Virtu Financial, Inc.
Form 10-Q
May 29, 2015
Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2015

or

o 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 o No x

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 x No o

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 o Accelerated filer o Non-accelerated filer x Smaller reporting company o

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

Class of Stock	**Shares Outstanding as of May 29, 2015**
Class A common stock, par value $0.00001 per share	34,305,052
Class C common stock, par value $0.00001 per share	24,531,817
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 MARCH 31, 2015

Table of Contents

PART I - FINANCIAL INFORMATION

Financial Statements Introductory Note

The financial statements and other disclosures contained in this report include those of Virtu Financial, Inc. (we or the Registrant), which is the registrant, and those of Virtu Financial LLC (Virtu Financial), which became the principal operating subsidiary of the Registrant in a series of reorganization transactions that were completed subsequent to March 31, 2015 (the Reorganization Transactions) in connection with our initial public offering (IPO), which was completed on April 21, 2015. Accordingly, because we had no substantial assets or activities (except for activities relating to our IPO) as of March 31, 2015 and because the Reorganization Transactions had not been completed as of such date, we believe that it is informative to provide the financial statements and various other disclosures of Virtu Financial as of March 31, 2015 and for the quarters ended March 31, 2015 and 2014. For more information regarding the transactions described above, see Note 15, Subsequent Events, to our financial statements contained in this quarterly report on Form 10-Q.

Table of Contents

Virtu Financial, Inc.

Condensed Statements of Financial Condition

As of March 31, 2015 and December 31, 2014

(Unaudited)

	As of			
	March 31, 2015		December 31, 2014	
Assets				
Cash	$	545	$	545
Deferred tax benefit		4,744		4,744
Total assets	$	5,289	$	5,289
Liabilities				
Payable to affiliate	$	14,000	$	14,000
Total liabilities	$	14,000	$	14,000
Stockholder s equity (deficit)				
Class A common stock, $0.00001 par value - 1,000 shares authorized, 100 shares issued and outstanding	$		$	
Accumulated deficit		(8,811)		(8,811)
Additional paid-in capital		100		100
Total stockholder s equity/(deficit)	$	(8,711)	$	(8,711)
Total liabilities and stockholder s equity/(deficit)	$	5,289	$	5,289

See accompanying notes to the unaudited condensed financial statements.

Table of Contents

Virtu Financial, Inc.

Condensed Statements of Comprehensive Income (Loss)

For the Three Months Ended March 31, 2015 and 2014

(Unaudited)

	For the Three Months Ended March 31, 2015		2014	
Operating Expenses:				
Operations and administrative	$		$	13,555
Income (loss) before income taxes				(13,555)
Provision (benefit) for income taxes				(4,744)
Net income (loss)	$		$	(8,811)

See accompanying notes to the unaudited condensed financial statements.

Table of Contents

Virtu Financial, Inc.

Condensed Statement of Changes in Stockholder s Equity/(Deficit)

For the Three Months Ended March 31, 2015

(Unaudited)

	Class A Common Stock	Additional paid-in Capital	Accumulcated Deficit	Total Stockholder s Equity
Balance at December 31, 2014	100	100	(8,811)	(8,711)
Net income (loss)				
Balance at March 31, 2015	100	$ 100	$ (8,811)	$ (8,711)

See accompanying notes to the unaudited condensed financial statements.

Table of Contents

Virtu Financial, Inc.

Condensed Statements of Cash Flows

For the Three Months Ended March 31, 2015 and 2014

(Unaudited)

	For the Three Months Ended March 31, 2015		2014	
Cash flows from operating activities				
Net income (loss)	$		$	(8,811)
Adjustments to reconcile net income to net cash provided by operating activities:				
Deferred tax benefit				(4,744)
Changes in operating assets and liabilities:				
Payable to affiliate				14.000
Net cash provided by operating activities				445
Cash flows from financing activities				
Capital contribution				
Net increase in Cash				445
Cash, beginning of period		545		100
Cash, end of period	$	545	$	545

See accompanying notes to the unaudited condensed financial statements.

Table of Contents

Virtu Financial, Inc.

NOTES TO UNAUDITED CONDENSED FINANCIAL STATEMENTS

1. Organization

Virtu Financial, Inc. (the Company) was formed as a Delaware corporation on October 16, 2013. The Company s fiscal year end is December 31. The Company was formed for the purpose of completing certain reorganization transactions, in order to carry on the business of Virtu Financial LLC and conducting a public offering. The Company will be the sole managing member of Virtu Financial LLC and will operate and control all of the businesses and affairs of Virtu Financial LLC and, through Virtu Financial LLC and its subsidiaries, continue to conduct the business now conducted by such subsidiaries.

2. Summary of Significant Accounting Policies

The financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America.

3. Related-Party Transactions

The Company may receive funding from affiliates in the ordinary course of business. As of March 31, 2015, and December 31, 2014, the Company had a payable of $14,000 and $14,000 to its affiliates, respectively.

4. Income Taxes

The Company is subject to taxes at the U.S. federal statutory rate of 35%. For the three months ended March 31, 2015 and 2014, the Company recognized income tax benefits of $0 and $4,744, respectively, due to current losses. A deferred tax asset relating to the carryforward losses has been recognized in the amount of $4,744 and $4,744 as of March 31, 2015 and December 31, 2014, respectively. 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.

5. Stockholder s Equity

VFH Parent LLC, a wholly owned subsidiary of Virtu Financial LLC, is the sole stockholder of the Company, and contributed $100 to the Company on October 17, 2013 to purchase 100 shares of Class A common stock. Holders of Class A common stock shall be entitled to one vote for each share of Class A common stock held on all matters submitted to stockholders for vote, consent or approval.

6. Subsequent Events

Refer to Footnote 15, Subsequent Events in the Virtu Financial LLC financial statements for information regarding the Company s reorganization transactions (which were completed on April 15, 2015) initial public offering (which was completed on April 21, 2015) as well as the use of proceeds from such offering, the amendment to VFH Parent s credit facility entered into on April 15, 2015 and the adoption of the 2015 Management Incentive Plan on April 21, 2015.

Table of Contents

Virtu Financial LLC and Subsidiaries

Condensed Consolidated Statements of Financial Condition

as of March 31, 2015 and December 31, 2014

(Unaudited)

(in thousands, except interest data)	Pro Forma As of March 31, 2015 (Note 1)	As of March 31, 2015	As of December 31, 2014
Assets			
Cash and cash equivalents		$ 66,571	$ 75,864
Securities borrowed		691,084	484,934
Securities purchased under agreements to resell		272	31,463
Receivables from broker dealers and clearing organizations		461,181	387,652
Trading assets, at fair value:			
Financial instruments owned		1,580,274	1,307,933
Financial instruments owned and pledged		496,833	236,375
Property, equipment and capitalized software (net of accumulated depreciation of $93,142 and $84,579 as of March 31, 2015 and December 31, 2014, respectively)		41,775	44,644
Goodwill		715,379	715,379
Intangibles (net of accumulated amortization)		1,362	1,414
Other assets ($8,679 and $8,205, at fair value, as of March 31, 2015 and December 31, 2014, respectively)		44,774	33,800
Total assets	$ 4,099,505	$ 4,099,505	$ 3,319,458
Liabilities, redeemable membership interest and members equity			
Liabilities			
Securities loaned		$ 956,897	$ 497,862
Securities sold under agreements to repurchase		10,973	2,006
Payables to broker dealers and clearing organizations		726,085	686,203
Trading liabilities, at fair value:			
Financial instruments sold, not yet purchased		1,292,280	1,037,634
Accounts payable and accrued expenses and other liabilities	217,383	117,383	93,331
Senior secured credit facility		496,100	495,724
Total liabilities	$ 3,699,718	$ 3,599,718	$ 2,812,760
Class A-1 redeemable membership interest	294,433	294,433	294,433
Members equity			
Class A-1 - Authorized and Issued - 1,964,826 and 1,964,826 interests, Outstanding - 1,964,826 and 1,964,826 interests, at March 31, 2015 and December 31, 2014, respectively		19,648	19,648
Class A-2 - Authorized and Issued - 101,387,750 and 101,381,332 interests, Outstanding - 99,848,589 and 99,855,666 interests at March 31, 2015 and December 31, 2014, respectively		287,983	287,705
Accumulated deficit	(193,939)	(93,939)	(91,383)
Accumulated other comprehensive loss		(8,338)	(3,705)
Total members equity	$ 105,354	$ 205,354	$ 212,265

Total liabilities, redeemable membership interest and members equity	$	4,099,505	$	4,099,505	$	3,319,458

See accompanying notes to the unaudited condensed consolidated financial statements.

Table of Contents

Virtu Financial LLC and Subsidiaries

Condensed Consolidated Statements of Comprehensive Income

for the Three Months Ended March 31, 2015

(Unaudited)

(in thousands)	**For the Three Months Ended March 31, 2015**	**2014**
Revenues:		
Trading income, net	$ 213,930	$ 165,163
Interest and dividends income	5,182	5,555
Technology services	2,416	2,577
Total revenue	221,528	173,295
Operating Expenses:		
Brokerage, exchange and clearance fees, net	61,138	54,434
Communication and data processing	17,943	15,807
Employee compensation and payroll taxes	26,900	21,613
Interest and dividends expense	9,566	10,463
Operations and administrative	5,762	5,771
Depreciation and amortization	9,663	6,482
Amortization of purchased intangibles and acquired capitalized software	53	53
Acquisition related retention bonus		1,266
Termination of office leases	2,729	
Financing interest expense on senior secured credit facility	7,602	7,551
Total operating expenses	141,356	123,440
Income before income taxes	80,172	49,855
Provision for income taxes	2,728	966
Net income	$ 77,444	$ 48,889
Other Comprehensive Income, net of taxes:		
Foreign exchange translation adjustment	(4,633)	48
Comprehensive Income	$ 72,811	$ 48,937

See accompanying notes to the unaudited condensed consolidated financial statements.

Table of Contents

Virtu Financial LLC and Subsidiaries

Condensed Consolidated Statements of Changes in Members Equity

for the Three Months Ended March 31, 2015

(Unaudited)

(in thousands, except per interest data)	Class A-1 Interests	Class A-1 Amounts	Class A-2 Interests	Class A-2 Amounts	Accumulated Deficit	Accumulated Other Comprehensive Loss	Total Members Equity	Class A-1 Redeemable Interest
Balance at December 31, 2014	1,964,826	$ 19,648	99,855,666	$ 287,705	$ (91,383)	$ (3,705)	$ 212,265	$ 294,433
Share based compensation			6,418	375			375	
Repurchase of Class A-2 interests			(13,495)	(97)			(97)	
Distribution to members					(80,000)		(80,000)	
Foreign exchange translation adjustment						(4,633)	(4,633)	
Net income					77,444		77,444	
Balance at March 31, 2015	1,964,826	$ 19,648	99,848,589	$ 287,983	$ (93,939)	$ (8,338)	$ 205,354	$ 294,433

See accompanying notes to the unaudited condensed consolidated financial statements.

Table of Contents

Virtu Financial LLC and Subsidiaries

Condensed Consolidated Statements of Cash Flows

for the Three Months Ended March 31, 2015 and 2014

(Unaudited)

(in thousands)	**For the Three Months Ended March 31, 2015**	**2014**
Cash flows from operating activities		
Net Income	$ 77,444	$ 48,889
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	9,663	6,482
Amortization of purchased intangibles and acquired capitalized software	53	53
Amortization of debt issuance costs and deferred financing fees	376	350
Termination of office leases	2,729	
Share based compensation	5,375	4,787
Deferred income taxes	713	
Other	(501)	243
Changes in operating assets and liabilities:		
Securities borrowed	(206,150)	285,402
Securities purchased under agreements to resell	31,191	100,236
Receivables from broker dealers and clearing organizations	(73,529)	(307,192)
Trading assets, at fair value	(532,799)	76,381
Other assets	(11,189)	(7,908)
Securities loaned	459,035	(148,831)
Securities sold under agreements to repurchase	8,967	(1,939)
Payables to broker dealers and clearing organizations	39,882	(218,969)
Trading liabilities, at fair value	254,646	248,168
Accounts payable and accrued expenses and other liabilities	16,347	8,070
Net cash provided by operating activities	82,253	94,222
Cash flows from investing activities		
Development of capitalized software	(2,251)	(2,579)
Acquisition of property and equipment	(4,065)	(5,418)
Net cash used in investing activities	(6,316)	(7,997)
Cash flows from financing activities		
Member distributions	(80,000)	(45,000)
Repurchase of Class A-2 interests	(597)	(44)
Repayment of short term borrowings		(37,800)
Repayment of senior secured credit facility		(1,275)
Net cash used in financing activities	(80,597)	(84,119)
Effect of exchange rate changes on Cash and cash equivalents	(4,633)	48
Net increase (decrease) in Cash and cash equivalents	(9,293)	2,154
Cash and cash equivalents, beginning of period	75,864	66,010
Cash and cash equivalents, end of period	$ 66,571	$ 68,164

Supplementary disclosure of cash flow information		
Cash paid for interest	$ 14,015	$ 18,001
Non-cash investing activities		
Compensation to developers subject to capitalization of software (of which $478 and $480 were capitalized for the three months ended March 31, 2015 and 2014, respectively)	1,278	1,278

See accompanying notes to the unaudited condensed consolidated financial statements.

Table of Contents

Virtu Financial LLC and Subsidiaries

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. Organization and Basis of Presentation

Organization

Virtu Financial LLC (Virtu Financial or, collectively with its wholly owned subsidiaries, the Company) 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 US broker-dealer, Virtu Financial Capital Markets LLC (VFCM), a self-clearing US broker-dealer and designated market maker on the New York Stock Exchange (NYSE) and the NYSE MKT (formerly NYSE Amex), Virtu Financial Global Markets LLC (VFGM), a US 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. VFCM became a designated market maker (DMM) in connection with its acquisition of certain assets of Cohen Capital Group LLC (CCG) on December 9, 2011.

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.

Pro Forma Impact of Distributions in Connection with Initial Public Offering

The Company made a cash distribution of $50.0 million to its members prior to the consummation of Virtu Financial, Inc. s initial public offering in April 2015 (funded from cash on hand). Additionally, the Company intends to make a further cash distribution of up to $50.0 million to its members following the consummation of such offering. The Company expects that this further distribution will be funded from cash on hand and excess cash held at clearing deposits from broker dealers and clearing organizations.

Basis of Presentation

These 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). These condensed consolidated financial statements are unaudited and include all adjustments of a normal, recurring nature necessary to present fairly the financial condition as of March 31, 2015 and December 31, 2014, the results of operations and comprehensive income and cash flows for the three months ended March 31, 2015 and 2014. The condensed consolidated financial statement information as of December 31, 2014 has been derived from the 2014 audited consolidated financial statements. The results of operations for interim periods are not necessarily indicative of results for the entire year. The condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto included in Virtu Financial, Inc. s final prospectus filed with the SEC on April 16, 2015 (the Prospectus) for the offering of Class A common stock, par value $0.00001 per share (the Class A common stock). See Note 15 to the condensed consolidated financial statements for information regarding the Reorganization Transactions (as defined in Note 15) and Virtu Financial, Inc. s IPO.

Principles of Consolidation

The condensed consolidated financial statements include the accounts of Virtu Financial and its wholly owned subsidiaries. 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 US GAAP, which require management to make estimates and assumptions regarding fair value measurements including trading assets and liabilities, goodwill and intangibles, compensation accruals, capitalized software, 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.

Table of Contents

2. Summary of Significant Accounting Policies (Continued)

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 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, the fair value of which exceeds 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.

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 March 31, 2015 and December 31, 2014, 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 also offsets the outstanding principal balances on all short term credit facilities against amounts 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 s management 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 on the condensed consolidated statements of comprehensive income.

Table of Contents

2. Summary of Significant Accounting Policies (Continued)

Fair Value Measurements

At March 31, 2015 and December 31, 2014, substantially all of Company s financial assets and liabilities, except for 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 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. 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 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 quarters ended March 31, 2015 and 2014.

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.

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*; accordingly all derivative instruments are recorded at fair value with changes in fair values reflected in earnings.

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.

Table of Contents

2. Summary of Significant Accounting Policies (Continued)

The useful lives of furniture and fixtures are as follows:

Furniture, fixtures and equipment	3 to 7 years
Leasehold improvements	7 years or length of lease term, whichever is shorter

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 were approximately $2.7 million and $3.1 million for the quarters ended March 31, 2015 and 2014, respectively. The related amortization expense was approximately $2.5 million and $2.6 million for the quarters ended March 31, 2015 and 2014, respectively. Capitalized software development costs and related accumulated amortization are included in property, equipment and capitalized software on 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 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.

The primary valuation methods we use to estimate the fair value of our reporting unit are the income and market approaches. In applying the income approach, projected available cash flows and the terminal value are discounted to present value to derive an indication of fair value of the business enterprise. The market approach compares the reporting unit to selected reasonably similar publicly-traded companies.

The Company tests goodwill for impairment on an annual basis on July 1 and on an interim basis when certain events or circumstances exist. There were no triggering events that would have caused the Company to assess goodwill for impairment during the three months ended March 31, 2015 and 2014.

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.

Table of Contents

2. Summary of Significant Accounting Policies (Continued)

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 entitles the Company to certain trading privileges. The shares are marked to market with the corresponding gain or loss recorded in the condensed consolidated statements of comprehensive income. The Company s exchange memberships and stock are included in other assets on 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 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. 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

The Company is a limited liability company and is treated as a pass-through entity for United States federal, state, and local income tax purposes. Accordingly, no provision for income taxes is required.

Table of Contents

2. Summary of Significant Accounting Policies (Continued)

Certain of the Company s 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.

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 March 31, 2015 and December 31, 2014 or the results of operations for the three months ended March 31, 2015 and 2014.

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 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 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 income statement accounts 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 other comprehensive income, a separate component of members equity.

Share-Based Compensation

The Company accounts for share-based compensation transactions with employees under the provisions of ASC 718, *Compensation: Stock Compensation*. ASC 718 requires a share-based payment transaction with employees to be measured based on the fair value of equity instruments issued. The fair value of awards issued for compensation is 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. The fair value of share based awards granted to employees is expensed based on the vesting conditions.

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. ASU 2014-09 is effective for annual reporting periods, and interim periods within that period, beginning after December 15, 2016 (fiscal year 2018 for the Company) and early adoption is not permitted. Companies may use either a full retrospective or a modified retrospective approach to adopt ASU 2014-09. The Company has not yet determined the potential effects of the adoption of ASU 2014-09 on its condensed consolidated financial statements

Table of Contents

2. Summary of Significant Accounting Policies (Continued)

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 are 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 are required to be presented as a cumulative effect adjustment to retained earnings as January 1, 2015. The Company is currently evaluating the impact of the new amendment but believes the effect on the condensed consolidated statements of financial condition and comprehensive income will be immaterial, as the Company currently does not enter into these types of repurchase transactions. The amendment also requires additional disclosures for repurchase agreements and securities lending transactions regarding the class of collateral pledged and the remaining contractual tenor of the agreements, as well as a discussion of the potential risks associated with the agreements and the related collateral pledged, and 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 additional disclosures are required to be presented beginning in the second quarter of 2015.

Compensation In June 2014, the Emerging Issues Task Force (the EITF) of the FASB issued ASU 2014-12, *Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period*. The amendment requires that a performance target that affects vesting and that could be achieved after the requisite service period be treated as a performance condition. The ASU is effective for annual periods and interim periods within those annual periods beginning after December 15, 2015 (fiscal year 2016 for the Company). Earlier adoption is permitted. The Company is currently evaluating the impact of this ASU on its condensed consolidated financial statements.

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.

Hybrid Financial Instruments In November 2014, the EITF of the FASB issued ASU 2014-16, *Determining Whether the Host Contract in a Hybrid Financial Instrument Issued in the Form of a Share is More Akin to Debt or to Equity*. The ASU requires that for hybrid financial instruments issued in the form of a share, an entity should determine the nature of the host contract by considering all stated and implied substantive terms and features of the hybrid financial instrument, weighing each term and feature on the basis of relevant facts and circumstances. An entity should use judgment based on an evaluation of all the relevant terms and features, and should consider the economic characteristics and risks of the entire hybrid financial instrument, including the embedded derivative feature that is being evaluated for separate accounting from the host contract. The ASU is effective for public business entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015. For all other entities, the amendments in this ASU are effective for fiscal years beginning after December 15, 2015 (fiscal year 2016 for the Company) and interim periods within fiscal years beginning after December 15, 2016. Early adoption, including adoption in an interim period, is permitted. The Company is currently evaluating the impact of this ASU on its 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. The new guidance has been applied on a retrospective basis, wherein the accompanying condensed consolidated statements of financial condition have been adjusted to reflect the period-specific effects of applying the new guidance. Refer to Note 6 for additional information regarding the impact of this guidance on the Company s condensed consolidated financial statements.

Table of Contents

3. Goodwill and Intangible Assets

There were no changes in the carrying amount of goodwill for the three months ended March 31, 2015 and 2014.

No goodwill impairment was recognized in the three months ended March 31, 2015 and 2014.

Acquired intangible assets consisted of the following as of March 31, 2015 and December 31, 2014:

	As of March 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	269	681	9
ETF buyer relationships	950	269	681	9
	$ 111,900	$ 110,538	$ 1,362	

	As of December 31, 2014			
(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	243	707	9
ETF buyer relationships	950	243	707	9
	$ 111,900	$ 110,486	$ 1,414	

Amortization expense relating to finite-lived intangible assets was approximately $0.05 million and $0.05 million for the three months ended March 31, 2015 and 2014, respectively. This is included in amortization of purchased intangibles and acquired capitalized software in the accompanying condensed consolidated statements of comprehensive income.

4. 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 March 31, 2015 and December 31, 2014:

(in thousands)	March 31, 2015	December 31, 2014
Assets		
Due from prime brokers	$ 102,734	$ 67,556
Deposits with clearing organizations	53,907	29,595
Net equity with futures commission merchants	148,611	155,060
Unsettled trades	37,349	55,929
Securities failed to deliver	118,580	79,512
Total receivables from broker-dealers and clearing organizations	$ 461,181	$ 387,652
Liabilities		
Due to prime brokers	$ 178,063	$ 313,623
Net equity with futures commission merchants	455,112	60,973
Unsettled trades	92,909	311,322
Securities failed to receive	1	285
Total payables to broker-dealers and clearing organizations	$ 726,085	$ 686,203

Table of Contents

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 $241.8 million and $183.0 million as of March 31, 2015 and December 31, 2014, 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.

5. 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 March 31, 2015 and December 31, 2014, substantially all of the securities received as collateral have been repledged. Amounts relating to collateralized transactions at March 31, 2015 and December 31, 2014 are summarized as follows:

(In thousands)		**March 31, 2015**		**December 31, 2014**
Securities received as collateral:				
Securities borrowed	$	666,963	$	470,553
Securities purchased under agreements to resell		272		31,472
	$	667,235	$	502,025

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 March 31, 2015 and December 31, 2014 consisted of the following:

(In thousands)		**March 31, 2015**		**December 31, 2014**
Equities	$	482,700	$	219,159
Exchange traded notes		14,133		17,216
	$	496,833	$	236,375

Table of Contents

6. 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 $100.0 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 (1.13% at March 31, 2015 and 1.12% at December 31, 2014). The Uncommitted Facility has a 364-day term. The Company is party to another facility (the Committed Facility) with the same financial institution dated July 22, 2013 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 $50.0 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 March 31, 2015 and December 31, 2014, the Company did not have any outstanding principal balance on the Uncommitted Facility or the Committed Facility. Interest expense for the three months ended March 31, 2015 and 2014 was approximately $0.1 million and $0.1 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 entered into a credit facility with a financial institution on April 26, 2010, amended on December 10, 2010 and July 1, 2011. The loan proceeds of the credit facility are available only for meeting the initial margin requirements associated with the Company s ordinary course futures trading positions held in its trading account with a prime brokerage affiliate of the financial institution, and the amount available for borrowing is the lesser of $35.0 million or 80% of the initial margin requirement. These borrowings are collateralized by the Company s trading accounts and deposit accounts with the financial institution and its brokerage affiliate. The loan is payable on demand and interest on daily unpaid principal balances bears interest at rate per annum quoted by the financial institution each day (2.13% at March 31, 2015 and 2.05% December 31, 2014). Any balance that is not paid upon demand bears interest at the higher of the rate in effect for such loan plus 2% or the prime rate plus 2%. As of March 31, 2015 and December 31, 2014, the outstanding principal payable balance on the facility was approximately $32.6 million and $26.7 million, respectively, which was recorded as an offset against receivables from broker-dealers and clearing organizations in the accompanying condensed consolidated statements of financial condition. Interest expense for the three months ended March 31, 2015 and 2014 was approximately $0.2 million and $0.1 million, respectively. Interest expense is recorded within interest and dividends expense in the accompanying condensed consolidated statements of comprehensive income.

The Company entered into a $200.0 million credit facility with a financial institution on June 29, 2011 which was increased to $300.0 million on February 17, 2012. The loan proceeds of the credit facility are available only for meeting margin requirements associated with the products traded by the Company in the ordinary course using the financial institution s affiliate as its prime broker. The credit facility is collateralized by the Company s trading accounts for these products with the financial institution s affiliate and bears interest at 1.00% per annum in excess of the federal funds target rate of 0.25% (1.16% at March 31, 2015 and 1.25% at December 31, 2014). The credit facility is subject to certain financial covenants, including minimum account balances and loan ratios, as defined. The outstanding principal balance on the line of credit was approximately $168.5 million and $124.3 million as of March 31, 2015 and December 31, 2014, respectively, and recorded within receivables from broker-dealers and clearing organizations in the accompanying condensed consolidated statements of financial condition. Interest expense for the three months ended March 31, 2015 and 2014 was approximately $0.4 million and $0.6 million, respectively. Interest expense is recorded within interest and dividends expense in the accompanying condensed consolidated statements of comprehensive income.

The Company entered into a credit facility with a financial institution on August 8, 2011 with approximately $10.0 million available for borrowing. The loan proceeds of the credit facility are available only to finance the Company s ordinary course securities positions held in its trading account with the financial institution s prime brokerage affiliate. The credit facility is collateralized by the securities held in such account and bears interest at the rate published by Bank of Mexico on business day immediately preceding the

Table of Contents

6. Borrowings (Continued)

date on which the calculation is made. There were no outstanding balances as of March 31, 2015 and December 31, 2014. Interest expense for the three months ended March 31, 2015 and 2014 was approximately $0.3 million and $0, respectively. Interest expense is recorded within interest and dividends expense in the accompanying condensed consolidated statements of comprehensive income.

The Company entered into a credit facility with a financial institution on March 6, 2013 whereby the loan proceeds of the credit facility are available only for meeting the initial margin requirements associated with the Company s ordinary course futures trading positions held in its trading account with an affiliate of the financial institution, and the amount available for borrowing is the lesser of $40.0 million or 80% of the initial margin requirement. These borrowings are collateralized by the Company s trading accounts and deposit accounts with the financial institution and its prime brokerage affiliate. The loan is payable on demand and interest on daily unpaid principal balances bears interest at 2.00% per annum in excess of the interest period average of daily opening federal funds target rate (2.12% at March 31, 2015 and 2.12% at December 31, 2014). As of March 31, 2015 and December 31, 2014, the outstanding principal balance on the line was approximately $38.6 million and $31.9 million, respectively, which was recorded within receivables from broker-dealers and clearing organizations in the accompanying condensed consolidated statements of financial condition. Interest expense for the three months ended, March 31, 2015 and 2014 was approximately $0.2 million and $0.1 million, respectively. Interest expense is recorded within interest and dividends expense in the accompanying condensed consolidated statements of comprehensive income.

The Company entered into a $20.0 million credit facility with a financial institution on June 24, 2014, amended on December 1, 2014. The loan proceeds of the credit facility are available only for meeting margin requirements associated with the products traded by the Company in the ordinary course using the financial institution s affiliate as its prime broker. The credit facility is collateralized by the Company s trading accounts for these products with the financial institution s affiliate and bears interest at 1.10% per annum in excess of USD LIBOR. The credit facility is subject to certain financial covenants, including minimum account balances and loan ratios, as defined. As of March 31, 2015 and December 31, 2014, the outstanding principal balance on the line of credit was approximately $2.1 million and $0.1 million, respectively, which was recorded within receivables from broker-dealers and clearing organizations in the accompanying condensed consolidated statements of financial condition. Interest expense for the three months ended March 31, 2015 and December 31, 2014 was approximately $0 for both periods.

The Company entered into a $3.0 million credit facility with a financial institution on August 6, 2014, which was increased to $5.0 million on October 17, 2014. The loan proceeds of the credit facility are available only to finance the Company s ordinary course securities positions held in its trading account with the financial institution s affiliate. The credit facility is collateralized by the Company s trading accounts for these products with the financial institution s affiliate and bears interest at 9% per annum, subject to change by the financial institution from time to time with at least ten business days notice. There were no outstanding principal balances as of March 31, 2015 and December 31, 2014. Interest expense for the three months ended March 31, 2015 and December 31, 2014 was approximately $0.2 million and $0.1 million, respectively, which was recorded within interest and dividends expense in the accompanying condensed consolidated statements of comprehensive income.

Senior Secured Credit Facility

On July 8, 2011, the Company funded a portion of the MTH acquisition with a term loan provided by a syndicate of financial institutions in the amount of $320.0 million to the Company s wholly owned subsidiary, VFH Parent LLC (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 and foreign subsidiaries, but including 100% of the non-voting stock and 65% of the voting stock of the Company s or its domestic subsidiaries direct foreign subsidiaries.

The credit facility 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 amortization obligation 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 terms to the original credit facility, except as set forth below.

Table of Contents

6. Borrowings (Continued)

The credit facility bears 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, 3.5%, or (ii) the greater of (x) the adjusted LIBOR rate for the interest period in effect and (y) 1.25%, plus 4.5%. Pursuant to the amendment, each incremental spread will be reduced by 0.50% upon the consummation of a qualifying initial public offering. The rate at March 31, 2015 was 5.75%.

Aggregate future required minimum principal payments based on the terms of this loan at March 31, 2015 were as follows:

(in thousands)		
2015	$	2,914
2016		5,100
2017		5,100
2018 and thereafter		489,600
Total maturities of long-term debt	$	502,714

Net carrying amount of deferred financing fees capitalized in connection with the financing were approximately $4.8 million and $5.1 million, respectively, as of March 31, 2015 and December 31, 2014, which are included as a deduction to senior secured credit facility in the accompanying condensed consolidated statements of financial condition. The Company retrospectively adopted ASU 2015-03, *Simplifying the Presentation of Debt Issuance Costs*, wherein the accompanying condensed consolidated statements of financial condition have been adjusted to reflect the period specific effects of applying the new guidance. After retrospectively applying the new guidance, the Company reclassified approximately $5.1 million in deferred financing fees as of December 31, 2014 previously included within other assets to senior secured credit facility 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 March 31, 2015 and 2014, respectively. Amortization expense is included within financing interest expense on senior secured credit facility in the accompanying condensed consolidated statements of comprehensive income.

Accretion related to the net carrying amount of debt discount of $1.8 million and $1.9 million, respectively, as of March 31, 2015 and December 31, 2014, was approximately $0.1 million and $0.1 million for the three months ended March 31, 2015 and 2014, and is included within financing interest expense on senior secured credit facility in the accompanying condensed consolidated statements of comprehensive income.

7. Financial Assets and Liabilities

At March 31, 2015 and December 31, 2014, 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 March 31, 2015 and December 31, 2014 based on the quoted over-the-counter market prices provided by the issuer of the senior secured credit facility, which was 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 March 31, 2015 and December 31, 2014, 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 quarters ended March 31, 2015 and 2014.

Table of Contents

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

(in thousands)	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	March 31, 2015 Significant Unobservable Inputs (Level 3)	Counter-Party Netting	Total Fair Value
Assets					
Financial instruments owned, at fair value:					
Equity securities	$ 1,472,279	$ 23,668	$	$	$ 1,495,947
U.S. and Non-U.S. government obligations	993	1,711			2,704
Exchange traded notes	15,436				15,436
Currency forwards		1,128,453		(1,062,511)	65,942
Options		245			245
	$ 1,488,708	$ 1,154,077	$	$ (1,062,511)	$ 1,580,274
Financial instruments owned, pledged as collateral:					
Equity securities	$ 482,700	$	$	$	$ 482,700
Exchange traded notes	14,133				14,133
	$ 496,833	$	$	$	$ 496,833
Other Assets					
Exchange stock	$ 8,679	$	$	$	$ 8,679
	$ 8,679	$	$	$	$ 8,679
Liabilities					
Financial instruments sold, not yet purchased, at fair value:					
Equity securities	$ 1,250,392	$ 116	$	$	$ 1,250,508
U.S. and Non-U.S. government obligations	9,512				9,512
Exchange traded notes	28,791				28,791
Interest rate swaps		11			11
Currency forwards		1,065,436		(1,062,511)	2,925
Options		533			533
	$ 1,288,695	$ 1,066,096	$	$ (1,062,511)	$ 1,292,280

Table of Contents

Fair value measurements for those items measured on a recurring basis are summarized below as of December 31, 2014:

(in thousands)	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Counter-Party Netting	Total Fair Value
Assets					
Financial instruments owned, at fair value:					
Equity securities	$ 1,216,532	$ 17,166	$	$	$ 1,233,698
U.S. and non-U.S. government obligations		8,222			8,222
Exchange traded notes	65,684				65,684
Currency forwards		1,629,637		(1,629,629)	8
Options		321			321
	$ 1,282,216	$ 1,655,346	$	$ (1,629,629)	$ 1,307,933
Financial instruments owned, pledged as collateral:					
Equity securities	$ 219,159	$	$	$	$ 219,159
Exchange traded notes	17,216				17,216
	$ 236,375	$	$	$	$ 236,375
Other Assets					
Exchange stock	$ 8,205	$	$	$	$ 8,205
	$ 8,205	$	$	$	$ 8,205
Liabilities					
Financial instruments sold, not yet purchased, at fair value:					
Equity securities	$ 859,836	$ 47,896	$	$	$ 907,732
U.S. and non-U.S. government obligations	21,107				21,107
Exchange traded notes	92,513				92,513
Currency forwards		1,645,820		(1,629,629)	16,191
Options		79			79
Interest rate swaps		12			12
	$ 973,456	$ 1,693,807	$	$ (1,629,629)	$ 1,037,634

Table of Contents

The Company adopted the guidance in ASU 2013-01, *Balance Sheet (Topic 210): Clarifying the Scope of Disclosures about Offsetting Assets and Liabilities* for periods beginning after January 1, 2013. This authoritative guidance requires companies to report disclosures of offsetting 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 the netting of certain financial assets and financial liabilities as of March 31, 2015 and December 31, 2014, pursuant to the requirements of ASU 2011-11 and ASU 2013-01.

	March 31, 2015					
				Gross Amounts Not Offset in the Condensed Consolidated Statement of Financial Condition		
(in thousands)	Gross Amounts of Recognized Assets	Gross Amounts Offset in the Condensed Consolidated Statement of Financial Condition	Net Amounts of Assets Presented in the Condensed Consolidated Statement of Financial Condition	Financial Instruments	Cash Collateral Received	Net Amount
Offsetting of Financial Assets:						
Securities borrowed	$ 691,084	$	$ 691,084	$ (681,368)	$	$ 9,716
Securities purchased under agreements to resell	272		272	(272)		
Trading assets, at fair value:						
Currency forwards	1,128,453	(1,062,511)	65,942		(62,616)	3,326
Options	245		245	(245)		
Total	$ 1,820,054	$ (1,062,511)	$ 757,543	$ (681,885)	$ (62,616)	$ 13,042

				Gross Amounts Not Offset in the Condensed Consolidated Statement of Financial Condition		
	Gross Amounts of Recognized Liabilities	Gross Amounts Offset in the Condensed Consolidated Statement of Financial Condition	Net Amounts of Liabilities Presented in the Condensed Consolidated Statement of Financial Condition	Financial Instruments	Cash Collateral Pledged	Net Amount
Offsetting of Financial Liabilities:						
Securities loaned	$ 956,897	$	$ 956,897	$ (944,435)	$ (2,846)	$ 9,616
Securities sold under agreements to repurchase	10,973		10,973	(10,973)		
Trading liabilities, at fair value:						
Currency forwards	1,065,436	(1,062,511)	2,925		(1,912)	1,013
Options	533		533	(245)	(288)	

Interest rate swaps	11		11		(11)	
Total	$ 2,033,850	$ (1,062,511)	$ 971,339	$ (955,653)	$ (5,057)	$ 10,629

Table of Contents

	December 31, 2014					
				Gross Amounts Not Offset in the Condensed Consolidated Statement of Financial Condition		
(in thousands)	Gross Amounts of Recognized Assets	Gross Amounts Offset in the Condensed Consolidated Statement of Financial Condition	Net Amounts of Assets Presented in the Condensed Consolidated Statement of Financial Condition	Financial Instruments	Cash Collateral Received	Net Amount
Offsetting of Financial Assets:						
Securities borrowed	$ 484,934	$	$ 484,934	$ (477,559)	$	$ 7,375
Securities purchased under agreements to resell	31,463		31,463	(31,463)		
Trading assets, at fair value:						
Currency forwards	1,629,637	(1,629,629)	8			8
Options	321		321	(76)		245
Total	$ 2,146,355	$ (1,629,629)	$ 516,726	$ (509,098)	$	$ 7,628

				Gross Amounts Not Offset in the Condensed Consolidated Statement of Financial Condition		
(in thousands)	Gross Amounts of Recognized Liabilities	Gross Amounts Offset in the Condensed Consolidated Statement of Financial Condition	Net Amounts of Liabilities Presented in the Condensed Consolidated Statement of Financial Condition	Financial Instruments	Cash Collateral Pledged	Net Amount
Offsetting of Financial Liabilities:						
Securities loaned	$ 497,862	$	$ 497,862	$ (490,768)	$ (2,812)	$ 4,282
Securities sold under agreements to repurchase	2,006		2,006	(2,006)		
Trading liabilities, at fair value:						
Currency forwards	1,645,820	(1,629,629)	16,191		(16,191)	
Options	79		79	(79)		
Interest rate swaps	12		12		(12)	
Total	$ 2,145,779	$ (1,629,629)	$ 516,150	$ (492,853)	$ (19,015)	$ 4,282

Excluded from the fair value and offsetting tables above is net variation margin on long and short futures contracts in the amounts of $(64.2) million and $46.4 million, which are included within receivables from broker-dealers and clearing organizations as of March 31, 2015 and December 31, 2014, respectively, and $(2.9) million and $(3.6) million, which are included within payables to broker-dealers and clearing organizations as of March 31, 2015 and December 31, 2014, respectively.

8. Derivative Instruments

The fair value of the Company s derivative instruments on a gross basis consisted of the following at March 31, 2015 and December 31, 2014:

Table of Contents

(in thousands)		March 31, 2015		December 31, 2014	
Derivatives Assets	**Balance Sheet Classification**	**Fair Value**	**Notional**	**Fair Value**	**Notional**
Equities futures	Receivables from broker dealers and clearing organizations	$ 1,901	$ 568,824	$ 241	$ 561,029
Commodity futures	Receivables from broker dealers and clearing organizations	(62,144)	30,470,412	42,489	28,823,081
Currency futures	Receivables from broker dealers and clearing organizations	(3,989)	2,106,049	3,180	2,916,222
Treasury futures	Receivables from broker dealers and clearing organizations	(6)	408,908	504	857,363
Options	Financial instruments owned	245	42,312	321	39,802
Currency forwards	Financial instruments owned	1,128,453	53,768,957	1,629,637	127,021,198

Derivatives Liabilities	**Balance Sheet Classification**	**Fair Value**	**Notional**	**Fair Value**	**Notional**
Equities futures	Payables to broker dealers and clearing organizations	$ 2,437	$ 434,371	$ (268)	$ 122,948
Commodity futures					