

SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

FORM 10-Q

Quarterly Report Under Section 13 or 15(d) of the  
Securities Exchange Act of 1934

For the quarterly period ended June 28, 1996 Commission file number: 0 - 23644

INVESTMENT TECHNOLOGY GROUP, INC.

(Exact Name of Registrant as Specified in Its Charter)

DELAWARE  
(State or Other Jurisdiction of  
Incorporation or Organization)

13 - 3757717  
(I.R.S. Employer  
Identification No.)

900 Third Avenue, New York, New York  
(Address of Principal Executive Offices)

(212) 755 - 6800  
(Registrant's Telephone Number,  
Including Area Code)

10022  
(Zip 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

As of August 5, 1996, the Registrant had 18,254,800 shares of common stock, \$.01 par value, outstanding.

QUARTERLY REPORT ON FORM 10-Q

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PART I. - FINANCIAL INFORMATION

Item 1. Financial Statements

CONSOLIDATED STATEMENT OF FINANCIAL CONDITION  
DOLLARS IN THOUSANDS, EXCEPT PER SHARE DATA

	June 28, 1996 ----- (unaudited)	December 31, 1995 -----
<b>ASSETS</b>		
Cash and cash equivalents.....	\$36,555	\$17,960
Securities owned.....	6,031	8,509
Trade receivables.....	4,616	2,482
Trade receivable from affiliate.....	2,542	7,766
Due from affiliates.....	928	5,001
Premises and equipment.....	6,679	4,852
Capitalized software.....	3,152	2,757
Other assets.....	2,798	2,640
Goodwill.....	2,746	3,021
Deferred tax asset.....	1,612	330
	-----	-----
	\$67,659	\$55,318
	=====	=====
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Accounts payable and accrued expenses.....	\$ 7,832	\$ 5,112
Software royalties payable.....	2,030	1,794
Securities sold, not yet purchased.....	63	--
Due to affiliates.....	2,138	2,243
Income taxes payable to affiliate.....	803	690
	-----	-----
	12,866	9,839
Stockholders' equity:		
Preferred stock, par value \$.01; shares authorized: 5,000,000; none issued.....	--	--
Common stock, par value \$.01; shares authorized: 30,000,000; shares issued: 18,700,000.....	187	187
Additional paid-in capital.....	36,055	36,055
Retained earnings.....	22,242	11,279
Common stock held in treasury, at cost; shares: 440,200 at June 28, 1996 and 310,200 at December 31, 1995	(3,691)	(2,042)
	-----	-----
Total stockholders' equity.....	54,793	45,479
	-----	-----
	\$67,659	\$55,318
	=====	=====
Book value per share.....	\$ 3.00	\$ 2.47

=====

=====

See accompanying unaudited notes to consolidated financial statements.

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CONSOLIDATED STATEMENT OF OPERATIONS (UNAUDITED)  
DOLLARS AND SHARES IN THOUSANDS, EXCEPT PER SHARE AMOUNTS

	Six Months Ended	
	June 28, 1996 ----	June 30, 1995 ----
Revenues .....	\$52,980	\$33,043
Expenses:		
Compensation and employee benefits .....	12,021	7,071
Transaction processing .....	7,475	4,933
Software royalties .....	4,243	2,645
Occupancy and equipment .....	2,284	1,701
Consulting .....	1,546	959
Telecommunications and data processing services .....	2,176	1,162
Other general and administrative .....	3,749	2,898
	-----	-----
	33,494	21,369
	-----	-----
Earnings before income tax expense .....	19,486	11,674
Income tax expense .....	8,523	5,149
	-----	-----
Net earnings .....	\$10,963	\$ 6,525
	=====	=====
Net earnings per share of common stock .....	\$ 0.59	\$ 0.35
	=====	=====
Weighted average shares of common stock and common stock equivalents outstanding .....	18,606	18,526
	=====	=====

See accompanying unaudited notes to consolidated financial statements.

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CONSOLIDATED STATEMENT OF OPERATIONS (UNAUDITED)  
DOLLARS AND SHARES IN THOUSANDS, EXCEPT PER SHARE AMOUNTS

	Three Months Ended	
	June 28, 1996 ----	June 30, 1995 ----

Revenues .....	\$26,313	\$16,700
Expenses:		
Compensation and employee benefits .....	6,006	3,529
Transaction processing .....	3,776	2,727
Software royalties .....	2,022	1,264
Occupancy and equipment .....	1,257	883
Consulting .....	692	396
Telecommunications and data processing services ...	925	676
Other general and administrative .....	1,783	1,332
	-----	-----
	16,461	10,807
	-----	-----
Earnings before income tax expense .....	9,852	5,893
Income tax expense .....	4,285	2,543
	-----	-----
Net earnings .....	\$ 5,567	\$ 3,350
	=====	=====
Net earnings per share of common stock .....	\$ 0.30	\$ 0.18
	=====	=====
Weighted average shares of common stock and common stock equivalents outstanding .....	18,574	18,520
	=====	=====

See accompanying unaudited notes to consolidated financial statements.

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CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY (UNAUDITED)  
SIX MONTHS ENDED JUNE 28, 1996  
DOLLARS IN THOUSANDS

	Preferred Stock	Common Stock	Additional Paid-in Capital	Retained Earnings	Common Stock Held in Treasury	Total Stock- holders' Equity
	-----	-----	-----	-----	-----	-----
Balance at December 31, 1995 ...	\$--	\$ 187	\$36,055	\$11,279	\$(2,042)	\$45,479
Purchase of common stock for treasury (130,000 shares)					(1,649)	(1,649)
Net earnings .....				10,963		10,963
Balance at June 28, 1996 .....	\$--	\$ 187	\$36,055	\$22,242	\$(3,691)	\$54,793
	=====	=====	=====	=====	=====	=====

See accompanying unaudited notes to consolidated financial statements.

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CONSOLIDATED STATEMENT OF CASH FLOWS (UNAUDITED)  
DOLLARS IN THOUSANDS

	Six Months Ended	
	June 28, 1996	June 30, 1995
	-----	-----
Cash flows from operating activities:		
Net earnings .....	\$10,963	\$ 6,525
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Deferred income tax (benefit) expense .....	(1,282)	1,618
Depreciation and amortization .....	1,618	1,003
Unearned income related to investments .....	(83)	(293)
Decrease (increase) in operating assets:		
Securities owned .....	2,478	(865)
Trade receivables .....	(2,134)	(880)
Trade receivable from affiliate .....	5,224	(1,517)
Due from affiliates .....	4,073	--
Income taxes receivable from affiliate .....	--	1,405
Other assets .....	(303)	(315)
Increase (decrease) in operating liabilities:		
Accounts payable and accrued expenses .....	2,948	1,325
Software royalties payable .....	236	208
Termination of plans expense payable .....	--	(758)
Due to affiliates .....	(105)	689
Securities sold, not yet purchased .....	63	802
Income taxes payable to affiliate .....	113	1,614
Net cash provided by operating activities .....	23,809	10,561
	-----	-----
Cash flows from financing activities:		
Purchase of common stock for treasury .....	(1,649)	(525)
Net cash used by financing activities .....	(1,649)	(525)
	-----	-----
Cash flows from investing activities:		
Purchase of premises and equipment .....	(2,611)	(2,138)
Capitalization of software development costs .....	(954)	(964)
Net cash used by investing activities .....	(3,565)	(3,102)
	-----	-----
Net increase in cash and cash equivalents .....	18,595	6,934
Cash and cash equivalents - beginning of period .....	17,960	21,446
Cash and cash equivalents - end of period .....	\$36,555	\$28,380
	=====	=====
Supplemental cash flow information:		
Interest paid .....	\$ 54	\$ 2
	=====	=====
Income taxes paid to affiliate .....	\$ 9,692	\$ 512
	=====	=====

See accompanying unaudited notes to consolidated financial statements.

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CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

BASIS OF PRESENTATION

The consolidated financial statements include the accounts of Investment Technology Group, Inc. and its wholly-owned subsidiaries (collectively, the "Company"), principally ITG Inc. ("ITG"), a Delaware corporation, registered as a broker-dealer in securities under the Securities Exchange Act of 1934, and ITG Global Trading, Inc. ("Global Trading") which is a 50% partner in the Global POSIT joint venture. Jefferies Group, Inc. ("Jefferies Group") owned over 80% of the Company's common stock at June 28, 1996.

All material intercompany balances and transactions are eliminated in consolidation. The consolidated financial statements reflect all adjustments which are, in the opinion of management, necessary for the fair statement of the results for the interim periods and should be read in conjunction with the Company's 1995 annual report on Form 10-K.

Certain reclassifications have been made to the financial statements for the

prior period to conform to the presentation for 1996.

INCOME TAXES

The Company is a member of the Jefferies affiliated group ("Group") for purposes of filing a Federal income tax return (i.e., Jefferies Group owns more than 80% of the Company). The Company's tax liability is determined on a "separate return" basis. That is, the Company is required to pay to Jefferies Group its proportionate share of the consolidated tax liability plus any excess of its "separate" tax liability (assuming a separate tax return were to be filed by the Company) over its proportionate amount of the consolidated Group tax liability. Alternatively, Jefferies Group is required to pay the Company an "additional amount" for the amount by which the consolidated tax liability of the Group is decreased by reason of inclusion of the Company in the Group.

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

FIRST HALF 1996 VERSUS FIRST HALF 1995 (Dollars in millions, except as noted)

	Six Months Ended		Change	
	June 28, 1996	June 30, 1995	Amount	Percentage
Revenues	\$53.0	\$33.0	\$20.0	61%
Number of Trading Days	126	126	0	0%
Revenues per Trading Day (Dollars in thousands)	\$ 421	\$ 262	\$ 159	61%

Increased revenues were attributed to a growing use of POSIT, QuantEX and the Company's other electronic trading desk services. For the six months ended June 28, 1996, POSIT revenues were approximately 59% or \$12.0 million above the comparable period for 1995, while QuantEX revenues were approximately 67% or \$5.2 million above the comparable period for 1995. For the six months ended June 28, 1996, other electronic trading desk services were \$3.2 million above the comparable period for 1995.

	Six Months Ended		Change	
	June 28, 1996	June 30, 1995	Amount	Percentage
Compensation and employee benefits expense	\$12.0	\$7.1	\$4.9	69%
Number of employees at period end	149	111	38	34%
Revenues per employee (Dollars in thousands)	\$ 356	\$297	\$ 59	20%
Compensation and employee benefits expense per employee (Dollars in thousands)	\$ 81	\$ 64	\$ 17	27%

The increase in compensation and employee benefits expense is due primarily to an increase in the number of employees and an increase in profitability based compensation.

	Six Months Ended		Change	
	June 28, 1996	June 30, 1995	Amount	Percentage
Transaction processing expense	\$ 7.5	\$ 4.9	\$ 2.6	53%
Transaction processing expense as a percentage of revenues	14.2%	14.8%	(0.6%)	(4.1%)

The increase is primarily due to the expense associated with a higher volume of transactions in 1996. The decrease in expense per revenues is due to lower

execution charges as a result of volume discounts and a change in the mix of ticket types in favor of lower priced tickets.

	Six Months Ended		Change	
	June 28, 1996	June 30, 1995	Amount	Percentage
Software royalties expense	\$4.2	\$2.6	\$1.6	62%

The increase is due to higher revenue associated with POSIT.

	Six Months Ended		Change	
	June 28, 1996	June 30, 1995	Amount	Percentage
Occupancy and equipment expense	\$2.3	\$1.7	\$0.6	35%

The increase is due primarily to depreciation of premises and equipment acquired since the beginning of 1995 and increased rent expense, which is primarily related to opening the new Boston office in April 1995.

	Six Months Ended		Change	
	June 28, 1996	June 30, 1995	Amount	Percentage
Consulting expense	\$1.5	\$1.0	\$0.5	50%

Consulting is primarily for equity research functions which the Company currently believes are advantageous to out-source. The increase is due primarily to the Firm undertaking special projects related to contingency planning and systems' security.

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	Six Months Ended		Change	
	June 28, 1996	June 30, 1995	Amount	Percentage
Telecommunications and data processing services expense	\$2.2	\$1.2	\$1.0	83%

The increase is due primarily to an increase in quotation services and communications charges associated with the increased number of QuantEX installations. In addition, an increased level of activity in the existing QuantEX business raised the semi variable component of the quotation services and communications charges.

	Six Months Ended		Change	
	June 28, 1996	June 30, 1995	Amount	Percentage
Other general and administrative expense	\$3.7	\$2.9	\$0.8	28%

The increase is largely due to an increase in amortization of capitalized

software and allowances for general legal and bad debt expenses.

	Six Months Ended		Change	
	June 28, 1996	June 30, 1995	Amount	Percentage
Income tax expense	\$8.5	\$5.1	\$3.4	67%

The increase is entirely due to the increase in pretax earnings.

SECOND QUARTER 1996 VERSUS SECOND QUARTER 1995 (Dollars in millions, except as noted)

	Three Months Ended		Change	
	June 28, 1996	June 30, 1995	Amount	Percentage
Revenues	\$26.3	\$16.7	\$9.6	57%
Number of Trading Days	63	63	0	0%
Revenues per Trading Day (Dollars in thousands)	\$ 418	\$ 265	\$153	58%

Increased revenues were attributed to a growing use of POSIT, QuantEX and the Company's other electronic trading desk services. For the quarter ended June 28, 1996, POSIT revenues were approximately 61% or \$5.8 million above the comparable period for 1995, while QuantEX revenues were approximately 61% or \$2.6 million above the comparable period for 1995. For the quarter ended June 28, 1996, other electronic trading desk services were \$1.2 million above the comparable period for 1995.

	Three Months Ended		Change	
	June 28, 1996	June 30, 1995	Amount	Percentage
Compensation and employee benefits expense	\$6.0	\$3.5	\$2.5	71%
Number of employees at period end	149	111	38	34%
Revenues per employee (Dollars in thousands)	\$177	\$150	\$ 27	18%
Compensation and employee benefits expense per employee (Dollars in thousands)	\$ 40	\$ 32	\$ 8	25%

The increase in compensation and employee benefits expense is due primarily to an increase in the number of employees and an increase in profitability based compensation.

	Three Months Ended		Change	
	June 28, 1996	June 30, 1995	Amount	Percentage
Transaction processing expense	\$ 3.8	\$ 2.7	\$ 1.1	41%
Transaction processing expense as a percentage of revenues	14.4%	16.2%	(1.8%)	(11.1%)

Investment Technology Group, Inc. and Subsidiaries

The increase is primarily due to the expense associated with a higher volume of transactions in 1996. The decrease in expense per revenues is due to lower execution charges as a result of volume discounts and a change in the mix of ticket types in favor of lower priced tickets.



	Three Months Ended		Change	
	June 28, 1996	June 30, 1995	Amount	Percentage
Software royalties expense	\$2.0	\$1.3	\$0.7	54%

The increase is due to higher revenue associated with POSIT.

	Three Months Ended		Change	
	June 28, 1996	June 30, 1995	Amount	Percentage
Occupancy and equipment expense	\$1.3	\$0.9	\$0.4	44%

The increase is due primarily to depreciation of premises and equipment acquired since the beginning of 1995.

	Three Months Ended		Change	
	June 28, 1996	June 30, 1995	Amount	Percentage
Consulting expense	\$0.7	\$0.4	\$0.3	75%

Consulting is primarily for equity research functions which the Company currently believes are advantageous to out-source. The increase is due primarily to the Firm undertaking special projects related to contingency planning and systems' security.

	Three Months Ended		Change	
	June 28, 1996	June 30, 1995	Amount	Percentage
Telecommunications and data processing services expense	\$0.9	\$0.7	\$0.2	29%

The increase is due primarily to an increase in quotation services and communications charges associated with the increased number of QuantEX installations. In addition, an increased level of activity in the existing QuantEX business raised the semi variable component of the quotation services and communications charges.

	Three Months Ended		Change	
	June 28, 1996	June 30, 1995	Amount	Percentage
Other general and administrative expense	\$1.8	\$1.3	\$0.5	38%

The increase is largely due to an increase in the allowance for bad debt expenses.

	Three Months Ended		Change	
	June 28, 1996	June 30, 1995	Amount	Percentage
Income tax expense	\$4.3	\$2.5	\$1.8	72%

The increase is primarily due to the increase in pretax earnings, as well as an increase in the effective tax rate from 43.2% to 43.5%.

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Item 4 Submission of Matters to a Vote of Security Holders

- (a) Date of Meeting - May 14, 1996
- Type of Meeting - Annual Meeting of Stockholders

(b) At the meeting, the following directors were elected by the stockholders to hold office until the next annual meeting of stockholders or until their successors have been duly elected and qualified:

Frank E. Baxter  
Richard G. Dooley  
David F. Eisner  
William I. Jacobs  
Raymond L. Killian, Jr.  
Robert L. King  
Dale A. Prouty  
Scott P. Mason  
Mark A. Wolfson

(c) At the meeting, with respect to the election of the directors, the following votes were cast in the following manner:

Election of Directors

NAME ----	FOR ---	WITHHELD -----
Frank E. Baxter	18,299,125	5,400
Richard G. Dooley	18,299,125	5,400
David F. Eisner	18,299,125	5,400
William I. Jacobs	18,299,125	5,400
Raymond L. Killian, Jr.	18,299,125	5,400
Robert L. King	18,299,125	5,400
Dale A. Prouty	18,299,125	5,400
Scott P. Mason	18,299,125	5,400
Mark A. Wolfson	18,299,125	5,400

Approval of the Non-employee Directors' Stock Option Plan

	Number of Shares -----
For	18,278,280
Against	18,070
Abstain	4,000
Broker Non-votes	4,175

(d) Not applicable

PART II. - OTHER INFORMATION

Item 6. Exhibits and Reports on Form 8-K

- (a) Exhibits
  - Exhibit 27 - Financial Data Schedule
- (b) Reports on Form 8-K.

There were no reports filed on Form 8-K during the quarter ended June 28, 1996.

Investment Technology Group, Inc. and Subsidiaries

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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: August 14, 1996

By: /s/ John R. MacDonald

-----  
John R. MacDonald  
Chief Financial Officer, and  
Duly Authorized Signatory of Registrant

INVESTMENT TECHNOLOGY GROUP, INC. AND SUBSIDIARIES

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EXHIBIT INDEX

Exhibit 27

Financial Data Schedule

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