Virtu Financial, Inc.
Form 10-Q
August 12, 2016
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 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.)

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 August 12th, 2016
Class A common stock, par value $0.00001 per share	38,235,856
Class C common stock, par value $0.00001 per share	20,922,855
Class D common stock, par value $0.00001 per share	79,610,490

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VIRTU FINANCIAL, INC. AND SUBSIDIARIES

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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 the secondary offering completed in November 2015 (the "Secondary Offering"), the Company has become the owner of approximately 28.1% 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 six months ended June 30, 2015, and the unaudited condensed consolidated statements of cash flows for the six months ended June 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 Offering 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 Offering.

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Virtu Financial, Inc. and Subsidiaries

Condensed Consolidated Statements of Financial Condition

(Unaudited)

(in thousands, except share and interest data)	As of June 30, 2016	December 31, 2015
Assets		
Cash and cash equivalents	$ 149,355	$ 163,235
Securities borrowed	550,210	453,296
Securities purchased under agreements to resell	5,031	14,981
Receivables from broker dealers and clearing organizations	1,349,364	476,536
Trading assets, at fair value:		
Financial instruments owned	1,246,350	1,038,039
Financial instruments owned and pledged	429,172	259,175
Property, equipment and capitalized software (net of accumulated depreciation of $108,550 and $98,595 as of June 30, 2016 and December 31, 2015, respectively)	32,166	37,501
Goodwill	715,379	715,379
Intangibles (net of accumulated amortization)	1,097	1,203
Deferred tax asset	188,492	193,740
Other assets ($6,430 and $5,984, at fair value, as of June 30, 2016 and December 31, 2015, respectively)	38,659	38,845
Total assets	$ 4,705,275	$ 3,391,930
Liabilities and equity		
Liabilities		
Short term borrowings	$ 68,000	$ 45,000
Securities loaned	955,662	524,603
Payables to broker dealers and clearing organizations	408,063	486,604
Trading liabilities, at fair value:		
Financial instruments sold, not yet purchased	1,924,024	979,090
Tax receivable agreement obligations	218,399	218,399
Accounts payable and accrued expenses and other liabilities	92,637	86,775
Senior secured credit facility	491,917	493,589
Total liabilities	$ 4,158,702	$ 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 — 38,405,505 and 38,379,858 shares, Outstanding — 38,235,856 and 38,210,209 shares at June 30, 2016 and December 31, 2015, respectively	—	—
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 June 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 — 20,922,855 and 20,976,598, at June 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 June 30, 2016 and December 31, 2015, respectively	1	1
Treasury stock, at cost, 169,649 and 169,649 shares at June 30, 2016 and December 31, 2015, respectively	(3,819)	(3,819)
Additional paid-in capital	137,957	130,902
Retained Earnings	3,512	3,525
Accumulated other comprehensive income	454	99
Total stockholders' equity	$ 138,105	$ 130,708
Noncontrolling interest	408,468	427,162
Total equity	$ 546,573	$ 557,870
Total liabilities and equity	$ 4,705,275	$ 3,391,930

See accompanying notes to the unaudited condensed consolidated financial statements.

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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 June 30, 2016	2015	For the Six Months Ended June 30, 2016	2015
Revenues:				
Trading income, net	$ 166,547	$ 169,792	$ 352,836	$ 383,722
Interest and dividends income	5,422	9,415	9,690	14,597
Technology services	2,212	2,772	4,293	5,188
Total revenue	174,181	181,979	366,819	403,507
Operating Expenses:				
Brokerage, exchange and clearance fees, net	55,573	56,501	115,298	117,639
Communication and data processing	17,953	17,549	35,675	35,492
Employee compensation and payroll taxes	20,809	15,165	43,366	42,065
Interest and dividends expense	14,097	16,841	27,634	26,407
Operations and administrative	5,891	6,669	10,810	15,160
Depreciation and amortization	7,800	8,186	15,527	17,849
Amortization of purchased intangibles and acquired capitalized software	53	53	106	106
Charges related to share based compensation at IPO	516	44,194	1,111	44,194
Financing interest expense on senior secured credit facility	7,075	7,259	14,176	14,861
Total operating expenses	129,767	172,417	263,703	313,773
Income before income taxes and noncontrolling interest	44,414	9,562	103,116	89,734
Provision for income taxes	5,128	1,997	12,474	4,725
Net income	39,286	7,565	90,642	85,009
Noncontrolling interest	(30,908)	(7,091)	(71,916)	(84,535)
Net income available for common stockholders	$ 8,378	$ 474	$ 18,726	$ 474
Earnings per share				
Basic	$ 0.21	0.01	$ 0.48	0.01
Diluted	$ 0.21	0.01	$ 0.48	0.01
Weighted average common shares outstanding				
Basic	38,230,684	34,305,052	38,220,390	34,305,052
Diluted	38,230,684	34,529,349	38,220,390	34,529,349

Dividends declared per share of common stock	$ 0.24	—	$ 0.48	—
Net income	$ 39,286	$ 7,565	$ 90,642	$ 85,009
Other comprehensive income (loss)				
Foreign exchange translation adjustment, net of taxes	(1,230)	1,632	1,264	(3,001)
Comprehensive income	38,056	9,197	91,906	82,008
Less: Comprehensive income attributable to noncontrolling interest	(30,024)	(8,311)	(72,825)	(81,122)
Comprehensive income attributable to common stockholders	$ 8,032	$ 886	$ 19,081	$ 886

See accompanying notes to the unaudited condensed consolidated financial statements.

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Virtu Financial, Inc. and Subsidiaries

Condensed Consolidated Statements of Changes in Equity

for the Six Months Ended June 30, 2016

(Unaudited)

Class A Common Stock		Class C Common Stock		Class D Common Stock		Treasury Stock		Additional Paid-in Capital	Retained Earnings (Accumulated	Accumulated Other Comprehensive Income	Total Stockholders'	N C
Shares	Amounts	Shares	Amounts	Shares	Amounts	Shares	Amounts	Amounts	Deficit)	(Loss)	Equity	In
38,379,858	$ —	20,976,598	$ —	79,610,490	$ 1	(169,649)	$ (3,819)	$ 130,902	$ 3,525	$ 99	$ 130,708	$
25,647	—	(53,743)	—	—	—	—	—	7,055	—	—	7,055	
—	—	—	—	—	—	—	—	—	18,726	—	18,726	
—	—	—	—	—	—	—	—	—	—	355	355	
—	—	—	—	—	—	—	—	—	—	—	—	
—	—	—	—	—	—	—	—	—	(18,739)	—	(18,739)	
38,405,505	$ —	20,922,855	$ —	79,610,490	$ 1	(169,649)	$ (3,819)	$ 137,957	$ 3,512	$ 454	$ 138,105	$

See accompanying notes to the unaudited condensed consolidated financial statements.

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Virtu Financial, Inc. and Subsidiaries

Condensed Consolidated Statements of Cash Flows

(Unaudited)

(in thousands)	For the Six Months Ended June 30, 2016	2015
Cash flows from operating activities		
Net Income	$ 90,642	$ 85,009
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	15,527	17,849
Amortization of purchased intangibles and acquired capitalized software	106	106
Amortization of debt issuance costs and deferred financing fees	878	823
Termination of office leases	292	2,729
Share based compensation	6,228	53,529
Equipment writeoff	428	—
Deferred taxes	5,279	(808)
Other	(76)	3,249
Changes in operating assets and liabilities:		
Securities borrowed	(96,914)	(183,036)
Securities purchased under agreements to resell	9,950	413
Receivables from broker dealers and clearing organizations	(872,828)	(303,511)
Trading assets, at fair value	(378,308)	(513,084)
Other Assets	540	(2,126)
Securities loaned	431,059	378,920
Securities sold under agreements to repurchase	—	(1,760)
Payables to broker dealers and clearing organizations	(78,541)	(117,744)
Trading liabilities, at fair value	944,934	747,994
Accounts payable and accrued expenses and other liabilities	6,261	14,369
Net cash provided by operating activities	85,457	182,921
Cash flows from investing activities		
Development of capitalized software	(4,153)	(4,207)
Acquisition of property and equipment	(5,640)	(13,571)
Net cash used in investing activities	(9,793)	(17,778)
Cash flows from financing activities		
Distribution to members	—	(130,000)
Distribution from Virtu Financial to non-controlling interest	(91,519)	(28,909)
Dividends	(18,739)	—
Short-term borrowings, net	23,000	—
Payments on repurchase of non-voting common interest	(1,000)	(1,097)
Repayment of senior secured credit facility	(2,550)	(364)

Debt issuance costs	—	(871)
Issuance of common stock, net of offering costs	—	327,366
Repurchase of Virtu Financial Units and corresponding number of Class A and C common stock in connections with IPO	—	(277,153)
Net cash used in financing activities	(90,808)	(111,028)
Effect of exchange rate changes on Cash and cash equivalents	1,264	(3,001)
Net (decrease) increase in Cash and cash equivalents	(13,880)	51,114
Cash and cash equivalents, beginning of period	163,235	75,864
Cash and cash equivalents, end of period	$ 149,355	$ 126,978
Supplementary disclosure of cash flow information		
Cash paid for interest	$ 28,941	$ 32,837
Cash paid for taxes	$ 9,278	$ 2,006
Non-cash investing activities		
Compensation to developers subject to capitalization of software (of which $1,350 and $10,576 were capitalized for six months ended June 30, 2016 and 2015, respectively)	$ 3,454	$ 23,927

See accompanying notes to the unaudited condensed consolidated financial statements.

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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 28.1% 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

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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 fair value of the underlying securities borrowed or loaned. The Company monitors the fair value of securities borrowed

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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 June 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.

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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 six months ended June 30, 2016 and 2015.

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 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.

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The Company's capitalized software development costs excluding the charges recognized in relation to the IPO disclosed below were approximately $2.8 million and $2.8 million for the three months ended June 30, 2016 and 2015, respectively, and $5.5 million and $5.5 million for the six months ended June 30, 2016 and 2015, respectively. The related amortization expense was approximately $2.6 million and $2.7 million for the three months ended June 30, 2016 and 2015, respectively, and $4.9 million and $5.2 million for the six months ended June 30, 2016 and 2015, respectively.

Additionally, in connection with charges related to share based compensation recognized upon the IPO (Note 14), the Company capitalized and amortized costs for employees in developing internal-use software, which were included within charges related to share based compensation at IPO in the condensed consolidated statements of comprehensive income. The Company capitalized charges related to IPO share based compensation of approximately $0.02 million and $9.5 million for the three months ended June 30, 2016 and 2015, respectively, and $0.04 million and $9.5 million for the six months ended June 30, 2016 and 2015, respectively. Amortization expense associated with IPO related share based compensation that was capitalized was approximately $0.2 million and $8.0 million for the three months ended June 30, 2016 and 2015, respectively, and $0.5 million and $8.0 million for the six months ended June 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, 2015, 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 six months ended June 30, 2016 and 2015, respectively.

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

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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 fees 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.

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.

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

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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 June 30, 2016 and December 31, 2015 or the results of operations or cash flows for the three and six months ended June 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 Accounting Standards Update ("ASU") 2011-05, 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.

Recent Accounting Pronouncements

Revenue - In May 2014, the FASB issued 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 has not yet determined the potential effects of the adoption of ASU 2014-09 and ASU 2015-14 on its 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 senior secured credit facility 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 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.

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 28.1% interest in Virtu Financial.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
(in thousands, except for share or per share data)	2016	2015	2016	2015
Basic earnings per share:				
Net income available for common stockholders	$ 8,378	$ 474	$ 18,726	$ 474
Less: Dividends and undistributed earnings allocated to participating securities	(200)	—	(421)	—
Net income available for common stockholders, net of dividends and undistributed earnings allocated to participating securities	$ 8,178	474	$ 18,305	474
Weighted average shares of common stock outstanding:				
Class A	38,230,684	34,305,052	38,220,390	34,305,052
Basic Earnings per share	$ 0.21	$ 0.01	$ 0.48	$ 0.01

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 six months ended

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June 30, 2016 and 2015 including additional shares of common stock issued and issuable pursuant to the 2015 Management Incentive Plan (Note 13).

	Three Months Ended June 30,		Six Months Ended June 30,	
(in thousands, except for share or per share data)	2016	2015	2016	2015
Diluted earnings per share:				
Net income available for common stockholders, net of dividends and undistributed earnings allocated to participating securities	$ 8,178	$ 474	$ 18,305	$ 474
Weighted average shares of common stock outstanding:				
Class A				
Issued and outstanding	38,230,684	34,305,052	38,220,390	34,305,052
Issuable pursuant to 2015 Management Incentive Plan(1)	—	224,297	—	224,297
	38,230,684	34,529,349	38,220,390	34,529,349
Diluted Earnings per share	$ 0.21	$ 0.01	$ 0.48	$ 0.01

(1) The dilutive impact of unexercised stock options excludes from the computation of EPS 476,249 and 73,259 options for the three and six months ended June 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 we actually realize 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 has been 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 our 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 our Class C common stock) and the exchange of Virtu Financial Units (along with the corresponding shares of our Class C common stock) for shares of our Class A common stock in connection with the Secondary Offering, the

Company recorded a deferred tax asset of $196.5 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 $218.4 million, ranging from approximately $8.1 million to $16.8 million per year over the next 15 years. The Company recorded a corresponding reduction to additional paid-in capital of approximately $21.9 million for the difference between the tax receivable agreements liability and the related deferred tax asset. At June 30, 2016, the Company's remaining deferred tax asset and the payment liability pursuant to the tax receivable agreements were approximately $180.1 million and $218.4 million, respectively. The amounts recorded as of June 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 year ended December 31, 2015.

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.

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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 six months ended June 30, 2016 and 2015.

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

	As of June 30, 2016			
(in thousands)	Gross 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	402	548	9
ETF buyer relationships	950	401	549	9
	$ 111,900	$ 110,803	$ 1,097	

	As of December 31, 2015			
(in thousands)	Gross 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	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 June 30, 2016 and 2015, respectively, and approximately $0.1 million and $0.1 million for the six months ended June 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.

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 June 30, 2016 and December 31, 2015:

(in thousands)	June 30, 2016	December 31, 2015
Assets		
Due from prime brokers	$ 200,286	$ 101,372
Deposits with clearing organizations	46,584	31,908

Net equity with futures commission merchants	171,383	174,615
Unsettled trades with clearing organization	876,587	102,890
Securities failed to deliver	54,524	65,751
Total receivables from broker-dealers and clearing organizations	$ 1,349,364	$ 476,536
Liabilities		
Due to prime brokers	$ 273,565	$ 294,691
Net equity with futures commission merchants	39,519	46,537
Unsettled trades with clearing organization	94,698	145,376
Securities failed to receive	281	—
Total payables to broker-dealers and clearing organizations	$ 408,063	$ 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 of approximately $265.7 million and $219.1 million as of June 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.

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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 June 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 June 30, 2016 and December 31, 2015 are summarized as follows:

(in thousands)	June 30, 2016	December 31, 2015
Securities received as collateral:		
Securities borrowed	$ 543,111	$ 437,220
Securities purchased under agreements to resell	5,032	14,985
	$ 548,143	$ 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 June 30, 2016 and December 31, 2015 consisted of the following:

(in thousands)	June 30, 2016	December 31, 2015
Equities	$ 406,772	$ 232,731
Exchange traded notes	22,400	26,444
	$ 429,172	$ 259,175

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 1.32% at June 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 and April 24, 2015, 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 June 30, 2016 and December 31, 2015, the Company had $68.0 million and $45.0 outstanding principal balance on the Uncommitted Facility, respectively. As of June 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 June 30, 2016 and 2015 was approximately $0.3 million and $0.2 million, respectively, and for the six months ended June 30, 2016 and 2015 was approximately $0.5 million and $0.4 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

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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, the outstanding principal was $265.7 million and $219.1 million as of June 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 2.68% and 2.48% per annum, as June 30, 2016 and December 31, 2015, respectively. Interest expense in relation to the facilities for the three months ended June 30, 2016 and 2015 was approximately $1.4 million and $1.4 million, respectively, and for the six months ended June 30, 2016 and 2015 was $3.1 million and $2.7 million, respectively. Interest expense is recorded within interest and dividends expense in the accompanying condensed consolidated statements of comprehensive income.

Senior Secured Credit Facility

On July 8, 2011, Virtu Financial, its wholly owned subsidiary, VFH Parent LLC ("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 an increase 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 June 30, 2016 was 5.25%.

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

(in thousands)	
2016	$ 2,550
2017	5,100

2018	5,100
2019 and thereafter	484,500
Total maturities of long-term debt	$ 497,250

Net carrying amount of deferred financing fees capitalized in connection with the financing were approximately $3.5 million and $4.7 million, respectively, as of June 30, 2016 and December 31, 2015, which are included as a deduction to senior secured credit facility in the accompanying condensed consolidated statements of financial condition.

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Amortization expense related to the deferred financing fees was approximately $0.3 million and $0.3 million for the three months ended June 30, 2016 and 2015, respectively, and for the six months ended June 30, 2016 and 2015 was approximately $0.6 million and $0.6 million. Amortization expense is included within financing interest expense on senior secured credit facility in the accompanying condensed consolidated statements of comprehensive income.

The net carrying amounts of debt discount were approximately of $1.3 million and $1.5 million, as of June 30, 2016 and December 31, 2015, respectively. The accreted expenses were approximately $0.1 million and $0.1 million for the three months ended June 30, 2016 and 2015, respectively, and for the six months ended June 30, 2016 and 2015 was approximately $0.2 million and $0.2 million, respectively. The accretion is included within financing interest expense on senior secured credit facility 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 June 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 six months ended June 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 June 30, 2016 and December 31, 2015, respectively, which was included as a deduction to senior secured credit facility 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 June 30, 2016 and 2015, respectively, and for the six months ended June 30, 2016 and 2015 were $0.2 million and $0.1 million, respectively.

The below table contains a reconciliation of the senior secured credit facility outstanding principal amount to the senior secured credit facility recorded in the condensed consolidated statements of financial position:

(in thousands)	June 30, 2016	December 31, 2015
Senior secured credit facility outstanding principal	$ 497,250	$ 499,800
Deferred financing fees	(4,028)	(4,713)
Discount on senior secured credit facility	(1,305)	(1,498)
Senior secured credit facility	$ 491,917	$ 493,589

9. Financial Assets and Liabilities

At June 30, 2016 and December 31, 2015, substantially all of Company’s financial assets and liabilities, except for the senior secured credit facility 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 senior secured credit facility approximates fair value as of June 30, 2016 and December 31, 2015 based on 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

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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 June 30, 2016 and December 31, 2015, the Company’s derivative contracts and non-U.S. government obligations have been categorized as Level 2.

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 six months ended June 30, 2016 and 2015.

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

(in thousands)	June 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	$ 1,195,828	$ 21,910	$ —	$ —	$ 1,217,738
U.S. and Non-U.S. government obligations	—	8,702	—	—	8,702
Exchange traded notes	14,141	—	—	—	14,141
Interest rate swaps	—	536	—	—	536
Currency forwards	—	1,748,198	—	(1,743,111)	5,087
Options	—	146	—	—	146
	$ 1,209,969	$ 1,779,492	$ —	$ (1,743,111)	$ 1,246,350
Financial instruments owned, pledged as collateral:					
Equity securities	$ 406,772	$ —	$ —	$ —	$ 406,772
Exchange traded notes	22,400	—	—	—	22,400
	$ 429,172	$ —	$ —	$ —	$ 429,172
Other Assets					
Exchange stock	$ 6,430	$ —	$ —	$ —	$ 6,430
	$ 6,430	$ —	$ —	$ —	$ 6,430
Liabilities					
Financial instruments sold, not yet purchased, at fair value:					
Equity securities	$ 1,878,139	$ 2,360	$ —	$ —	$ 1,880,499
U.S. and Non-U.S. government obligations	9,058	—	—	—	9,058
Exchange traded notes	33,870	—	—	—	33,870
Interest rate swaps	—	542	—	—	542
Currency forwards	—	1,722,308	—	(1,722,308)	—
Options	—	55	—	—	55
	$ 1,921,067	$ 1,725,265	$ —	$ (1,722,308)	$ 1,924,024

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

	December 31, 2015				
(in thousands)	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	$ 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	$ —	$ —		