

Virtu Financial, Inc.
Form 10-Q
November 10, 2016
Table of Contents

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 quarterly period ended September 30, 2016

or

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: 001-37352

Virtu Financial, Inc.

(Exact name of registrant as specified in its charter)

Delaware	32-0420206
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

Edgar Filing: Virtu Financial, Inc. - Form 10-Q

900 Third Avenue, 29th Floor
New York, New York 10022-0100 10022
(Address of principal executive offices) (Zip Code)

(212) 418-0100

(Registrant's telephone number, including area code)

(Former name, former address and former fiscal year, if changed since last report)

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

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

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

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company

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

Class of Stock	Shares Outstanding as of November 10th, 2016
Class A common stock, par value \$0.00001 per share	39,354,983
Class C common stock, par value \$0.00001 per share	19,810,707
Class D common stock, par value \$0.00001 per share	79,610,490

Table of Contents

VIRTU FINANCIAL, INC. AND SUBSIDIARIES

INDEX TO FORM 10-Q

FOR THE QUARTER ENDED September 30, 2016

	PAGE NUMBER
<u>PART I - FINANCIAL INFORMATION</u>	
<u>Item 1. Condensed Consolidated Financial Statements (Unaudited)</u>	
<u>Condensed Consolidated Statements of Financial Condition</u>	2
<u>Condensed Consolidated Statements of Comprehensive Income</u>	3
<u>Condensed Consolidated Statements of Changes in Equity</u>	4
<u>Condensed Consolidated Statements of Cash Flows</u>	5
<u>Notes to Condensed Consolidated Financial Statements (Unaudited)</u>	6
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	35
<u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>	58
<u>Item 4. Controls and Procedures</u>	58
<u>PART II - OTHER INFORMATION</u>	
<u>Item 1. Legal Proceedings</u>	58
<u>Item 1A. Risk Factors</u>	59
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	59
<u>Item 3. Defaults Upon Senior Securities</u>	59
<u>Item 4. Mine Safety Disclosures</u>	59
<u>Item 5. Other Information</u>	59
<u>Item 6. Exhibits</u>	60
<u>SIGNATURES</u>	61

Table of Contents

PART I - FINANCIAL INFORMATION

Financial Statements Introductory Note

Prior to our initial public offering (“IPO”), which was completed on April 21, 2015, our business was conducted through Virtu Financial LLC (“Virtu Financial”). The unaudited condensed consolidated financial statements and other disclosures contained in this report include those of Virtu Financial, Inc. (“we”, “us”, or the “Company”), which is the registrant, and those of Virtu Financial, in which the registrant became the managing member. Following a series of reorganization transactions that were completed on April 15, 2015 in connection with the IPO (the “Reorganization Transactions”), the IPO and a series of transactions undertaken in connection with secondary offerings completed in November 2015 and September 2016 (collectively, “Secondary Offerings”), the Company has become the owner of approximately 28.9% of the outstanding membership interests of Virtu Financial. For more information regarding the transactions described above, see Note 13, “Capital Structure,” to our audited consolidated financial statements and notes included in the Company’s annual report on Form 10-K for the year ended December 31, 2015 (the “2015 10-K”).

The unaudited condensed consolidated financial statements reflect the historical results of operations and financial position of the Company, including consolidation of its investment in Virtu Financial, since April 16, 2015. Prior to April 16, 2015, the unaudited condensed consolidated financial statements included herein represent the financial statements of Virtu Financial and subsidiaries (the “Group”). The historical unaudited condensed consolidated statements of comprehensive income for the three and nine months ended September 30, 2015, and the unaudited condensed consolidated statements of cash flows for the nine months ended September 30, 2015, do not reflect what the results of operations or cash flows of the Company or the Group would have been had the Reorganization Transactions, the IPO and the Secondary Offerings occurred in the beginning of such period. Accordingly, they do not give effect to the following matters:

- Reorganization Transactions and the IPO;
- U.S. corporate federal income taxes;
- Noncontrolling interest held by other members of Virtu Financial; and
- The Secondary Offerings.

Table of Contents

Virtu Financial, Inc. and Subsidiaries

Condensed Consolidated Statements of Financial Condition

(Unaudited)

(in thousands, except share and interest data)	As of September 30, 2016	December 31, 2015
Assets		
Cash and cash equivalents	\$ 145,999	\$ 163,235
Securities borrowed	394,812	453,296
Securities purchased under agreements to resell	—	14,981
Receivables from broker dealers and clearing organizations	513,292	476,536
Trading assets, at fair value:		
Financial instruments owned	1,155,074	1,038,039
Financial instruments owned and pledged	284,894	259,175
Property, equipment and capitalized software (net of accumulated depreciation of \$105,011 and \$98,595 as of September 30, 2016 and December 31, 2015, respectively)	30,697	37,501
Goodwill	715,379	715,379
Intangibles (net of accumulated amortization)	1,044	1,203
Deferred tax asset	193,721	193,740
Other assets (\$46,124 and \$5,984, at fair value, as of September 30, 2016 and December 31, 2015, respectively)	78,509	38,845
Total assets	\$ 3,513,421	\$ 3,391,930
Liabilities and equity		
Liabilities		
Short term borrowings	\$ 17,600	\$ 45,000
Securities loaned	481,947	524,603
Payables to broker dealers and clearing organizations	305,256	486,604
Trading liabilities, at fair value:		
Financial instruments sold, not yet purchased	1,318,559	979,090
Tax receivable agreement obligations	226,048	218,399
Accounts payable and accrued expenses and other liabilities	94,857	86,775
Long term borrowings	526,077	493,589
Total liabilities	\$ 2,970,344	\$ 2,834,060
Stockholders' equity		
Class A common stock (par value \$0.00001), Authorized — 1,000,000,000 and 1,000,000,000 shares, Issued — 39,532,614 and 38,379,858 shares, Outstanding — 39,354,983 and 38,210,209 shares at September 30, 2016 and December 31, 2015, respectively	— —	— —

Edgar Filing: Virtu Financial, Inc. - Form 10-Q

Class B common stock (par value \$0.00001), Authorized — 175,000,000 and 175,000,000 shares, Issued and Outstanding — 0 and 0 shares at September 30, 2016 and December 31, 2015, respectively

Class C common stock (par value \$0.00001), Authorized — 90,000,000 and 90,000,000 shares, Issued — 20,976,598 and 20,976,598 shares, Outstanding — 19,810,707 and 20,976,598, at September 30, 2016 and December 31, 2015, respectively

Class D common stock (par value \$0.00001), Authorized — 175,000,000 and 175,000,000 shares, Issued and Outstanding — 79,610,490 and 79,610,490 shares at September 30, 2016 and December 31, 2015, respectively

Treasury stock, at cost, 177,631 and 169,649 shares at September 30, 2016 and December 31, 2015, respectively

Additional paid-in capital

Retained Earnings

Accumulated other comprehensive income

Total stockholders' equity

Noncontrolling interest

Total equity

Total liabilities and equity

—	—
1	1
(3,819)	(3,819)
142,645	130,902
1,160	3,525
600	99
\$ 140,587	\$ 130,708
402,490	427,162
\$ 543,077	\$ 557,870
\$ 3,513,421	\$ 3,391,930

See accompanying notes to the unaudited condensed consolidated financial statements.

Table of Contents

Virtu Financial, Inc. and Subsidiaries

Condensed Consolidated Statements of Comprehensive Income

(Unaudited)

(in thousands, except share and per share data)	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2016	2015	2016	2015
Revenues:				
Trading income, net	\$ 156,706	\$ 206,832	\$ 509,542	\$ 590,554
Interest and dividends income	5,271	6,425	14,961	21,022
Technology services	2,931	2,545	7,224	7,733
Other revenues (losses)	(102)	—	(102)	—
Total revenue	164,806	215,802	531,625	619,309
Operating Expenses:				
Brokerage, exchange and clearance fees, net	52,118	61,814	167,416	179,453
Communication and data processing	17,903	16,110	53,578	51,602
Employee compensation and payroll taxes	20,816	24,736	64,182	66,801
Interest and dividends expense	15,615	12,827	43,249	39,234
Operations and administrative	5,543	4,857	16,353	20,017
Depreciation and amortization	7,158	8,176	22,685	26,025
Amortization of purchased intangibles and acquired capitalized software	53	53	159	159
Charges related to share based compensation at IPO	333	1,107	1,444	45,301
Financing interest expense on long term borrowings	7,393	7,205	21,569	22,066
Total operating expenses	126,932	136,885	390,635	450,658
Income before income taxes and noncontrolling interest	37,874	78,917	140,990	168,651
Provision for income taxes	4,851	9,378	17,325	14,103
Net income	33,023	69,539	123,665	154,548
Noncontrolling interest	(25,997)	(57,233)	(97,913)	(141,768)
Net income available for common stockholders	\$ 7,026	\$ 12,306	\$ 25,752	\$ 12,780
Earnings per share				
Basic	\$ 0.18	0.36	\$ 0.66	0.37
Diluted	\$ 0.18	0.35	\$ 0.66	0.37
Weighted average common shares outstanding				
Basic	38,351,465	34,305,052	38,264,139	34,305,052

Edgar Filing: Virtu Financial, Inc. - Form 10-Q

Diluted	38,351,465	34,738,733	38,264,139	34,641,497
Dividends declared per share of common stock	\$ —	—	\$ —	—
Net income	\$ 33,023	\$ 69,539	\$ 123,665	\$ 154,548
Other comprehensive income (loss)				
Foreign exchange translation adjustment, net of taxes	519	3,596	1,783	595
Comprehensive income	33,542	73,135	125,448	155,143
Less: Comprehensive income attributable to noncontrolling interest	(26,370)	(59,931)	(99,195)	(141,053)
Comprehensive income attributable to common stockholders	\$ 7,172	\$ 13,204	\$ 26,253	\$ 14,090

See accompanying notes to the unaudited condensed consolidated financial statements.

Table of Contents

Virtu Financial, Inc. and Subsidiaries

Condensed Consolidated Statements of Cash Flows

(Unaudited)

(in thousands)	For the Nine Months Ended September 30,	
	2016	2015
Cash flows from operating activities		
Net Income	\$ 123,665	\$ 154,548
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	22,685	26,025
Amortization of purchased intangibles and acquired capitalized software	159	159
Amortization of debt issuance costs and deferred financing fees	1,396	1,287
Termination of office leases	—	2,729
Share based compensation	9,440	59,237
Equipment writeoff	428	—
Deferred taxes	9,345	—
Other	(1,267)	1,224
Changes in operating assets and liabilities:		
Securities borrowed	58,484	(25,666)
Securities purchased under agreements to resell	14,981	31,463
Receivables from broker dealers and clearing organizations	(36,756)	(173,064)
Trading assets, at fair value	(142,754)	89,750
Other Assets	1,705	(1,109)
Securities loaned	(42,656)	243,866
Securities sold under agreements to repurchase	—	6,994
Payables to broker dealers and clearing organizations	(181,348)	(358,149)
Trading liabilities, at fair value	339,469	161,247
Accounts payable and accrued expenses and other liabilities	10,166	21,452
Net cash provided by operating activities	187,142	241,993
Cash flows from investing activities		
Development of capitalized software	(6,044)	(6,190)
Acquisition of property and equipment	(8,933)	(14,418)
Investment in SBI Japannext described in Note 9	(38,754)	—
Net cash used in investing activities	(53,731)	(20,608)
Cash flows from financing activities		
Distribution to members	—	(130,000)
Distribution from Virtu Financial to non-controlling interest	(123,867)	(80,909)
Dividends	(28,117)	—
Short-term borrowing, net	(27,400)	28,000
Payments on repurchase of non-voting common interest	(1,500)	(1,097)

Edgar Filing: Virtu Financial, Inc. - Form 10-Q

Proceeds from long-term borrowings	33,078	—
Repayment of senior secured credit facility	(3,825)	(1,639)
Debt issuance costs	(93)	(874)
Issuance of common stock, net of offering costs	16,677	327,366
Repurchase of Virtu Financial Units and corresponding number of Class A and C common stock in connections with IPO	—	(277,153)
Repurchase of Virtu Financial Units and corresponding number of Class A and C common stock in connection with secondary offering	(17,383)	—
Net cash used in financing activities	(152,430)	(136,306)
Effect of exchange rate changes on Cash and cash equivalents	1,783	595
Net (decrease) increase in Cash and cash equivalents	(17,236)	85,674
Cash and cash equivalents, beginning of period	163,235	75,864
Cash and cash equivalents, end of period	\$ 145,999	\$ 161,538
Supplementary disclosure of cash flow information		
Cash paid for interest	\$ 43,827	\$ 47,642
Cash paid for taxes	\$ 15,008	\$ 7,366
Non-cash investing activities		
Compensation to developers subject to capitalization of software (of which \$1,997 and \$11,240 were capitalized for nine months ended September 30, 2016 and 2015, respectively)	\$ 5,187	\$ 25,420
Non-cash financing activities		
Tax receivable agreement described in Note 4	\$ 1,677	\$ 23,041
Secondary offerings described in Note 13	—	—
See accompanying notes to the unaudited condensed consolidated financial statements.		

Table of Contents

Virtu Financial, Inc. and Subsidiaries

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. Organization and Basis of Presentation

Organization

The accompanying condensed consolidated financial statements include the accounts and operations of Virtu Financial, Inc. (“VFI”, or, collectively with its wholly owned or controlled subsidiaries, the “Company”) beginning with its initial public offering (“IPO”) in April of 2015, along with the historical accounts and operations of Virtu Financial LLC (“Virtu Financial”) prior to the Company’s IPO. VFI is a Delaware corporation whose primary asset is its ownership of approximately 28.9% of the membership interests of Virtu Financial, which it acquired pursuant to and subsequent to certain reorganization transactions (the “Reorganization Transactions”) consummated in connection with its IPO. The Company is the sole managing member of Virtu Financial and operates and controls all of the businesses and affairs of Virtu Financial and, through Virtu Financial and its subsidiaries (the “Group”), continues to conduct the business now conducted by such subsidiaries.

Virtu Financial was formed as a Delaware limited liability company on April 8, 2011 in connection with a corporate reorganization and acquisition of the outstanding equity interests of Madison Tyler Holdings, LLC (“MTH”), an electronic trading firm and market maker. In connection with the reorganization, the members of Virtu Financial’s predecessor entity, Virtu Financial Operating LLC (“VFO”), a Delaware limited liability company formed on March 19, 2008, exchanged their interests in VFO for interests in Virtu Financial and the members of MTH exchanged their interests in MTH for cash and/or interests in Virtu Financial. Virtu Financial’s principal subsidiaries include Virtu Financial BD LLC (“VFBD”), a self-clearing U.S. broker-dealer, Virtu Financial Capital Markets LLC (“VFCM”), a U.S. broker-dealer, which self-clears its proprietary transactions and introduces the accounts of its affiliates and non-affiliated broker-dealers on an agency basis to other clearing firms that clear and settle transactions in those accounts; and which is also a designated market maker on the New York Stock Exchange (“NYSE”) and the NYSE MKT (formerly NYSE Amex), Virtu Financial Global Markets LLC (“VFGM”), a U.S. trading entity focused on futures and currencies, Virtu Financial Ireland Limited (“VFIL”), formed in Ireland, Virtu Financial Asia Pty Ltd (“VFAP”), formed in Australia, and Virtu Financial Singapore Pte. Ltd. (“VFSing”), formed in Singapore, each of which are trading entities focused on asset classes in their respective geographic regions.

The Company is a technology-enabled market maker and liquidity provider. The Company has developed a single, proprietary, multi-asset, multi-currency technology platform through which it provides quotations to buyers and sellers in equities, commodities, currencies, options, fixed income and other securities on numerous exchanges, markets and liquidity pools in numerous countries around the world.

The Company is managed and operated as one business. Accordingly, the Company operates under one reportable segment.

Basis of Presentation

The condensed consolidated financial statements are presented in U.S. dollars and have been prepared pursuant to the rules and regulations of the U.S. Securities and Exchange Commission (“SEC”) regarding financial reporting with

respect to Form 10-Q and accounting standards generally accepted in the United States of America (“U.S. GAAP”) promulgated in the Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC” or the “Codification”). The condensed consolidated financial statements of the Company include its equity interests in Virtu Financial and its subsidiaries. The Company operates and controls all business and affairs of Virtu Financial and its operating subsidiaries indirectly through its equity interest in Virtu Financial.

The condensed consolidated financial statements do not include all of the information and notes required by U.S. GAAP for complete financial statements and should be read in conjunction with the Company’s annual report on Form 10-K for the year ended December 31, 2015 (the “2015 10-K”), which was filed on March 25, 2016. The accompanying December 31, 2015 unaudited condensed consolidated statements of financial condition data was derived

Table of Contents

from audited consolidated financial statements, but does not include all disclosures required by U.S. GAAP for annual financial statement purposes. The accompanying condensed consolidated financial statements reflect all adjustments which are, in the opinion of management, necessary for a fair presentation of the financial position, results of operations and cash flows for the interim periods presented. The operating results for interim periods are not necessarily indicative of the operating results for any future interim or annual period.

Principles of Consolidation, including Noncontrolling Interests

The condensed consolidated financial statements include the accounts of the Company and its majority and wholly owned subsidiaries. As sole managing member of Virtu Financial, the Company exerts control over the Group's operations. In accordance with ASC 810, Consolidation, the Company consolidates Virtu Financial and its subsidiaries' financial statements and records the interests in Virtu Financial that the Company does not own as noncontrolling interests. All intercompany accounts and transactions have been eliminated in consolidation.

2. Summary of Significant Accounting Policies

Use of Estimates

The Company's condensed consolidated financial statements are prepared in conformity with U.S. GAAP, which require management to make estimates and assumptions regarding measurements including the fair value of trading assets and liabilities, goodwill and intangibles, compensation accruals, capitalized software, income tax, and other matters that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the condensed consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Accordingly, actual results could differ materially from those estimates.

Earnings Per Share

Earnings per share ("EPS") is calculated on both a basic and diluted basis. Basic EPS excludes dilution and is calculated by dividing income available to common stockholders by the weighted-average number of common shares outstanding for the period. Diluted EPS is calculated by dividing the net income available for common stockholders by the diluted weighted average shares outstanding for that period. Diluted EPS includes the determinants of the basic EPS and, in addition, reflects the dilutive effect of shares of common stock estimated to be distributed in the future under the Company's share based compensation plans.

The Company grants restricted stock units ("RSUs"), which entitle recipients to receive nonforfeitable dividends during the vesting period on a basis equivalent to the dividends paid to holders of common stock. As a result, the unvested RSUs meet the definition of a participating security requiring the application of the two-class method. Under the two-class method, earnings available to common shareholders, including both distributed and undistributed, are allocated to each class of common stock and participating securities according to dividends declared and participating rights in undistributed earnings, which may cause diluted EPS to be more dilutive than the calculation using the treasury stock method.

Cash and Cash Equivalents

The Company considers cash equivalents as highly liquid investments with original maturities of less than three months when acquired. The Company maintains cash in bank deposit accounts that, at times, may exceed federally insured limits.

Securities Borrowed and Securities Loaned

The Company conducts securities borrowing and lending activities with external counterparties. In connection with these transactions, the Company receives or posts collateral. These transactions are collateralized by cash or securities. In accordance with substantially all of its stock borrow agreements, the Company is permitted to sell or repledge the securities received. Securities borrowed or loaned are recorded based on the amount of cash collateral advanced or received. The initial collateral advanced or received generally approximates or is greater than 102% of the

Table of Contents

fair value of the underlying securities borrowed or loaned. The Company monitors the fair value of securities borrowed and loaned, and delivers or obtains additional collateral as appropriate. Receivables and payables with the same counterparty are not offset in the condensed consolidated statements of financial condition. For these transactions, the interest received or paid by the Company is recorded gross on an accrual basis under interest and dividends income or interest and dividends expense in the condensed consolidated statements of comprehensive income.

Securities Purchased Under Agreements to Resell and Securities Sold Under Agreements to Repurchase

In a repurchase agreement, securities sold under agreements to repurchase are treated as collateralized financing transactions and are recorded at contract value, plus accrued interest, which approximates fair value. It is the Company's policy that its custodian takes possession of the underlying collateral securities with a fair value approximately equal to the principal amount of the repurchase transaction, including accrued interest. For reverse repurchase agreements, the Company typically requires delivery of collateral with a fair value approximately equal to the carrying value of the relevant assets in the condensed consolidated statements of financial condition. To ensure that the fair value of the underlying collateral remains sufficient, the collateral is valued daily with additional collateral obtained or excess collateral returned, as permitted under contractual provisions. The Company does not net securities purchased under agreements to resell transactions with securities sold under agreements to repurchase transactions entered into with the same counterparty. For these transactions, the interest received or paid by the Company is recorded gross on an accrual basis under interest and dividends income or interest and dividends expense in the condensed consolidated statements of comprehensive income.

Receivables from/Payables to Broker-dealers and Clearing Organizations

Amounts receivable from broker-dealers and clearing organizations may be restricted to the extent that they serve as deposits for securities sold, not yet purchased. At September 30, 2016 and December 31, 2015, receivables from and payables to broker-dealers and clearing organizations primarily represent amounts due for unsettled trades, open equity in futures transactions, securities failed to deliver or failed to receive, deposits with clearing organizations or exchanges and balances due from or due to prime brokers in relation to the Company's trading. The Company presents its balances, including outstanding principal balances on all credit facilities, on a net-by-counterparty basis within receivable from and payable to broker-dealers and clearing organizations when the criteria for offsetting are met.

In the normal course of business, substantially all of the Company's securities transactions, money balances, and security positions are transacted with several brokers. The Company is subject to credit risk to the extent any broker with whom it conducts business is unable to fulfill contractual obligations on its behalf. The Company monitors the financial condition of such brokers and does not anticipate any losses from these counterparties.

Financial Instruments Owned Including Those Pledged as Collateral and Financial Instruments Sold, Not Yet Purchased

The Company carries financial instruments owned, including those pledged as collateral, and financial instruments sold, not yet purchased at fair value. Gains and losses arising from financial instrument transactions are recorded net on a trade-date basis in trading income, net, in the condensed consolidated statements of comprehensive income.

Fair Value Measurements

The Company's assets and liabilities have been categorized based upon a fair value hierarchy in accordance with ASC 820-10, Fair Value Measurements and Disclosures. ASC 820-10 defines fair value as the price that would be received to sell an asset or would be paid to transfer a liability (i.e., the exit price) in an orderly transaction between market

participants at the measurement date. Fair value measurements are not adjusted for transaction costs. The recognition of “block discounts” for large holdings of unrestricted financial instruments where quoted prices are readily and regularly available in an active market is prohibited. ASC 820-10 requires a three-level hierarchy, which prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy level assigned to each financial instrument is based on the assessment of the transparency and reliability of the inputs used in the valuation of such financial instruments at the measurement date based on the lowest level of input that is significant to the fair value measurement.

Table of Contents

The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurement) and the lowest priority to unobservable inputs (level 3 measurements).

Financial instruments measured and reported at fair value are classified and disclosed in one of the following categories based on inputs:

Level 1 — Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities;

Level 2 — Quoted prices in markets that are not active and financial instruments for which all significant inputs are observable, either directly or indirectly;

Level 3 — Prices or valuations that require inputs that are both significant to the fair value measurement and unobservable.

Transfers in or out of levels are recognized based on the beginning fair value of the period in which they occurred. There were no transfers of financial instruments between levels during the three and nine months ended September 30, 2016 and 2015.

Fair Value Option

The guidance in ASC 825, Financial Instruments, provides a fair value option election that allows entities to make an irrevocable election of fair value as the initial and subsequent measurement attribute for certain eligible financial assets and liabilities. Unrealized gains and losses on items for which the fair value option has been elected are recorded in other revenues (losses) in the condensed consolidated statements of comprehensive income. The decision to elect the fair value option is determined on an instrument by instrument basis and must be applied to an entire instrument and is irrevocable once elected.

In July 2016, the Company made a minority investment in SBI Japannext Co., Ltd. (“SBI”), a proprietary trading system based in Tokyo. The Company elected the fair value option to account for this equity method investment because it believes that fair value is the most relevant measurement attribute for this investment, as well as to reduce operational and accounting complexity.

Derivative Instruments

Derivative instruments used for trading purposes, including economic hedges of trading instruments, are carried at fair value. Fair values for exchange-traded derivatives, principally futures, are based on quoted market prices. Fair values for over-the-counter derivative instruments, principally forward contracts, are based on the values of the underlying financial instruments within the contract. The underlying derivative instruments are currencies, which are actively traded. The Company presents its derivatives balances on a net-by-counterparty basis when the criteria for offsetting are met.

Derivative instruments used for economic hedging purposes include futures, forward contracts, and options. Unrealized gains or losses on these derivative instruments are recognized currently in the condensed consolidated statements of comprehensive income as trading income, net. The Company does not apply hedge accounting as

defined in ASC 815, Derivatives and Hedging, and accordingly unrealized gains or losses on these derivative instruments are recognized currently in the condensed consolidated statements of comprehensive income as trading income, net.

Property and Equipment

Property and equipment are carried at cost, less accumulated depreciation, except for the assets acquired in connection with the acquisition of MTH, which were recorded at fair value on the date of acquisition. Depreciation is provided using the straight-line method over estimated useful lives of the underlying asset. Routine maintenance, repairs and replacement costs are expensed as incurred and improvements that appreciably extend the useful life of the assets are capitalized. When property and equipment are sold or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts and any resulting gain or loss is recognized in income. Property and

Table of Contents

equipment are reviewed for impairment whenever events or changes in circumstances indicate that the related carrying amount may not be recoverable. Furniture, fixtures, and equipment are depreciated over three to seven years. Leasehold improvements are amortized over the lesser of the length of the lease term or seven years.

Capitalized Software

The Company accounts for the costs of computer software developed or obtained for internal use in accordance with ASC 350-40, Internal-Use Software. The Company capitalizes costs of materials, consultants, and payroll and payroll related costs for employees incurred in developing internal-use software. Costs incurred during the preliminary project and post-implementation stages are charged to expense.

Management's judgment is required in determining the point at which various projects enter the stages at which costs may be capitalized, in assessing the ongoing value of the capitalized costs, and in determining the estimated useful lives over which the costs are amortized.

The Company's capitalized software development costs excluding the charges recognized in relation to the IPO disclosed below were approximately \$2.5 million and \$2.6 million for the three months ended September 30, 2016 and 2015, respectively, and \$8.0 million and \$8.1 million for the nine months ended September 30, 2016 and 2015, respectively. The related amortization expense was approximately \$2.5 million and \$2.4 million for the three months ended September 30, 2016 and 2015, respectively, and \$7.4 million and \$7.6 million for the nine months ended September 30, 2016 and 2015, respectively.

Additionally, in connection with the compensation charges related to non-voting interest units (formerly Class B interests) recognized upon the IPO (Note 14), the Company capitalized approximately \$0.02 million and \$0.1 million for the three months ended September 30, 2016 and 2015, respectively, and \$0.06 million and \$9.6 million for the nine months ended September 30, 2016 and 2015, respectively. The amortization costs related to these capitalized compensation charges and previously capitalized compensation charges related to East MIP Class B interests and Class B interests were approximately \$0.1 million and \$0.5 million for the three months ended September 30, 2016 and 2015, respectively, and \$0.7 million and \$8.5 million for the nine months ended September 30, 2016 and 2015.

Capitalized software development costs and related accumulated amortization are included in property, equipment and capitalized software in the accompanying condensed consolidated statements of financial condition and are amortized over a period of 1.4 to 2.5 years, which represents the estimated useful lives of the underlying software.

Goodwill

Goodwill represents the excess of the purchase price over the underlying net tangible and intangible assets of the Company's acquisitions. Goodwill is not amortized but is tested for impairment on an annual basis and between annual tests whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Goodwill is tested at the reporting unit level, which is defined as an operating segment or one level below the operating segment. The Company operates as one operating segment, which is the Company's only reporting unit.

The goodwill impairment test is a two-step process. The first step is used to identify potential impairment and compares the fair value of a reporting unit with its carrying amount, including goodwill. If the carrying amount of a reporting unit exceeds its fair value, the second step of the goodwill impairment test must be performed. The second step is used to measure the amount of impairment loss, if any, and compares the implied fair value of reporting unit goodwill with the carrying amount of that goodwill. If the carrying amount of reporting unit goodwill exceeds the implied fair value of that goodwill, an impairment loss must be recognized in an amount equal to that excess.

The Company tests goodwill for impairment on an annual basis on July 1 and on an interim basis when certain events or circumstances exist. In the impairment test as of July 1, 2016, the primary valuation method used to estimate the fair value of the Company's reporting unit was the market capitalization approach based on the market price of its Class A Common Stock, which the Company's management believes to be an appropriate indicator of its fair value.

Based on the results of the impairment tests performed, no goodwill impairment was recognized during the three and nine months ended September 30, 2016 and 2015, respectively.

Table of Contents

Intangible Assets

The Company amortizes finite-lived intangible assets over their estimated useful lives. Finite-lived intangible assets are tested for impairment annually or when impairment indicators are present, and if impaired, written down to fair value.

Exchange Memberships and Stock

Exchange memberships are recorded at cost or, if any other than temporary impairment in value has occurred, at a value that reflects management's estimate of fair value, in accordance with ASC 940-340, Financial Services — Broker and Dealers. Exchange stock includes shares that entitle the Company to certain trading privileges. The shares are marked to market with the corresponding gain or loss recorded under operations and administrative in the condensed consolidated statements of comprehensive income. The Company's exchange memberships and stock are included in other assets in the condensed consolidated statements of financial condition.

Trading Income

Trading income is comprised of changes in the fair value of trading assets and liabilities (i.e., unrealized gains and losses) and realized gains and losses on trading assets and liabilities. Trading gains and losses on financial instruments owned and financial instruments sold, not yet purchased are recorded on the trade date and reported on a net basis in the condensed consolidated statements of comprehensive income.

Interest and Dividends Income/Interest and Dividends Expense

Interest income and interest expense are accrued in accordance with contractual rates. Interest income consists of interest earned on collateralized financing arrangements and on cash held by brokers. Interest expense includes interest expense from collateralized transactions, margin and related lines of credit. Dividends on financial instruments owned including those pledged as collateral and financial instruments sold, not yet purchased are recorded on the ex-dividend date and interest is recognized on the accrual basis.

Technology Services

Technology services revenues consist of technology licensing fees and agency commission fees. Technology licensing fees are earned from third parties for licensing of the Company's proprietary risk management and trading infrastructure technology and provision of associated management and hosting services. These fees include both upfront and annual recurring fees. Revenue from technology services is recognized once persuasive evidence of an arrangement exists, delivery has occurred, the fee is fixed or determinable and collectability is probable. Revenue is recognized ratably over the contractual service period. Agency commission fees are earned from agency trades executed by the Company on behalf of third parties.

Rebates

Rebates consist of volume discounts, credits or payments received from exchanges or other market places related to the placement and/or removal of liquidity from the order flow in the marketplace. Rebates are recorded on an accrual basis and included net within brokerage, exchange and clearance fees in the accompanying condensed consolidated statements of comprehensive income.

Income Taxes

Subsequent to consummation of the Reorganization Transactions and the IPO, the Company is subject to U.S. federal, state and local income taxes on its taxable income. The Company's subsidiaries are subject to income taxes in the respective jurisdictions (including foreign jurisdictions) in which they operate. Prior to the consummation of the Reorganization Transactions and the IPO, no provision for United States federal, state and local income tax was required, as Virtu Financial is a limited liability company and is treated as a pass-through entity for United States federal, state, and local income tax purposes.

Table of Contents

The provision for income tax is comprised of current tax and deferred tax. Current tax represents the tax on current year tax returns, using tax rates enacted at the balance sheet date. The deferred tax assets are recognized in full and then reduced by a valuation allowance if it is more likely than not that some or all of the deferred tax assets will not be recognized.

The Company recognizes the tax benefit from an uncertain tax position, in accordance with ASC 740, Income Taxes only if it is more likely than not that the tax position will be sustained on examination by the applicable taxing authority, including resolution of the appeals or litigation processes, based on the technical merits of the position. The tax benefits recognized in the condensed consolidated financial statements from such a position are measured based on the largest benefit for each such position that has a greater than fifty percent likelihood of being realized upon ultimate resolution. Many factors are considered when evaluating and estimating the tax positions and tax benefits. Such estimates involve interpretations of regulations, rulings, case law, etc. and are inherently complex. The Company's estimates may require periodic adjustments and may not accurately anticipate actual outcomes as resolution of income tax treatments in individual jurisdictions typically would not be known for several years after completion of any fiscal year. The Company has determined that there are no uncertain tax positions that would have a material impact on the Company's financial position as of September 30, 2016 and December 31, 2015 or the results of operations or cash flows for the three and nine months ended September 30, 2016 and 2015.

Comprehensive Income and Foreign Currency Translation

The Company's operating results are reported in the condensed consolidated statements of comprehensive income pursuant to ASC 220, Comprehensive Income.

Comprehensive income consists of two components: net income and other comprehensive income ("OCI"). OCI is comprised of revenues, expenses, gains and losses that are reported in the comprehensive income section of the condensed consolidated statements of comprehensive income, but are excluded from reported net income. The Company's OCI is comprised of foreign currency translation adjustments. Assets and liabilities of operations having non-U.S. dollar functional currencies are translated at period-end exchange rates, and revenues and expenses are translated at weighted average exchange rates for the period. Gains and losses resulting from translating foreign currency financial statements, net of related tax effects, are reflected in accumulated other comprehensive income, a separate component of stockholders' equity.

Share-Based Compensation

The Company accounts for share-based compensation transactions with employees under the provisions of ASC 718, Compensation: Stock Compensation. Share-based compensation transactions with employees are measured based on the fair value of equity instruments issued.

The fair value of awards issued for compensation prior to the Reorganization Transactions and the IPO was determined by management, with the assistance of an independent third party valuation firm, using a projected annual forfeiture rate, where applicable, on the date of grant.

Share-based awards issued for compensation in connection with or subsequent to the Reorganization Transaction and the IPO pursuant to the VFI 2015 Management Incentive Plan (the "2015 Management Incentive Plan") were in the form of stock options, Class A common stock and restricted stock units. The fair value of the stock option grants is determined through the application of the Black-Scholes-Merton model. The fair value of the Class A common stock and restricted stock units are determined based on the volume weighted average price for the three days preceding the grant, and with respect to the restricted stock units, a projected annual forfeiture rate. The fair value of share-based awards granted to employees is expensed based on the vesting conditions and are recognized on a straight line basis

over the vesting period. The Company records as treasury stock shares repurchased from its employees for the purpose of settling tax liabilities incurred upon the issuance of common stock, the vesting of restricted stock units or the exercise of stock options.

Table of Contents

Recent Accounting Pronouncements

Revenue - In May 2014, the FASB issued Accounting Standards Update (“ASU”) No. 2014-09, Revenue from Contracts with Customers. ASU 2014-09 is a comprehensive new revenue recognition model that requires a company to recognize revenue to depict the transfer of goods or services to a customer at an amount that reflects the consideration it expects to receive in exchange for those goods or services. ASU 2014-09 also requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments and assets recognized from costs incurred to obtain or fulfill a contract. In August 2015, the FASB issued ASU No. 2015-14, Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date. ASU No. 2015-14 defers the effective date of ASU No. 2014-09 by one year for public companies. ASU 2015-14 applies to annual reporting periods beginning after December 15, 2017, including interim reporting periods within that reporting period. Early adoption is permitted only as of annual reporting periods beginning after December 15, 2016, including interim reporting periods within that reporting period. The Company is currently evaluating the potential effects of adoption of ASU 2014-09 and ASU 2015-14 on the Company’s condensed consolidated financial statements.

Repurchase Agreements - In June 2014, the FASB released ASU No. 2014-11, Repurchase-to-Maturity Transactions, Repurchase Financings, and Disclosures. The amendment changes the accounting for repurchase financing transactions and for repurchase-to-maturity transactions to secured borrowing accounting. The accounting changes were effective for the Company beginning in the first quarter of 2015. The effect of the accounting changes on transactions outstanding as of the effective date is required to be presented as a cumulative effect adjustment to retained earnings as of January 1, 2015. The amendment also requires additional disclosures for repurchase agreements and securities lending transactions regarding the class of collateral pledged and the remaining contractual maturity of the agreements, as well as a discussion on the potential risks associated with the agreements and the related collateral pledged, as well as how those risks are managed. Additional disclosures are required for repurchase agreements, securities lending transactions, sales with a total return swap, and other similar transfers of financial assets that are accounted for as a sale. The Company adopted this ASU during the year ended December 31, 2015. This ASU did not have an impact on the Company’s condensed consolidated financial statements except for the additional disclosures described in Note 9.

Going Concern — In August 2014, the FASB issued ASU 2014-15, Disclosure of Uncertainties about an Entity’s Ability to Continue as a Going Concern. The guidance will explicitly require management to assess an entity’s ability to continue as a going concern and to provide related footnote disclosures in certain circumstances. The new standard will be effective in the first annual period ending after December 15, 2016 (fiscal year 2017 for the Company). Earlier adoption is permitted. The Company will implement this new standard on the required effective date. This ASU is not expected to have an impact on the Company’s condensed consolidated financial statements.

Debt Issuance Costs — In April 2015, the FASB issued ASU 2015-03, Simplifying the Presentation of Debt Issuance Costs. The ASU requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts, rather than as a deferred charge asset. The ASU is effective for financial statements issued for fiscal years beginning after December 15, 2015 (fiscal year 2016 for the Company), and interim periods within those fiscal years. Early adoption of the amendment is permitted and the Company has elected to early adopt this ASU effective as of March 31, 2015. In August 2015, the FASB issued ASU 2015-15, Interest – Presentation and Subsequent Measurement of Debit Issuance Costs Associated with Line-of-Credit Arrangement. The ASU stated that the SEC staff would not object to an entity deferring and presenting debt issuance costs as an asset and subsequently amortizing the deferred debt issuance costs ratably over the term of the line-of-credit arrangement, regardless of whether there are any outstanding borrowings on the line-of-credit arrangement. The Company reports debt issuance cost related to the long term borrowings as a direct deduction from the carrying amount of debt liability.

Financial Assets and Liabilities — In January 2016, the FASB issued ASU 2016-01, Financial Instruments – Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities. The update intends to enhance the reporting model for financial instruments to provide users of financial statements with more decision-useful information and addresses certain aspects of the recognition, measurement, presentation, and disclosure of financial instruments. The new standard affects all entities that hold financial assets or owe financial liabilities and is effective for annual reporting periods (including interim periods) beginning after December 15, 2017. Early adoption of

Table of Contents

the ASU is not permitted, except for the amendments relating to the presentation of the change in the instrument-specific credit risk relating to a liability that an entity has elected to measure at fair value. The Company is currently evaluating the potential effects of the adoption of ASU 2016-01 on its condensed consolidated financial statements.

Leases — In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842). Under the new ASU, a lessee will be required to recognize assets and liabilities for leases with lease terms of more than 12 months. The liability will be equal to the present value of lease payments. The asset, referred to as a “right-of-use asset” will be based on the liability, subject to adjustment, such as for initial direct costs. For income statement purposes, leases will be classified as either operating or finance. Operating leases will result in straight-line expense (similar to current operating leases) while finance leases will result in a front-loaded expense pattern (similar to current capital leases). Classification will be based on criteria that are largely similar to those applied in current lease accounting, but without explicit bright lines. New quantitative and qualitative disclosures, including significant judgments made by management, will be required to provide greater information regarding the extent of revenue and expense recognized and expected to be recognized from existing contracts. The standard is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. The Company is currently evaluating the potential effects of the adoption of ASU 2016-02 on the Company’s condensed consolidated financial statements.

Compensation – Stock Compensation — In March 2016, FASB issued ASU 2016-09, Employee Share-Based Payment Accounting Improvements. The ASU makes a number of changes to accounting for share based payment programs, including the following principal changes: providing that all excess tax benefits and tax deficiencies arising from share-based payment programs should be recognized as income tax expense or benefit in the income statement; allowing companies to make an entity-wide accounting policy election to either estimate the number of awards that are expected to vest (as is provided under current GAAP) or account for forfeitures when they occur; and providing that partial cash settlement of an award for tax-withholding purposes would not result, by itself, in liability classification of the award provided the amount withheld does not exceed the maximum statutory tax rate (as opposed to the current requirement which specifies the minimum statutory tax rate) for an employee in the applicable jurisdictions. The ASU also provides guidance on the classification of various items related to share based payment programs in the statement of cash flows. The ASU is effective for annual periods beginning after December 15, 2016, and interim periods within those annual periods. Early adoption is permitted. An entity that elects early adoption must adopt all of the amendments in the same period. The Company is currently evaluating the potential effects of adoption of ASU 2016-09 on the Company’s condensed consolidated financial statements.

Statement of Cash Flows – In August 2016, FASB issued ASU 2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments. The ASU intended to reduce diversity in practice how certain transactions are classified in the Statement of cash flows by mandating classification of certain activities. The ASU is effective for annual periods beginning after December 15, 2017, and interim periods within those annual periods. Early adoption is permitted. An entity that elects early adoption must adopt all of the amendments in the same period. The Company is currently evaluating the potential effects of adoption of ASU 2016-15 on the Company’s condensed consolidated financial statements.

3. Earnings per Share

Historical earnings per share information is not applicable for reporting periods prior to the consummation of the Reorganization Transactions and the IPO because the ownership structure of the Company did not include a common unit of ownership. Net income available for common stockholders is based on the Company’s approximate 28.9% interest in Virtu Financial.

Table of Contents

Basic earnings per share are calculated utilizing net income available for common stockholders from the three and nine months ended September 30, 2016 and 2015, respectively, divided by the weighted average number of shares of common stock outstanding during the same period:

(in thousands, except for share or per share data)	Three Months		Nine Months	
	Ended September 30, 2016	2015	Ended September 30, 2016	2015
Basic earnings per share:				
Net income available for common stockholders	\$ 7,026	\$ 12,306	\$ 25,752	\$ 12,780
Less: Dividends and undistributed earnings allocated to participating securities	(191)	—	(612)	—
Net income available for common stockholders, net of dividends and undistributed earnings allocated to participating securities	\$ 6,835	12,306	\$ 25,140	12,780
Weighted average shares of common stock outstanding:				
Class A	38,351,465	34,305,052	38,264,139	34,305,052
Basic Earnings per share	\$ 0.18	\$ 0.36	\$ 0.66	\$ 0.37

Diluted earnings per share are calculated utilizing net income available for common stockholders, divided by the weighted average total number of shares of common stock outstanding during the three and nine months ended September 30, 2016 and 2015 including additional shares of common stock issued and issuable pursuant to the 2015 Management Incentive Plan (Note 13).

(in thousands, except for share or per share data)	Three Months		Nine Months	
	Ended September 30, 2016	2015	Ended September 30, 2016	2015
Diluted earnings per share:				
Net income available for common stockholders, net of dividends and undistributed earnings allocated to participating securities	\$ 6,835	\$ 12,306	\$ 25,140	\$ 12,780
Weighted average shares of common stock outstanding:				
Class A				
Issued and outstanding	38,351,465	34,305,052	38,264,139	34,305,052
Issuable pursuant to 2015 Management Incentive Plan(1)	—	433,681	—	336,445
	38,351,465	34,738,733	38,264,139	34,641,497
Diluted Earnings per share	\$ 0.18	\$ 0.35	\$ 0.66	\$ 0.37

- (1) The dilutive impact of unexercised stock options excludes from the computation of EPS 1,151,260 and 383,294 options for the three and nine months ended September 30, 2016, respectively, because inclusion of the options would have been anti-dilutive.

4. Tax Receivable Agreements

In connection with the IPO and the Reorganization Transactions, the Company entered into tax receivable agreements to make payments to certain Virtu Members, as defined in Note 13, that are generally equal to 85% of the applicable cash tax savings, if any, that the Company actually realizes as a result of favorable tax attributes that were and will continue to be available to us as a result of the Reorganization Transactions, exchanges of membership interests for Class A common stock or Class B common stock and payments made under the tax receivable agreements. Payments will occur only after the filing of the U.S. federal and state income tax returns and realization of the cash tax savings from the favorable tax attributes. The first payment is due 120 days after the filing of the Company's tax return for the year ended December 31, 2015, which was due March 15, 2016, but the due date was extended until September 15, 2016. Future payments under the tax receivable agreements in respect of subsequent exchanges would be in addition to these amounts.

As a result of (i) the purchase of equity interests in Virtu Financial from certain Virtu Members in connection with the Reorganization Transactions, (ii) the purchase of non-voting common interest units in Virtu Financial (the "Virtu Financial Units") (along with the corresponding shares of Class C common stock) from certain of the Virtu Members in connection with the IPO, (iii) the purchase of Virtu Financial Units (along with the corresponding shares of Class C common stock) and the exchange of Virtu Financial Units (along with the corresponding shares of Class C

Table of Contents

common stock) for shares of Class A common stock in connection with the Secondary Offerings, the Company recorded a deferred tax asset of \$205.8 million associated with the increase in tax basis that results from such events. Payments to certain Virtu Members in respect of the purchases are expected to aggregate to approximately \$226.0 million, ranging from approximately \$7.4 million to \$20.1 million per year over the next 15 years. The Company recorded a corresponding reduction to additional paid-in capital of approximately \$20.2 million for the difference between the tax receivable agreements liability and the related deferred tax asset. In connection with the September 2016 secondary offering, the Company recorded an additional deferred tax asset of \$9.3 million and payment liability pursuant to the tax receivable agreements of \$7.6 million, with the \$1.7 million difference recorded as an increase to additional paid-in capital. At September 30, 2016, the Company's remaining deferred tax asset and the payment liability pursuant to the tax receivable agreements were approximately \$187.4 million and \$226.0 million, respectively. The amounts recorded as of September 30, 2016 reflect the current estimates and are subject to change after the filing of the Company's U.S. federal and state income tax returns for the years in which tax savings were realized.

For the tax receivable agreements discussed above, the cash savings realized by the Company are computed by comparing the actual income tax liability of the Company to the amount of such taxes the Company would have been required to pay had there been (i) no increase to the tax basis of the assets of Virtu Financial as a result of the purchase or exchange of Virtu Financial units, (ii) no tax benefit from the tax basis in the intangible assets of Virtu Financial on the date of the IPO and (iii) no tax benefit as a result of the Net Operating Losses ("NOLs") and other tax attributes at Virtu Financial. Subsequent adjustments of the tax receivable agreements obligations due to certain events (e.g., changes to the expected realization of NOLs or changes in tax rates) will be recognized within operating expenses in the condensed consolidated statements of comprehensive income.

5. Goodwill and Intangible Assets

There were no changes in the carrying amount of goodwill and no goodwill impairment was recognized in the three and nine months ended September 30, 2016 and 2015.

Acquired intangible assets consisted of the following as of September 30, 2016 and December 31, 2015:

As of September 30, 2016				
	Gross			
(in thousands)	Carrying Amount	Accumulated Amortization	Net Carrying Amount	Useful Lives (Years)
Purchased technology	\$ 110,000	\$ 110,000	\$ —	1.4 to 2.5
ETF issuer relationships	950	428	522	9
ETF buyer relationships	950	428	522	9
	\$ 111,900	\$ 110,856	\$ 1,044	

As of December 31, 2015				
	Gross			
(in thousands)	Carrying Amount	Accumulated Amortization	Net Carrying Amount	Useful Lives (Years)
Purchased technology	\$ 110,000	\$ 110,000	\$ —	1.4 to 2.5

Edgar Filing: Virtu Financial, Inc. - Form 10-Q

ETF issuer relationships	950	349	601	9
ETF buyer relationships	950	348	602	9
	\$ 111,900	\$ 110,697	\$ 1,203	

Amortization expense relating to finite-lived intangible assets was approximately \$0.05 million and \$0.05 million for the three months ended September 30, 2016 and 2015, respectively, and approximately \$0.16 million and \$0.16 million for the nine months ended September 30, 2016 and 2015. This is included in amortization of purchased intangibles and acquired capitalized software in the accompanying condensed consolidated statements of comprehensive income.

Table of Contents

6. Receivables from/Payables to Broker-Dealers and Clearing Organizations

The following is a summary of receivables from and payables to brokers-dealers and clearing organizations at September 30, 2016 and December 31, 2015:

(in thousands)	September 30, 2016	December 31, 2015
Assets		
Due from prime brokers	\$ 129,273	\$ 101,372
Deposits with clearing organizations	32,968	31,908
Net equity with futures commission merchants	157,900	174,615
Unsettled trades with clearing organization	76,301	102,890
Securities failed to deliver	116,850	65,751
Total receivables from broker-dealers and clearing organizations	\$ 513,292	\$ 476,536
Liabilities		
Due to prime brokers	\$ 285,189	\$ 294,691
Net equity with futures commission merchants	—	46,537
Unsettled trades with clearing organization	20,067	145,376
Securities failed to receive	—	—
Total payables to broker-dealers and clearing organizations	\$ 305,256	\$ 486,604

Included as a deduction from “Due from prime brokers” and “Net equity with futures commission merchants” is the outstanding principal balance on all of the Company’s short-term credit facilities (described in Note 8) of approximately \$253.2 million and \$219.1 million as of September 30, 2016 and December 31, 2015, respectively. The loan proceeds from the credit facilities are available only to meet the initial margin requirements associated with the Company’s ordinary course futures and other trading positions, which are held in the Company’s trading accounts with an affiliate of the respective financial institutions. The credit facilities are fully collateralized by the Company’s trading accounts and deposit accounts with these financial institutions. “Securities failed to deliver” and “Securities failed to receive” include amounts with a clearing organization and other broker-dealers.

7. Collateralized Transactions

The Company is permitted to sell or repledge securities received as collateral and use these securities to secure repurchase agreements, enter into securities lending transactions or deliver these securities to counterparties or clearing organizations to cover short positions. At September 30, 2016 and December 31, 2015, substantially all of the securities received as collateral have been repledged. The fair value of the collateralized transactions at September 30, 2016 and December 31, 2015 are summarized as follows:

(in thousands)	September 30, 2016	December 31, 2015
Securities received as collateral:		
Securities borrowed	\$ 386,397	\$ 437,220
Securities purchased under agreements to resell	—	14,985
	\$ 386,397	\$ 452,205

In the normal course of business, the Company pledges qualified securities with clearing organizations to satisfy daily margin and clearing fund requirements.

Financial instruments owned and pledged, where the counterparty has the right to repledge, at September 30, 2016 and December 31, 2015 consisted of the following:

(in thousands)	September 30, 2016	December 31, 2015
Equities	\$ 277,232	\$ 232,731
Exchange traded notes	7,662	26,444
	\$ 284,894	\$ 259,175

Table of Contents

8. Borrowings

Broker-Dealer Credit Facilities

The Company is a party to two secured credit facilities with the same financial institution to finance overnight securities positions purchased as part of its ordinary course broker-dealer market making activities. One of the facilities (the “Uncommitted Facility”), is provided on an uncommitted basis and is available for borrowings by the Company's broker-dealer subsidiaries up to a maximum amount of \$125.0 million. In connection with this credit facility, the Company has entered into demand promissory notes dated February 20, 2013. The loans provided under the Uncommitted Facility are collateralized by the Company's broker-dealer trading and deposit accounts with the same financial institution and, bear interest at a rate set by the financial institution on a daily basis 1.29% at September 30, 2016 and 1.25% at December 31, 2015). The Company is party to another facility (the “Committed Facility”) with the same financial institution dated July 22, 2013 and subsequently amended on March 26, 2014, July 21, 2014, April 24, 2015, and July 18, 2016, which is provided on a committed basis and is available for borrowings by one of the Company's broker-dealer subsidiaries up to a maximum of the lesser of \$75.0 million or an amount determined based on agreed advance rates for pledged securities. The Committed Facility is subject to certain financial covenants, including a minimum tangible net worth, a maximum total assets to equity ratio, and a minimum excess net capital, each as defined. The Committed Facility bears interest at a rate per annum at the Company's election equal to either an adjusted LIBOR rate or base rate, plus a margin of 1.25% per annum, and has a term of 364 days. As of September 30, 2016 and December 31, 2015, the Company had \$17.6 million and \$45.0 outstanding principal balance on the Uncommitted Facility, respectively. As of September 30, 2016 and December 31, 2015, the Company did not have any outstanding principal balance on or the Committed Facility. Interest expense for the three months ended September 30, 2016 and 2015 was approximately \$0.3 million and \$0.3 million, respectively, and for the nine months ended September 30, 2016 and 2015 was approximately \$0.8 million and \$0.6 million, respectively. Interest expense is included within interest and dividends expense in the accompanying condensed consolidated statements of comprehensive income.

Short-Term Credit Facilities

The Company maintains short term credit facilities with various prime brokers and other financial institutions from which it receives execution or clearing services. The proceeds of these facilities are used to meet margin requirements associated with the products traded by the Company in the ordinary course, and amounts borrowed are collateralized by the Company's trading accounts with the applicable financial institution. The aggregate amount available for borrowing under these facilities was \$493 million and \$478 million, and the outstanding principal was \$253.2 million and \$219.1 million as of September 30, 2016 and December 31, 2015, respectively, which were included within receivables from broker-dealers and clearing organizations within the condensed consolidated statements of financial condition. Borrowings bore interest at a weighted average interest rate of 2.76% and 2.48% per annum, as September 30, 2016 and December 31, 2015, respectively. Interest expense in relation to the facilities for the three months ended September 30, 2016 and 2015 was approximately \$1.8 million and \$1.2 million, respectively, and for the nine months ended September 30, 2016 and 2015 was \$5.0 million and \$3.9 million, respectively. Interest expense is recorded within interest and dividends expense in the accompanying condensed consolidated statements of comprehensive income.

Table of Contents

Long-Term Borrowings

SBI Bonds

On July 25, 2016, VFH Parent LLC (“VFH”) issued Japanese Yen Bonds (collectively the “SBI Bonds”) in the aggregate principal amount of ¥3.5 billion (\$33.1 million at issuance date) to SBI Life Insurance Co., Ltd. and SBI Insurance Co., Ltd.. The proceeds from the SBI Bonds were used to partially fund the investment in SBI (as described in Note 9). The SBI Bonds were issued bearing interest at the rate per annum of 4.0% until their scheduled maturity on January 6, 2020. Following the consummation of the Refinancing Transaction (as described in Note 18) and in accordance with the terms and conditions of the SBI Bonds, the rate per annum was increased to 5.0% as of October 2016. The SBI Bonds are guaranteed by Virtu Financial. The SBI Bonds are subject to fluctuations on the Japanese Yen currency rates relative to the Company’s reporting currency (U.S. Dollar) with the changes reflected in other revenues (losses) in the condensed consolidated statements of comprehensive income. The principal balance was ¥3.5 billion (\$34.6 million) as of September 30, 2016 and the Company recorded a loss of \$1.5 million due to the change in currency rates during the three and nine months ended September 30, 2016.

Net carrying amount of deferred financing fees capitalized in connection with the bonds issuance was approximately \$0.04 million as of September 30, 2016, which are included as a deduction to long term borrowings in the accompanying condensed consolidated statements of financial condition. Amortization expense related to the deferred financing fees was approximately \$0.002 million and \$0.002 million for the three and nine months ended September 30, 2016. Amortization expense is included within financing interest expense on long term borrowings in the accompanying condensed consolidated statements of comprehensive income.

Senior Secured Credit Facility

On July 8, 2011, Virtu Financial, its wholly owned subsidiary, VFH, and each of its unregulated domestic subsidiaries entered into the credit agreement (the “Credit Agreement”) among VFH, Virtu Financial, Credit Suisse AG, as administrative agent, and the other parties thereto. The credit facility funded a portion of the MTH acquisition with a term loan in the amount of \$320.0 million to VFH. The credit facility was issued at a discount of 2.0% or \$313.6 million, net of \$6.4 million discount. The credit facility was initially subject to quarterly principal payments beginning on December 31, 2011 with the unpaid principal payable on maturity on July 8, 2016. Under the terms of the loan, VFH is subject to certain financial covenants, including a total net leverage ratio and an interest coverage ratio, as defined in the Credit Agreement. VFH is also subject to contingent principal payments based on excess cash flow, as defined in the Credit Agreement, and certain other triggering events. Borrowings are collateralized by substantially all the assets of the Company, other than the equity interests in and assets of its registered broker-dealer, regulated and foreign subsidiaries, but including 100% of the non-voting stock and 65% of the voting stock of Virtu Financial’s or its domestic subsidiaries’ direct foreign subsidiaries.

The Credit Agreement was amended on February 5, 2013, May 1, 2013 and November 8, 2013. The amendments resulted in a decreased interest rate, changes in certain operating covenants, and increases in principal amount outstanding by \$150.0 million on May 1, 2013 and \$106.7 million on November 8, 2013, respectively. Additionally, the amendments reduced the annual minimum principal payments from 15% of the original principal amount to approximately 1% of the outstanding principal amount as of November 8, 2013, which was \$510.0 million. The terms of the amended credit facility are otherwise substantially similar to the original credit facility, except as set forth below.

Term loans outstanding under the Credit Agreement bear interest at a rate per annum at the Company’s election equal to either (i) the greatest of (a) the prime rate in effect, (b) the federal funds effective rate (as defined in the Credit Agreement) plus 0.5% (c) the adjusted LIBOR rate (as defined in the Credit Agreement) for a Eurodollar borrowing

with an interest period of one month plus 1%, and (d) 2.25% plus, in each case, 3.0%, or (ii) the greater of (x) the adjusted LIBOR rate for the interest period in effect and (y) 1.25%, plus 4.0%. Pursuant to the Amendment (as defined below), each incremental spread was reduced by 0.50% upon the consummation of the Company's IPO. The rate at September 30, 2016 was 5.25%.

Net carrying amount of deferred financing fees capitalized in connection with the financing were approximately

Table of Contents

\$3.2 million and \$4.7 million, respectively, as of September 30, 2016 and December 31, 2015, which are included as a deduction to long term borrowings in the accompanying condensed consolidated statements of financial condition. Amortization expense related to the deferred financing fees was approximately \$0.3 million and \$0.3 million for the three months ended September 30, 2016 and 2015, respectively, and for the nine months ended September 30, 2016 and 2015 was approximately \$0.9 million and \$0.9 million. Amortization expense is included within financing interest expense on long term borrowings in the accompanying condensed consolidated statements of comprehensive income.

The net carrying amounts of debt discount were approximately of \$1.2 million and \$1.5 million, as of September 30, 2016 and December 31, 2015, respectively. The accreted expenses were approximately \$0.1 million and \$0.1 million for the three months ended September 30, 2016 and 2015, respectively, and for the nine months ended September 30, 2016 and 2015 was approximately \$0.3 million and \$0.3 million, respectively. The accretion is included within financing interest expense on long term borrowings in the accompanying condensed consolidated statements of comprehensive income.

On April 15, 2015, the Company, Virtu Financial, and each unregulated domestic subsidiary of Virtu Financial, entered into an amendment agreement to the Credit Agreement, which provided for a revolving credit facility with aggregate commitments by revolving lenders of \$100.0 million, available upon the consummation of the IPO and the payment of relevant fees and expenses. The revolving credit facility is secured pari passu with the term loans outstanding under the Credit Agreement and is subject to the same financial covenants and negative covenants. Borrowings under the revolving facility bear interest, at the Company's election, at either (i) the greatest of (a) the prime rate in effect, (b) the federal funds effective rate plus 0.5%, and (c) an adjusted LIBOR rate for a Eurodollar borrowing with an interest period of one month plus 1% and (d) 2.25%, plus, in each case, 2.0%, or (ii) the greater of (x) an adjusted LIBOR rate for the interest period in effect and (y) 1.25%, plus, in each case, 3.0%. The Company will also pay a commitment fee of 0.50% per annum on the average daily unused portion of the facility.

As of September 30, 2016 and December 31, 2015, the Company did not have any outstanding principal balance on the revolving credit facility. Interest expenses in relation to this facility for the three and nine months ended September 30, 2016 were approximately \$0.1 million and \$0.1 million, respectively. The net carrying amounts for the deferred financing fees capitalized in connection with the revolving credit facility were approximately \$0.5 million and \$0.7 million as of September 30, 2016 and December 31, 2015, respectively, which was included as a deduction to long term borrowings in the accompanying condensed consolidated statements of financial condition. Amortization expenses related to the deferred financing fees in connection with the revolving credit facility were approximately \$0.1 million and \$0.1 million for the three months ended September 30, 2016 and 2015, respectively, and for the nine months ended September 30, 2016 and 2015 were \$0.2 million and \$0.2 million, respectively.

Table of Contents

Aggregate future required minimum principal payments based on the terms of this loan at September 30, 2016 were as follows:

(in thousands)	
2016	\$ 1,275
2017	5,100
2018	5,100
2019 and thereafter	519,061
Total principal of long-term borrowings	\$ 530,536

The below table contains a reconciliation of the long term borrowings principal amount to the secured credit facility recorded in the condensed consolidated statements of financial condition:

(in thousands)	September 30, 2016	December 31, 2015
Senior secured credit facility outstanding principal	\$ 495,975	\$ 499,800
SBI Bonds outstanding principal	34,561	—
Deferred financing fees	(3,252)	(4,713)
Discount on senior secured credit facility	(1,207)	(1,498)
Long term borrowings	\$ 526,077	\$ 493,589

9. Financial Assets and Liabilities

At September 30, 2016 and December 31, 2015, substantially all of Company's financial assets and liabilities, except for the long term borrowings and certain exchange memberships, were carried at fair value based on published market prices and are marked to market daily or were short-term in nature and were carried at amounts that approximate fair value. The Company determined that the carrying value of the Company's long-term borrowings approximate fair value as of September 30, 2016 and December 31, 2015 based on the recent transaction date of the SBI Bonds and the quoted over-the-counter market prices provided by the issuer of the senior secured credit facility, which would be categorized as Level 2.

The fair value of equities, U.S. government obligations and exchange traded notes is estimated using recently executed transactions and market price quotations in active markets and are categorized as Level 1 with the exception of inactively traded equities which are categorized as Level 2. Fair value of the Company's derivative contracts is based on the indicative prices obtained from the banks that are counterparties to these contracts, as well as management's own analyses. The indicative prices have been independently validated through the Company's risk management systems, which are designed to check prices with information independently obtained from exchanges and venues where such financial instruments are listed or to compare prices of similar instruments with similar maturities for listed financial futures in foreign exchange. At September 30, 2016 and December 31, 2015, the Company's derivative contracts and non-U.S. government obligations have been categorized as Level 2.

As described in Note 2, the Company elected the fair value option to account for its equity investment in SBI, which has been categorized as Level 3. The valuation process involved for Level 3 measurements is completed on a quarterly basis. The Company employs two valuation methodologies when determining the fair value of investments categorized as Level 3, market comparable analysis and discounted cash flow analysis. The market comparable analysis considers key financial inputs, recent public and private transactions and other available measures. The discounted cash flow analysis incorporates significant assumptions and judgments and the estimates of key inputs used in this methodology include the discount rate for the investment and assumed inputs used to calculate terminal values, such as price/earnings multiples. Upon completion of the valuations conducted using these methodologies, a weighting is ascribed to each method and the ultimate fair value recorded for a particular investment will generally be within a range suggested by the two methodologies. When determining the weighting ascribed to each valuation methodology, the Company considers, among other factors, the availability of direct market comparable, the applicability of a discounted cash flow analysis and the expected holding period.

Table of Contents

Transfers in or out of levels are recognized based on the beginning fair value of the period in which they occurred. There were no transfers of financial instruments between levels during the nine months ended September 30, 2016 and 2015.

Fair value measurements for those items measured on a recurring basis are summarized below as of September 30, 2016:

(in thousands)	September 30, 2016				
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Counterparty and Cash Collateral Netting	Total Fair Value
Assets					
Financial instruments owned, at fair value:					
Equity securities	\$ 1,064,253	\$ 55,551	\$ —	\$ —	\$ 1,119,804
U.S. and Non-U.S. government obligations	—	5,557	—	—	5,557
Exchange traded notes	27,155	—	—	—	27,155
Interest rate swaps	—	328	—	—	328
Currency forwards	—	625,445	—	(623,241)	2,204
Options	—	26	—	—	26
	\$ 1,091,408	\$ 686,907	\$ —	\$ (623,241)	\$ 1,155,074
Financial instruments owned, pledged as collateral:					
Equity securities	\$ 277,232	\$ —	\$ —	\$ —	\$ 277,232
Exchange traded notes	7,662	—	—	—	7,662
	\$ 284,894	\$ —	\$ —	\$ —	\$ 284,894
Other Assets					
Equity investment	\$ —	\$ —	\$ 40,135	\$ —	\$ 40,135
Exchange stock	5,989	—	—	—	5,989
	\$ 5,989	\$ —	\$ 40,135	\$ —	\$ 46,124
Liabilities					
Financial instruments sold, not yet purchased, at fair value:					
Equity securities	\$ 1,284,434	\$ 13,537	\$ —	\$ —	\$ 1,297,971
Exchange traded notes	20,207	—	—	—	20,207
Interest rate swaps	—	332	—	—	332
Currency forwards	—	641,675	—	(641,675)	—
Options	—	49	—	—	49
	\$ 1,304,641	\$ 655,593	\$ —	\$ (641,675)	\$ 1,318,559

Table of Contents

Fair value measurements for those items measured on a recurring basis are summarized below as of December 31, 2015:

	December 31, 2015				
	Quoted				
	Prices in				
	Active	Significant		Counterparty	
	Markets for	Other	Significant	and Cash	
	Identical	Observable	Unobservable	Collateral	Total Fair
(in thousands)	Assets	Inputs	Inputs	Netting	Value
	(Level 1)	(Level 2)	(Level 3)		
Assets					
Financial instruments owned, at fair value:					
Equity securities	\$ 915,848	\$ 32,243	\$ —	\$ —	\$ 948,091
U.S. and non-U.S. government obligations	—	10,513	—	—	10,513
Exchange traded notes	69,376	—	—	—	69,376
Interest rate swaps	—	311	—	—	311
Currency forwards	—	795,435	—	(785,855)	9,580
Options	—	168	—	—	168
	\$ 985,224	\$ 838,670	\$ —	\$ (785,855)	\$ 1,038,039
Financial instruments owned, pledged as collateral:					
Equity securities	\$ 232,731	\$ —	\$ —	\$ —	\$ 232,731
Exchange traded notes	26,444	—	—	—	26,444
	\$ 259,175	\$ —	\$ —	\$ —	\$ 259,175
Other Assets					
Exchange stock	\$ 5,984	\$ —	\$ —	\$ —	\$ 5,984
	\$ 5,984	\$ —	\$ —	\$ —	\$ 5,984
Liabilities					
Financial instruments sold, not yet purchased, at fair value:					
Equity securities	\$ 935,071	\$ 1,780	\$ —	\$ —	\$ 936,851
U.S. and non-U.S. government obligations	3,996	—	—	—	3,996
Exchange traded notes	37,761	—	—	—	37,761
Currency forwards	—	319	—	—	319
Options	—	746,014	—	(746,014)	—
Interest rate swaps	—	163	—	—	163
	\$ 976,828	\$ 748,276	\$ —	\$ (746,014)	\$ 979,090

Investment in SBI Japannext Co., Ltd.

On July 27, 2016, the Company purchased a minority interest (29.4%) in SBI Japannext Co., Ltd., a proprietary trading system based in Tokyo, for \$38.8 million in cash. In connection with the investment, VFH issued bonds to certain affiliates of SBI Japannext and used the proceeds to finance the transaction (Note 8).

The Company's initial fair value of SBI was determined using the discounted cash flow method, an income approach, with the discount rate of 15.9% applied to the cash flow forecasts. The Company also used a market approach based on 19x average price/earnings multiples of comparable companies to corroborate the income approach. The fair value of SBI at September 30, 2016 was determined based on the transaction price from the SBI investment at the current Japanese Yen currency rate. The fair value measurement is highly sensitive to significant changes in the unobservable inputs and significant increases (decreases) in discount rate or decreases (increases) in price/earnings multiples would result in a significantly lower (higher) fair value measurement. Changes in fair value of SBI is reflected in other revenues (losses) in the condensed consolidated statements of comprehensive income.

Table of Contents

The following presents the changes in Level 3 financial instruments measured at fair value on a recurring basis:

Nine Months Ended September 30, 2016						
	Balance at December 31,		Total Realized and Unrealized Gains / (Losses)	Net Transfers into (out of) Level 3	Balance at September 30,	Change in Net Unrealized Gains / (Losses) on Investments still held at September 30,
(in thousands)	2015	Purchases			2016	2016
Assets						
Other assets:						
Equity investment	\$ -	\$ 38,754	\$ 1,381	\$ —	\$ 40,135	\$ 1,381
Total	\$ -	\$ 38,754	\$ 1,381	\$ —	\$ 40,135	\$ 1,381

Offsetting of Financial Assets and Liabilities

The Company does not net securities borrowed and securities loaned, or securities purchased under agreements to resell and securities sold under agreements to repurchase. These financial instruments are presented on a gross basis in the condensed consolidated statements of financial condition. In the tables below, the amounts of financial instruments owned that are not offset in the condensed consolidated statements of financial condition, but could be netted against financial liabilities with specific counterparties under legally enforceable master netting agreements in the event of default, are presented to provide financial statement readers with the Company's estimate of its net exposure to counterparties for these financial instruments.

The following tables set forth gross and net presentation of certain financial assets and financial liabilities as of September 30, 2016 and December 31, 2015, pursuant to the requirements of ASU 2011-11 and ASU 2013-01.

September 30, 2016			
	Gross Amounts	Net Amounts of Assets Presented	Gross Amounts Not Offset
	Offset in the	in the	In the
	Gross Amount	Consolidated	Statement of Financial Condition

Edgar Filing: Virtu Financial, Inc. - Form 10-Q

(in thousands)	of Recognized Assets	Statement of Financial Condition	Statement of Financial Condition	Financial Instruments	Cash Collateral Received	Net Amount
Offsetting of Financial Assets:						
Securities borrowed	\$ 394,812	\$ —	\$ 394,812	\$ (387,767)	\$ (3,117)	\$ 3,928
Trading assets, at fair value:						
Currency forwards	625,445	(623,241)	2,204	—	—	2,204
Options	26	—	26	(26)	—	—
Interest rate swaps	328	—	328	(328)	—	—
Total	\$ 1,020,611	\$ (623,241)	\$ 397,370	\$ (388,121)	\$ (3,117)	\$ 6,132

		Gross Amounts	Net Amounts of Liabilities Presented			
		Offset in the	in the	Gross Amounts Not Offset In the Statement of		
	Gross Amounts	Consolidated	Consolidated	Financial Condition	Cash	Net Amount
Offsetting of Financial Liabilities:	of Recognized Liabilities	Statement of Financial Condition	Statement of Financial Condition	Financial Instruments	Collateral Pledged	
Securities loaned	\$ 481,947	\$ —	\$ 481,947	\$ (481,377)	\$ —	\$ 570
Trading liabilities, at fair value:						
Currency forwards	641,675	(641,675)	—	—	—	—
Options	49	—	49	(26)	(23)	—
Interest rate swaps	332	—	332	(328)	(4)	—
Total	\$ 1,124,003	\$ (641,675)	\$ 482,328	\$ (481,731)	\$ (27)	\$ 570

Table of Contents

December 31, 2015						
	Gross Amounts		Net Amounts of Assets Presented		Gross Amounts Not Offset In the Statement of Financial Condition	
	Offset in the		in the		Financial Condition	
	Consolidated		Consolidated		Cash	
	Gross Amount of Recognized Assets	Statement of Financial Condition	Statement of Financial Condition	Financial Instruments	Collateral Received	Net Amount
(in thousands)						
Offsetting of Financial Assets:						
Securities borrowed	\$ 453,296	\$ —	\$ 453,296	\$ (443,659)	\$ (281)	\$ 9,356
Securities purchased under agreements to resell	14,981	—	14,981	(14,981)	—	—
Trading assets, at fair value:						
Currency forwards	795,435	(785,855)	9,580	—	—	9,580
Options	168	—	168	(139)	—	29
Interest rate swaps	311	—	311	(311)	—	—
Total	\$ 1,264,191	\$ (785,855)	\$ 478,336	\$ (459,090)	\$ (281)	\$ 18,965

	Gross Amounts		Net Amounts of Liabilities Presented		Gross Amounts Not Offset In the Condensed Consolidated Statement of Financial Condition	
	Offset in the		in the		Financial Condition	
	Condensed		Condensed		Cash	
	Gross Amounts of Recognized Liabilities	Statement of Financial Condition	Statement of Financial Condition	Financial Instruments	Collateral Pledged	Net Amount
(in thousands)						
Offsetting of Financial Liabilities:						
Securities loaned	\$ 524,603	\$ —	\$ 524,603	\$ (521,407)	\$ —	\$ 3,196
Trading liabilities, at fair value:						
Currency forwards	746,014	(746,014)	—	—	—	—
Options	163	—	163	(139)	(24)	—

Edgar Filing: Virtu Financial, Inc. - Form 10-Q

Interest rate swaps	319	—	319	(311)	(8)	—
Total	\$ 1,271,099	\$ (746,014)	\$ 525,085	\$ (521,857)	\$ (32)	\$ 3,196

Excluded from the fair value and offsetting tables above is net unsettled value on long and short futures contracts in the amounts of \$29.1 million and \$(8.1) million, which are included within receivables from broker-dealers and clearing organizations as of September 30, 2016 and December 31, 2015, respectively, and \$0.5 million and \$(11.7) million, which are included within payables to broker-dealers and clearing organizations as of September 30, 2016 and December 31, 2015, respectively, and would be categorized as Level 1.

The following table presents gross obligations for securities lending transactions by remaining contractual maturity and the class of collateral pledged.

	September 30, 2016				
	Remaining Contractual Maturity				
	Overnight	Less	30 -	Over	
	and	than	90	90	
		30			
(in thousands)	Continuous	days	days	Days	Total
Securities lending transactions:					
Equity securities	\$ 481,947	\$ —	\$ —	\$ —	\$ 481,947
Total	\$ 481,947	\$ —	\$ —	\$ —	\$ 481,947

Table of Contents

10. Derivative Instruments

The fair value of the Company's derivative instruments on a gross basis consisted of the following at September 30, 2016 and December 31, 2015:

(in thousands)		September 30, 2016		December 31, 2015	
Derivatives Assets	Balance Sheet Classification	Fair Value	Notional	Fair Value	Notional
Equities futures	Receivables from broker dealers and clearing organizations	\$ (938)	\$ 620,648	\$ (1,017)	\$ 617,398
Commodity futures	Receivables from broker dealers and clearing organizations	26,816	22,537,937	(8,431)	18,635,531
Currency futures	Receivables from broker dealers and clearing organizations	3,245	4,174,705	1,358	3,059,575
Fixed income futures	Receivables from broker dealers and clearing organizations	(10)	1,703	30	232,473
Options	Financial instruments owned	26	6,027	168	24,453
Currency forwards	Financial instruments owned	625,445	87,403,369	795,435	69,614,513
Interest rate swaps	Financial instruments owned	328	5,000	311	82,010
Derivatives Liabilities	Balance Sheet Classification	Fair Value	Notional	Fair Value	Notional
Equities futures	Payables to broker dealers and clearing organizations	\$ (478)	\$ 118,438	\$ 202	\$ 75,428
Commodity futures	Payables to broker dealers and clearing organizations	(230)	90,570	585	25,932
Currency futures	Payables to broker dealers and clearing organizations	1,235	104,294	(12,475)	2,570,005
Options	Financial instruments sold, not yet purchased	49	6,207	163	1
Currency forwards	Financial instruments sold, not yet purchased	641,675	90,169,873	746,014	71,019,047
Interest rate swaps	Financial instruments sold, not yet purchased	332	5,000	319	82,010

Amounts included in receivables from and payables to broker-dealers and clearing organizations represent variation margin on long and short futures contracts.

The following table summarizes the net gain from derivative instruments not designated as hedging instruments under ASC 815, which are recorded in trading income, net in the accompanying condensed consolidated statements of comprehensive income for the three and nine months ended September 30, 2016 and 2015.

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
(in thousands)	2016	2015	2016	2015
Futures	\$ 197,650	\$ 274,510	\$ 618,245	\$ 915,383
Currency forwards	(52,796)	(100,752)	(37,076)	(111,010)
Options	(65)	(1,111)	(411)	(1,484)
Interest rate swaps	(2)	2	2	4
	\$ 144,787	\$ 172,649	\$ 580,760	\$ 802,893

11. Income Taxes

Prior to the consummation of the Reorganization Transactions and the IPO, the Company's business was historically operated through a limited liability company that is treated as a partnership for U.S. federal income tax purposes, and as such most of its income is not subject to U.S. federal and certain state income taxes. Subsequent to consummation of the Reorganization Transactions and the IPO, the Company is subject to U.S. federal, state and local income tax at the rate applicable to corporations less the rate attributable to the noncontrolling interest in Virtu Financial. These noncontrolling interests are subject to U.S. taxation as partnerships. Accordingly, for the three and nine months ended September 30, 2016 and 2015, the income attributable to these noncontrolling interests is reported in the condensed consolidated statements of comprehensive income, but the related U.S. income tax expense attributable to these noncontrolling interests is not reported by the Company as it is the obligation of the individual partners. The Company's provision for income taxes and effective tax rate were \$4.8 million and 12.8% and \$9.4 million and 11.9% for the three months ended September 30, 2016 and 2015, respectively, and \$17.3 million and 12.3% and \$14.1 million and 8.4% for the nine months ended September 30, 2016 and 2015, respectively. Income tax expense is also affected by

Table of Contents

the differing effective tax rates in foreign, state and local jurisdictions where certain of the Company's subsidiaries are subject to corporate taxation.

Deferred income taxes arise primarily due to the amortization of the deferred tax assets recognized in connection with the IPO (Note 4 and Note 13), differences in the valuation of financial assets and liabilities, and in connection with other temporary differences arising from the deductibility of compensation and depreciation expenses in different time periods for book and income tax return purposes.

There are no expiration dates on the deferred tax assets. The provisions of ASC 740 require that carrying amounts of deferred tax assets be reduced by a valuation allowance if, based on the available evidence, it is more likely than not that some portion or all of the deferred tax assets will not be realized. Accordingly, the need to establish valuation allowances for deferred tax assets is assessed periodically with appropriate consideration given to all positive and negative evidence related to the realization of the deferred tax assets. A valuation allowance against deferred tax assets at the balance sheet date is not considered necessary because it is more likely than not the deferred tax asset will be fully realized. There are no unrecognized tax benefits as of September 30, 2016 and December 31, 2015.

The Company is subject to taxation in U.S. federal, state, local and foreign jurisdictions. As of September 30, 2016, the Company's tax years for 2012 through 2015 and 2009 through 2015 are subject to examination by U.S. and non-U.S. tax authorities, respectively.

12. Commitments, Contingencies and Guarantees

Litigation

The Company is subject to various legal proceedings and claims that arise in the ordinary course of business. The Company has also been, is currently, and may in the future be, the subject of one or more governmental, regulatory or self-regulatory organization enforcement actions, including but not limited to targeted and routine regulatory inquiries and investigations involving Regulation NMS, Regulation SHO, capital requirements and other domestic and foreign securities rules and regulations which may from time to time result in the imposition of penalties or fines. The Company has also been the subject of requests for information and documents from the SEC and the State of New York Office of the Attorney General ("NYAG"). Certain of these matters may result, or have resulted, in adverse judgments, settlements, fines, penalties, injunctions or other relief, and the Company's business or reputation could be negatively impacted if it were determined that disciplinary or other enforcement actions were required. The ultimate effect on the Company from the pending proceedings and claims, if any, is presently unknown. Where available information indicates that it is probable a liability had been incurred at the date of the condensed consolidated financial statements and the Company can reasonably estimate the amount of that loss, the Company accrues the estimated loss by a charge to income. In addition, in December 2015 the enforcement committee of the Autorité des marchés financiers ("AMF") fined the Company's European subsidiary in the amount of €5.0 million (approximately \$5.4 million) based on its allegations that the subsidiary of MTH engaged in price manipulation and violations of the AMF General Regulation and Euronext Market Rules. In accordance with the foregoing, the Company has accrued an estimated loss of €5.0 million (approximately \$5.4 million) in relation to the fine imposed by the AMF. The Company's management believes that the relevant trading engaged in by the subsidiary of MTH was conducted in accordance with applicable French law and regulations and the Company is pursuing its rights of appeal. Subject to the foregoing, based on information currently available, management believes it is not probable that the resolution of any known matters will result in a material adverse effect on the Company's financial position, although they might be material for the Company's results of operations or cash flows for any particular reporting period.

Indemnification Arrangements

Consistent with standard business practices in the normal course of business, the Company has provided general indemnifications to its managers, officers, employees, and agents against expenses, judgments, fines, settlements, and other amounts actually and reasonably incurred by such persons under certain circumstances as more fully disclosed in its operating agreement. The overall maximum amount of the obligations (if any) cannot reasonably be estimated as it will depend on the facts and circumstances that give rise to any future claims.

Table of Contents

13. Capital Structure

The Company has four classes of authorized common stock. The Class A common stock and the Class C common stock have one vote per share. The Class B common stock and the Class D common stock have 10 votes per share. Shares of the Company's common stock generally vote together as a single class on all matters submitted to a vote of the Company's stockholders.

Initial Public Offering and Reorganization Transactions

Prior to the IPO, the Company's business was conducted through Virtu Financial and its subsidiaries. In a series of transactions that occurred in connection with the IPO, (i) the Company became the sole managing member of Virtu Financial and acquired Virtu Financial units, (ii) certain direct or indirect equityholders of Virtu Financial acquired shares of the Company's Class A common stock and (iii) certain direct or indirect equityholders of Virtu Financial had their interests reclassified into Virtu Financial units and acquired shares of the Company's Class C common stock or, in the case of the TJMT Holdings LLC (the "Founder Member") only, shares of the Company's Class D common stock (collectively, the "Virtu Members").

On April 21, 2015, the Company completed its IPO of 19,012,112 shares of its Class A common stock, par value \$0.00001 per share, including 2,479,840 shares of Class A common stock sold in connection with the full exercise of the option to purchase additional shares granted to the underwriters, at a price to the public of \$19.00 per share. The shares began trading on NASDAQ on April 16, 2015 under the ticker symbol "VIRT" and the offering was closed on April 21, 2015. In connection with the Reorganization Transactions, the Company sold 16,532,272 shares of Class A common stock. The Company used its net proceeds from its IPO to purchase shares of Class A common stock from an affiliate of Silver Lake Partners, purchase Virtu Financial Units and corresponding shares of Class C common stock from certain Virtu Members, and for working capital and general corporate purposes.

2015 Management Incentive Plan

The Company's Board of Directors and stockholders adopted the 2015 Management Incentive Plan, which became effective upon consummation of the IPO. The 2015 Management Incentive Plan provides for the grant of stock options, restricted stock units, and other awards based on an aggregate of 12,000,000 shares of Class A common stock, subject to additional sublimits, including limits on the total option grant to any one participant in a single year and the total performance award to any one participant in a single year.

Secondary Offerings

In November 2015, an offering of 6,473,371 shares of the Company's Class A common stock was completed by the Company and certain selling stockholders affiliated with Silver Lake Partners, one of the Virtu Members. The selling stockholders sold 6,075,837 shares of Class A common stock and the Company sold 397,534 shares of Class A common stock at a price to the public of \$22.15 per share. The selling stockholders received all of the net proceeds from the sale of shares of Class A common stock by them in the offering. The Company used its net proceeds from the offering to purchase common units in Virtu Financial (and paired shares of Class C common stock) from one of its non-executive employees at a net price equal to the price paid by the underwriters for shares of its Class A common stock.

In September 2016, an offering (collectively with the November 2015 offering, the "Secondary Offerings") of 1,103,668 shares of the Company's Class A common stock was completed by the Company. The Company sold 1,103,668 shares of Class A common stock at a price to the public of \$15.75 per share. The Company used the net proceeds from the offering to purchase common units in Virtu Financial (and paired shares of Class C common stock) from certain

employees at a net price equal to the price paid by the underwriters for shares of its Class A common stock, which was the price at which the shares were offered to the public less a commission of \$0.10 per share. As a result of the completion of the IPO, the Reorganization Transactions and the Secondary Offerings, the Company holds approximately 28.9% interest in Virtu Financial at September 30, 2016.

Table of Contents

Distributions in Connection with the IPO

In connection with the IPO, the holders of the outstanding equity interests in Virtu Financial prior to the consummation of the Reorganization Transactions (the “Virtu Financial Pre-IPO Members”) authorized the Company as the managing member of Virtu Financial to make distributions to the Virtu Financial Pre-IPO Members in an aggregate amount up to \$50.0 million and on such dates as the Company determined in its sole discretion. Since the IPO, the Virtu Financial Pre-IPO Members have received distributions of \$20.0 million. The Company has not recorded a liability as there is no obligation to make any further distributions to the Virtu Financial Pre-IPO Members and any such discretionary distributions will be funded from cash on hand.

14. Share-based Compensation

Share-based compensation prior to the Company’s Reorganization completed on April 15, 2015 and IPO commenced on April 16, 2015

Class A-2 profits interests were issued to Virtu Employee Holdco LLC (“Employee Holdco”), a holding company that holds the interests on behalf of certain key employees or stakeholders. During the three and nine months ended September 30, 2016 and 2015, the Company recorded expense relating to non-voting common interest units, which were originally granted as Class A-2 profits interests and were reclassified into non-voting common interest units in connection with the Reorganization Transactions. The non-voting common interest units are subject to the same vesting requirements as the prior Class A-2 profits interests, which were either fully vested upon issuance or vested over a period of up to four years, and in each case are subject to repurchase provisions upon certain termination events. These awards were accounted for as equity awards and were measured at the date of grant. The Company recognized compensation expense related to the vesting of non-voting common interest units (formerly Class A-2 profits interests) of \$0.4 million and \$0.4 million for the three months ended September 30, 2016 and 2015, respectively, and recognized \$1.1 million and \$1.1 million for the nine months ended September 30, 2016 and 2015, respectively. As of September 30, 2016, total unrecognized share-based compensation expense related to unvested non-voting common interest units (formerly Class A-2 profits interests), was \$1.0 million, and this amount is expected to be recognized over a weighted average period of 1.1 years.

Activity in the non-voting members’ interests (formerly Class A-2 profits interests) is as follows:

	Number of Interests	Weighted Average Fair Value	Weighted Average Remaining Life
Outstanding December 31, 2014	6,069,007	\$ 6.82	2.54
Interests granted	6,418	7.52	3.00
Interests repurchased	(13,495)	7.17	—
Outstanding immediately prior to the Reorganization Transactions	6,061,930	\$ 6.82	2.27

On July 8, 2011, 2,625,000 Class A-2 capital interests were contributed by Class A-2 members to Virtu East

MIP LLC (“East MIP”). East MIP issued Class A interests to the members who contributed the Class A-2 capital

interests, and Class B interests (“East MIP Class B interests”) to certain key employees. Additionally, Class B interests were issued to Employee Holdco on behalf of certain key employees and stakeholders on July 8, 2011, and on subsequent dates. East MIP Class B interests and Class B interests were each subject to time based vesting over four years and only fully vested upon the consummation of a qualifying capital transaction by the Company, including an IPO. In connection with the Reorganization Transactions, East MIP was liquidated and a portion of the Class A-2 capital interests held by East MIP were contributed to Virtu Employee Holdco on behalf of holders of East MIP Class B Interests (or, in the case of certain employees located outside the United States, contributed to a trust whose trustee is one of the Company’s subsidiaries), which Class A-2 capital interests were subsequently reclassified into non-voting common interest units. The Company recognized compensation expense in respect of non-voting common interest units (formerly Class B interests) vested of \$0.2 million and \$0.8 million for the three and nine months ended September 30, 2016, respectively, and recognized \$0.7 million and \$46.4 million for the three and nine months ended September 30, 2015. The compensation expense related to non-voting common interest units (formerly Class B interests) was included within charges related to share based compensation at IPO in the condensed consolidated statements of comprehensive

Table of Contents

income. As of September 30, 2016, total unrecognized share-based compensation expense related to unvested non-voting common interest units (formerly Class B interests) was \$1.1 million and this amount is expected to be recognized over a weighted average period of 1.2 years.

Additionally, in connection with the compensation charges related to non-voting common interest units (formerly Class B interests) mentioned above, the Company capitalized \$0.02 million and \$0.06 million for the three and nine months ended September 30, 2016, respectively, and \$0.1 million and \$9.6 million for the three and nine months ended September 30, 2015, respectively. The amortization costs related to these capitalized compensation charges and previously capitalized compensation charges related to East MIP Class B interests and Class B interests were approximately \$0.1 million and \$0.7 million for the three and nine months ended September 30, 2016, respectively, and were approximately \$0.5 million and \$8.5 million for the three and nine months ended September 30, 2015, respectively. The costs attributable to employees incurred in development of software for internal use were included within charges related to share based compensation at IPO in the condensed consolidated statements of comprehensive income.

The fair value of the Class A-2 profit, Class B and East MIP Class B interest was estimated by the Company using an option pricing methodology based on expected volatility, risk-free rates and expected life. Expected volatility is calculated based on companies in the same peer group as the Company. The weighted-average assumptions used by the Company in estimating the grant date fair values of Class A-2 profits, Class B and East MIP Class B interests for the nine months ended September 30, 2015 are summarized below:

	Nine Months Ended September 30, 2015	
Expected life (in years)	2.7	
Weighted average risk free interest rate	0.72	%
Expected stock price volatility	47	%
Expected dividend yield	—	

In connection with Reorganization Transactions, all Class A-2 profits interests, Class B and East MIP Class B interests were reclassified into non-voting common interest units. As of September 30, 2016 and December 31, 2015, there were 14,231,535 and 15,394,426 non-voting common interest units outstanding, respectively, and 1,100,668 and 1,162,891 non-voting common interest units and corresponding Class C common stock were exchanged into Class A common stock, forfeited or repurchased during the three and nine months ended September 30, 2016.

Share-based compensation after the Company's Reorganization completed on April 15, 2015 and IPO commenced on April 16, 2015

Pursuant to 2015 Management Incentive Plan as described above (Note 13) and in connection with the IPO, non-qualified stock options to purchase shares of Class A Common Stock were granted, each of which vests in equal annual installments over a period of the four years from grant date and expires not later than 10 years from the date of grant.

Table of Contents

The following table summarizes activity related to stock options for the nine months ended September 30, 2016 and 2015:

	Options Outstanding			Options Exercisable	
		Weighted Average Exercise Price	Weighted Average Remaining Contractual Life		Weighted Average Exercise Price
	Number of Options	Per Share		Number of Options	Per Share
At December 31, 2014	—	\$ —	—	—	\$ —
Granted	9,228,000	19.00	10.00	—	—
Exercised	—	—	—	—	—
Forfeited or expired	(124,000)	—	—	—	—
At September 30, 2015	9,104,000	\$ 19.00	9.55	—	\$ —
At December 31, 2015	8,994,000	\$ 19.00	9.29	—	\$ —
Granted	—	—	—	—	—
Exercised	—	—	—	—	—
Forfeited or expired	(645,000)	—	—	—	—
At September 30, 2016	8,349,000	\$ 19.00	8.55	2,087,250	\$ 19.00

The fair value of the stock option grants was determined through the application of the Black-Scholes-Merton model with the following assumptions:

	Nine Months Ended September 30, 2015	
Expected life (in years)	6.25	
Weighted average risk free interest rate	1.52	%
Expected stock price volatility	30	%
Expected dividend yield	5.05	%
Weighted average fair value at grant date	\$ 3.02	

The expected life has been determined based on an average of vesting and contractual period. The risk-free interest rate was determined based on the yields available on U.S. Treasury zero-coupon issues. The expected stock price volatility was determined based on historical volatilities of comparable companies. The expected dividend yield was determined based on estimated future dividend payments divided by the IPO stock price.

The Company recognized \$1.5 million and \$4.2 million of compensation expense in relation to the stock options for the three and nine months ended September 30, 2016, respectively, and \$1.7 million and \$3.0 million for the three and nine months ended September 30, 2015, respectively. As of September 30, 2016, total unrecognized share-based compensation expense related to unvested stock options was \$16.0 million, and these amounts are to be recognized over a weighted average period of 2.6 years.

Class A common stock and Restricted Stock Units

Pursuant to the 2015 Management Incentive Plan as described above in Note 13, subsequent to the IPO, 576,693 shares of immediately vested Class A common stock and 984,466 restricted stock units were granted, which vest over a period of up to 4 years. The fair value of the Class A common stock and restricted stock units was determined based on a volume weighted average price and will be recognized on a straight line basis over the vesting period. The Company accrued compensation expense related to Class A common stock expected to be granted as part of year-end compensation of \$2.9 million and \$2.6 million for the three months ended September 30, 2016 and 2015, respectively, and accrued \$8.7 million and \$10.5 million for the nine months ended September 30, 2016 and 2015, respectively.

Table of Contents

The following table summarizes activity related to the restricted stock units for the nine months ended September 30, 2016:

	Number of Shares	Weighted Average Fair Value
At December 31, 2015	984,466	\$ 22.32
Granted	35,095	17.81
Forfeited	(115,869)	22.51
Vested	(49,088)	20.11
At September 30, 2016	854,604	\$ 22.22

The Company recognized \$1.6 million and \$4.7 million of compensation expense in relation to the restricted stock units for the three and nine months ended September 30, 2016, respectively, and \$0.3 million and \$0.3 million of compensation expense in relation to the restricted stock units for the three and nine months ended September 30, 2015, respectively. As of September 30, 2016, total unrecognized share-based compensation expense related to unvested restricted stock units was \$14.5 million, and this amount is to be recognized over a weighted average period of 2.3 years.

15. Regulatory Requirement

As of September 30, 2016, two subsidiaries of the Company are subject to the SEC Uniform Net Capital Rule 15c3-1, which requires the maintenance of minimum net capital of \$1.0 million for each of the two broker-dealer subsidiaries. At September 30, 2016, the subsidiaries had net capital of approximately \$60.7 million and \$8.9 million, which was approximately \$59.7 million and \$7.9 million in excess of its required net capital of \$1.0 million and \$1.0 million, respectively. At December 31, 2015, the subsidiaries had net capital of approximately \$64.2 million and \$8.5 million, which was approximately \$63.2 million and \$7.5 million in excess of its required net capital of \$1.0 million and \$1.0 million, respectively.

Pursuant to NYSE and NYSE MKT (formerly NYSE Amex) rules, the Company was required to maintain \$1.9 million and \$1.9 million of capital in connection with the operation of the Company's Designated Market Maker ("DMM") business as of September 30, 2016 and December 31, 2015, respectively. The required amount is determined under the exchange rules as the greater of \$1 million or 15% of the market value of 60 trading units for each symbol in which the Company is registered as the DMM.

16. Geographic Information

The Company operates its business in the U.S. and internationally, primarily in Europe and Asia. Significant transactions and balances between geographic regions occur primarily as a result of certain Company's subsidiaries incurring operating expenses such as employee compensation, communications and data processing and other overhead costs, for the purpose of providing execution, clearing and other support services to affiliates. Charges for transactions between regions are designed to approximate full costs. Intra-region income and expenses and related balances have been eliminated in the geographic information presented below to accurately reflect the external business conducted in each geographical region. The revenues are attributed to countries based on the locations of the subsidiaries. The following table presents total revenues by geographic area for the three and nine months ended September 30, 2016 and 2015:

(in thousands)	For the Three Months Ended		For the Nine Months	
	September 30,	2015	September 30,	2015
	2016		2016	
Revenues:				
United States	\$ 109,324	\$ 147,347	\$ 341,458	\$ 415,750
Australia	1	—	7	-
Ireland	31,936	41,094	112,481	133,211
Singapore	23,505	27,361	77,363	70,348
China	40	—	316	—
Total revenues	\$ 164,806	\$ 215,802	\$ 531,625	\$ 619,309

Table of Contents

17. Related Party Transactions

In the ordinary course of business, the Company purchases and leases computer equipment and maintenance and support from affiliates of Dell Inc. (“Dell”). Silver Lake Partners and its affiliates have a significant ownership interest in Dell. During the three months ended September 30, 2016 and 2015, the Company paid \$0.6 million and \$1.1 million, respectively, and during the nine months ended September 30, 2016 and 2015, the Company paid \$2.1 million and \$2.5 million, respectively, to Dell for these purchases and leases.

In the ordinary course of business, the Company purchases network connections services from affiliates of Level 3 Communications (“Level 3”). Temasek Holdings (Private) Limited and its affiliates have a significant ownership interest in Level 3. During the three months ended September 30, 2016 and 2015, the Company paid \$0.7 million and \$0.8 million, respectively, and during the nine months ended September 30, 2016 and 2015, the Company paid \$1.9 million and \$3.1 million, respectively, to Level 3 for these services.

Similarly, in the ordinary course of business, the Company purchases market data and related services from Interactive Data Pricing and Reference Data, Inc (“Interactive Data”) and SunGard Securities Finance LLC (“SunGard”). Silver Lake Partners and its affiliates have a significant ownership interest in Interactive Data and SunGard. During the three months ended September 30, 2016 and 2015, the Company paid \$0.1 million and \$0.1 million, respectively, and during the nine months ended September 30, 2016 and 2015, the Company paid \$0.3 million and \$0.3 million, respectively, to Interactive Data for these purchases. During the three months ended September 30, 2016 and 2015, the Company paid \$0.1 million and \$0.1 million, respectively, and during the nine months ended September 30, 2016 and 2015, the Company paid \$0.2 million and \$0.2 million, respectively, to Sungard for these purchases. Finally, in the ordinary course of business, the Company purchases telecommunications services from Singapore Telecommunications Limited (“Singtel”). Temasek Holdings (Private) Limited and its affiliates have a significant ownership interest in Singtel. During the three months ended September 30, 2016 and 2015, the Company paid \$0.04 million and \$0.03 million, respectively, and during nine months ended September 30, 2016 and 2015, the Company paid \$0.1 million and \$0.1 million, respectively, to Singtel for these purchases.

As of September 30, 2016, and December 31, 2015, the Company had a payable of \$0.09 million and \$0.2 million to its related parties, respectively, which are included in accounts payable and accrued expenses and other liabilities in condensed consolidated statements of financial condition.

18. Subsequent Events

The Company has evaluated subsequent events for adjustment to or disclosure in its condensed consolidated financial statements through the date of the report, and has not identified any recordable or disclosable events, not otherwise reported in these condensed consolidated financial statements or the notes thereto, except for the following:

On October 27, 2016, Virtu Financial and VFH entered into a third amended and restated credit agreement with JPMorgan Chase Bank, N.A. as administrative agent, lead arranger and bookrunner and BMO Capital Markets Corp., as syndication agent (the “Refinancing Transaction”). The third amended and restated credit agreement amends and restated in its entirety the existing Credit Agreement. Under the third amended and restated credit agreement (i) VFH’s existing term loan facility was replaced by a senior secured first lien term loan in an aggregate principal amount of \$540.0 million, drawn in its entirety on the closing date and (ii) VFH’s existing senior secured first lien revolving facility with aggregate commitments of \$100.0 million remains in effect. The term loan borrowings under the third amended and restated credit agreement will bear interest, at our election, at either (i) the greatest of (a) the prime rate in effect, (b) the federal funds effective rate plus 0.5%, (c) an adjusted LIBOR rate for a Eurodollar borrowing with an interest period of one month plus 1% and (d) 1.75%, plus, in each case, 2.50%, or (ii) the greater of (x) an adjusted

LIBOR rate for the interest period in effect and (y) 0.75%, plus, in each case, 3.50%. In addition, the term loans were issued at a discount of 0.25%. Borrowings under the third amended and restated credit agreement continue to be secured by substantially all of VFH's assets, other than the equity interests in and assets of its subsidiaries that are subject to, or potentially subject to, regulatory oversight, and its foreign subsidiaries, but including 100% of the non-voting stock and 65% of the voting stock of these subsidiaries. Under the terms of the third amended and restated credit agreement, term loans will mature on October 27th, 2022 and revolving commitments will terminate and outstanding revolving loans will mature on April 15, 2018, subject in each case to certain exceptions and permitted extensions as set forth in the third amended and

Table of Contents

restated credit agreement.

The Company's Board of Directors declared a dividend of \$0.24 per share of Class A common stock and Class B common stock and restricted stock unit, payable on December 15, 2016 to holders of record as of the close of business on December 1, 2016.

Table of Contents

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following management's discussion and analysis of the financial condition and results of operations covers the three and nine months ended September 30, 2016 and 2015, should be read in conjunction with the condensed consolidated financial statements for the three and nine months ended September 30, 2016 and 2015. This discussion contains forward-looking statements that involve risks and uncertainties. Our actual results could differ materially from those discussed below. Unless otherwise stated, all amounts are presented in thousands of dollars.

Forward-Looking Statements

This quarterly report on Form 10-Q contains forward-looking statements. You should not place undue reliance on forward-looking statements because they are subject to numerous uncertainties and factors relating to our operations and business environment, all of which are difficult to predict and many of which are beyond our control. Forward-looking statements include information concerning our possible or assumed future results of operations, including descriptions of our business strategy. These forward-looking statements can be identified by the use of forward-looking terminology, including the terms "may," "will," "should," "believe," "expect," "anticipate," "intend," "plan," "project" or, in each case, their negative, or other variations or comparable terminology and expressions. These statements are based on assumptions that we have made in light of our experience in the industry as well as our perceptions of historical trends, current conditions, expected future developments and other factors we believe are appropriate under the circumstances. As you read and consider this quarterly report on Form 10-Q, you should understand that these statements are not guarantees of performance or results and that our actual results of operations, financial condition and liquidity, and the development of the industry in which we operate, may differ materially from those made in or suggested by the forward-looking statements contained in this quarterly report on Form 10-Q. By their nature, forward-looking statements involve known and unknown risks and uncertainties, including those described under the heading "Risk Factors" in our 2015 10-K because they relate to events and depend on circumstances that may or may not occur in the future. Although we believe that the forward-looking statements contained in this quarterly report on Form 10-Q are based on reasonable assumptions, you should be aware that many factors, including those described under the heading "Risk Factors" in our 2015 10-K, could affect our actual financial results or results of operations and could cause actual results to differ materially from those in such forward-looking statements, including but not limited to:

- reduced levels of overall trading activity;
- dependence upon trading counterparties and clearing houses performing their obligations to us;
 - failures of our customized trading platform;
- risks inherent to the electronic market making business and trading generally;
- increased competition in market making activities;
- dependence on continued access to sources of liquidity;
- risks associated with self clearing and other operational elements of our business;
- compliance with laws and regulations, including those specific to our industry;
- obligation to comply with applicable regulatory capital requirements;
- litigation or other legal and regulatory based liabilities;
- proposed legislation that would impose taxes on certain financial transactions in the European Union, the U.S. and other jurisdictions;
- obligation to comply with laws and regulations applicable to our international operations;

Table of Contents

- enhanced media and regulatory scrutiny and its impact upon public perception of us or of companies in our industry;
- need to maintain and continue developing proprietary technologies;
- failure to maintain system security or otherwise maintain confidential and proprietary information;
- capacity constraints, system failures, and delays;
- dependence on third party infrastructure or systems;
- use of open source software;
- failure to protect or enforce our intellectual property rights in our proprietary technology;
- risks associated with international operations and expansion, including failed acquisitions or dispositions;
- fluctuations in currency exchange rates;
- risks associated with potential growth and associated corporate actions;
- inability to, or delay, in accessing the capital markets to sell shares or raise additional capital;
- loss of key executives and failure to recruit and retain qualified personnel; and
- risks associated with losing access to a significant exchange or other trading venue.

Our forward-looking statements made herein are made only as of the date of this quarterly report. We expressly disclaim any intent, obligation or undertaking to update or revise any forward-looking statements made herein to reflect any change in our expectations with regard thereto or any change in events, conditions or circumstances on which any such statements are based. All subsequent written and oral forward-looking statements attributable to us or persons acting on our behalf are expressly qualified in their entirety by the cautionary statements contained in this quarterly report.

Basis of Preparation

Prior to the Reorganization Transactions and our IPO, we did not conduct any activities other than those incident to our formation and our IPO. Our unaudited condensed consolidated financial statements the three and nine months ended September 30, 2015 (with the completion of the Reorganization Transactions on April 16, 2015) reflect the operations of Virtu Financial and its consolidated subsidiaries. Our unaudited condensed consolidated financial statements for the three and nine months ended September 30, 2016 and 2015 reflect our operations and those of our consolidated subsidiaries (including Virtu Financial).

Overview

We are a leading technology-enabled market maker and liquidity provider to the global financial markets. We stand ready, at any time, to buy or sell a broad range of securities, and we generate revenue by buying and selling large volumes of securities and other financial instruments and earning small bid/ask spreads. We make markets by providing quotations to buyers and sellers in more than 12,000 securities and other financial instruments on more than 235 unique exchanges, markets and liquidity pools in 36 countries around the world. We believe that our broad diversification, in combination with our proprietary technology platform and low-cost structure, enables us to facilitate risk transfer between global capital markets participants by supplying liquidity and competitive pricing while at the same time earning attractive margins and returns.

We believe that market makers like us serve an important role in maintaining and improving the overall health and efficiency of the global capital markets by continuously posting bids and offers for financial instruments and thereby

Table of Contents

providing to market participants an efficient means to transfer risk. All market participants benefit from the increased liquidity, lower overall trading costs and execution certainty that we provide.

We refer to our market making activities as being “market neutral”, which means that we are not dependent on the direction of a particular market and do not speculate. Our market making activities are designed to minimize capital at risk at any given time by limiting the notional size of our positions. Our strategies are also designed to lock in returns through precise hedging, as we seek to eliminate the price risk in any positions held.

Our revenue generation is driven primarily by transaction volume across a broad range of securities, asset classes and geographies. We avoid the risk of long or short positions in favor of earning small bid/ask spreads on large trading volumes across thousands of securities and financial instruments. We also generate revenue from interest and dividends on securities that we hold from time to time in connection with our market making activities and, beginning in 2013, from the sale of licensed technology and related services. Our revenues are also impacted by levels of volatility in a given period. Increases in market volatility can cause bid/ask spreads to widen as market participants are willing to incur greater costs to transact, which we benefit from.

Virtu Financial was formed as a Delaware limited liability company on April 8, 2011 in connection with our acquisition of Madison Tyler Holdings LLC (the “Madison Tyler Transactions”), when the members of Virtu Financial’s predecessor entity, Virtu East, which was formed and commenced operations on March 19, 2008, exchanged their interests in Virtu East for interests in Virtu Financial. On July 8, 2011, we completed our acquisition of Madison Tyler Holdings, which was co-founded by Mr. Vincent Viola, our Founder and Executive Chairman. Madison Tyler Holdings was an electronic trading firm and market maker on numerous exchanges and electronic marketplaces in equities, fixed income, currencies and commodities, and the Madison Tyler Transactions expanded our geographic and product market as well as our market penetration in existing markets. Virtu Financial is a holding company that conducts its business through its operating subsidiaries.

We believe the overall level of volumes in the various markets we serve has the greatest impact on our business. We believe that the most relevant asset class distinctions and venues for the markets we serve include the following:

Asset Classes	Selected Venues in Which We Make Markets
Americas Equities	BATS, BM&F Bovespa, CME, ICE, IEX, NASDAQ, NYSE, NYSE Arca, NYSE MKT, TMX, major private liquidity pools
EMEA Equities	Amsterdam, Aquis, BATS Europe, Bolsa de Madrid, Borsa Italiana, Brussels, EUREX, Euronext -Paris, ICE Futures Europe, Johannesburg Stock Exchange, Lisbon, London Stock Exchange, SIX Swiss Exchange, Turquoise Exchange, XETRA
APAC Equities	OSE, SBI Japannext, SGX, TOCOM, TSE
Global Commodities	CME, EBS, ICE, ICE Futures Europe, NASDAQ Energy Exchange, SGX, TOCOM
Global Currencies	CME, Currenex, EBS, HotSpot, ICE, LMAX, Reuters/FXall
Options, Fixed Income and Other Securities	BOX, BrokerTec, CBOE, eSpeed, NYSE Arca Options, PHLX

The United Kingdom has voted in an advisory referendum to leave the European Union (commonly referred to as “Brexit”). The follow-up to the referendum is not yet clear as the U.K. government has not yet delivered an official notice of withdrawal, but it may significantly affect the fiscal, monetary and regulatory landscape in the U.K., and could have a material impact on its economy and the future growth of its various industries, including the financial

services industry. We presently access the E.U. markets through our Irish regulated subsidiary and we do not expect any impact on our access to E.U. markets as a result of Brexit. However, it is not possible at this point in time to predict fully the effects of an exit of the U.K. from the E.U., especially with respect to our activities in the U.K., and it could have a material adverse effect on our business, financial condition and results of operations and cash flows.

Table of Contents

Components of Our Results of Operations

The table below sets forth certain components of our condensed consolidated statements of comprehensive income as well as factors that impact such components. We present our results under one reportable segment, which is consistent with our structure and how we manage our business.

(in thousands, except share and per share data)	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2016	2015	2016	2015
Revenues:				
Trading income, net	\$ 156,706	\$ 206,832	\$ 509,542	\$ 590,554
Interest and dividends income	5,271	6,425	14,961	21,022
Technology services	2,931	2,545	7,224	7,733
Other revenues (losses)	(102)	—	(102)	—
Total revenue	164,806	215,802	531,625	619,309
Operating Expenses:				
Brokerage, exchange and clearance fees, net	52,118	61,814	167,416	179,453
Communication and data processing	17,903	16,110	53,578	51,602
Employee compensation and payroll taxes	20,816	24,736	64,182	66,801
Interest and dividends expense	15,615	12,827	43,249	39,234
Operations and administrative	5,543	4,857	16,353	20,017
Depreciation and amortization	7,158	8,176	22,685	26,025
Amortization of purchased intangibles and acquired capitalized software	53	53	159	159
Charges related to share based compensation at IPO	333	1,107	1,444	45,301
Financing interest expense on long term borrowings	7,393	7,205	21,569	22,066
Total operating expenses	126,932	136,885	390,635	450,658
Income before income taxes and noncontrolling interest	37,874	78,917	140,990	168,651
Provision for income taxes	4,851	9,378	17,325	14,103
Net income	33,023	\$ 69,539	\$ 123,665	\$ 154,548
Noncontrolling interest	(25,997)	(57,233)	(97,913)	(141,768)
Net income available for common stockholders	\$ 7,026	\$ 12,306	\$ 25,752	\$ 12,780
Earnings per share				
Basic	\$ 0.18	0.36	\$ 0.66	0.37
Diluted	\$ 0.18	0.35	\$ 0.66	0.37
Weighted average common shares outstanding				
Basic	38,351,465	34,305,052	38,264,139	34,305,052
Diluted	38,351,465	34,738,733	38,264,139	34,641,497

Edgar Filing: Virtu Financial, Inc. - Form 10-Q

Net income	\$ 33,023	\$ 69,539	\$ 123,665	\$ 154,548
Other comprehensive income (loss)				
Foreign exchange translation adjustment, net of taxes	519	\$ 3,596	\$ 1,783	\$ 595
Comprehensive income	33,542	73,135	125,448	155,143
Less: Comprehensive income attributable to noncontrolling interest	(26,370)	(59,931)	(99,195)	(141,053)
Comprehensive income attributable to common stockholders	\$ 7,172	\$ 13,204	\$ 26,253	\$ 14,090

Total Revenues

The majority of our revenues is generated through market making activities and is recorded as trading income, net. In addition, we generate revenues from interest and dividends income as well as the sale of licensed technology and related services.

Trading Income, Net. Trading income, net, represents revenue earned from bid/ask spreads. Trading income is generated in the normal course of our market making activities and is typically proportional to the level of trading activity, or volumes, in the asset classes we serve. Our trading income is highly diversified by asset class and geography

Table of Contents

and is comprised of small amounts earned on millions of trades on various exchanges, primarily in Americas, EMEA and APAC equities, global currencies, global commodities, including energy and metals, and options, fixed income and other securities. Trading income, net, includes trading income earned from bid/ask spreads. Our trading income, net, results from gains and losses associated with economically neutral trading strategies, which are designed to capture small bid ask spreads and often involve making markets in a derivative versus a correlated instrument that is not a derivative. These transactions often result in a gain or loss on the derivative and a corresponding loss or gain on the non-derivative. Trading income, net, accounted for approximately 95% and 96% of our total revenues for the three months ended September 30, 2016 and 2015, respectively, and 96% and 95% of our total revenues for the nine months ended September 30, 2016 and 2015, respectively.

Interest and Dividends Income. Our market making activities require us to hold an inventory of securities on a regular basis, and we generate revenues in the form of interest and dividends income from these securities. Interest is earned on securities borrowed from other market participants pursuant to collateralized financing arrangements and on cash held by brokers. Dividends income arises from holding market making positions over dates on which dividends are paid to shareholders of record.

Table of Contents

Technology Services. Technology services revenues include technology licensing fees and agency commission fees. Technology licensing fees are charged for the licensing of our proprietary technology and the provision of related services, including hosting, management and support. These fees include an up-front component and a recurring fee for the relevant term, which may include both a fixed and variable component. Revenue is recognized ratably for these services over the contractual term of the agreement. We began providing technology licensing services to a third party in 2013 pursuant to a three-year arrangement, which was renewed for one year on current existing terms in January 2016. In July 2016, we entered into a separate three-year arrangement with another third party to provide technology services. Agency commission fees are charged for agency trades executed by us on behalf of third party broker dealers. We began providing agency execution services in January 2016, and revenue is recognized based on the trade volume executed.

Other Revenues (losses). In July 2016, we made a minority investment in SBI Japannext Co., Ltd. (“SBI”), a Proprietary Trading System based in Tokyo, for \$38.8 million which was substantially paid in Japanese Yen. In connection with the investment, we issued bonds to certain affiliates of SBI Japannext and used the proceeds of ¥3.5 billion to partially finance the transaction. Revenues or losses are recognized due to the changes in fair value of the investment or fluctuations in Japanese Yen conversion rates.

Operating Expenses

Brokerage, Exchange and Clearance Fees, Net. Brokerage, exchange and clearance fees are our most significant expense and include the direct expenses of executing and clearing transactions we consummate in the course of our market making activities. Brokerage, exchange and clearance fees include fees paid to various prime brokers, exchanges and clearing firms for services such as execution of transactions, prime brokerage fees, access fees and clearing expenses. These expenses generally increase and decrease in direct correlation with the level of trading activity, or volumes, in the markets we serve. Execution fees are paid primarily to exchanges and venues where we trade. Clearance fees are paid to clearing houses and clearing agents. Rebates based on volume discounts, credits or payments received from exchanges or other market places are netted against brokerage, exchange and clearance fees.

Communication and Data Processing. Communication and data processing represent primarily fixed expenses for leased equipment, equipment co-location, network lines and connectivity for our trading centers and co-location facilities. More specifically, communications expense consists primarily of the cost of voice and data telecommunication lines supporting our business, including connectivity to data centers and exchanges, markets and liquidity pools around the world, and data processing expense consists primarily of market data fees that we pay to third parties to receive price quotes and related information.

Employee Compensation and Payroll Taxes. Employee compensation and payroll taxes include employee salaries, cash and non-cash incentive compensation, employee benefits, payroll taxes, severance and other employee related costs. Non-cash compensation includes, prior to the Reorganization Transactions, the share based-incentive compensation paid to employees in the form of Class A-2 profits interests in Virtu Employee Holdco, which held corresponding Class A-2 profits interests in Virtu Financial. Additionally, after the Reorganization Transactions, it includes non-cash compensation expenses with respect to the stock options and restricted stock units granted in connection with and subsequent to the IPO pursuant to the 2015 Management Incentive Plan. We have capitalized and therefore excluded employee compensation and benefits related to software development of \$2.5 million and \$2.6 million for the three months ended September 30, 2016 and 2015, respectively and \$8.0 million and \$8.1 million for the nine months ended September 30, 2016 and 2015, respectively.

Interest and Dividends Expense. We incur interest expense from loaning certain equity securities in the general course of our market making activities pursuant to collateralized lending transactions. Typically, dividend expense is incurred when a dividend is paid on securities sold short.

Operations and Administrative. Operations and administrative expense represents occupancy, recruiting, travel and related expense, professional fees and other expenses.

Depreciation and Amortization. Depreciation and amortization expense results from the depreciation of fixed assets, such as computing and communications hardware, as well as amortization of leasehold improvements and capitalized in-house software development. We depreciate our computer hardware and related software, office hardware

Table of Contents

and furniture and fixtures on a straight line basis over a period of 3 to 7 years based on the estimated useful life of the underlying asset, and we amortize our capitalized software development costs on a straight line basis over a period of 1.4 to 2.5 years, which represents the estimated useful lives of the underlying software. We amortize leasehold improvements on a straight line basis over the lesser of the life of the improvement or the term of the lease.

Amortization of Purchased Intangibles and Acquired Capitalized Software. Amortization of purchased intangibles and acquired capitalized software represents the amortization of \$1.9 million of assets acquired in the Nyenburgh Holding B.V. Transaction. These assets are amortized over their useful lives, ranging from 1.4 to 9 years.

Charges Related to Share Based Compensation at IPO. At the consummation of the IPO and through the period ended September 30, 2016, we recognized non-cash compensation expenses in respect of the outstanding time vested Class B and East MIP Class B interests, net of capitalization and amortization of costs attributable to employees incurred in development of software for internal use, as discussed in Note 14 to the notes of the condensed consolidated financial statements.

Financing Interest Expense on Long Term Borrowings. Financing interest expense reflects interest accrued on outstanding indebtedness, under our long term borrowings.

Provision for Income Taxes

Prior to the consummation of the Reorganization Transactions and the IPO, our business was historically operated through a limited liability company that is treated as a partnership for U.S. federal income tax purposes, and as such most of our income was not subject to U.S. federal and certain state income taxes. Our income tax expense for historical periods reflects taxes payable by certain of our non-U.S. subsidiaries. Subsequent to consummation of the Reorganization Transactions and the IPO, we are subject to U.S. federal, state and local income tax at the rate applicable to corporations less the rate attributable to the noncontrolling interest in Virtu Financial.

Non-GAAP Financial Measures and Other Items

To supplement our unaudited condensed consolidated financial statements presented in accordance with generally accepted accounting principles ("GAAP"), we use the following non-GAAP measures of financial performance:

- "Adjusted Net Trading Income", which is the amount of revenue we generate from our market making activities, or trading income, net, plus interest and dividends income and expense, net, less direct costs associated with those revenues, including brokerage, exchange and clearance fees, net. Management believes that this measurement is useful for comparing general operating performance from period to period. Although we use Adjusted Net Trading Income as a financial measure to assess the performance of our business, the use of Adjusted Net Trading Income is limited because it does not include certain material costs that are necessary to operate our business. Our presentation of Adjusted Net Trading Income should not be construed as an indication that our future results will be unaffected by revenues or expenses that are not directly associated with our market making activities.
- "EBITDA", which measures our operating performance by adjusting net income to exclude financing interest expense on our long term borrowings, depreciation and amortization, amortization of purchased intangibles and acquired capitalized software, equipment write-off and income tax expense, and "Adjusted EBITDA", which measures our operating performance by further adjusting EBITDA to exclude severance, transaction advisory fees and expenses, termination of office leases, share based compensation charges related to share based compensation at IPO, 2015 Management Incentive Plan, and charges related to share based compensation at IPO.
- "Normalized Adjusted Net Income", "Normalized Adjusted Net Income before income taxes", "Normalized provision for income taxes", and "Normalized Adjusted EPS", which we calculate by adjusting Net Income to exclude certain items including IPO-related adjustments and other non-cash items, assuming that all vested and

Table of Contents

unvested Virtu Financial LLC units have been exchanged for Class A Common Stock, and applying a corporate tax rate of 35.5%.

Adjusted Net Trading Income, EBITDA, Adjusted EBITDA, Normalized Adjusted Net Income, Normalized Adjusted Net Income before income taxes, Normalized provision for income taxes and Normalized Adjusted EPS are non-GAAP financial measures used by management in evaluating operating performance and in making strategic decisions. In addition, these non-GAAP measures or similar non-GAAP measures are used by research analysts, investment bankers and lenders to assess our operating performance. Management believes that the presentation of Adjusted Net Trading Income, EBITDA, Adjusted EBITDA, Normalized Adjusted Net Income, Normalized Adjusted Net Income before income taxes, Normalized provision for income taxes and Normalized Adjusted EPS provide useful information to investors regarding our results of operations because they assist both investors and management in analyzing and benchmarking the performance and value of our business. Adjusted Net Trading Income, EBITDA, Adjusted EBITDA, Normalized Adjusted Net Income, Normalized Adjusted Net Income before income taxes, Normalized provision for income taxes and Normalized Adjusted EPS provide indicators of general economic performance that are not affected by fluctuations in certain costs or other items. Accordingly, management believes that these measurements are useful for comparing general operating performance from period to period. Furthermore, our credit agreement contains covenants and other tests based on metrics similar to Adjusted EBITDA. Other companies may define Adjusted Net Trading Income, Adjusted EBITDA, Normalized Adjusted Net Income, Normalized Adjusted Net Income before income taxes, Normalized provision for income taxes and Normalized Adjusted EPS differently, and as a result our measures of Adjusted Net Trading Income, Adjusted EBITDA, Normalized Adjusted Net Income, Normalized Adjusted Net Income before income taxes, Normalized provision for income taxes and Normalized Adjusted EPS may not be directly comparable to those of other companies. Although we use these non-GAAP measures as financial measures to assess the performance of our business, such use is limited because they do not include certain material costs necessary to operate our business.

Adjusted Net Trading Income, EBITDA, Adjusted EBITDA, Normalized Adjusted Net Income, Normalized Adjusted Net Income before income taxes, Normalized provision for income taxes and Normalized Adjusted EPS should be considered in addition to, and not as a substitute for, Net Income in accordance with U.S. GAAP as a measure of performance. Our presentation of Adjusted Net Trading Income, EBITDA, Adjusted EBITDA, Normalized Adjusted Net Income, Normalized Adjusted Net Income before income taxes, Normalized provision for income taxes and Normalized Adjusted EPS should not be construed as an indication that our future results will be unaffected by unusual or nonrecurring items. Adjusted Net Trading Income, Normalized Adjusted Net Income, Normalized Adjusted Net Income before income taxes, Normalized provision for income taxes and Normalized Adjusted EPS and our EBITDA-based measures have limitations as analytical tools, and you should not consider them in isolation or as substitutes for analysis of our results as reported under U.S. GAAP. Some of these limitations are:

- they do not reflect every cash expenditure, future requirements for capital expenditures or contractual commitments;
- our EBITDA-based measures do not reflect the significant interest expense or the cash requirements necessary to service interest or principal payment on our debt;
- although depreciation and amortization are non-cash charges, the assets being depreciated and amortized will often have to be replaced or require improvements in the future, and our EBITDA-based measures do not reflect any cash requirement for such replacements or improvements;
- they are not adjusted for all non-cash income or expense items that are reflected in our statements of cash flows;
- they do not reflect the impact of earnings or charges resulting from matters we consider not to be indicative of our ongoing operations; and
 - they do not reflect limitations on our costs related to transferring earnings from our subsidiaries to us.

Because of these limitations, Adjusted Net Trading Income, EBITDA, Adjusted EBITDA and Normalized Adjusted Net Income are not intended as alternatives to Net Income as indicators of our operating performance and

Table of Contents

should not be considered as measures of discretionary cash available to us to invest in the growth of our business or as measures of cash that will be available to us to meet our obligations. We compensate for these limitations by using Adjusted Net Trading Income, EBITDA, Adjusted EBITDA and Normalized Adjusted Net Income along with other comparative tools, together with U.S. GAAP measurements, to assist in the evaluation of operating performance. These U.S. GAAP measurements include operating Net Income (loss), cash flows from operations and cash flow data. See below a reconciliation of each non-GAAP measure to the most directly comparable GAAP measure.

The following tables reconcile Condensed Consolidated Statements of Comprehensive Income to arrive at EBITDA, Adjusted EBITDA, Adjusted Net Trading Income, and selected Operating Margins.

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2016	2015	2016	2015
	(in thousands, except percentages)			
Reconciliation of Trading income, net to Adjusted Net Trading Income				
Trading income, net	\$ 156,706	\$ 206,832	\$ 509,542	\$ 590,554
Interest and dividends income	5,271	6,425	14,961	21,022
Brokerage, exchange and clearance fees, net	(52,118)	(61,814)	(167,416)	(179,453)
Interest and dividends expense	(15,615)	(12,827)	(43,249)	(39,234)
Adjusted Net Trading Income	\$ 94,244	\$ 138,616	\$ 313,838	\$ 392,889
Reconciliation of Net Income to EBITDA and Adjusted EBITDA				
Net Income	\$ 33,023	\$ 69,539	\$ 123,665	\$ 154,548
Financing interest expense on long term borrowings	7,393	7,205	21,569	22,066
Depreciation and amortization	7,158	8,176	22,685	26,025
Amortization of purchased intangibles and acquired capitalized software	53	53	159	159
Provision for Income Taxes	4,851	9,378	17,325	14,103
EBITDA	52,478	94,351	185,403	216,901
Severance	77	342	270	645
Transaction advisory fees and expenses	521	—	676	—
Termination of office leases	—	—	(319)	2,729
Trading related settlement income	(2,975)	—	(2,975)	—
Other losses (revenues)	102	—	102	—
Equipment write-off	—	—	428	—
Share based compensation	4,892	3,254	14,587	11,907
Charges related to share based compensation at IPO, 2015 Management Incentive Plan	1,512	1,655	4,212	2,913
Charges related to share based compensation awards at IPO	333	1,107	1,444	45,301
Adjusted EBITDA	\$ 56,940	\$ 100,709	\$ 203,828	\$ 280,396

Selected Operating Margins

Edgar Filing: Virtu Financial, Inc. - Form 10-Q

Net Income Margin(1)	34.0	%	49.3	%	38.5	%	38.6	%
EBITDA Margin(2)	54.0	%	66.8	%	57.7	%	54.1	%
Adjusted EBITDA Margin(3)	58.6	%	71.3	%	63.5	%	70.0	%

- (1) Calculated by dividing net income by the sum of Adjusted Net Trading Income and technology services revenue.
(2) Calculated by dividing EBITDA by the sum of Adjusted Net Trading Income and technology services revenue.
(3) Calculated by dividing Adjusted EBITDA by the sum of Adjusted Net Trading Income and technology services revenue.

Table of Contents

The following tables reconcile Condensed Consolidated Statements of Comprehensive Income to arrive at Normalized Adjusted Net Income before income taxes, Normalized provision for income taxes, Normalized Adjusted Net Income and Normalized Adjusted EPS.

	For the Three Months Ended		For the Nine Months Ended	
	2016	2015	2016	2015
(in thousands, except share and per share data)				
Reconciliation of Net Income to Normalized Adjusted Net Income				
Net income	\$ 33,023	\$ 69,539	\$ 123,665	\$ 154,548
Provision for income taxes	4,851	9,378	17,325	14,103
Income before income taxes	37,874	78,917	140,990	168,651
Amortization of purchased intangibles and acquired capitalized software	53	53	159	159
Severance	77	342	270	645
Transaction advisory fees and expenses	521	—	676	—
Termination of office leases	—	—	(319)	2,729
Equipment write-off	—	251	428	1,719
Trading related settlement income	(2,975)	—	(2,975)	—
Other losses (revenues)	102	—	102	—
Share based compensation	4,892	3,254	14,587	11,907
Charges related to share based compensation at IPO, 2015 Management Incentive Plan	1,512	1,655	4,212	2,913
Charges related to share based compensation awards at IPO	333	1,107	1,444	45,301
Normalized Adjusted Net Income before income taxes	42,389	85,579	159,574	234,024
Normalized provision for income taxes(1)	15,048	30,381	56,649	83,079
Normalized Adjusted Net Income	\$ 27,341	\$ 55,198	\$ 102,925	\$ 150,945
Weighted Average Adjusted shares outstanding (2)	139,687,848	138,881,040	139,685,124	138,783,804
Normalized Adjusted EPS	\$ 0.20	\$ 0.40	\$ 0.74	\$ 1.09

(1) Reflects U.S. federal, state, and local income tax rate applicable to corporations of approximately 35.5%.

(2) Assumes that (1) holders of all vested and unvested Virtu Financial LLC Units (together with corresponding shares of Class C common stock), have exercised their right to exchange such Virtu Financial LLC Units for shares of Class A common stock on a one-for-one basis, (2) holders of all Virtu Financial LLC Units (together with corresponding shares of Class D common stock), have exercised their right to exchange such Virtu Financial LLC Units for shares of Class B common stock on a one-for-one basis, and subsequently exercised their right to convert the shares of Class B common stock into shares of Class A common stock on a one-for-one basis. Includes additional shares from dilutive impact of options and restricted stock units outstanding under the 2015 Management Incentive Plan during the three and nine months ended September 30, 2016 and 2015.

The following table shows our Adjusted Net Trading Income, average daily Adjusted Net Trading Income and percentage of Adjusted Net Trading Income by category for the three and nine months ended September 30, 2016 and 2015.

(in thousands, except percentages)	Three Months Ended September 30, 2016			2015		
	Total	Average Daily	%	Total	Average Daily	%
Adjusted Net Trading Income:						
Categories						
Americas Equities	\$ 24,738	\$ 387	26 %	\$ 45,815	\$ 716	33 %
EMEA Equities	8,181	128	9 %	15,087	236	11 %
APAC Equities	12,609	197	13 %	13,144	205	10 %
Global Commodities	26,600	416	28 %	28,273	442	20 %
Global Currencies	12,883	201	14 %	23,289	364	17 %
Options, Fixed income and Other Securities	5,844	91	6 %	10,988	172	8 %
Unallocated (1)	3,390	53	4 %	2,020	31	1 %
Total Adjusted Net Trading Income	\$ 94,245	\$ 1,473	100 %	\$ 138,616	\$ 2,166	100 %

Table of Contents

(In thousands, except percentages)	Nine Months Ended September 30,			2015		
	2016	Average		Total	Average	
	Total	Daily	%	Total	Daily	%
Adjusted Net Trading Income:						
Categories						
Americas Equities	\$ 92,837	\$ 491	30 %	\$ 102,278	\$ 455	26 %
EMEA Equities	34,803	184	11 %	46,013	249	12 %
APAC Equities	38,733	205	12 %	33,875	167	9 %
Global Commodities	78,223	414	25 %	90,514	502	23 %
Global Currencies	50,282	266	16 %	90,147	539	23 %
Options, Fixed income and Other Securities	22,814	121	7 %	24,911	112	6 %
Unallocated (1)	(3,854)	(20)	(1) %	5,151	25	1 %
Total Adjusted Net Trading Income	\$ 313,838	\$ 1,661	100 %	\$ 392,889	\$ 2,049	100 %

(1) Under our methodology for recording “trading income, net” in our condensed consolidated statements of comprehensive income, we recognize revenues based on the exit price of assets and liabilities in accordance with applicable U.S. GAAP rules, and when we calculate Adjusted Net Trading Income for corresponding reporting periods, we start with trading income, net, so calculated. By contrast, when we calculate Adjusted Net Trading Income by asset class, we do so on a daily basis, and as a result prices used in recognizing revenues may differ. Because we provide liquidity on a global basis, across asset classes and time zones, the timing of any particular Adjusted Net Trading Income calculation can effectively defer or accelerate revenue from one day to another or one reporting period to another, as the case may be. We do not allocate any resulting differences based on the timing of revenue recognition.

Three Months Ended September 30, 2016 Compared to Three Months Ended September 30, 2015

Total Revenues

Our total revenues decreased \$51.0 million, or 23.6%, to \$164.8 million for the three months ended September 30, 2016, compared to \$215.8 million for the three months ended September 30, 2015. This decrease was primarily attributable to a decrease in trading income, net, of \$50.1 million.

Trading Income, Net. Trading income, net, decreased \$50.1 million, or 24.2%, to \$156.7 million for the three months ended September 30, 2016, compared to \$206.8 million for the three months ended September 30, 2015. The decrease was primarily attributable to the less favorable conditions across all asset classes as a result of lower levels of volume and volatility within the equities, currencies, and commodities markets that persisted throughout the three months ended September 30, 2016. The decrease was partially offset by \$3.0 million income from a settlement fund established as a result of a trading related class action lawsuit in which we participated as a class member. Rather than analyzing trading income, net, in isolation, we generally evaluate it in the broader context of our Adjusted Net Trading Income, together with interest and dividends income, interest and dividends expense and brokerage, exchange and clearance fees, net, each of which are described below.

Interest and Dividends Income. Interest and dividends income decreased \$1.1 million, or 17.2%, to \$5.3 million for the three months ended September 30, 2016, compared to \$6.4 million for the three months ended September 30, 2015. This decrease was primarily attributable to lower interest income earned on cash collateral posted as part of securities borrowed transactions. As indicated above, rather than analyzing interest and dividends income in isolation, we generally evaluate it in the broader context of our Adjusted Net Trading Income.

Technology Services. Technology services include technology licensing fees and agency commission fees. Technology licensing fees include an up-front component and a recurring fee that may include both a fixed and variable component, and are recognized ratably over the term of the contract and therefore do not change significantly period over period unless there are new counterparties. Agency commission fees are positively correlated to the volume of the trades excuted by our broker dealer. Technology services revenue increased \$0.4 million, or 16.0%, to \$2.9 million for the three months ended September 30, 2016, compared to \$2.5 million for the three months ended September 30, 2015. The increase was primarily attributable to a new technology services contract executed with a new counterparty related to US Treasuries Dealer to Dealer market making on electronic trading venues in July 2016, as well as the agency commission fees generated from agency execution services started in January 2016.

Table of Contents

Other Revenues (losses). Other revenues and (losses) were incurred as a result of the foreign currency revaluations on the Japanese Yen based minority investment and the SBI Bonds, which were \$1.4 million and \$(1.5) million, respectively, for the three months ended September 30, 2016. There were no such revenues (losses) for the three month ended September 30, 2015.

Adjusted Net Trading Income

Adjusted Net Trading Income decreased \$44.4 million, or 32.0%, to \$94.2 million for the three months ended September 30, 2016, compared to \$138.7 million for the three months ended September 30, 2015. This decrease compared to the prior period reflects decreases in Adjusted Net Trading Income in the following categories: \$21.1 million from Americas Equities, \$6.9 million from EMEA equities, \$1.7 million from global commodities, \$10.4 million from global currencies, APAC equities from \$0.5 million, and \$5.1 million from options, fixed income and other securities. These decreases were primarily attributable to the less favorable conditions across all asset classes as a result of lower levels of volume and volatility within the equities, currencies, and commodities markets that persisted throughout the three months ended September 30, 2016. The decreases in Adjusted Net Trading Income were partially offset by \$3.0 million income from a settlement fund established as a result of a trading related class action lawsuit in which the we participated as a class member. Adjusted Net Trading Income per day decreased \$0.69 million, or 32.0%, to \$1.5 million for the three months ended September 30, 2016, compared to \$2.2 million for the three months ended September 30, 2015. The number of trading days for the three months ended September 30, 2016 and 2015 were 64 and 64, respectively.

Operating Expenses

Our operating expenses decreased \$10.0 million, or 7.3%, to \$126.9 million for the three months ended September 30, 2016, compared to \$136.9 million for the three months ended September 30, 2015. This decrease was primarily due to decreases in in brokerage, exchange, and clearance fees of \$9.7 million, in depreciation and amortization expense of \$1.0 million, in charges related to share based compensation at IPO of \$0.8 million, and in employee compensation and payroll taxes of \$3.9 million. These decreases in operating expenses were partially offset by increases in communication and data processing of \$1.8 million, in operating and administrative expense of \$0.6 million, in interest and dividend expense of \$2.8 million, and in financing interest expense on long term borrowings of \$0.2 million. There was no change for the three months ended September 30, 2016 compared to the three months ended September 30, 2015 for amortization of purchased intangible and acquired capitalized software.

Brokerage, Exchange and Clearance Fees, Net. Brokerage exchange and clearance fees, net, decreased \$9.7 million, or 15.7%, to \$52.1 million for the three months ended September 30, 2016, compared to \$61.8 million for the three months ended September 30, 2015. This decrease was primarily attributable to the decreases in market volume and volatility traded in the EMEA equities and Global Currencies instruments in which we make markets. As indicated above, rather than analyzing brokerage, exchange and clearance fees, net, in isolation, we generally evaluate it in the broader context of our Adjusted Net Trading Income.

Communication and Data Processing. Communication and data processing expense increased \$1.8 million, or 11.2%, to \$17.9 million for the three months ended September 30, 2016, compared to \$16.1 million for the three months ended September 30, 2015. This increase was primarily due to commencement of new connectivity connections, as well as increases in market data fees. The increase was partially offset by reductions in discontinued connectivity connections.

Employee Compensation and Payroll Taxes. Employee compensation and payroll taxes decreased \$3.9 million, or 15.8%, to \$20.8 million for the three months ended September 30, 2016, compared to \$24.7 million for the three months ended September 30, 2015. Employee compensation expense for the interim period is accrued in connection

with the Adjusted Net Trading Income for the period with certain adjustments made at management's discretion. The decrease in compensation levels was attributable to the decrease in incentive compensation accrual during the three months ended September 30, 2016. Incentive compensation accrual is recoded at management's discretion and is generally accrued in connection with the overall level of profitability.

Interest and Dividends Expense. Interest and dividends expense increased \$2.8 million, or 21.9%, to \$15.6 million for the three months ended September 30, 2016, compared to \$12.8 million for the three months ended

Table of Contents

September 30, 2015. This increase was primarily attributable to higher interest expense incurred on cash collateral received as part of securities lending transactions. As indicated above, rather than analyzing interest and dividends expense in isolation, we generally evaluate it in the broader context of our Adjusted Net Trading Income.

Operations and Administrative. Operations and administrative expense increased \$0.6 million, or 12.2%, to \$5.5 million for the three months ended September 30, 2016, compared to \$4.9 million for the three months ended September 30, 2015. The increase was primarily attributable to an increase in miscellaneous office and employee placements expenses.

Depreciation and Amortization. Depreciation and amortization decreased \$1.0 million, or 12.2%, to \$7.2 million for the three months ended September 30, 2016, compared to \$8.2 million for the three months ended September 30, 2015. This decrease was primarily attributable to the decrease in capital expenditures on telecommunication, networking and other assets.

Amortization of Purchased Intangibles and Acquired Capitalized Software. Amortization of purchased intangibles and acquired capitalized software did not change, from \$0.1 million for the three months ended September 30, 2016, compared to \$0.1 million for the three months ended September 30, 2015.

Charges related to share based compensation at IPO. At the consummation of the IPO in April 2015, we began recognizing non-cash compensation expenses in respect to the vesting of Class B and East MIP Class B interests. For the three months ended September 30, 2015, we recognized compensation expenses of approximately \$44.2 million, which includes a one-time charge upon the IPO with respect to the outstanding time vested Class B and East MIP Class B interests, net of \$9.5 million and \$8.0 million in capitalization and amortization of capitalized costs attributable to employees incurred in development of software for internal use, respectively. For the three months ended September 30, 2016, the expense was \$0.5 million, which reflects monthly charges on the periodic vesting of awards over a specified service period, net of approximately \$0.3 million and \$0.3 million of capitalization and amortization, respectively.

Financing Interest Expense on Long Term Borrowings. Financing interest expense on senior secured credit facility increased \$0.2 million, or 2.8%, to \$7.4 million for the three months ended September 30, 2016, compared to \$7.2 million for the three months ended September 30, 2015. This increase was due to the new issuance of SBI Bonds that bear interest at the rate per annum of 4.0%, as discussed in Note 8 to the notes of the condensed consolidated financial statements.

Provision for Income Taxes

Historically, as a limited liability company treated as a partnership for U.S. federal income tax purposes, most of our income has not been subject to corporate tax, but instead our members have been taxed on their proportionate share of our net income.

However, following the consummation of the Reorganization Transactions and the IPO, we incur corporate tax at the U.S. federal income tax rate on our taxable income, as adjusted for noncontrolling interest in Virtu Financial. Our income tax expense reflects such U.S. federal income tax as well as taxes payable by certain of our non-U.S. subsidiaries. Provision for income taxes decreased \$4.5 million, or 47.9%, to \$4.9 million for the three months ended September 30, 2016, compared to \$9.4 million for the three months ended September 30, 2015.

Nine Months Ended September 30, 2016 Compared to Nine Months Ended September 30, 2015

Total Revenues

Our total revenues decreased \$87.7 million, or 14.2%, to \$531.6 million for the nine months ended September 30, 2016, compared to \$619.3 million for the nine months ended September 30, 2015. This decrease was primarily attributable to an decrease in trading income, net, of \$81.1 million.

Trading Income, Net. Trading income, net, decreased \$81.1 million, or 13.7%, to \$509.5 million for the nine months ended September 30, 2016, compared to \$590.6 million for the nine months ended September 30, 2015. The

Table of Contents

decrease was primarily attributable to the less favorable conditions in the Americas Equities, Global Currencies, Global Commodities and EMEA Equities categories as a result of lower volume and volatility within currencies and European equities markets during the third quarter ended September 30, 2016, and the Swiss National Bank de-pegging announcement in January 2015, which had a substantial impact on the volume and volatility within the currency, commodities and European equities markets that persisted throughout the first quarter ended March 31, 2015. The decrease was partially offset by \$3.0 million income from a settlement fund established as a result of a trading related class action lawsuit in which we participated as a class member. Rather than analyzing trading income, net, in isolation, we generally evaluate it in the broader context of our Adjusted Net Trading Income, together with interest and dividends income, interest and dividends expense and brokerage, exchange and clearance fees, net, each of which are described below.

Interest and Dividends Income. Interest and dividends income decreased \$6.0 million, or 28.6%, to \$15.0 million for the nine months ended September 30, 2016, compared to \$21.0 million for the nine months ended September 30, 2015. This decrease was primarily attributable to lower interest income earned on cash collateral posted as part of securities borrowed transactions. As indicated above, rather than analyzing interest and dividends income in isolation, we generally evaluate it in the broader context of our Adjusted Net Trading Income.

Technology Services. Technology services revenues include technology licensing fees and agency commission fees. Technology services revenues decreased \$0.5 million, or 6.5%, to \$7.2 million for the nine months ended September 30, 2016, compared to \$7.7 million for the nine months ended September 30, 2015. The upfront fee component of one of our technology services arrangements entered in 2013 was fully recognized over the initial three-year term, resulting in the decrease during the nine months ended September 30, 2016. The decrease was partially offset by a new technology services contract executed with a new counterparty related to US Treasuries Dealer-to Dealer market making on electronic trading venues in July 2016, and agency commission fees generated from agency execution services started in January 2016.

Other Revenues (losses). Other revenues and (losses) were incurred as a result of the foreign currency revaluations on the Japanese Yen based minority investment and the SBI Bonds, which were \$1.4 million and \$(1.5) million, respectively, for the nine months ended September 30, 2016. There were no such revenues (losses) for the nine month ended September 30, 2015.

Adjusted Net Trading Income

Adjusted Net Trading Income decreased \$79.1 million, or 20.1%, to \$313.8 million for the nine months ended September 30, 2016, compared to \$393.0 million for the nine months ended September 30, 2015. This decrease compared to the prior period reflects decreases in Adjusted Net Trading Income in the following categories: \$9.4 million from Americas equities, \$11.2 million from EMEA equities, \$12.3 million from global commodities, \$39.9 million from global currencies,. These decreases were primarily attributable to less favorable conditions in the Americas Equities, Global Currencies, Global Commodities and EMEA Equities categories as a result of lower volume and volatility within the American equities, commodities, currencies and European equities markets during the third quarter ended September 30, 2016, and the Swiss National Bank de-pegging announcement in January 2015, which had a positive impact on the volume and volatility within the currency, commodities and European equities markets that persisted throughout the first quarter ended March 31, 2015. The decreases in Adjusted Net Trading Income were partially offset by an increase in Adjusted Net Trading Income from APAC equities of \$4.9 million, and \$2.1 million from options, fixed income and other securities compared to the prior period. The increase in APAC equities was primarily attributable to increased volumes in APAC equities markets. Adjusted Net Trading Income per day decreased \$0.39 million, or 18.9%, to \$1.66 million for the nine months ended September 30, 2016, compared to \$2.1 million for the nine months ended September 30, 2015. The number of trading days were 189 and 188 for the nine months ended September 30, 2016 and 2015, respectively.

Operating Expenses

Our operating expenses decreased \$60.1 million, or 13.3%, to \$390.6 million for the nine months ended September 30, 2016, compared to \$450.7 million for the nine months ended September 30, 2015. This decrease was

48

Table of Contents

primarily due to decreases in brokerage, exchange, and clearance fees of \$12.1 million, operating and administrative expense of \$3.6 million, depreciation and amortization expense of \$3.3 million, financing interest expense on long term borrowings of \$0.5 million, employee compensation and payroll taxes of \$2.6 million, and charges related to share based compensation at IPO of \$43.9 million. These decreases in operating expenses were partially offset by an increase in communication and data processing of \$2.0 million, and interest and dividend expense of \$4.0 million. There was no change for the nine months ended September 30, 2016 compared to the nine months ended September 30, 2015 for amortization of purchased intangible and acquired capitalized software.

Brokerage, Exchange and Clearance Fees, Net. Brokerage exchange and clearance fees, net, decreased \$12.1 million, or 6.7%, to \$167.4 million for the nine months ended September 30, 2016, compared to \$179.5 million for the nine months ended September 30, 2015. This decrease was primarily attributable to the decreases in market volume and volatility traded in the Americas equities, EMEA equities and Global Currencies instruments in which we make markets. As indicated above, rather than analyzing brokerage, exchange and clearance fees, net, in isolation, we generally evaluate it in the broader context of our Adjusted Net Trading Income.

Communication and Data Processing. Communication and data processing expense increased \$2.0 million, or 3.9%, to \$53.6 for the nine months ended September 30, 2016, compared to \$51.6 million for the nine months ended September 30, 2015. This increase was primarily due to commencement of new connectivity connections, and purchase of equipment upon expiration of various lease contracts, as well as increases in market data fees. The increase was partially offset by reductions in discontinued connectivity connections.

Employee Compensation and Payroll Taxes. Employee compensation and payroll taxes decreased \$2.6 million, or 3.9%, to \$64.2 million for the nine months ended September 30, 2016, compared to \$66.8 million for the nine months ended September 30, 2015. Employee compensation expense for the interim period is accrued in connection with the Adjusted Net Trading Income for the period with certain adjustments made at management's discretion. The decrease was attributable to the compensation expense recognized from stock options granted in connection with the IPO in April 2015. Prior to the IPO, no such compensation expense was recognized.

Interest and Dividends Expense. Interest and dividends expense increased \$4.0 million, or 10.2%, to \$43.2 million for the nine months ended September 30, 2016, compared to \$39.2 million for the nine months ended September 30, 2015. This increase was primarily attributable to higher interest expense incurred on cash collateral received as part of securities lending transactions. As indicated above, rather than analyzing interest and dividends expense in isolation, we generally evaluate it in the broader context of our Adjusted Net Trading Income.

Operations and Administrative. Operations and administrative expense decreased \$3.6 million, or 18.0%, to \$16.4 million for the nine months ended September 30, 2016, compared to \$20.0 million for the nine months ended September 30, 2015. The decrease was primarily attributable to the recognition of an expense in March 2015 of approximately \$2.7 million arising from the acceleration of future lease payments of one of our office locations that was recognized as of the date we ceased using the location.

Depreciation and Amortization. Depreciation and amortization decreased \$3.3 million, or 12.7%, to \$22.7 million for the nine months ended September 30, 2016, compared to \$26.0 million for the nine months ended September 30, 2015. This decrease was primarily attributable to the decrease in capital expenditures on telecommunication, networking and other assets.

Amortization of Purchased Intangibles and Acquired Capitalized Software. Amortization of purchased intangibles and acquired capitalized software did not change, from \$0.2 million for the nine months ended September 30, 2016, compared to \$0.2 million for the nine months ended September 30, 2015.

Charges related to share based compensation at IPO. At the consummation of the IPO in April 2015, we began recognizing non-cash compensation expenses in respect to the vesting of Class B and East MIP Class B interests. For the nine months ended September 30, 2015, we recognized compensation expenses of approximately \$44.2 million, which includes a one-time charge upon the IPO with respect to the outstanding time vested Class B and East MIP Class B interests, net of \$9.5 million and \$8.0 million in capitalization and amortization of capitalized costs attributable to employees incurred in development of software for internal use, respectively. For the nine months ended September 30,

Table of Contents

2016, the expense was \$1.1 million, which reflects monthly charges on the periodic vesting of awards over a specified service period, net of approximately \$0.6 million and \$0.7 million of capitalization and amortization, respectively.

Financing Interest Expense on Long Term Borrowings. Financing interest expense on long term borrowings decreased \$0.5 million, or 2.3%, to \$21.6 million for the nine months ended September 30, 2016, compared to \$22.1 million for the nine months ended September 30, 2015. This decrease was due to the 0.50% incremental spread reduction after the amendment of our existing senior secured credit facilities upon the consummation of the IPO on April 21, 2015. This decrease was partially offset by the new issuance of SBI Bonds that bear interest at the rate per annum of 4.0%, as discussed in Note 8 to the notes of the condensed consolidated financial statements.

Provision for Income Taxes

Historically, as a limited liability company treated as a partnership for U.S. federal income tax purposes, most of our income has not been subject to corporate tax, but instead our members have been taxed on their proportionate share of our net income.

However, following the consummation of the Reorganization Transactions and the IPO, we incur corporate tax at the U.S. federal income tax rate on our taxable income, as adjusted for noncontrolling interest in Virtu Financial. Our income tax expense reflects such U.S. federal income tax as well as taxes payable by certain of our non-U.S. subsidiaries. As such, provision for income taxes increased \$3.2 million, or 22.7%, to \$17.3 million for the nine months ended September 30, 2016, compared to \$14.1 million for the nine months ended September 30, 2015.

Liquidity and Capital Resources

General

As of September 30, 2016, we had \$146.0 million in cash and cash equivalents, which includes \$50.3 million of net proceeds received from the IPO. These balances are maintained primarily to support operating activities and for capital expenditures and for short-term access to liquidity, and other general corporate purposes. As of September 30, 2016, we had borrowings under our short-term credit facilities of approximately \$253.2 million, borrowings under broker dealer facilities of \$17.6 million, and long-term borrowings in an aggregate principal amount of approximately \$530.5 million. As of September 30, 2016, our regulatory capital requirements for domestic U.S. subsidiaries were \$3.9 million, in aggregate.

The majority of our assets consist of exchange-listed marketable securities, which are marked-to-market daily, and collateralized receivables from broker-dealers and clearing organizations arising from proprietary securities transactions. Collateralized receivables consist primarily of securities borrowed, receivables from clearing houses for settlement of securities transactions and, to a lesser extent, securities purchased under agreements to resell. We actively manage our liquidity, and we maintain significant borrowing facilities through the securities lending markets and with banks and prime brokers. We have continually received the benefit of uncommitted margin financing from our prime brokers globally. These margin facilities are secured by securities in accounts held at the prime broker. For purposes of providing additional liquidity, we maintain a committed revolving credit facility for Virtu Financial BD LLC, one of our wholly owned broker-dealer subsidiaries. Effective July 18, 2016, we entered into an amendment to extend the term of the committed broker dealer credit facilities, to July 17, 2017, as discussed in Note 8 of the accompanying condensed consolidated financial statements.

Based on our current level of operations, we believe our cash flows from operations, available cash and available borrowings under our broker-dealer revolving credit facility will be adequate to meet our future liquidity needs for more than the next twelve months. We anticipate that our primary upcoming cash and liquidity needs will be increased

margin requirements from increased trading activities in markets where we currently provide liquidity and in new markets into which we expand. We manage and monitor our margin and liquidity needs on a real-time basis and can adjust our requirements both intra-day and inter-day, as required.

We expect our principal sources of future liquidity to come from cash flows provided by operating activities and financing activities. In addition, we have broad discretion as to the application of the net proceeds received from the

Table of Contents

IPO for working capital and general corporate purposes. Certain of our cash balances are insured by the Federal Deposit Insurance Corporation, generally up to \$250,000 per account but without a cap under certain conditions. From time to time these cash balances may exceed insured limits, but we select financial institutions deemed highly creditworthy to minimize risk. We consider highly liquid investments with original maturities of less than three months when acquired to be cash equivalents.

Tax Receivable Agreements

Generally, we are required under the tax receivable agreements entered into in connection with our IPO to make payments to certain direct or indirect equityholders of Virtu Financial that are generally equal to 85% of the applicable cash tax savings, if any, that we actually realize as a result of favorable tax attributes that will be available to us as a result of the Reorganization Transactions, exchanges of membership interests for Class A common stock or Class B common stock and payments made under the tax receivable agreements. We will retain the remaining 15% of these cash tax savings. We expect that future payments to certain direct or indirect equityholders of Virtu Financial described in Note 13 to the condensed consolidated financial statements included herein are expected to aggregate to approximately \$226.0 million, ranging from approximately \$7.4 million to \$20.1 million per year over the next 15 years. Such payments will occur only after we have filed our U.S. federal and state income tax returns and realized the cash tax savings from the favorable tax attributes. The first payment would be due 120 days after the filing of our tax return for the year ended December 31, 2015, which was due March 15, 2016, but has been extended to September 15, 2016. Future payments under the tax receivable agreements in respect of subsequent exchanges would be in addition to these amounts. We currently expect to fund these payments from cash flow from operations generated by our subsidiaries as well as from excess tax distributions that we receive from our subsidiaries.

Under the tax receivable agreements, as a result of certain types of transactions and other factors, including a transaction resulting in a change of control, we may also be required to make payments to certain direct or indirect equityholders in amounts equal to the present value of future payments we are obligated to make under the tax receivable agreements. If the payments under the tax receivable agreements are accelerated, we may be required to raise additional debt or equity to fund such payments. To the extent that we are unable to make payments under the tax receivable agreements for any reason (including because our credit agreement restricts the ability of our subsidiaries to make distributions to us) such payments will be deferred and will accrue interest until paid.

Regulatory Capital Requirements

Certain of our principal operating subsidiaries are subject to separate regulation and capital requirements in the United States and other jurisdictions. Virtu Financial BD LLC and Virtu Financial Capital Markets LLC are registered U.S. broker-dealers, and their primary regulators include the SEC, the Chicago Stock Exchange and FINRA. Virtu Financial Ireland Limited is a registered investment firm under the Market in Financial Instruments Directive, and its primary regulator is the Central Bank of Ireland.

The SEC and FINRA impose rules that require notification when regulatory capital falls below certain pre-defined criteria. These rules also dictate the ratio of debt-to-equity in the regulatory capital composition of a broker-dealer and constrain the ability of a broker-dealer to expand its business under certain circumstances. If a firm fails to maintain the required regulatory capital, it may be subject to suspension or revocation of registration by the applicable regulatory agency, and suspension or expulsion by these regulators could ultimately lead to the firm's liquidation. Additionally, certain applicable rules impose requirements that may have the effect of prohibiting a broker-dealer from distributing or withdrawing capital and requiring prior notice to and/or approval from the SEC, the Chicago Stock Exchange and FINRA for certain capital withdrawals. Virtu Financial Capital Markets LLC is also subject to rules set forth by NYSE MKT (formerly NYSE Amex) and is required to maintain a certain level of capital in connection with the operation of its DMM business. Virtu Financial Ireland Limited is regulated by the Central Bank

of Ireland as an Investment Firm and in accordance with European Union law is required to maintain a minimum amount of regulatory capital based upon its positions, financial conditions, and other factors. In addition to periodic requirements to report its regulatory capital and submit other regulatory reports, Virtu Financial Ireland Limited is required to obtain consent prior to receiving capital contributions or making capital distributions from its regulatory capital. Failure to comply with its regulatory capital requirements could result in regulatory sanction or revocation of its regulatory license.

Table of Contents

The following table sets forth the regulatory capital level, requirement and excess for domestic U.S. subsidiaries as of September 30, 2016.

(in thousands)	Regulatory Capital	Regulatory Capital Requirement	Excess Regulatory Capital
Virtu Financial BD LLC	\$ 60,671	\$ 1,000	\$ 59,671
Virtu Financial Capital Markets LLC	8,892	2,918	5,974

Broker-Dealer Credit Facilities

We are a party to two secured credit facilities with the same financial institution to finance overnight securities positions purchased as part of its ordinary course broker-dealer market making activities. One of the facilities (the “Uncommitted Facility”), is provided on an uncommitted basis and is available for borrowings by our broker-dealer subsidiaries up to a maximum amount of \$125.0 million. In connection with this credit facility, we entered into demand promissory notes dated February 20, 2013. The loans provided under the Uncommitted Facility are collateralized by our broker-dealer trading and deposit accounts with the same financial institution and, bear interest at a rate set by the financial institution on a daily basis 1.29% at September 30, 2016 and 1.25% at December 31, 2015). The Uncommitted Facility has a 364-day term. We are a party to another facility (the “Committed Facility”) with the same financial institution dated July 22, 2013 and subsequently amended on March 26, 2014, July 21, 2014, April 24, 2015, and July 18, 2016, which is provided on a committed basis and is available for borrowings by one of our broker-dealer subsidiaries up to a maximum of the lesser of \$75.0 million or an amount determined based on agreed advance rates for pledged securities. Borrowings under this facility are used to finance the purchase and settlement of securities and bear interest at the adjusted LIBOR rate or base rate, plus a margin of 1.25% per annum. A commitment fee of 0.25% per annum on the average daily unused portion of this facility is payable quarterly in arrears. An upfront fee of \$0.5 million was payable in four equal installments, on the closing date and on the last day of each of the three subsequent quarters. This facility requires, among other items, maintenance of minimum net worth, minimum excess net capital and a maximum total assets to equity ratio.

Short-Term Credit Facilities

We maintain short term credit facilities with various prime brokers and other financial institutions from which we receive execution or clearing services. The proceeds of these facilities are used to meet margin requirements associated with the products traded by us in the ordinary course, and amounts borrowed are collateralized by our trading accounts with the applicable financial institution. The aggregate amount available for borrowing under these facilities was \$493 million and \$478 million, the outstanding principal was \$253.2 million and \$219.1 million, and borrowings bore interest at a weighted average interest rate of 2.76% and 2.48% per annum, as of September 30, 2016, and December 31, 2015, respectively. Interest expense in relation to the facilities for the three months ended September 30, 2016 and 2015 was approximately \$1.8 million and \$1.2 million, respectively, for the nine months ended September 30, 2016 and 2015 was approximately \$5.0 million and \$3.9 million, respectively.

Long-Term Borrowings

We issued SBI Bonds in the aggregate principal amount of ¥3.5 billion to SBI Life Insurance Co., Ltd. and SBI Insurance Co., Ltd., in July 2016. The SBI Bonds were issued bearing interest at the rate per annum of 4.0% with the scheduled maturity on January 6, 2020. The aggregate principal balance was ¥3.5 billion (approximately \$34.6 million) as of September 30, 2016.

We entered into a senior secured credit facility with Credit Suisse AG, Cayman Islands Branch, in July 2011. As of September 30, 2016, our senior secured credit facility had an aggregate principal amount outstanding of \$496.0 million, and it matures in November 2019. Prior to the consummation of the IPO, borrowings under our senior secured credit facility bore interest, at our election, at either (i) the greatest of (a) the prime rate in effect, (b) the federal funds effective rate plus 0.5%, (c) an adjusted LIBOR rate for a Eurodollar borrowing with an interest period of one month plus 1% and (d) 2.25%, plus, in each case, 3.5%, or (ii) the greater of (x) an adjusted LIBOR rate for the interest period in effect and (y) 1.25%, plus, in each case, 4.5%. Following the consummation of the IPO, such borrowings now bear interest, at our election, at either (i) the greatest of (a) the prime rate in effect, (b) the federal funds effective rate plus

Table of Contents

0.5%, (c) an adjusted LIBOR rate for a Eurodollar borrowing with an interest period of one month plus 1% and (d) 2.25%, plus, in each case, 3.0%, or (ii) the greater of (x) an adjusted LIBOR rate for the interest period in effect and (y) 1.25%, plus, in each case, 4.0%.

Our senior secured credit facility is subject to certain financial covenants, which require us to maintain specified financial ratios and tests, including interest coverage and total leverage ratios, which may require us to take action to reduce our debt or to act in a manner contrary to our business objectives. Our senior secured credit facility is also subject to certain negative covenants that restricts our ability to, among other things, incur additional indebtedness, dispose of assets, guarantee debt obligations, repay other indebtedness, pay dividends, pledge assets, make investments, including in certain of our operating subsidiaries, make acquisitions or consummate mergers or consolidations and engage in certain transactions with subsidiaries and affiliates. We are also subject to contingent principal payments based on excess cash flow and certain other triggering events. As of September 30, 2016, we were in compliance with all of our covenants.

Borrowings under our senior secured credit facility are secured by substantially all of our assets, other than the equity interests in and assets of our subsidiaries that are subject to, or potentially subject to, regulatory oversight, and our foreign subsidiaries, but including 100% of the non-voting stock and 65% of the voting stock of these subsidiaries.

On April 15, 2015, VFH Parent LLC (“VFH”), Virtu Financial’s wholly owned subsidiary, entered into a new revolving credit facility with a syndicate of lenders in the amount of \$100 million for general corporate purposes. The new revolving credit facility became available upon the consummation of the IPO on April 21, 2015 and the payment of fees and expenses related to the new revolving credit facility. The new revolving credit facility was implemented pursuant to an amendment to an existing senior secured credit facility. The revolving credit facility is secured on a pari passu basis with the existing term loan under our senior secured credit facility and is subject to the same financial covenants and negative covenants. Borrowings under the new revolving credit facility bears interest, at our election, at either (i) the greatest of (a) the prime rate in effect, (b) the federal funds effective rate plus 0.5% and (c) an adjusted LIBOR rate for a Eurodollar borrowing with an interest period of one month plus 1% plus, in each case, 2.0%, or (ii) an adjusted LIBOR rate for the interest period in effect plus 3.0%. A commitment fee of 0.50% per annum is applied on the average daily unused portion of the facility. In connection with the amendment described above and as discussed in Note 8, the incremental spread under the existing term loan was reduced by 0.50% upon the consummation of the IPO on April 21, 2015. As of September 30, 2016, we did not have any outstanding principal balance on the revolving credit facility.

On October 27, 2016, Virtu Financial and VFH entered into a third amended and restated credit agreement with JPMorgan Chase Bank, N.A. as administrative agent, lead arranger and bookrunner and BMO Capital Markets Corp., as syndication agent (the “Refinancing Transaction”). The third amended and restated credit agreement amends and restated in its entirety the existing Credit Agreement. Under the third amended and restated credit agreement (i) VFH’s existing term loan facility was replaced by a senior secured first lien term loan in an aggregate principal amount of \$540.0 million, drawn in its entirety on the closing date and (ii) VFH’s existing senior secured first lien revolving facility with aggregate commitments of \$100.0 million remains in effect. The term loan borrowings under the third amended and restated credit agreement will bear interest, at our election, at either (i) the greatest of (a) the prime rate in effect, (b) the federal funds effective rate plus 0.5%, (c) an adjusted LIBOR rate for a Eurodollar borrowing with an interest period of one month plus 1% and (d) 1.75%, plus, in each case, 2.50%, or (ii) the greater of (x) an adjusted LIBOR rate for the interest period in effect and (y) 0.75%, plus, in each case, 3.50%. In addition, the term loans were issued at a discount of 0.25%. Borrowings under the third amended and restated credit agreement continue to be secured by substantially all of VFH’s assets, other than the equity interests in and assets of its subsidiaries that are subject to, or potentially subject to, regulatory oversight, and its foreign subsidiaries, but including 100% of the non-voting stock and 65% of the voting stock of these subsidiaries. Under the terms of the third amended and restated credit agreement, term loans will mature on October 27th, 2022 and revolving commitments will terminate and

outstanding revolving loans will mature on April 15, 2018, subject in each case to certain exceptions and permitted extensions as set forth in the third amended and restated credit agreement.

Table of Contents

Cash Flows

Our main sources of liquidity are cash flow from the operations of our subsidiaries, our broker dealer revolving credit facility (described under “Management’s Discussion and Analysis of Financial Condition and Results of Operations — Liquidity and Capital Resources”), margin financing provided by our prime brokers and cash on hand.

The table below summarizes our primary sources and uses of cash for the nine months ended September 30, 2016 and 2015.

(in thousands)	For the Nine Months Ended	
	2016	2015
Net cash (used in) provided by :		
Operating activities	\$ 187,142	\$ 241,993
Investing activities	(53,731)	(20,608)
Financing activities	(152,430)	(136,306)
Effect of exchange rate changes on Cash and cash equivalents	1,783	595
Net (decrease) increase in Cash and cash equivalents	\$ (17,236)	\$ 85,674

Operating Activities

Net cash provided by operating activities was \$187.1 million for the nine months ended September 30, 2016, compared to \$242.0 million for the nine months ended September 30, 2015. The decrease of \$54.9 million in net cash provided by operating activities was mainly attributable to \$30.8 million decrease in net income due to decreases in volume and volatility.

Investing Activities

Net cash used in investing activities was \$53.7 million for the nine months ended September 30, 2016, compared to \$20.6 million for the nine months ended September 30, 2015. The increase of \$33.1 million was primarily attributable to the minority interest investment in SBI Japannext, a Proprietary Trading System based in Tokyo, for approximately \$38.8 million. The increase was partially offset by a decrease of \$5.9 million in property and equipment purchases as a result of decreased investment in networking and communication equipment for the nine months ended September 30, 2016.

Financing Activities

Net cash used in financing activities was \$152.4 million for the nine months ended September 30, 2016 and \$136.3 million for the six nine months ended September 30, 2015. The increase of \$16.1 million was primarily attributable to the increase of \$55.4 million used for short term borrowing, net, which was partially offset by the proceeds from long term borrowings of \$33.1 million for the nine months ended September 30, 2016.

Off-Balance Sheet Arrangements

We do not invest in any off-balance sheet vehicles that provide liquidity, capital resources, market or credit risk support, or engage in any activities that expose us to any liability that is not reflected in our condensed consolidated financial statements.

Inflation

We believe inflation has not had a material effect on our financial condition or results of operations in the three months ended September 30, 2016 and 2015 and for the nine months ended September 30, 2016 and 2015.

Critical Accounting Policies and Estimates

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 and liabilities and disclosure of contingent assets and

Table of Contents

liabilities at the date of the financial statements, as well as the reported amounts of revenue and expenses during the applicable reporting period. Critical accounting policies are those that are the most important portrayal of our financial condition and results of operations and that require our most difficult, subjective and complex judgments as a result of the need to make estimates about the effect of matters that are inherently uncertain. While our significant accounting policies are described in more detail in the notes to our financial statements, our most critical accounting policies are discussed below. In applying such policies, we must use some amounts that are based upon our informed judgments and best estimates. Estimates, by their nature, are based upon judgments and available information. The estimates that we make are based upon historical factors, current circumstances and the experience and judgment of management. We evaluate our assumptions and estimates on an ongoing basis. Our actual results may differ from these estimates under different assumptions or conditions.

Earnings Per Share

EPS is calculated on both a basic and diluted basis. Basic EPS excludes dilution and is calculated by dividing income available to common stockholders by the weighted-average number of common shares outstanding for the period. Diluted EPS is calculated by dividing the net income available for common stockholders by the diluted weighted average shares outstanding for that period. Diluted EPS includes the determinants of the basic EPS and, in addition, reflects the dilutive effect of shares of common stock estimated to be distributed in the future under our share based compensation plans, with no adjustments to net income available for common stockholders for dilutive potential common shares.

We grant restricted stock units, which entitle recipients to receive nonforfeitable dividends during the vesting period on a basis equivalent to the dividends paid to holders of common stock. As a result, the unvested RSUs meet the definition of a participating security requiring the application of the two-class method. Under the two-class method, earnings available to common shareholders, including both distributed and undistributed, are allocated to each class of common stock and participating securities according to dividends declared and participating rights in undistributed earnings, which may cause diluted EPS to be more dilutive than the calculation using the treasury stock method.

Principles of Consolidation, including Noncontrolling Interests

The condensed consolidated financial statements include the accounts of us and our majority and wholly owned subsidiaries. As sole managing member of Virtu Financial, we exert control over the Group's operations. In accordance with ASC 810, Consolidation, we consolidate Virtu Financial and its subsidiaries' consolidated financial statements and record the interests in Virtu Financial that we do not own as noncontrolling interests. All intercompany accounts and transactions have been eliminated in consolidation.

Valuation of Financial Instruments

Due to the nature of our operations, substantially all of our financial instrument assets, comprised of financial instruments owned, securities purchased under agreements to resell, and receivables from brokers, dealers and clearing organizations are carried at fair value based on published market prices and are marked to market daily, or are assets which are short-term in nature and are reflected at amounts approximating fair value. Similarly, all of our financial instrument liabilities that arise from financial instruments sold but not yet purchased, securities sold under agreements to repurchase, securities loaned and payables to brokers, dealers and clearing organizations are short-term in nature and are reported at quoted market prices or at amounts approximating fair value. In July 2016, we made a minority investment in a proprietary trading system. We elected the fair value option to account for an equity investment because we believe that fair value is the most relevant measurement attribute for the investment, as well as to reduce operational and accounting complexity.

Table of Contents

Revenue Recognition

Trading Income, Net

Trading income, net, consists of trading gains and losses that are recorded on a trade date basis and reported on a net basis. Trading income, net, is comprised of changes in fair value of assets and liabilities (i.e., unrealized gains and losses) and realized gains and losses on equities, fixed income securities, currencies and commodities.

Interest and Dividends Income/Interest and Dividends Expense

Interest income and interest expense are accrued in accordance with contractual rates. Interest income consists of income earned on collateralized financing arrangements and on cash held by brokers. Interest expense includes interest expense from collateralized transactions, margin and related short-term lending facilities. Dividends are recorded on the ex-dividend date, and interest is recognized on the accrual basis.

Technology Services

Technology services revenues consist of fees paid by third parties for licensing of our proprietary risk management and trading infrastructure technology and provision of associated management and hosting services. These fees include both upfront and annual recurring fees. Income from existing arrangements for technology services is recorded as a services contract in accordance with SEC Topic 13 (Staff Accounting Bulletin No. 104), SEC Topic 13.A.3 (f), with revenue being recognized once persuasive evidence of an arrangement exists, delivery has occurred, the fee is fixed or determinable, and collectability is probable.

Software Development Costs

We account for the costs of computer software developed or obtained for internal use in accordance with ASC 350-40, Internal-Use Software. We capitalize payroll and payroll related costs for employees incurred in developing internal-use software. Costs incurred during the preliminary project and post-implementation stages are charged to expense. Management's judgment is required in determining the point when various projects enter the stages at which costs may be capitalized, in assessing the ongoing value of the capitalized costs and in determining the estimated useful lives over which the costs are amortized. Capitalization of such costs begins when a program or functionality under development has established technological feasibility and ends when the resulting program or functionality is available for release to users. Such criteria are measured through periodic surveys of employees responsible for developing internal-use software.

Capitalized software development costs and related accumulated amortization are included in property, equipment and capitalized software in the accompanying condensed consolidated statements of financial condition and are amortized over a period of 1.4 to 2.5 years, which represents the estimated useful lives of the underlying software.

Share-Based Compensation

We account for share-based compensation transactions with employees under the provisions of ASC 718, Compensation: Stock Compensation. Share-based compensation transactions with employees are measured based on the fair value of equity instruments issued.

The fair value of awards issued for compensation prior to the Reorganization Transactions and the IPO was determined by management, with the assistance of an independent third party valuation firm, using a projected annual forfeiture rate, where applicable, on the date of grant.

Share-based awards issued for compensation in connection with or subsequent to the Reorganization Transactions and the IPO pursuant to our 2015 Management Incentive Plan (the “2015 Management Incentive Plan”) were in the form of stock options, Class A common stock and restricted stock units. The fair value of the stock option grants is determined through the application of the Black-Scholes-Merton model. The fair value of the Class A common stock and restricted stock units is determined based on the volume weighted average price for the three days preceding

Table of Contents

the grant, and with respect to the restricted stock units, a projected annual forfeiture rate. The fair value of share-based awards granted to employees is expensed based on the vesting conditions and is recognized on a straight line basis over the vesting period. We record as treasury stock shares repurchased from employees for the purpose of settling tax liabilities incurred upon the issuance of common stock, the vesting of restricted stock units or the exercise of stock options.

Income Taxes

We conduct our business globally through a number of separate legal entities. Consequently, our effective tax rate is dependent upon the geographic distribution of our earnings or losses and the tax laws and regulations of each legal jurisdiction in which we operate. We may pay taxes in some jurisdictions and not others.

Certain of our wholly owned subsidiaries are subject to income taxes in foreign jurisdictions. The provision for income tax is comprised of current tax and deferred tax. Current tax represents the tax on current year tax returns, using tax rates enacted at the balance sheet date. A deferred tax asset is recognized only to the extent that it is probable that future taxable income will be available against which the asset can be utilized.

We recognize the tax benefit from an uncertain tax position, in accordance with ASC 740, Income Taxes only if it is more likely than not that the tax position will be sustained on examination by the applicable taxing authority, including resolution of the appeals or litigation processes, based on the technical merits of the position. The tax benefits recognized in the condensed consolidated financial statements from such a position are measured based on the largest benefit for each such position that has a greater than fifty percent likelihood of being realized upon ultimate resolution. Many factors are considered when evaluating and estimating the tax positions and tax benefits. Such estimates involve interpretations of regulations, rulings, case law, etc. and are inherently complex. Our estimates may require periodic adjustments and may not accurately anticipate actual outcomes as resolution of income tax treatments in individual jurisdictions typically would not be known for several years after completion of any fiscal year.

Goodwill and Intangible Assets

Goodwill represents the excess of the purchase price over the underlying net tangible and intangible assets of our acquisitions. Goodwill is not amortized but is tested for impairment on an annual basis and between annual tests whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Goodwill is tested at the reporting unit level, which is defined as an operating segment or one level below the operating segment. We operate in one operating segment, which is our only reporting unit.

The goodwill impairment test is a two-step process. The first step is used to identify potential impairment and compares the fair value of a reporting unit with its carrying amount, including goodwill. If the carrying amount of a reporting unit exceeds its fair value, the second step of the goodwill impairment test must be performed. The second step is used to measure the amount of impairment loss, if any, and compares the implied fair value of reporting unit goodwill with the carrying amount of that goodwill. If the carrying amount of reporting unit goodwill exceeds the implied fair value of that goodwill, an impairment loss must be recognized in an amount equal to that excess.

We tests goodwill for impairment on an annual basis on July 1 and on an interim basis when certain events or circumstances exist. In the impairment test as of July 1, 2016, the primary valuation method used to estimate the fair value of the our reporting unit was the market capitalization approach based on the market price of its Class A Common Stock, which the management believes to be an appropriate indicator of its fair value.

Recent Accounting Pronouncements

For a discussion of recently issued accounting developments and their impact or potential impact on our condensed consolidated financial statements, see Note 2 – Summary of Significant Accounting Policies, of the condensed consolidated financial statements included in this quarterly report on Form 10-Q.

Table of Contents

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Risk Management

We are subject to various market risks, including those caused by changes in interest rates, credit, and foreign currency exchange rates. There have been no material changes to the Quantitative and Qualitative Disclosures about Market Risk described in Part I “Item 7A. Quantitative and Qualitative Disclosures about Market Risk” in our 2015 10-K as filed with the Securities and Exchange Commission (“SEC”) on March 25, 2016.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Under the supervision and with the participation of our Chief Executive Officer and Chief Financial Officer, management has evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rules 13a-15(e) or 15d-15(e) of the Securities Exchange Act of 1934, (the “Exchange Act”)) as of September 30, 2016. Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that, as of September 30, 2016, our disclosure controls and procedures were effective to ensure information required to be disclosed by us in the reports we file or submit under the Exchange Act is recorded, processed, summarized and reported within the periods specified in the Securities and Exchange Commission’s rules and forms and is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

Our management, including our Chief Executive Officer and Chief Financial Officer, does not expect that our disclosure controls and procedures will prevent all errors and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, with the Company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty and that breakdowns can occur because of simple error and mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people or by management override of controls.

The design of any system of controls also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Over time, a control may become inadequate because of changes in conditions or because the degree of compliance with the policies or procedures may deteriorate. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and may not be detected.

Changes to Internal Control over Financial Reporting

No change in our internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act) occurred during the three months ended September 30, 2016 that has or is reasonably likely to materially affect, our internal control over financial reporting.

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

We are subject to various legal proceedings and claims that arise in the ordinary course of business. We also have been, are currently, and may in the future be, the subject of one or more governmental, regulatory or self-regulatory organization enforcement actions, including but not limited to targeted and routine regulatory inquiries and investigations involving Regulation NMS, Regulation SHO, capital requirements and other domestic and foreign securities rules and regulations which may from time to time result in the imposition of penalties or fines. In addition, in

58

Table of Contents

December 2015, the enforcement committee of the Autorité des marchés financiers (“AMF”) fined our European subsidiary in the amount of €5.0 million (approximately \$5.4 million) based on its conclusion that the subsidiary engaged in price manipulation and violations of the AMF General Regulation and Euronext Market Rules. The relevant trading activities were conducted on or around 2009, prior to our acquisition of the subsidiary from MTH. We believe that the relevant trading engaged in by the subsidiary of MTH was conducted in accordance with applicable French law and regulations and we are pursuing our rights of appeal. We have also been the subject of requests for information and documents from the SEC and the State of New York Office of the Attorney General (“NYAG”).

Certain of these matters may result, or have resulted, in adverse judgments, settlements, fines, penalties, injunctions or other relief, and our business or reputation could be negatively impacted if it were determined that disciplinary or other enforcement actions were required. The ultimate effect on the Company from the pending proceedings and claims, if any, is presently unknown. Where available information indicates that it is probable a liability had been incurred at the date of the condensed consolidated financial statements and we can reasonably estimate the amount of that loss, we accrue the estimated loss by a charge to income. In accordance with the foregoing, we have accrued an estimated loss of €5.0 million (approximately \$5.4 million) in relation to the fine imposed by the AMF. Subject to the foregoing, based on information currently available, management believes it is not probable that the resolution of any known matters will result in a material adverse effect on the Company’s financial position, results of operations or cash flows although they might be material for any particular reporting period.

ITEM 1A. RISK FACTORS

There have been no material changes to the Risk Factors described in Part I “Item 1A. Risk factors” in our 2015 10-K as filed with the Securities and Exchange Commission (“SEC”) on March 25, 2016.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

None.

ITEM 5. OTHER INFORMATION

None.

Table of Contents

ITEM 6. EXHIBITS

Exhibit Number	Description
3.1	Amended and Restated Certificate of Incorporation of Virtu Financial, Inc. (incorporated herein by reference to Exhibit 3.1 to the Company's Quarterly Report on Form 10-Q, as amended (File No. 001-37352) filed on May 29, 2015).
3.2	Amended and Restated By-laws of Virtu Financial, Inc. (incorporated herein by reference to Exhibit 3.2 to the Company's Quarterly Report on Form 10-Q, as amended (File No. 001-37352), filed on May 29, 2015).
10.1*	Third Amended and Restated Credit Agreement, dated as of October 27, 2016, among Virtu Financial LLC, VFH Parent LLC, the lenders party thereto, JP Morgan Chase Bank, N.A., as administrative agent, sole lead arranger and bookrunner and BMO Capital Markets Corp, as syndication agent.
31.1*	Certification of Chief Executive Officer required by Rule 13a-14(a)/15d-14(a) under the Securities Exchange Act of 1934, as amended, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith).
31.2*	Certification of Chief Financial Officer required by Rule 13a-14(a)/15d-14(a) under the Securities Exchange Act of 1934, as amended, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith).
32.1*	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (furnished herewith).
32.2*	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (furnished herewith).
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema
101.CAL	XBRL Taxonomy Extension Calculation Linkbase
101.LAB	XBRL Taxonomy Extension Label Linkbase
101.PRE	XBRL Taxonomy Extension Presentation Linkbase
101.DEF	XBRL Taxonomy Extension Definition Document

* Filed herewith.

Table of Contents

SIGNATURES

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.

Virtu Financial, Inc.

DATE: November 10th, 2016 By: /s/ Douglas A. Cifu
Douglas A. Cifu
Chief Executive Officer

DATE: November 10th, 2016 By: /s/ Joseph Molluso
Joseph Molluso
Chief Financial Officer

Table of Contents

EXHIBIT INDEX

Exhibit Number	Description
3.1	Amended and Restated Certificate of Incorporation of Virtu Financial, Inc. (incorporated herein by reference to Exhibit 3.1 to the Company's Quarterly Report on Form 10-Q, as amended (File No. 001-37352) filed on May 29, 2015).
3.2	Amended and Restated By-laws of Virtu Financial, Inc. (incorporated herein by reference to Exhibit 3.2 to the Company's Quarterly Report on Form 10-Q, as amended (File No. 001-37352), filed on May 29, 2015).
10.1*	Third Amended and Restated Credit Agreement, dated as of October 27, 2016, among Virtu Financial LLC, VFH Parent LLC, the lenders party thereto, JP Morgan Chase Bank, N.A., as administrative agent, sole lead arranger and bookrunner and BMO Capital Markets Corp, as syndication agent.
31.1*	Certification of Chief Executive Officer required by Rule 13a-14(a)/15d-14(a) under the Securities Exchange Act of 1934, as amended, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith).
31.2*	Certification of Chief Financial Officer required by Rule 13a-14(a)/15d-14(a) under the Securities Exchange Act of 1934, as amended, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith).
32.1*	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (furnished herewith).
32.2*	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (furnished herewith).
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema
101.CAL	XBRL Taxonomy Extension Calculation Linkbase
101.LAB	XBRL Taxonomy Extension Label Linkbase
101.PRE	XBRL Taxonomy Extension Presentation Linkbase
101.DEF	XBRL Taxonomy Extension Definition Document

* Filed herewith.