

UNITED STATES SECURITIES AND EXCHANGE COMMISSION  
 Washington, D.C. 20549  
 FORM 10-K  
 Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of  
 1934

For the fiscal year ended December 31, 1996

Commission File Number

0 - 23644

INVESTMENT TECHNOLOGY GROUP, INC.  
 (Exact name of registrant as specified in its charter)

<p style="text-align: center;">DELAWARE</p> <p style="text-align: center;">(State of incorporation)          900 Third Avenue, New York, New York</p> <p style="text-align: center;">(Address of principal executive offices)          10022</p> <p style="text-align: center;">(Zip Code)</p> <p>Securities registered pursuant to Section 12(b) of the Act:          None</p> <p>Securities registered pursuant to Section 12(g) of the Act:          National Association of Securities Dealers          Automated Quotation System</p> <p style="text-align: center;">Common Stock, \$0.01 par value</p> <p style="text-align: center;">(Title of class)</p> <p>Aggregate market value of the voting stock          held by nonaffiliates of the Registrant at          March 7, 1997:          \$65,030,000</p>	<p style="text-align: center;">13-3757717</p> <p style="text-align: center;">(IRS Employer Identification No.)          (212) 755-6800</p> <p style="text-align: center;">(Registrant's telephone number, including          area code)</p> <p style="text-align: center;">(Name of exchange on which registered)          Number of shares outstanding of the          Registrant's class of common stock at March          7, 1997:          18,251,500</p>
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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 if disclosure of delinquent filers pursuant to item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this form 10-K or any amendment to this form 10-K

Documents incorporated by reference:

Proxy Statement relating to the 1997 Annual Meeting of Stockholders (incorporated, in part, in 10-K Part III).

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FORWARD-LOOKING STATEMENTS

In addition to the historical information contained throughout this Annual Report on Form 10-K, there are forward-looking statements that reflect management's expectations for the future. A variety of important factors could cause results to differ materially from such statements. These factors are noted throughout this Annual Report on Form 10-K and include: the actions of both current and potential new competitors, rapid changes in technology, financial market volatility, evolving industry regulation, cash flows into or redemptions from equity funds, effects of inflation, customer trading patterns, and new products and services.

Investment Technology Group, Inc.

PART I

ITEM 1. BUSINESS

Investment Technology Group, Inc., through its wholly-owned broker dealer subsidiary ITG Inc. (ITG), provides automated equity trading services and transaction research to institutional investors and brokers. A full service execution firm, ITG utilizes transaction processing technology to increase the effectiveness and lower the cost of institutional and other trading. With an emphasis on ongoing research, ITG offers the following services:

- ITG POSIT. An electronic stock crossing system
- ITG QuantEX. A decision-support and execution system
- Electronic Trading Desk Services. Offers customers trading capabilities through the ITG trading desk which utilizes multiple sources of liquidity
- ITG Platform. A PC based execution system
- ITG ISIS. A set of analytical tools for systematically lowering transaction costs

The Company generates substantially all of its revenue from its POSIT, QuantEX, and Electronic Trading Desk Services.

POSIT(R) (1)

POSIT was introduced in 1987 as a technology-based solution to the trade execution needs of quantitative and passive investment managers. POSIT is an electronic stock crossing system through which customers enter buy and sell orders to trade single stocks and portfolios of equity securities confidentially among themselves. Orders may be placed on the system either through direct computer links to the Company's central computer or indirectly by communicating with the Company's trading desk, which then enters the orders in the central computer. ITG also entered into strategic alliances, which enable users of other popular trading systems, to route orders directly to POSIT. Links with ESI Securities, Bridge Information Systems and BRASS were established in 1994. The system, which currently accepts orders for approximately 10,000 different equity securities, may be modified, as the need arises, to include additional equity securities registered pursuant to Section 12 of the Securities Exchange Act of 1934. Using an algorithm, which establishes the maximum possible matching of buy and sell orders at scheduled times, the system matches or "crosses" these orders. Unless otherwise specified by customers, POSIT will match orders (including multiple orders) which do not contain equal numbers of shares, resulting in partial order execution. POSIT has been designed to allow customers trade execution flexibility. Customers may specify constraints on the portion of a portfolio that trades, such as a requirement that the execution of a buy order be conditioned upon the concurrent execution of a sell order. Trades are priced at the midpoint of the best bid and offer on the primary market for each security at the time of the cross. Price information is provided directly to the system from a third-party data vendor. There are five scheduled crosses every business day at approximately 10:00 a.m., 11:30 a.m., 12:30 p.m., 1:30 p.m., and 3:00 p.m. Each scheduled cross is executed within a seven minute window selected randomly by the system.

Significant attributes of POSIT:

- POSIT's midpoint pricing saves each party an amount equivalent to half the bid/offer spread.
- POSIT's confidentiality virtually eliminates market impact. In contrast, participants in traditional or other open markets constantly face the risk that disclosure of an order will unfavorably affect price conditions.

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(1) POSIT(R) is a registered service mark of the POSIT Joint Venture.

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- Clients pay a low transaction fee on completed transactions, relative to the industry average of 5 to 6 cents per share. The Company's revenue from the operation of POSIT is derived from transaction fees charged on each share crossed through the system.
- Immediately after each cross, customers are electronically provided with comprehensive reports of matched and unmatched (residual) orders. Customers can then execute residual orders by traditional means or take advantage of the Company's Electronic Trading Desk services (described below).
- Electronic application on client instructions for allocating trades to specific customer accounts utilizes average prices and average commissions.

Average daily share volume on POSIT has grown from approximately 288,000 shares in 1988 to approximately 13.1 million shares in 1996. In addition to its traditional customer base of quantitative and passive investors, POSIT has begun to serve fundamental institutional investors, broker-dealers and international institutional investors. The POSIT system is currently used by approximately 450 customers, including corporate and government pension plans, insurance companies, bank trust departments, investment advisors and mutual funds.

#### QUANTEX(R) (2)

ITG QuantEX is the Company's portfolio management trading system, an advanced tool for technologically sophisticated clients conducting a medium-to-large volume of trading. QuantEX is what is known on Wall Street as an "Expert System". QuantEX equips clients to manage every step in the trading process more efficiently, from decision-making to execution to tracking of trade list status. From a Sun workstation at their desks, users can access fully-integrated market information and analytics, execute electronic order routing and perform trade management functions. To date, trading systems have generally addressed just one or two of these functions -- a situation which has left many users with the inefficiency of multiple unrelated systems.

QuantEX is a customized, rule-based expert system that allows traders to quantify their thought processes. It is designed to embody each clients' trading style and strategies, and apply them to data on hundreds of stocks, portfolios or industry groups at once. With QuantEX, clients can flag precisely the same kinds of moment-to-moment opportunities they would ordinarily want to pursue -- but do it much more efficiently and rapidly.

QuantEX 3.0, introduced in 1995, is an upgrade of the Company's software, which provides, among other new features, the following:

- access to sophisticated ISIS pre- and post-trade analytical tools,
- "instant" analytics built on widely-used measures,
- a direct line to the ITG Data Center. The ITG Data Center is an expanded historical database that provides closing volume and canned analytics based on the raw historical data.

QuantEX analyzes portfolios of securities based on the individual user's trading strategy. The Company's support specialists translate the trading criteria developed by the user into a set of proprietary rules for the trading of securities, which are then encoded into QuantEX. QuantEX applies the customer's proprietary trading rules to a continuous flow of current market information on the list of securities selected by the user to generate real-time

decision support. A user's rules can be based on a wide range of quantitative models or strategies, such as liquidity measures, technical indicators, price benchmarks, tracking to specific industries and sectors, pairs or other long or short strategies, index arbitrage, risk measurements and liquidity parameters for trade urgency, size or timing. QuantEX has sorting capabilities which highlight the most important trade

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(2) QuantEX(R) is a registered trademark of the Company.

Investment Technology Group, Inc.

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decisions according to the user's rules. Charting features provide analysis of the results of the application of the user's trading strategy.

Trades which are routed through QuantEX to POSIT are charged transaction fees through POSIT and are not charged separate QuantEX transaction fees. The Company derives revenue from QuantEX by collecting a transaction fee on each share which is routed for trading through QuantEX to destinations other than POSIT but does not derive revenue from either the sale or licensing of the QuantEX software.

QuantEX also automates the complex trade management requirements typical of investment strategies that trade large volumes of securities through multiple sources of liquidity. Orders can be electronically routed to multiple markets -- not just the New York, American, and regional Stock Exchanges, but also POSIT, ITG Trading Desk, OTC market-makers, the AZX, and selected broker/dealers. Trades routed through QuantEX are automatically tracked and summarized. Each order can be monitored by source of execution, by trade list, by portfolio or globally with all other orders placed. Trading decisions are enhanced by applying any combination of criteria to real-time and historical data on a user-selected universe of stocks and alerting clients to opportunities that fit their strategies. QuantEX's built-in trade allocation features allow for automated back-office clearance and settlement.

The Company's product specialists install the system, train users and provide ongoing support for use of QuantEX's trade execution and analysis capabilities. Specialists are knowledgeable about portfolio management and trading as well as the system's hardware and software. The Company's support team works closely with each customer to develop trading strategies and rules, explore new approaches and implement system upgrades and enhancements.

#### ELECTRONIC TRADING DESK

To supplement the automated trade execution and analysis services offered by POSIT and QuantEX, the Company also offers customers trading capabilities through the Company's trading desk, which is staffed by 22 traders. QuantEX clients can electronically deliver lists of orders to the ITG Trading Desk. As orders are executed by ITG, reports are automatically delivered to the client's terminal. Trading desk personnel are, thereby, able to assist customers with decision support analyses, generated by QuantEX, and with the execution of trades. The Trading Desk is a full-service agency execution group that specialize in the Company's proprietary products. Clients give traders orders to work throughout the day as well as finish residual orders after POSIT matches.

If a customer fails to submit a portfolio in time for a scheduled POSIT cross, at the customer's request, the Company will communicate with and seek interest from other potentially interested customers and conduct an unscheduled cross. Unmatched or residual orders may be filled by (i) keeping orders in POSIT for future crosses which will offer different liquidity profiles, (ii) routing trades electronically through QuantEX to multiple markets, including primary exchanges, regional exchanges and OTC market-makers or (iii) using the Company's trading desk to complete trades on an agency basis. The Company has also

developed pricing mechanisms that allow customers to enter orders to cross shares before the market opens subject to prices determined by specified formulas, such as weighted average prices throughout the trading day, or the day's closing prices.

#### ITG PLATFORM

ITG Platform, introduced in the first quarter of 1996, is designed to provide seamless connectivity to a variety of execution destinations, such as POSIT, ITG's Electronic Trading Desk and SuperDOT. The Platform is designed to run on any 486 or Pentium PC in almost any Windows environment, which allows access to a wide range of execution capabilities, without requiring a dedicated terminal. It accesses ITG through a standard modem.

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To execute an order, a ticker symbol (or multiple tickers) is typed in with buy/sell side and size. A list can be loaded in by using a diskette, or from a network. Once orders have been loaded, execution instructions can be inputted. The execution sources range from POSIT, ITG Electronic Trading Desk, SuperDOT, to OTC market makers. The Platform also allows automatic rerouting of any residual POSIT trades. For instance, a trader may designate that any listed residual orders under a certain size be rerouted to the New York Stock Exchange via SuperDOT. The trader may also choose to reroute the orders back to POSIT for the rest of the day's matches, or to ITG's Electronic Trading Desk. As the orders are executed, reports are automatically delivered back to the Platform giving the users constant feedback on their orders. The orders are displayed in realtime and the Platform also provides a running average price for each order. Order status is color-coded to indicate whether the order has been filled, partially executed, or is awaiting action.

Platform users can access historical data through a direct link with the ITG Data Center, including a wide array of analytics such as average historical share volumes, dollar volumes, volatility, and historical spread statistics. The Platform also allows custom tailored execution reports to fit each user's requirements.

As of December 31, 1996, there were 36 Platform client sites, with 53 software installations.

#### ISIS RESEARCH

Accessed through ITG QuantEX, ISIS encompasses an equity transaction database, pre-and post-trade analytics, a proprietary transaction-cost model, a framework for development of trading strategies and a set of model strategies. Together, these tools assist clients in making the most cost-effective trading decisions by measuring the cost impacts of alternative courses of action. With ISIS, clients can also:

- Increase the cost-effectiveness of trading strategies,
- Construct portfolios to minimize the cost of execution,
- Minimize transaction costs of trading lists by targeting positions that are especially illiquid, difficult, or costly to trade,
- Focus resources on the most consequential transactions,
- Estimate the cost of trading on a principal versus agency basis, and
- Measure the cost-effectiveness of completed trades against any benchmark.

With the release of QuantEX 3.0 in 1995, users can define, store and run

custom pre- and post-trade reports, selecting from a wide variety of analytics. Analytics can also be viewed directly on the execution page and incorporated into trading strategies. Among the available analytics are measures of momentum, price volatility and liquidity, including an explicit estimate of market impact.

#### GLOBAL POSIT

The Company is pursuing the international market in a variety of ways, joint-venturing with strategic partners and developing specially-tailored versions of ITG services. The Company has also developed a global version of POSIT, which provides U.S. and global clients with electronic trade-matching capabilities for international equities. Besides housing the operation of Global POSIT, the Company's new Boston office offers services to foreign investors trading in the U.S. and worldwide clientele trading non-U.S. securities. Total Global POSIT revenues for 1996 amounted to approximately \$513,000.

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#### AUSTRALIAN POSIT

The Company has licensed POSIT to Burdett, Buckenridge & Young, one of Australia's leading brokerage firms, for development and marketing of an Australian POSIT cross, which began operating in the first quarter of 1995. Through this relationship the Company is also pursuing U.S. business from Australian investors and providing U.S. clients with access to the Australian marketplace. Total Australian POSIT revenues for 1996 amounted to approximately \$279,000.

#### CANADIAN QUANTEX

The Company was party to a license agreement with RBC Dominion Securities ("RBC"), under which the Company was entitled to receive royalties for licensing the rights to the Company's QuantEX product to RBC beginning in 1991. RBC used the QuantEX license to develop a version of QuantEX for the Canadian markets. In conjunction with the spin-off of VERSUS Technologies, Inc. ("VERSUS") from RBC in 1995, the Company exchanged its licensing agreement asset with RBC for a 9% equity interest in VERSUS. VERSUS is a Canadian technology-focused trade automation firm based in Toronto. Currently, Canadian QuantEX is the only direct electronic access to the Canadian exchanges for U.S. and Canadian institutions. The Company is also providing Canadian investors with access to POSIT and other ITG services.

#### AZX

AZX Inc., the operators of the Arizona Stock Exchange<sup>3</sup> ("AZX") and the Company announced in February 1995 the formation of a new alliance between the two organizations. The Company's wholly-owned broker-dealer subsidiary, ITG, has been named as the executing broker for all transactions executed on AZX. AZX is the only open screen call market for equity trading, which conducts two daily auctions at 5:00 PM and 5:30 PM Eastern time. The auctions are designed to allow institutional investors and broker/dealer participants to trade anonymously and at true market prices with low transaction costs. In February 1995, ITG, at customers' request, began placing the unmatched portion of client portfolios from POSIT into AZX's daily auction. Since ITG is the executing broker for all AZX trades, ITG clients have the option of obtaining one combined average price for orders crossed on both systems (i.e., the POSIT cross is combined with the previous night's AZX auction). The Company performs this function as a courtesy to its clients. The Company charges its direct incremental costs to AZX. Total net revenues for 1996 amounted to approximately \$412,000.

#### REGULATION

The Company is subject to extensive Federal and state regulation by various regulatory organizations which are charged with protecting the interests of the

investing public and the integrity of the securities markets. In addition, the National Association of Securities Dealers, Inc. (the "NASD") requires strict compliance with its rules and regulations. Failure to comply with any applicable laws, rules or regulations could result in fines or penalties, suspensions or revocations of licenses or expulsion from membership, any one of which could have a material adverse effect on the Company.

#### NO ACTION LETTER

In connection with the development of POSIT, Jefferies and Company, Inc. ("Jefferies & Co.") obtained a no action letter in which the staff of the Securities and Exchange Commission (the "Commission") indicated that it would take no action with respect to the fact that POSIT would be operated without registration as an exchange. As a result, POSIT has not been registered with the Commission as an exchange,

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(3)The Arizona Stock Exchange, (the "Exchange") operated by AZX, Inc., is not registered with the US Securities and Exchange Commission ("SEC", or the "Commission") nor is it a self-regulatory organization. Due to the low volume of trading on the Exchange, the SEC granted it an exemption from exchange registration. The Exchange is subject to limited oversight by the SEC.

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although ITG is registered as a broker-dealer and is subject to regulation as such. Material changes to POSIT will require prior notice to the Commission. One of the stated purposes of Rule 17a-23 is to provide the Commission with information necessary to monitor and evaluate automated trade execution systems. There can be no assurance that the Commission will not in the future seek to impose more stringent regulatory requirements on the operation of automated trade execution systems such as POSIT. In addition, certain of the securities exchanges have actively sought to have more stringent regulatory requirements imposed upon automated trade execution systems. There can be no assurance that Congress will not enact legislation applicable to automated trade execution systems.

#### LICENSE AND RELATIONSHIP WITH BARRA

In 1987, Jefferies & Co. and BARRA Inc. ("BARRA") formed a joint venture for the purpose of developing and marketing POSIT. In 1993, Jefferies & Co. assigned all of its rights relating to the joint venture and the license agreement to ITG.

The technology used to operate POSIT is licensed to the Company pursuant to a perpetual license agreement between the Company and the joint venture. The license agreement grants ITG the exclusive right to use certain proprietary software necessary to the continued operation of POSIT and a non-exclusive license to use proprietary software that operates in conjunction with POSIT. The Company pays quarterly royalties to the joint venture to use other proprietary software that operates in conjunction with POSIT equal to specified percentages of the transaction fees charged by the Company on each share crossed through POSIT. For the years ended December 31, 1996, 1995 and 1994, BARRA received aggregate royalty payments from the joint venture of \$8.8 million, \$6.0 million, and \$5.0 million, respectively, under the license agreement. Under the terms of the joint venture, the Company and BARRA are prohibited from competing directly or indirectly with POSIT.

The license agreement permits BARRA on behalf of the joint venture to terminate the agreement upon certain events of bankruptcy or insolvency or upon an uncured breach by the Company of certain covenants, the performance of which are all within the control of the Company. Although the Company does not believe that it will experience difficulty in complying with its obligations under the



license agreement, any termination of the license agreement resulting from an uncured default would have a material adverse effect on the Company's results of operations.

Under the license agreement and the terms of the joint venture, BARRA continues to provide certain support services to the Company in connection with the operation of POSIT, including computer time, software updates and the availability of experienced personnel. BARRA also provides support for the development and maintenance of POSIT.

Under the terms of the joint venture, BARRA generally has the right to approve any sale, transfer, assignment or encumbrance of the Company's interest in the joint venture. The POSIT joint venture may earn a royalty from licensing the POSIT technology to other businesses. The joint venture licensed to ITG and BBY the right to use the POSIT technology for crossing equity securities in Australia.

In the first quarter of 1997, BARRA announced a joint venture with Prebon Yamane to market POSIT-FRA, the first computer-based system for crossing forward rate agreements (FRAs). The Company cannot estimate what the effect will be on future earnings or profitability as the Joint Venture has not approved definitive documentation for POSIT-FRA.

In May 1990, ITG Global Trading, Inc. ("Global Trading") and BARRA International, Ltd., an affiliate of BARRA, formed a joint venture for the purposes of developing Global POSIT. The joint venture granted to Global Trading the exclusive rights to use Global POSIT. In connection with the May 1994 initial public offering (the "Offering"), Jefferies Group, Inc. ("Jefferies Group") contributed Global Trading and its respective rights in Global POSIT to the Company. Any net earnings will be divided equally between the

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Company and BARRA International, Ltd. Under the terms of the joint venture, the Company and BARRA International, Ltd. are prohibited from competing directly or indirectly with Global POSIT.

#### COMPETITION

The automated trade execution and analysis services offered by the Company compete with services offered by leading brokerage firms and other information services and transaction processing firms. Many of the Company's competitors have substantially greater financial, research and development and other resources than the Company. The Company believes that its services compete on the basis of cost, timeliness of execution and probability of trade completion. The probability of trade execution through POSIT depends on a number of factors, including, primarily, the security for which an order is placed on the system. In general, orders placed on the system for securities which trade in high volumes tend to have high rates of trade execution through POSIT, while orders for securities which trade in low volumes have low rates of trade execution through POSIT. Although the Company believes that POSIT, QuantEX, and the Electronic Trading Desk services have established certain competitive advantages, the Company's ability to maintain these advantages will require continued investment in the development of the Company's services, additional marketing activities and customer support services. There can be no assurance that the Company will have sufficient resources to continue to make this investment, that the Company's competitors will not devote significantly more resources to competing services or that the Company will otherwise be successful in maintaining its current competitive advantages.

The Company also competes with various national and regional securities exchanges for trade execution services. Some of these exchanges have made efforts to regain transaction volume lost to POSIT and other automated trade execution services. The New York Stock Exchange now offers members the

opportunity to participate in two daily after-hours stock crosses. The Arizona Stock Exchange also operates two after-hours auctions (see discussion above under AZX). The Company believes that POSIT customers who participate in afterhours stock crossing systems do so primarily to seek completion of trades which have not been executed during trading hours. There can be no assurance that these or other exchanges will not take further steps to regain transaction volume from POSIT or to limit its future growth.

#### RESEARCH AND PRODUCT DEVELOPMENT

The Company believes that fundamental changes in the securities industry have increased the demand for technology-based services. The Company devotes a significant portion of its resources to the development and improvement of these services. Important aspects of the Company's research and development effort include enhancements of existing software, the ongoing development of new software and services and investment in technology to enhance the Company's efficiency. The software programs, which are incorporated into the Company's services, are subject, in most cases, to copyright protection. Research and development costs were \$6.0 million, \$4.9 million and \$3.2 million for 1996, 1995 and 1994, respectively.

In connection with such research and product development and capital expenditures to improve other aspects of its business, the Company incurs substantial expenses that do not vary directly, at least in the short term, with fluctuations in securities transaction volumes and revenues. In the event of a material reduction in revenues, the Company may not reduce such expenses quickly and, as a result, the Company could experience reduced profitability or losses. Conversely, sudden surges in transaction volumes can result in increased profit and profit margin. To ensure that it has the capacity to process projected increases in transaction volumes, the Company has historically made substantial capital and operating expenditures in advance of such projected increases, including during periods of low transaction volumes. In the event that such growth in transaction volumes does not occur, the expenses related to such investments could, as they have in the past, cause reduced profitability or losses. Additionally, during recent periods of high transaction volumes and increased revenues, the Company has also made substantial capital and operating expenditures to enhance future growth prospects.

Investment Technology Group, Inc.

The Company currently employs 68 personnel in software development, management and implementation. The Company also works closely with BARRA on the development of POSIT enhancements. The Company expects to continue this level of investment to develop improved services and continue the development of new services.

#### NUMBER OF PERSONS EMPLOYED

As of December 31, 1996, the Company employed 157 personnel.

#### ITEM 2. PROPERTIES

The Company's principal offices are located at 900 Third Avenue in New York City where the Company occupies approximately 16,000 square feet of office space under a sublease with Jefferies Group that expires in December 2004. The Company believes that the terms of such sublease are no less favorable to the Company than could have been obtained from an unaffiliated party. In February 1996, the Company leased approximately 2,500 square feet of additional office space in the 900 Third Avenue location to supplement the existing office space. The additional space is leased for eighteen months. In May of 1997, the Company plans to move its principal offices to 380 Madison Avenue in New York City. The spaces in 900 Third Avenue will be subleased to a third party. The Company also maintains a search, development and technical support services facility in Culver City, California. The California facility is leased by the Company

pursuant to a lease agreement which expires in December 2005. In April 1995, the Company completed the build-out and occupancy of a 10,500 square feet office in Boston, Massachusetts. The site is a "hot" backup facility for the Company's operations. The site is currently used as a regional office for Financial Engineering Research, QuantEX support and the Global POSIT operations.

ITEM 3. LEGAL PROCEEDINGS

The Company is not party to any legal proceedings.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

There were no matters submitted to a vote of security holders.

PART II

ITEM 5. MARKET FOR THE REGISTRANT'S COMMON STOCK AND RELATED SHAREHOLDER MATTERS

COMMON STOCK DATA

The Company's common stock is quoted on The Nasdaq Stock Market National Market System under the symbol: ITGI. At March 7, 1997, the Company believed that its Common Stock was held by approximately 800 stockholders of record or through nominee or street name accounts with brokers.

Investment Technology Group, Inc.

The range of the high and low representative bid prices for the Common Stock as reported by Nasdaq and cash dividends paid on common stock for each full quarterly period since the Company's Initial Public Offering on May 4, 1994 were as follows:

THREE MONTHS ENDED	MARKET PRICE			DIVIDENDS PER SHARE
	HIGH	LOW	END	
June 30, 1994(4)	9.50	5.50	7.50	\$ 0.00 (5)
September 30, 1994	13.75	9.25	13.25	\$ 0.00
December 31, 1994	13.50	4.75	6.75	\$ 0.00
March 31, 1995	8.75	6.38	7.88	\$ 0.00
June 30, 1995	9.50	5.50	7.50	\$ 0.00
September 30, 1995	9.25	5.75	9.00	\$ 0.00
December 31, 1995	10.00	7.75	9.25	\$ 0.00
March 31, 1996	16.00	9.25	15.00	\$ 0.00
June 30, 1996	18.50	13.00	13.50	\$ 0.00
September 30, 1996	18.00	12.75	17.75	\$ 0.00
December 31, 1996	21.75	16.75	19.25	\$ 0.00

There are no restrictions on the Company's present ability to pay dividends on Common Stock, other than applicable provisions of the Delaware General Corporation Law.

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(4) Includes only the period from the Company's Initial Public Offering on May 4, 1994 through the end of the quarter.  
(5) Immediately prior to the consummation of the Company's Initial Public Offering, the Company declared a dividend payable to the Jefferies Group, Inc. in the amount of \$17.0 million.

## ITEM 6. SELECTED FINANCIAL DATA

The selected data presented below as of and for each of the years in the five-year period ended December 31, 1996, are derived from the consolidated financial statements of Investment Technology Group, Inc., which financial statements have been audited by KPMG Peat Marwick LLP, independent auditors. Such data should be read in connection with the consolidated financial statements contained on pages 18 through 40.

	YEAR ENDED DECEMBER 31,				
	1996	1995	1994*	1993	1992
	(DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)				
CONSOLIDATED STATEMENT OF OPERATIONS DATA:					
Total revenues.....	\$111,556	\$72,381	\$ 56,716	\$49,370	\$31,413
Total expenses.....	70,555	47,493	69,106	42,944	30,065
Earnings (loss) before income taxes.....	41,001	24,888	(12,390)	6,426	1,348
Income tax expense (benefit).....	17,666	9,983	(4,529)	3,099	873
Net earnings (loss).....	\$ 23,335	\$14,905	\$ (7,861)	\$ 3,327	\$ 475

\*1994 results were affected by events described in Note 7, Termination of Plans Expense, of consolidated financial statements contained on page 32.

Primary net earnings (loss) per share of common stock.....	\$ 1.26	\$ 0.81	\$ (0.45)		
Fully diluted net earnings (loss) per share of common stock.....	\$ 1.24	\$ 0.81	\$ (0.45)		
Primary weighted average shares and common stock equivalents outstanding (in millions).....	18.6	18.5	17.5		
Fully diluted weighted average shares and common stock equivalents outstanding (in millions).....	18.8	18.5	17.5		
Revenues per trading day.....	\$ 439	\$ 287	\$ 225	\$ 191	\$ 124
Shares executed per day (in millions).....	22	15	10	9	6
Revenue per average number of employees.....	\$ 814	\$ 689	\$ 675	\$ 837	\$ 628
Average number of employees.....	137	105	84	59	50
Number of customers:					
POSIT.....	445	393	303	205	140
QuantEX and other.....	91	81	58	43	26
	536	474	361	248	166
Gain (loss) on average stockholders' equity.....	45.5%	39.3%	(35.0)%		
Book value per share.....	\$ 3.68	\$ 2.47	\$ 1.72		
Tangible book value per share.....	\$ 3.54	\$ 2.27	\$ 1.52		
Price to earnings ratio using fully diluted net earnings per share of common stock.....	15.5	11.4	N/A		

CONSOLIDATED STATEMENT OF FINANCIAL CONDITION DATA:

	DECEMBER 31,				
	1996	1995	1994	1993	1992
Total assets.....	\$ 82,798	\$55,318	\$ 38,354	\$23,496	\$17,444
Short-term debt.....	--	--	--	--	500
Total stockholders' equity.....	67,093	45,479	31,893	13,844	10,517

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The following graph represents the number of shares ITG executed as a percentage of the composite volume in the U.S. market.(6)

Market Share

1989	0.21
1990	0.44
1991	0.52
1992	0.87
1993	0.90
1994	1.04
1995	1.23
1996	1.44

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

	1996	1995	CHANGE	% CHANGE
	(DOLLARS IN MILLIONS, EXCEPT AS NOTED)			
Total Assets.....	\$82,798	\$55,318	\$27,480	49.7%
Total Liabilities.....	\$15,705	\$ 9,839	\$ 5,866	59.6%

The increase in total assets is primarily due to an increase in cash and cash equivalents. Current assets made up approximately 76.3% of total assets. Securities owned are valued at market. Securities owned consisted of municipal securities as of December 31, 1996, and are part of cash management activities of the Company, along with Investment in Limited Partnership. These municipal securities generally mature within one to one and a half years.

The increase in total liabilities is mostly due to an increase in accounts payable and accrued expenses, which consisted primarily of soft dollar liabilities of \$2.1 million and bonus accruals of \$2.5 million. Software royalties payable, which is the accrual for the fourth quarter POSIT royalties, increased \$480,000. This was a result of higher POSIT volume in the fourth quarter of 1996.

RESULTS OF OPERATIONS

COMPARISON OF 1996 WITH 1995

	1996	1995	CHANGE	% CHANGE
	-----	-----	-----	-----
Revenues.....	\$ 111.6	\$ 72.4	\$ 39.2	54.1%
Number of Trading Days.....	254	252	2	0.8%
Revenues per Trading Day (Dollars in thousands).....	\$ 439	\$ 287	\$ 152	53.0%

(6) The percentages on the graph are total ITG shares executed divided by the composite volume. Total ITG shares executed includes total POSIT shares divided by two, QuantEX shares and shares executed by the Electronic Trading Desk. Composite volume includes shares executed by and as provided by the following exchanges: New York, American, Chicago, Pacific, Cincinnati, Boston, and Philadelphia stock exchanges, as well as the National Association of Securities Dealers Automated Quotation System. Composite volume excludes ITG shares executed and "program trading" shares of the New York Stock Exchange.

Investment Technology Group, Inc.

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Increased revenues is due to a growing use of POSIT, QuantEX and the Company's other electronic trading desk services. For the year ended December 31, 1996, POSIT revenues were approximately 49% or \$22.1 million above the comparable period for 1995, while QuantEX revenues were approximately 57% or \$9.0 million above the comparable period for 1995. For the year ended December 31, 1996, other electronic trading desk services were 83% or \$8.1 million above the comparable period for 1995.

The Company currently reports revenues net of soft dollars collected. The Company previously reported soft dollars on a "gross" basis. Soft dollars collected were reported as revenues and, in an equal and offsetting amount, as soft dollar expense. The historical financial statements have been reclassified to reflect revenue net of soft dollars collected. Soft dollars are those incremental amounts of commission dollars collected in addition to the Company's charge for executions. These incremental amounts are used to satisfy customers' third-party research services.

	1996	1995	CHANGE	% CHANGE
	-----	-----	-----	-----
Compensation and employee benefits expense.....	\$ 25.0	\$ 16.4	\$ 8.6	52.4%
Number of employees at period end.....	157	118	39	33.1%
Revenue per employee at period end (Dollars in thousands).....	\$ 711	\$ 614	\$ 97	15.8%
Compensation and employee benefits expense per employee (Dollars in thousands).....	\$ 159	\$ 139	\$ 20	14.4%

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.

	1996	1995	CHANGE	% CHANGE
	-----	-----	-----	-----
Transaction processing expense.....	\$15.7	\$10.9	\$ 4.8	44.0%
Transaction processing expense as a percentage of revenues.....	14.1%	15.1%	(1.0)%	(6.6)%

The increase is primarily due to the expense associated with a higher volume of transactions in 1996. In addition, QuantEX is a larger portion of

total volume, causing higher execution charges. The Company received a \$621,000 adjustment in the fourth quarter of 1996 against charges incurred in the first three quarters of 1996 for exchange-related execution fees.

	1996 -----	1995 -----	CHANGE -----	% CHANGE -----
Software royalties expense.....	\$ 8.8	\$ 6.0	\$ 2.8	46.7%
Software royalties expense as a percentage of POSIT revenues.....	13.1%	13.3%	(0.2)%	(1.5)%

The increase is due to higher revenue associated with POSIT.

	1996 ----	1995 ----	CHANGE -----	% CHANGE -----
Occupancy and equipment expense.....	\$6.1	\$3.6	\$2.5	69.4%

The increase is due primarily to depreciation of premises and equipment acquired since the beginning of 1996 and accelerated depreciation of leasehold improvements and furniture related to the relocation of the New York office scheduled to occur in the second quarter of 1997.

Investment Technology Group, Inc.

	1996 ----	1995 ----	CHANGE -----	% CHANGE -----
Consulting expense.....	\$2.5	\$1.7	\$0.8	47.1%

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

	1996 ----	1995 ----	CHANGE -----	% CHANGE -----
Telecommunications and data processing services expense.....	\$4.8	\$2.9	\$1.9	65.5%

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.

	1996 ----	1995 ----	CHANGE -----	% CHANGE -----
Other general and administrative expense.....	\$7.6	\$6.1	\$1.5	24.6%

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

software and allowances for general legal and bad debt expenses.

	1996	1995	CHANGE	% CHANGE
	-----	-----	-----	-----
Income tax expense.....	\$17.7	\$10.0	\$7.7	77.0%

The increase is primarily due to an increase in pretax earnings. The effective tax rate in 1996 and 1995 was 43%. However, 1995 was favorably impacted by a lower tax rate resulting from the recognition of research and development tax credits attributable to prior periods.

COMPARISON OF 1995 WITH 1994

	1995	1994	CHANGE	% CHANGE
	-----	-----	-----	-----
Revenues.....	\$ 72.4	\$ 56.7	\$ 15.7	27.7%
Number of Trading Days.....	252	252	0	0%
Revenues per Trading Day (Dollars in thousands).....	\$ 287	\$ 225	\$ 62	27.6%

Increased revenues were attributed to a growing use of the POSIT and QuantEX products and an expansion of the Company's other electronic trading desk services. POSIT and QuantEX revenues increased by 19% and 21%, respectively, or a combined total of approximately \$10.0 million above 1994. Other revenue and revenues for other electronic trading desk services were \$5.7 million above 1994.

The Company currently reports revenues net of soft dollars collected. The Company previously reported soft dollars on a "gross" basis. Soft dollars collected were reported as revenues and, in an equal and offsetting amount, as soft dollar expense. The historical financial statements have been reclassified to reflect revenue net of soft dollars collected. Soft dollars are those incremental amounts of commission dollars collected in addition to the Company's charge for executions. These incremental amounts are used to satisfy customers' third-party research services.

	1995	1994	CHANGE	% CHANGE
	-----	-----	-----	-----
Compensation and employee benefits expense.....	\$ 16.4	\$ 13.5	\$ 2.9	21.5%
Number of employees at period end.....	118	93	25	26.9%
Revenue per employee at period end (Dollars in thousands).....	\$ 614	\$ 610	\$ 4	0.7%
Compensation and employee benefits expense per employee (Dollars in thousands).....	\$ 139	\$ 145	\$ (6)	(4.1)%

Investment Technology Group, Inc.

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.

	1995	1994	CHANGE	% CHANGE
	-----	-----	-----	-----
Transaction processing expense.....	\$10.9	\$ 8.2	\$ 2.7	32.9%



Transaction processing expense as a percentage of revenues.....	15.1%	14.5%	0.6 %	4.1%
---	-------	-------	-------	------

The increase was primarily due to the expense associated with a higher volume of transactions in 1995, partially resulting from a decrease in the number of shares per transaction. This was partially offset by a decrease in the charge per ticket paid to Jefferies & Co. for clearing trades.

	1995	1994	CHANGE	% CHANGE
	----	----	-----	-----
Software royalties expense.....	\$ 6.0	\$ 5.0	\$1.0	20.0%
Software royalties expense as a percentage of POSIT revenues.....	13.3%	13.2%	0.1%	0.8%

The increase is due to higher revenue associated with POSIT.

	1995	1994	CHANGE	% CHANGE
	----	----	-----	-----
Occupancy and equipment expense.....	\$3.6	\$2.9	\$0.7	24.1%

The increase is due primarily to the depreciation of approximately \$5.0 million of capital expenditures undertaken since the beginning of 1995 and increased rent expense, both of which are primarily related to the opening of the new Boston office.

	1995	1994	CHANGE	% CHANGE
	----	----	-----	-----
Consulting expense.....	\$1.7	\$1.4	\$0.3	21.4%

The increase is due primarily to an increase in testing of a new "ITG Platform" system currently in development, and the use of a consultant for the automation of a management reporting system. Consulting is for equity research and product development functions which the Company believes it is advantageous to out-source.

	1995	1994	CHANGE	% CHANGE
	----	----	-----	-----
Telecommunications and data processing services expense.....	\$2.9	\$2.3	\$0.6	26.1%

The increase resulted from an increase in quotation and communication expenses associated with additional QuantEX installations.

	1995	1994	CHANGE	% CHANGE
	----	----	-----	-----
Other general and administrative expense.....	\$6.1	\$4.0	\$2.1	52.5%

The increase is largely due to an increase in advertising and promotional costs and amortization for increased levels of capitalized software.

	1995	1994	CHANGE	% CHANGE
	----	----	-----	-----
Performance share plans expense.....	\$0	\$1.5	\$(1.5)	100%

Performance Share Plans expense was related to the termination of the plans as of the beginning of May 1994.

	1995	1994	CHANGE	% CHANGE
	----	----	-----	-----
Termination of plans expense.....	\$0	\$30.2	\$(30.2)	100%

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Termination of plans expense was related to the termination of certain management agreements, the compensatory Performance Share Plans and non-compensatory ITG stock options in conjunction with the Company's initial public offering in May 1994. This represented a one-time charge.

	1995	1994	CHANGE	% CHANGE
	----	----	-----	-----
Income tax expense (benefit).....	\$10.0	\$(4.5)	\$14.5	322%

The effective tax rate for 1995 was favorably impacted by research and development tax credits attributable to prior periods in the amount of \$645,000.

#### DEPENDENCE ON MAJOR CUSTOMERS

During 1996, revenue received by the Company from its 10 largest customers accounted for approximately 39.6% of the Company's total revenue while revenue received from the three largest customers accounted for 9.3%, 6.8% and 5.6% of total revenue. During 1995, revenue received by the Company from its 10 largest customers accounted for approximately 43.6% of the company's total revenue while revenue received from the three largest customers accounted for 8.3%, 7.3%, and 7.1% of total revenue. Customers may discontinue use of the Company's services at any time. During 1994, revenue received by the Company from its 10 largest customers accounted for approximately 45.4% of the company's total revenue while revenue received from the three largest customers accounted for 7.6%, 6.7%, and 6.3% of total revenue. The loss of any significant customers could have a material adverse effect on the Company's results of operations. In addition, the loss of significant POSIT customers could result in lower share volumes of securities offered through POSIT which may adversely affect the liquidity of the system.

#### LIQUIDITY AND CAPITAL RESOURCES

The Company has historically financed its business through cash flow from operations, equity investments made by Jefferies Group and, to a lesser extent, through operating lease agreements with Jefferies Group for premises and equipment. Since November 1994, the Company has purchased its own equipment. The Company's liquidity and capital resource requirements are the result of the funding of working capital needs, primarily consisting of compensation, benefits and transaction processing fees and software royalty fees. Historically, all working capital requirements have been met by cash from operations and subordinated loans and equity investments made by Jefferies Group.

Immediately prior to the Offering, the Company and Jefferies Group entered into an Intercompany Borrowing Agreement which provides for aggregate borrowings under the facility of up to \$15.0 million. Amounts borrowed under the facility are not restricted as to their use by the Company. The facility bears interest at a floating rate equal to 1.75% above the average one month London Interbank Offered Rate. Jefferies Group is not committed to advance funds, and the Company is not obligated to borrow funds, under the facility. The Company may borrow funds from other parties. The facility may be terminated by Jefferies Group in the event of an uncured default by the Company.

The Company's principal financial commitments consist of obligations under lease and sublease agreements with third parties, Jefferies Group and Jefferies & Co., and for certain offices and equipment.

The Company believes that its cash flow from operations and its existing cash balances will be sufficient to meet its cash requirements. The Company generally invests its excess cash in money market funds, municipal securities and other short-term investments. At December 31, 1996 and 1995, such cash equivalents amounted to \$43.7 million and \$17.8 million, respectively. Cash equivalents are part of the cash management activities of the Company and generally mature within 90 days. Additionally, the trade receivable from affiliate of \$2.8 million is due within 30 days.

#### EFFECTS OF INFLATION

The Company does not believe that the relatively moderate levels of inflation which have been experienced in North America in recent years have had a significant effect on its revenue or its profitability. However, high inflation may lead to higher interest rates which might cause money to move from equity funds to bond funds or money market funds.

Investment Technology Group, Inc.

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#### ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

##### FINANCIAL REPORTS SECTION

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#### MANAGEMENT'S RESPONSIBILITY FOR COMPLIANCE AND FINANCIAL REPORTING

##### TO THE SHAREHOLDERS:

The management of Investment Technology Group, Inc. (the "Company") is responsible for the integrity and objectivity of the financial information

presented in this Annual Report. Financial information appearing throughout the Annual Report is consistent with that in the accompanying financial statements. The financial statements have been prepared by management of the Company in conformity with generally accepted accounting principles in the United States and comply, in all material respects, with guidelines of the International Accounting Standards Committee. The financial statements reflect, where applicable, management's best judgments and estimates.

The management of the Company has established and maintains an internal control structure and monitors that structure for compliance with established policies and procedures. The objectives of an internal control structure are to provide reasonable, but not absolute, assurance as to the integrity and reliability of the financial statements, the protection of assets from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization.

Management also recognizes its responsibility to foster and maintain a strong ethical environment within the Company to ensure that its business affairs are conducted with integrity and in accordance with high standards of personal and corporate conduct. This responsibility is characterized and reflected in the Company's Statement of Policy on Standards of Employee Conduct, which is distributed to all employees of the Company. As part of the monitoring system, the Company maintains Corporate Compliance Personnel, who have oversight responsibilities for administering and coordinating the application of these standards of conduct. Senior legal and compliance personnel have been directed to report compliance concerns directly to the President of the Company. Ongoing oversight of compliance activities is the responsibility of the Company's President.

The Company's Board of Directors appoints an Audit Committee composed solely of outside directors. The function of the Audit Committee is to oversee the accounting, reporting, audit and internal control policies and procedures established by the Company's management. The Committee meets regularly with management and the internal and independent auditors. The auditors have free access to the Audit Committee without the presence of management. The Committee reports regularly to the Board of Directors on its activities, and such other matters as it deems necessary. Ernst & Young LLP, independent auditors, performs an internal audit program for the Company and reports directly to the Audit Committee on matters of internal control.

The Company's annual consolidated financial statements have been audited by KPMG Peat Marwick LLP, independent auditors, who were appointed by the Board of Directors. Management has made available to KPMG Peat Marwick LLP all of the Company's financial records and related data, as well as the minutes of directors' meetings.

Furthermore, management believes that all its representations to KPMG Peat Marwick LLP are valid and appropriate. In addition, KPMG Peat Marwick LLP, in determining the nature and extent of their auditing procedures, considered the Company's accounting procedures and policies and the effectiveness of the related internal control structure.

Management believes that, as of December 31, 1996, the Company's internal control structure was adequate to accomplish the objectives discussed herein.

Raymond L. Killian Jr.	Scott P. Mason	John R. MacDonald
Chairman	President and	Senior Vice President
	Chief Executive Officer	and Chief Financial Officer

Investment Technology Group, Inc.

INDEPENDENT AUDITORS' REPORT

The Board of Directors  
Investment Technology Group, Inc.:

We have audited the accompanying consolidated statement of financial condition of Investment Technology Group, Inc. and subsidiaries as of December 31, 1996 and 1995 and the related consolidated statements of operations, changes in stockholders' equity and cash flows for each of the years in the three-year period ended December 31, 1996. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Investment Technology Group, Inc. and subsidiaries as of December 31, 1996 and 1995 and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 1996 in conformity with generally accepted accounting principles in the United States and International Accounting Standards.

KPMG Peat Marwick LLP

Los Angeles, California  
January 24, 1997 except as to  
note 11 to the consolidated  
financial statements, which  
is as of March 26, 1997.

Investment Technology Group, Inc.

CONSOLIDATED STATEMENT OF OPERATIONS

	YEAR ENDED DECEMBER 31,		
	1996	1995	1994
	(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)		
Revenues.....	\$111,556	\$ 72,381	\$ 56,716
Expenses:			
Compensation and employee benefits.....	25,047	16,404	13,517
Transaction processing.....	15,737	10,861	8,234
Software royalties.....	8,798	5,985	4,973
Occupancy and equipment.....	6,111	3,606	2,872
Consulting.....	2,492	1,699	1,432
Telecommunications and data processing services.....	4,789	2,879	2,341
Other general and administrative.....	7,581	6,059	4,046
Performance share plans.....	--	--	1,528
Termination of plans expense (note 7).....	--	--	30,163
	70,555	47,493	69,106
Earnings (loss) before income tax expense (benefit)....	41,001	24,888	(12,390)
Income tax expense (benefit).....	17,666	9,983	(4,529)
Net earnings (loss).....	\$ 23,335	\$ 14,905	\$ (7,861)
	=====	=====	=====

Primary net earnings (loss) per share of common stock....	\$ 1.26	\$ 0.81	\$ (0.45)
	=====	=====	=====
Fully diluted net earnings (loss) per share of common stock.....	\$ 1.24	\$ 0.81	\$ (0.45)
	=====	=====	=====
Primary weighted average shares and common stock equivalents outstanding.....	18,578	18,465	17,456
	=====	=====	=====
Fully diluted weighted average shares and common stock equivalents outstanding.....	18,781	18,465	17,456
	=====	=====	=====

The accompanying Notes to Consolidated Financial Statements are integral parts of this statement.

Investment Technology Group, Inc.

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CONSOLIDATED STATEMENT OF FINANCIAL CONDITION

	DECEMBER 31,	
	1996	1995
	-----	-----
	(DOLLARS IN THOUSANDS, EXCEPT PER SHARE DATA)	
ASSETS		
Cash and cash equivalents.....	\$43,955	\$17,960
Securities owned.....	4,808	8,509
Investment in limited partnership (at market; cost \$5,000).....	5,193	--
Trade receivables.....	4,806	2,482
Trade receivable from affiliate.....	2,812	7,766
Due from affiliates.....	1,459	5,001
Premises and equipment.....	8,442	4,852
Capitalized software.....	3,028	2,757
Other assets.....	3,467	2,640
Goodwill.....	2,471	3,021
Deferred tax asset.....	2,357	330
	-----	-----
	\$82,798	\$55,318
	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY		
Accounts payable and accrued expenses.....	\$ 8,648	\$ 5,112
Software royalties payable.....	2,274	1,794
Securities sold, not yet purchased.....	1,226	--
Due to affiliates.....	1,922	2,243
Income taxes payable to affiliate.....	1,635	690
	-----	-----
	15,705	9,839
	-----	-----
Lease commitments (note 14)		
STOCKHOLDERS' EQUITY:		
Preferred stock, par value \$0.01; shares authorized: 5,000,000; shares issued: none.....	--	--
Common stock, par value \$0.01; shares authorized: 30,000,000; shares issued: 18,700,000 in 1996 and 1995.....	187	187
Additional paid-in capital.....	36,055	36,055
Retained earnings.....	34,614	11,279
Common stock held in treasury, at cost; shares: 445,200 in 1996 and 310,200 in 1995.....	(3,763)	(2,042)
	-----	-----
Total stockholders' equity.....	67,093	45,479
	-----	-----
	\$82,798	\$55,318
	=====	=====

The accompanying Notes to Consolidated Financial Statements are integral parts of this statement.

Investment Technology Group, Inc.

## CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY

	PREFERRED STOCK	COMMON STOCK	ADDITIONAL PAID-IN CAPITAL	RETAINED EARNINGS (ACCUMULATED DEFICIT)	COMMON STOCK HELD IN TREASURY	TOTAL STOCK- HOLDER EQUITY
	-----	-----	-----	-----	-----	-----
Balance at December 31, 1993....	\$ --	\$ --	\$ 9,609	\$ 4,235	\$ --	\$ 13,844
Stock for stock exchange of ownership interests under common control (15,000,000 shares).....		150	(150)			
Dividend to Jefferies Group....			(17,000)			(17,000)
Proceeds from public common stock offering of \$48.1 million, less underwriting discounts, commissions and offering expenses of \$4.5 million (3,700,000 shares)....		37	43,596			43,633
Purchase of common stock for treasury (125,700 shares)....					(723)	(723)
Net loss.....				(7,861)		(7,861)
Balance at December 31, 1994....	--	187	36,055	(3,626)	(723)	31,893
Net earnings.....				14,905		14,905
Purchase of common stock for treasury (184,500 shares)....					(1,319)	(1,319)
Balance at December 31, 1995....	--	187	36,055	11,279	(2,042)	45,479
Net earnings.....				23,335		23,335
Purchase of common stock for treasury (135,000 shares)....					(1,721)	(1,721)
Balance at December 31, 1996....	\$ --	\$ 187	\$ 36,055	\$ 34,614	\$ (3,763)	\$ 67,093

The accompanying Notes to Consolidated Financial Statements are integral parts of this statement.

Investment Technology Group, Inc.

## CONSOLIDATED STATEMENT OF CASH FLOWS

	YEAR ENDED DECEMBER 31,		
	1996	1995	1994
	-----	-----	-----
	(IN THOUSANDS)		
Cash flows from operating activities:			
Net earnings (loss).....	\$ 23,335	\$ 14,905	\$ (7,861)
Adjustments to reconcile net earnings (loss) to net cash provided (used) by operating activities:			
Deferred income tax (benefit) expense.....	(2,027)	2,663	1,663
Depreciation and amortization.....	3,957	2,363	1,222
Unearned (loss) income related to investments.....	(267)	70	
Other.....	--	--	37
Decrease (increase) in operating assets:			
Securities owned.....	3,701	(8,509)	--
Trade receivables.....	(2,324)	(1,647)	(202)
Trade receivable from affiliate.....	4,953	(2,832)	1,172
Due from affiliates.....	3,541	(4,501)	197
Income taxes receivable from affiliate.....	--	1,511	(3,086)
Other assets.....	(1,977)	(724)	(524)
Increase (decrease) in operating liabilities:			
Accounts payable and accrued expenses.....	4,956	191	359

Software royalties payable.....	480	723	(442)
Termination of plans expense payable.....	--	(758)	758
Performance share plans payable.....	--	--	(212)
Due to affiliates.....	(321)	813	(2,047)
Securities sold, not yet purchased.....	1,226		
Income taxes payable to affiliate.....	945	690	--
	-----	-----	-----
Net cash provided (used) by operating activities.....	40,178	4,958	(8,966)
	-----	-----	-----
Cash flows from financing activities:			
Net proceeds from initial public offering.....	--	--	43,633
Dividend paid to Jefferies Group.....	--	--	(17,000)
Purchase of common stock for treasury.....	(1,721)	(1,319)	(723)
	-----	-----	-----
Net cash (used) provided by financing activities.....	(1,721)	(1,319)	25,910
	-----	-----	-----
Cash flows from investing activities:			
Purchase of premises and equipment.....	(5,624)	(5,003)	(224)
Investment in limited partnership.....	(5,193)	--	--
Capitalization of software development costs.....	(1,645)	(2,122)	(1,284)
	-----	-----	-----
Net cash used by investing activities.....	(12,462)	(7,125)	(1,508)
	-----	-----	-----
Net increase (decrease) in cash and cash equivalents...	25,995	(3,486)	15,436
Cash and cash equivalents -- beginning of year.....	17,960	21,446	6,010
	-----	-----	-----
Cash and cash equivalents -- end of year.....	\$ 43,955	\$ 17,960	\$ 21,446
	=====	=====	=====
Supplemental cash flow information:			
Interest paid.....	\$ 223	\$ 53	\$ 10
	=====	=====	=====
Income taxes paid to (received from) affiliate.....	\$ 18,798	\$ 5,072	\$ (3,075)
	=====	=====	=====

The accompanying Notes to Consolidated Financial Statements are integral parts of this statement.

Investment Technology Group, Inc.

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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### (1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### BASIS OF PRESENTATION

The Consolidated Financial Statements include the accounts of Investment Technology Group, Inc. and its wholly-owned subsidiaries (collectively, the "Company" or "ITGI"), principally ITG Inc. ("ITG"), a Delaware corporation, and a registered 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 December 31, 1996.

In March 1994, ITGI was formed for the purpose of holding 100% of the stock of ITG, which was a wholly-owned subsidiary of Jefferies Group. After its formation, ITGI had a capital structure of preferred stock (5.0 million shares authorized, par value \$.01 per share, no shares issued or outstanding) and common stock (30.0 million shares authorized, par value \$.01 per share, no shares issued or outstanding).

Immediately prior to the consummation of an initial public offering (the "Offering") in May 1994, ITGI issued 15.0 million shares of its common stock in exchange for all of the issued and outstanding shares of common stock of ITG (10.0 million shares) held by Jefferies Group. In addition, Jefferies Group contributed Global Trading to ITGI and its royalty interest in Canadian QuantEX to ITG. This transaction was accounted for as an exchange of ownership interests under common control, and therefore, the assets and liabilities of these entities were not revalued.

In May 1994, the Company consummated the Offering and issued 3.7 million



shares of common stock for \$48.1 million (\$13 per share), less underwriting discounts and commissions of \$3.4 million and offering expenses of \$1.1 million. Immediately following the Offering, Jefferies Group owned 80.2% of the outstanding common stock of the Company.

#### COMBINED FINANCIAL STATEMENT PRESENTATION

Prior to May 1994, the accompanying consolidated financial statements, presented on an historical basis, include the accounts of ITG, Global Trading and the royalty interest in Canadian QuantEX on a combined basis. ITG was incorporated in the State of Delaware as a wholly-owned subsidiary of Jefferies Group in 1991 with operations beginning in March 1992. From 1987 to February 1992, ITG was operated as the investment technology division of Jefferies & Company, Inc. ("Jefferies & Co."), a wholly-owned subsidiary of Jefferies Group. These combined statements are presented as if the Company had existed as a corporation separate from Jefferies Group prior to May 1994 and include the historical assets, liabilities, revenues and expenses that are directly related to the Company's operations. The retained earnings (accumulated deficit) reflected in the accompanying combined financial statements have been recorded as a result of net earnings (loss) from the combined operations of the Company, on a historical basis.

The financial information included herein may not necessarily reflect what the financial position, results of operations or cash flows of the Company would have been if it were not related to Jefferies Group.

All material intercompany balances and transactions have been eliminated in consolidation and combination. Certain prior period amounts have been reclassified to conform to the 1996 financial statement presentation. The Company previously reported soft dollars on a "gross" basis. Soft dollars collected were reported as revenues and, as an equal and offsetting amount, soft dollar expense. The accompanying historical financial statements have been reclassified to reflect revenue net of soft dollars collected. Soft dollars are those incremental amounts of commission dollars collected in addition to the Company's charge for executions. These incremental amounts are used to satisfy customers' third-party research services.

Investment Technology Group, Inc.

#### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

##### BUSINESS SEGMENT

Through its wholly-owned, broker/dealer subsidiary, ITG, the Company, is a leading provider of technology-based equity trading services and transaction research to institutional investors and brokers. ITG services help clients to access liquidity, execute trades more efficiently and make better trading decisions.

##### GOODWILL

In May 1991, Jefferies Group acquired Integrated Analytics Corporation ("IAC") and contributed its business to ITG in 1992. IAC's principal product, MarketMind, was used to develop the Company's QuantEX product. Goodwill, which represents the excess of purchase price for IAC over the fair value of the IAC net assets acquired, is amortized on a straight-line basis over ten years. The Company assesses the recoverability of this intangible asset by determining whether the amortization of the goodwill balance over its remaining life can be recovered through undiscounted future operating cash flows of the acquired operation. At December 31, 1996 and 1995, goodwill amounted to \$2.5 million and \$3.0 million, net of accumulated amortization of \$2.8 million and \$2.3 million, respectively.

##### PREMISES AND EQUIPMENT

Premises and equipment are carried at cost and are depreciated using the straight-line method over the estimated useful lives of the assets (generally three to five years). Leasehold improvements are amortized using the straight-line method over the lesser of the estimated useful lives of the related assets or the noncancelable lease term.

#### REVENUES

Revenues primarily consist of commission revenues. Trade receivable from affiliate consists of commissions receivable.

Transactions in securities, commission revenues and related expenses are recorded on a trade-date basis.

#### EXPENSES

Compensation and employee benefits include base salaries, bonuses, employment agency fees, part-time employees, commissions paid to Jefferies & Co. employees (note 8) and fringe benefits, including employer contributions for medical insurance, life insurance, retirement plans and payroll taxes. Transaction processing consists of floor brokerage and clearing fees. Software royalties are payments to BARRA, Inc., the Company's joint venture partner in POSIT. Royalty payments are calculated at an effective rate of 13% of adjusted POSIT revenues. The royalty payments related to Global Trading are calculated at an effective rate of 50%. Occupancy and equipment includes rent, depreciation, amortization of leasehold improvements, maintenance, utilities, occupancy taxes and property insurance. Consulting is for equity research and product development activities which the Company believes it is advantageous to out-source. Telecommunications and data processing services include costs for computer hardware, office automation and workstations, data center equipment, market data services and voice, data, telex and network communications. Other general and administrative includes goodwill amortization, legal, audit, tax and promotional expenses. Performance share plans are described in note 7.

#### 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

Investment Technology Group, Inc.

#### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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.

Consistent with the tax-sharing agreement above, the consolidated financial statements reflect an allocation of income tax expense (benefit) for the Company as if it had been a legal entity for the periods prior to May 1994. The consolidated tax provisions are shown in note 4 to the notes to consolidated financial statements. On a separate company basis, the consolidated tax provisions, including the recognition of the deferred tax asset discussed in note 4, would not be materially different from those presented.

Deferred tax assets and liabilities reflect the future tax consequences attributable to differences between the financial statement carrying amounts of

existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to reverse. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. Past effects of such changes in the rates were not material to the combined financial statements.

#### CAPITALIZED SOFTWARE

The Company capitalizes software development costs where technological feasibility of the product has been established. The establishment of technological feasibility and the ongoing assessment of recoverability of capitalized software development costs requires considerable judgment by management with respect to certain external factors, including, but not limited to, technological feasibility, anticipated future gross revenues, estimated economic life and changes in software and hardware technologies. The Company is amortizing capitalized software costs using the straight-line method over the estimated economic useful life, the average life of which is two years. Amortization begins when the product is available for release to the customers.

#### RESEARCH AND DEVELOPMENT

Research and development costs were \$6.0 million, \$4.9 million and \$3.2 million for 1996, 1995 and 1994, respectively. In 1996, 1995 and 1994, \$1.6 million, \$2.1 million and \$1.3 million, respectively, were capitalized (note 3).

#### CASH AND CASH EQUIVALENTS

The Company generally invests its excess cash in money market funds and other short-term investments that generally mature within 90 days. At December 31, 1996 and 1995, such cash equivalents amounted to \$43.7 million and \$17.8 million, respectively.

#### INVESTMENT IN LIMITED PARTNERSHIP

Investment in limited partnership consists of an investment in TQA Arbitrage Fund L.P. ( the "Fund"), a Delaware limited partnership. The Fund invests primarily in convertible securities, and seeks capital appreciation from its convertible securities portfolio through a combination of convertible securities purchases and short sales of related stocks focusing on the current income and capital appreciation available from such strategies with convertibles. The Company may withdraw any or all of its investment from the Fund upon at least a thirty days notice. Investment in limited partnership is valued at market, and unrealized gains or losses are reflected in revenues.

Investment Technology Group, Inc.

#### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

#### FAIR VALUE OF FINANCIAL INSTRUMENTS

Substantially all of the Company's financial instruments are carried at fair value or amounts approximating fair value.

#### SECURITIES OWNED

Securities owned are valued at market, and unrealized gains or losses are reflected in revenues. Securities owned consisted of municipal securities as of December 31, 1996 and 1995.

#### USE OF ESTIMATES

Management of the Company has made a number of estimates and assumptions

relating to the reporting of assets, liabilities, revenues and expenses and the disclosure of contingent assets, liabilities, revenues and expenses to prepare these financial statements in conformity with generally accepted accounting principles. Actual results could differ from those estimates.

#### RECLASSIFICATIONS

Certain reclassifications have been made to the prior years' amounts to conform to the current year's presentation.

#### IMPAIRMENT OF LONG-LIVED ASSETS AND LONG-LIVED ASSETS TO BE DISPOSED OF

The Company adopted the provisions of SFAS No. 121, Accounting for the Impairment of Long-Lived Assets and Long-Lived Assets to be Disposed Of, on January 1, 1996. This Statement requires that long-lived assets and certain identifiable intangibles be reviewed for impairment whenever events or changes in circumstance indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceed the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell. Adoption of the Statement did not have a material impact on the Company's consolidated financial position, results of operations, or liquidity.

#### TRANSFERS AND SERVICING OF FINANCIAL ASSETS AND EXTINGUISHMENTS OF LIABILITIES

In June 1996, the Financial Accounting Standards Board issued SFAS No. 125, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities. SFAS No. 125 is effective for transfers and servicing of financial assets and extinguishments of liabilities occurring after December 31, 1996 and is to be applied prospectively. This Statement provides accounting and reporting standards for transfers and servicing of financial assets and extinguishments of liabilities based on consistent application of a financial-components approach that focuses on control. It distinguishes transfers of financial assets that are sales from transfers that are secured borrowings. Management of the Company does not expect that adoption of SFAS No. 125 will have a material impact on the Company's consolidated financial position, results of operations, or liquidity.

#### DIVIDENDS

Any future payments of dividends will be at the discretion of the Company's Board of Directors and will depend on the Company's financial condition, results of operations, capital requirements and other factors deemed relevant. However, the Company anticipates that, for the foreseeable future, all earnings will be

Investment Technology Group, Inc.

#### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

retained by the Company for working capital and that the Company will not pay any dividends to its stockholders. Immediately prior to the Offering, the Company declared a dividend payable to its sole stockholder, Jefferies Group, in the amount of \$17.0 million. Such dividend liability was paid after the consummation of the Offering.

#### (2) PREMISES AND EQUIPMENT

The following is a summary of premises and equipment as of December 31, 1996 and 1995:

	1996	1995
	-----	-----
Furniture, fixtures and equipment.....	\$11,051,000	\$5,778,000
Leasehold improvements.....	1,647,000	1,296,000
	-----	-----
Total.....	12,698,000	7,074,000
Less accumulated depreciation and amortization.....	4,256,000	2,222,000
	-----	-----
	\$8,442,000	\$4,852,000
	=====	=====

#### JEFFERIES GROUP PREMISES AND EQUIPMENT

Prior to November 1994, premises and equipment for the Company were purchased by Jefferies Group. Jefferies Group owns and recorded such assets. Jefferies Group charges the Company depreciation and amortization on such premises and equipment on a monthly basis. The following is a summary of such of premises and equipment as of December 31, 1996 and 1995 as recorded by Jefferies Group:

	1996	1995
	-----	-----
Furniture, fixtures and equipment.....	\$6,154,000	\$6,154,000
Leasehold improvements.....	942,000	942,000
	-----	-----
Total.....	7,096,000	7,096,000
Less accumulated depreciation and amortization.....	5,481,000	3,510,000
	-----	-----
	\$1,615,000	\$3,586,000
	=====	=====

Most of the capital expenditures in the two schedules above are for computer-related equipment.

Depreciation and amortization expense amounted to \$2,034,000, \$788,000 and \$478,000 in 1996, 1995 and 1994, respectively.

#### (3) CAPITALIZED SOFTWARE COSTS

The following is a summary of capitalized software costs for years ended December 31, 1996 and 1995:

	1996	1995
	-----	-----
Capitalized software costs.....	\$5,787,000	\$4,142,000
Less accumulated amortization.....	2,759,000	1,385,000
	-----	-----
Total.....	\$3,028,000	\$2,757,000
	=====	=====

Approximately \$1,645,000 of software costs were capitalized in 1996 primarily for the development of new versions of POSIT and QuantEX. In addition, approximately \$1,649,000 of total capitalized software costs were not subject to amortization as of December 31, 1996, as the ITG Platform and certain versions of POSIT and QuantEX have not yet been released.

Investment Technology Group, Inc.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Capitalized software costs are being amortized over one to two years, with an average remaining life of under two years. In 1996, 1995 and 1994, the Company included \$1,374,000, \$894,000 and \$173,000, respectively, of amortized software costs in other expenses.

## (4) INCOME TAXES

The Company's operations are included in the consolidated Federal income tax return of Jefferies Group. All income tax liabilities/assets are due to/from Jefferies Group.

Income tax expense (benefit) consists of the following components:

	1996	1995	1994
	-----	-----	-----
Current			
Federal.....	\$13,722,000	\$5,224,000	\$(5,135,000)
State.....	5,971,000	2,096,000	(1,057,000)
	-----	-----	-----
Total.....	19,693,000	7,320,000	(6,192,000)
	-----	-----	-----
Deferred			
Federal.....	(1,408,000)	1,430,000	1,471,000
State.....	(619,000)	1,233,000	192,000
	-----	-----	-----
	(2,027,000)	2,663,000	1,663,000
	-----	-----	-----
Total.....	\$17,666,000	\$9,983,000	\$(4,529,000)
	=====	=====	=====

Deferred income taxes are provided for temporary differences in reporting certain items, principally deferred compensation and net operating losses arising from termination of plans expense (note 7). The tax effects of temporary differences that gave rise to the deferred tax asset at December 31, 1996 and 1995 were as follows:

	1996	1995
	-----	-----
Deferred compensation.....	\$1,560,000	\$1,045,000
State income tax.....	860,000	--
Premises and equipment.....	(139,000)	(255,000)
Other.....	76,000	(460,000)
	-----	-----
	\$2,357,000	\$ 330,000
	=====	=====

At December 31, 1996, \$1,635,000 is currently payable to Jefferies Group for income taxes.

Investment Technology Group, Inc.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

The provision for income tax expense (benefit) differs from the expected Federal income tax rate of 35% for 1996, 1995 and 1994 for the following reasons:

	1996	1995	1994
	-----	-----	-----
Computed expected income tax expense (benefit).....	\$14,350,000	\$8,711,000	\$(4,337,000)
Increase in income taxes resulting from:			
Amortization of goodwill.....	192,000	198,000	200,000
State income tax expense (benefit), net of Federal income taxes.....	3,479,000	2,163,000	(562,000)
Research and development tax credits.....	(159,000)	(863,000)	--
Non-taxable interest income.....	(473,000)	(308,000)	(88,000)
Other.....	277,000	82,000	258,000
	-----	-----	-----
Total income tax expense (benefit).....	\$17,666,000	\$9,983,000	\$(4,529,000)
	=====	=====	=====

The Company believes that it is more likely than not that the deferred tax asset will be realized pursuant to the Company's Tax Sharing Agreement with Jefferies Group which entitles the Company to a compensating tax payment from Jefferies Group.

(5) DEBT

The Company had no term debt as of December 31, 1996 and 1995. Immediately prior to the Offering, the Company entered into an intercompany borrowing agreement with Jefferies Group permitting the Company to borrow up to \$15.0 million. Any outstanding balance will be due March 31, 1999 and will accrue interest at 1.75% above the one month London Interbank Offering Rate.

(6) EMPLOYEE BENEFIT PLANS

Substantially all employees of the Company are covered by a defined benefit pension plan sponsored by Jefferies Group. The defined benefit pension plan is subject to the provisions of the Employee Retirement Income Security Act of 1974. The Jefferies Group funding policy is to contribute to the defined benefit pension plan at least the minimum amount that can be deducted for Federal Income Tax purposes. The plan assets consist of approximately 60% equities and 40% fixed income securities.

The net periodic pension cost allocated to the Company was \$151,000, \$101,000 and \$137,000 in 1996, 1995 and 1994, respectively.

Jefferies Group incurs expenses related to various benefit plans covering substantially all employees, including an Employee Stock Purchase Plan and a profit sharing plan, which includes a salary reduction feature designed to qualify under Section 401(k) of the Internal Revenue Code. Employee contributions under the ESPP are voluntary and are made via payroll deduction. The employee contribution are used to purchase the Jefferies Group common stock which is then held in an outside trust account. The Company matches employee contributions at a rate of 15% (more, if profits exceed targets set by the Company's Board of Directors). The Company's match vests after two years.

Jefferies Group has a Capital Accumulation Plan (CAP) for certain officers and key employees of Jefferies Group and ITG. Participation in the CAP is optional, with those who elect to participate agreeing to defer graduated percentages of their compensation. The plan allows selected employees to acquire the Jefferies Group common stock at a 15% discount with 50% of the amount deferred. The remaining 50% of the amount deferred is placed in a Profit-Based Deferred Compensation Account that earns interest at a rate based on the performance of the Company. Jefferies Group will from time to time repurchase shares of its common stock in

Investment Technology Group, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

the open market for use in this plan. The Company recognizes compensation cost related to the 15% discount and interest on Profit-Based Deferred Compensation Accounts.

For 1996, 1995 and 1994, the Company expensed and contributed to these plans \$1,590,000, \$567,000, and \$534,000, respectively.

(7) TERMINATION OF PLANS EXPENSE

In connection with the Offering, certain management employment agreements, the Performance Share Plans (consisting of a 12.7% phantom equity interest in ITG and an annual profits bonus component) and non-compensatory ITG stock options (on 10% of the outstanding shares of ITG common stock) were terminated as of May 1, 1994 in exchange for \$31.1 million in cash, a portion of which was used to purchase Jefferies Group common stock. The Company, prior to December 31, 1993, had expensed and paid to Jefferies Group an additional \$9.4 million related to the above-mentioned Performance Share Plans. Immediately prior to the consummation of the Offering, Jefferies Group transferred its \$9.4 million liability and an equivalent amount of cash to the Company to be applied by the Company as part of the termination of the Performance Share Plans. The total liability in connection with the above-mentioned plans was \$40.5 million. Of the non-recurring expense of \$31.1 million, approximately \$900,000 was recorded in Performance Share Plans expense in the first two quarters of 1994 under the terms of the prior agreement. The total Performance Share Plans expense recorded for the first two quarters of 1994 was \$1.5 million. The remaining \$600,000 of such expense was for the annual profits bonus component of the Performance Share Plans for January 1, 1994 through May 1, 1994 (the termination date of the above-mentioned plans). Only the future annual profits bonus component (post Offering) of the above-mentioned plans was determined to be a component of the \$40.5 million liability. The annual profits bonus component was earned during the period January 1, 1994 through May 1, 1994 by the payees regardless of the Offering. The remaining liability of \$30.2 million was recorded as Termination of plans expense in the second quarter of 1994.

(8) RELATED PARTY TRANSACTIONS

In connection with the Offering, the Company entered into certain agreements (e.g., tax sharing agreement, service agreements, clearing agreement, development rights agreement, revenue sharing agreement and lease agreements) as described below:

Jefferies & Co. has provided specified administrative services to the Company at fixed monthly costs. Services performed outside the scope of the service agreements have been provided at jointly negotiated costs. Administrative services include human resources, telecommunications and data processing, legal, accounting and compliance. The costs of such services to the Company during 1996, 1995 and 1994 were \$690,000, \$584,000 and \$569,000, respectively.

Employees of the Company have also been provided with certain employee benefits, including medical, dental, life and disability insurance under plans maintained by Jefferies & Co., which have been charged to the Company based on Jefferies & Co.'s actual costs. In addition, third party expenses including telecommunication and quotation costs, floor brokerage, legal and accounting fees, exchange fees and other insurance costs, including fidelity bond coverage and directors and officers liability coverage, have been provided at cost.

The Company paid to Jefferies & Co. an aggregate of \$502,000, \$432,000 and \$446,000 for 1996, 1995 and 1994, respectively, as compensation to Jefferies & Co.'s account executives for introducing customers to POSIT.

In addition, Jefferies & Co. has provided substantially all clearing services to the Company. Aggregate costs of such services to the Company were \$7.3 million, \$4.6 million and \$4.4 million during 1996, 1995 and 1994, respectively, included in transaction processing expenses.



NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Occupancy and equipment rental expense has been partially provided to the Company at cost by Jefferies Group.

W & D Securities, Inc. performs certain execution services at the New York Stock Exchange and other exchanges for the Company. In order to comply with regulatory requirements of the NYSE that generally prohibit NYSE members and their affiliates from executing, as principal and, in certain cases, as agent, transactions in NYSE-listed securities off the NYSE, Jefferies Group gave up its formal legal control of W & D, effective January 1, 1983, by exchanging all of the W & D common stock owned by it for non-voting preferred stock of W & D. In the event that Jefferies Group were to regain ownership of such common stock, Jefferies Group believes that the NYSE would assert that W & D would be in violation of the NYSE's rules unless similar arrangements satisfactory to the NYSE were made with respect to the ownership of the common stock. While the NYSE has generally approved the above arrangements, there can be no assurance that it will not raise objections in the future. The Company believes that it can make satisfactory alternative arrangements for executing transactions in listed securities on the NYSE if it were precluded from doing so through W & D. The cost of these execution services was \$6.5 million, \$5.4 million and \$3.5 million in 1996, 1995 and 1994, respectively, and is included in transaction processing expenses. Included in other general and administrative expenses are fees paid to Jefferies International Limited of \$248,000 for various broker and administrative services, of which \$248,000 was reimbursed to the Company by its affiliate Global Trading.

Jefferies & Co. executes trades in an agency capacity for certain of its customers. Transaction fees from such trades were \$1.7 million, \$1.1 million and \$897,000 in 1996, 1995 and 1994, respectively, and are included in the Company's revenues.

Prior to May 1994, allocations of costs from Jefferies & Co. and Jefferies Group were done on a proportional cost basis using several methods, including usage, headcount and square footage. Costs were allocated using the method deemed most reasonable and appropriate.

During 1994, the Company paid Jefferies & Co. a consulting fee of \$56,000 for investment advisory services. The Company also earned interest income and a commitment fee in connection with a borrowing by Jefferies Group.

The Company believes all the foregoing post-Offering transactions were on terms substantially no less favorable to the Company than could have been obtained from unaffiliated parties and that all costs of doing business have been included. Amounts due from affiliates and amounts due to affiliates are generally settled on a monthly basis.

(9) MARKET RISK AND CONCENTRATIONS OF CREDIT RISK

In the normal course of business, the Company is involved in the execution of various customer securities transactions. Securities transactions are subject to the risk of counterparty or customer nonperformance. However, transactions are collateralized by the underlying security, thereby, reducing the associated risk to changes in the market value of the security through settlement date.

The settlement of these transactions is not expected to have a material effect upon the Company's financial statements.

(10) NET CAPITAL REQUIREMENT

ITG is subject to the Securities and Exchange Commission Uniform Net

Capital Rule (Rule 15c3-1), which requires the maintenance of minimum net capital. ITG has elected to use the alternative method permitted by Rule 15c3-1, which requires that ITG maintain minimum net capital, as defined, equal to \$250,000 or 2% of aggregate debit balances arising from customer transactions, as defined.

Investment Technology Group, Inc.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

At December 31, 1996, ITG had net capital of \$29.8 million which was \$29.6 million in excess of required net capital.

(11) ITGI STOCK OPTIONS

At December 31, 1996, the Company had a non-compensatory stock option plan. Under the 1994 Stock Ownership and Long-term Incentive Plan, non-compensatory options to purchase 3,650,000 shares of the Company's Common Stock are reserved for issuance under the plan. Except for certain options granted in conjunction with the Offering, 20,000 options which vest over two years and 12,377 options which vest immediately, one third of the options granted vest on the first, second, and third anniversaries of the date the options were priced. Shares of Common Stock which are attributable to awards which have expired, terminated or been canceled or forfeited during any calendar year are generally available for issuance or use in connection with future awards during such calendar year. Options that have been granted under the 1994 Stock Ownership and Long-Term Incentive Plan are exercisable on dates ranging from May 1997 to May 1999. The Plan will remain in effect until March 31, 2004, unless sooner terminated by the Board of Directors.

In June 1995, the Board of Directors adopted, subject to stockholder approval, the Non-Employee Directors' Plan. The Non-Employee Directors' Plan generally provides for an annual grant to each non-employee director of an option to purchase 2,500 shares of Common Stock. In addition, the Non-Employee Directors' Plan provides for the automatic grant to a non-employee director, at the time he or she is initially elected, of a stock option to purchase 10,000 shares of Common Stock. Stock options granted under the Non-Employee Directors' Plan are non-qualified stock options having an exercise price equal to the fair market value of the Common Stock at the date of grant. All stock options become exercisable beginning at the latter of three months after the date of grant, or May 4, 1997. Stock options granted under the Non-Employee Directors' Plan expire five years after the date of grant. A total of 125,000 shares of Common Stock are reserved and available for issuance under the Non-Employee Directors' Plan.

At the time of the Company's initial public offering in May 1994, stock options to acquire an aggregate of 2,728,000 shares of Common Stock were granted to officers and other employees of the Company. Of these options granted, 2,442,000 shares were 100% vested on May 4, 1994. In 1995, the Compensation Committee of the Board of Directors determined that a repricing of such options would serve to provide enhanced incentives to officers and employees of the Company. Accordingly, on the recommendation of the Compensation Committee, the Company offered a stock option repricing program pursuant to which all holders (options granted under the Non-Employee Directors' Plan were not eligible for repricing) of outstanding stock options with an exercise price of \$13.00 per share were permitted to elect to exchange all or a portion of such stock options for a smaller number of stock options to acquire shares of Common Stock at exercise price of \$13.00, \$11.06 and \$9.13 per share. The repricing program was offered to option holders on a value neutral basis using the Black Scholes option valuation model. In all, approximately 66% of the outstanding stock options eligible for repricing were repriced at the election of the holders of such options.

Investment Technology Group, Inc.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

The Company applies APB Opinion No. 25 and related Interpretations in accounting for its non-compensatory stock option plans. Accordingly, no compensation costs have been recognized for its stock option plan. Had compensation cost for the Company's stock option plans been determined consistent with FASB Statement No. 123, the Company's net earnings and earnings per share would have been reduced to the pro forma amounts indicated below:

		1996 -----	1995 -----
Net earnings.....	As reported	\$23,335	\$14,905
	Pro forma	\$20,279	\$11,899
Primary net earnings per share of common stock.....	As reported	\$ 1.26	\$ 0.81
	Pro forma	\$ 1.09	\$ 0.64
Fully diluted earnings per share of common stock.....	As reported	\$ 1.24	\$ 0.81
	Pro forma	\$ 1.08	\$ 0.64

The fair value of each option grant is estimated on the date of grant using the Black Scholes option valuation model with the following weighted average assumptions used for grants in 1996 and 1995, respectively: zero dividend yield for all years; risk free interest rates of 6.1 and 6.3 percent; expected volatility of 49 and 51 percent; and expected lives of four and four years.

A summary of the status of the Company's stock option plan as of December 31, 1996 and 1995 and changes during the years ended on those dates is presented below:

FIXED OPTIONS	1996 -----		1995 -----		1994 -----	
	SHARES	WEIGHTED AVERAGE EXERCISE PRICE	SHARES	WEIGHTED AVERAGE EXERCISE PRICE	SHARES	WEIGHTED AVERAGE EXERCISE PRICE
Outstanding at beginning of year.....	2,271,351	\$11.82	2,731,678	\$13.00		
Granted.....	49,877	16.96	27,500	7.71	2,737,628	\$13.00
Exercised.....	--	--	--	--	--	--
Conversion:						
Surrendered upon conversion.....	--	--	(478,646)	13.00	--	--
Converted from.....	--	--	(870,976)	13.00	--	--
Converted to.....	--	--	435,493	9.13	--	--
Converted to.....	--	--	435,483	11.06	--	--
Forfeited.....	(10,169)	13.00	(9,181)	13.00	(5,950)	13.00
Outstanding at end of year.....	2,311,059	11.96	2,271,351	11.82	2,731,678	13.00
Options exercisable at year-end...	None		None		None	
Weighted average fair value per share of options granted during the year.....	\$ 7.93		\$ 3.48		\$ 5.87	

Investment Technology Group, Inc.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

The following table summarizes information about fixed stock options outstanding at December 31, 1996:

EXERCISE PRICES	OPTIONS OUTSTANDING			OPTIONS EXERCISABLE	
	NUMBER OUTSTANDING	WEIGHTED AVG. REMAINING CONTRACTUAL LIFE (YEARS)		NUMBER EXERCISABLE	WEIGHTED AVG. EXERCISE PRICE
\$7.33	3,334	1.8		--	\$ 7.33
7.50	7,500	3.5		--	7.50
8.25	10,000	3.3		--	8.25
9.13	434,769	3.9		--	9.13
11.06	434,760	3.9		--	11.06
13.00	1,370,819	2.3		--	13.00
13.75	7,500	4.5		--	13.75
14.00	10,000	4.2		--	14.00
18.20	20,000	4.8		--	18.20
18.43	12,377	4.9		--	18.43

Although the 1994 Plan allows for the granting of performance-based stock options and restricted stock awards, no such options were granted during 1996 and 1995 and no such options were outstanding at December 31, 1996 and 1995.

In January of 1997, the Company granted to Scott P. Mason a non-qualified stock option to acquire 1,000,000 shares of Common Stock of the Company, having an exercise price of \$22.175. The option becomes exercisable as to 200,000 shares on May 4, 1997, and thereafter as to an additional 200,000 shares on each one year anniversary of the date of Scott P. Mason's employment contract execution. Such options granted were approved by the Compensation Committee of the Board of Directors in March 1997. The option expires in January 2002.

(12) INTEREST

Included in revenues is interest income of \$571,000, \$46,000 and \$616,000 for 1996, 1995 and 1994, respectively.

Included in other general and administrative expenses is interest expense of \$223,000, \$53,000 and \$10,000 for 1996, 1995 and 1994, respectively.

(13) ACCOUNTS PAYABLE AND ACCRUED EXPENSES

Included in accounts payable and accrued expenses at December 31, 1996 and 1995 are accrued soft dollar expenses of \$2,104,000 and \$933,000 and deferred revenues of \$300,000 and \$1,719,000, respectively.

Investment Technology Group, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(14) LEASE COMMITMENTS

In March 1994, the Company entered into lease and sublease agreements with Jefferies Group, Jefferies & Co. and third parties for certain offices and equipment, which expire at various dates through 2005. Rent expense for the years ended December 31, 1996, 1995 and 1994 was \$1.9 million, \$1.2 million and \$1.0 million, respectively. Minimum future rentals under noncancellable operating leases follow:

1997.....	\$1,030,000
1998.....	2,651,000
1999.....	2,659,000
2000.....	2,674,000
2001.....	2,730,000
Thereafter.....	24,069,000
	-----
Total.....	35,813,000
	=====

(15) EARNINGS (LOSS) PER SHARE

Net earnings (loss) per share of common stock is based upon an adjusted weighted average number of shares of common stock outstanding during 1996, 1995 and 1994. Although the Company actually issued 15.0 million shares to Jefferies immediately prior to the Offering (See Basis of Presentation in Summary of Accounting Policies) those shares have been treated in the earnings (loss) per share calculation as if they had been outstanding during all of 1994. The average number of outstanding shares for the years ended December 31, 1996, 1995 and 1994 were 18.3 million, 18.5 million and 17.5 million, respectively.

(16) UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

The following tables set forth certain unaudited financial data for the Company's quarterly operations in 1996, 1995 and 1994. The following information has been prepared on the same basis as the annual information presented elsewhere in this report and, in the opinion of management, includes all adjustments, consisting only of normal recurring adjustments, necessary for a fair presentation of the information for the quarterly periods presented. The operating results for any quarter are not necessarily indicative of results for any future period.

Investment Technology Group, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

	YEAR ENDED DECEMBER 31, 1996				YEAR ENDED DECEMBER 31, 1995				YEAR ENDED DECEMBER 31, 1994
	FOURTH QUARTER	THIRD QUARTER	SECOND QUARTER	FIRST QUARTER	FOURTH QUARTER	THIRD QUARTER	SECOND QUARTER	FIRST QUARTER	FOURTH QUARTER
	(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)								
Total Revenue.....	\$29,892	\$28,684	\$26,313	\$26,667	\$19,933	\$19,405	\$16,700	\$16,343	\$12,898
Expenses:									
Compensation and benefits.....	6,947	6,225	6,006	5,869	4,579	4,754	3,529	3,542	2,582
Transaction processing.....	3,922	4,340	3,776	3,699	3,221	2,707	2,727	2,206	2,145
Software royalties.....	2,283	2,272	2,022	2,221	1,775	1,565	1,264	1,381	1,096
Occupancy and equipment.....	1,928	1,899	1,257	1,027	992	913	883	818	711
Consulting.....	494	452	692	854	442	298	396	563	500
Telecommunications and data processing services.....	1,396	1,217	925	1,251	853	864	676	486	709
Other general and administrative.....	1,614	2,072	1,783	2,112	1,729	1,432	1,332	1,566	1,340
Performance share plan.....	--	--	--	--	--	--	--	--	--
Termination of plans expense.....	--	--	--	--	--	--	--	--	--
Total expenses.....	18,584	18,477	16,461	17,033	13,591	12,533	10,807	10,562	9,083
Earnings (loss) before income tax expense (benefit).....	11,308	10,207	9,852	9,634	6,342	6,872	5,893	5,781	3,815
Income tax expense (benefit).....	4,813	4,330	4,285	4,238	2,844	1,990	2,543	2,606	1,870
Net earnings (loss).....	\$ 6,495	\$ 5,877	\$ 5,567	\$ 5,396	\$ 3,498	\$ 4,882	\$ 3,350	\$ 3,175	\$ 1,945
Primary net earnings (loss) per share of common stock.....	\$ 0.35	\$ 0.32	\$ 0.30	\$ 0.29	\$ 0.19	\$ 0.27	\$ 0.18	\$ 0.17	\$ 0.10
Fully diluted net earnings (loss) per share of common stock.....	\$ 0.35	\$ 0.31	\$ 0.30	\$ 0.29	\$ 0.19	\$ 0.27	\$ 0.18	\$ 0.17	\$ 0.10

	THIRD QUARTER	SECOND QUARTER	FIRST QUARTER
	-----	-----	-----
Total Revenue.....	\$15,537	\$14,072	\$14,209
Expenses:			
Compensation and benefits.....	3,455	3,310	4,170
Transaction processing.....	2,008	1,967	2,114
Software royalties.....	1,357	1,257	1,263
Occupancy and equipment.....	801	735	625
Consulting.....	368	315	249

Telecommunications and data processing services.....	612	540	480
Other general and administrative.....	1,025	897	784
Performance share plan.....	--	770	758
Termination of plans expense.....	--	30,163	--
Total expenses.....	9,626	39,954	10,443
Earnings (loss) before income tax expense (benefit).....	5,911	(25,882)	3,766
Income tax expense (benefit).....	2,664	(10,850)	1,787
Net earnings (loss).....	\$ 3,247	\$ (15,032)	\$ 1,979
Primary net earnings (loss) per share of common stock.....	\$ 0.17	\$ (0.90)	\$ 0.13
Fully diluted net earnings (loss) per share of common stock.....	\$ 0.17	\$ (0.90)	\$ 0.13

Earnings (loss) per share for quarterly periods are based on average common shares outstanding in individual quarters; thus, the sum of earnings per share of the quarters may not equal the amounts reported for the full year.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

	YEAR ENDED DECEMBER 31, 1996				YEAR ENDED DECEMBER 31, 1995				YEAR ENDED DECEMBER 31, 1994
	FOURTH QUARTER	THIRD QUARTER	SECOND QUARTER	FIRST QUARTER	FOURTH QUARTER	THIRD QUARTER	SECOND QUARTER	FIRST QUARTER	FOURTH QUARTER
	(AS A PERCENTAGE OF TOTAL REVENUE)								
Total Revenue.....	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Expenses:									
Compensation and benefits.....	23.2	21.7	22.8	22.0	23.0	24.5	21.1	21.7	20.0
Transaction processing.....	13.1	15.1	14.4	13.9	16.2	14.0	16.3	13.5	16.6
Software royalties.....	7.6	7.9	7.7	8.3	8.9	8.1	7.6	8.5	8.5
Occupancy and equipment.....	6.4	6.6	4.8	3.9	5.0	4.7	5.3	5.0	5.5
Consulting.....	1.7	1.6	2.6	3.2	2.2	1.5	2.4	3.4	3.9
Telecommunications and data processing services.....	4.7	4.2	3.5	4.7	4.3	4.5	4.1	3.0	5.5
Other general and administrative.....	5.4	7.2	6.8	7.9	8.7	7.4	8.0	9.6	10.4
Performance share plan.....	--	--	--	--	--	--	--	--	--
Termination of plans expense.....	--	--	--	--	--	--	--	--	--
Total expenses.....	62.2	64.4	62.6	63.9	68.2	64.6	64.7	64.6	70.4
Earnings (loss) before income tax expense (benefit).....	37.8	35.6	37.4	36.1	31.8	35.4	35.3	35.4	29.6
Income tax expense (benefit).....	16.1	15.1	16.3	15.9	14.3	10.3	15.2	16.0	14.5
Net earnings (loss).....	21.7%	20.5%	21.2%	20.2%	17.5%	25.2%	20.1%	19.4%	15.1%
		THIRD QUARTER	SECOND QUARTER	FIRST QUARTER					
Total Revenue.....	100.0%	100.0%	100.0%						
Expenses:									
Compensation and benefits.....	22.2	23.5	29.4						
Transaction processing.....	12.9	14.0	14.9						
Software royalties.....	8.7	8.9	8.9						
Occupancy and equipment.....	5.2	5.2	4.4						
Consulting.....	2.4	2.2	1.8						
Telecommunications and data processing services.....	3.9	3.8	3.4						
Other general and administrative.....	6.6	6.4	5.5						
Performance share plan.....	--	5.5	5.3						
Termination of plans expense.....	--	214.4	--						
Total expenses.....	62.0	283.9	73.5						
Earnings (loss) before income tax expense (benefit).....	38.0	(183.9)	26.5						
Income tax expense (benefit).....	17.2	(77.1)	12.6						
Net earnings (loss).....	20.9%	106.8%	13.9%						

Investment Technology Group, Inc.

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The Company's results of operations are dependent upon trading volumes in the equity securities markets and variations in transaction volume may cause the Company's operating results to fluctuate on a quarterly basis. To a lesser extent, the Company has periodically experienced higher revenue in quarters in which investment managers seek to adjust their portfolios as a result of changes in the composition of various broad-based stock market indices.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND

FINANCIAL DISCLOSURE

There were no changes in or disagreements with accountants reportable herein.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

Information with respect to this item will be contained in the Proxy Statement for the 1997 Annual Meeting of Stockholders, which is incorporated herein by reference.

ITEM 11. EXECUTIVE COMPENSATION

Information with respect to this item will be contained in the Proxy Statement for the 1997 Annual Meeting of Stockholders, which is incorporated herein by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

Information with respect to this item will be contained in the Proxy Statement for the 1997 Annual Meeting of Stockholders, which is incorporated herein by reference.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Information with respect to this item will be contained in the Proxy Statement for the 1997 Annual Meeting of Stockholders, which is incorporated herein by reference.

PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENTS, SCHEDULES AND REPORTS ON FORM 8-K

(a) (1) Financial Statements

Included in Part II of this report:

	PAGES
	-----
Independent Auditor's Report.....	20
Consolidated Statement of Operations.....	21
Consolidated Statement of Financial Condition.....	22
Consolidated Statement of Changes in Stockholders' Equity.....	23
Consolidated Statement of Cash Flows.....	24
Notes to Consolidated Financial Statements.....	25

(a) (2) Schedules

Schedules are omitted because the required information either is not applicable or is included in the financial statements or the notes thereto.

Investment Technology Group, Inc.

(a) (3) Exhibits

- 3.1 Certificate of Incorporation of the Company (incorporated by reference to Exhibit 3.1 to Registration Statement Number 33-76474 on Form S-1 as declared effective by the Securities and Exchange Commission on May 4, 1994 (the "Registration Statement")).

- 3.2 By-laws of the Company (incorporated by reference to Exhibit 3.2 to Registration Statement).
- 4.1 Form of Certificate for Common Stock of the Company (incorporated by reference to Exhibit 4.1 to Registration Statement).
- 10.1 Agreement to Terminate Employment Agreement and Stock Options between the Company, Raymond L. Killian, Jr. and Jefferies Group, Inc. (incorporated by reference to Exhibit 10.1 to the Quarterly Report on Form 10-Q for the quarter ended June 24, 1994).
  - 10.1.1 Joint Venture Agreement, dated October 1, 1987, between Jefferies & Company, Inc. and BARRA, Inc. (formerly Barr Rosenberg Associates, Inc.) (incorporated by reference to Exhibit 10.1.1 to Registration Statement).
  - 10.1.2 Exclusive Software License Agreement, dated October 1, 1987, between the POSIT Joint Venture and Jefferies & Company, Inc. (incorporated by reference to Exhibit 10.1.2 to Registration Statement).
  - 10.1.3 Amendment No. 1 to Exclusive Software License Agreement, dated August 1, 1990, between the POSIT Joint Venture and Jefferies & Company, Inc. (incorporated by reference to Exhibit 10.1.3 to Registration Statement).
  - 10.1.4 Consent of BARRA, Inc. to the assignment to the Company of the interests of Jefferies & Company, Inc. in the Posit Joint Venture referenced in item 10.1.1 and rights in the Software License Agreement referenced in item 10.1.2 (incorporated by reference to Exhibit 10.1.4 to Registration Statement).
  - 10.1.5 Joint Venture Agreement, dated May 31, 1990, between BARRA International (U.K.), Ltd. and Jefferies Global Trading Incorporated (incorporated by reference to Exhibit 10.1.5 to Registration Statement).
  - 10.1.6 Exclusive Software License Agreement, dated May 31, 1990, between the Global POSIT Joint Venture and Jefferies International Limited (incorporated by reference to Exhibit 10.1.6 to Registration Statement).
  - 10.1.7 Consent of BARRA International (U.K.), Ltd. to the assignment to the Company of the interests of Jefferies Global Trading Incorporated in the Global POSIT Joint Venture referenced in item 10.1.5 (incorporated by reference to Exhibit 10.1.7 to Registration Statement).
- 10.2 Agreement to Terminate Employment Agreement, Phantom Equity Rights and Profits Bonus Rights between the Company, Jefferies Group, Inc., Jefferies & Company, Inc. and Dale A. Prouty (incorporated by reference to Exhibit 10.2 to the Quarterly Report on Form 10-Q for the quarter ended June 24, 1994).
  - 10.2.1 Tax Sharing Agreement, dated January 1, Jefferies between Jefferies Group, Inc. and the Company (incorporated by reference to Exhibit 10.2.1 to Registration Statement).
  - 10.2.2 Service Agreement, dated March 15, 1994, between Jefferies & Company, Inc. and the Company (incorporated by reference to Exhibit 10.2.2 to Registration Statement).

Investment Technology Group, Inc.



- 10.2.3 Service Agreement, dated March 15, 1994, between W & D Securities, Inc. and the Company (incorporated by reference to Exhibit 10.2.3 to Registration Statement).
- 10.2.4 Fully Disclosed Clearing Agreement, dated March 15, 1994, between Jefferies & Company, Inc. and the Company (incorporated by reference to Exhibit 10.2.4 to Registration Statement).
- 10.2.5 Intercompany Borrowing Agreement between Jefferies Group, Inc. and the Company (incorporated by reference to Exhibit 10.2.5 to Registration Statement).
- 10.2.6 Development Rights Agreement, dated March 15, 1994, between Jefferies Group, Inc. and the Company (incorporated by reference to Exhibit 10.2.6 to Registration Statement).
- 10.2.7 Revenue sharing Agreement, dated March 15, 1994, between the Company and Jefferies & Company, Inc. (incorporated by reference to Exhibit 10.2.7 to Registration Statement).
- 10.2.8 Equipment Lease Agreement, dated March 15, 1994, between the Company, Jefferies & Company, Inc. and Jefferies Group, Inc. (incorporated by reference to Exhibit 10.2.8 to Registration Statement).
- 10.2.9 Form of Promissory Note between the Company and Jefferies Group, Inc. (incorporated by reference to Exhibit 10.2.9 to Registration Statement).
- 10.3 Agreement to Terminate Phantom Equity Rights and Profits Bonus Rights between the Company, Jefferies Group, Inc., Jefferies & Company, Inc. and Savyona Abel (incorporated by reference to Exhibit 10.3 to the Quarterly Report on Form 10-Q for the quarter ended June 24, 1994).
  - 10.3.1 1994 Stock Option and Long-Term Incentive Plan of the Company (incorporated by reference to Exhibit 10.3.1 to Registration Statement).
    - 10.3.1A Amended Non-Employee Directors' Stock Option Plan.
    - 10.3.1B Amended 1994 Stock Option and Long-Term Incentive Plan.
  - 10.3.2 Employment Agreement between the Company, ITG Inc. and Raymond L. Killian, Jr. (incorporated by reference to Exhibit 10.3.2 to Registration Statement).
    - 10.3.2A Amendment No. 2 to Employment Agreement between Raymond L. Killian, Jr., the Company and ITG Inc.
  - 10.3.3 Employment Agreement between the Company, ITG Inc. and Dale A. Prouty (incorporated by reference to Exhibit 10.3.3 to Registration Statement).
    - 10.3.3A\* Amendment No. 2 to Employment Agreement between the Company, ITG Inc. and Dale A Prouty.
  - 10.3.4 Form of Employment Agreement between the Company and Joshua D. Rose (incorporated by reference to Exhibit 10.3.4 to Registration Statement).
  - 10.3.4A Amendment to Form of Employment Agreement between the Company, ITG Inc. and Senior Vice Presidents Electing to Reprice Stock Options.
  - 10.3.5 Employment Agreement between the Company, ITG Inc. and Robert

K. Laible (incorporated by reference to Exhibit 10.3.5 to Registration Statement Number 33-76474 on Amendment Number 3 to Form S-1 as filed with the Securities and Exchange Commission on May 2, 1994).

- 10.3.6 Employment Agreement between the Company, ITG Inc. and Yossef A. Beinart (incorporated by reference to Exhibit 10.3.6 to Registration Statement Number 33-76474 on Amendment Number 3 to Form S-1 as filed with the Securities and Exchange Commission on May 2, 1994).

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- 10.3.7 Capital Accumulation Plan for key employees of Jefferies Group, Inc. (incorporated by reference to Exhibit 10.3.7 to Registration Statement).
- 10.3.11 Form of Agreement to Terminate Stock Option between the Company, Scott P. Mason and Jefferies Group, Inc. (incorporated by reference to Exhibit 10.3.3 to Registration Statement).
- 10.3.12 Agreement to Modify Bonus Share between the Company and Robert K. Laible (incorporated by reference to Exhibit 10.3.12 to Registration Statement Number 33-76474 on Amendment Number 3 to Form S-1 as filed with the Securities and Exchange Commission on April 21, 1994).
- 10.3.13 Agreement to Modify Bonus Share between the Company and Joshua D. Rose (incorporated by reference to Exhibit 10.3.13 to Registration Statement Number 33-76474 on Amendment Number 3 to Form S-1 as filed with the Securities and Exchange Commission on April 21, 1994).
- 10.3.14 Form of Stock Option Agreement between the Company and certain employees of the Company (incorporated by reference to Exhibit 10.3.3 to Registration Statement).
- 10.3.15 Stock Option Agreement between the Company and Scott P. Mason (incorporated by reference to Exhibit 10.3.3 to Registration Statement).
- 10.3.16 ITG Incentive Compensation Plan (incorporated by reference to Exhibit 10.3.16 to Registration Statement Number 33-76474 on Amendment Number 3 to Form S-1 as filed with the Securities and Exchange Commission on April 21, 1994).
- 10.3.17 Phantom Equity Agreement and Profits Bonus Rights Plan (incorporated by reference to Exhibit 10.3.17 to Registration Statement Number 33-76474 on Amendment Number 3 to Form S-1 as filed with the Securities and Exchange Commission on April 21, 1994).
- 10.3.18\* Employment Agreement between the Company and Scott P. Mason.
- 10.4 Agreement to Terminate Phantom Equity Rights and Profits Bonus Rights between the Company, Jefferies Group, Inc., Jefferies & Company, Inc. and Mark Auburn (incorporated by reference to Exhibit 10.4 to the Quarterly Report on Form 10-Q for the quarter ended June 24, 1994).
- 10.4.1 Form of QuantEX Software and Hardware License Agreement (incorporated by reference to Exhibit 10.3.3 to Registration Statement).

- 10.5 Agreement to Terminate Phantom Equity Rights and Profits Bonus Rights between the Company, Jefferies Group, Inc., Jefferies & Company, Inc. and Yossef Beinart (incorporated by reference to Exhibit 10.5 to the Quarterly Report on Form 10-Q for the quarter ended June 24, 1994).
- 10.5.1 Lease, dated September 30, 1992, between Jefferies Group, Inc. and Progress Partners. (incorporated by reference to Exhibit 10.3.3 to Registration Statement).
- 10.5.2 Amendment of Lease Agreement, dated November 23, 1992, between Jefferies Group, Inc. and Progress Partners (incorporated by reference to Exhibit 10.3.3 to Registration Statement).
- 10.5.3 Sublease Agreement, dated March 15, 1994, between Jefferies Group, Inc. and the Company (incorporated by reference to Exhibit 10.3.3 to Registration Statement).

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- 10.5.4 Lease, dated July 11, 1990, between 400 Corporate Pointe, Ltd. and Integrated Analytics Corporation, as assigned by Integrated Analytics Corporation to the Company (incorporated by reference to Exhibit 10.3.3 to Registration Statement).
- 10.5.7 First Amendment to Lease, dated as of June 1, 1995, between AEW/LBA Acquisition Co. LLC (as successor to 400 Corporate Pointe, Ltd.) and the Company
- 10.6 Agreement to Terminate Phantom Equity Rights and Profits Bonus Rights between the Company, Jefferies Group, Inc., Jefferies & Company, Inc. and Mike Earlywine (incorporated by reference to Exhibit 10.6 to the Quarterly Report on Form 10-Q for the quarter ended June 24, 1994).
- 10.7 Agreement to Terminate Phantom Equity Rights and Profits Bonus Rights between the Company, Jefferies Group, Inc., Jefferies & Company, Inc. and Joseph Heled (incorporated by reference to Exhibit 10.7 to the Quarterly Report on Form 10-Q for the quarter ended June 24, 1994 and).
- 10.8 Agreement to Terminate Phantom Equity Rights and Profits Bonus Rights between the Company, Jefferies Group, Inc., Jefferies & Company, Inc. and Demetri Silas (incorporated by reference to Exhibit 10.8 to the Quarterly Report on Form 10-Q for the quarter ended June 24, 1994).
- 10.9 Agreement to Terminate Phantom Equity Rights and Profits Bonus Rights between the Company, Jefferies Group, Inc., Jefferies & Company, Inc. and Stuart Sperling (incorporated by reference to Exhibit 10.9 to the Quarterly Report on Form 10-Q for the quarter ended June 24, 1994).
- 10.10 Agreement to Terminate Phantom Equity Rights and Profits Bonus Rights between the Company, Jefferies Group, Inc., Jefferies & Company, Inc. and Tuval Chomut (incorporated by reference to Exhibit 10.10 to the Quarterly Report on Form 10-Q for the quarter ended June 24, 1994).
- 10.1 Agreement to Terminate Phantom Equity Rights and Profits Bonus Rights between the Company, Jefferies Group, Inc., Jefferies & Company, Inc. and Andrew Winner (incorporated by reference to Exhibit 10.11 to the Quarterly Report on Form 10-Q for the quarter ended June 24, 1994).

- 10.12 Agreement to Terminate Phantom Equity Rights and Profits Bonus Rights between the Company, Jefferies Group, Inc., Jefferies & Company, Inc. and Mark Wright (incorporated by reference to Exhibit 10.12 to the Quarterly Report on Form 10-Q for the quarter ended June 24, 1994).
- 10.13 Agreement to Terminate Stock Option between the Company, Scott P. Mason and Jefferies Group, Inc. (incorporated by reference to Exhibit 10.13 to the Quarterly Report on Form 10-Q for the quarter ended June 24, 1994).
- 23\* Consent of KPMG Peat Marwick LLP.
- 27\* Financial Data Schedule.

\* Filed herewith

(b) REPORTS ON FORM 8-K.

There were no reports filed on Form 8-K for the quarter ended December 31, 1996.

(c) INDEX TO EXHIBITS

See list of exhibits at Item 14(a)(3) above and exhibits following.

Investment Technology Group, Inc.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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.

By: /s/ RAYMOND L. KILLIAN, JR.

-----  
 Raymond L. Killian Jr.  
 Chairman of the Board

Dated: March 31, 1997

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons in the capacities and on the dates indicated.

SIGNATURE	TITLE	DATE
/s/ RAYMOND L. KILLIAN, JR. Raymond L. Killian, Jr.	Chairman of the Board and Director	March 31, 1997
/s/ SCOTT P. MASON Scott P. Mason	President, Chief Executive Officer and Director	March 31, 1997
/s/ JOHN R. MACDONALD John R. MacDonald	Senior Vice President and Chief Financial Officer	March 31, 1997
/s/ FRANK E. BAXTER Frank E. Baxter	Director	March 31, 1997

/S/ RICHARD G. DOOLEY	Director	March 31, 1997
-----		
Richard G. Dooley		
/S/ WILLIAM I. JACOBS	Director	March 31, 1997
-----		
William I. Jacobs		
/S/ ROBERT L. KING	Director	March 31, 1997
-----		
Robert L. King		
/S/ MICHAEL L. KLOWDEN	Director	March 31, 1997
-----		
Michael L. Klowden		
/S/ DALE A. PROUTY	Director	March 31, 1997
-----		
Dale A. Prouty		
/S/ MARK A. WOLFSON	Director	March 31, 1997
-----		
Mark A Wolfson		

Investment Technology Group, Inc.

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EXHIBIT INDEX

EXHIBIT NUMBER	DESCRIPTION	SEQUENTIALLY NUMBERED PAGE
-----		
3.1	Certificate of Incorporation of the Company (incorporated by reference to Exhibit 3.1 to Registration Statement Number 33-76474 on Form S-1 as declared effective by the Securities and Exchange Commission on May 4, 1994 (the "Registration Statement")).	
3.2	By-laws of the Company (incorporated by reference to Exhibit 3.2 to Registration Statement).	
4.1	Form of Certificate for Common Stock of the Company (incorporated by reference to Exhibit 4.1 to Registration Statement).	
10.1	Agreement to Terminate Employment Agreement and Stock Options between the Company, Raymond L. Killian, Jr. and Jefferies Group, Inc. (incorporated by reference to Exhibit 10.1 to the Quarterly Report on Form 10-Q for the quarter ended June 24, 1994).	
10.1.1	Joint Venture Agreement, dated October 1, 1987, between Jefferies & Company, Inc. and BARRA, Inc. (formerly Barr Rosenberg Associates, Inc.) (incorporated by reference to Exhibit 10.1.1 to Registration Statement).	
10.1.2	Exclusive Software License Agreement, dated October 1, 1987, between the POSIT Joint Venture and Jefferies & Company, Inc. (incorporated by reference to Exhibit 10.1.2 to Registration Statement).	
10.1.3	Amendment No. 1 to Exclusive Software License Agreement, dated August 1, 1990, between the POSIT Joint Venture and Jefferies & Company, Inc. (incorporated by reference to Exhibit 10.1.3 to Registration Statement).	
10.1.4	Consent of BARRA, Inc. to the assignment to the Company of the interests of Jefferies & Company, Inc. in the Posit Joint Venture referenced in item 10.1.1 and rights in the Software License Agreement referenced in item 10.1.2 (incorporated by reference to Exhibit 10.1.4 to Registration Statement).	
10.1.5	Joint Venture Agreement, dated May 31, 1990, between BARRA International (U.K.), Ltd. and Jefferies Global Trading Incorporated (incorporated by reference to Exhibit 10.1.5 to Registration Statement).	
10.1.6	Exclusive Software License Agreement, dated May 31, 1990, between the Global POSIT Joint Venture and Jefferies International Limited (incorporated by reference to Exhibit 10.1.6 to Registration Statement).	
10.1.7	Consent of BARRA International (U.K.), Ltd. to the assignment to the Company of the interests of Jefferies Global Trading Incorporated in the Global POSIT Joint Venture referenced in item 10.1.5 (incorporated by reference to Exhibit 10.1.7 to Registration Statement).	
10.2	Agreement to Terminate Employment Agreement, Phantom Equity Rights and Profits Bonus Rights between the Company, Jefferies Group, Inc.,	

Jefferies & Company, Inc. and Dale A. Prouty (incorporated by reference to Exhibit 10.2 to the Quarterly Report on Form 10-Q for the quarter ended June 24, 1994).

- 10.2.1 Tax Sharing Agreement, dated January 1, Jefferies between Jefferies Group, Inc. and the Company (incorporated by reference to Exhibit 10.2.1 to Registration Statement).
- 10.2.2 Service Agreement, dated March 15, 1994, between Jefferies & Company, Inc. and the Company (incorporated by reference to Exhibit 10.2.2 to Registration Statement).

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EXHIBIT NUMBER	DESCRIPTION	SEQUENTIALLY NUMBERED PAGE
10.2.3	Service Agreement, dated March 15, 1994, between W & D Securities, Inc. and the Company (incorporated by reference to Exhibit 10.2.3 to Registration Statement).	
10.2.4	Fully Disclosed Clearing Agreement, dated March 15, 1994, between Jefferies & Company, Inc. and the Company (incorporated by reference to Exhibit 10.2.4 to Registration Statement).	
10.2.5	Intercompany Borrowing Agreement between Jefferies Group, Inc. and the Company (incorporated by reference to Exhibit 10.2.5 to Registration Statement).	
10.2.6	Development Rights Agreement, dated March 15, 1994, between Jefferies Group, Inc. and the Company (incorporated by reference to Exhibit 10.2.6 to Registration Statement).	
10.2.7	Revenue sharing Agreement, dated March 15, 1994, between the Company and Jefferies & Company, Inc. (incorporated by reference to Exhibit 10.2.7 to Registration Statement).	
10.2.8	Equipment Lease Agreement, dated March 15, 1994, between the Company, Jefferies & Company, Inc. and Jefferies Group, Inc. (incorporated by reference to Exhibit 10.2.8 to Registration Statement).	
10.2.9	Form of Promissory Note between the Company and Jefferies Group, Inc. (incorporated by reference to Exhibit 10.2.9 to Registration Statement).	
10.3	Agreement to Terminate Phantom Equity Rights and Profits Bonus Rights between the Company, Jefferies Group, Inc., Jefferies & Company, Inc. and Savyona Abel (incorporated by reference to Exhibit 10.3 to the Quarterly Report on Form 10-Q for the quarter ended June 24, 1994).	
10.3.1	1994 Stock Option and Long-Term Incentive Plan of the Company (incorporated by reference to Exhibit 10.3.1 to Registration Statement).	
10.3.1A	Amended Non-Employee Directors' Stock Option Plan.	
10.3.1B	Amended 1994 Stock Option and Long-Term Incentive Plan.	
10.3.2	Employment Agreement between the Company, ITG Inc. and Raymond L. Killian, Jr. (incorporated by reference to Exhibit 10.3.2 to Registration Statement).	
10.3.2A	Amendment No. 2 to Employment Agreement between Raymond L. Killian, Jr., the Company and ITG Inc.	
10.3.3	Employment Agreement between the Company, ITG Inc. and Dale A. Prouty (incorporated by reference to Exhibit 10.3.3 to Registration Statement).	
10.3.3A*	Amendment No. 2 to Employment Agreement between the Company, ITG Inc. and Dale A Prouty.	
10.3.4	Form of Employment Agreement between the Company and Joshua D. Rose (incorporated by reference to Exhibit 10.3.4 to Registration Statement).	
10.3.4A	Amendment to Form of Employment Agreement between the Company, ITG Inc. and Senior Vice Presidents Electing to Reprice Stock Options.	
10.3.5	Employment Agreement between the Company, ITG Inc. and Robert K. Laible (incorporated by reference to Exhibit 10.3.5 to Registration Statement Number 33-76474 on Amendment Number 3 to Form S-1 as filed with the Securities and Exchange Commission on May 2, 1994).	
10.3.6	Employment Agreement between the Company, ITG Inc. and Yossef A. Beinart (incorporated by reference to Exhibit 10.3.6 to Registration Statement Number 33-76474 on Amendment Number 3 to Form S-1 as filed with the Securities and Exchange Commission on May 2, 1994).	

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EXHIBIT NUMBER	DESCRIPTION	SEQUENTIALLY NUMBERED PAGE
10.3.7	Capital Accumulation Plan for key employees of Jefferies Group, Inc.	

- (incorporated by reference to Exhibit 10.3.7 to Registration Statement).
- 10.3.11 Form of Agreement to Terminate Stock Option between the Company, Scott P. Mason and Jefferies Group, Inc. (incorporated by reference to Exhibit 10.3.3 to Registration Statement).
- 10.3.12 Agreement to Modify Bonus Share between the Company and Robert K. Laible (incorporated by reference to Exhibit 10.3.12 to Registration Statement Number 33-76474 on Amendment Number 3 to Form S-1 as filed with the Securities and Exchange Commission on April 21, 1994).
- 10.3.13 Agreement to Modify Bonus Share between the Company and Joshua D. Rose (incorporated by reference to Exhibit 10.3.13 to Registration Statement Number 33-76474 on Amendment Number 3 to Form S-1 as filed with the Securities and Exchange Commission on April 21, 1994).
- 10.3.14 Form of Stock Option Agreement between the Company and certain employees of the Company (incorporated by reference to Exhibit 10.3.3 to Registration Statement).
- 10.3.15 Stock Option Agreement between the Company and Scott P. Mason (incorporated by reference to Exhibit 10.3.3 to Registration Statement).
- 10.3.16 ITG Incentive Compensation Plan (incorporated by reference to Exhibit 10.3.16 to Registration Statement Number 33-76474 on Amendment Number 3 to Form S-1 as filed with the Securities and Exchange Commission on April 21, 1994).
- 10.3.17 Phantom Equity Agreement and Profits Bonus Rights Plan (incorporated by reference to Exhibit 10.3.17 to Registration Statement Number 33-76474 on Amendment Number 3 to Form S-1 as filed with the Securities and Exchange Commission on April 21, 1994).
- 10.3.18\* Employment Agreement between the Company and Scott P. Mason.
- 10.4 Agreement to Terminate Phantom Equity Rights and Profits Bonus Rights between the Company, Jefferies Group, Inc., Jefferies & Company, Inc. and Mark Auburn (incorporated by reference to Exhibit 10.4 to the Quarterly Report on Form 10-Q for the quarter ended June 24, 1994).
- 10.4.1 Form of QuantEX Software and Hardware License Agreement (incorporated by reference to Exhibit 10.3.3 to Registration Statement).
- 10.5 Agreement to Terminate Phantom Equity Rights and Profits Bonus Rights between the Company, Jefferies Group, Inc., Jefferies & Company, Inc. and Yossef Beinart (incorporated by reference to Exhibit 10.5 to the Quarterly Report on Form 10-Q for the quarter ended June 24, 1994).
- 10.5.1 Lease, dated September 30, 1992, between Jefferies Group, Inc. and Progress Partners. (incorporated by reference to Exhibit 10.3.3 to Registration Statement).
- 10.5.2 Amendment of Lease Agreement, dated November 23, 1992, between Jefferies Group, Inc. and Progress Partners (incorporated by reference to Exhibit 10.3.3 to Registration Statement).
- 10.5.3 Sublease Agreement, dated March 15, 1994, between Jefferies Group, Inc. and the Company (incorporated by reference to Exhibit 10.3.3 to Registration Statement).
- 10.5.4 Lease, dated July 11, 1990, between 400 Corporate Pointe, Ltd. and Integrated Analytics Corporation, as assigned by Integrated Analytics Corporation to the Company (incorporated by reference to Exhibit 10.3.3 to Registration Statement).

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EXHIBIT NUMBER	DESCRIPTION	SEQUENTIALLY NUMBERED PAGE
10.5.7	First Amendment to Lease, dated as of June 1, 1995, between AEW/LBA Acquisition Co. LLC (as successor to 400 Corporate Pointe, Ltd.) and the Company	
10.6	Agreement to Terminate Phantom Equity Rights and Profits Bonus Rights between the Company, Jefferies Group, Inc., Jefferies & Company, Inc. and Mike Earlywine (incorporated by reference to Exhibit 10.6 to the Quarterly Report on Form 10-Q for the quarter ended June 24, 1994).	
10.7	Agreement to Terminate Phantom Equity Rights and Profits Bonus Rights between the Company, Jefferies Group, Inc., Jefferies & Company, Inc. and Joseph Heled (incorporated by reference to Exhibit 10.7 to the Quarterly Report on Form 10-Q for the quarter ended June 24, 1994 and).	
10.8	Agreement to Terminate Phantom Equity Rights and Profits Bonus Rights between the Company, Jefferies Group, Inc., Jefferies & Company, Inc. and Demetri Silas (incorporated by reference to Exhibit 10.8 to the Quarterly Report on Form 10-Q for the quarter ended June 24, 1994).	
10.9	Agreement to Terminate Phantom Equity Rights and Profits Bonus Rights between the Company, Jefferies Group, Inc., Jefferies & Company, Inc. and Stuart Sperling (incorporated by reference to Exhibit 10.9 to the Quarterly Report on Form 10-Q for the quarter ended June 24, 1994).	
10.10	Agreement to Terminate Phantom Equity Rights and Profits Bonus Rights between the Company, Jefferies Group, Inc., Jefferies & Company, Inc. and Tuvall Chomut (incorporated by reference to Exhibit 10.10 to the Quarterly Report on Form 10-Q for the quarter ended June 24, 1994).	

- 10.1 Agreement to Terminate Phantom Equity Rights and Profits Bonus Rights between the Company, Jefferies Group, Inc., Jefferies & Company, Inc. and Andrew Winner (incorporated by reference to Exhibit 10.11 to the Quarterly Report on Form 10-Q for the quarter ended June 24, 1994).
- 10.12 Agreement to Terminate Phantom Equity Rights and Profits Bonus Rights between the Company, Jefferies Group, Inc., Jefferies & Company, Inc. and Mark Wright (incorporated by reference to Exhibit 10.12 to the Quarterly Report on Form 10-Q for the quarter ended June 24, 1994).
- 10.13 Agreement to Terminate Stock Option between the Company, Scott P. Mason and Jefferies Group, Inc. (incorporated by reference to Exhibit 10.13 to the Quarterly Report on Form 10-Q for the quarter ended June 24, 1994).
- 23\* Consent of KPMG Peat Marwick LLP.
- 27\* Financial Data Schedule.

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\* Filed herewith



AMENDMENT NO. 2  
TO EMPLOYMENT AGREEMENT

This Amendment No. 2 to Employment Agreement (the "Amendment") is made and entered into as of June 30, 1996, by and among Investment Technology Group, Inc., a Delaware corporation ("Holding"), ITG Inc., a Delaware corporation (the "Company"), and Dale A. Prouty (the "Employee").

WHEREAS, the Employee wishes to relocate from New York to California and Holding and Company are willing to allow such relocation subject to the modifications to the Employee's Employment Agreement as herein provided.

NOW, THEREFORE, the parties hereby agree as follows:

1. Amendment to Section 2. Section 2 of the Employment Agreement is amended by deleting such Section in its entirety and substituting therefor new Section 2 as follows:

2. Location of Employment. The Employee's principal place of employment shall be located at the Company's offices in Culver City, California. If needed, the Employee agrees to spend approximately one week a month (on average) at the Company's offices located in New York, New York. No relocation reimbursement shall be made in respect of the Employee's relocation to California. The Employee shall not be entitled to receive any housing allowance subsequent to June 30, 1996.

2. Amendment to Section 3.2. Section 3.2 of the Employment Agreement is amended by deleting such Section in its entirety and substituting therefor new Section 3.2 as follows:

3.2. In addition to the base salary described in Section 3.1, for the period commencing July 1, 1996 and ending April 30, 1997, the Employee shall be entitled to receive such discretionary bonus as the Chief Executive Officer of the Company determines is appropriate, based on the Employee's performance during such period. Any payment of a discretionary bonus hereunder for the six-month period ending December 31, 1996 or for the four-month period ending April 30, 1997 shall be subject to pro-ration in the event that the Employee employment hereunder ceases during any such period; provided, that no bonus will be payable in any period in which the Employee's employment with the Company is terminated unless such termination is solely an involuntary termination by the Company without cause (as hereinafter defined) or voluntary termination by the Employee for Good Reason (as hereinafter defined).

3. Acknowledgment Concerning "Good Reason". The employee acknowledges that any reduction in the Employee's duties or responsibilities made in connection with the Employee's relocation to California shall not constitute "Good Reason" as such term is defined in Section 4.4 of the Employment Agreement.

4. Amendment to Subsection 4.6. Subsection 4.6(a) is amended by deleting such Subsection in its entirety and substituting therefor the following.

(a) The Company shall pay to the Employee (or his heirs or legal representatives) the Employee's base salary, at the rate in effect on the termination date, net of employment taxes, for the period from the termination date through March 31, 1997, periodically in accordance with the Company's normal payment procedures, plus (i) if termination occurs during 1996, a bonus for the remainder of 1996 or (ii) if termination occurs during the period from January 1, 1997 through April 30, 1997, a bonus for the remainder of such period, in each case determined by the amount of the bonus then in effect, as determined in accordance with Section 3.2.

5. Amendment to Section 7.1. The last sentence of Section 7.1 is amended by deleting such sentence and substituting therefor the followings:

In the event that the Employee is terminated by the Company without cause or if the Employee resigns for Good Reason, if the Company elects to extend the non-competition period, the Company shall pay

Investment Technology Group, Inc.

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the Employee during any period that the non-competition period has been extended a bonus determined by the amount of the bonus then in effect, as determined in accordance with Section 3.2.

6. Effective Date. This Amendment No. 2 shall become effective on July 1, 1996.

7. No Other Amendment. Except as expressly amended hereby, the terms and conditions of the Employment Agreement shall remain in full force and effect.

Investment Technology Group, Inc.

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IN WITNESS WHEREOF, the parties hereto have executed this Amendment No. 2 to Employment Agreement as of the date first above written.

"Holding"

INVESTMENT TECHNOLOGY GROUP, INC.,  
a Delaware corporation  
By: Raymond L. Killian Jr.

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Name: Raymond L. Killian Jr.  
Title: President

"Company"

ITG Inc.  
By: John R. MacDonald

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Name: John R. MacDonald  
Title: Chief Financial Officer

"Employee"

DALE A. PROUTY

-----  
Dale A. Prouty  
Address: for Notices:  
P.O. Box 2506  
Rancho Santa Fe, Ca 92067

## EMPLOYMENT AGREEMENT

EMPLOYMENT AGREEMENT, dated as of January 6, 1997, between Scott P. Mason ("Executive") and Investment Technology Group, Inc., a Delaware corporation ("ITGI").

1. Definitions. In addition to other defined terms, as used herein, the following capitalized terms shall have following meanings:

(a) "Affiliate" of a person or other entity shall mean a person or other entity that directly or indirectly controls, is controlled by, or is under common control with, the person or other entity specified.

(b) "Average 5-Day Closing Price of the Company's Common Stock" on a specified date shall mean the average of the mid-points between the closing "bid" and "asked" prices for the Company's Common Stock as reported on the NASDAQ National Market System for each day of the 5-consecutive-day period (excluding Saturdays, Sundays and legal holidays) that ends on the specified date.

(c) "Base Salary" shall mean the salary provided for in Section 5.1.

(d) "Benefit Plan" shall mean any compensation or benefit plan, program or arrangement (including, without limitation, any Welfare Benefit Plan and any Pension or Retirement Plan) that is available to senior level executives of the Company.

(e) "Board" shall mean the Board of Directors of ITGI.

(f) "Cause" shall mean:

(i) the Executive is convicted of a felony or a misdemeanor that would cause the Company's surety bond to be terminated as to the Executive;

(ii) the Executive shall consent to a determination by, or become subject to an order of, the Securities and Exchange Commission (the "SEC"), the National Association of Securities Dealers (the "NASD") or an appropriate self-regulatory organization, that the Executive is subject to "statutory disqualification" with respect to membership or participation in, or association with a member of, a self-regulatory organization, as the term "statutory disqualification" is defined in Section 3(a)(39) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), or the SEC shall censure, place limitations on the activities, functions or operations of, suspend or revoke the registration of the Executive (or of ITG as a result of the actions or inactions of the Executive) pursuant to Section 15(b) of the Exchange Act;

(iii) a willful material breach by the Executive of the Company's Statement of Policy on Standards of Conduct resulting in material economic harm to the Company; or

(iv) the Executive engages in conduct that constitutes willful gross failure to perform his duties and responsibilities under this Agreement resulting in material harm to the Company or willful gross misconduct in carrying out his duties under this Agreement resulting in material economic harm to the Company, unless, in either case, the Executive believed in good faith that such act or nonact was in the best interests of the Company.

(g) "Change in Control" shall mean the occurrence of any one of the following events:

(i) any "person" (as such term is currently used in Sections 3(a)(9) and 13(d) of the Securities Exchange Act of 1934 (the "1934 Act")) becomes a "beneficial owner" (as such term is currently used in Rule 13d-3 promulgated under the 1934 Act) of 33-1/3% or more of the Voting Stock of ITGI not "beneficially owned" by that "person" on the Effective Date, provided that such "beneficial ownership" shall not constitute a Change in Control unless and until such "person" is the "beneficial owner" of a greater percentage of the Voting Stock of ITGI than the percentage then held, directly or indirectly, by Jefferies Group, Inc.; any "person" (thus defined) becomes a "beneficial owner" (thus defined) of 40% or more of the Voting Stock of Jefferies Group, Inc. not "beneficially owned" by that "person" on the Effective Date; or any "person" (thus defined), other

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than ITGI or Jefferies Group, Inc., becomes a "beneficial owner" (thus defined) of 33-1/3% or more of the Voting Stock of ITG, provided that such "beneficial ownership" shall not constitute a Change in Control unless and until such "person" is the "beneficial owner" of a greater percentage of the Voting Stock of ITG than the percentage then held, directly or indirectly, by ITGI or Jefferies Group, Inc.;

(ii) a majority of the Board or of the board of directors of Jefferies Group, Inc. consists of individuals other than Incumbent Directors;

(iii) 50% or more of the assets or business of ITGI or of ITG is disposed of pursuant to a merger, consolidation or other transaction or series of transactions (unless the shareholders of ITGI or ITG immediately prior to such merger, consolidation or other transaction or series of transactions beneficially own, directly or indirectly, in substantially the same proportion as they owned the Voting Stock of ITGI or ITG, all of the Voting Stock or other ownership interests of the entity or entities, if any, that acquire the assets or succeed to the business of ITGI or ITG); and

(iv) ITGI, ITG or Jefferies Group, Inc. combines with another company and is the surviving corporation but, immediately after the combination, the shareholders of such corporation immediately prior to the combination beneficially own, directly or indirectly, 50% or less of the Voting Stock of the combined company (there being excluded from the number of shares beneficially owned by such shareholders, but not from the Voting Stock of the combined company, any shares received by any such shareholders who are Affiliates of such other company in exchange for stock of such other company, provided that in any case that Jefferies Group, Inc. is an Affiliate of such other company, such exclusion shall not apply to shares received by Jefferies Group, Inc. in exchange for stock of such other company). Notwithstanding the foregoing, such a combination involving ITGI or ITG shall not constitute a Change in Control if, immediately after the combination, no "person" is the "beneficial owner" of a greater percentage of the Voting Stock of ITGI or ITG, as the case may be, than the percentage then held by ITGI or Jefferies Group, Inc.

(h) "Claim" shall mean any claim, demand, request, investigation, dispute, controversy, threat, discovery request, or request for testimony or information.

(i) "Common Stock of the Company" shall mean the Common Stock of ITGI and any equity security that may be substituted for the Common Stock of ITGI pursuant to Section 8.10.

(j) "Company" shall mean ITGI and its consolidated Subsidiaries.

(k) "Compensation Committee" shall mean the Compensation Committee of

the Board and any successor to the functions of that Committee.

(l) "Disability" shall have the meaning set forth in the Company's long-term disability policy as of the date of this Agreement for "Total Disability."

(m) "EBIT," as applied to a fiscal year of the Company, shall mean the Company's earnings before income taxes for the year as reported in the Company's audited financial statements for the year.

(n) "Effective Date" shall mean the date on which this Agreement is fully executed by the Parties.

(o) "Good Reason" shall mean the occurrence, without the Executive's written consent, of one or more of the following events:

(i) any reduction at any time in the Executive's Base Salary (other than a reduction to an amount that, immediately after the adjustment, is at an annualized rate of not less than \$300,000 per year); any failure to timely pay any amount of bonus due under Section 5.2; or any termination, or material reduction, at any time of any benefit under any Benefit Plan or any perquisite enjoyed by the Executive (other than as part of an across-the-board reduction applicable to all senior executives of the Company);

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(ii) the failure to elect or reelect the Executive to any of the positions described in Section 2 (including without limitation his position as a member of the Board) or the removal of him from any such position;

(iii) a material diminution in the Executive's duties or the assignment to the Executive of duties that are materially inconsistent with his duties or that materially impair the Executive's ability to function as the President and Chief Executive Officer of ITGI;

(iv) the relocation of the Company's principal office to a location more than 25 miles from New York, New York (except to a location within 25 miles of the Executive's then current principal residence), or the relocation of any of the Executive's own principal offices as assigned to him by the Company to a location more than 25 miles from New York, New York (except to a location within 25 miles of the Executive's then current principal residence); or

(v) the failure of the Company to obtain the assumption in writing of its obligation to perform this Agreement by any successor to all or substantially all of the assets of the Company within 15 days after a merger, consolidation, sale or similar transaction unless such assumption occurs as a matter of law.

(p) "Incumbent Directors," when used with respect to members of a board of directors, shall mean the members of such board on the Effective Date; provided that any person becoming a director subsequent to such date whose election or nomination for election was supported by two-thirds of the directors who then comprised the Incumbent Directors shall be considered to be an Incumbent Director.

(q) "ITG" shall mean ITG Inc., a wholly owned subsidiary of ITGI.

(r) "Moving Average 10-Day Closing Price of the Company's Common Stock" shall mean the average of the mid-points between the closing "bid" and "asked" prices as reported on the NASDAQ National Market System for the Company's Common Stock for each day of any 10 consecutive days (excluding Saturdays, Sundays and legal holidays).

(s) "Option" shall have the meaning set forth in Section 8.1.

(t) "Option-related Change in Control" shall mean the occurrence of a Change in Control or either of the following events:

(i) the Common Stock of the Company ceases to be publicly traded, or less than 10% of the issued and outstanding Common Stock of the Company is held by persons or entities that are not Affiliates of the Company; or

(ii) either the Company, or Jefferies Group, Inc., adopts any plan of liquidation providing for the distribution of all or substantially all of its assets.

(u) "Option Shares" shall mean shares of Common Stock of the Company acquirable upon exercise of the Option.

(v) "Parties" shall mean ITGI and the Executive.

(w) "Pension or Retirement Plan" shall mean any pension, retirement, 401(k), or savings plan, program or arrangement (including, without limitation, any "employee pension benefit plan" as that term is currently defined in Section 3(2) of the Employee Retirement Income Security Act of 1974, as amended ("ERISA")) that is available to senior level executives of the Company.

(x) "Pre-Tax Profit Growth Rate," as applied to a fiscal year of the Company, shall mean the result obtained by dividing (1) the excess (if any) of (A) EBIT for that year over (B) the highest EBIT for any prior fiscal year ending on or after December 31, 1996 ("Highest Prior EBIT") by (2) Highest Prior EBIT.

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(y) "Proceeding" shall mean any action, suit, arbitration, investigation or proceeding, whether civil, criminal, administrative, appellate, investigative, or other.

(z) "Subsidiary" of a company shall mean any corporation of which a company owns, directly or indirectly, more than 50% of the Voting Stock.

(aa) "Term of Employment" shall mean the period specified in Section 3 below.

(bb) "Voting Stock" shall mean capital stock of any class or classes having general voting power under ordinary circumstances, in the absence of contingencies, to elect the directors of a corporation.

(cc) "Welfare Benefit Plan" shall mean any medical, dental, hospitalization, disability, life, accidental death, dismemberment, travel or accident plan, program or arrangement, or any "employee welfare benefit plan" as that term is currently defined in Section 3(1) of ERISA, that is available to senior level executives of the Company.

2. Employment. Subject to the terms and conditions contained herein, ITGI hereby agrees to employ the Executive as its President and Chief Executive Officer, and the Executive agrees to accept such employment, for the Term of Employment. During the Term of Employment, the Executive shall exercise all responsibilities customarily associated with the position of President and Chief Executive Officer of a company of the size and nature of the Company and shall perform such duties relating to the management and operation of the Company, consistent with his position as President and Chief Executive Officer, as may from time to time be assigned to him by the Board. The Executive shall report directly to the Board. It is the intent of the Parties that the Executive shall serve as a member of the Board, and as President and Chief Executive Officer of ITG, throughout the Term of Employment. During the Term of Employment, the

Executive shall devote substantially all his business time, energy and attention to the service of the Company and the promotion of its interests; provided, however, that the Executive may also (i) serve on the boards of directors or trustees of business enterprises to which the Board gives its written consent, which shall not be unreasonably withheld, (ii) serve on the boards of directors or trustees of trade associations and/or charitable organizations or engage in charitable activities and community affairs, and (iii) manage his personal investments and affairs, provided that such activities do not materially interfere with the proper performance of his duties and responsibilities under this Agreement.

3. Term of Employment. The Term of Employment shall begin on January 6, 1997, and shall extend until December 31, 2001: provided, however, that the Term of Employment shall thereafter be automatically and indefinitely extended for additional one year periods unless either Party shall give the other six months prior written notice that he/it is electing not to so extend the Term of Employment. Following such notice, the Term of Employment shall terminate at the end of the first one-year renewal period that ends not less than six months following the receipt of such notice by the non-terminating Party. Notwithstanding the foregoing, the Term of Employment may be earlier terminated by either Party in strict accordance with the provisions of Section 6.

4. Location of Employment. The Executive's principal places of employment shall be located in New York, New York and Boston, Massachusetts.

5. Compensation.

5.1. The Executive shall be paid a Base Salary, payable in accordance with the regular payroll practices of the Company, at an annualized rate of no less than \$300,000, subject to increase as provided in the next sentence. The Base Salary shall be reviewed for increase, in the absolute discretion of the Board and its Compensation Committee, no less frequently than annually. In no event shall an increase in Base Salary for any year obligate the Company to pay Base Salary in excess of \$300,000 for any subsequent year.

5.2. The Executive shall be paid an additional fixed payment of \$900,000, payable in installments of \$112,500 each on the last day of each calendar quarter, commencing March 31, 1997 and ending December 31, 1998.

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5.3. For each fiscal year, in addition to the Base Salary described in Section 5.1, the Company shall pay to the Executive an annual bonus based upon the Pre-Tax Profit Growth Rate. For any fiscal year, (i) if the Pre-Tax Growth Rate equals 25%, the Executive shall be entitled to receive a bonus for such year equal to 300% of the Executive's Base Salary as in effect on such date during the fiscal year as the Compensation Committee shall determine, provided that such date shall be, and such determination shall be made, not later than the 90th day of the fiscal year, or, if no date is so specified by the Compensation Committee, as in effect on the first day of such fiscal year and (ii) if the Pre-Tax Profit Growth Rate is less than or greater than 25%, the Executive shall be entitled to receive a bonus for such year equal to the percentage of the Executive's then current Base Salary determined by multiplying (x) 300% by (y) the result obtained by dividing the Pre-Tax Profit Growth Rate for such year by 25%. For example, if the Pre-Tax Profit Growth Rate for a calendar year is 20%, the calculation to determine the percentage by which the then current Base Salary shall be multiplied shall be as follows:  $300\% \times (20\% / 25\%) = 240\%$ . The annual bonus calculated in accordance with the second sentence of this Section 5.3 for each of the years ending December 31, 1997 and December 31, 1998, shall be reduced by \$450,000. Other provisions of this Section 5.3 notwithstanding, the payment of the annual bonus under this Section 5.3 shall be made exclusively under the Company's Pay-for-Performance Incentive Plan (the "PFPP") or another Company plan under which compensation will qualify as "performance-based compensation" not subject to a limitation on deductibility by the Company under Section 162(m) of the Internal Revenue Code of 1986, as amended (the "Code"), subject to the following:

(i) payment of such annual bonus shall be subject to approval of the PFPP by the stockholders of ITGI at the 1997 Annual Meeting of Stockholders, and any subsequent shareholder approval if and to the extent required under Code Section 162(m) in order that annual bonus amounts payable hereunder shall qualify as "performance-based compensation" thereunder;

(ii) the amount payable under this Section 5.3 shall in no event exceed the maximum amount payable under the PFPP in respect of a performance objective based on pre-tax net income; and

(iii) the Company represents and warrants that the Compensation Committee of the Board of Directors has irrevocably determined to exercise discretion, exercised discretion, and/or waived any discretionary authority that the Committee may have at any time under the PFPP to reduce the amount of, or to take other action under the PFPP that would reduce or eliminate, the annual bonus payable under this Section 5.3, to the fullest extent permitted by the PFPP and Code Section 162(m).

The amount of any annual bonus to which the Executive may become entitled pursuant to the formula described in the preceding paragraph shall be determined upon the Company's receiving audited financial statements for the year in question, and the entire bonus due shall be paid not later than 10 days thereafter (and in no event more than 120 days after the last day of the fiscal year); provided, however, that the anticipated bonus may be paid to the Executive on a monthly and quarterly basis (in accordance with the Company's customary bonus payment policies), and may in any event be deferred at the election of the Executive if and to the extent then permitted under any Company deferral plan and policy; and provided, further, that, if as a result of any monthly and quarterly payment of the Executive's anticipated bonus, the Executive shall receive payments in excess of the total amount that is determined, upon receipt by the Company of audited financial statements for the year in question, to be due to him as a bonus, the Executive shall reimburse the Company for the amount of any such excess.

5.4. The Base Salary, additional fixed payment and bonus described in this Section 5 are gross amounts, and the Company shall be permitted to withhold from such amounts deductions with respect to Federal, state and local taxes, FICA, Medicare, unemployment compensation taxes or similar taxes (collectively, "employment taxes") as required by applicable law.

5.5. The Executive shall be reimbursed for reasonable business expenses actually incurred or paid by him in rendering the services provided for herein, promptly upon presentation to the Company of expense statements or such other supporting information as is consistent with the policies of the Company.

5.6. The Executive shall be entitled to participate in all Benefit Plans of the Company on terms and conditions commensurate with his position at the Company. The Company shall furnish the Executive with

appropriate office space and such other facilities and services as shall be suitable to the Executive's position and adequate for the performance of his duties and responsibilities as set forth in Section 2 (it being agreed that the offices and facilities provided as of the date hereof are appropriate until the Company relocates its principal offices). Upon execution of this Agreement, the Executive shall be entitled to reimbursement of all reasonable legal fees incurred by the Executive in connection with the negotiation of this Agreement up to an amount not exceeding \$62,000. Unless the Executive elects to relocate his principal residence to the New York area, the Executive shall be entitled to reimbursement for (i) weekly commuting expenses between his principal residence and the New York area, (ii) the expense of hotel accommodations or a rental apartment in the New York area and (iii) meal and other living expenses while in the New York area. The Executive shall be entitled to five weeks paid vacation per year.



5.7. Nothing in this Agreement shall preclude the Company from paying other or additional compensation to the Executive.

## 6. Termination.

6.1. In the event that the Executive's employment hereunder is terminated, the Executive (or the Executive's estate or other legal representative) shall be entitled, in any event, to promptly receive (i) the Executive's Base Salary through the date of termination, (ii) payment for accrued but unused vacation days, (iii) any annual bonus earned, but not yet paid, with respect to years prior to the year in which termination occurs, and (iv) other or additional benefits in accordance with applicable plans, programs and arrangements of the Company.

6.2. In the event that the Executive's employment hereunder is terminated by the Company for Cause or by the Executive voluntarily without Good Reason, in addition to the amounts and benefits to be provided pursuant to Section 6.1, the Executive shall be entitled to continue to participate, at the Executive's cost, in all Welfare Benefit Plans for a period of 30 days following the date of such termination (without limiting the Executive's rights under the Comprehensive Omnibus Reconciliation Act of 1986 ("COBRA")).

6.3. Except as provided in Section 6.4, in the event that the Executive's employment hereunder is terminated by the Company without Cause or by the Executive for Good Reason, in addition to the amounts and benefits to be provided pursuant to Section 6.1, the Executive shall be entitled

(i) to a lump sum payment, paid promptly upon termination, equal to (A) 300% of the Executive's Base Salary in effect when termination occurs, pro-rated through the date of termination, less (B) the sum of any bonus payments and additional fixed payment installments previously received by the Executive in respect of the year in which termination occurs (with an offset to the amount specified in paragraph (ii) of this Section 6.3 to the extent, if any, that the amount specified in clause (B) exceeds the amount specified in clause (A));

(ii) to a lump sum payment, paid promptly upon termination, equal to two times the sum of (x) the Executive's annual Base Salary in effect when termination occurs plus (y) 300% of the Executive's Base Salary in effect when termination occurs;

(iii) for a period of two years following the date of termination, to continue (without limiting the Executive's rights under COBRA) to participate fully, at the Company's cost, in all Welfare Benefit Plans;

(iv) to make final contributions to the Jefferies Group, Inc. Employees' Profit Sharing Plan with respect to the payments made pursuant to Sections 6.3(i) and 6.3(ii), with Company contributions in accordance with such plan; and

(v) if then permitted pursuant to any such plan, for a period of two years following the date of termination, to continue to participate in any Pension or Retirement Plan, with contributions by the Executive and the Company during such period being based on the Executive's being deemed to be receiving his annual Base Salary in effect when termination occurs and a bonus each year equal to 300% of such Base Salary and with continued vesting during such period of the Executive's entitlements under such plan.

6.4. In the event that, in connection with a Change in Control or during the two-year period following a Change in Control, the Executive's employment hereunder is terminated by the Company without Cause or by the Executive for Good Reason, in addition to the amounts and benefits to be provided pursuant to Section 6.1, the Executive shall be entitled

(i) to a lump sum payment, paid promptly upon termination, equal to (A) 300% of the Executive's Base Salary in effect when termination occurs, pro-rated through the date of termination, less (B) the sum of any bonus payments and additional fixed payment installments previously received by the Executive in respect of the year in which termination occurs (with an offset to the amount specified in paragraph (ii) of this Section 6.4 to the extent, if any, that the amount specified in clause (B) exceeds the amount specified in clause (A));

(ii) to a lump sum payment equal to three times the sum of (x) the Executive's annual Base Salary in effect when termination occurs plus (y) 300% of the Executive's Base Salary in effect when termination occurs;

(iii) for a period of three years following the date of such termination, to continue (without limiting the Executive's rights under COBRA) to participate fully, at the Company's cost, in all Welfare Benefit Plans;

(iv) to make final contributions to the Jefferies Group, Inc. Employees' Profit Sharing Plan with respect to the payments made pursuant to Sections 6.3(i) and 6.3(ii), with Company contributions in accordance with such plan; and

(v) if then permitted pursuant to any such plan, for a period of three years following the date of termination, to continue to participate in any Pension or Retirement Plan, with contributions by the Executive and the Company during such period being based on the Executive's being deemed to be receiving his annual Base Salary in effect when termination occurs and a bonus each year equal to 300% of such Base Salary and with continued vesting during such period of the Executive's entitlements under such plan.

6.5. In the event that the Executive's employment hereunder is terminated due to death or Disability, in addition to the amounts and benefits to be provided pursuant to Section 6.1, the Executive (or the Executive's estate or other legal representative) shall be entitled to receive (and the Company shall promptly pay to such person) a lump sum payment equal to (A) 300% of the Executive's Base Salary in effect when termination occurs, pro-rated through the date of termination, less (B) any bonus payments previously received by the Executive in respect of the year in which termination occurs. If the amount specified in clause (B) exceeds the amount specified in clause (A), the Executive or his estate shall be obligated to repay the amount of such excess to the Company.

6.6. In the event of termination of the Executive's employment hereunder for Disability, in addition to the amounts and benefits to be provided pursuant to Sections 6.1 and 6.5, the Executive shall be entitled, through the age of 65,

(i) to receive, no less frequently than monthly, periodic disability payments at a rate equal to 60% of the Executive's Base Salary in effect at the time of termination for Disability and

(ii) to continue to participate fully, at the Company's cost, in all Welfare Benefit Plans (without limiting the Executive's rights under COBRA).

The periodic disability payments required under clause (i) of the preceding sentence shall be reduced by any disability benefits provided to the Executive (other than benefits attributable to the Executive's own contributions) under any disability insurance program of the Company in effect during such period.

6.7. Any payment under Section 5.2 or this Section 6 that is based on Base Salary shall be determined disregarding any reduction in Base Salary that would constitute Good Reason for termination.

6.8. In the event that any Welfare Benefit Plan referred to in Sections 6.3(iii), 6.4(iii) or 6.6(ii) does not permit, as required by those Sections, continued full participation by the Executive after his termination, then the Company shall promptly provide the Executive the after-tax economic equivalent of any coverage or other benefit foregone. The after-tax economic equivalent of any coverage or other benefit foregone shall be deemed to be no less than the total cost, determined on an after-tax basis, to the Executive of obtaining such foregone coverage or other benefit.

6.9. A termination by the Company, other than for death, Disability or Cause and other than pursuant to a notice of non-renewal given in accordance with Section 3, shall be effective 30 days after the Executive receives written notice thereof from the Company and shall not be deemed a breach of this Agreement. A voluntary termination by the Executive, other than for Good Reason and other than pursuant to a notice of non-renewal given in accordance with Section 3, shall be effective 30 days after the Executive gives written notice thereof to the Company and shall not be deemed a breach of this Agreement. A termination for death shall be effective on the date of death. No termination of the Executive's employment, other than a termination due to death, shall be effective before the terminating Party gives the other Party written notice of termination identifying the grounds for the termination.

6.10. No termination for Cause shall take effect unless the provisions of this Section 6.10 shall have been complied with. The Board shall give the Executive written notice of its intention to terminate him for Cause, such notice (A) to state in detail the particular circumstances that constitute the grounds on which the proposed termination for Cause is based and (B) to be given within six months of the Board learning of such circumstances. The Executive shall have 15 days after receiving such written notice in which to cure such grounds, to the extent such cure is possible. If he fails to cure such grounds to the Board's satisfaction, the Executive shall then be entitled to a hearing before the Board. Such hearing shall be held within 20 days of his receiving such notice, provided he requests a hearing within 10 days of receiving the notice. If, within 5 days following such hearing, the Board gives written notice to the Executive confirming that, in its judgment, Cause for terminating him on the basis set forth in the original notice exists, he shall thereupon be terminated for Cause, subject to de novo review in accordance with the provisions of Section 19, it being understood that the Executive shall have no entitlements on account of such termination to any amounts or benefits following the date of such termination except as provided in Sections 6.1, 6.2, 7 and 8. At any time while the procedure set forth in this Section 6.10 is being carried out, the Company may place the Executive on leave, during which he shall continue to receive all of his entitlements under this Agreement.

6.11. No termination for Good Reason shall take effect unless the provisions of this Section 6.11 shall have been complied with. The Executive shall give the Company written notice of his intention to terminate for Good Reason, such notice (A) to state in detail the particular circumstances that constitute the grounds on which the proposed termination for Good Reason is based and (B) to be given within six months of the Executive learning of such circumstances. The Company shall have 15 days after receiving such written notice in which to cure such grounds, to the extent such cure is possible. If the Company fails to cure such grounds to the Executive's satisfaction, the Company shall then be entitled to present its position to the Executive. Such presentation shall take place within 20 days of the Company's receiving such notice, provided it requests the opportunity to make such a presentation within 10 days of receiving the notice. If, within 5 days following such presentation, the Executive gives written notice to the Company confirming that, in his judgment, Good Reason on the basis set forth in the original notice exists, his employment shall thereupon terminate for Good Reason, subject to de novo review in accordance with the provisions of Section 19. At any time while the procedure set forth in this Section 6.11 is being carried out, the Company shall, at the Executive's request, place the Executive on leave, during which he shall continue to receive all of his entitlements under this Agreement.

6.12. There shall be no reduction in any lump sum payment made to the Executive pursuant to this Agreement because such lump sum payment is required

to be made prior to the date on which payments to which the lump sum relates would normally be made.

6.13. In the event of any termination of employment under this Section 6, the Executive shall be under no obligation to seek other employment and there shall be no offset against amounts due the Executive under

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this Agreement on account of (i) any remuneration or other benefit attributable to any subsequent employment that he may obtain except as specifically provided in this Section 6 or (ii) any claims that the Company, or any of its Affiliates, may have against the Executive, provided that if the Executive receives coverage from a subsequent employer at least equivalent to the coverage afforded to him under any Welfare Benefit Plan, the Company shall cease to be obligated to provide such coverage.

6.14. Any amounts due under this Section 6 are in the nature of severance payments considered to be reasonable by the Company and are not in the nature of a penalty. The amounts and benefits provided for in Section 6.3 and 6.4 (including the amounts and benefits provided for in Section 6.1 and incorporated in Section 6.3 and 6.4), together with the Executive's rights under Sections 7 and 8, shall constitute the Executive's exclusive entitlements to payments and benefits on account of the termination of his employment by the Company without Cause or by the Executive for Good Reason.

#### 7. Gross-up Payments.

7.1. Anything in this Agreement to the contrary notwithstanding, in the event it shall be determined that any payment, distribution or other benefit (including, without limitation, any acceleration of vesting of any benefit) that is, or may be, provided to or for the benefit of the Executive and that is contingent on a change in the ownership or control of the Company or in the ownership of the assets of the Company within the meaning of Section 280G of the Code and the regulations thereunder (a "Payment") (whether paid or payable or distributed or distributable pursuant to the terms of this Agreement or otherwise, but determined without regard to any Gross-up Payment required under this Section 7) would be subject to the excise tax imposed by Section 4999 of the Code (such excise tax, together with any interest and penalties imposed in respect thereto, hereinafter collectively referred to as the "Excise Tax"), then the Executive shall be entitled to receive a payment (a "Gross-Up Payment") in an amount that after payment by the Executive of all taxes, including, without limitation, any income, employment, and excise taxes (and any interest and penalties imposed with respect thereto), imposed upon the Gross-Up Payment leaves the Executive a net amount from the Gross-Up Payment equal to the Excise Tax imposed upon the Payment.

7.2. Subject to the provisions of Section 7.3, all determinations required to be made under this Section 7, including whether and when a Gross-Up Payment is required and the amount of such Gross-Up Payment and the assumptions to be utilized in arriving at such determination, shall be made by a public accounting firm selected in accordance with the following two sentences (the "Accounting Firm") which shall provide detailed supporting calculations both to the Company and the Executive within fifteen (15) business days of the receipt of notice from the Executive that there has been a Payment, or such earlier time as is requested by the Company (collectively, the "Determination"). The Accounting Firm shall be a nationally based public accounting firm selected by mutual agreement of the Parties. If the Parties cannot agree on a single such firm to serve as the Accounting Firm, each Party shall choose one nationally based public accounting firm and the two firms thus chosen shall select a single nationally based public accounting firm to serve as the Accounting Firm. All fees and expenses of any Accounting Firm, and of any accounting firm chosen by either Party pursuant to the preceding sentences to select the Accounting Firm, shall be borne solely by the Company. Any Gross-Up Payment, as determined pursuant to this Section 7, shall be paid by the Company to the Executive within five (5) days of the receipt of the Determination. If the Accounting Firm

determines that no Excise Tax is payable by the Executive, it shall furnish the Executive with a written opinion that failure to report the Excise Tax on the Executive's applicable federal income tax return will not result in the imposition of a negligence or similar penalty. The Determination by the Accounting Firm shall be binding upon the Company and the Executive. In the event the Company exhausts, or fails to pursue, its remedies pursuant to Section 7.3 and the Executive thereafter is required by a determination of a court or the Internal Revenue Service to make payment of any Excise Tax, the Accounting Firm shall determine promptly following receipt of such determination the amount of the Gross-Up Payment that should have been made by the Company (the "Underpayment") and any such Underpayment shall be paid promptly by the Company to or for the benefit of the Executive.

7.3. The Executive shall notify the Company in writing of any claim by the Internal Revenue Service that, if successful, would require the payment by the Company of the Gross-Up Payment. Such notification

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shall be given as soon as practicable but no later than ten (10) business days after the Executive is informed in writing of such claim and shall apprise the Company of the nature of such claim and the date on which such claim is requested to be paid. The Executive shall not pay such claim prior to the expiration of the 30-day period following the date on which the Executive gives such notice to the Company (or such shorter period ending on the date that any payment of taxes with respect to such claim is due). If the Company notifies the Executive in writing prior to the expiration of such period that it desires to contest such claim, the Executive shall:

(i) give the Company any information reasonably requested by the Company relating to such claim,

(ii) take such action in connection with contesting such claim as the Company shall reasonably request in writing from time to time, including, without limitation, accepting legal representation with respect to such claim by an attorney reasonably selected by the Company,

(iii) cooperate with the Company in good faith in order effectively to contest such claim, and

(iv) permit the Company to participate in any proceeding relating to such claim; provided, however, that the Company shall bear, and promptly pay, all costs and expenses (including without limitation additional interest and penalties and the cost of the Executive's legal counsel) incurred in connection with such contest and shall indemnify and hold the Executive harmless, on an after-tax basis, for any Excise Tax (including, without limitation, interest and penalties with respect thereto) imposed as a result of such proceeding and payment of costs and expenses. Without limitation on the foregoing provisions of this Section 7.3, the Company shall control all proceedings taken in connection with such contest and, at its sole option, may pursue or forego any and all administrative appeals, proceedings, hearings and conferences with the taxing authority in respect of such claim and may, at its sole option, either direct the Executive to pay the tax claimed and sue for a refund or contest the claim in any permissible manner, and the Executive agrees to prosecute such contest to a determination before any administrative tribunal, in a court of initial jurisdiction and in one or more appellate courts, as the Company shall determine; provided further, that if the Company directs the Executive to pay such claim and sue for a refund, the Company shall advance the amount of such payment to the Executive on an interest-free basis and shall indemnify and hold the Executive harmless, on an after-tax basis, from any Excise Tax (including interest or penalties with respect thereto) imposed with respect to such advance or with respect to any imputed income with respect to such advance; and provided further, that any extension of the statute of limitations relating to payment of taxes for the taxable year of the Executive with respect to which such contested amount is claimed to be

due is limited solely to such contested amount. Furthermore, the Company's control of the contest shall be limited to issues with respect to which a Gross-Up Payment would be payable hereunder and the Executive shall be entitled to settle or contest, as the case may be, any other issue raised by the Internal Revenue Service or any other taxing authority. Notwithstanding anything to the contrary in this Section 7.3, the Company shall not be obligated to pay any costs or expenses that are fairly allocable to any such other issue.

7.4. If, after the receipt by the Executive of an amount advanced by the Company as a Gross-Up Payment pursuant to Section 7.3, the Executive becomes entitled to receive, and receives, any refund with respect to such claim, the Executive shall (subject to the Company's complying with the requirements of Section 7.3) promptly pay to the Company the amount of such refund (together with any interest paid or credited thereon after taxes applicable thereto). If, after the receipt by the Executive of an amount advanced by the Company pursuant to Section 7.3, a determination is made that the Executive shall not be entitled to any refund with respect to such claim and the Company does not notify the Executive in writing of its intent to contest such denial of refund prior to the expiration of thirty (30) days after such determination, then such advance shall be forgiven and shall not be required to be repaid and the amount of such advance shall offset, to the extent thereof, the amount of Gross-Up Payment required to be paid.

## 8. Stock Option.

8.1. On March 26, 1997, the Company granted to the Executive a nonqualified stock option (the "Option") to purchase 1,000,000 shares of Common Stock of the Company, for a price per share equal to

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\$22.175. The Option is intended to be a nonqualified stock option and shall not be treated as an incentive stock option under the provisions of the Code.

8.2. The Option has been granted pursuant to the Company's 1994 Stock Option and Long-Term Incentive Plan, as amended and restated (the "1994 Plan"). The grant of the Option is subject to approval of the 1994 Plan by the stockholders of ITGI at the 1997 Annual Meeting of Stockholders. The Company represents and warrants that the Option conforms to and is consistent with the terms of the 1994 Plan.

8.3. The Option has been granted for no consideration other than the services of the Executive and in contemplation of the Executive's agreements set forth herein. The Company has taken all necessary actions so that the grant of the Option is exempt from the provisions of Section 16(b) of the 1934 Act.

8.4. Except as otherwise expressly provided herein, the Option shall become exercisable as to 200,000 shares on May 4, 1997, and thereafter as to an additional 200,000 shares on each subsequent December 10; provided, that, (i) in the event that the Moving 10-Day Average Closing Price of the Common Stock shall at any time exceed \$50 per share, any then unexercised portion of the Option shall immediately become exercisable in full; and provided, further, that, (ii) immediately prior to any Option-related Change in Control, any then unexercised portion of the Option shall become exercisable in full.

8.5. The Company shall use its best efforts so that, on or prior to May 4, 1997, all Option Shares received by the Executive on any exercise of the Option shall be, and shall remain, (1) fully registered (at the Company's expense) under the Securities Act of 1933, as amended (the "1933 Act"), both for issuance and for resale, pursuant to a registration on Form S-8 under the 1933 Act that contains a separate reoffer prospectus prepared in accordance with the requirements of Part I of Form S-3 or such alternative or successor procedure that provides comparable opportunity under the 1933 Act for issuance and resale; (2) fully registered or qualified (at the Company's expense), or exempt from registration and qualification, under such state securities laws as the

Executive may reasonably request, both for issuance and for resale; and (3) listed on a national securities exchange or eligible for sale on the Nasdaq National Market unless, in each case, the Executive consents in writing to alternative arrangements that adequately protect the saleability of the Option Shares in the public market, which consent shall not be unreasonably withheld, and unless, in the case of listing on a national securities exchange or eligibility for sale on the Nasdaq National Market, the Company cannot, with reasonable best efforts, maintain such listing or eligibility. Notwithstanding anything to the contrary in this Section 8.5, in no event shall the Company be obligated to file a registration on Form S-1 or any successor to Form S-1.

8.6. In the event of the termination of the Executive's employment hereunder, the following provisions shall apply:

(A) In the event that the Executive's employment hereunder is terminated by the Company for Cause or by the Executive voluntarily without Good Reason, the Executive shall forfeit the then unexercisable portion of the Option, and the then exercisable portion shall remain exercisable as provided in Section 8.7;

(B) In the event that the Executive's employment hereunder is terminated by the Company without Cause or by the Executive voluntarily with Good Reason, the then unexercisable portion of the Option shall become exercisable, and shall remain exercisable as provided in Section 8.7;

(C) In the event that the Executive's employment hereunder is terminated for death, the portion (if any) of the Option that would have become exercisable on or before the next anniversary of the Effective Date following the date of termination shall become exercisable, and shall remain exercisable as provided in Section 8.7; and

(D) In the event that the Executive's employment hereunder is terminated for Disability, the portion (if any) of the Option that would have become exercisable on or before the next anniversary of the Effective Date following the date of termination shall become exercisable ratably (based on the portion of the year elapsing before the termination for Disability), and shall remain exercisable to that extent as provided in Section 8.7.

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8.7. The Option (to the extent not earlier exercised or forfeited) shall expire at the earlier of (i) 11:59 p.m., Eastern time, on January 5, 2002; (ii) 24 months following the termination of the Executive's employment hereunder if such termination is for death or Disability; and (iii) 60 days following termination of the Executive's employment hereunder if such termination is by the Company for Cause or by the Executive voluntarily without Good Reason, provided, that, the Option shall not expire pursuant to clauses (ii) or (iii) of this Section 8.7 if, prior to the date of the Executive's termination, an Option-related Change in Control shall have occurred.

8.8. Written notice of exercise of the Option shall be given to the Secretary of the Company and shall be deemed to have been received either when delivered personally to the office of the Secretary or at 11:58 p.m. on the date of any U.S. Postal Service postmark on the notice, whichever is earlier (the "Exercise Date"). Such notice shall be irrevocable and must be accompanied by the payment of the purchase price as provided in Section 8.9 below. Upon the exercise of the Option, the Company shall transfer or shall cause to be issued a certificate or certificates for the Common Stock being purchased as promptly as practicable. The Option (to the extent otherwise exercisable) may be exercised in whole or in part, at the Executive's election.

8.9. The purchase price of Option Shares being acquired shall be paid in full to the Company at the time of such exercise in cash (including by check) or by the surrender of Common Stock (valued at the Average 5-Day Closing Price of the Company's Common Stock on the date of exercise) or a combination thereof,

provided that Common Stock held for less than six months may be surrendered only with the prior approval of the Compensation Committee or the Board (which approval shall not be unreasonably withheld). In addition, any part of the exercise price of any Option and any related tax withholding amount may, with the prior approval of the Compensation Committee or the Board (which approval shall not be unreasonably withheld), be paid through a cashless exercise procedure that affords the Executive the opportunity to sell immediately some or all of the shares underlying the exercised portion of the Option in the public market in order to generate sufficient cash to pay the Option exercise price and/or to satisfy tax withholding obligations relating to the Option. The Compensation Committee or the Board shall not be deemed to have unreasonably withheld approval of a cashless exercise procedure if such cashless exercise would result in ITGI's being required to recognize compensation expense that it would otherwise not be required to recognize.

8.10. In the event of any merger, consolidation, reorganization, recapitalization, stock dividend, other extraordinary dividend or other change in corporate structure or capitalization affecting the Common Stock of the Company, the Compensation Committee shall make appropriate adjustments in the \$50 per share price referred to Section 8.4(i), in the number or kind of equity securities subject to the Option and/or in the exercise price or other terms and conditions of the Option, or appropriate provision for supplemental payments of cash or other property, so as to prevent dilution or enlargement of the rights of the Executive and of the after-tax economic opportunity and value represented by the Option; provided, that, any such adjustment or provision (or any refusal to make such an adjustment or provision) shall be subject to de novo review in accordance with Section 19; and, provided, further, that, no adjustment in exercise price shall be made on account of any cash dividend that is not a large, special and non-recurring dividend.

8.11. The Executive represents and warrants that he is acquiring the Option for his own account and not with a view to distribution of the Option or the Option Shares.

8.12. Neither the Executive nor any other person shall have any right to commute, sell, assign, transfer, pledge, anticipate, mortgage or otherwise encumber, transfer, hypothecate or convey the Option, which is expressly declared to be unassignable and nontransferable, other than by will or under the laws of descent and distribution. No part of the Option or of any amounts payable pursuant to the provisions of this Agreement shall be subject to seizure or sequestration for the payment of any debts, judgments, alimony or separate maintenance owed by the Executive or any other person, nor be transferable by operation of law in the event of the Executive's or any other person's bankruptcy or insolvency.

8.13. Neither the Executive nor any other person shall acquire by reason of the Option or the Option Shares any right in or title to any assets, funds or property of the Company whatsoever including, without limiting the generality of the foregoing, any specific funds or assets which the Company, in its sole discretion, may set aside in anticipation of a liability. No trust shall be created in connection with or by the granting of the

Option or the purchase of any Option Shares, and any benefits which become payable hereunder shall be paid from the general assets of the Company. The Executive shall have only a contractual right to the amounts, if any, payable pursuant to this Agreement, unsecured by any assets of the Company or any of its Affiliates.

8.14. Nothing herein will limit the Company's right to issue Common Stock, or options or other rights to purchase Common Stock, subject to vesting, expiration and other terms and conditions deemed appropriate by the Company and its Affiliates.

8.15. The Executive authorizes the Company to withhold, in accordance with



applicable law, from any compensation payable to him any taxes required to be withheld by federal, state or local law in connection with the issuance of Option Shares on any exercise of the Option. The Executive may elect to have the Company withhold Option Shares to pay any applicable withholding taxes resulting from the exercise of the Option in accordance with regulations of the Compensation Committee then in effect.

8.16. It is the intention of the Parties that, if Jefferies Group, Inc. (including, for purposes of this Section 8.16 only, any successor to Jefferies Group, Inc. as controlling shareholder of the Company) shall sell to a third party any equity securities of the Company at a time when the Executive holds (i) Option Shares or (ii) current rights to acquire Option Shares through exercise of the Option, Jefferies Group, Inc. shall require the purchaser of its equity securities of the Company to purchase, at the election of the Executive, a proportion of the aggregate of such Option Shares held, or acquirable, by him that equals (x) the proportion of the aggregate equity securities of the Company then held by Jefferies Group, Inc. that the third party is purchasing or (y) such lesser proportion as the Executive may elect, it being understood that if the third party does not wish to purchase additional equity securities of the Company, Jefferies Group, Inc. shall reduce the number of equity securities being sold by it so that the Executive may sell the number of Option Shares determined in accordance with this sentence. It is also the intention of the Parties that the purchase from the Executive shall be made on the same terms and for the same consideration as the purchase from Jefferies Group, Inc. The Company shall use its best efforts to enter into an appropriate agreement with Jefferies Group, Inc., for the benefit of the Executive, to carry out the intent of the two preceding sentences.

8.17. In the event of any Option-related Change in Control transaction in which holders of Common Stock of the Company receive cash, securities or other property for their Common Stock, the Company shall enable the Executive (if he so elects) to exercise the Option (in whole or in part) and to receive in exchange for any Option Shares thus or otherwise acquired the same consideration as is received in such Option-related Change in Control transaction by other holders of Common Stock.

8.18. If at any time there is an underwritten public offering of the Company's equity securities, the Company shall use its reasonable best efforts to cause to be included in the underwritten offering such Option Shares as the Executive may elect, provided that if the underwriters determine that the addition of the Option Shares would jeopardize the success of the offering, the Option Shares shall not be included.

## 9. Non-Competition.

9.1. In the event that the Executive's employment hereunder is terminated by the Company without Cause or by the Executive for Good Reason, in consideration for the payments to be made under Section 6, the Executive agrees that he shall not for a period of eighteen months from the date of such termination engage in any activity, either as a principal or employee, that competes directly and substantially with the Company in any business in which the Company is engaged at the time of such termination unless the revenues realized by the Company from such business during the fiscal year immediately preceding such termination are less than 5% of the Company's revenues for such year.

9.2. The Executive agrees that if his employment terminates under circumstances other than those described in Section 9.1, he shall not, for a period of six months from the date of such termination, engage in any activity, either as a principal or employee, that competes directly and substantially with the Company in any business in which the Company is engaged at the time of such termination unless the revenues realized by the Company from such business during the fiscal year immediately preceding such termination are less than 5% of the Company's revenues for such year.

9.3 Nothing in this Section 9 shall preclude the Executive from owning equity securities of any publicly held company or enterprise, provided that the Executive does not own more than 3% of the equity securities of any such company or enterprise.

9.4. For a period of 12 months following termination of the Executive's employment hereunder, the Executive shall not, whether for his own account or for the account of any other individual, corporation, partnership, firm, joint venture, sole proprietorship or other entity (other than the Company or its affiliates), intentionally solicit, endeavor to entice away from the Company, or otherwise intentionally interfere with the relationship of the Company with, any of their employees.

9.5. The Executive hereby acknowledges and agrees that the services to be performed by him hereunder are of a special, unique, unusual, extraordinary and intellectual character that gives them a peculiar value, and that the restrictions contained in this Section 9 are reasonable and necessary to protect the legitimate interests of the Company. The Executive further acknowledges and agrees that the breach by him of this Section 9 may not reasonably or adequately be compensated in damages and that, in the event of any such breach or threatened breach, and in addition to all other rights or remedies, the Company shall be entitled to seek equitable relief, including but not limited to enforcing the specific performance of this Agreement by the Executive, or enjoining or restraining the Executive from any breach or threatened breach of this Agreement. Except as provided in the last sentence of Section 6.14, no remedy conferred by any of the specific provisions of this Agreement is intended to be exclusive of any other remedy, and each and every remedy shall be cumulative and shall be in addition to every other remedy given hereunder or now or hereafter existing at law or in equity or by statute or otherwise.

9.6. The obligations of the Executive under this Section 9 are conditioned on the Company fully and promptly satisfying all of its obligations under Section 6.

#### 10. Indemnification.

10.1. The Company agrees that (i) if the Executive is made a party, or is threatened to be made a party, to any Proceeding by reason of the fact that he is or was a director, officer, employee, agent, manager, consultant or representative of the Company or is or was serving at the request of the Company as a director, officer, member, employee, agent, manager, consultant or representative of another person, or (ii) if any Claim is made, or is threatened to be made, that arises out of or relates to the Executive's service in any of the foregoing capacities, then the Executive shall promptly be indemnified and held harmless by the Company to the fullest extent permitted or authorized by the Company's certificate of incorporation, bylaws or Board resolutions or, if greater, by the laws of the State of Delaware or by other applicable law, against any and all costs, expenses, liabilities and losses (including, without limitation, reasonable attorney's fees, judgments, interest, expenses of investigation, fines, ERISA excise taxes or penalties and amounts paid or to be paid in settlement) incurred or suffered by the Executive in connection therewith, and such indemnification shall continue as to the Executive even if he has ceased to be a director, member, employee, agent, manager, consultant or representative of the Company or other person, and shall inure to the benefit of the Executive's successors and assigns. The Company shall advance to the Executive all costs and expenses incurred by him in connection with any such Proceeding or Claim within 15 days of receiving written notice requesting such an advance. Such notice shall include an undertaking by the Executive to repay the amount of such advance if he is ultimately and conclusively determined not to be entitled to indemnification against such costs or expenses.

10.2. Solely for the purposes of this Agreement, neither the failure of the Company (including its Board, independent legal counsel or stockholders) to have made a determination in connection with any request for payment or advancement under Section 10.1 that the Executive has satisfied any applicable standard of conduct, nor a determination by the Company (including its Board, independent legal counsel or stockholders) that the Executive has not met any

applicable standard of conduct, shall create a presumption that the Executive has not met an applicable standard of conduct.

10.3. The Company shall at all times during the Term of Employment and for two years thereafter keep in place directors and officers' liability insurance policy covering the Executive to the extent that the Company

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provides such coverage for other senior executives, provided that such coverage is available on a commercially reasonable basis.

11. Assignability; Binding Nature.

This Agreement shall be binding upon and inure to the benefit of the Parties and their respective successors and assigns. No rights or obligations of the Company under this Agreement may be assigned or transferred by the Company except that such rights or obligations may be assigned or transferred pursuant to a merger or consolidation in which the Company is not the continuing entity, or the sale or liquidation of all or substantially all of the assets of the Company, provided that the assignee or transferee is the successor to all or substantially all of the assets of the Company and such assignee or transferee expressly assumes all the liabilities, obligations and duties of the Company as contained in this Agreement. In connection with any transfer or assignment of its rights, duties, or obligations under this Agreement, the Company shall take whatever action it legally can to cause such assignee or transferee to expressly assume the liabilities, obligations and duties of the Company hereunder unless such assumption occurs as a matter of law. If the Company survives such transaction as a continuing entity, it shall, in any event, remain as unconditional guarantor of prompt payment and prompt satisfaction of all such liabilities, obligations and duties. No rights, obligations or duties of the Executive under this Agreement may be assigned or transferred, other than his rights to compensation and benefits, which may be transferred only by will or operation of law, except as otherwise expressly provided in this Agreement.

12. Representations.

The Company represents and warrants that it is fully authorized and empowered by action of the Board to enter into this Agreement; that the performance of its obligations under this Agreement will not violate any law, regulation or order currently in effect or any agreement, plan or corporate governance document of the Company currently in effect; and that the Company has taken all reasonable steps (including appropriate approval by a properly constituted Compensation Committee or by the Board) to qualify the grant of the Option under Section 8 for exemption from the requirements of Section 16(b) of the 1934 Act. The Executive represents and warrants that he has the capacity to enter into this Agreement and that the performance of his obligations under this Agreement will not violate any law, regulation or order currently in effect or any agreement binding upon him and currently in effect.

13. Entire Agreement.

This Agreement contains the entire understanding and agreement between the Parties concerning the subject matter hereof and supersedes all prior agreements, understandings, discussions, negotiations and undertakings, whether written or oral, between the Parties with respect thereto.

14. Amendment or Waiver.

No provision in this Agreement may be amended unless such amendment is set forth in a writing signed by the Parties. No waiver by either Party of any breach of any condition or provision contained in this Agreement shall be deemed a waiver of a similar or dissimilar condition or provision at the same or any prior or subsequent time. To be effective, any waiver must be set forth in writing and signed by the waiving Party.

15. Severability.

In the event that any provision or portion of this Agreement shall be determined to be invalid or unenforceable for any reason, in whole or in part, the remainder of this Agreement shall be unaffected thereby and shall remain in full force and effect to the fullest extent permitted by law so as to achieve the purposes of this Agreement.

16. Survivorship.

Except as otherwise expressly set forth in this Agreement, the respective rights and obligations of the Parties hereunder shall survive any termination of the Executive's employment until fully performed, it being understood that all of the Executive's entitlements to payments and benefits under this Agreement on account of the termination of his employment are set forth in Sections 6, 7 and 8. This Agreement itself (as

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distinguished from the Executive's employment hereunder) may not be terminated without the written consent of both Parties.

17. Beneficiaries/References.

The Executive shall be entitled, to the fullest extent permitted by law, to select and to change a beneficiary or beneficiaries to receive any compensation or benefit hereunder following the Executive's death, by giving written notice to the Company. In the event of the Executive's death or a judicial determination of his incompetence, references in this Agreement to the Executive shall be deemed, where appropriate, to refer to his beneficiary, estate or other legal representative.

18. Governing Law/Jurisdiction.

Except as otherwise expressly provided herein, this Agreement shall be governed, construed, interpreted, performed and enforced in accordance with the laws of the State of New York, without reference to principles of conflict of laws.

19. Resolution of Disputes.

Any controversy or Claim arising out of or relating to this Agreement, any amendment thereof, or the Executive's service with the Company (excluding any Proceeding that is initiated pursuant to Section 9.5 and that is limited solely to seeking equitable relief), shall, at the election of either Party, be resolved by arbitration, to be held in New York, New York, before the NASD or any exchange of which ITG is a member in accordance with the rules of such entity then in effect. Judgment upon the award of the arbitrator(s) may be entered in any court having jurisdiction thereof. The fees of the arbitrator(s) shall be borne by the Company and each Party shall bear his or its own costs and expenses (including, without limitation, attorneys' fees) relating to any such controversy or Claim, or to any Proceeding brought pursuant to Section 9.5, provided that if the Executive substantially prevails in such arbitration or Proceeding, the Company shall reimburse him for such costs and expenses. Pending the final and conclusive resolution of any such controversy, Claim, or Proceeding, the Company shall continue prompt payment of all amounts due the Executive under this Agreement (or any amendment thereof) and prompt provision of all benefits to which the Executive or his successors and assigns are entitled.

20. Notices.

Any notice, consent, demand, request, election or other communication given to or by a Party in connection with this Agreement shall be in writing and shall be deemed to have been given (a) when delivered personally to the Party specified or (b), provided that reasonable steps are taken to assure that the

communication is actually received by the Party specified, five business days after being sent by certified or registered mail, postage prepaid, return receipt requested, duly addressed to the Party concerned at the address indicated below or to such changed address as such Party may subsequently give notice of:

If to the Company: Investment Technology Group, Inc.  
900 Third Avenue  
New York, New York 10022  
Attn: General Counsel  
and after the Company's anticipated move:  
380 Madison Avenue  
New York, New York 10022  
Attn: General Counsel

If to the Executive: At the address set forth below his  
signature on this Agreement

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21. Headings.

The headings of the sections contained in this Agreement are for convenience only and shall not be deemed to control or affect the meaning or construction of any provision of this Agreement.

22. Counterparts.

This Agreement may be executed in two or more counterparts.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the date first above written.

INVESTMENT TECHNOLOGY GROUP, INC.

By:

-----  
Name: Raymond L. Killian,  
Jr.  
Title: Chairman of the  
Board

March 26, 1997

-----  
Scott P. Mason

Address for notices:

46 Glen Road  
Wellesley, MA 02181

March 26, 1997

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INVESTMENT TECHNOLOGY GROUP, INC.

OPTION GRANT UNDER 1994 STOCK OPTION  
AND LONG-TERM INCENTIVE PLAN (THE "1994 PLAN")

To Scott P. Mason:

On March 26, 1997, the Compensation Committee granted you a nonqualified

stock option under the 1994 Plan. The terms and conditions of your option are set forth in Section 8 of the employment agreement between you and Investment Technology Group, Inc. dated as of January 6, 1997 (the "Employment Agreement"). Such terms include the following:

Number of shares:..... 1,000,000

Option price per share:.... \$22.175

Exercisability:..... Becomes exercisable as to 200,000 shares on May 4, 1997, 200,000 shares on December 10, 1997 and 200,000 shares on each December 10 thereafter (subject to earlier exercisability in certain events as provided in the Employment Agreement).

Expiration:..... January 5, 2002

This grant is subject to the provisions of Section 8 and the other relevant provisions of the Employment Agreement, all of which are incorporated by reference herein, including, without limitation, provisions concerning termination of your option prior to the expiration date set forth above under circumstances specified in Section 8.

Dated: March 26, 1997

Investment Technology Group, Inc.

By

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INDEPENDENT AUDITORS' CONSENT

The Board of Directors  
Investment Technology Group, Inc.:

We consent to incorporation by reference in the registration statement No. 33-76474 on Form S-1 of Investment Technology Group, Inc. of our report dated January 24, 1997, except as to note 11 to the consolidated financial statements which is as of March 26, 1997, relating to the consolidated statement of financial condition of Investment Technology Group, Inc. and subsidiaries as of December 31, 1996 and 1995, and the related consolidated statements of operations, changes in stockholders' equity and cash flows for each of the years in the three-year period ended December 31, 1996, which report is included in the December 31, 1996 annual report on Form 10-K of Investment Technology Group, Inc.

KPMG Peat Marwick LLP

Los Angeles, California  
March 31, 1997

Investment Technology Group, Inc.

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THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE CONSOLIDATED STATEMENT OF FINANCIAL CONDITION AND THE CONSOLIDATED STATEMENT OF OPERATIONS AS OF DECEMBER 31, 1996 AND FOR THE YEAR THEN ENDED AND THE NOTES THERETO AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS FILED IN THE 1996 INVESTMENT TECHNOLOGY GROUP, INC. 10-K FILING.

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