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

FORM 10-Q

(Mark One)

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

For the fiscal period ended June 30, 2017

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

for the transition period from to

Commission File Number 001-32722

INVESTMENT TECHNOLOGY GROUP, INC.
(Exact Name of Registrant as Specified in Its Charter)

Delaware (State or Other Jurisdiction of Incorporation or Organization)	**95 - 2848406** (I.R.S. Employer Identification No.)
165 Broadway, New York, New York (Address of Principal Executive Offices)	**10006** (Zip Code)

(212) 588 - 4000
(Registrant's Telephone Number, Including Area Code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☒ No ☐

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

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

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

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

At July 11, 2017, the Registrant had 33,125,804 shares of common stock, $0.01 par value, outstanding.

QUARTERLY REPORT ON FORM 10-Q

TABLE OF CONTENTS

Investment Technology Group, ITG, the ITG logo, AlterNet, ITG Net, POSIT, POSIT Alert, RFQ-hub and Triton are registered trademarks or service marks of the Investment Technology Group, Inc. companies. ITG Derivatives and Single Ticket Clearing are trademarks or service marks of the Investment Technology Group, Inc. companies.

PRELIMINARY NOTES

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

FORWARD-LOOKING STATEMENTS

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

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

Certain of these factors, and other factors, are more fully discussed in Item 1A, Risk Factors, Item 7, Management’s Discussion and Analysis of Financial Condition and Results of Operations, and Item 7A, Quantitative and Qualitative Disclosures about Market Risk, in our Annual Report on Form 10-K for the year ended December 31, 2016, which you are encouraged to read. Our 2016 Annual Report on Form 10-K is also available through our website at http://investor.itg.com under “SEC Filings.”

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

PART I. — FINANCIAL INFORMATION

Item 1. Financial Statements

INVESTMENT TECHNOLOGY GROUP, INC. AND SUBSIDIARIES
Condensed Consolidated Statements of Financial Condition
(In thousands, except share amounts)

	June 30, 2017 (unaudited)	December 31, 2016
Assets		
Cash and cash equivalents	$ 251,963	$ 277,977
Cash restricted or segregated under regulations and other	16,982	40,353
Deposits with clearing organizations	74,114	62,556
Securities owned, at fair value	1,923	2,557
Receivables from brokers, dealers and clearing organizations	242,924	152,294
Receivables from customers	177,185	54,486
Premises and equipment, net	56,369	59,333
Capitalized software, net	40,140	38,606
Goodwill	10,613	10,102
Intangibles, net	14,823	15,390
Income taxes receivable	49	873
Deferred taxes	46,619	38,688
Other assets	22,972	22,070
Total assets	$ 956,676	$ 775,285
Liabilities and Stockholders' Equity		
Liabilities:		
Accounts payable and accrued expenses	$ 146,932	$ 174,343
Short-term bank loans	85,509	72,150
Payables to brokers, dealers and clearing organizations	196,412	100,188
Payables to customers	105,539	12,272
Securities sold, not yet purchased, at fair value	—	249
Income taxes payable	5,055	4,552
Term debt	3,050	6,367
Total liabilities	542,497	370,121
Commitments and contingencies		
Stockholders' Equity:		
Preferred stock, $0.01 par value; 1,000,000 shares authorized; no shares issued or outstanding	—	—
Common stock, $0.01 par value; 100,000,000 shares authorized; 52,605,650 and 52,456,165 shares issued at June 30, 2017 and December 31, 2016, respectively	526	525
Additional paid-in capital	242,236	248,748
Retained earnings	540,986	536,350
Common stock held in treasury, at cost; 19,484,422 and 19,830,032 shares at June 30, 2017 and December 31, 2016, respectively	(342,348)	(346,482)
Accumulated other comprehensive loss (net of tax)	(27,221)	(33,977)
Total stockholders' equity	414,179	405,164
Total liabilities and stockholders' equity	$ 956,676	$ 775,285

See accompanying notes to unaudited condensed consolidated financial statements.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	**2016**	**2017**	**2016**
Revenues:				
Commissions and fees	$ 100,564	$ 94,696	$ 200,444	$ 193,656
Recurring	18,933	21,811	37,883	44,006
Other	2,084	4,103	4,089	7,616
Total revenues	121,581	120,610	242,416	245,278
Expenses:				
Compensation and employee benefits	45,994	48,315	92,678	100,779
Transaction processing	25,482	22,098	50,338	44,932
Occupancy and equipment	14,680	14,066	30,302	28,044
Telecommunications and data processing services	12,129	14,848	24,156	29,621
Restructuring charges	—	4,355	—	4,355
Other general and administrative	17,699	26,014	35,014	49,736
Interest expense	510	572	1,030	1,107
Total expenses	116,494	130,268	233,518	258,574
Income (loss) before income tax expense (benefit)	5,087	(9,658)	8,898	(13,296)
Income tax expense (benefit)	444	(4,441)	(1,047)	(5,573)
Net income (loss)	$ 4,643	$ (5,217)	$ 9,945	$ (7,723)
Income (loss) per share:				
Basic	$ 0.14	$ (0.16)	$ 0.30	$ (0.23)
Diluted	$ 0.14	$ (0.16)	$ 0.29	$ (0.23)
Basic weighted average number of common shares outstanding	33,125	33,189	33,037	33,147
Diluted weighted average number of common shares outstanding	34,222	33,189	34,180	33,147

See accompanying notes to unaudited condensed consolidated financial statements.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	**2016**	**2017**	**2016**
Net income (loss)	$ 4,643	$ (5,217)	$ 9,945	$ (7,723)
Other comprehensive income (loss), net of tax:				
Currency translation adjustment	4,730	(6,598)	6,756	(4,779)
Other comprehensive income (loss)	4,730	(6,598)	6,756	(4,779)
Comprehensive income (loss)	$ 9,373	$ (11,815)	$ 16,701	$ (12,502)

See accompanying notes to unaudited condensed consolidated financial statements.

INVESTMENT TECHNOLOGY GROUP, INC. AND SUBSIDIARIES
Condensed Consolidated Statement of Changes in Stockholders' Equity (unaudited)
Six Months Ended June 30, 2017
(In thousands, except share amounts)

	Preferred Stock	Common Stock	Additional Paid-in Capital	Retained Earnings	Common Stock Held in Treasury	Accumulated Other Comprehensive Income/(Loss)	Total Stockholders' Equity
Balance at January 1, 2017	$ —	$ 525	$ 248,748	$536,350	$(346,482)	$ (33,977)	$ 405,164
Net income	—	—	—	9,945	—	—	9,945
Other comprehensive income	—	—	—	—	—	6,756	6,756
Issuance of common stock in connection with restricted stock unit awards (1,193,098 shares)	—	1	(18,733)	—	18,950	—	218
Issuance of common stock for the employee stock purchase plan (40,378 shares)	—	—	527	—	—	—	527
Shares withheld for net settlements of share-based awards (489,193 shares)	—	—	—	—	(9,882)	—	(9,882)
Purchase of common stock for treasury (251,977 shares)	—	—	—	—	(4,983)	—	(4,983)
Dividends declared on common stock	—	—	10	(4,666)	49	—	(4,607)
Share-based compensation	—	—	10,818	—	—	—	10,818
Cumulative effect of accounting change			866	(643)			223
Balance at June 30, 2017	$ —	$ 526	$ 242,236	$540,986	$(342,348)	$ (27,221)	$ 414,179

See accompanying notes to unaudited condensed consolidated financial statements.

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

	Six Months Ended June 30, 2017	Six Months Ended June 30, 2016
Cash Flows from Operating Activities:		
Net income (loss)	$ 9,945	$ (7,723)
Adjustments to reconcile net income (loss) to net cash used in operating activities:		
Depreciation and amortization	22,437	21,684
Deferred income tax benefit	(7,407)	(4,415)
Provision for doubtful accounts	155	18
Non-cash share-based compensation	10,818	14,488
Gain on sale of investment research operations	—	(21)
Changes in operating assets and liabilities:		
Cash restricted or segregated under regulations and other	23,631	(428)
Deposits with clearing organizations	(9,673)	(27,250)
Securities owned, at fair value	634	1,275
Receivables from brokers, dealers and clearing organizations	(83,582)	634,175
Receivables from customers	(117,877)	(136,599)
Accounts payable and accrued expenses	(29,254)	(5,898)
Payables to brokers, dealers and clearing organizations	90,673	(690,584)
Payables to customers	91,320	64,422
Securities sold, not yet purchased, at fair value	(249)	(1,016)
Income taxes receivable/payable	1,314	(11,585)
Excess tax benefit from share-based payment arrangements	—	(989)
Other, net	290	(4,320)
Net cash provided by (used in) operating activities	3,175	(154,766)
Cash Flows from Investing Activities:		
Capital purchases	(5,657)	(5,493)
Capitalization of software development costs	(14,357)	(12,670)
Proceeds from sale of investment research operations, net of deal costs	—	6,125
Net cash used in investing activities	(20,014)	(12,038)
Cash Flows from Financing Activities:		
Repayments of long term debt	(3,317)	(3,109)
Proceeds from borrowing under short-term bank loans	13,359	84,071
Debt issuance costs	(762)	(810)
Excess tax benefit from share-based payment arrangements	—	989
Common stock issued	745	3,075
Common stock repurchased	(4,983)	(14,946)
Dividends paid	(4,595)	(4,601)
Shares withheld for net settlements of share-based awards	(9,882)	(6,529)
Net cash (used in) provided by financing activities	(9,435)	58,140
Effect of exchange rate changes on cash and cash equivalents	260	15,523
Net decrease in cash and cash equivalents	(26,014)	(93,141)
Cash and cash equivalents—beginning of period	277,977	330,653
Cash and cash equivalents—end of period	$ 251,963	$ 237,512
Supplemental cash flow information:		
Interest paid	$ 2,326	$ 2,156
Income taxes paid	$ 4,859	$ 10,336

See accompanying notes to unaudited condensed consolidated financial statements.

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

(1) Organization and Basis of Presentation

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

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

The Company's business is organized into four reportable operating segments: U.S. Operations, Canadian Operations, European Operations and Asia Pacific Operations (see Note 14, *Segment Reporting,* to the condensed consolidated financial statements).

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

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

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

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses and the disclosure of contingent assets, liabilities, revenues and expenses. Actual results could differ from those estimates.

Certain information and footnote disclosures normally included in financial statements prepared in accordance with U.S. GAAP have been condensed or omitted in accordance with Securities and Exchange Commission ("SEC") rules and regulations; however, management believes that the disclosures herein are adequate to make the information presented not misleading. This report should be read in conjunction with the audited financial statements and the notes included in the Company's Annual Report on Form 10-K for the year ended December 31, 2016.

Recently Adopted Accounting Standards

In March 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2016-09, *Improvements to Employee Share-Based Payment Accounting,* which changes the accounting for certain aspects of share-based payments to employees. The new guidance requires, among its other provisions, that excess tax benefits (which represent the excess of actual tax benefits received at the date of vesting or settlement over the benefits recognized over the vesting period or upon issuance of share-based payments) and tax deficiencies (which represent the amount by which actual tax benefits received at the date of vesting or settlement is lower than the benefits recognized over the vesting period or upon issuance of share-based payments) be recorded in the income statement as an increase or decrease in income tax expense (benefit) when the awards vest or are settled. This is in contrast to the prior requirement that these excess tax benefits be recognized in additional paid-in capital and these tax deficiencies be recognized either as an offset to accumulated excess tax benefits, if any, or in the income statement. The new guidance also requires excess tax benefits to be classified along with other income tax cash flows as an operating activity in the statement of cash flows rather than, as previously required, a financing activity. The new guidance is effective for annual and interim reporting periods beginning after December 15, 2016 and as such was implemented on January 1, 2017.

As a result of this adoption, the Company:

- Recognized net excess tax benefits of $0.1 million and $1.2 million during the three and six months ended June 30, 2017, which is included in income tax benefit in the Condensed Consolidated Statements of Operations.
- Elected to adopt the cash flow presentation of the excess tax benefits prospectively during the six months ended June 30, 2017, where these benefits are classified along with other income tax cash flows as an operating activity in the Condensed Consolidated Statement of Cash Flows.
- Elected to account for forfeitures as they occur rather than under the previous method of estimating the number of stock-based awards expected to vest in order to determine the amount of compensation cost to be recognized in each period. This resulted in an adjustment for the cumulative effect of this accounting change as of January 1, 2017 to reduce retained earnings by $0.6 million and to increase deferred tax assets and additional paid-in capital by $0.3 million and $0.9 million, respectively.
- Did not change its policy on statutory withholding requirements. Amounts paid by the Company to taxing authorities when directly withholding shares associated with employees' income tax withholding obligations are classified as a financing activity in the Condensed Consolidated Statements of Cash Flows.
- Excluded the excess tax benefits from the assumed proceeds available to repurchase shares in the computation of diluted earnings per share for the three and six months ended June 30, 2017.

(2) Fair Value Measurements

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

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

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

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

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

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

June 30, 2017	Total	Level 1	Level 2	Level 3
Assets				
Cash and cash equivalents:				
Money market mutual funds	$ 1	$ 1	$ —	$ —
Securities owned, at fair value:				
Mutual funds	1,923	1,923	—	—
Total	$ 1,924	$ 1,924	$ —	$ —
Liabilities				
Securities sold, not yet purchased, at fair value:				
Corporate stocks - trading securities	—	—	—	—
Total	$ —	$ —	$ —	$ —

December 31, 2016	Total	Level 1	Level 2	Level 3
Assets				
Securities owned, at fair value:				
Corporate stocks-trading securities	$ 244	$ 244	$ —	$ —
Mutual funds	2,313	2,313	—	—
Total	$ 2,557	$ 2,557	$ —	$ —
Liabilities				
Securities sold, not yet purchased, at fair value:				
Corporate stocks - trading securities	249	249	—	—
Total	$ 249	$ 249	$ —	$ —

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

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

Certain of the Company's assets and liabilities are carried at contracted amounts that approximate fair value. Assets and liabilities that are recorded at contracted amounts approximating fair value consist primarily of receivables from and payables to brokers, dealers, clearing organizations and customers. These receivables and payables to brokers, dealers, clearing organizations and customers are short-term in nature and, following June 30, 2017, substantially all have settled at the contracted amounts.

The Company believes the carrying amounts of its term-debt obligations at June 30, 2017 and December 31, 2016 approximate fair value because the interest rates on these instruments change with, or approximate, market interest rates.

(3) Restructuring Charges

2016 Restructuring

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

Activity and liability balances recorded as part of the restructuring plan through June 30, 2017 are as follows (dollars in thousands):

	Amount
Balance at December 31, 2016	$ 3,157
Utilized - cash (primarily severance related)	(2,925)
Accrual adjustment	(18)
Currency translation	20
Balance at June 30, 2017	$ 234

The payment of the remaining accrued costs is expected to continue through December 2017.

(4) Cash Restricted or Segregated Under Regulations and Other

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

(5) Securities Owned and Sold, Not Yet Purchased

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

	Securities Owned		Securities Sold, Not Yet Purchased	
	June 30, 2017	December 31, 2016	June 30, 2017	December 31, 2016
Corporate stocks - trading securities	$ —	$ 244	$ —	$ 249
Mutual funds	1,923	2,313	—	—
Total	$ 1,923	$ 2,557	$ —	$ 249

Trading securities owned and sold, not yet purchased primarily consists of temporary positions obtained in the normal course of agency trading activities, including positions held in connection with the creation and redemption of exchange-traded funds on behalf of clients.

(6) Income Taxes

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

The Company had reserves for unrecognized tax benefits of $7.4 million at June 30, 2017 and December 31, 2016. The Company had accrued interest expense related to tax reserves of $1.5 million and $1.3 million, net of related tax effects, at June 30, 2017 and December 31, 2016, respectively.

(7) Goodwill and Other Intangibles

Goodwill

The following table presents the changes in the carrying amount of goodwill by the Company's European Operations segment for the six months ended June 30, 2017 (dollars in thousands):

	Total
Balance at December 31, 2016	$ 10,102
2017 Activity:	
Currency translation adjustment	511
Balance at June 30, 2017	$ 10,613

Other Intangible Assets

Acquired other intangible assets consisted of the following at June 30, 2017 and December 31, 2016 (dollars in thousands):

	June 30, 2017		December 31, 2016		
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization	Useful Lives (Years)
Trade name	$ 8,523	$ —	$ 8,518	$ —	—
Customer-related intangibles	10,457	5,908	10,358	5,584	17.0
Proprietary software	23,249	21,887	23,165	21,456	9.3
Trading rights	339	—	339	—	—
Other	50	—	50	—	—
Total	$ 42,618	$ 27,795	$ 42,430	$ 27,040	

At June 30, 2017, indefinite-lived intangibles not subject to amortization amounted to $8.9 million, of which $8.4 million related to the POSIT trade name.

Amortization expense for definite-lived intangibles was $0.4 million and $0.7 million for the three and six months ended June 30, 2017, respectively, compared with $0.5 million and $1.2 million in the respective prior year periods. These amounts are included in other general and administrative expense in the Condensed Consolidated Statements of Operations.

During the six months ended June 30, 2017, no intangibles were deemed impaired, and accordingly, no adjustment was required.

The following table represents the changes in the carrying amount of net intangible assets for the six months ended June 30, 2017 (dollars in thousands):

	Total
Balance at December 31, 2016	$ 15,390
2017 Activity:	
Amortization	(691)
Currency translation adjustment	124
Balance at June 30, 2017	$ 14,823

(8) Receivables and Payables

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

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

	Receivables from		Payables to	
	June 30, 2017	December 31, 2016	June 30, 2017	December 31, 2016
Broker-dealers	$ 164,024	$ 147,116	$ 132,677	$ 56,894
Clearing organizations	66,598	5,117	1,888	8,096
Securities borrowed*	12,933	374	—	—
Securities loaned	—	—	61,847	35,198
Allowance for doubtful accounts	(631)	(313)	—	—
Total	$ 242,924	$ 152,294	$ 196,412	$ 100,188

* See *Securities Borrowed and Loaned* below.

Receivables from, and Payables to, Customers

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

	Receivables from		Payables to	
	June 30, 2017	December 31, 2016	June 30, 2017	December 31, 2016
Customers	$ 177,558	$ 55,006	$ 105,539	$ 12,272
Allowance for doubtful accounts	(373)	(520)	—	—
Net	$ 177,185	$ 54,486	$ 105,539	$ 12,272

Securities Borrowed and Loaned

In the second quarter 2016, the Company closed its U.S. matched-book securities lending operations. At June 30, 2017, the balances for securities borrowed and securities loaned relate to customer settlement activities.

The gross amounts of interest earned on cash provided to counterparties as collateral for securities borrowed, and interest incurred on cash received from counterparties as collateral for securities loaned within the U.S. matched-book operations prior to the wind-down of all balances, and the resulting net amount included in other revenue on the Condensed Consolidated Statements of Operations for the three and six months ended June 30, 2016 were as follows (dollars in thousands):

	Three Months Ended June 30, 2016	Six Months Ended June 30, 2016
Interest earned	$ 448	$ 2,080
Interest incurred	(185)	(1,251)
Net	$ 263	$ 829

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

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

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

	Gross Amounts of Recognized Assets/ (Liabilities)	Gross Amounts Offset in the Consolidated Statement of Financial Condition	Net Amounts Presented in the Consolidated Statement of Financial Condition	Collateral Received or Pledged (including Cash)	Net Amount
As of June 30, 2017:					
Deposits paid for securities borrowed	$ 12,933	$ —	$ 12,933	$ 12,933	$ —
Deposits received for securities loaned	(61,847)	—	(61,847)	(61,369)	(478)
As of December 31, 2016:					
Deposits paid for securities borrowed	$ 374	$ —	$ 374	$ 374	$ —
Deposits received for securities loaned	(35,198)	—	(35,198)	(34,245)	(953)

(9) Accounts Payable and Accrued Expenses

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

	June 30, 2017	December 31, 2016
Accrued research payables	$ 54,317	$ 45,826
Accrued compensation and benefits	20,878	34,526
Accrued settlement costs	—	24,450
Accrued rent	19,127	19,061
Trade payables	17,354	14,474
Deferred revenue	7,147	7,643
Deferred compensation	2,921	3,262
Accrued restructuring	234	3,157
Accrued transaction processing	3,270	3,230
Other	21,684	18,714
Total	$ 146,932	$ 174,343

(10) Borrowings

Short-term Bank Loans

The Company's international securities clearance and settlement activities are funded with operating cash or with short-term bank loans in the form of overdraft facilities. At June 30, 2017, there was $85.5 million outstanding under these facilities at a weighted average interest rate of approximately 1.79% associated with international settlement activities.

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

ITG Inc., as borrower, and Investment Technology Group, Inc. ("Parent Company"), as guarantor, maintained a $150 million 364-day revolving credit agreement with a syndicate of banks and JPMorgan Chase Bank, N.A., as Administrative Agent, that matured in January 2017. On January 27, 2017, ITG Inc., as borrower, and Parent Company, as guarantor, entered into a new $150 million 364-day revolving credit agreement, dated as of January 27, 2017 (the

"Credit Agreement") with a syndicate of banks and JPMorgan Chase Bank, N.A., as Administrative Agent. The agreement expires on January 26, 2018. At June 30, 2017, there were no amounts outstanding under the Credit Agreement.

Term Debt

Term debt is comprised of the following (dollars in thousands):

	June 30, 2017	December 31, 2016
Term loans	$ 2,579	$ 3,098
Obligations under capital lease	471	3,269
Total	$ 3,050	$ 6,367

On December 30, 2015, the Parent Company entered into a five year, $3.6 million note and security agreement with Hewlett-Packard Financial Services ("H-P Loan"), under which purchases of new server equipment, software license fees, maintenance fees and fees for other services were financed. The loan principal is payable in twenty quarterly installments of $195,000 beginning in April 2016 and accrues interest at 2.95%. At June 30, 2017 and December 31, 2016, there was $2.6 million and $3.1 million, respectively, outstanding under the H-P Loan.

On August 10, 2012, the Parent Company entered into a $25.0 million master lease facility with BMO Harris Equipment Finance Company ("BMO") to finance equipment and construction expenditures related to the build-out of the Company's new headquarters in lower Manhattan. The original amount borrowed of $21.2 million has a 3.39% fixed-rate term financing structured as a capital lease with a 48-month term that began upon the substantial completion of the build-out, at the end of which Parent Company may purchase the underlying assets for $1. At June 30, 2017 and December 31, 2016, there was $0.5 million and $3.3 million, respectively, outstanding under the BMO facility.

The BMO facility requires compliance with the financial covenants of the Credit Agreement.

(11) Earnings Per Share

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

	June 30, 2017	June 30, 2016
Three Months Ended		
Net income (loss) for basic and diluted earnings (loss) per share	$ 4,643	$ (5,217)
Shares of common stock and common stock equivalents:		
Average common shares used in basic computation	33,125	33,189
Effect of dilutive securities	1,097	—
Average common shares used in diluted computation	34,222	33,189
Income (loss) per share:		
Basic	$ 0.14	$ (0.16)
Diluted	$ 0.14	$ (0.16)
Six Months Ended		
Net income (loss) for basic and diluted earnings (loss) per share	$ 9,945	$ (7,723)
Shares of common stock and common stock equivalents:		
Average common shares used in basic computation	33,037	33,147
Effect of dilutive securities	1,143	—
Average common shares used in diluted computation	34,180	33,147
Income (loss) per share:		
Basic	$ 0.30	$ (0.23)
Diluted	$ 0.29	$ (0.23)

For both the three and six month periods ended June 30, 2017, there were approximately 0.1 million average shares that were anti-dilutive and thus not included in the computation of diluted EPS. There were no anti-dilutive equity awards for the three and six month periods ended June 30, 2016 due to the fact that the Company recorded a loss.

(12) Accumulated Other Comprehensive Income

The components and allocated tax effects of accumulated other comprehensive income for the three and six month periods ended June 30, 2017 and 2016 are as follows (dollars in thousands):

Three Months Ended June 30, 2017	
Balance at March 31, 2017	$ (31,951)
Other comprehensive income	4,730
Balance at June 30, 2017	$ (27,221)
Three Months Ended June 30, 2016	
Balance at March 31, 2016	$ (17,676)
Other comprehensive loss	(6,598)
Balance at June 30, 2016	$ (24,274)
Six Months Ended June 30, 2017	
Balance at December 31, 2016	$ (33,977)
Other comprehensive income	6,756
Balance at June 30, 2017	$ (27,221)
Six Months Ended June 30, 2016	
Balance at December 31, 2015	$ (19,495)
Other comprehensive loss	(4,779)
Balance at June 30, 2016	$ (24,274)

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

(13) Net Capital Requirement

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

Net capital balances and the amounts in excess of required net capital at June 30, 2017 for the U.S. Operations are as follows (dollars in thousands):

	Net Capital	Excess
U.S. Operations		
ITG Inc.	$ 85,088	$ 82,839
AlterNet	3,647	3,483
ITG Derivatives	829	729

As of June 30, 2017, ITG Inc. had $8.9 million of cash in a Special Reserve Bank Account for the benefit of customers under the Customer Protection Rule pursuant to SEC Rule 15c3-3, *Computation for Determination of Reserve Requirements* and $2.5 million under PABs.

In addition, the Company's Canadian, European and Asia Pacific Operations have subsidiaries with regulatory capital requirements. The regulatory net capital balances and amount of regulatory capital in excess of the minimum requirements applicable to each business at June 30, 2017, is summarized in the following table (dollars in thousands):

	Net Capital	Excess
Canadian Operations		
Canada	$ 25,401	$ 25,015
European Operations		
Ireland	72,741	42,989
U.K.	2,449	1,615
Asia Pacific Operations		
Australia	24,408	10,964
Hong Kong	3,312	2,875
Singapore	1,050	978

In the first quarter of 2017, the Company migrated from self-clearing in Hong Kong to the use of a third-party clearer who settles trades executed in Hong Kong on behalf of ITG Australia Limited. During the second quarter of 2017, the Company received regulatory approval for a change in the method used to determine its capital requirements in Europe following an extensive review the Company initiated with its local regulator.

(14) Segment Reporting

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

- Execution Services — includes (a) liquidity matching through POSIT, (b) self-directed trading using algorithms (including single stocks and portfolio lists) and smart routing, (c) portfolio trading and single stock sales trading desks providing execution expertise and (d) futures and options trading

- Workflow Technology — includes trade order and execution management software applications in addition to network connectivity

- Analytics — includes (a) tools enabling portfolio managers and traders to improve pre-trade, real-time and post-trade execution performance, (b) portfolio construction and optimization decisions and (c) securities valuation

The accounting policies of the reportable segments are the same as those described in Note 2, *Summary of Significant Accounting Policies,* in the Company's Annual Report on Form 10-K for the year ended December 31, 2016. The Company allocates resources to, and evaluates the performance of, its reportable segments based on income or loss before income tax expense (benefit). Consistent with the Company's resource allocation and operating performance evaluation approach, the effects of inter-segment activities are eliminated except in limited circumstances where certain technology related costs are allocated to a segment to support that segment's revenue producing activities. Commissions and fees revenue for trade executions and commission share revenues are principally attributed to each segment based upon the location of execution of the related transaction except that commissions and fees for trade executions by Canadian clients in the U.S. market are attributed to the Canadian Operations instead of the U.S. Operations. Recurring revenues are principally attributed based upon the location of the client using the respective service.

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

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

	U.S. Operations	Canadian Operations	European Operations	Asia Pacific Operations	Corporate	Consolidated
Three Months Ended June 30, 2017						
Total revenues	$ 52,763	$ 15,984	$ 38,739	$ 13,720	$ 375	$ 121,581
(Loss) income before income tax (benefit) expense	(5,030)	3,131	10,827	1,535	(5,376)	5,087
Identifiable assets	456,071	108,698	339,337	52,570	—	956,676
Three Months Ended June 30, 2016						
Total revenues (1)	$ 58,574	$ 15,790	$ 32,203	$ 11,280	$ 2,763	$ 120,610
(Loss) income before income tax (benefit) expense (1) (2) (3) (4)	(2,874)	2,782	6,284	(93)	(15,757)	(9,658)
Identifiable assets	504,998	99,036	429,986	72,196	—	1,106,216
Six Months Ended June 30, 2017						
Total revenues	$ 106,156	$ 32,466	$ 75,451	$ 27,663	$ 680	$ 242,416
(Loss) income before income tax (benefit) expense	(11,634)	6,629	22,028	3,380	(11,505)	8,898
Six Months Ended June 30, 2016						
Total revenues (1)	$ 124,903	$ 31,886	$ 63,342	$ 22,037	$ 3,110	$ 245,278
(Loss) income before income tax (benefit) expense (1) (2) (3) (4)	(769)	6,120	11,963	(693)	(29,917)	(13,296)

The following notes relate to Corporate activity:

(1) The Company received insurance proceeds of $2.4 million in June 2016 from its corporate insurance carrier to settle a claim for lost profits arising from an August 2015 outage in its outsourced primary data center in the U.S. Additionally, the Company generated a nominal gain on the completion of the sale of its investment research operations in May 2016.

(2) During the three months ended June 30, 2016, the Company incurred $4.4 million in restructuring charges related to (a) the reduction in its single stock sales trading and sales organizations and (b) the closing of its U.S. matched-book securities lending operations and its Canadian arbitrage trading desk.

(3) The Company's current CEO was granted cash and stock awards upon the commencement of his employment in January 2016, a significant portion of which replaced awards he forfeited at his former employer. The amount expensed for these awards during the three and six month periods ended June 30, 2016 was $0.5 million and $3.3 million, respectively. Due to U.S. tax regulations, only a small portion of the amount expensed for these awards during the three and six months ended June 30, 2016 was eligible for a tax deduction.

(4) During the three and six month periods ended June 30, 2016, the Company established a reserve of $2.3 million and $4.8 million, respectively, for the arbitration case with its former CEO. In addition, the Company incurred legal fees related to this matter of $2.4 million and $2.7 million during the three and six month periods ended June 30, 2016, respectively. The Company settled the arbitration case in June 2016.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Revenues:				
Execution Services	$ 86,797	$ 83,408	$ 173,084	$ 173,201
Workflow Technology	23,352	23,094	46,452	46,687
Analytics	11,057	11,345	22,200	22,280
Corporate (non-product)	375	2,763	680	3,110
Total Revenues	$ 121,581	$ 120,610	$ 242,416	$ 245,278

(15) Dividend Program

During the three months ended June 30, 2017, the Board of Directors declared, and the Company paid, a quarterly dividend of $0.07 per share totaling $2.3 million, including less than $0.1 million in stock under the Company's equity award plans. Dividends declared and paid during the six months ended June 30, 2017 totaled $0.14 per share for $4.6 million, including less than $0.1 million in stock under the Company's equity award plans.

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

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

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

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

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

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

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

(17) Contingencies – Legal Matters

On January 12, 2017, the Company reached a final settlement with the SEC to resolve the SEC's inquiry into ITG Inc.'s activity with respect to pre-released American Depositary Receipts ("ADRs"), substantially all of which related to ITG Inc.'s matched-book operations. ITG Inc.'s activity in pre-released ADRs was discontinued in the fourth quarter of 2014, with all outstanding transactions completely wound down by the end of 2014. According to the terms of the settlement, the Company paid an aggregate amount of $24.5 million in January 2017, which includes disgorgement of $15.1 million, prejudgment interest of $1.9 million and a civil monetary penalty of $7.5 million. The Company had fully reserved the $24.5 million as of December 31, 2016.

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

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

In connection with the announcement of the SEC investigation regarding AlterNet, two putative class action lawsuits were filed with respect to the Company and certain of its current and former executives and have since been consolidated into a single action captioned *In re Investment Technology Group, Inc. Securities Litigation* before the U.S. District Court for the Southern District of New York. The complaint alleges, among other things, that the defendants made material misrepresentations or omitted to disclose material facts concerning, among other subjects, the matters that were the subject of the SEC settlement regarding AlterNet and the SEC investigation that led to the SEC settlement. The complaint seeks an unspecified amount of damages under the federal securities laws. On April 26, 2017, the court granted in part and denied in part the Company's motion to dismiss the complaint and granted the plaintiff leave to file a motion to amend its complaint. On June 12, 2017, the plaintiff filed a motion to amend its complaint against certain of the individual defendants who were dismissed from the case in the court's April opinion.

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

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

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

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

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

Overview

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

Our business is organized into four reportable operating segments: U.S. Operations, Canadian Operations, European Operations and Asia Pacific Operations (see Note 14, *Segment Reporting*, to the condensed consolidated financial statements). These four operating segments provide the following categories of products and services:

- Execution Services — includes (a) liquidity matching through POSIT, (b) self-directed trading using algorithms (including single stocks and portfolio lists) and smart routing, (c) portfolio trading and single stock sales trading desks providing execution expertise and (d) futures and options trading

- Workflow Technology — includes trade order and execution management software applications in addition to network connectivity

- Analytics — includes (a) tools enabling portfolio managers and traders to improve pre-trade, real-time and post-trade execution performance, (b) portfolio construction and optimization decisions and (c) securities valuation

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

Sources of Revenues

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

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

Recurring revenues are derived from the following primary sources: (i) connectivity fees generated through ITG Net for the ability of the sell-side to receive orders from, and send indications of interest to, the buy-side and for the sell-side to receive requests-for-quotes through RFQ-hub, (ii) software and analytical products and services and (iii) maintenance and customer technical support for our OMS. Prior to the divestiture of our remaining investment research operations in May 2016, recurring revenues included subscriptions from these operations.

Other revenues include: (1) for historical periods up until April 2016, income from principal trading in Canada, including within our arbitrage trading desk, (2) the net spread on foreign exchange transactions executed on a principal basis to facilitate equity trades by clients in different currencies, as well as on other foreign exchange transactions unrelated to equity trades, (3) for historical periods up until June 2016, the net interest spread earned on matched-book securities borrowed and loaned transactions, (4) non-recurring consulting services, such as one-time implementation and customer training related activities, (5) investment income from treasury activity, (6) interest income on securities borrowed in connection with customers' settlement activities, (7) market gains/losses resulting from temporary positions in securities assumed in the normal course of agency trading (including trade errors and client trade accommodations) and (8) non-recurring gains and losses such as divestitures.

Expenses

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

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

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

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

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

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

Non-GAAP Financial Measures

To supplement our financial information presented in accordance with accounting principles generally accepted in the U.S. ("U.S. GAAP"), management uses certain "non-GAAP financial measures" as such term is defined in Regulation G promulgated by the SEC. Generally, a non-GAAP financial measure is a numerical measure of a company's operating performance, financial position or cash flows that excludes or includes amounts that are included in, or excluded from, the most directly comparable measure calculated and presented in accordance with U.S. GAAP. Management believes the presentation of these measures provides investors with greater transparency and supplemental data relating to our financial condition and results of operations, and therefore a more complete understanding of factors affecting our business than U.S. GAAP measures alone. In addition, management believes the presentation of these measures is useful to investors for period-to-period comparison of results as the items described below reflect certain unique and/or non-operating items such as acquisitions, divestitures, restructuring charges, write-offs and impairments, charges associated with litigation or regulatory matters together with related expenses or items outside of management's control.

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

Reconciliations of adjusted revenues, adjusted expenses, adjusted pre-tax loss, adjusted income tax benefit and adjusted net (loss) income to revenues, expenses, loss before income tax benefit, income tax benefit and net loss and related per share amounts as determined in accordance with U.S. GAAP for the three and six months ended June 30, 2016 are provided below (dollars in thousands except per share amounts). There were no such adjustments during the three and six months ended June 30, 2017.

	Three Months Ended June 30, 2016	Six Months Ended June 30, 2016
Total revenues	$ 120,610	$ 245,278
Less:		
Other revenues - gains (1)	(2,438)	(2,438)
Adjusted revenues	$ 118,172	$ 242,840
Total expenses	$ 130,268	$ 258,574
Less:		
Restructuring (2)	(4,355)	(4,355)
Compensation awards for current CEO (3)	(519)	(3,315)
Arbitration case with former CEO and associated costs (4)	(4,710)	(7,522)
Adjusted expenses	$ 120,684	$ 243,382
Loss before income tax benefit	$ (9,658)	$ (13,296)
Effect of adjustments	7,146	12,754
Adjusted pre-tax loss	$ (2,512)	$ (542)
Income tax benefit	$ (4,441)	$ (5,573)
Tax effect of adjustments (1)	2,715	3,977
Adjusted income tax benefit	$ (1,726)	$ (1,596)
Net loss	$ (5,217)	$ (7,723)
Net effect of adjustments	4,431	8,777
Adjusted net (loss) income	$ (786)	$ 1,054
Diluted loss per share	$ (0.16)	$ (0.23)
Net effect of adjustments	0.14	0.26
Adjusted diluted (loss) income per share	$ (0.02)	$ 0.03

(1) We received insurance proceeds of $2.4 million in June 2016 from our corporate insurance carrier to settle a claim for lost profits arising from an August 2015 outage in our outsourced primary data center in the U.S. Additionally, we generated a nominal gain on the completion of the sale of our investment research operations in May 2016.

(2) During the three months ended June 30, 2016, we incurred $4.4 million in restructuring charges related to (a) the reduction in single stock sales trading headcount that was previously focused on our research products, (b) the closing of our U.S. matched-book securities lending operations and our Canadian arbitrage trading desk and (c) the reduction in headcount associated with combining the portfolio trading and single stock execution offerings with the former Electronic Brokerage product group to form the new Execution Services product group.

(3) Our current CEO was granted cash and stock awards upon the commencement of his employment in January 2016, a significant portion of which replaced awards he forfeited at his former employer. The amount expensed for these awards during the three and six month periods ended June 30, 2016 was $0.5 million and $3.3 million, respectively. Due to U.S. tax regulations, only a small portion of the amount expensed for these awards during the three months ended June 30, 2016 was eligible for a tax deduction.

(4) During the three and six month periods ended June 30, 2016, we established a reserve of $2.3 million and $4.8 million, respectively, for the arbitration case with our former CEO. In addition, we incurred legal fees related to this matter of $2.4 million and $2.7 million during the three and six month periods ended June 30, 2016, respectively. We settled the arbitration case in June 2016.

Executive Summary for the Quarter Ended June 30, 2017

Consolidated Overview

Our third consecutive quarter of profitability was driven by continued growth in global POSIT Alert activity and a record quarter of overall revenues in Europe. In North America, we posted solid results in Canada and saw a sequential reduction in our pre-tax loss in the U.S. We continued to take action to implement cost efficiencies through headcount reductions to improve our U.S. profitability and fund our growth initiatives. This action resulted in employee termination costs of $1.2 million, or $0.02 per share. In Asia Pacific, our business performed well, with another record quarter for trading activity in POSIT Alert and year-over-year market share gains in the key Hong Kong and Australian markets.

On a U.S. GAAP basis, we generated revenues of $121.6 million and net income of $4.6 million, or $0.14 per diluted share in the second quarter of 2017, compared to revenues of $120.6 million and a net loss of $5.2 million, or $0.16 per share in the second quarter of 2016. On an adjusted basis, we generated a net loss of $0.8 million, or $0.02 per share (see *Non-GAAP Financial Measures*) in the second quarter of 2016. Expenses of $116.5 million in the second quarter of 2017 were down 11% from expenses of $130.3 million and 3% from adjusted expenses of $120.7 million (see *Non-GAAP Financial Measures*) in the second quarter of 2016, primarily reflecting the divestiture of our remaining investment research operations as well as lower legal costs. There are no comparisons to adjusted amounts for the second quarter of 2017 as management has not identified items to include or exclude from U.S. GAAP results in the current quarter.

We are continuing our focus on growth through the execution of our Strategic Operating Plan, which aims to enhance our global capabilities in liquidity, execution, analytics and workflow technology solutions. We have sharpened our focus around these four key service offerings following the divestitures and closings of non-core operations. As part of this plan we are pursuing significant investments in technology and people to bolster these key service offerings with the expectation that we will meaningfully grow market share, revenues and profitability on a global basis. As of June 30, 2017, we have identified 55 employees that are or will be fully dedicated to executing the plan and our total investment under the plan since its inception in late July 2016 is $8.5 million.

Segment Discussions

Our U.S. average daily volume (“ADV”) was 12% higher than the second quarter of 2016 in an environment where market-wide volumes were down 5%. This growth was driven by an increase in sell-side activity and trading in POSIT Alert. The total ADV in POSIT Alert was the highest we have seen in the U.S. since the first quarter of 2015. While our loss before taxes in the U.S. increased over the second quarter of 2016, we did see a narrowing as compared to the first quarter of 2017, including a profit in the month of June 2017.

Trading activity in Canada held up well during the quarter despite lower market-wide volumes. Commissions and fees were 4% higher than the second quarter of 2016 while market-wide volumes were down 10% year-over-year. This outperformance reflected growth in POSIT Alert and other buy-side electronic trading.

In Europe, we had a second consecutive quarter with record levels of both overall revenue and revenue from block trading in POSIT Alert in an active market environment. We saw continued strong growth from buy-side clients that offset the impact of reduced activity from sell-side clients. The improved mix of business has raised our average commission rate and improved our margins as compared to the second quarter of 2016.

Our pre-tax profit in Asia Pacific was $1.5 million, compared with a $0.1 million pre-tax loss in the prior-year quarter. Asia Pacific commissions and fees increased 22% over the prior-year quarter, significantly outpacing the 12% growth in overall market-wide activity, driven by record activity in POSIT Alert and increased algorithmic and portfolio trading by clients.

Corporate activity in the second quarter of 2017 reduced pre-tax income by $5.4 million compared to a pre-tax reduction of $15.8 million in the second quarter of 2016. The lower pre-tax loss reflects the impact of costs incurred during the prior-year period related to the arbitration with ITG’s former CEO, the expensing of upfront cash and stock awards granted to our current CEO (a significant portion of which replaced compensation he forfeited at his former employer) and restructuring costs related to the reduction of our single stock sales trading and sales organization, and to the closing of our U.S. matched-book securities lending operation and Canadian arbitrage trading desk. We also saw reductions in legal fees and intangible amortization during the second quarter of 2017.

Capital Resource Allocation

During the second quarter of 2017, we repurchased 90,269 shares under our authorized repurchase program for $1.8 million, or an average cost of $19.65 per share. On a year-to-date basis, we have repurchased 251,977 shares under our authorized repurchase program for $5.0 million, or an average cost of $19.78 per share. We also maintained our $0.07 quarterly dividend program, paying out $2.3 million in cash.

Going forward we intend to use our share repurchase program over the course of a calendar year to offset dilution from the issuance of stock under employee compensation plans. We may repurchase additional shares opportunistically depending on various factors including, among others, market conditions and competing needs for the use of our capital.

Results of Operations — Three Months Ended June 30, 2017 Compared to Three Months Ended June 30, 2016

U.S. Operations

	Three Months Ended June 30,			
$ in thousands	**2017**	**2016**	**Change**	**% Change**
Revenues:				
Commissions and fees	$ 40,089	$ 43,614	$ (3,525)	(8)%
Recurring	11,882	14,776	(2,894)	(20)%
Other	792	184	608	330 %
Total revenues	52,763	58,574	(5,811)	(10)%
Expenses:				
Compensation and employee benefits	26,040	27,452	(1,412)	(5)%
Transaction processing	10,047	9,882	165	2 %
Other expenses	21,706	24,114	(2,408)	(10)%
Total expenses	57,793	61,448	(3,655)	(6)%
Loss before income tax benefit	$ (5,030)	$ (2,874)	$ (2,156)	(75)%

Commissions and fees declined 8% compared to the prior-year period due primarily to a decline in our overall revenue per share. Our ADV increased 12% over the second quarter of 2016, despite a 5% decrease in total daily U.S. market volumes. This outperformance pushed our market share for the quarter to 2.15%, well above the 1.81% in the second quarter of 2016. Our overall revenue per share declined 14% from $0.0042 to $0.0036 driven by significant movements within the mix of our volume amongst our client segments as well as decreased single stock sales trading for equities as a result of the reduction in our single stock sales trading organization following the sale of our remaining investment research operations in May 2016. ADV from our lower-priced sell-side accounts increased to 55% of our overall ADV compared with 51% in the second quarter of 2016.

	Three Months Ended June 30,			
U.S. Operations: Key Indicators*	**2017**	**2016**	**Change**	**% Change**
Total trading volume (in billions of shares)	9.3	8.4	0.9	11 %
Average trading volume per day (in millions of shares)	147.7	131.5	16.2	12 %
Average revenue per share	$ 0.0036	$ 0.0042	$ (0.0006)	(14)%
U.S. market trading days	63	64	(1)	(2)

* Excludes activity from ITG Net commission share arrangements.

Recurring revenues were down 20% from the second quarter of 2016 primarily from the loss of billed investment research revenue following the divestiture of our remaining investment research operations in May 2016 and the amendment to terminate the original energy research distribution agreement at the end of 2016. We also experienced lower OMS subscriptions and connectivity revenue due to client attrition.

Other revenues increased $0.6 million from the second quarter of 2016 due to the impact of client trade accommodations in the prior-year period, which reduced other revenues by $1.0 million, as well as higher market data tape rebate revenue in the current period. These increases were partially offset by the impact of the closing of our matched-book securities lending operations in the second quarter 2016.

Compensation and employee benefits decreased 5% from the second quarter of 2016 due to the impact of divesting our remaining investment research operations in May 2016 and cost savings measures implemented during the second half of 2016 and in the first half of 2017. These declines were offset in part by $1.2 million of employee separation costs during the second quarter of 2017 associated with headcount reductions and increased headcount dedicated to executing the Strategic Operating Plan.

Transaction processing costs increased 2% from the prior-year period, significantly less than the 12% increase in our ADV due in part to the impact of a higher crossing rate in POSIT, including block crossing in POSIT Alert, and a reduction in market-on-close index rebalance trading from passive accounts. These decreases were offset in part by increased routing for sell-side clients where we saw an increase in liquidity taking. As a percentage of commission and fees, transaction processing costs increased to 25.1% in the second quarter of 2017 from 22.7% in the second quarter of 2016 due primarily to the impact of the reduction in the average revenue per share.

Other expenses decreased 10% from the second quarter of 2016 due to the impact of divesting our remaining investment research operations in May 2016 and reduced energy research costs from the amendment to terminate the original energy research distribution agreement. We also saw lower travel and entertainment, facilities and recruiting costs.

Canadian Operations

	Three Months Ended June 30,			
$ in thousands	**2017**	**2016**	**Change**	**% Change**
Revenues:				
Commissions and fees	$ 13,604	$ 13,069	$ 535	4 %
Recurring	1,284	1,296	(12)	(1)%
Other	1,096	1,425	(329)	(23)%
Total revenues	15,984	15,790	194	1 %
Expenses:				
Compensation and employee benefits	4,443	4,697	(254)	(5)%
Transaction processing	2,780	2,238	$ 542	24 %
Other expenses	5,630	6,073	(443)	(7)%
Total expenses	12,853	13,008	(155)	(1)%
Income before income tax expense	$ 3,131	$ 2,782	349	13 %

Currency translation from a weaker Canadian Dollar decreased total Canadian revenues and expenses by $0.5 million and $0.3 million, respectively, resulting in a decrease of $0.2 million to pre-tax income.

Commissions and fees were 4% higher than the second quarter of 2016, despite a 10% decline in market-wide volumes for the same period due to growth in POSIT Alert and other buy-side trading activity, offset in part by a decline from currency translation.

Recurring revenues were comparable to the prior-year period and other revenues declined 23% largely from the closure of our arbitrage trading desk in April 2016.

Compensation and employee benefits costs decreased 5% compared to the second quarter of 2016 due to lower headcount and higher capitalized compensation costs.

Transaction processing costs increased 24% over the prior-year period, significantly exceeding the growth in commission and fees, due primarily to an increase in the proportion of our routing activity where we took liquidity and an increase in the number of settlement tickets processed. As a percentage of commissions and fees, transaction processing increased to 20.4% from 17.1% in the prior-year period.

Other expenses declined 7% from the second quarter of 2016 due to reductions in consulting, travel and entertainment, and software amortization costs, as well as the discontinuation of research distribution fees.

European Operations

	Three Months Ended June 30,			
$ in thousands	**2017**	**2016**	**Change**	**% Change**
Revenues				
Commissions and fees	$ 34,859	$ 28,171	$ 6,688	24 %
Recurring	4,048	4,274	(226)	(5)%
Other	(168)	(242)	74	31 %
Total revenues	38,739	32,203	6,536	20 %
Expenses:				
Compensation and employee benefits	9,191	9,641	(450)	(5)%
Transaction processing	9,821	7,539	2,282	30 %
Other expenses	8,900	8,739	161	2 %
Total expenses	27,912	25,919	1,993	8 %
Income before income tax expense	$ 10,827	$ 6,284	$ 4,543	72 %

Overall currency rate changes in the European region reduced revenues and expenses by $1.9 million and $1.5 million, respectively, reducing pre-tax income by $0.4 million. This decrease in pre-tax income was primarily driven by the weaker euro exchange rate, as revenues and expenses that originate in British pounds largely offset each other.

Commissions and fees were 24% higher than the second quarter of 2016 due primarily to record revenue in POSIT Alert and growth in commissions for algorithmic trading and single stock sales trading from institutional and hedge fund clients. This growth more than offset the impact of reduced trading from sell-side clients and currency translation. Sell-side clients made up 44% of our European value traded in the second quarter of 2017 compared to 63% in the prior-year quarter. This favorable change in business mix together with the higher concentration of business in POSIT Alert pushed our overall commission rate 20% higher than the second quarter of 2016.

Recurring revenues decreased 5% from the prior-year period due to lower billed analytics revenues and currency translation, partially offset by higher connectivity fees. Other revenues were favorable to the prior-year period due to a lower impact of client trade accommodations.

Compensation and employee benefits decreased 5% from the second quarter of 2016 due to the favorable impact of currency translation and an accelerated charge for deferred stock awards in the prior-year period related to a termination.

Transaction processing costs increased 30% from the prior-year period, reflecting an 18% growth in daily value traded in British pound terms, an increase in rebates paid to introducing brokers, higher costs to execute ETF trades, a lower crossing rate in POSIT and higher settlement financing costs. These increases were offset in part by the impact of currency translation. As a percentage of commissions and fees, transaction processing costs rose to 28.2%, compared to 26.8% in the prior-year period.

Other expenses increased 2% from the second quarter of 2016 due to higher charges for global research and development costs and higher connectivity, as well as higher recruiting and consulting costs as we continue to invest in our growth initiatives and prepare for MiFID II, partially offset in part by the favorable impact of currency translation.

Asia Pacific Operations

$ in thousands	Three Months Ended June 30, 2017	2016	Change	% Change
Revenues:				
Commissions and fees	$ 12,012	$ 9,844	$ 2,168	22 %
Recurring	1,719	1,465	254	17 %
Other	(11)	(29)	18	62 %
Total revenues	13,720	11,280	2,440	22 %
Expenses:				
Compensation and employee benefits	4,664	4,513	151	3 %
Transaction processing	2,834	2,439	395	16 %
Other expenses	4,687	4,421	266	6 %
Total expenses	12,185	11,373	812	7 %
Income (loss) before income tax expense (benefit)	$ 1,535	$ (93)	$ 1,628	nm

nm – not meaningful

Currency translation had a negligible effect on total Asia Pacific revenues and expenses.

Commissions and fees increased 22% over the second quarter of 2016, significantly outpacing the 12% growth in market-wide trading due to record activity in POSIT Alert and increased algorithmic and portfolio trading by clients. We also had higher commission sharing revenues from trades executed through our Triton EMS.

Recurring revenues increased 17% from the prior-year period due to the increase in connectivity revenue, while other revenues improved due to a lower impact of client trade accommodations.

Compensation and employee benefits increased 3% from the second quarter of 2016 due to a slight increase in headcount.

Transaction processing costs increased 16% from the prior-year period, which was higher than the 9% growth in value executed due to higher clearing costs in Hong Kong as well as a larger proportion of our trading in markets where costs are higher. As a percentage of commissions and fees, transaction processing costs decreased to 23.6% from 24.8% for the second quarter of 2016 due to the impact of a higher average commission rate.

Other expenses increased 6% compared to the second quarter of 2016 due to higher depreciation expenses associated with investments we are making to enhance redundancy and business recovery capabilities, higher market data costs, and higher charges for global research and development costs, partially offset by lower travel and entertainment costs.

Corporate

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

In the second quarter of 2017, we incurred a pre-tax loss from Corporate activities of $5.4 million, reflecting $0.4 million of revenues and $5.8 million of costs, compared to a pre-tax loss of $15.8 million in the prior-year period, reflecting $2.8 million of revenues and $18.5 million of costs. The lower revenues reflects the recognition of $2.4 million of insurance proceeds received in the second quarter 2016, net of related expenses, under our business interruption insurance policy relating to the impact of an outage at our primary outsourced data center incurred in August 2015. The decline in costs compared to the second quarter of 2016 reflects costs incurred in the prior-year period for upfront cash and stock awards granted to our current CEO upon the commencement of his employment in January 2016, a significant portion of which replaced compensation he forfeited at his former employer, settlement of the arbitration claim by our former CEO, together with related legal fees, and restructuring costs related to (a) the reduction in single stock sales trading headcount that was previously focused on our research products, (b) the closing of our U.S. matched-book securities lending operations and our Canadian arbitrage trading desk and (c) the reduction in headcount associated with combining the portfolio trading and single stock execution offerings with the former Electronic Brokerage product group to form the new Execution Services product group. We also saw reductions in legal fees and intangible amortization during the second quarter of 2017. Corporate costs, including legal expenses, can vary from period to period as we work through litigation, regulatory and other corporate matters.

Consolidated income tax expense

Our effective tax rate was 8.7% on our pre-tax income in the second quarter of 2017, compared to a benefit of 46.0% on our pre-tax loss in the second quarter of 2016. Our second quarter of 2017 tax rate reflects the combined impact of a higher benefit rate on losses in the U.S., a lower expense rate on earnings in Europe and the lack of tax costs on earnings in Asia Pacific due to the existence of net operating losses that are fully reserved. Our consolidated effective tax rate can vary from period to period depending on, among other factors, the geographic and business mix of our earnings. The tax benefits on losses in the U.S. have been recorded as deferred tax assets on our statement of financial condition along with other amounts based on differences between the financial statement carrying amounts and the tax basis of assets and liabilities. Our ability to continue to recognize deferred tax assets is dependent on management's assessment of both positive and negative evidence, including forecasts of future taxable income, cumulative losses, applicable tax planning strategies and assessments of current and future economic and business conditions. If we are unable to achieve sufficient future taxable income as the basis for the ultimate realization of our net deferred tax assets, particularly in the U.S., then a valuation allowance may need to be established. This would result in an increase in our effective tax rate and may have a material adverse effect on our future operating results. We will continue to assess the need for a valuation allowance at each reporting date.

Results of Operations — Six Months Ended June 30, 2017 Compared to Six Months Ended June 30, 2016

U.S. Operations

	Six Months Ended June 30,			
$ in thousands	**2017**	**2016**	**Change**	**% Change**
Revenues:				
Commissions and fees	$ 80,650	$ 93,067	$ (12,417)	(13)%
Recurring	23,803	30,298	(6,495)	(21)%
Other	1,703	1,538	165	11 %
Total revenues	106,156	124,903	(18,747)	(15)%
Expenses:				
Compensation and employee benefits	52,841	56,851	(4,010)	(7)%
Transaction processing	20,995	20,121	874	4 %
Other expenses	43,954	48,700	(4,746)	(10)%
Total expenses	117,790	125,672	(7,882)	(6)%
Loss before income tax benefit	$ (11,634)	$ (769)	$ (10,865)	nm

nm – not meaningful

Commissions and fees declined 13% compared to the prior-year period due primarily to a decline in our overall revenue per share. Our ADV increased 2% over the first half of 2016 despite a 13% decrease in average daily U.S.

market volumes. Our overall revenue per share declined 16% from $0.0043 to $0.0036 driven by significant movements within the mix of our volume amongst our client segments as well as decreased single stock sales trading for equities as a result of the reduction in our single stock sales trading organization following the sale of our remaining investment research operations in May 2016. ADV from our lower priced sell-side accounts increased to 56% of our overall ADV compared with 52% for the prior-year period.

	Six Months Ended June 30,			
U.S. Operations: Key Indicators*	**2017**	**2016**	**Change**	**% Change**
Total trading volume (in billions of shares)	18.7	18.3	0.4	2 %
Average trading volume per day (in millions of shares)	149.3	146.3	3.0	2 %
Average revenue per share	$ 0.0036	$ 0.0043	$ (0.0007)	(16)%
U.S. market trading days	125	125	—	—

* Excludes activity from ITG Net commission share arrangements.

Recurring revenues decreased 21% from the prior-year period following the divestiture of our remaining investment research operations in May 2016 and the amendment to terminate the original energy research distribution agreement at the end of 2016. We also experienced lower OMS subscriptions and connectivity revenue due to client attrition.

Other revenues increased $0.2 million from the first half of 2016 due to the impact of client trade accommodations, which reduced other revenues by $1.0 million during the prior-year period, as well as higher market data tape rebate revenue in the current period. These increases were offset by the loss of revenue from the impact of the closing of our matched-book securities lending operations in the second quarter 2016.

Compensation and employee benefits decreased 7% from the prior-year period due to the impact of divesting our remaining investment research operations in May 2016, cost savings measures implemented during the second half of 2016 and first half of 2017, and the impact of the increased use of deferred stock awards in our incentive compensation program to better align employees with the Strategic Operating Plan. These declines were offset in part by an increase in employee separation costs of $3.5 million and by headcount dedicated to executing the Strategic Operating Plan.

Transaction processing costs increased 4% from the prior-year period, slightly higher than the growth in our ADV due to the growth in market-on-close index rebalance trading from passive accounts and increased routing for sell-side clients where we saw an increase in liquidity taking. As a percentage of commissions and fees, transaction processing costs increased to 26.0% from 21.6% during the first half of 2016 due to the impact of the reduction in the average revenue per share.

Other expenses declined 10% from the comparable period in 2016 due to the impact of divesting our remaining investment research operation in May 2016, a reduction in travel and entertainment costs and reduced energy research costs from the amendment to terminate the original energy research distribution agreement.

Canadian Operations

$ in thousands	Six Months Ended June 30, 2017	2016	Change	% Change
Revenues:				
Commissions and fees	$ 27,836	$ 25,924	$ 1,912	7 %
Recurring	2,587	2,579	8	— %
Other	2,043	3,383	(1,340)	(40)%
Total revenues	32,466	31,886	580	2 %
Expenses:				
Compensation and employee benefits	8,845	9,415	(570)	(6)%
Transaction processing	5,711	4,782	929	19 %
Other expenses	11,281	11,569	(288)	(2)%
Total expenses	25,837	25,766	71	— %
Income before income tax expense	$ 6,629	$ 6,120	$ 509	8 %

Currency translation had a negligible effect on total Canadian revenues and expenses.

Commissions and fees grew 7% compared to the six months ended June 30, 2016 despite an 8% decline in market-wide volumes due to growth in POSIT Alert and other buy-side trading activity.

Recurring revenues were comparable to the prior-year period and other revenues declined 40% largely from the closure of our arbitrage trading desk in April 2016.

Compensation and employee benefits costs decreased 6% from the first half of 2016 due to lower headcount and the impact of the increased use of deferred stock awards in our incentive compensation program to better align employees with the Strategic Operating Plan.

Transaction processing costs increased 19% over the prior-year period, significantly exceeding the growth in commission and fees, due primarily to an increase in the proportion of our routing activity where we took liquidity and an increase in the number of settlement tickets processed. As a percentage of commissions and fees, transaction processing costs increased to 20.5% from 18.4% in the prior-year period.

Other expenses declined 2% from 2016 due to reductions in consulting, travel and entertainment, and software amortization costs as well as the discontinuation of research distribution fees.

European Operations

$ in thousands	Six Months Ended June 30, 2017	2016	Change	% Change
Revenues				
Commissions and fees	$ 67,640	$ 55,567	$ 12,073	22 %
Recurring	8,030	8,160	(130)	(2)%
Other	(219)	(385)	166	43 %
Total revenues	75,451	63,342	12,109	19 %
Expenses:				
Compensation and employee benefits	18,201	19,251	(1,050)	(5)%
Transaction processing	17,967	15,165	2,802	18 %
Other expenses	17,255	16,963	292	2 %
Total expenses	53,423	51,379	2,044	4 %
Income before income tax expense	$ 22,028	$ 11,963	$ 10,065	84 %

Overall currency rate changes in the European region reduced revenues and expenses by $4.1 million and $3.2 million, respectively, reducing pre-tax income by $0.9 million. This decrease in pre-tax income was largely driven by the weaker euro exchange rate, as revenues and expenses that originate in British pounds largely offset each other.

Commissions and fees were 22% higher than the first half of 2016 due to strong growth in trading in POSIT Alert, as well as growth in single stock sales trading and algorithmic trading by institutional and hedge fund clients. This growth more than offset the impact of reduced trading from sell-side clients and currency translation. Sell-side clients made up 49% of our European value traded in the first half of 2017 compared to 64% in the prior-year period. This favorable change in business mix together with the higher concentration of business in POSIT Alert pushed our overall commission rate 21% higher than the first half of 2016.

Recurring revenues were down slightly compared to the prior-year period due to lower billed analytics revenues and currency translation, offset in part by higher connectivity fees. Other revenues were favorable to the prior-year period due to a lower impact of client trade accommodations.

Compensation and employee benefits decreased 5% from the same period in 2016 due to the favorable impact of currency translation, an accelerated charge for deferred stock awards in the prior-year period related to a termination and the increased use of deferred stock awards in our incentive compensation program to better align employees with the Strategic Operating Plan.

Transaction processing costs increased 18% from the prior-year period reflecting a 13% growth in daily value traded in British pound terms, higher costs to execute ETF trades and a lower crossing rate in POSIT, offset in part by the impact of currency translation. As a percentage of commissions and fees, transaction processing costs declined to 26.6%, compared to 27.3% in the prior-year quarter reflecting the increase in our average commission rate noted above.

Other expenses increased 2% from the first half of 2017 due to higher charges for global research and development costs, and higher client connectivity costs as well as higher consulting and recruiting costs as we continue to invest in our growth initiatives and prepare for MiFID II, partially offset in part by the favorable impact of currency translation.

Asia Pacific Operations

	Six Months Ended June 30,			
$ in thousands	**2017**	**2016**	**Change**	**% Change**
Revenues:				
Commissions and fees	$24,318	$19,100	$ 5,218	27 %
Recurring	3,463	2,969	494	17 %
Other	(118)	(32)	(86)	(269)%
Total revenues	27,663	22,037	5,626	26 %
Expenses:				
Compensation and employee benefits	9,331	9,016	315	3 %
Transaction processing	5,665	4,864	801	16 %
Other expenses	9,287	8,850	437	5 %
Total expenses	24,283	22,730	1,553	7 %
Income (loss) before income tax expense (benefit)	$ 3,380	$ (693)	$ 4,073	nm

Currency translation from a stronger Australian Dollar increased total Asia Pacific revenues and expenses by $0.6 million and $0.3 million, respectively, resulting in an increase of $0.3 million to pre-tax income.

Commissions and fees increased 27%, over the first half of 2016, significantly outpacing the 5% growth in overall market-wide trading, driven by strong growth in POSIT Alert and increased algorithmic and portfolio trading by clients. We also had higher commission sharing revenues from trades executed through our Triton EMS.

Recurring revenues increased 17% from the prior-year period due to higher billed revenue from analytics products and higher connectivity fees, while other revenues declined due to higher impact of client trading accommodations.

Compensation and employee benefits increased 3% over the first half of 2016 due to a slight increase in headcount, partially offset by the increased use of deferred stock awards in our incentive compensation program to better align employees with the Strategic Operating Plan and cost savings measures implemented during the second half of 2016.

Transaction processing costs increased 16% from the prior-year period, which was higher than the 11% growth in value executed due to higher clearing costs in Hong Kong as well as a larger proportion of our trading in markets where costs are higher. As a percentage of commissions and fees, transaction processing costs decreased to 23.3% from 25.4% due to the impact of a higher average commission rate.

Other expenses increased 5% from the first half of 2016 due to higher depreciation expenses associated with investments we are making to enhance redundancy and business recovery capabilities, higher market data costs and higher charges for global research and development costs, partially offset by lower travel and entertainment expenses.

Corporate

For the first half of 2017, we incurred a pre-tax loss from Corporate activities of $11.5 million, reflecting $0.7 million of revenues and $12.2 million of costs, compared to a pre-tax loss of $29.9 million in the prior-year period, reflecting $3.1 million of revenues and $33.0 million of costs. The lower revenues reflects the recognition of $2.4 million of insurance proceeds received in the second quarter 2016, net of related expenses, under our business interruption insurance policy for the impact of an outage at our primary outsourced data center incurred in August 2015. The decline in costs compared to the first half of 2016 reflects costs incurred in the prior-year period for the amount expensed for upfront cash and stock awards granted to our current CEO upon the commencement of his employment in January 2016, a significant portion of which replaced compensation he forfeited at his former employer, settlement of the arbitration claim with our former CEO, together with related legal fees, and restructuring costs related to (a) the reduction in single stock sales trading headcount that was previously focused on our research products, (b) the closing of our U.S. matched-book securities lending operations and our Canadian arbitrage trading desk and (c) the reduction in headcount associated with combining the portfolio trading and single stock execution offerings with the former Electronic Brokerage product group to form the new Execution Services product group. We also saw reductions in legal fees and intangible amortization during the second quarter of 2017.

Consolidated income tax expense

Our effective tax rate in the first half of 2017 was a benefit of 11.8% on our pre-tax income, compared to a benefit of 41.9% on our pre-tax loss in the first half of 2016. The tax benefit in the 2017 period despite the pre-tax income reflects the impact of the new accounting pronouncement to recognize excess tax benefits on employee stock vestings (see Note 1, *Organization and Basis of Presentation*, to the condensed consolidated financial statements), which increased our recorded tax benefit by $1.2 million, together with the combined impact of a higher benefit rate on losses in the U.S., a lower expense rate on earnings in Europe and the lack of tax costs on earnings in Asia Pacific due to the existence of net operating losses that are fully reserved.

Liquidity and Capital Resources

Liquidity

Our primary source of liquidity is cash provided by operations. Our liquidity requirements result from our working capital needs, which include clearing and settlement activities, as well as our regulatory capital needs. A substantial portion of our assets is liquid, consisting of cash and cash equivalents or assets readily convertible into cash. Cash is principally invested in money market mutual funds. At June 30, 2017, unrestricted cash and cash equivalents totaled $252.0 million. Included in this amount is $130.4 million of cash and cash equivalents held by subsidiaries outside the United States. Due to the December 2015 amendment to the capital structure of our operations outside of North America, which included a deemed dividend on all cumulative undistributed earnings at that time, we currently do not foresee a need to repatriate funds from certain foreign subsidiaries to the U.S. by way of additional dividends. Should we need to do so in the future, our effective tax rate may increase.

As a self-clearing broker-dealer in the U.S., we are subject to cash deposit requirements with clearing organizations that may be large in relation to total liquid assets and may fluctuate significantly based upon the nature and size of customers' trading activity and market volatility. At June 30, 2017, we had interest-bearing security deposits totaling $33.5 million with clearing organizations in the U.S. for the settlement of equity trades. In the normal course of our U.S. settlement activities, we may also need to temporarily finance customer securities positions from non-standard settlements or delivery failures. These financings may be funded from existing cash resources, borrowings under stock loan transactions or short-term bank loans under our committed facility. On January 27, 2017, we entered into a new $150 million 364-day revolving credit agreement (the “Credit Agreement”) in the U.S. with a syndicate of banks and JPMorgan Chase Bank, N.A., as Administrative Agent (see Note 10, *Borrowings*, to the condensed consolidated financial statements).

We also self-clear equity trades in Australia, maintaining a deposit with clearing organizations of $2.0 million at June 30, 2017. We continue to maintain a $1.6 million clearing deposit in Hong Kong, which is expected to be released in the coming months now that we have migrated to a third-party clearing provider (see discussion in *Regulatory Capital* below). In Europe, we maintained $4.7 million in restricted cash related to protected client funds and we had deposits with our clearing and settlement agents of $37.0 million at June 30, 2017. As part of our European settlement activities, we may need to temporarily finance customer securities positions from non-standard settlements or delivery failures. These financings may be funded from existing cash resources, borrowings under stock loan transactions or short-term bank loans under uncommitted overdraft facilities with our clearing agent and a commercial bank.

Capital Resources

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

Operating Activities

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

	Six Months Ended June 30,	
(in thousands)	**2017**	**2016**
Net income (loss)	$ 9,945	$ (7,723)
Non-cash items included in net income (loss)	26,003	31,754
Effect of changes in receivables/payables from/to customers and brokers	(19,466)	(128,586)
Effect of changes in other working capital and operating assets and liabilities	(13,307)	(50,211)
Net cash provided by (used in) operating activities	$ 3,175	$ (154,766)

Our operating activities resulted in cash being provided in the first half of 2017 as opposed to being used during the first half of 2016 largely due to a significant reduction in the cash that was temporarily tied up in settlement receivables and clearing deposits. A portion of the cash tied up in settlement activities in the prior-year period was offset by an $84.0 million increase in short-term debt financing that was included in financing activities. In the first half of 2017, we had a reduction in restricted cash required in Hong Kong following the migration to a third-party clearing solution (see discussion in *Regulatory Capital* below) and we had increases in other working capital related to accrued research payables under client commission arrangements, that were more than offset by the payment to the SEC in January 2017 for the settlement of the inquiry into ITG Inc.’s discontinued activity with respect to pre-released American Depository Receipts and the payment of 2016 incentive compensation in the first quarter of 2017.

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

Investing Activities

Net cash used in investing activities of $20.0 million during the six months ended June 30, 2017 includes investments in software development projects, computer hardware and office space.

Financing Activities

Net cash used in financing activities of $9.4 million primarily reflects repurchases of ITG common stock, our dividend program, shares withheld for net settlements of share-based awards and repayments of long-term debt, partially offset by proceeds from short-term bank borrowings that are used to support our settlement activities.

During the first six months of 2017, we repurchased approximately 0.7 million shares of our common stock at a cost of $14.9 million, which was funded from our available cash resources. Of these shares, nearly 0.3 million were purchased under our Board of Directors' authorization for a total cost of $5.0 million (average cost of $19.78 per share). In addition, nearly 0.5 million shares were repurchased for $9.9 million pertaining solely to the satisfaction of minimum statutory withholding tax upon the net settlement of equity awards. As of June 30, 2017, the total remaining number of shares currently available for repurchase under ITG's stock repurchase program was 1.2 million. The specific timing and amount of repurchases will vary depending on various factors, including, among others, market conditions and competing needs for the use of our capital. We may elect to conduct future share repurchases through open market purchases, private transactions or automatic share repurchase programs under SEC Rule 10b5-1.

Regulatory Capital

ITG Inc., AlterNet and ITG Derivatives are subject to the SEC's Uniform Net Capital Rule (Rule 15c3-1), which requires the maintenance of minimum net capital. ITG Inc. has elected to use the alternative method permitted by Rule 15c3-1, which requires that ITG Inc. maintain minimum net capital equal to the greater of $1.0 million or 2% of aggregate debit balances arising from customer transactions, as defined. AlterNet and ITG Derivatives have elected to use the basic method permitted by Rule 15c3-1, which requires that they each maintain minimum net capital equal to the greater of $6^2/_3$% of aggregate indebtedness or $100,000. Dividends or withdrawals of capital cannot be made if capital is needed to comply with regulatory requirements.

Net capital balances and the amounts in excess of required net capital at June 30, 2017 for the U.S. Operations are as follows (dollars in thousands):

U.S. Operations	Net Capital	Excess
ITG Inc.	$ 85,088	$ 82,839
AlterNet	3,647	3,483
ITG Derivatives	829	729

As of June 30, 2017, ITG Inc. had $8.9 million of cash in a special reserve bank account for the benefit of customers under the Customer Protection Rule pursuant to SEC Rule 15c3-3 of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and $2.5 million under proprietary accounts of broker dealers.

In addition, our Canadian, European and Asia Pacific Operations have subsidiaries with regulatory capital requirements. The regulatory net capital balances and amount of regulatory capital in excess of the minimum requirements applicable to each business at June 30, 2017, is summarized in the following table (dollars in thousands):

	Net Capital	Excess
Canadian Operations		
Canada	$ 25,401	$ 25,015
European Operations		
Ireland	72,741	42,989
U.K.	2,449	1,615
Asia Pacific Operations		
Australia	24,408	10,964
Hong Kong	3,312	2,875
Singapore	1,050	978

In 2017, we migrated from self-clearing in Hong Kong to the use of a third-party clearer that settles trades executed in Hong Kong on behalf of ITG Australia Limited. Since capital requirements with respect to unsettled trades are generally lower in Australia than Hong Kong, we expect this migration to reduce our overall peak capital requirements in the Asia Pacific region by at least $10 million.

During the second quarter of 2017, we received regulatory approval for a change in the method used to determine our capital requirements in Europe following an extensive review we initiated with our local regulator. This change is expected to lower peak capital requirements in the region by approximately $15 million.

Liquidity and Capital Resource Outlook

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

Off-Balance Sheet Arrangements and Aggregate Contractual Obligations

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

As of June 30, 2017, our other contractual obligations and commercial commitments consisted principally of fixed charges, including minimum future rentals under non-cancelable operating leases, minimum future purchases under non-cancelable purchase agreements and compensation under employment agreements.

There has been no significant change to such arrangements and obligations since December 31, 2016.

New Accounting Pronouncements

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

In November 2016, the FASB issued ASU 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash.* The amendments in this ASU require that the statement of cash flows explain the change during the period in the total of cash, cash equivalents and restricted cash. Amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. ASU 2016-18 is effective for annual reporting periods beginning after December 15, 2017, including interim periods within those fiscal years, with early adoption permitted. We are currently evaluating the new guidance and have not yet determined the impact of adoption on our financial statements.

In August 2016, the FASB issued ASU 2016-15, *Statement of Cash Flows (Topic 230): Classification of certain cash receipts and cash payments*. The amendments in this ASU provide specific guidance for eight specific cash flow classification issues, with the objective of reducing the existing diversity in practice in how certain cash receipts and cash payments are presented and classified in the statement of cash flows under Topic 230, *Statement of Cash*

Flows. These amendments are effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years, with early adoption permitted. We are currently evaluating the new guidance and have not yet determined the impact of adoption on our financial statements.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*, which requires lessees to recognize leases on the balance sheet and disclose key information about leasing arrangements. The new standard requires a lessee to recognize an asset and lease liability on the balance sheet for all leases with a term longer than 12 months. Leases will be classified as finance or operating, with classification affecting the pattern of expense recognition in the income statement. Classification will be based on criteria that are largely similar to those applied in current lease accounting, but more significant management judgment will be required. The new standard is effective for us on January 1, 2019, with early adoption permitted. A modified retrospective transition approach is required for leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, with certain practical expedients available. We are currently evaluating the effect of adoption of the new standard and expect that it will have a material effect on our financial statements. We currently believe the most significant changes relate to real estate and office and equipment operating leases. We do not expect a significant change in our leasing activity between now and adoption.

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers*. The standard provides companies with a single five step revenue recognition model for use in accounting for revenue arising from contracts with customers and supersedes current revenue recognition guidance, including industry-specific revenue guidance. The core principle of the model is to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. ASU 2014-09 applies to all contracts with customers except those that are within the scope of other topics in the FASB Accounting Standards Codification. The standard will also require significant additional qualitative and quantitative disclosures describing the nature, amount, timing, and uncertainty of revenues. Entities have the option of using either a full retrospective or modified approach to adopt ASU 2014-09. The original standard was effective for fiscal years beginning after December 15, 2016, however, in April 2015, the FASB proposed a one-year deferral of this standard, with a new effective date for fiscal years beginning after December 15, 2017. We have completed the assessment phase of our evaluation of this guidance, which includes the classification of in-scope revenue streams into distinct groups based on complexity, the selection and review of a representative sample of customer contracts from each group, and the identification of key accounting changes that may impact the financial statements. These changes include a requirement to allocate bundled commission arrangements among the identified performance obligations, which may involve analytics services performed over time and which have a different timing from our trade execution obligations. We are currently in the design and implementation phase of this project, which involves quantifying the financial impact of the accounting changes identified, finalizing the selection of a transition method of adoption and developing and designing process changes.

Critical Accounting Estimates

There has been no significant change to our critical accounting estimates, which are more fully described in Item 7, *Management's Discussion and Analysis of Financial Condition and Results of Operations*, in our Annual Report on Form 10-K for the year ended December 31, 2016.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Please see our Annual Report on Form 10-K (Item 7A) for the year ended December 31, 2016. There has been no material change in this information.

Item 4. Controls and Procedures

a) *Conclusion Regarding the Effectiveness of Disclosure Controls and Procedures.* Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we conducted an evaluation of the effectiveness of our disclosure controls and procedures, as such term is defined under Rule 13a-15(e) promulgated under the Exchange Act. Based on this evaluation, our principal executive officer and our principal financial officer concluded that our disclosure controls and procedures were effective as of the end of the period covered by this quarterly report.

b) *Changes in Internal Control over Financial Reporting.* There were no changes in our internal control over financial reporting during the quarter ended June 30, 2017 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. — OTHER INFORMATION

Item 1. Legal Proceedings

Information pertaining to legal proceedings can be found in “Item 1. Financial Statements—Note 17. *Contingencies—Legal Matters*” and is incorporated herein by reference.

Item 1A. Risk Factors

There has been no significant change to the risks or uncertainties that may affect our results of operations since December 31, 2016. Please see Item 1A in our Annual Report on Form 10-K for the year ended December 31, 2016.

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

The following table sets forth our stock repurchase activity during the first six months of 2017, including the total number of shares purchased, the average price paid per share, the number of shares repurchased as part of a publicly-announced plan or program, and the number of shares yet to be purchased under the plan or program.

ISSUER PURCHASES OF EQUITY SECURITIES

Period	Total Number of Shares (or Units) Purchased (a)	Average Price Paid per Share (or Unit) (a)	Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs (b)	Maximum Number of Shares (or Units) that May Yet Be Purchased Under the Plans or Programs (b)
From: January 1, 2017				
To: January 31, 2017	86,948	$ 20.27	—	1,446,840
From: February 1, 2017				
To: February 28, 2017	486,750	20.11	87,035	1,359,805
From: March 1, 2017				
To: March 31, 2017	75,799	19.93	74,673	1,285,132
From: April 1, 2017				
To: April 30, 2017	38,844	19.27	38,844	1,246,288
From: May 1, 2017				
To: May 31, 2017	8,481	20.03	8,321	1,237,967
From: June 1, 2017				
To: June 30, 2017	44,348	19.96	43,104	1,194,863
Total	741,170	$ 20.06	251,977	

(a) This column includes the acquisition of 489,193 common shares from employees in order to satisfy minimum statutory withholding tax requirements upon net settlement of equity awards.

(b) In October 2014, our Board of Directors authorized the repurchase of 4.0 million shares. This authorization has no expiration date. As of December 31, 2016, there were 1.5 million shares remaining available for repurchase under ITG’s stock repurchase program. The specific timing and amount of repurchases will vary depending on various factors including, among others, market conditions and competing needs for the use of our capital.

During the first six months of 2017, we repurchased approximately 0.7 million shares of our common stock at a cost of $14.9 million, which was funded from our available cash. Of these shares, nearly 0.3 million were purchased under our Board of Directors’ authorization for a total cost of $5.0 million (average cost of $19.78 per share). In addition, nearly 0.5 million shares repurchased for $9.9 million pertained solely to the satisfaction of minimum statutory withholding tax upon the net settlement of equity awards. As of June 30, 2017, the total remaining number of shares currently available for repurchase under ITG’s stock repurchase program was 1.2 million.

During the second quarter of 2017, the Board of Directors declared, and we paid, a quarterly dividend of $0.07 per share, totaling $2.3 million, including less than $0.1 million in stock under the Company’s equity award plans.

Item 3. Defaults Upon Senior Securities

Not applicable.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

Not applicable.

Table of Contents

Item 6. Exhibits

10.1* (†)	Investment Technology Group, Inc. 2007 Omnibus Equity Compensation Plan.
31.1*	Rule 13a-14(a) Certification
31.2*	Rule 13a-14(a) Certification
32.1**	Section 1350 Certification
101*	Interactive Data File

The following furnished materials from Investment Technology Group, Inc.'s Quarterly Report on Form 10-Q for the quarter ended June 30, 2017, formatted in XBRL (Extensible Business Reporting Language), are collectively included herewith as Exhibit 101:

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

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* Filed herewith.
** Furnished herewith.
(†) Management contracts or compensatory plans or arrangements.

Table of Contents

SIGNATURE

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

INVESTMENT TECHNOLOGY GROUP, INC.
(Registrant)

Date: August 7, 2017

By: /s/ STEVEN R. VIGLIOTTI
Steven R. Vigliotti
Chief Financial Officer and Chief Administrative Officer and Duly Authorized Signatory of Registrant

Exhibit 10.1

INVESTMENT TECHNOLOGY GROUP, INC.

2007 OMNIBUS EQUITY COMPENSATION PLAN

Amended and Restated Effective June 8, 2017

1. Purpose

The purpose of the Investment Technology Group, Inc. 2007 Omnibus Equity Compensation Plan (the "Plan") is to provide (i) designated employees of Investment Technology Group, Inc. (the "Company") and its subsidiaries, and (ii) non-employee members of the board of directors of the Company with the opportunity to receive grants of stock options, stock units, stock awards, dividend equivalents and other stock-based awards. The Company believes that the Plan will encourage the participants to contribute materially to the growth of the Company, thereby benefiting the Company's stockholders, and will align the economic interests of the participants with those of the stockholders. The Plan was originally effective on May 8, 2007 upon approval by the stockholders of the Company, and previously amended and restated on May 12, 2009 upon approval by the stockholders of the Company, August 18, 2009, May 11, 2010 upon approval by the stockholders of the Company, June 11, 2013 upon approval by the stockholders of the Company, February 5, 2014, June 11, 2015 upon approval by the stockholders of the Company and January 23, 2017. This amendment and restatement is effective June 8, 2017, subject to stockholder approval on such date (the "Amendment Effective Date"). Grants made prior to the Amendment Effective Date shall continue to be governed by the applicable award Grant Agreements and the terms of the Plan without giving effect to changes made pursuant to this amendment and restatement, and the Committee shall administer such Grants in accordance with the Plan without giving effect to changes made pursuant to this amendment and restatement.

The Investment Technology Group, Inc. Non-Employee Directors Stock Option Plan (the "Director Plan"), the Investment Technology Group, Inc. Amended and Restated 1994 Stock Option and Long-term Incentive Plan (the "1994 Plan"), the Amended and Restated Investment Technology Group, Inc. Stock Unit Award Program Subplan (the "SUA Subplan"), the Amended and Restated Investment Technology Group, Inc. Directors' Retainer Fee Subplan (the "Directors' Retainer Fee Subplan"), and the Amended and Restated Investment Technology Group, Inc. Directors' Equity Subplan (the "Directors' Equity Subplan", and together with the Directors' Retainer Fee Subplan, the "Subplans") were merged with and into this Plan as of May 8, 2007. No additional grants were made thereafter under the Director Plan and the 1994 Plan. Outstanding grants under the Director Plan, the 1994 Plan, the SUA Subplan and the Subplans as of May 8, 2007 continued in effect according to their terms as in effect on May 8, 2007, and the shares with respect to such outstanding grants were issued or transferred under this Plan. After May 8, 2007, the Subplans, and the SUA Subplan until it was frozen effective on January 1, 2009, continued in effect as subplans of the Plan and grants and/or deferrals may continue to be made under the Subplans with shares associated with such grants and/or deferrals being issued under this Plan. Effective as of January 1, 2009, the Variable Compensation Stock Unit Award Program Subplan (formerly known as the Equity Deferral Award Program Subplan) (the "VCSUA Subplan") was added as a subplan under the Plan.

2. Definitions

Whenever used in this Plan, the following terms will have the respective meanings set forth below:

(a) *"Average Bonus"* means the average of the annual bonuses paid to the Participant for the three years immediately preceding the year in which the Participant's termination of employment occurs (or such shorter period during which the Participant has been employed by the Employing Entity and eligible to receive annual bonuses, or if the Participant was not employed by the Employing Entity or eligible to receive annual bonuses in any prior year, the annual bonus that is required to be paid in accordance with any contractual arrangement between the Participant and the Employing Entity, or if none, then the annual bonus that would otherwise have been paid to the Participant for the year in which the Participant's termination of employment occurs based upon the actual achievement of applicable performance objectives). For the avoidance of doubt, annual bonuses shall include any bonus amounts paid in the form of Basic Units awarded under the VCSUA Subplan (or any successor thereto).

(b) *"Board"* means the Company's Board of Directors.

(c) *"Cause"* shall have the meaning ascribed to such term in the applicable Grant Agreement, Subplan or VCSUA Subplan.

(d) *"Change in Control"* means and shall be deemed to have occurred:

(i) if any person (within the meaning of the Exchange Act), other than the Company or a Related Party, is or becomes the "beneficial owner" (as defined in Rule 13d-3 under the Exchange Act), directly or indirectly, of Voting Securities representing 35 percent or more of the total voting power of all the then-outstanding Voting Securities; or

(ii) if the individuals who, as of the date hereof, constitute the Board, together with those who first become directors subsequent to such date and whose recommendation, election or nomination for election to the Board was approved by a vote of at least a majority of the directors then still in office who either were directors as of the date hereof or whose recommendation, election or nomination for election was previously so approved, cease for any reason to constitute a majority of the members of the Board; or

(iii) upon consummation of a merger, consolidation, recapitalization or reorganization of the Company, reverse split of any class of Voting Securities, or an acquisition of securities or assets by the Company other than (A) any such transaction in which the holders of outstanding Voting Securities immediately prior to the transaction receive (or retain), with respect to such Voting Securities, voting securities of the surviving or transferee entity representing more than 50 percent of the total voting power outstanding immediately after such transaction, with the voting power of each such continuing holder relative to other such continuing holders not substantially altered in the transaction, or (B) any such transaction which would result in a Related Party beneficially owning more than 50 percent of the voting securities of the surviving or transferee entity outstanding immediately after such transaction; or

(iv) upon consummation of the sale or disposition by the Company of all or substantially all of the Company's assets, other than any such transaction which would result in a Related Party owning or acquiring more than 50 percent of the assets owned by the Company immediately prior to the transaction; or

(v) if the stockholders of the Company approve a plan of complete liquidation of the Company.

(e) *"Code"* means the Internal Revenue Code of 1986, as amended.

(f) *"Committee"* means (i) with respect to Grants to Employees, the Compensation Committee of the Board or another committee appointed by the Board to administer the Plan, (ii) with respect to Grants made to Non-Employee Directors, the Board, and (iii) with respects to Grants that are intended to be "qualified performance-based compensation" under section 162(m) of the Code, a committee that consists of two or more persons appointed by the Board, all of whom shall be "outside directors" as defined under section 162(m) of the Code and related Treasury regulations.

(g) *"Company"* means Investment Technology Group, Inc. and any successor corporation.

(h) *"Company Stock"* means the common stock of the Company.

(i) *"Disability"* means a Participant's becoming disabled within the meaning of Section 22(e)(3) of the Code, within the meaning of the Employer's long-term disability plan applicable to the Participant or as otherwise determined by the Committee; provided that if the Committee fails to designate a definition of Disability in the applicable Grant Agreement, the applicable Subplan or the VCSUA Subplan, Disability shall mean a Participant's becoming disabled within the meaning of Section 22(e)(3) of the Code.

(j) *"Dividend Equivalent"* means an amount determined by multiplying the number of shares of Company Stock subject to a Grant by the per-share cash dividend, or the per-share fair market value (as determined by the Committee) of any dividend in consideration other than cash, paid by the Company on its Company Stock.

(k) *"Employee"* means a person classified as an employee of the Employing Entity (including an officer or director who is also an employee) for payroll purposes, as determined in the sole discretion of the Employing Entity. Notwithstanding the foregoing, if a person is engaged in a non-employee status (including, but not limited to, as an independent contractor, an individual being paid through an employee leasing company or other third party agency) and is subsequently reclassified by the Employer, the Internal Revenue Service, or a court as an employee for payroll purposes, such person, for purposes of this Plan, shall be deemed an Employee from the actual (and not the effective) date of such reclassification, unless expressly provided otherwise by the Employer.

(l) *"Employer"* means the Company and its Subsidiaries.

(m) "*Employing Entity*" means with respect to an Employee, the Company or the Company's Subsidiary that employs the Participant, or with respect to a Non-Employee Director, the Company.

(n) *"Exchange Act"* means the Securities Exchange Act of 1934, as amended.

(o) *"Exercise Price"* means the per share price at which shares of Company Stock may be purchased under an Option, as designated by the Committee.

(p) *"Fair Market Value,"* unless otherwise required by an applicable provision of the Code, as of any date, means the closing sales price of the Company Stock as reported on the New York Stock Exchange on the date of grant during regular trading hours; provided, however, that at any time that the Company Stock is not quoted on the New York Stock Exchange on such trading days, Fair Market Value shall be determined by the Committee in its discretion.

(q) "*Good Reason*" means "Good Reason" as defined in a Participant's Change in Control Agreement or other applicable agreement with the Employing Entity, or if no such agreement exists or the definition of "Good Reason" is specifically limited to such applicable agreement, "Good Reason" means without the Participant's express written consent, the occurrence on or after a Change in Control of any one or more of the following:

(i) a material reduction of the Participant's primary functional authorities, duties, or responsibilities or the assignment of duties to the Participant inconsistent with those of the Participant's position with the Employing Entity, other than an insubstantial and inadvertent reduction or assignment that is remedied by the Employing Entity promptly after receipt of notice thereof given by the Participant; provided, however, that any reduction in authorities, duties or responsibilities resulting merely from the acquisition of the Company and its existence as a Subsidiary or division of another entity shall not be sufficient to constitute Good Reason;

(ii) the Employing Entity's requiring the Participant to be based at a location in excess of 35 miles from the location of the Participant's principal job location or office immediately prior to the relocation;

(iii) a material reduction by the Employing Entity of the Participant's base salary, unless such reduction applies on substantially the same percentage basis to all employees of the Employing Entity generally;

(iv) a material reduction in the Participant's participation in any of the Employer's annual incentive compensation plans in which the Participant participates, unless such failure applies to all plan participants generally; and

(v) a material reduction by the Employing Entity of the Participant's Total Annual Compensation, which for this purpose means a reduction of the Participant's Total Annual Compensation by more than 33 percent.

For any of the foregoing to constitute Good Reason, the Participant must provide written notification of his or her intention to resign within 30 days after the Participant knows or has reason to know of the occurrence of any such event, and the Employing Entity shall have 30 business days from the date of receipt of such notice to effect a cure of the condition constituting Good Reason, and, upon cure thereof by the Employing Entity, such event shall no longer constitute Good Reason. If the Employing Entity does not cure the condition constituting Good Reason within 30 business days following the date of receipt of the notice from the Participant, the Good Reason termination shall be effective on the 31st business day following such date of receipt. A termination of employment by the Participant shall be for Good Reason if one of the occurrences specified above shall have occurred, notwithstanding that the Participant may have other reasons for terminating employment, including employment by another employer which the Participant desires to accept.

(r) *"Grant"* means an Option, Stock Unit, Stock Award, SAR, Dividend Equivalent or Other Stock-Based Award granted under the Plan.

(s) *"Grant Agreement"* means the written instrument that sets forth the terms and conditions of a Grant, including all amendments thereto.

(t) *"Incentive Stock Option"* means an Option that is intended to meet the requirements of an incentive stock option under section 422 of the Code.

(u) *"Non-Employee Director"* means a member of the Board who is not an employee of the Employer.

(v) *"Nonqualified Stock Option"* means an Option that is not intended to be taxed as an incentive stock option under section 422 of the Code.

(w) *"Option"* means an option to purchase shares of Company Stock, as described in Section 7 of the Plan.

(x) *"Other Stock-Based Award"* means any Grant based on, measured by or payable in, Company Stock (other than a Grant described in Sections 7, 8, 9 or 10(a) of the Plan), as described in Section 10(b) of the Plan.

(y) *"Participant"* means an Employee or Non-Employee Director designated by the Committee to participate in the Plan.

(z) *"Person"* means an individual, a partnership, a corporation, a limited liability company, an association, a joint stock company, an estate, a trust, a joint venture, an unincorporated organization or a governmental entity or any department, agency or political subdivision thereof.

(aa) *"Plan"* means this Investment Technology Group, Inc. 2007 Omnibus Equity Compensation Plan, as in effect from time to time.

(bb) *"Related Party"* means (i) a Subsidiary of the Company; (ii) an employee or group of employees of the Company or any Subsidiary of the Company; (iii) a trustee or other fiduciary holding securities under an employee benefit plan of the Company or any majority-owned Subsidiary of the Company; or (iv) a corporation owned directly or indirectly by the stockholders of the Company in substantially the same proportion as their ownership of Voting Securities.

(cc) *"SAR"* means a stock appreciation right as described in Section 10(a) of the Plan.

(dd) *"Stock Award"* means an award of Company Stock as described in Section 9 of the Plan.

(ee) *"Stock Unit"* means an award of a phantom unit representing a share of Company Stock, as described in Section 8 of the Plan.

(ff) *"Subsidiary" or "Subsidiaries"* means, with respect to any Person, any corporation, partnership, limited liability company, association or other business entity of which (i) if a corporation, 50 percent or more of the total voting power of shares of stock entitled (without regard to the occurrence of any contingency) to vote in the election of directors, managers or trustees thereof is at the time owned or controlled, directly or indirectly, by that Person or one or more of the other Subsidiaries of that Person or combination thereof; or (ii) if a partnership, limited liability company, association or other business entity, 50 percent or more of the partnership or other similar ownership interest thereof is at the time owned or controlled, directly or indirectly, by any Person or one or more Subsidiaries of that Person or a combination thereof. For purposes of this definition, a Person or Persons will be deemed to have a 50 percent or more ownership interest in a partnership, limited liability company, association or other business entity if such Person or Persons are allocated 50 percent or more of partnership, limited liability company, association or other business entity gains or losses or control the managing director or member or general partner of such partnership, limited liability company, association or other business entity.

(gg) "*Total Annual Compensation*" means the sum of the Participant's base salary and Average Bonus.

(hh) *"Voting Securities or Security"* means any securities of the Company which carry the right to vote generally in the election of directors.

3. Administration

(a) Committee. The Plan shall be administered and interpreted by the Compensation Committee of the Board or another committee appointed by the Board to administer the Plan with respect to grants to Employees. The Plan shall be administered and interpreted by the Board with respect to grants to Non-Employee Directors. The Board or committee, as applicable, that has authority with respect to a specific Grant shall be referred to as the "Committee" with respect to that

Grant. Ministerial functions may be performed by an administrative committee comprised of Company employees appointed by the Committee.

(b) Committee Authority. The Committee shall have the sole authority to (i) determine the Participants to whom Grants shall be made under the Plan, (ii) determine the type, size and terms and conditions of the Grants to be made to each such Participant, (iii) determine the time when the grants will be made and, subject to the restriction in Section 4(c), the duration of any applicable exercise or restriction period, including the criteria for exercisability and the acceleration of exercisability, (iv) amend the terms and conditions of any previously issued Grant, subject to the provisions of Section 18 below, and (v) deal with any other matters arising under the Plan.

(c) Committee Determinations. The Committee shall have full power and express discretionary authority to administer and interpret the Plan, to make factual determinations and to adopt or amend such rules, regulations, agreements and instruments for implementing the Plan and for the conduct of its business as it deems necessary or advisable, in its sole discretion. The Committee's interpretations of the Plan and all determinations made by the Committee pursuant to the powers vested in it hereunder shall be conclusive and binding on all persons having any interest in the Plan or in any awards granted hereunder. All powers of the Committee shall be executed in its sole discretion, in the best interest of the Company, not as a fiduciary, and in keeping with the objectives of the Plan and need not be uniform as to similarly situated Participants.

4. Grants

(a) Grants under the Plan may consist of Options as described in Section 7, Stock Units as described in Section 8, Stock Awards as described in Section 9, and SARs or Other Stock-Based Awards as described in Section 10. All Grants shall be subject to such terms and conditions as the Committee deems appropriate and as are specified in writing by the Committee to the Participant in the Grant Agreement.

(b) All Grants shall be made conditional upon the Participant's acknowledgement, in writing or by acceptance of the Grant, that all decisions and determinations of the Committee shall be final and binding on the Participant, his or her beneficiaries and any other person having or claiming an interest under such Grant. Grants under a particular Section of the Plan need not be uniform as among the Participants.

(c) Grants made under the Plan shall provide that the Grants will not vest prior to the one-year anniversary of the date of grant, except as may be provided in the event of a Participant's death or Disability, or in the event of (i) a Change in Control or (ii) a corporate event described in Section 5(d). In addition, up to five percent of the shares of Company Stock subject to the aggregate share reserve set forth in Section 5(a) may be subject to Grants that are not subject to the foregoing vesting restriction, which may include, without limitation, Grants to Non-Employee Directors.

5. Shares Subject to the Plan

(a) Shares Authorized. Subject to the adjustments in Section 5(d) below, the total aggregate number of shares of Company Stock that may be issued under the Plan on and after the Amendment Effective Date is the sum of the following (i) 2,090,000 new shares of Company Stock plus (ii) that number of shares of Company Stock subject to outstanding grants under the Plan as of the Amendment Effective Date, plus (iii) that number of shares remaining available for issuance under the Plan but not subject to previously exercised, vested or paid grants as of the Amendment Effective Date. The total aggregate number of shares of Company Stock that may be issued under the Plan may be subject to Incentive Stock Options.

(b) Source of Shares; Share Counting. Shares issued under the Plan may be authorized but unissued shares of Company Stock or reacquired shares of Company Stock, including shares purchased by the Company on the open market for purposes of the Plan. If and to the extent Options or SARs granted under the Plan (including options granted under the Subplans) terminate, expire, or are canceled, forfeited, exchanged or surrendered without having been exercised, and if and to the extent that any Stock Awards, Stock Units, or Other Stock-Based Awards (including any stock awards, stock units or other-stock based awards granted under the SUA Subplan and the Subplans) are forfeited or terminated, or otherwise are not paid in full, the shares reserved for such Grants shall again be available for purposes of the Plan. Shares of Company Stock surrendered in payment of the Exercise Price of an Option shall not be available for re-issuance under the Plan. Shares withheld or surrendered for payment of taxes with respect to any Grant shall not be available for re-issuance under Plan. If SARs are exercised and settled in Company Stock, the full number of shares subject to the SARs shall be considered issued under the Plan, without regard to the number of shares issued upon settlement of the SARs. To the extent any Grants are paid in cash, and not in shares of Company Stock, any shares previously subject to such Grants shall not count against the share limits in this Section 5(b). For the avoidance of doubt, if Shares are repurchased by the Company on the open market with the proceeds of the Exercise Price of Options, such Shares shall not be available for re-issuance under the Plan. The preceding provisions of this Section 5(b) shall apply only for purposes of determining the aggregate number of shares of Company Stock that may be issued under the Plan, but shall not apply for purposes of determining the maximum number of shares of Company Stock with respect to which Grants may be granted to any Participant under the Plan.

(c) Individual Limits. All Grants under the Plan shall be expressed in shares of Company Stock. The maximum aggregate number of shares of Company Stock with respect to which all Grants may be made under the Plan to any Employee during any calendar year shall be 1,000,000 shares, subject to adjustment as described in subsection (d) below. A Participant may not accrue cash dividends or Dividend Equivalents during any calendar year in excess of $1,000,000. The individual limits of this subsection (c) shall apply without regard to whether the Grants are to be paid in Company Stock or cash. All cash payments (other than with respect to Dividend Equivalents) shall equal the Fair Market Value of the shares of Company Stock to which the cash payments relate. In addition, notwithstanding any other provision of the Plan to the contrary, the maximum aggregate value (measured on the date of grant and determined by the Committee in its sole discretion) of Grants granted to any Non-Employee Director during any calendar year under the Plan shall not exceed $600,000, subject to adjustment as described in subsection (d) below. The foregoing limit shall not apply to any Grant pursuant to a Non-Employee Director's election to receive a Grant in lieu of cash retainer or other fees.

(d) Adjustments. If there is any change in the number or kind of shares of Company Stock outstanding by reason of a stock dividend, spinoff, stock split or reverse stock split, or by reason of a combination, reorganization, recapitalization or reclassification affecting the outstanding Company Stock as a class without the Company's receipt of consideration, the maximum number of shares of Company Stock available for Grants, the maximum number of shares of Company Stock that any individual participating in the Plan may be granted in any year, the number of shares covered by outstanding Grants, the kind of shares issued under the Plan and outstanding Grants, and the price per share of outstanding Grants shall be equitably adjusted by the Committee, as the Committee deems appropriate, to reflect any increase or decrease in the number of, or change in the kind or value of, issued shares of Company Stock to preclude, to the extent practicable, the enlargement or dilution of rights and benefits under Grants; provided, however, that any fractional shares resulting from such adjustment shall be eliminated. In addition, the Committee shall have discretion to make the foregoing equitable adjustments in any circumstances in which an adjustment is not mandated by this subsection (d) or applicable law, including in the event of a Change in Control. Any adjustments to outstanding Grants shall be consistent with section 409A or 422 of the Code, to the extent applicable. Any adjustments determined by the Committee shall be final, binding and conclusive.

6. Eligibility for Participation

(a) Eligible Persons. All Employees, including Employees who are officers or members of the Board, and all Non-Employee Directors shall be eligible to participate in the Plan.

(b) Selection of Participants. The Committee shall select the Employees and Non-Employee Directors to receive Grants and shall determine the number of shares of Company Stock subject to each Grant.

7. Options

(a) General Requirements. The Committee may grant Options to an Employee or Non-Employee Director upon such terms and conditions as the Committee deems appropriate under this Section 7. The Committee shall determine the number of shares of Company Stock that will be subject to each Grant of Options to Employees and Non-Employee Directors. No dividends will be paid on the shares of Company Stock subject to Options.

(b) Type of Option, Price and Term.

(i) The Committee may grant Incentive Stock Options or Nonqualified Stock Options or any combination of the two, all in accordance with the terms and conditions set forth herein. Incentive Stock Options may be granted only to Employees of the Company or its parents or subsidiaries, as defined in section 424 of the Code. Nonqualified Stock Options may be granted to Employees or Non-Employee Directors.

(ii) The Exercise Price of Company Stock subject to an Option shall be determined by the Committee and may be equal to or greater than the Fair Market Value of a share of Company Stock on the date the Option is granted. However, an Incentive Stock Option may not be granted to an Employee who, at the time of grant, owns stock possessing more than 10 percent of the total combined voting power of all classes of stock of the Company or any parent or subsidiary, as defined in section 424 of the Code, unless the Exercise Price per share is not less than 110 percent of the Fair Market Value of the Company Stock on the date of grant.

(iii) The Committee shall determine the term of each Option, which shall not exceed ten years from the date of grant. However, an Incentive Stock Option that is granted to an Employee who, at the time of grant, owns stock possessing more than 10 percent of the total combined voting power of all classes of stock of the Company or any parent or subsidiary, as defined in section 424 of the Code, may not have a term that exceeds five years from the date of grant.

(c) Exercisability of Options.

(i) Subject to the limitation in Section 4(c) above, Options shall become exercisable in accordance with such terms and conditions as may be determined by the Committee and specified in the Grant Agreement. The Committee may accelerate the exercisability of any or all outstanding Options at any time for any reason.

(ii) The Committee may provide in a Grant Agreement that the Participant may elect to exercise part or all of an Option before it otherwise has become exercisable. Any shares so purchased shall be restricted shares and shall be subject to a repurchase right in favor of the Company during a specified restriction period, with the repurchase price equal to the lesser of (A) the Exercise Price or (B) the Fair Market Value of such shares at the time of repurchase, or such other restrictions as the Committee deems appropriate.

(iii) Options granted to persons who are non-exempt employees under the Fair Labor Standards Act of 1938, as amended, may not be exercisable for at least six months after the date of grant (except that such Options may become exercisable, as determined by the Committee, upon the Participant’s death, Disability or retirement, or upon a Change in Control or other circumstances permitted by applicable regulations and subject to the restriction in Section 4(c) above).

(d) Termination of Employment or Service. Except as provided in the Grant Agreement, an Option may only be exercised while the Participant is employed by the Employer, or providing service as a Non-Employee Director. The Committee shall determine in the Grant Agreement under what circumstances and during what time periods a Participant may exercise an Option after termination of employment or service.

(e) Exercise of Options. A Participant may exercise an Option that has become exercisable, in whole or in part, by delivering a notice of exercise to the Company. The Participant shall pay the Exercise Price for the Option (i) in cash, (ii) if permitted by the Committee, by delivering shares of Company Stock owned by the Participant and having a Fair Market Value on the date of exercise equal to the Exercise Price or by attestation to ownership of shares of Company Stock having an aggregate Fair Market Value on the date of exercise equal to the Exercise Price, (iii) by payment through a broker in accordance with procedures permitted by Regulation T of the Federal Reserve Board, (iv) by surrender of all or any part of the vested shares of Company Stock for which the Option is exercisable to the Company for an appreciation distribution payable in shares of Company Stock with a Fair Market Value at the time of the Option surrender equal to the dollar amount by which the then Fair Market Value of the shares of Company Stock subject to the surrendered portion exceeds the aggregate Exercise Price payable for those shares *(i.e.*, "net exercise") or (v) by such other method as the Committee may approve. Shares of Company Stock used to exercise an Option shall have been held by the Participant for the requisite period of time to avoid adverse accounting consequences to the Company with respect to the Option. Payment for the shares pursuant to the Option, and any required withholding taxes, must be received by the time specified by the Committee depending on the type of payment being made, but in all cases prior to the issuance of the Company Stock.

(f) Limits on Incentive Stock Options. Each Incentive Stock Option shall provide that, if the aggregate Fair Market Value of the stock on the date of the grant with respect to which Incentive Stock Options are exercisable for the first time by a Participant during any calendar year, under the Plan or any other stock option plan of the Company or a parent or subsidiary, as defined in section 424 of the Code, exceeds $100,000, then the Option, as to the excess, shall be treated as a Nonqualified Stock Option. An Incentive Stock Option shall not be granted to any person who is not an Employee of the Company or a parent or subsidiary, as defined in section 424 of the Code.

8. Stock Units

(a) General Requirements. The Committee may grant Stock Units to an Employee or Non-Employee Director, upon such terms and conditions as the Committee deems appropriate under this Section 8. Each Stock Unit shall represent the right of the Participant to receive a share of Company Stock or an amount based on the value of a share of Company Stock. All Stock Units shall be credited to bookkeeping accounts for purposes of the Plan.

(b) Terms of Stock Units. The Committee may grant Stock Units that are payable on terms and conditions determined by the Committee, which may include payment based on achievement of performance goals. Subject to the restriction in Section 4(c) above, Stock Units may be paid at the end of a specified vesting or performance period, or payment may be deferred to a date authorized by the Committee. The Committee shall determine the number of Stock Units to be granted and the requirements applicable to such Stock Units.

(c) Payment With Respect to Stock Units. Payment with respect to Stock Units shall be made in cash, in Company Stock, or in a combination of the two, as determined by the Committee. The Grant Agreement shall specify the maximum number of shares that can be issued under the Stock Units.

(d) Requirement of Employment or Service. The Committee shall determine in the Grant Agreement under what circumstances a Participant may retain Stock Units after termination of the Participant's employment or service, and the circumstances under which Stock Units may be forfeited.

9. Stock Awards

(a) General Requirements. The Committee may issue shares of Company Stock to an Employee or Non-Employee Director under a Stock Award, upon such terms and conditions as the Committee deems appropriate under this Section 9. Shares of Company Stock issued pursuant to Stock Awards may be issued for cash consideration or for no cash consideration, and subject to restrictions or no restrictions, as determined by the Committee. Subject to the restriction in Section 4(c) above, the Committee may establish conditions under which restrictions on Stock Awards shall lapse over a period of time or according to such other criteria as the Committee deems appropriate, including restrictions based upon the achievement of specific performance goals. The Committee shall determine the number of shares of Company Stock to be issued pursuant to a Stock Award.

(b) Requirement of Employment or Service. The Committee shall determine in the Grant Agreement under what circumstances a Participant may retain Stock Awards after termination of the Participant's employment or service, and the circumstances under which Stock Awards may be forfeited.

(c) Restrictions on Transfer. While Stock Awards are subject to restrictions, a Participant may not sell, assign, transfer, pledge or otherwise dispose of the shares of a Stock Award except upon death as described in Section 15(a) hereof. If a certificate is issued, each certificate for a share of a Stock Award shall contain a legend giving appropriate notice of the restrictions in the Grant. The Participant shall be entitled to have the legend removed when all restrictions on such shares have lapsed. The Company may retain possession of any certificates for Stock Awards until all restrictions on such shares have lapsed.

(d) Right to Vote and to Receive Dividends. The Committee shall determine to what extent, and under what conditions, the Participant shall have the right to vote shares of Stock Awards and to receive any dividends or other distributions paid on such shares during the restriction period; provided that dividends with respect to Stock Awards subject to vesting shall vest and be paid only if and to the extent the underlying Stock Awards vest and are paid, as determined by the Committee.

10. Stock Appreciation Rights and Other Stock-Based Awards

(a) SARs. The Committee may grant SARs to an Employee or Non-Employee Director separately or in tandem with an Option. No dividends will be paid on the shares of Company Stock subject to SARs. The following additional provisions are applicable to SARs:

(i) Base Amount. The Committee shall establish the base amount of the SAR at the time the SAR is granted. The base amount of each SAR shall be equal to the per share Exercise Price of the related Option or, if there is no related Option, an amount that is at least equal to the Fair Market Value of a share of Company Stock as of the date of Grant of the SAR.

(ii) Tandem SARs. The Committee may grant tandem SARs either at the time the Option is granted or at any time thereafter while the Option remains outstanding; provided, however, that, in the case of an Incentive Stock Option, SARs may be granted only at the date of the grant of the Incentive Stock Option. In the case of tandem SARs, the number of SARs granted to a Participant that shall be exercisable during a specified period shall not exceed the number of shares of Company Stock that the Participant may purchase upon the exercise of the related Option during such period. Upon the exercise of an Option, the SARs relating to the Company Stock covered by such Option shall terminate. Upon the exercise of SARs, the related Option shall terminate to the extent of an equal number of shares of Company Stock.

(iii) Exercisability. An SAR shall be exercisable during the period specified by the Committee in the Grant Agreement and shall be subject to such vesting and other restrictions as may be specified in the Grant Agreement, subject to the restriction in Section 4(c) above. The Committee may grant SARs the exercise of which is subject to achievement of performance goals or other conditions. The Committee may accelerate the exercisability of any or all outstanding SARs at any time for any reason. The Committee shall determine in the Grant Agreement under what circumstances and during what periods a Participant may exercise an SAR after termination of employment or service. A tandem SAR shall be exercisable only while the Option to which it is related is exercisable.

(iv) Grants to Non-Exempt Employees. SARs granted to persons who are non-exempt employees under the Fair Labor Standards Act of 1938, as amended, may not be exercisable for at least six months after the date of grant (except that such SARs may become exercisable, as determined by the Committee, upon the Participant's death, Disability or retirement, or upon a Change in Control or other circumstances permitted by applicable regulations and subject to Section 4(c) above).

(v) Value of SARs. When a Participant exercises SARs, the Participant shall receive in settlement of such SARs an amount equal to the value of the stock appreciation for the number of SARs exercised. The stock appreciation for an SAR is the amount by which the Fair Market Value of the underlying Company Stock on the date of exercise of the SAR exceeds the base amount of the SAR as described in subsection (i).

(vi) Form of Payment. The Committee shall determine whether the stock appreciation for an SAR shall be paid in the form of shares of Company Stock, cash or a combination of the two. For purposes of calculating the number of shares of Company Stock to be received, shares of Company Stock shall be valued at their Fair Market Value on the date of exercise of the SAR. If shares of Company Stock are to be received upon exercise of an SAR, cash shall be delivered in lieu of any fractional share.

(vii) Term. The Committee shall determine the term of each SAR, which shall not exceed ten years from the date of grant.

(b) Other Stock-Based Awards. The Committee may grant other awards not specified in Sections 7, 8 or 9 or subsection (a) above that are based on or measured by Company Stock to Employees and Non-Employee Directors, on such terms and conditions as the Committee deems appropriate, subject to the restriction in Section 4(c) above. Other Stock-Based Awards may be granted subject to achievement of performance goals or other conditions and may be payable in Company

Stock or cash, or in a combination of the two, as determined by the Committee in the Grant Agreement. Dividends and Dividend Equivalents with respect to Other Stock-Based Awards shall vest and be paid only if and to the extent the underlying Other Stock-Based Awards vest and are paid, as determined by the Committee.

11. Dividend Equivalents.

(a) General Requirements. When the Committee makes a Grant under the Plan, the Committee may grant Dividend Equivalents in connection with the Grant, under such terms and conditions as the Committee deems appropriate under this Section 11. Dividend Equivalents may be paid to Participants currently or may be deferred, as determined by the Committee. All Dividend Equivalents that are not paid currently shall be credited to bookkeeping accounts for purposes of the Plan. Dividend Equivalents may be accrued as a cash obligation, or may be converted to Stock Units for the Participant, and deferred Dividend Equivalents may accrue interest, all as determined by the Committee. The Committee may provide that Dividend Equivalents shall be payable based on the achievement of specific performance goals. Dividend Equivalents with respect to Stock Units shall vest and be paid only if and to the extent the underlying Stock Units vest and are paid, as determined by the Committee. In no event may Dividend Equivalents be granted with respect to Options or SARs.

(b) Payment with Respect to Dividend Equivalents. Dividend Equivalents may be payable in cash or shares of Company Stock or in a combination of the two, as determined by the Committee.

12. Qualified Performance-Based Compensation

(a) Designation as Qualified Performance-Based Compensation. The Committee may determine that Stock Units, Stock Awards, Dividend Equivalents or Other Stock-Based Awards granted to an Employee shall be considered "qualified performance-based compensation" under section 162(m) of the Code, in which case the provisions of this Section 12 shall apply. The Committee may also grant Options or SARs under which the exercisability of the Options is subject to achievement of performance goals as described in this Section 12 or otherwise.

(b) Performance Goals. When Grants are made under this Section 12, the Committee shall establish in writing (i) the objective performance goals that must be met, (ii) the period during which performance will be measured, (iii) the maximum amounts that may be paid if the performance goals are met, and (iv) any other conditions that the Committee deems appropriate and consistent with the requirements of section 162(m) of the Code for "qualified performance-based compensation." The performance goals shall satisfy the requirements for "qualified performance-based compensation," including the requirement that the achievement of the goals be substantially uncertain at the time they are established and that the performance goals be established in such a way that a third party with knowledge of the relevant facts could determine whether and to what extent the performance goals have been met. The Committee shall not have discretion to increase the amount of compensation that is payable, but may reduce the amount of compensation that is payable, pursuant to Grants identified by the Committee as "qualified performance-based compensation."

(c) Criteria Used for Objective Performance Goals. The Committee shall use objectively determinable performance goals based on one or more of the following criteria: stock price, earnings per share, price-earnings multiples, net earnings, operating earnings, revenue, number of days sales outstanding in accounts receivable, productivity, margin, EBITDA (earnings before interest, taxes, depreciation and amortization), net capital employed, return on assets, shareholder return, return on equity, return on capital employed, growth in assets, unit volume, sales, cash flow, market share, relative performance to a comparison group designated by the Committee, or strategic business criteria consisting of one or more objectives based on meeting specified revenue goals, market penetration goals, customer growth, geographic business expansion goals, cost targets or goals relating to acquisitions or divestitures. The performance goals may relate to one or more business units or the performance of the Company as a whole, or any combination of the foregoing. Performance goals need not be uniform as among Participants.

(d) Timing of Establishment of Goals. The Committee shall establish the performance goals in writing either before the beginning of the performance period or during a period ending no later than the earlier of (i) 90 days after the beginning of the performance period or (ii) the date on which 25 percent of the performance period has been completed, or such other date as may be required or permitted under applicable regulations under section 162(m) of the Code.

(e) Certification of Results. The Committee shall certify the performance results for the performance period specified in the Grant Agreement after the performance period ends. The Committee shall determine the amount, if any, to be paid pursuant to each Grant based on the achievement of the performance goals and the satisfaction of all other terms of the Grant Agreement.

(f) Death, Disability or Other Circumstances. The Committee may provide in the Grant Agreement that Grants under this Section 12 shall be payable, in whole or in part, in the event of the Participant's death or Disability, a Change in Control or under other circumstances consistent with the Treasury regulations and rulings under section 162(m) of the Code.

13. Deferrals

The Committee may permit or require a Participant to defer receipt of the payment of cash (including Dividend Equivalents) or the delivery of shares that would otherwise be due to the Participant in connection with any Grant. The Committee shall establish rules and procedures for any such deferrals, consistent with applicable requirements of section 409A of the Code.

14. Withholding of Taxes

All Grants under the Plan shall be subject to applicable federal (including FICA), state and local tax withholding requirements. The Employing Entity may require that the Participant (or other person receiving or exercising Grants) pay to the Employing Entity the amount of any federal, state or local taxes that the Employing Entity is required to withhold with respect to such Grants, or the Employing Entity may deduct from other wages paid by the Employing Entity the amount of any withholding taxes due with respect to such Grants. Unless otherwise determined by the Committee, the Employing Entity's tax withholding obligation with respect to Grants paid in Company Stock shall be satisfied by having shares of Company Stock withheld, at the time such Grants become taxable.

15. Transferability of Grants

(a) Restrictions on Transfer. Except as described in subsection (b) below, only the Participant may exercise rights under a Grant during the Participant's lifetime, and a Participant may not transfer those rights except by will or by the laws of descent and distribution. When a Participant dies, the personal representative or other person entitled to succeed to the rights of the Participant may exercise such rights. Any such successor must furnish proof satisfactory to the Company of his or her right to receive the Grant under the Participant's will or under the applicable laws of descent and distribution.

(b) Transfer of Nonqualified Stock Options to or for Family Members. Notwithstanding subsection (a) above, the Committee may provide, in a Grant Agreement, that a Participant may transfer Nonqualified Stock Options to family members, or one or more trusts or other entities for the benefit of or owned by family members, consistent with the applicable securities laws, according to such terms as the Committee may determine; provided that the Participant receives no consideration for the transfer of an Option and the transferred Option shall continue to be subject to the same terms and conditions as were applicable to the Option immediately before the transfer.

16. Consequences of a Change in Control

(a) Assumption of Outstanding Grants. Upon a Change in Control where the Company is not the surviving corporation (or survives only as a Subsidiary of another corporation), unless the Committee determines otherwise, all outstanding Grants that are not exercised or paid at the time of the Change in Control shall be assumed by, or replaced with grants that have comparable terms by, the surviving corporation (or a parent or Subsidiary of the surviving corporation). After a Change in Control, references to the "Company" as they relate to employment matters shall include the successor employer.

(b) Vesting Upon Certain Terminations of Employment. Unless the Grant Agreement provides otherwise, if a Participant's employment or service is terminated (i) by the Employer other than for Cause (excluding on account of death or Disability) within six months prior to the date on which a Change in Control occurs, and it is reasonably demonstrated that such termination (A) was at the request of a third party who has taken steps reasonably calculated or intended to effect a Change in Control or (B) otherwise arose in connection with or anticipation of a Change in Control, or (ii) (A) by the Employer other than for Cause (excluding on account of death or Disability), (B) by the Participant for Good Reason, (C) on account of the Participant's Disability or (D) on account of the Participant's death, in each case, upon or following the Change in Control and during the period in which any of such Participant's Grants are subject to vesting or exercisability restrictions, the Participant's outstanding Grants shall become fully vested and exercisable in accordance with the timing described below; provided that if the vesting and exercisability of any such Grants is based, in whole or in part, on performance, the applicable Grant Agreement, Subplan or VCSUA Subplan shall specify how the portion of the Grant that becomes vested pursuant to this Section 16(b) shall be calculated. To the extent Options and SARs vest and become exercisable in accordance with this

Section 16, they will remain exercisable for 12 months following the termination of the Participant's employment or service, provided that, in no event shall any Option or SAR be exercisable after the expiration of its term. To the extent the termination of employment or service is on account of the reason in Section 16(b)(i) above, the unvested portion of the applicable Grant will be suspended and no vesting shall occur unless and until a Change in Control occurs during the six month period following the termination of employment or service. If a Change in Control does not occur during the six month period following the termination of employment or service, or the termination of employment or service was not at the request of a third party who has taken steps reasonably calculated or intended to effect a Change in Control or was not in connection with or in anticipation of a Change in Control, the unvested portion of the applicable Grant will be forfeited automatically on the date that is six months following the termination of employment or service, unless otherwise determined by the Committee. To the extent the termination of employment or service is on account of the reason in Section 16(b)(ii) above, the unvested portion of any applicable Grant will become fully vested and exercisable as of the date of the applicable Participant's termination.

(c) Other Alternatives. In the event of a Change in Control, if all outstanding Grants are not assumed by, or replaced with Grants that have comparable terms by, the surviving corporation (or a parent or Subsidiary of the surviving corporation), the Committee may take any of the following actions with respect to any or all outstanding Grants, without the consent of any Participant: (i) the Committee may determine that outstanding Options and SARs shall be fully exercisable, and restrictions on outstanding Stock Awards and Stock Units shall lapse, as of the date of the Change in Control or at such other time as the Committee determines, (ii) the Committee may require that Participants surrender their outstanding Options and SARs in exchange for one or more payments by the Company, in cash or Company Stock as determined by the Committee, in an amount equal to the amount by which the then Fair Market Value of the shares of Company Stock subject to the Participant's unexercised Options and SARs exceeds the Exercise Price, or base amount, as applicable, if any, and on such terms as the Committee determines, (iii) after giving Participants an opportunity to exercise their outstanding Options and SARs, the Committee may terminate any or all unexercised Options and SARs at such time as the Committee deems appropriate, (iv) with respect to Participants holding Stock Units, Other Stock-Based Awards or Dividend Equivalents, the Committee may determine that such Participants shall receive one or more payments in settlement of such Stock Units, Other Stock-Based Awards or Dividend Equivalents, in such amount and form and on such terms as may be determined by the Committee, or (v) if the Company is the surviving corporation, the Committee may determine that Grants will remain outstanding after the Change in Control. Such acceleration, surrender, termination, settlement or conversion shall take place as of the date of the Change in Control or such other date as the Committee may specify. Without limiting the foregoing, if the per share Fair Market Value of the Company Stock does not exceed the per share Exercise Price or base amount, as applicable, the Company shall not be required to make any payment to the participant upon surrender of the Option or SAR.

17. Requirements for Issuance of Shares

No Company Stock shall be issued in connection with any Grant hereunder unless and until all legal requirements applicable to the issuance of such Company Stock have been complied with to the satisfaction of the Committee. The Committee shall have the right to condition any Grant made to any Participant hereunder on such Participant's undertaking in writing to comply with such restrictions on his or her subsequent disposition of such shares of Company Stock as the Committee shall deem necessary or advisable, and certificates representing such shares may be legended to reflect any such restrictions. Certificates representing shares of Company Stock issued under the Plan will be subject to such stop-transfer orders and other restrictions as may be required by applicable laws, regulations and interpretations, including any requirement that a legend be placed thereon. Except as determined under Section 9(a), no Participant shall have any right as a shareholder with respect to Company Stock covered by a Grant until shares have been issued to the Participant.

18. Amendment and Termination of the Plan

(a) Amendment. The Board may amend or terminate the Plan at any time; provided, however, that the Board shall not amend the Plan without approval of the stockholders of the Company if such approval is required in order to comply with the Code or applicable laws, or to comply with applicable stock exchange requirements. No amendment or termination of this Plan shall, without the consent of the Participant, materially impair any rights or obligations under any Grant previously made to the Participant under the Plan, unless such right has been reserved in the Plan or the Grant Agreement, or except as provided in Section 19(b) below. Notwithstanding anything in the Plan to the contrary, the Board may amend the Plan in such manner as it deems appropriate in the event of a change in applicable law or regulations.

(b) No Repricing Without Stockholder Approval. Except as otherwise provided in Section 5(d), the Company may not, without obtaining stockholder approval, (i) amend the terms of outstanding Options or SARs to reduce the exercise price of such outstanding Options or the base amount of outstanding SARs, (ii) cancel outstanding Options or SARs in exchange for Options or SARs with an exercise price that is less than the exercise price of the original Options or SARs with a base amount that is less than the base amount for the original SARs, or (iii) cancel outstanding Options or SARs with an exercise price above the current stock price in exchange for cash or other securities.

(c) Stockholder Approval for "Qualified Performance-Based Compensation." If Grants are made under Section 12 above, the Plan must be reapproved by the Company's stockholders no later than the first stockholders meeting that occurs in the fifth year following the year in which the stockholders previously approved the provisions of Section 12, if additional Grants are to be made under Section 12 and if required by section 162(m) of the Code or the regulations thereunder.

(d) Termination of Plan. The Plan shall terminate on June 10, 2025, unless the Plan is terminated earlier by the Board or is extended by the Board with the approval of the stockholders. The termination of the Plan shall not impair the power and authority of the Committee with respect to an outstanding Grant.

19. Miscellaneous

(a) Grants in Connection with Corporate Transactions and Otherwise. Nothing contained in this Plan shall be construed to (i) limit the right of the Committee to make Grants under this Plan in connection with the acquisition, by purchase, lease, merger, consolidation or otherwise, of the business or assets of any corporation, firm or association, including Grants to employees thereof who become Employees, or for other proper corporate purposes, or (ii) limit the right of the Company to grant stock options or make other stock-based awards outside of this Plan. Without limiting the foregoing, the Committee may make a Grant to an employee of another corporation who becomes an Employee by reason of a corporate merger, consolidation, acquisition of stock or property, reorganization or liquidation involving the Company in substitution for a grant made by such corporation. The terms and conditions of the Grants may vary from the terms and conditions required by the Plan and from those of the substituted stock incentives, as determined by the Committee.

(b) Compliance with Law.

(i) The Plan, the exercise of Options and the obligations of the Company to issue or transfer shares of Company Stock under Grants shall be subject to all applicable laws and to approvals by any governmental or regulatory agency as may be required. With respect to persons subject to section 16 of the Exchange Act, it is the intent of the Company that the Plan and all transactions under the Plan comply with all applicable provisions of Rule 16b-3 or its successors under the Exchange Act. In addition, it is the intent of the Company that Incentive Stock Options comply with the applicable provisions of section 422 of the Code and that Grants of "qualified performance-based compensation" comply with the applicable provisions of section 162(m) of the Code. To the extent that any legal requirement of section 16 of the Exchange Act or section 422, 162(m) or 409A of the Code as set forth in the Plan ceases to be required under section 16 of the Exchange Act or section 422, 162(m) or 409A of the Code, that Plan provision shall cease to apply. The Committee may revoke any Grant if it is contrary to law or modify a Grant to bring it into compliance with any valid and mandatory government regulation. The Committee may also adopt rules regarding the withholding of taxes on payments to Participants.

(ii) The Plan is intended to comply with the requirements of Section 409A of the Code, to the extent applicable. All Grants shall be construed and administered such that the Grant either (A) qualifies for an exemption from the requirements of Section 409A of the Code or (B) satisfies the requirements of Section 409A of the Code. If a Grant is subject to Section 409A of the Code, (1) distributions shall only be made in a manner and upon an event permitted under Section 409A of the Code, (2) payments to be made upon a termination of employment shall only be made upon a "separation from service" under Section 409A of the Code, (3) payments to be made upon a Change in Control shall only be made upon a "change of control event" under Section 409A of the Code, (4) unless the Grant specifies otherwise, each payment shall be treated as a separate payment for purposes of Section 409A of the Code, and (5) in no event shall a Participant, directly or indirectly, designate the calendar year in which a distribution is made except in accordance with Section 409A of the Code.

(iii) Any Grant made under the Plan that is subject to Section 409A of the Code and that is to be distributed to a Key Employee (as defined below) upon separation from service shall be administered so that any distribution with respect to such Grant shall be postponed for six months following the date of the Participant's separation from service, if required by Section 409A of the Code. If a distribution is delayed pursuant to Section 409A of the Code, the distribution shall be paid within 30 days after the end of the six-month period. If the Participant dies during such six-month period, any postponed amounts shall be paid within 90 days of the Participant's death. The determination of Key Employees, including the number and identity of persons considered Key Employees and the identification date, shall be made by the Committee or its delegate each year in accordance with Section 416(i) of the Code and the "specified employee" requirements of Section 409A of the Code.

(iv) Notwithstanding anything in the Plan or any Grant agreement to the contrary, each Participant shall be solely responsible for the tax consequences of Grants under the Plan, and in no event shall the Company have any responsibility or liability if a Grant does not meet any applicable requirements of section 409A of the Code. Although the Company intends to administer the Plan to prevent taxation under section 409A of the Code, the Company does not represent or warrant that the Plan or any Grant complies with any provision of federal, state, local or other tax law.

(c) Enforceability. The Plan shall be binding upon and enforceable against the Company and its successors and assigns.

(d) Funding of the Plan; Limitation on Rights. This Plan shall be unfunded. The Company shall not be required to establish any special or separate fund or to make any other segregation of assets to assure the payment of any Grants under this Plan. Nothing contained in the Plan and no action taken pursuant hereto shall create or be construed to create a fiduciary relationship between the Company and any Participant or any other person. No Participant or any other person shall under any circumstances acquire any property interest in any specific assets of the Company. To the extent that any person acquires a right to receive payment from the Company hereunder, such right shall be no greater than the right of any unsecured general creditor of the Company.

(e) Rights of Participants. Nothing in this Plan shall entitle any Employee, Non-Employee Director or other person to any claim or right to receive a Grant under this Plan. Neither this Plan nor any action taken hereunder shall be construed as giving any individual any rights to be retained by or in the employment or service of the Employer.

(f) No Fractional Shares. No fractional shares of Company Stock shall be issued or delivered pursuant to the Plan or any Grant. The Committee shall determine whether cash, other awards or other property shall be issued or paid in lieu of such fractional shares or whether such fractional shares or any rights thereto shall be forfeited or otherwise eliminated.

(g) Employees Subject to Taxation Outside the United States. With respect to Participants who are subject to taxation in countries other than the United States, the Committee may make Grants on such terms and conditions as the Committee deems appropriate to comply with the laws of the applicable countries, and the Committee may create such procedures, addenda and subplans and make such modifications as may be necessary or advisable to comply with such laws.

(h) Governing Law. The validity, construction, interpretation and effect of the Plan and Grant Agreements issued under the Plan shall be governed and construed by and determined in accordance with the laws of the State of New York, without giving effect to the conflict of laws provisions thereof.

(i) Recoupment Policy. All Grants under this Plan will be subject to any compensation clawback or recoupment policies that may be applicable to any Employee, as in effect from time to time and as approved by the Committee or Board.

(j) Statute of Limitations. A Participant or any other person filing a claim for benefits under the Plan must file the claim within one year after the Participant or other person knew or reasonably should have known of the principal facts on which the claim is based.

Exhibit 31.1

CERTIFICATION

I, Francis J. Troise, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Investment Technology Group, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting.

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 7, 2017

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

Exhibit 31.2

CERTIFICATION

I, Steven R. Vigliotti, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Investment Technology Group, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting.

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 7, 2017

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

Exhibit 32.1

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

In connection with the Quarterly Report on Form 10-Q of Investment Technology Group, Inc. (the "Company") for the quarter ended June 30, 2017, as filed with the SEC on the date hereof (the "Report"), Francis J. Troise, as Chief Executive Officer of the Company, and Steven R. Vigliotti, as Chief Financial Officer and Chief Administrative Officer of the Company, each hereby certifies, pursuant to 18 U.S.C. §1350, that to his knowledge:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934, as amended (the "Exchange Act"); and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ FRANCIS J. TROISE	/s/ STEVEN R. VIGLIOTTI
Francis J. Troise	Steven R. Vigliotti
Chief Executive Officer	Chief Financial Officer and Chief Administrative Officer
August 7, 2017	August 7, 2017

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