes	17,433	16,999
Long term debt	35,000	46,900
Total liabilities	2,190,031	835,403
Commitments and contingencies		
Stockholders' Equity:		
Preferred stock, \$0.01 par value; 1,000,000 shares authorized; no shares issued or outstanding		
Common stock, \$0.01 par value; 100,000,000 shares authorized; 51,731,780 and 51,682,153 shares issued at March 31, 2010 and December 31, 2009, respectively	517	517
Additional paid-in capital	231,059	233,374
Retained earnings	817,585	809,153
	(185,834)	(182,743)

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Common stock held in treasury, at cost; 8,196,381 and 7,891,717 shares at March 31, 2010 and December 31, 2009, respectively

Accumulated other comprehensive income (net of tax)	6,783	7,399
Total stockholders' equity	870,110	867,700
Total liabilities and stockholders' equity	\$ 3,060,141	\$ 1,703,103

See accompanying notes to unaudited condensed consolidated financial statements.

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INVESTMENT TECHNOLOGY GROUP, INC. AND SUBSIDIARIES

Condensed Consolidated Statements of Income (unaudited)

(In thousands, except per share amounts)

	Three Months Ended March 31,	
	2010	2009
Revenues:		
Commissions and fees	\$ 121,918	\$ 130,932
Recurring	21,971	21,162
Other	2,801	3,573
Total revenues	146,690	155,667
Expenses:		
Compensation and employee benefits	53,464	60,178
Transaction processing	20,659	22,930
Occupancy and equipment	15,197	14,838
Telecommunications and data processing services	13,635	13,970
Other general and administrative	28,070	19,041
Interest expense	224	1,212
Total expenses	131,249	132,169
Income before income tax expense	15,441	23,498
Income tax expense	7,009	10,660
Net income	\$ 8,432	\$ 12,838
Earnings per share:		
Basic	\$ 0.19	\$ 0.30
Diluted	\$ 0.19	\$ 0.29
Basic weighted average number of common shares outstanding	43,827	43,337
Diluted weighted average number of common shares outstanding	44,415	43,606

See accompanying notes to unaudited condensed consolidated financial statements.

Table of Contents**INVESTMENT TECHNOLOGY GROUP, INC. AND SUBSIDIARIES****Condensed Consolidated Statement of Changes in Stockholders Equity (unaudited)****Three Months Ended March 31, 2010****(In thousands, except share amounts)**

	Preferred Stock	Common Stock	Additional Paid-in Capital	Retained Earnings	Common Stock Held in Treasury	Accumulated Other Comprehensive Income	Total Stockholders Equity
Balance at January 1, 2010	\$	\$ 517	\$ 233,374	\$ 809,153	\$ (182,743)	\$ 7,399	\$ 867,700
Net income				8,432			8,432
Other comprehensive income:							
Currency translation adjustment						(759)	(759)
Unrealized holding gain on securities available-for-sale (net of tax)						143	143
Comprehensive income						\$	7,816
Issuance of common stock for share awards (286,467 shares) and employee stock unit awards (136,228 shares), including tax benefit decrease of \$0.8 million			(6,359)		9,764		3,405
Issuance of common stock for the employee stock purchase plan (49,627 shares)			864				864
Settlement of share-based awards (161,359 shares)					(2,939)		(2,939)
Purchase of common stock for treasury (566,000 shares)					(9,916)		(9,916)
Share-based compensation			3,180				3,180
Balance at March 31, 2010	\$	\$ 517	\$ 231,059	\$ 817,585	\$ (185,834)	\$ 6,783	\$ 870,110

See accompanying notes to unaudited condensed consolidated financial statements.

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INVESTMENT TECHNOLOGY GROUP, INC. AND SUBSIDIARIES

Condensed Consolidated Statements of Cash Flows (unaudited)

(In thousands)

	Three Months Ended March 31,	
	2010	2009
Cash flows from Operating Activities:		
Net income	\$ 8,432	\$ 12,838
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	16,043	14,618
Deferred income tax expense	673	5,612
Provision for doubtful accounts	247	(699)
Share-based compensation	3,307	3,336
Capitalized software write-off	6,091	
Changes in operating assets and liabilities:		
Cash restricted or segregated under regulations and other	609	10,686
Deposits with clearing organizations	(4,560)	(15,397)
Securities owned, at fair value	(376)	1,099
Receivables from brokers, dealers and clearing organizations	(627,793)	(239,945)
Receivables from customers	(773,052)	(636,960)
Accounts payable and accrued expenses	(41,383)	(50,464)
Payables to brokers, dealers and clearing organizations	718,884	110,113
Payables to customers	717,292	785,536
Securities sold, not yet purchased, at fair value	54	(2,384)
Income taxes payable	4,139	(1,027)
Excess tax benefit from share-based payment arrangements		(22)
Other, net	(3,505)	(3,076)
Net cash provided by / (used in) operating activities	25,102	(6,136)
Cash flows from Investing Activities:		
Acquisition of subsidiaries, net of cash acquired		(1,937)
Capital purchases	(5,721)	(2,585)
Capitalization of software development costs	(10,649)	(11,529)
Net cash used in investing activities	(16,370)	(16,051)
Cash flows from Financing Activities:		
Repayments of short-term bank loans		(24,900)
Repayments of long term debt	(11,900)	(11,900)
Excess tax benefit from share-based payment arrangements		22
Common stock issued	5,109	3,136
Common stock repurchased	(9,916)	
Shares withheld for net settlements of share-based awards	(2,939)	(933)
Net cash used in financing activities	(19,646)	(34,575)
Effect of exchange rate changes on cash and cash equivalents	2,059	(170)
Net decrease in cash and cash equivalents	(8,855)	(56,932)
Cash and cash equivalents beginning of year	330,879	352,960
Cash and cash equivalents end of period	\$ 322,024	\$ 296,028
Supplemental cash flow information		
Interest paid	\$ 346	\$ 1,561
Income taxes paid	\$ 2,846	\$ 6,432

See accompanying notes to unaudited condensed consolidated financial statements.

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INVESTMENT TECHNOLOGY GROUP, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements (unaudited)

(1) Organization and Basis of Presentation

ITG was formed as a Delaware corporation on July 22, 1983. Its principal subsidiaries and affiliates include: (1) ITG Inc., AlterNet Securities, Inc. (AlterNet) and ITG Derivatives LLC (ITG Derivatives), United States (U.S.) broker-dealers, (2) Investment Technology Group Limited (ITGL), an institutional broker-dealer in Europe, (3) ITG Australia Limited (ITG Australia), an institutional broker-dealer in Australia, (4) ITG Canada Corp. (ITG Canada), an institutional broker-dealer in Canada, (5) ITG Hong Kong Limited (ITG Hong Kong), an institutional broker-dealer in Hong Kong, (6) ITG Japan Ltd. (ITG Japan), an institutional broker-dealer in Japan, (7) ITG Software Solutions, Inc., an intangible property, software development and maintenance subsidiary in the U.S., and (8) ITG Solutions Network, Inc. (ITG Solutions Network), a holding company for ITG Analytics, Inc. (ITG Analytics), a provider of pre- and post- trade analysis, fair value and trade optimization services, and The Macgregor Group, Inc. (Macgregor), a provider of trade order management technology and network connectivity services for the financial community.

ITG is an independent agency brokerage and financial technology firm that partners with asset managers to deliver institutional global liquidity and help improve performance throughout the investment process. A unique partner in electronic trading since the launch of POSIT in 1987, ITG's integrated approach includes a range of products from portfolio management and pre-trade analysis to trade execution and post-trade evaluation. Institutional investors rely on ITG's independence, experience and agility to help measure performance, mitigate risk and navigate increasingly complex markets. The firm is headquartered in New York with offices in North America, Europe and the Asia Pacific region.

The Company's reportable operating segments are: U.S. Operations, Canadian Operations, European Operations and Asia Pacific Operations. The U.S. Operations segment provides trade execution, trade order management, network connectivity and research services to institutional investors, brokers, alternative investment funds and money managers. The Canadian Operations segment provides trade execution, network connectivity and research service businesses. The European Operations segment provides trade execution, trade order management, network connectivity and research services in Europe and includes a technology research and development facility in Israel. The Asia Pacific Operations segment provides trade execution, network connectivity and research service businesses in the Asia Pacific region.

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

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.

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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 our Annual Report on Form 10-K for the year ended December 31, 2009.

Recent Accounting Pronouncements

In January 2010, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2010-06, which updates the guidance in Accounting Standards Codification (ASC) 820, *Fair Value Measurements and Disclosures*, related to disclosures about fair value measurements. The amounts of significant transfers in and out of Level 1 and Level 2 fair value measurements will require separate disclosure along with the reasons for the transfers. The reconciliation for fair value measurements in Level 3 information about purchases, sales, issuances and settlements on a gross rather than net basis will also have to be disclosed separately. The ASU also amends ASC Subtopic 820-10 to clarify certain existing disclosures regarding the level of disaggregation at which fair value measurements are provided for each class of assets and liabilities (instead of major category) and disclosures about inputs and valuation techniques used to measure fair value for both recurring and nonrecurring fair value measurements that fall in either Level 2 or Level 3. Except for the detailed Level 3 disclosures, the guidance in the ASU is effective for annual and interim

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periods beginning after December 15, 2009. The new disclosures about purchases, sales, issuances and settlements in the roll forward activity for Level 3 fair value measurements are effective for interim and annual reporting periods beginning after December 15, 2010. Early adoption is permitted. In the initial adoption period, entities are not required to include disclosures for previous comparative periods; however, they are required for periods ending after initial adoption. The adoption of the guidance effective in the first quarter of 2010 did not have a material impact on the Company's disclosures nor does the Company expect the adoption of the remaining guidance in the first quarter of 2011 to impact its disclosures.

In February 2010, the FASB issued ASU No. 2010-09, which updates the guidance in ASC 855, *Subsequent Events*, such that companies that file with the SEC will no longer be required to indicate the date through which they have analyzed subsequent events. This updated guidance became effective immediately upon issuance and was adopted as of the first quarter of 2010.

(2) Fair Value Measurements

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

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

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

March 31, 2010	Total	Level 1	Level 2	Level 3
Assets				
Cash and cash equivalents:				
Tax free money market mutual funds	\$ 6,344	\$ 6,344	\$	\$
U.S. Government money market mutual funds	220,922	220,922		
Money market mutual funds	5,966	5,966		
Securities owned, at fair value:				
Trading securities	201	201		
Available-for-sale securities	1,642	1,642		
Equity index mutual funds	3,412	3,412		
Bond mutual funds	1,892	1,892		
Other assets:				

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Currency forward contracts		235			235
Total	\$	240,614	\$	240,379	\$ 235

Liabilities

Securities sold, not yet purchased, at fair value:

Common stock		87		87	
Total	\$	87	\$	87	\$

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December 31, 2009	Total	Level 1	Level 2	Level 3
Assets				
Cash and cash equivalents:				
Tax free money market mutual funds	\$ 8,938	\$ 8,938	\$	\$
U.S. Government money market mutual funds	207,133	207,133		
Money market mutual funds	4,514	4,514		
Securities owned, at fair value:				
Trading securities	125	125		
Available-for-sale securities	1,403	1,403		
Equity index mutual funds	3,357	3,357		
Bond mutual funds	1,883	1,883		
Total	\$ 227,353	\$ 227,353	\$	\$
Liabilities				
Accounts payable and accrued expenses:				
Currency forward contracts	\$ 3	\$	\$ 3	\$
Securities sold, not yet purchased, at fair value:				
Common stock	31	31		
Total	\$ 34	\$ 31	\$ 3	\$

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

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

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

Assets measured at fair value on a nonrecurring basis are as follows (dollars in thousands):

	March 31, 2010	Fair Value Measurements Using			Total Losses
		Level 1	Level 2	Level 3	
Capitalized software	\$	\$	\$	\$	\$ 6,091
Total	\$	\$	\$	\$	\$ 6,091

Following the 2009 restructuring (see Note 3, *Restructuring Charges*), the Company continued to evolve its product development plan in the first quarter of 2010, and as a result determined that additional capitalized development initiatives were not likely to be used. Included in other general and administrative expense for the three months ended March 31, 2010 is a charge of \$6.1 million to write off these amounts.

(3) Restructuring Charges

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In the fourth quarter of 2009, the Company committed to a restructuring plan (aimed primarily at our U.S. Operations) to reengineer our operating model to focus on a leaner cost structure and a more selective deployment of resources towards those areas of our business that provide a sufficiently profitable return. As a result, a \$25.4 million restructuring charge was recorded, which included costs related to employee separation, the consolidation of leased facilities and write-offs of capitalized software and certain intangible assets primarily due to changes in product priorities. Employee separation and related costs pertain to the termination of 144 employees primarily from the U.S. Operations. The consolidation of leased facilities charges relate to non-cancelable leases which were vacated.

The following table summarizes the changes in the Company's liability balance included in accounts payable and accrued expenses in the Condensed Consolidated Statements of Financial Condition (dollars in thousands):

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	Employee separation and related costs		Consolidation of leased facilities		Total
Balance at December 31, 2009	\$ 16,451	\$	1,568	\$	18,019
Utilized cash	13,840		176		14,016
Non-cash adjustment	86				86
Balance at March 31, 2010	\$ 2,525	\$	1,392	\$	3,917

The remaining accrued costs are expected to be paid during 2010, except payments related to the leased facilities, which will continue until April 2012.

(4) Derivative Instruments*Derivative Contracts*

All derivative instruments are recorded on the Condensed Consolidated Statements of Financial Condition at fair value in other assets or accounts payable and accrued expenses. Recognition of the gain or loss that results from recording and adjusting a derivative to fair value depends on the intended purpose for entering into the derivative contract. Gains and losses from derivatives that are not accounted for as hedges under ASC 815, *Derivatives and Hedging*, are recognized immediately in income. For derivative instruments that are designated and qualify as a fair value hedge, the gains or losses from adjusting the derivative to its fair value will be immediately recognized in income and, to the extent the hedge is effective, offset the concurrent recognition of changes in the fair value of the hedged item. Gains or losses from derivative instruments that are designated and qualify as a cash flow hedge will be recorded on the Condensed Consolidated Statements of Financial Condition in accumulated other comprehensive income (OCI) until the hedged transaction is recognized in income. However, to the extent the hedge is deemed ineffective, the ineffective portion of the change in fair value of the derivative will be recognized immediately in income. For discontinued cash flow hedges, prospective changes in the fair value of the derivative are recognized in income. Any gain or loss in accumulated other comprehensive income at the time the hedge is discontinued will continue to be deferred until the original forecasted transaction occurs. However, if it is determined that the likelihood of the original forecasted transaction is no longer probable, the entire related gain or loss in accumulated other comprehensive income is immediately reclassified into income.

Economic Hedges

The Company enters into three month forward contracts to sell Euros and buy British Pounds to economically hedge against the risk of currency movements on Euro deposits held in banks across Europe for equity trade settlement. When a contract matures, an assessment is made as to whether or not the contract value needs to be amended prior to entering into another, to ensure continued economic hedge effectiveness. As these contracts are not designated as hedges, the changes to their fair value are recognized immediately in income. The related counterparty agreements do not contain any credit-risk related contingent features. There were no open three month forward contracts outstanding at March 31, 2010.

When clients request trade settlement in a currency other than the currency in which the trade was executed, the Company enters into foreign exchange contracts in order to close out the resulting foreign currency position. The foreign exchange deals are executed the same day as the underlying trade for value on the trade settlement date, typically three days later. As these contracts are not designated as hedges, the changes to

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their fair value are recognized immediately in income. These foreign exchange contracts are reflected in the tables below.

Fair Values and Effects of Derivatives Held

Asset derivatives are included in other assets while liability derivatives are included in accounts payable and accrued expenses on the Condensed Consolidated Statements of Financial Condition. The following table summarizes the fair values of our derivative instruments at March 31, 2010 and December 31, 2009 (dollars in thousands). There were no derivatives designated as hedging instruments in either period.

	Asset / (Liability) Derivatives Fair Value	
	March 31, 2010	December 31, 2009
Derivatives not designated as hedging instruments:		
Currency forward contracts	\$ 235	\$ (3)
Total derivatives not designated as hedging instruments	235	(3)
Total derivatives	\$ 235	\$ (3)

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All currency forward contracts open at March 31, 2010 matured in April 2010.

The following table summarizes the impact the effective portion of derivative instruments had on the results of operations (dollars in thousands) during the three months ended March 31, 2010 and 2009. Losses were reclassified from OCI into interest expense on the Condensed Consolidated Statements of Income as of March 31, 2009.

	Gain/(Loss) Recognized in OCI (Effective Portion)		Gain/(Loss) Reclassified from OCI into Income (Effective Portion)		
	2010	2009	2010	2009	
	Interest rate swaps	\$	\$	\$	
Total	\$	\$	\$	\$	(450)

The following table summarizes the impact that derivative instruments not designated as hedging instruments under ASC 815 had on the results of operations at March 31, which are recorded in other general and administrative expense in the Condensed Consolidated Statements of Income (dollars in thousands).

Derivatives Not Designated as Hedging Instruments	Gain/(Loss) Recognized in Income			
	2010		2009	
Currency forward contracts	\$	62	\$	326
Total	\$	62	\$	326

(5) Cash Restricted or Segregated Under Regulations and Other

Cash restricted or segregated under regulations and other represents (i) funds on deposit for the purpose of securing working capital facilities for clearing and settlement activities in Hong Kong, (ii) a special reserve bank account for the exclusive benefit of customers and brokers (Special Reserve Bank Account) maintained by ITG Inc. in accordance with Rule 15c3-3 of the Exchange Act (Customer Protection Rule), (iii) funds relating to the securitization of a letter of credit and a bank guarantee supporting two Macgregor leases, (iv) funds on deposit for European trade clearing and settlement activity, (v) segregated balances maintained on behalf of customers under certain directed brokerage arrangements and (vi) funds relating to the securitization of bank guarantees supporting Australian and Israeli leases.

(6) Securities Owned and Sold, Not Yet Purchased

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

Securities Owned	Securities Sold, Not Yet Purchased
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	March 31, 2010	December 31, 2009	March 31, 2010	December 31, 2009
Corporate stocks trading securities	\$ 201	\$ 125	\$	\$