Virtu Financial, Inc.
Form 10-Q
May 07, 2018
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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 March 31, 2018
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.) |

| 300 Vesey Street<br>New York, New York 10282 | 10282 |
|---|---|
| (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 x 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 x No
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

| Large accelerated filer | Accelerated filer | Non-accelerated filer<br>(Do not check if a smaller reporting company) | Smaller reporting company<br>Emerging growth company |
|---|---|---|---|

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No
If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 7(a)(2)(B) of the Securities Act. Yes No x

| Class of Stock | Shares Outstanding as of May 7, 2018 |
| --- | --- |
| Class A common stock, par value $0.00001 per share | 91,512,582 |
| Class C common stock, par value $0.00001 per share | 17,043,963 |
| Class D common stock, par value $0.00001 per share | 79,610,490 |

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FOR THE QUARTER ENDED MARCH 31, 2018


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Unless the context otherwise requires, the terms “we,” “us,” “our,” “Virtu” and the “Company” refer to Virtu Financial, Inc., a Delaware corporation, and its consolidated subsidiaries and the term “Virtu Financial” refers to Virtu Financial LLC, a Delaware limited liability company and a consolidated subsidiary of ours.

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# PART I - FINANCIAL INFORMATION

## ITEM 1. FINANCIAL STATEMENTS

Index to Condensed Consolidated Financial Statements (Unaudited)


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Virtu Financial, Inc. and Subsidiaries
Condensed Consolidated Statements of Financial Condition

| (in thousands, except share and interest data) | March 31, 2018 | December 31, 2017 |
|---|---|---|
| Assets | | |
| Cash and cash equivalents | $637,308 | $532,887 |
| Securities borrowed | 1,232,048 | 1,471,172 |
| Securities purchased under agreements to resell | 602 | — |
| Receivables from broker dealers and clearing organizations | 1,434,039 | 972,018 |
| Trading assets, at fair value: | | |
| Financial instruments owned | 2,297,070 | 2,117,579 |
| Financial instruments owned and pledged | 610,536 | 595,043 |
| Property, equipment and capitalized software (net of accumulated depreciation of $373,232 and $375,656 as of March 31, 2018 and December 31, 2017, respectively) | 128,675 | 137,018 |
| Goodwill | 836,583 | 844,883 |
| Intangibles (net of accumulated amortization of $130,246 and $123,409 as of March 31, 2018 and December 31, 2017, respectively) | 104,387 | 111,224 |
| Deferred tax assets | 123,289 | 125,760 |
| Assets of business held for sale | — | 55,070 |
| Other assets ($100,811 and $98,364, at fair value, as of March, 31, 2018 and December 31, 2017, respectively) | 353,394 | 357,352 |
| Total assets | $7,757,931 | $7,320,006 |
| | | |
| Liabilities and equity | | |
| Liabilities | | |
| Short-term borrowings | $20,944 | $27,883 |
| Securities loaned | 936,061 | 754,687 |
| Securities sold under agreements to repurchase | 265,401 | 390,642 |
| Payables to broker dealers and clearing organizations | 648,788 | 716,205 |
| Trading liabilities, at fair value: | | |
| Financial instruments sold, not yet purchased | 2,846,453 | 2,384,598 |
| Tax receivable agreement obligations | 147,040 | 147,040 |
| Accounts payable and accrued expenses and other liabilities | 313,305 | 358,825 |
| Long-term borrowings | 1,121,464 | 1,388,548 |
| Total liabilities | $6,299,456 | $6,168,428 |
| | | |
| Virtu Financial Inc. Stockholders' equity | | |
| Class A common stock (par value $0.00001), Authorized — 1,000,000,000 and 1,000,000,000 shares, Issued — 92,687,589 and 90,415,532 shares, Outstanding — 91,512,582 and 89,798,609 shares at March 31, 2018 and December 31, 2017, respectively | 1 | 1 |
| 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 March 31, 2018 and December 31, 2017, respectively | — | — |
| Class C common stock (par value $0.00001), Authorized — 90,000,000 and 90,000,000 shares, Issued — 17,066,564 and 17,880,239 shares, Outstanding — 17,066,564 and 17,880,239, at March 31, 2018 and December 31, 2017, 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 March 31, 2018 and | 1 | 1 |

| | | |
|---|---|---|
| December 31, 2017, respectively | | |
| Treasury stock, at cost, 1,175,007 and 616,923 shares at March 31, 2018 and December 31, 2017, respectively | (25,485 ) | (11,041 ) |
| Additional paid-in capital | 930,954 | 900,746 |
| Retained Earnings (Accumulated deficit) | 90,242 | (62,129 ) |
| Accumulated other comprehensive income | 4,232 | 2,991 |
| Total Virtu Financial Inc. stockholders' equity | $999,945 | $830,569 |
| Noncontrolling interest | 458,530 | 321,009 |
| Total equity | $1,458,475 | $1,151,578 |
| | | |
| Total liabilities and equity | $7,757,931 | $7,320,006 |

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Virtu Financial, Inc. and Subsidiaries
Condensed Consolidated Statements of Financial Condition

See accompanying notes to the condensed consolidated financial statements.

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Virtu Financial, Inc. and Subsidiaries
Condensed Consolidated Statements of Comprehensive Income

| (in thousands, except share and per share data) | For Three Months Ended March 31, 2018 | 2017 |
|---|---|---|
| Revenues: | | |
| Trading income, net | $406,162 | $139,574 |
| Interest and dividends income | 17,949 | 4,874 |
| Commissions, net and technology services | 53,844 | 2,779 |
| Other, net | 337,098 | 60 |
| Total revenue | 815,053 | 147,287 |
| | | |
| Operating Expenses: | | |
| Brokerage, exchange and clearance fees, net | 87,824 | 52,770 |
| Communication and data processing | 49,486 | 18,207 |
| Employee compensation and payroll taxes | 64,670 | 21,347 |
| Payments for order flow | 16,256 | — |
| Interest and dividends expense | 33,624 | 12,280 |
| Operations and administrative | 19,919 | 4,846 |
| Depreciation and amortization | 15,339 | 6,757 |
| Amortization of purchased intangibles and acquired capitalized software | 6,851 | 53 |
| Termination of office leases | 19,970 | — |
| Debt issue cost related to debt refinancing | 6,021 | — |
| Transaction advisory fees and expenses | 7,496 | 132 |
| Charges related to share based compensation at IPO | 14 | 185 |
| Financing interest expense on long-term borrowings | 19,047 | 6,828 |
| Total operating expenses | 346,517 | 123,405 |
| Income before income taxes and noncontrolling interest | 468,536 | 23,882 |
| Provision for income taxes | 58,514 | 2,808 |
| Net income | 410,022 | 21,074 |
| Noncontrolling interest | (235,271 ) | (16,494 ) |
| | | |
| Net income available for common stockholders | $174,751 | $4,580 |
| | | |
| Earnings per share | | |
| Basic | $1.89 | 0.10 |
| Diluted | $1.86 | 0.10 |
| | | |
| Weighted average common shares outstanding | | |
| Basic | 90,699,321 | 40,398,381 |
| Diluted | 92,406,318 | 40,398,381 |
| | | |
| Net income | $410,022 | $21,074 |
| Other comprehensive income | | |
| Foreign exchange translation adjustment, net of taxes | 2,529 | 785 |
| Comprehensive income | 412,551 | 21,859 |
| Less: Comprehensive income attributable to noncontrolling interest | (236,559 ) | (17,044 ) |
| Comprehensive income attributable to common stockholders | $175,992 | $4,815 |

See accompanying notes to the condensed consolidated financial statements.

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Virtu Financial, Inc. and Subsidiaries
Condensed Consolidated Statements of Changes in Equity

| | Class A Common Stock | | Class C Common Stock | | Class D Common Stock | | Treasury Stock | | Additional Paid-in Capital | Retained Earnings (Accumu Deficit) |
|---|---|---|---|---|---|---|---|---|---|---|
| (in thousands, except share and interest data) | Shares | Amounts | Shares | Amounts | Shares | Amounts | Shares | Amounts | Amounts | |
| Balance at December 31, 2017 | 90,415,532 | $1 | 17,880,239 | $— | 79,610,490,000 | $1 | (616,923,000 ) | $(11,041 ) | $900,746 | $(62,129 |
| Share based compensation | 744,536 | — | — | — | — | — | — | — | 16,632 | — |
| Repurchase of Class C common stock | — | — | (18,154 ) | — | — | — | — | — | (332 ) | — |
| Treasury stock purchases | — | — | — | — | — | — | (558,084,000 ) | (14,444 ) | — | — |
| Stock option exercised | 732,000 | — | — | — | — | — | — | — | 13,908 | — |
| Net income | — | — | — | — | — | — | — | — | — | 174,751 |
| Foreign exchange translation adjustment | — | — | — | — | — | — | — | — | — | — |
| Distribution from Virtu Financial to non-controlling interest | — | — | — | — | — | — | — | — | — | — |
| Dividends | — | — | — | — | — | — | — | — | — | (22,380 |
| Issuance of common stock in connection with employee exchanges | 795,521 | — | — | — | — | — | — | — | — | — |
| Repurchase of Virtu Financial Units and corresponding number of Class C common stock in connection with employee exchanges | — | — | (795,521 ) | — | — | — | — | — | — | — |
| Balance at March 31, 2018 | 92,687,589 | 1 | 17,066,564 | — | 79,610,490,000 | 1 | (1,175,007,000) | (25,485 ) | 930,954 | 90,242 |

See accompanying notes to the condensed consolidated financial statements.

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Virtu Financial, Inc. and Subsidiaries
Condensed Consolidated Statements of Cash Flows

| (in thousands) | Three Months Ended March 31, 2018 | 2017 |
|---|---|---|
| Cash flows from operating activities | | |
| Net Income | $410,022 | $21,074 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization | 15,339 | 6,757 |
| Amortization of purchased intangibles and acquired capitalized software | 6,851 | 53 |
| Debt issue cost related to debt refinancing | 6,021 | — |
| Amortization of debt issuance costs and deferred financing fees | 1,583 | 214 |
| Termination of office leases | 19,970 | — |
| Share based compensation | 9,122 | 3,818 |
| Deferred taxes | 2,471 | 2,354 |
| Gain on sale of BondPoint | (329,703) | — |
| Other | (7,328) | 1,570 |
| Changes in operating assets and liabilities: | | |
| Securities borrowed | 239,124 | (138,458) |
| Securities purchased under agreements to resell | (602) | — |
| Receivables from broker dealers and clearing organizations | (462,022) | (213,585) |
| Trading assets, at fair value | (194,984) | (72,088) |
| Other Assets | 5,848 | 563 |
| Securities loaned | 181,374 | 201,469 |
| Securities sold under agreements to repurchase | (125,241) | — |
| Payables to broker dealers and clearing organizations | (67,417) | (106,290) |
| Trading liabilities, at fair value | 461,855 | 324,647 |
| Accounts payable and accrued expenses and other liabilities | (53,276) | (11) |
| Net cash provided by operating activities | 119,007 | 32,087 |
| Cash flows from investing activities | | |
| Development of capitalized software | (7,016) | (2,016) |
| Acquisition of property and equipment | (4,505) | (3,843) |
| Proceeds from sale of BondPoint | 400,192 | — |
| Net cash provided by (used in) investing activities | 388,671 | (5,859) |
| Cash flows from financing activities | | |
| Distribution from Virtu Financial to non-controlling interest | (99,038) | (21,011) |
| Dividends | (22,380) | (10,114) |
| Repurchase of Class C common stock | (332) | — |
| Purchase of treasury stock | (14,444) | (441) |
| Stock option exercised | 13,908 | — |
| Short-term borrowings, net | (7,500) | (3,000) |
| Payments on repurchase of non-voting common interest | — | (500) |
| Repayment of senior secured credit facility | (276,000) | (1,350) |
| Tax receivable agreement obligations | — | (7,045) |
| Debt issuance costs | — | — |

| | | |
|---|---|---|
| Net cash used in financing activities | (405,786 ) | (43,461 ) |
| Effect of exchange rate changes on cash and cash equivalents | 2,529 | 785 |
| Net increase in cash and cash equivalents | 104,421 | (16,448 ) |
| Cash and cash equivalents beginning of period | 532,887 | 181,415 |
| Cash and cash equivalents, end of period | $637,308 | $164,967 |
| Supplementary disclosure of cash flow information | | |
| Cash paid for interest | $30,632 | $13,197 |
| Cash paid for taxes | 156 | 1,915 |

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| | | |
|---|---|---|
| Non-cash investing activities | | |
| Share based compensation to developers relating to capitalized software | 206 | 664 |

See accompanying notes to the condensed consolidated financial statements.

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Virtu Financial, Inc. and Subsidiaries

Notes to Unaudited Condensed Consolidated Financial Statements

(dollars in thousands, except shares and per share amounts, unless otherwise noted)

## 1. Organization and Basis of Presentation

### Organization

The accompanying 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 interest in Virtu Financial, which it acquired pursuant to and subsequent to certain reorganization transactions (the “Reorganization Transactions”) consummated in connection with its IPO. As of March 31, 2018, VFI owned approximately 49.1% of the membership interests of Virtu Financial. VFI 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.

The Company is a leading financial firm that leverages cutting edge technology to deliver liquidity to the global markets and innovative, transparent trading solutions to its clients. The Company has broad diversification, in combination with its proprietary technology platform and low-cost structure, which enables the Company to facilitate risk transfer between global capital markets participants by supplying competitive liquidity and execution services while at the same time earning attractive margins and returns.

On July 20, 2017 (the “Closing Date”), the Company completed the all-cash acquisition (the “Acquisition”) of KCG Holdings, Inc. (“KCG”). Pursuant to the terms of the Agreement and Plan of Merger, dated as of April 20, 2017 (the “Merger Agreement”), by and among the Company, Orchestra Merger Sub, Inc., a Delaware corporation and an indirect wholly-owned subsidiary of the Company (“Merger Sub”), and KCG Merger Sub merged with and into KCG (the “Merger”), with KCG surviving the Merger as a wholly owned subsidiary of the Company. See Note 3 “Acquisition of KCG Holdings Inc.” for further details.

Virtu Financial’s principal subsidiaries include Virtu Financial BD LLC (“VFBD”) and Virtu Americas LLC (“VAL”), which are self-clearing U.S. broker-dealers, 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. Other principal subsidiaries include 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.

On January 2, 2018, the Company completed the sale of its fixed income trading venue, BondPoint, to Intercontinental Exchange (“ICE”) for total gross proceeds of $400.2 million. See Note 4 “Sale of BondPoint” for further details.

Prior to the Acquisition of KCG, the Company was managed and operated as one business, under one reportable segment. As a result of the Acquisition of KCG, beginning in the third quarter of 2017 the Company has three operating segments: (i) Market Making; (ii) Execution Services; and (iii) Corporate.  See Note 19 "Geographic information and business segments" for a further discussion of the Company’s segments.

### Basis of Consolidation and Form 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”). 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.

Certain reclassifications have been made to the prior periods’ condensed consolidated financial statements in order to conform to the current period presentation. Such reclassifications are immaterial, individually and in the aggregate, to both

current and all previously issued financial statements taken as a whole and have no effect on previously reported condensed consolidated net income available to common stockholders.

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. 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.

As discussed in Note 3 "Acquisition of KCG Holdings Inc.", the Company has accounted for the acquisition of KCG under the acquisition method of accounting. Under the acquisition method of accounting, the assets and liabilities of KCG, as of July 20, 2017, were recorded at their respective fair values and added to the carrying value of the Company's existing assets and liabilities. The reported financial condition, results of operations and cash flows of the Company for the periods following the Acquisition reflect KCG's and the Company's balances, and reflect the impact of purchase accounting adjustments. The financial results for the three months ended March 31, 2017 comprise solely the results of the Company.

## 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 earnings, 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

Cash and cash equivalents include money market accounts, which are payable on demand, and short-term investments with an original maturity of less than 90 days.

The Company maintains cash in bank deposit accounts that, at times, may exceed federally insured limits. The Company manages this risk by selecting financial institutions deemed highly creditworthy to minimize the risk.

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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, which comprises cash and/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 cash 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. Interest received or paid by the Company for these transactions 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.

The Company has also entered into bilateral and tri-party term and overnight repurchase and other collateralized financing agreements which bear interest at negotiated rates. The Company receives cash and makes delivery of financial instruments to a custodian who monitors the market value of these instruments on a daily basis. The market value of the instruments delivered must be equal to or in excess of the principal amount loaned under the repurchase agreements plus the agreed upon margin requirement. The custodian may request additional collateral, if appropriate. Interest received or paid by the Company for these transactions 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 March 31, 2018 and December 31, 2017, receivables from and payables to broker-dealers and clearing organizations primarily represented 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 receivables from and payable to broker-dealers and clearing organizations when the criteria for offsetting are met.

In the normal course of business, a significant portion of the Company’s securities transactions, money balances, and security positions are transacted with several third-party 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 to minimize the risk of any losses from these counterparties.

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

Financial instruments owned and Financial instruments sold, not yet purchased relate to market making and trading activities, and include listed and other equity securities, listed equity options and fixed income securities.

The Company records 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.

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Fair Value Measurements

Fair value is defined 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. The Company categorizes its financial instruments into 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; or

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.
Fair Value Option
The fair value option election allows entities to make an irrevocable election of fair value as the initial and subsequent measurement attribute for certain eligible financial assets and liabilities. Unrealized gains and losses on items for which the fair value option has been elected are recorded in other, net in the condensed consolidated statements of comprehensive income. The decision to elect the fair value option is determined on an instrument by instrument basis, which must be applied to an entire instrument and is irrevocable once elected.

Derivative Instruments

Derivative instruments are used for trading purposes, including economic hedges of trading instruments, which are carried at fair value include futures, forward contracts, and options. Gains or losses on these derivative instruments are recognized currently within trading income, net in the condensed consolidated statement of comprehensive income. 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 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.

Property, Equipment and Occupancy

Property and equipment are carried at cost, less accumulated depreciation, except for the assets acquired in connection with acquisitions using the purchase accounting method, which were recorded at fair value on the respective date of acquisitions. Depreciation is provided using the straight-line method over estimated useful lives of the underlying assets. 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 life of the improvement or the term of the lease.

The Company recognizes rent expense under operating leases with fixed rent escalations, lease incentives and free rent periods on a straight-line basis over the lease term beginning on the date the Company takes possession of or controls the use of the space, including during free rent periods.

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Lease Loss Accrual
The Company's policy is to identify excess real estate capacity and where applicable, accrue for related future costs, net of projected sub-lease income upon the date the Company ceases to use the excess real estate, which is recorded under operating and administrative in the condensed consolidated statements of comprehensive income. Such accrual is adjusted to the extent the actual terms of sub-leased property differ from the previous assumptions used in the calculation of the accrual.

Capitalized 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.

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 1.5 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 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, 2017, 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. Following the Acquisition, our impairment testing is performed for each reporting unit.

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, they are 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. Exchange memberships acquired in connection with the Acquisition were recorded at their fair value on the date of acquisition. Exchange stock includes shares that entitle the Company to certain trading privileges. The Company's exchange memberships and stock are included in intangibles in the condensed consolidated statements of financial condition.

Trading Income, net

Trading income, net 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. The Company recognizes the related revenue when the third party research services are rendered and payments are made.

Commissions, net and Technology Services

Commissions, net, which primarily comprise commissions and commission equivalents earned on institutional client orders, are recorded on a trade date basis. Under a commission management program, the Company allows institutional clients

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to allocate a portion of their gross commissions to pay for research and other services provided by third parties. As the Company acts as an agent in these transactions, it records such expenses on a net basis within Commissions and technology services in the condensed consolidated statements of comprehensive income.

Technology services revenues consist of technology licensing fees and agency commission fees. Technology licensing fees are earned from third parties for licensing of the Company’s proprietary risk management and trading infrastructure technology and the provision of associated management and hosting services. These fees include both upfront and annual recurring fees, as well as, in certain cases, contingent fees based on client revenues, which represent variable consideration. The services offered under these contracts have the same pattern of transfer; accordingly, they are being measured and recognized as a single performance obligation. The performance obligation is satisfied over time, and accordingly, revenue is recognized as time passes. Variable consideration has not been included in the transaction price as the amount of consideration is contingent on factors outside the Company’s control and thus it is not probable that a significant reversal of cumulative revenue recognized will not occur. Recurring fees, which exclude variable consideration, are billed and collected on a quarterly basis.

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 an accrual basis.

Brokerage, Exchange and Clearance Fees, Net

Brokerage, exchange and clearance fees, net, comprise the costs of executing and clearing trades and are recorded on a trade date basis. 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.

Payments for Order Flow

Payments for order flow represent payments to broker-dealer clients, in the normal course of business, for directing their order flow in U.S. equities to the Company. Payments for order flow are recorded on a trade-date basis in the 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 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.

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Public Law No. 115-97, commonly referred to as The Tax Cuts and Jobs Act (the “2017 Tax Act”) was signed into law on December 22, 2017. The 2017 Tax Act significantly changes how the U.S. federal government taxes corporations and requires significant judgments to be made in interpretation of its provisions and significant estimates in calculations, and the preparation and analysis of information not previously relevant or regularly produced. The U.S. Treasury Department, the IRS, and other standard-setting bodies could interpret or issue guidance on how provisions of the 2017 Tax Act will be applied or otherwise administered that is different from our interpretation. As we complete our analysis of the 2017 Tax Act, collect and prepare necessary data, and interpret any additional guidance, we may make adjustments to provisional amounts that we have recorded that may materially impact our provision for income taxes in the period in which the adjustments are made. See Note 14 “Income Taxes”.

Comprehensive Income and Foreign Currency Translation

Comprehensive income consists of two components: net income and other comprehensive income (“OCI”). 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.

The Company's foreign subsidiaries generally use the U.S. dollar as their functional currency. The Company also has subsidiaries that utilize a functional currency other than the U.S. dollar, primarily comprising its subsidiaries domiciled in Ireland, which utilizes the Euro as the functional currency.

The Company may seek to reduce the impact of fluctuations in foreign exchange rates on its net investment in certain non-U.S. operations through the use of foreign currency forward contracts. For foreign currency forward contracts designated as hedges, the Company assesses its risk management objectives and strategy, including identification of the hedging instrument, the hedged item and the risk exposure and how effectiveness is to be assessed prospectively and retrospectively. The effectiveness of the hedge is assessed based on the overall changes in the fair value of the forward contracts. For qualifying net investment hedges, any gains or losses, to the extent effective, are included in Accumulated other comprehensive income on the condensed consolidated statements of financial condition and Cumulative translation adjustment, net of tax, on the condensed consolidated statements of comprehensive income. The ineffective portion, if any, is recorded in Investment income and other, net on the condensed consolidated statements of operations.

Share-Based Compensation

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

Share-based awards issued for compensation in connection with or subsequent to the Reorganization Transactions and the IPO pursuant to the VFI 2015 Management Incentive Plan (as amended, the “2015 Amended and Restated Management Incentive Plan”) were in the form of stock options, Class A common stock and RSUs. 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 RSUs are determined based on the volume weighted average price for the three days preceding the grant, and with respect to the RSUs, 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 Class A common stock, the vesting of RSUs or the exercise of stock options.

Variable Interest Entities

A variable interest entity ("VIE") is an entity that lacks one or more of the following characteristics (i) the total equity investment at risk is sufficient to enable the entity to finance its activities independently and (ii) the equity holders have the power to direct the activities of the entity that most significantly impact its economic performance, the obligation to absorb the losses of the entity and the right to receive the residual returns of the entity.

The Company will be considered to have a controlling financial interest and will consolidate a VIE if it has both (i) the power to direct the activities of the VIE that most significantly impact the VIE's economic performance and (ii) the obligation to absorb losses of the VIE or the right to receive benefits from the VIE that could potentially be significant to the VIE.

In October 2016, the Company invested in a joint venture ("JV") with nine other parties. One of the parties was KCG. Upon the Merger, KCG was required to relinquish their ownership in the JV. As of March 31, 2018, each of the

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remaining parties owns approximately 11% of the voting shares and 11% of the equity of this JV, which is building microwave communication networks in the U.S. and Asia, and which is considered to be a VIE. The Company and all of its JV partners each pay monthly fees for the funding of the construction of the microwave communication networks. When completed, this JV may sell excess bandwidth that is not utilized by its joint venture members to third parties.

In addition, as a result of the Acquisition, the Company owns 50% of the voting shares and 50% of the equity of a JV which maintains microwave communication networks in the U.S. and Europe, and which is considered to be a VIE. The Company and its JV partner each pay monthly fees for the use of the microwave communication networks in connection with their respective trading activities, and the JV may sell excess bandwidth that is not utilized by the JV members to third parties.

In each of the JVs, the Company does not have the power to direct the activities of the VIE that most significantly impact the VIE’s economic performance; therefore it does not have a controlling financial interest in the JV and does not consolidate the JVs. The Company records its interest in each JV under the equity method of accounting and records its investment in the JVs within Other assets and its amounts payable for communication services provided by the JV within Accrued expenses and other liabilities on the condensed consolidated statements of financial condition. The Company records its pro-rata share of each JVs earnings or losses within Other, net and fees related to the use of communication services provided by the JVs within Communications and data processing on the condensed consolidated statements of comprehensive income.

The Company’s exposure to the obligations of these VIEs is generally limited to its interests in each respective JV, which is the carrying value of the equity investment in each JV.

The following table presents the Company’s nonconsolidated VIE at March 31, 2018:

| | Carrying Amount | | | |
|---|---|---|---|---|
| (in thousands) | Asset | Liability | Maximum Exposure to loss | VIE's assets |
| Equity investment | $18,472 | $ — | $ 18,472 | $51,344 |

The following table presents the Company’s nonconsolidated VIE at December 31, 2017:

| | Carrying Amount | | | |
|---|---|---|---|---|
| (in thousands) | Asset | Liability | Maximum Exposure to loss | VIE's assets |
| Equity investment | $18,799 | $ — | $ 18,799 | $41,936 |

Recent Accounting Pronouncements

Revenue - In May 2014, the FASB issued Accounting Standard Update (“ASU”) 2014-9, Revenue from Contracts with Customers. ASU 2014-9 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 2014-9 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 2015-14, Revenue from Contracts with Customers (Topic 606): Deferral of the

Effective Date. ASU 2015-14 defers the effective date of ASU 2014-9 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. In December 2016, FASB issued ASU 2016-20Technical Correction and Improvement (Topic 606): Revenue from Contracts with Customers, which amends the guidance in ASU 2014-9. The effective date and transition requirements for the ASU are the same as ASU 2015-14. The Company adopted the new revenue standard on January 1, 2018 by applying the modified retrospective method, which did not result in a transition adjustment. The new standard does not apply to revenue associated with financial instruments that are accounted for under other U.S. GAAP, and as a result, did not have an impact on the Company's condensed consolidated statements of comprehensive income, which are most closely associated with financial instruments, including trading income, net, and interest and dividends income. The new revenue standard primarily impacts revenues from technology services, commissions and soft-dollar arrangements generated by execution services. The additional disclosures required by the new standard have been included in Note 13 "Revenues from contracts with customers".

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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 ASU affects the accounting for equity investments, financial liabilities under fair value option and presentation and disclosure requirements of financial instruments. The new ASU 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. The Company does not currently classify any equity securities as available for sale, and it does not apply the fair value option to its own debt issuances. The Company has adopted this ASU as of March 31, 2018, and it did not have a material impact 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 the future 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. The Company's implementation effort is on going, and it anticipates adopting this ASU on January 1, 2019. The Company is not anticipating recognizing lease assets and lease liabilities for leases with a term of twelve months or less. Upon adoption of this ASU, the Company expects to report increased assets and liabilities on its condensed consolidated statement of financial condition as a result of recognizing right-of-use assets and lease liabilities related to certain equipment under non-cancelable operating lease agreements and long-term occupancy operating leases, which currently are not reflected in its condensed consolidated statement of financial condition.

Statement of Cash Flows – In August 2016, the FASB issued ASU 2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments. The ASU intended to reduce diversity in practice how certain transactions are classified in the statement of cash flows by mandating classification of certain activities. The ASU is effective for annual periods beginning after December 15, 2017, and interim periods within those annual periods.  The Company has adopted this ASU as of June 30, 2017, and it did not have a material impact on its condensed consolidated statement of cash flows.

Income Taxes – In October 2016, the FASB issued ASU 2016-16, Income Taxes (Topic 749): Intra-Entity Transfers of Assets Other Than Inventory. The ASU requires the reporting entity to recognize the tax expense from the sale of an asset in the seller’s tax jurisdiction when the transfer occurs, even though the pre-tax effects of the transactions are eliminated in consolidation. Any deferred tax asset that arises in the buyer’s jurisdiction would also be recognized at the time of the transfer. The ASU is effective for annual periods beginning after December 15, 2018, and interim reporting periods within annual reporting periods beginning after December 15, 2019. The Company is currently evaluating the potential effects of adoption of ASU 2016-16 on the Company’s condensed consolidated financial statements.

Restricted cash – In November 2016, the FASB issued ASU 2016-18, Statement of Cash Flow (Topic 230): Restricted Cash, which is intended to reduce diversity in the presentation of restricted cash and restricted cash equivalents in the statements of financial conditions. The ASU requires that restricted cash and restricted cash equivalents be included as components of total cash and cash equivalents as presented on the statement of cash flows. This ASU is effective for annual reporting periods beginning after December 15, 2017, and interim periods within those fiscal years. The Company elected to early adopt this ASU effective June 30, 2017.The adoption of the ASU affected the presentation of the Company’s condensed consolidated statements of cash flows in periods in which it maintained restricted cash and restricted cash equivalents.

Accounting Changes – In January 2017, the FASB issued ASU 2017-3, Accounting Changes and Error Correction (Topic 250) and Investments – Equity Method and Joint Ventures (Topic 323), which amends SEC Paragraphs Pursuant to Staff Announcements at the September 22, 2016 and November 17, 2016 EITF Meetings (SEC update). The SEC staff view is that a registrant should evaluate the impact of new accounting standards that have not yet been adopted to determine the appropriate financial disclosures on the potential material effects, especially on new standards on revenue recognition, leases, and financial instruments – credit losses. If a registrant cannot reasonably estimate the impact that adoption of the ASUs will have, the registrant should consider additional qualitative financial statement disclosures to assist the reader in assessing the significance of the impact. Additional qualitative disclosures should include a description of the effect of the accounting policies expected to be applied compared to current accounting policies. Furthermore, the registrant should describe the status of its process to implement the new standards and the significant implementation matters yet to be addressed. The Company adopted this ASU on January 1, 2017, and appropriate disclosures have been included in this Note for each recently issued accounting standard.

Goodwill - In January, 2017, the FASB issued ASU 2017-4, Intangibles—Goodwill and Other (Topic 350), Simplifying the Test for Goodwill Impairment. To simplify the subsequent measurement of goodwill, this ASU eliminated Step 2 from the goodwill impairment test. (In computing the implied fair value of goodwill under Step 2, an entity had to perform procedures to determine the fair value at the impairment testing date of its assets and liabilities (including unrecognized assets and liabilities) following the procedure that would be required in determining the fair value of assets acquired and liabilities assumed in a business combination. Instead, under this ASU, an entity should perform its annual, or interim, goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount. An entity should recognize an impairment charge for the amount by which the carrying amount exceeds the reporting unit's fair value; however, the loss recognized should not exceed the total amount of goodwill allocated to that reporting unit. This ASU also eliminated the requirements for any reporting unit with a zero or negative carrying amount to perform a qualitative assessment and, if it fails that qualitative test, to perform Step 2 of the goodwill impairment test. This ASU is effective for public entities in fiscal years beginning after December 15, 2019. Early adoption is permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017. The Company does not expect the adoption of this ASU to have a material impact on its condensed consolidated financial statements.

Business Combinations - In January 2017, the FASB issued ASU 2017-1, Business Combinations (Topic 805), Clarifying the Definition of a Business, to amend the definition of a business with the objective of adding guidance to assist entities with evaluating whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. The ASU is effective for reporting periods beginning after December 15, 2017. The Company adopted this ASU on January 1, 2018.

3. Acquisition of KCG Holdings, Inc.

As of the Closing Date of the Acquisition, each of KCG's issued and outstanding shares of Class A common stock, par value $0.01 per share was cancelled and extinguished and converted into the right to receive $20.00 in cash, without interest, less any applicable withholding taxes.

On the Closing Date, and in connection with the financing of the Acquisition, as described in Note 10 "Borrowings", the Company issued to Aranda Investments Pte. Ltd. ("Aranda"), an affiliate of Temasek Holdings (Private) Limited ("Temasek"), 6,346,155 shares of the Company's Class A common stock, pursuant to the investment agreement with Aranda (as amended, the "Aranda Investment Agreement") for an aggregate purchase price of approximately $99.0 million. On August 10, 2017, the Company issued an additional 1,666,666 shares of its Class A common stock for an aggregate purchase price of $26.0 million (collectively, the "Temasek Investment").

On the Closing Date, and in connection with the financing of the Acquisition, the Company issued to North Island Holdings I, LP ("NIH") 39,725,979 shares of the Company's Class A common stock for an aggregate purchase price of approximately $613.5 million. On August 10, 2017 the Company issued an additional 338,124 shares of its Class A common stock for an aggregate purchase price of $5.2 million (collectively, the "NIH Investment"). In connection with the Temasek Investment and NIH Investment, the Company incurred approximately $7.8 million in fees which were recorded as a reduction to additional paid-in capital.

On July 21, 2017, the outstanding 6.875% Senior Secured Notes due 2020 issued by KCG were redeemed at a redemption price equal to 103.438% of the $465.0 million principal amount, plus accrued and unpaid interest. The redemption was pursuant to the indenture, dated as of March 13, 2015 (as amended, restated, supplemented or otherwise modified), by and among KCG, the subsidiary guarantors party thereto and The Bank of New York Mellon, as trustee and collateral agent. See "Fourth Amended and Restated Credit Agreement" and "Senior Secured Second Lien Notes" in Note 10 "Borrowings".

Accounting treatment of the Acquisition

The Acquisition is accounted for as a purchase of KCG by the Company, pursuant to provisions of ASC 805, Business Combinations. Under the acquisition method of accounting, the assets and liabilities of KCG, as of July 20, 2017, were recorded at their respective fair values and added to the carrying value of the Company's existing assets and liabilities. These fair values were determined with the assistance of third party valuation professionals. The reported

financial condition, results of operations and cash flows of the Company for the periods following the Acquisition reflect KCG's and the Company's balances and reflect the impact of purchase accounting adjustments.

Purchase price and goodwill

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The aggregate cash purchase price of $1.4 billion was determined as the sum of the fair value, at $20.00 per share, of KCG shares and warrants outstanding to former KCG stockholders at closing and the fair value of KCG employee stock based awards that were outstanding, and which vested at the Closing Date.
The purchase price has been allocated to the assets acquired and liabilities assumed using their estimated fair values at the Closing Date of the Acquisition. Although the Company has substantially completed its analysis to record the allocation of the purchase price to the KCG acquired assets and liabilities, the allocation of the purchase price may be modified over the measurement period, which does not exceed twelve months from the Closing Date, as more information is obtained about the fair values of assets acquired and liabilities assumed. Adjustments to the provisional values during the measurement period will be recorded in the reporting period in which the adjustment amounts are determined. The Company has engaged third party specialists for the purchase price allocation.
Amounts allocated to intangible assets, the amortization period and goodwill were as follows:

| (in thousands) | Amount | Amortization Years |
|---|---|---|
| Technology | $67,700 | 1-6 years |
| Customer relationships | 94,000 | 13 - 17 years |
| Trade names | 1,000 | 10 years |
| Favorable leases | 5,895 | 2-15 years |
| Exchange memberships | 6,400 | Indefinite |
| Intangible assets | $174,995 | |
| Goodwill | 128,286 | |
| Total | $303,281 | |

Of the total Goodwill of $128.3 million, $96.2 million has been assigned to the Market Making segment and $32.1 million has been assigned to the Execution Services segment. Such goodwill is attributable to the expansion of products offerings and expected synergies of the combined workforce, products and technologies of the Company and KCG.
Tax treatment of the Acquisition
The Company believes that the Acquisition will be treated as a tax-free transaction to the Company that does not result in a step up in tax basis in the acquired assets and, therefore, KCG's tax basis in its assets and liabilities generally carries over to the Company following the Acquisition. None of the goodwill is expected to be deductible for tax purposes.
The Company recorded net deferred tax assets of $23.9 million with respect to recording KCG's assets and liabilities under the purchase method of accounting as described above as well as recording the value of other tax attributes acquired as a result of the Acquisition, as described in Note 13 "Revenues from contracts with customers".

4. Sale of BondPoint
In October 2017, the Company entered into an Asset Purchase Agreement (the "BondPoint Agreement") with ICE pursuant to which the Company has agreed to sell specified assets and to assign specified liabilities constituting its BondPoint division and fixed income venue ("BondPoint"). BondPoint is a provider of electronic fixed income trading solutions for the buy-side and sell-side offering access to centralized liquidity and automated trade execution services. As of December 31, 2017, the Company transferred the carrying value of BondPoint to assets held for sale, refer to Note 4 "Business held for sale" in the Company's Annual Report on Form 10-K, filed with the Securities and Exchange Commission on March 13, 2018 (the "2017 Form 10-K"). On January 2, 2018, the Company completed the sale of BondPoint to Intercontinental Exchange for total gross proceeds of $400.2 million in cash. The Company incurred one-time transaction costs of $8.5 million, which include professional fees of $7.1 million related to the sale and $1.4 million compensation expense, which is recorded in Transaction advisory fees and expenses and Employee compensation and payroll taxes, respectively, on the condensed consolidated statement of comprehensive income. The Company recognized a gain on sale of $329.0 million, which is recorded in other, net on the condensed consolidated statement of comprehensive income for the three months ended March 31, 2018.

A summary of the carrying value of BondPoint and gain on sale of BondPoint is as follows:

| (in thousand) | |
|---|---|
| Total sale proceeds received | $400,192 |
| Business assets and liabilities held for sale as of December 31, 2017: | |
| Receivables from broker dealers and clearing organizations | 3,383 |
| Intangibles and other assets | 51,687 |
| Liabilities | (728 ) |
| Total carrying value of BondPoint as of December 31, 2017: | 54,342 |
| Goodwill adjustment allocated to BondPoint | 8,300 |
| Gain on sale of BondPoint | 337,550 |
| Transaction costs | 8,568 |
| Gain on sale of BondPoint, net of transaction costs | $328,982 |

5. Earnings per Share

The below table contains a reconciliation of net income before noncontrolling interest to net income available for common stockholders:

| | Three Months Ended March 31, | |
|---|---|---|
| (in thousands) | 2018 | 2017 |
| Income before income taxes and noncontrolling interest | $468,536 | $23,882 |
| Provision for income taxes | 58,514 | 2,808 |
| Net income | 410,022 | 21,074 |
| Noncontrolling interest | (235,271 ) | (16,494 ) |
| Net income available for common stockholders | $174,751 | $4,580 |

The calculation of basic and diluted earnings per share is presented below:

| | Three Months Ended March 31, | |
|---|---|---|
| (in thousands, except for share or per share data) | 2018 | 2017 |
| Basic earnings per share: | | |
| Net income available for common stockholders | $174,751 | $ 4,580 |
| Less: Dividends and undistributed earnings allocated to participating securities | (3,213 ) | (353 ) |
| Net income available for common stockholders, net of dividends and undistributed earnings allocated to participating securities | 171,538 | 4,227 |
| Weighted average shares of common stock outstanding: | | |
| Class A | 90,699,321 | 40,398,381 |
| Basic Earnings per share | $1.89 | $ 0.10 |

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| (in thousands, except for share or per share data) | Three Months Ended March 31, 2018 | 2017 |
|---|---|---|
| Diluted earnings per share: | | |
| Net income available for common stockholders, net of dividends and undistributed earnings allocated to participating securities | $171,538 | $ 4,227 |
| | | |
| Weighted average shares of common stock outstanding: | | |
| Class A | | |
| Issued and outstanding | 90,699,321 | 40,398,381 |
| Issuable pursuant to 2015 Management Incentive Plan(1) | 1,706,996 | — |
| | 92,406,317 | 40,398,381 |
| | | |
| Diluted Earnings per share | $1.86 | $ 0.10 |

(1) The dilutive impact of unexercised stock options excludes from the computation of EPS 774,529 options for the three months ended March 31, 2017, because inclusion of the options would have been anti-dilutive.

6. 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 pre-IPO equityholders ("Virtu Members"), that are generally equal to 85% of the applicable cash tax savings, if any, that the Company actually realizes as a result of favorable tax attributes that were and will continue to be available to the Company 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 Company made its first payment of $7.0 million in February 2017.

As a result of (i) the purchase of equity interests in Virtu Financial from certain Virtu Members in connection with the Reorganization Transactions, (ii) the purchase of non-voting common interest units in Virtu Financial (the “Virtu Financial Units”) (along with the corresponding shares of Class C common stock) from certain of the Virtu Members in connection with the IPO, (iii) the purchase of Virtu Financial Units (along with the corresponding shares of Class C common stock) and the exchange of Virtu Financial Units (along with the corresponding shares of Class C common stock) for shares of Class A common stock in connection with the secondary offerings completed in September 2016 and November 2015 (the “Secondary Offerings”), the Company recorded a deferred tax asset of $220.8 million associated with the increase in tax basis that results from such events. Payments to certain Virtu Members in respect of the purchases were expected to range from approximately $0.3 million to $12.8 million per year over the next 15 years. The corresponding deduction to additional paid-in capital was approximately $19.9 million for the difference between the tax receivable agreements liability and the related deferred tax asset.

As a result of the reduction in the U.S. corporate income tax rate as described below, the aforementioned deferred tax asset and related payment liability were subsequently reduced as described below. The amounts recorded as of March 31, 2018 are based on best estimates available at the respective dates and may be subject to change after the filing of the Company’s U.S. federal and state income tax returns for the years in which tax savings were realized. The 2017 Tax Act includes, among other items, a permanent reduction to the U.S. corporate income tax rate from 35% to 21% effective January 1, 2018 as further described in Note 14 "Income taxes". As a result, at December 31, 2017, the Company recorded a reduction of its tax receivable agreement obligation of $86.6 million. As further described in Note 14 “Income Taxes”, the Company also recorded a reduction of its deferred tax assets, including deferred tax assets relating to the deferred tax assets described above. At March 31, 2018 and December 31, 2017, the Company’s

remaining deferred tax assets were approximately $99.1 million and $101.6 million, respectively, and the Company's liabilities over the next 15 years, pursuant to the tax receivable agreements are approximately $147.0 million and 147.0 million, respectively.
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 of 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 income before taxes and noncontrolling interests in the condensed consolidated statements of comprehensive income.

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7. Goodwill and Intangible Assets

Prior to the Acquisition, the Company was managed and operated as one business, and accordingly, operated under one reportable segment. As a result of the acquisition of KCG, beginning in the third quarter of 2017 the Company has three operating segments: (i) Market Making; (ii) Execution Services; and (iii) Corporate. The Company allocated goodwill to the new reporting units using a relative fair value approach. In addition, the Company performed an assessment of potential goodwill impairment for all reporting units immediately prior to the reallocation and determined that no impairment was indicated.

The following table presents the details of goodwill by segment:

| (in thousands) | Market Making | Execution Services | Corporate | Total |
|---|---|---|---|---|
| Balance as of December 31, 2017 | $755,292 | $89,591 | $ — | $844,883 |
| Goodwill adjustment allocated to BondPoint | — | (8,300 ) | — | (8,300 ) |
| Balance as of March 31, 2018 | $755,292 | $81,291 | $ — | $836,583 |

As of March 31, 2018 and December 31, 2017, the Company's total amount of goodwill recorded was $836.6 million and $844.9 million, respectively. As described in Note 4 "Sale of BondPoint", the Company allocated $8.3 million goodwill to BondPoint as part of the sale. No goodwill impairment was recognized in the three months ended March 31, 2018 and 2017.

Acquired intangible assets consisted of the following as of March 31, 2018 and December 31, 2017:

| | As of March 31, 2018 | | | |
|---|---|---|---|---|
| (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 | 585 | 365 | 9 |
| ETF buyer relationships | 950 | 586 | 364 | 9 |
| Leases | 1,800 | 547 | 1,253 | 3 |
| FCC licenses | 200 | 26 | 174 | 7 |
| Technology | 60,000 | 15,047 | 44,953 | 1 to 6 |
| Customer relationships | 49,000 | 2,843 | 46,157 | 12 to 17 |
| Favorable occupancy leases | 5,895 | 612 | 5,283 | 7 |
| Exchange memberships | 5,838 | — | 5,838 | Indefinite |
| | $234,633 | $ 130,246 | $104,387 | |

| | As of December 31, 2017 | | | |
|---|---|---|---|---|
| (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 | 559 | 391 | 9 |
| ETF buyer relationships | 950 | 560 | 390 | 9 |
| Leases | 1,800 | 397 | 1,403 | 3 |
| FCC licenses | 200 | 19 | 181 | 7 |
| Technology | 60,000 | 9,644 | 50,356 | 1 to 6 |
| Customer relationships | 49,000 | 1,822 | 47,178 | 12 to 17 |
| Favorable occupancy leases | 5,895 | 408 | 5,487 | 7 |
| Exchange memberships | 5,838 | — | 5,838 | Indefinite |
| | $234,633 | $ 123,409 | $111,224 | |

Amortization expense relating to finite-lived intangible assets was approximately $6.9 million, and $0.05 million for the three months ended March 31, 2018, and 2017, respectively. This is included in amortization of purchased intangibles and acquired capitalized software in the accompanying condensed consolidated statements of comprehensive income.

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8. 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, 2018 and December 31, 2017:

| (in thousands) | 2018 | 2017 |
|---|---|---|
| Assets | | |
| Due from prime brokers | $153,716 | $219,573 |
| Deposits with clearing organizations | 257,832 | 112,847 |
| Net equity with futures commission merchants | 308,964 | 203,711 |
| Unsettled trades with clearing organization | 430,514 | 173,778 |
| Securities failed to deliver | 271,287 | 248,088 |
| Commissions and fees | 11,726 | 14,021 |
| Total receivables from broker-dealers and clearing organizations | $1,434,039 | $972,018 |
| Liabilities | | |
| Due to prime brokers | $390,364 | $197,439 |
| Net equity with futures commission merchants | 40,665 | 44,526 |
| Unsettled trades with clearing organization | 150,205 | 420,029 |
| Securities failed to receive | 65,715 | 51,143 |
| Commissions and fees | 1,839 | 3,068 |
| Total payables to broker-dealers and clearing organizations | $648,788 | $716,205 |

Included as a deduction from “Due from prime brokers” and “Net equity with futures commission merchants” is the outstanding principal balance on all of the Company’s short-term credit facilities (described in Note 9 “Collateralized Transactions”) of approximately $131.4 million and $205.7 million as of March 31, 2018 and December 31, 2017, 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.

9. 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, 2018 and December 31, 2017, substantially all of the securities received as collateral have been repledged. The fair value of the collateralized transactions at March 31, 2018 and December 31, 2017 are summarized as follows:

| (in thousands) | 2018 | 2017 |
|---|---|---|
| Securities received as collateral: | | |
| Securities borrowed | $1,201,721 | $1,415,793 |
| | $1,201,721 | $1,415,793 |

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, 2018 and December 31, 2017 consisted of the following:

| (in thousands) | 2018 | 2017 |
|---|---|---|
| Equities | $571,997 | $586,251 |
| U.S. and Non-U.S. government obligations | 200 | 99 |
| Exchange traded notes | 38,339 | 8,693 |

| | |
|---|---|
| $610,536 | $595,043 |

## 10. Borrowings

### Broker-Dealer Credit Facilities

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The Company is a party to two secured credit facilities with a 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 collateralized by one of the Company’s broker-dealer subsidiaries trading and deposit account with the financial institution.

On November 3, 2017, the Company entered the second credit facility (“Revolving Credit Facility”) with the same financial institution for an aggregated borrowing limit of $500.0 million. The Revolving Credit Facility consists two borrowing bases: Borrowing Base A Loan is to be used to finance the purchase and settlement of securities; Borrowing Base B Loan is to be used to fund margin deposit with the NSCC. Each of the three broker-dealers has a sublimit under Borrowing Base A Loan, from $25 million to $500 million, which bears interest at the adjusted LIBOR or base rate plus 1.25% per annum. Two out of the three broker-dealers have sublimit under Borrowing Base B Loan, from $40 million to $100 million, which bears interest at the adjusted LIBOR or base rate plus 2.50% per annum. A commitment fee of 0.50% per annum on the average daily unused portion of this facility is payable quarterly in arrears.

The following summarizes the Company’s broker-dealer credit facilities carrying value, net of unamortized debt issuance costs, where applicable:

| | At March 31, 2018 | | | | |
|---|---|---|---|---|---|
| (in thousands) | Interest Rate | Financing Available | Borrowing Outstanding | Deferred Debt Issuance Cost | Outstanding Borrowings, net |
| Broker-dealer credit facilities: | | | | | |
| Uncommitted facility | 2.68% | $350,000 | $ 17,500 | $(1,580) | $ 15,920 |
| Revolving credit facility | 3.13% | 500,000 | 7,000 | (1,976) | 5,024 |
| | | $850,000 | $ 24,500 | $(3,556) | $ 20,944 |

| | At December 31, 2017 | | | | |
|---|---|---|---|---|---|
| (in thousands) | Interest Rate | Financing Available | Borrowing Outstanding | Deferred Debt Issuance Cost | Outstanding Borrowings, net |
| Broker-dealer credit facilities: | | | | | |
| Uncommitted facility | 2.42% | $150,000 | $ 25,000 | $— | $ 25,000 |
| Revolving credit facility | 2.81% | 500,000 | 7,000 | (4,117) | 2,883 |
| | | $650,000 | $ 32,000 | $(4,117) | $ 27,883 |

The following summarizes interest expense for the broker-dealer facilities. Interest expense is included within interest and dividends expense in the accompanying condensed consolidated statements of comprehensive income.

| | Three Months Ended March 31, | |
|---|---|---|
| (in thousands) | 2018 | 2017 |
| Broker-dealer credit facilities: | | |
| Uncommitted facility | $446 | $415 |
| Committed facility (1) | — | 7 |
| Revolving credit facility | 98 | — |
| | $544 | $422 |

(1) Facility was terminated in July 2017.

Short-Term Credit Facilities

The Company maintains short-term credit facilities with various prime brokers and other financial institutions from which it receives execution or clearing services. The proceeds of these facilities are used to meet margin requirements associated with the products traded by the Company in the ordinary course, and amounts borrowed are collateralized by the Company's trading accounts with the applicable financial institution.

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| | At March 31, 2018 | | |
|---|---|---|---|
| | Weighted Average Interest Rate | Financing Available | Borrowing Outstanding |
| Short-Term Credit Facilities: | | | |
| Short-term credit facilities (2) | 4.04% | $535,000 | $ 131,382 |
| | | $535,000 | $ 131,382 |

| | At December 31, 2017 | | |
|---|---|---|---|
| | Weighted Average Interest Rate | Financing Available | Borrowing Outstanding |
| Short-Term Credit Facilities: | | | |
| Short-term credit facilities (2) | 3.86% | $543,000 | $ 205,677 |
| | | $543,000 | $ 205,677 |

(2) Outstanding borrowings were included with receivable from/ payable to broker-dealers and clearing organization within the condensed consolidated statements of financial condition.

Interest expense in relation to the facilities for the three months ended March 31, 2018 and 2017 was approximately $1.5 million and $1.7 million, respectively.

Long-Term Borrowings

The following summarizes the Company's long-term borrowings, net of unamortized discount and debt issuance costs, where applicable:

| | | At March 31, 2018 | | | | |
|---|---|---|---|---|---|---|
| (in thousands) | Maturity Date | Interest Rate | Outstanding Principal | Discount | Deferred Debt Issuance Cost | Outstanding Borrowings, net |
| Long-term borrowings: | | | | | | |
| Fourth Amended and Restated Credit Agreement | December 2021 | 4.94% | $624,000 | $ (650 ) | $(13,101) | $610,249 |
| Senior secured Second Lien Notes | June 2022 | 6.75% | 500,000 | — | (21,673 ) | 478,327 |
| SBI bonds | January 2020 | 5.00% | 32,932 | — | (44 ) | 32,888 |
| | | | $1,156,932 | $ (650 ) | $(34,818) | $1,121,464 |

| | | At December 31, 2017 | | | | |
|---|---|---|---|---|---|---|
| (in thousands) | Maturity Date | Interest Rate | Outstanding Principal | Discount | Deferred Debt Issuance Cost | Outstanding Borrowings, net |
| Long-term borrowings: | | | | | | |
| Fourth Amended and Restate Credit Agreement | December 2021 | 5.13% | $900,000 | $ (999 ) | $(18,504) | $880,497 |
| Senior secured Second Lien Notes | June 2022 | 6.75% | 500,000 | — | (22,961 ) | 477,039 |
| SBI bonds | January 2020 | 5.00% | 31,059 | — | (47 ) | 31,012 |
| | | | $1,431,059 | $ (999 ) | $(41,512) | $1,388,548 |

Fourth Amended and Restated Credit Agreement

To finance the Acquisition, on June 30, 2017, Virtu Financial and VFH Parent LLC ("VFH") entered into a fourth amended and restated credit agreement (the "Fourth Amended and Restated Credit Agreement") with the lenders party thereto and JPMorgan Chase Bank, N.A., as administrative agent, sole lead arranger and bookrunner, which amended and restated in its entirety the existing Credit Agreement, and upon the closing of the Acquisition of KCG, provided for an aggregate $1.15 billion of first lien secured term loans (the "Term Loan Facility").

For the three months ended March 31, 2018, $276.0 million of prepayments were made under the Fourth Amended and Restated Credit Agreement, for an aggregate total of $526.0 million of principal prepayments under the Term Loan Facility since its closing. VFH also entered into a repricing transaction during January 2018 to reprice the senior secured term loans under the Fourth Amended and Restated Credit Agreement at LIBOR plus 3.25%. In connection with the debt refinancing and the debt prepayment, the Company accelerated approximately $6.0 million unamortized financing costs incurred that were

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scheduled to be amortized over the term of the loan, including original issue discount and underwriting and legal fees, which is included within debt issue cost related to debt refinancing in the consolidated statements of comprehensive income.

The Fourth Amended and Restated Credit Agreement contains certain customary covenants and certain customary events of default, including relating to a change of control. If an event of default occurs and is continuing, the lenders under the Fourth Amended and Restated Credit Agreement will be entitled to take various actions, including the acceleration of amounts outstanding under the Fourth Amended and Restated Credit Agreement and all actions permitted to be taken by a secured creditor in respect of the collateral securing the obligations under the Fourth Amended and Restated Credit Agreement.

Senior Secured Second Lien Notes

To finance the Acquisition, on June 16, 2017, the Escrow Issuer and Orchestra Co-Issuer, Inc. (the “Co-Issuer”) completed the offering of $500.0 million aggregate principal amount of 6.750% Senior Secured Second Lien Notes due 2022 (the “Notes”). The Notes were issued under an Indenture, dated June 16, 2017 (the “Indenture”), among the Escrow Issuer, the Co-Issuer and U.S. Bank National Associations, as trustee and collateral agent.

On July 20, 2017, VFH assumed all of the obligations of the Escrow Issuer under the Indenture and the Notes. The Notes are guaranteed by Virtu Financial and each of Virtu Financial’s wholly-owned domestic restricted subsidiaries that guarantees the Fourth Amended and Restated Credit Agreement.

The Indenture imposes certain limitations on the Company, and contains certain customary events of default, including, among others, payment defaults related to the failure to pay principal or interest on Notes, covenant defaults, final maturity default or cross-acceleration with respect to material indebtedness and certain bankruptcy events. The gross proceeds from the Notes were deposited into a segregated escrow account with an escrow agent. The proceeds were released from escrow as of the Closing Date and were used to finance, in part, the Acquisition, and to repay certain indebtedness of the Company and KCG. (See Note 3 “Acquisition of KCG Holdings, Inc.” for further details).

SBI Bonds

On July 25, 2016, VFH issued Japanese Yen Bonds (collectively the “SBI Bonds”) in the aggregate principal amount of ¥3.5 billion ($33.1 million at issuance date) to SBI Life Insurance Co., Ltd. and SBI Insurance Co., Ltd. The proceeds from the SBI Bonds were used to partially fund the investment in SBI (as described in Note 11 “Financial assets and liabilities”). The SBI Bonds are guaranteed by Virtu Financial. The SBI Bonds are subject to fluctuations on the Japanese Yen currency rates relative to the Company’s reporting currency (U.S. Dollar) with the changes reflected in other, net in the condensed consolidated statements of comprehensive income. The principal balance was ¥3.5 billion ($32.9 million) as of March 31, 2018 and ¥3.5 billion ($31.0 million) as of December 31, 2017. The Company recorded a loss of $1.9 million and $1.5 million due to the change in currency rates during the three months ended March 31, 2018 and 2017, respectively.

Aggregate future required minimum principal payments based on the terms of the long-term borrowings at March 31, 2018 were as follows:

| (in thousands) | |
|---|---|
| 2018 | $— |
| 2019 | — |
| 2020 | 32,932 |
| 2021 and thereafter | 1,124,000 |
| Total principal of long-term borrowings | $1,156,932 |

11. Financial Assets and Liabilities

Financial Instruments Measured at Fair Value

The fair value of equities, options, on the run 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 and certain financial instruments noted in the preceding paragraph, which are categorized as Level 2. The Company’s corporate bonds, derivative contracts and other U.S. and non-U.S. government obligations have been categorized as Level 2. Fair value of the Company’s derivative contracts is based on the indicative prices obtained from broadly distributed bank and broker dealers, 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

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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.

As of March 31, 2017, the Company began pricing certain financial instruments held for trading at fair value based on theoretical prices which can differ from quoted market prices. The theoretical prices reflect price adjustments primarily caused by the fact that the Company continuously prices its financial instruments based on all available information. This information includes prices for identical and near-identical positions, as well as the prices for securities underlying the Company's positions, on other exchanges that are open after the exchange on which the financial instruments is traded closes. The Company validates that all price adjustments can be substantiated with market inputs and checks the theoretical prices independently. Consequently, such financial instruments are classified as Level 2. The Company concluded that this is a change in accounting estimate and no retrospective adjustments were necessary.

Fair value measurements for those items measured on a recurring basis are summarized below as of March 31, 2018:

| | March 31, 2018 | | | | |
|---|---|---|---|---|---|
| (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 | $956,518 | $1,139,469 | $ — | $— | $2,095,987 |
| U.S. and Non-U.S. government obligations | 800 | 18,207 | — | — | 19,007 |
| Corporate Bonds | — | 75,534 | — | — | 75,534 |
| Exchange traded notes | 64,730 | 30,368 | — | — | 95,098 |
| Currency forwards | — | 702,889 | — | (700,655) | 2,234 |
| Options | 9,210 | — | — | — | 9,210 |
| | 1,031,258 | 1,966,467 | — | (700,655) | 2,297,070 |
| Financial instruments owned, pledged as collateral: | | | | | |
| Equity securities | $309,313 | $262,684 | $ — | $— | $571,997 |
| U.S. and Non-U.S. government obligations | 200 | — | — | — | 200 |
| Exchange traded notes | 22,418 | 15,921 | — | — | 38,339 |
| | 331,931 | 278,605 | — | — | 610,536 |
| Other Assets | | | | | |
| Equity investment | $— | $— | $ 42,478 | $— | $42,478 |
| Exchange stock | 2,154 | — | — | — | 2,154 |
| Other[1] | — | 56,179 | — | — | 56,179 |
| | 2,154 | 56,179 | 42,478 | — | 100,811 |
| Liabilities | | | | | |
| Financial instruments sold, not yet purchased, at fair value: | | | | | |
| Equity securities | $1,584,268 | $1,132,360 | $ — | $— | $2,716,628 |

| | | | | | |
|---|---|---|---|---|---|
| U.S. and Non-U.S. government obligations | 1,998 | 25,207 | — | — | 27,205 |
| Corporate Bonds | 40,007 | — | — | — | 40,007 |
| Exchange traded notes | 3,714 | 38,393 | — | — | 42,107 |
| Currency forwards | — | 725,422 | — | (720,464 ) | 4,958 |
| Options | 15,548 | — | — | — | 15,548 |
| | $1,645,535 | $1,921,382 | $ — | $(720,464 ) | $2,846,453 |

(1) Other primarily consists of a $56.2 million receivable from Bats related to the sale of KCG Hotspot.

Fair value measurements for those items measured on a recurring basis are summarized below as of December 31, 2017:

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| (in thousands) | December 31, 2017<br>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 | $758,596 | $1,167,995 | $ — | $— | $1,926,591 |
| Non-U.S. government obligations | 5,968 | 16,815 | — | — | 22,783 |
| Corporate Bonds | — | 60,975 | — | — | 60,975 |
| Exchange traded notes | 13,576 | 68,819 | — | — | 82,395 |
| Currency forwards | — | 2,045,487 | — | (2,027,697) | 17,790 |
| Options | 7,045 | — | — | — | 7,045 |
| | $785,185 | $3,360,091 | $ — | $(2,027,697) | $2,117,579 |
| Financial instruments owned, pledged as collateral: | | | | | |
| Equity securities | $410,670 | $175,581 | $ — | $— | $586,251 |
| U.S. and Non-U.S. government obligations | 99 | — | — | — | 99 |
| Exchange traded notes | 82 | 8,611 | — | — | 8,693 |
| | $410,851 | $184,192 | $ — | $— | $595,043 |
| Other Assets | | | | | |
| Equity investment | $— | $— | $ 40,588 | $— | $40,588 |
| Exchange stock | 1,952 | — | — | — | 1,952 |
| Other(2) | — | 55,824 | — | — | 55,824 |
| | $1,952 | $55,824 | $ 40,588 | $— | $98,364 |
| Liabilities | | | | | |
| Financial instruments sold, not yet purchased, at fair value: | | | | | |
| Equity securities | $847,816 | $1,355,616 | $ — | $— | $2,203,432 |
| Exchange traded notes | 1,514 | 54,248 | — | — | 55,762 |
| Currency forwards | — | 2,032,017 | — | (2,024,991) | 7,026 |
| Options | 5,839 | — | — | — | 5,839 |
| | $874,109 | $3,535,480 | $ — | $(2,024,991) | $2,384,598 |

(2) Other primarily consists of a $55.8 million receivable from Bats related to the sale of KCG Hotspot.

SBI Investment

As of March 31, 2018, the fair value of SBI Investment was determined using the discounted cash flow method, an income approach, with the discount rate of 15.0% applied to the cash flow forecasts. The Company also used a market approach based on 14x average price/earnings multiples of comparable companies to corroborate the income approach. The fair value of the SBI Investment at March 31, 2018 was determined by taking the weighted average of enterprise valuations based on discounted cash flow on projected income from the next five years, the implied enterprise valuations on comparable companies, and the implied enterprise valuations on comparable transactions. The fair value measurement is highly sensitive to significant changes in the unobservable inputs and significant increases (decreases) in discount rate or decreases (increases) in price/earnings multiples would result in a significantly lower

(higher) fair value measurement. Changes in the fair value of the SBI Investment are reflected in other, net in the condensed consolidated statements of comprehensive income.

There were no transfers of financial instruments between levels during the three months ended March 31, 2018 and 2017.

Receivable from Bats Global Markets, Inc. (“Bats”)

In March 2015, KCG sold KCG Hotspot, an institutional spot foreign exchange electronic communications networks (“ECN”), to Bats, which is now a subsidiary of CBOE Holdings, Inc. KCG and Bats agreed to share certain tax benefits, which as of March 31, 2018 comprise a $50.0 million payment and an annual payment of up to $6.6 million, both of which were paid in April 2018.

The Company has elected the fair value option related to the receivable from Bats and considers the receivable to be a Level 2 asset in the fair value hierarchy as the fair value is derived from observable significant inputs such as contractual cash

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flows and market discount rates. The remaining additional potential payments of $56.6 million are recorded at a fair value of $56.2 million in other assets on the condensed consolidated statements of financial condition as of March 31, 2018.

Financial Instruments Not Measured at Fair Value

The table below presents the carrying value, fair value and fair value hierarchy category of certain financial instruments that are not measured at fair value on the condensed consolidated statement of financial condition. The table below excludes non-financial assets and liabilities. The carrying value of financial instruments not measured at fair value categorized in the fair value hierarchy as Level 1 and Level 2 approximates fair value due to the relatively short-term nature of the underlying assets. The fair value of the Company's long-term borrowings is categorized as Level 2 in the fair value hierarchy, which is based on quoted prices from the market.

The table below summarizes financial assets and liabilities not measured at fair value on a recurring basis as of March 31, 2018:

| | March 31, 2018 | | | | |
|---|---|---|---|---|---|
| | | | Quoted Prices in Active Markets for Identical Assets | Significant Other Observable Inputs | Significant Unobservable Inputs |
| | Carrying Value | Fair Value | (Level 1) | (Level 2) | (Level 3) |
| Assets | | | | | |
| Cash and cash equivalents | $637,308 | $637,308 | $ 637,308 | $— | $ — |
| Securities borrowed | 1,232,048 | 1,232,048 | — | 1,232,048 | — |
| Securities purchased under agreements to resell | 602 | 602 | — | 602 | — |
| Receivables from broker dealers and clearing organizations | 1,434,039 | 1,434,039 | 70,143 | 1,363,896 | — |
| Total Assets | $3,303,997 | $3,303,997 | $ 707,451 | $2,596,546 | $ — |
| | | | | | |
| Liabilities | | | | | |
| Short-term borrowings | $20,944 | $20,944 | $ — | $20,944 | $ — |
| Long-term borrowings | 1,121,464 | 1,193,167 | — | 1,193,167 | — |
| Securities loaned | 936,061 | 936,061 | — | 936,061 | — |
| Securities sold under agreements to repurchase | 265,401 | 265,401 | — | 265,401 | — |
| Payables to broker dealer and clearing organizations | 648,788 | 648,788 | 861 | 647,927 | — |
| Total Liabilities | $2,992,658 | $3,064,361 | $ 861 | $3,063,500 | $ — |

The table below summarizes financial assets and liabilities not measured at fair value on a recurring basis as of December 31, 2017:

| | December 31, 2017 | | | | |
|---|---|---|---|---|---|
| | | | Quoted Prices in Active Markets for Identical Assets | Significant Other Observable Inputs | Significant Unobservable Inputs |
| | Carrying Value | Fair Value | (Level 1) | (Level 2) | (Level 3) |
| Assets | | | | | |

| | | | | | |
|---|---|---|---|---|---|
| Cash and cash equivalents | $532,887 | $532,887 | $ 532,887 | $— | $ — |
| Securities borrowed | 1,471,172 | 1,471,172 | — | 1,471,172 | — |
| Receivables from broker dealers and clearing organizations | 972,018 | 972,018 | 36,513 | 935,505 | — |
| Total Assets | $2,976,077 | $2,976,077 | $ 569,400 | $2,406,677 | $ — |
| | | | | | |
| Liabilities | | | | | |
| Short-term borrowings | $27,883 | $27,883 | $ — | $27,883 | $ — |
| Long-term borrowings | 1,388,548 | 1,465,489 | — | 1,465,489 | — |
| Securities loaned | 754,687 | 754,687 | — | 754,687 | — |
| Securities sold under agreements to repurchase | 390,642 | 390,642 | — | 390,642 | — |
| Payables to broker dealer and clearing organizations | 716,205 | 716,205 | 2,925 | 713,280 | — |
| Total Liabilities | $3,277,965 | $3,354,906 | $ 2,925 | $3,351,981 | $ — |

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

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| | March 31, 2018 | | | | | | |
|---|---|---|---|---|---|---|---|
| (in thousands) | December 31, 2017 | Purchases | Total Realized and Unrealized Gains / (Losses) | Net Transfers into (out of) Level 3 | Settlement | March 31, 2018 | Change in Net Unrealized Gains / (Losses) on Investments still held at March 31, 2018 |
| Assets | | | | | | | |
| Other assets: | | | | | | | |
| Equity investment | $40,588 | $ — | $ 1,890 | $ — | $ — | $42,478 | $ 1,890 |
| Total | $40,588 | $ — | $ 1,890 | $ — | $ — | $42,478 | $ 1,890 |

| | December 31, 2017 | | | | | | |
|---|---|---|---|---|---|---|---|
| (in thousands) | December 31, 2016 | Purchases | Total Realized and Unrealized Gains / (Losses) | Net Transfers into (out of) Level 3 | Settlement | December 31, 2017 | Change in Net Unrealized Gains / (Losses) on Investments still held at December 31, 2017 |
| Assets | | | | | | | |
| Other assets: | | | | | | | |
| Equity investment | $36,031 | $ — | $ 4,557 | $ — | $ — | $ 40,588 | $ 4,557 |
| Other | — | 3,000 | — | — | (3,000) | — | — |
| Total | $36,031 | $ 3,000 | $ 4,557 | $ — | $ (3,000) | $ 40,588 | $ 4,557 |

Offsetting of Financial Assets and Liabilities

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

The following tables set forth the gross and net presentation of certain financial assets and financial liabilities as of March 31, 2018 and December 31, 2017.

| | March 31, 2018 | | | |
|---|---|---|---|---|
| | Gross Amounts of Recognized | Gross Amounts Offset in the | Net Amounts of Assets Presented in | Gross Amounts Not Offset In the Statement |

| (in thousands) | Assets | Condensed Consolidated Statement of Financial Condition | the Condensed Consolidated Statement of Financial Condition | of Financial Condition Financial Instruments | Cash Collateral Received | Net Amount |
|---|---|---|---|---|---|---|
| Offsetting of Financial Assets: | | | | | | |
| Securities borrowed | $1,232,048 | $— | $ 1,232,048 | $(1,202,760) | $ (2,624 ) | $ 26,664 |
| Securities purchased under agreements to resell | 602 | — | 602 | (602 ) | — | — |
| Trading assets, at fair value: | | | | | | |
| Currency forwards | 702,889 | (700,655 ) | 2,234 | — | — | 2,234 |
| Options | 9,210 | — | 9,210 | (1 ) | — | 9,209 |
| Total | $1,944,749 | $ (700,655 ) | $ 1,244,094 | $(1,203,363) | $ (2,624 ) | $ 38,107 |

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| (in thousands) | Gross Amounts of Recognized Liabilities | Gross Amounts Offset in the Consolidated Statement of Financial Condition | Net Amounts of Assets Presented in the Consolidated Statement of Financial Condition | Gross Amounts Not Offset In the Statement of Financial Condition | | |
|---|---|---|---|---|---|---|
| | | | | Financial Instruments | Cash Collateral Pledged | Net Amount |
| Offsetting of Financial Liabilities: | | | | | | |
| Securities loaned | $ 936,061 | $ — | $ 936,061 | $ (929,457 ) | $ (884 ) | $ 5,720 |
| Securities sold under agreements to repurchase | 265,401 | — | 265,401 | (265,401 ) | — | — |
| Trading liabilities, at fair value: | | | | | | |
| Currency forwards | 725,422 | (720,464 ) | 4,958 | — | | 4,958 |
| Options | 15,548 | — | 15,548 | (1 ) | — | 15,547 |
| Total | $ 1,942,432 | $ (720,464 ) | $ 1,221,968 | $ (1,194,859) | $ (884 ) | $ 26,225 |

December 31, 2017

| (in thousands) | Gross Amounts of Recognized Assets | Gross Amounts Offset in the Consolidated Statement of Financial Condition | Net Amounts of Assets Presented in the Consolidated Statement of Financial Condition | Gross Amounts Not Offset In the Statement of Financial Condition | | |
|---|---|---|---|---|---|---|
| | | | | Financial Instruments | Cash Collateral Received | Net Amount |
| Offsetting of Financial Assets: | | | | | | |
| Securities borrowed | $ 1,471,172 | $ — | $ 1,471,172 | $ (1,418,672) | $ (13,318 ) | $ 39,182 |
| Trading assets, at fair value: | | | | | | |
| Currency forwards | 2,045,487 | (2,027,697 ) | 17,790 | — | — | 17,790 |
| Options | 7,045 | — | 7,045 | (45 ) | — | 7,000 |
| Total | $ 3,523,704 | $ (2,027,697 ) | $ 1,496,007 | $ (1,418,717) | $ (13,318 ) | $ 63,972 |

| (in thousands) | Gross Amounts of Recognized Liabilities | Gross Amounts Offset in the Consolidated Statement of Financial Condition | Net Amounts of Assets Presented in the Consolidated Statement of Financial Condition | Gross Amounts Not Offset In the Statement of Financial Condition | | |
|---|---|---|---|---|---|---|
| | | | | Financial Instruments | Cash Collateral Pledged | Net Amount |
| Offsetting of Financial Liabilities: | | | | | | |
| Securities loaned | $ 754,687 | $ — | $ 754,687 | $ (737,731 ) | $ (10,776 ) | $ 6,180 |
| Securities sold under agreements to repurchase | 390,642 | — | 390,642 | (390,642 ) | — | — |
| Trading liabilities, at fair value: | | | | | | |
| Currency forwards | 2,032,017 | (2,024,991 ) | 7,026 | — | | 7,026 |
| Options | 5,839 | — | 5,839 | (56 ) | — | 5,783 |

| | | | | | | |
|---|---|---|---|---|---|---|
| Total | $ 3,183,185 | $ (2,024,991 ) | $ 1,158,194 | $ (1,128,429) | $ (10,776 ) | $ 18,989 |

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

| | March 31, 2018 | | | | |
|---|---|---|---|---|---|
| | Remaining Contractual Maturity | | | | |
| (in thousands) | Overnight and Continuous | Less than 30 days | 30 - 60 days | 61 - 90 Days | Total |
| Repurchase agreements: | | | | | |
| Equity securities | $401 | $ — | $65,000 | $200,000 | $265,401 |
| U.S. and Non-U.S. government obligations | | — | — | — | — |
| Total | $401 | $ — | $65,000 | $200,000 | $265,401 |
| Securities lending transactions: | | | | | |
| Equity securities | $936,061 | $ — | $— | $— | $936,061 |
| Total | $936,061 | $ — | $— | $— | $936,061 |

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| (in thousands) | December 31, 2017<br>Remaining Contractual Maturity<br>Overnight and Continuous | Less than 30 days | 30 - 60 days | 61 - 90 Days | Total |
|---|---|---|---|---|---|
| Repurchase agreements: | | | | | |
| Equity securities | $— | $100,000 | $90,000 | $200,000 | $390,000 |
| U.S. and Non-U.S. government obligations | 642 | — | — | — | 642 |
| Total | $642 | $100,000 | $90,000 | $200,000 | $390,642 |
| | | | | | |
| Securities lending transactions: | | | | | |
| Equity securities | $754,687 | $— | $— | $— | $754,687 |
| Total | $754,687 | $— | $— | $— | $754,687 |

12. Derivative Instruments

The fair value of the Company's derivative instruments on a gross basis consisted of the following at March 31, 2018 and December 31, 2017:

| (in thousands) | | March 31, 2018 | | December 31, 2017 | |
|---|---|---|---|---|---|
| Derivatives Assets | Financial Statements Location | Fair Value | Notional | Fair Value | Notional |
| Derivative instruments not designated as hedging instruments: | | | | | |
| Equities futures | Receivables from broker dealers and clearing organizations | $183 | $4,836,630 | $(505) | $1,985,770 |
| Commodity futures | Receivables from broker dealers and clearing organizations | 39,965 | 20,971,297 | 971 | 21,231,001 |
| Currency futures | Receivables from broker dealers and clearing organizations | 32,042 | 2,075,544 | 26,548 | 3,994,412 |
| Fixed income futures | Receivables from broker dealers and clearing organizations | 23 | 10,096 | 73 | 44,395 |
| Options | Financial instruments owned | 9,210 | 793,423 | 7,045 | 682,369 |
| Currency forwards | Financial instruments owned | 702,889 | 100,689,302 | 2,045,487 | 124,000,221 |
| | | | | | |
| Derivatives Liabilities | Financial Statements Location | Fair Value | Notional | Fair Value | Notional |
| Derivative instruments not designated as hedging instruments: | | | | | |
| Equities futures | Payables to broker dealers and clearing organizations | $208 | $139,033 | $(575) | $142,658 |
| Commodity futures | Payables to broker dealers and clearing organizations | 645 | 118,427 | (1,602) | 130,042 |
| Currency futures | Payables to broker dealers and clearing organizations | (3,279) | 2,531,734 | (13,947) | 7,756,958 |
| Fixed income futures | Payables to broker dealers and clearing organizations | (169) | 13,016 | (1) | 2,584 |
| Options | Financial instruments sold, not yet purchased | 15,548 | 769,273 | 5,839 | 681,147 |
| Currency forwards | Financial instruments sold, not yet purchased | 725,058 | 100,700,387 | 2,032,017 | 123,993,234 |

| | | | |
|---|---|---|---|
| Derivative instruments designated as hedging instruments: | | | |
| Currency forwards | Financial instruments sold, not yet purchased | (364 ) 15,964 | (514 ) 16,115 |

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

The following table summarizes the net gain from derivative instruments not designated as hedging instruments under ASC 815, which are recorded in trading income, net, and from those designated as hedging instrument under ASC 815, which are recorded in accumulated other comprehensive income in the accompanying condensed consolidated statements of comprehensive income for the three months ended March 31, 2018 and 2017.

| | | March 31, | |
|---|---|---|---|
| (in thousands) | Financial Statements Location | 2018 | 2017 |
| Derivative instruments not designated as hedging instruments: | | | |
| Futures | Trading income, net | $(436,414) | $165,590 |
| Currency forwards | Trading income, net | 85,910 | (51,381) |
| Options | Trading income, net | 1,102 | 1 |
| | | $(349,402) | $114,210 |
| Derivative instruments designated as hedging instruments: | | | |
| Foreign exchange - forward contract | Accumulated other comprehensive income | $150 | $— |

13. Revenues from Contracts with Customers

Revenue Recognitions

The Company adopted ASC Topic 606, Revenue from Contracts with Customers as of January 1, 2018 in the condensed consolidated financial statements by applying the modified retrospective method. The Company's revenue recognition methods for its contracts with customers prior to the adoption of Topic 606 are consistent with its methods after the adoption of Topic 606. Accordingly, the adoption of the new standard did not result in a transition adjustment to opening retained earnings, and as a result, revenues for contracts with customers would not have been adjusted in prior periods and are not presented herein on an adjusted basis.

The new revenue guidance does not apply to revenue associated with financial instruments, including loans and securities that are accounted for under other U.S. GAAP, and as a result, did not have an impact on the elements of the Company's condensed consolidated statement of comprehensive income most closely associated with financial instruments, including trading income, net and interest and dividend income. The new standard primarily impacts the presentation of the following revenue streams:

- Commissions, net. The Company earns commission revenue by acting as an agent on behalf of customers. The Company's performance obligations consist of trade execution and clearing services and are satisfied on the trade date; accordingly, commissions revenues are recorded on the trade date. Commission revenues are paid on settlement date; therefore, a receivable is recognized as of the trade date. Under a commission management program, the Company allows institutional clients to allocate a portion of their gross commissions to pay for research and other services provided by third parties. As the Company acts as an agent in these transactions, it records such expenses on a net basis within Commissions and technology services in the condensed consolidated statements of comprehensive income.

- Technology services. The Company's technology services revenues consist of technology licensing fees and agency commission fees. Technology licensing fees are earned from third parties for licensing of the Company's proprietary risk management and trading infrastructure technology and the provision of associated management and hosting services. These fees include both upfront and annual recurring fees as well as, in certain cases, contingent fees based on customer revenues, which represent variable consideration. The services offered under these contracts are delivered as an integrated package and are interdependent and have the same pattern of transfer to the customer; accordingly, the Company measures and recognizes them as a single performance obligation. The performance obligation is satisfied over time, and, therefore, revenue is recognized as time passes. Variable consideration has not been included in the transaction price as the amount of consideration is contingent on factors outside the Company's control and thus it is not probable that a significant reversal of cumulative revenue recognized will not occur. Recurring fees, which exclude variable consideration, are billed and collected on a quarterly basis and are included within Receivables from broker dealers and clearing organizations.

Disaggregation of Revenues

The following tables present the Company's revenue from contracts with customers disaggregated by the services described above, by timing of revenue recognition, reconciled to the Company's reportable segments, as well as disaggregation of the Company's revenues by services and geographic region, for the three months ended March 31, 2018:

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| (in thousands) | Market Making | Execution Services | Corporate |
|---|---|---|---|
| Revenues from contract with Customers: | | | |
| Commissions, net | 8,501 | 43,008 | — |
| Technology services | — | 2,335 | — |
| Total revenue from contract with customers | 8,501 | 45,343 | — |
| Other sources of revenue | 424,035 | 338,436 | (1,262 ) |
| Total Revenues | 432,536 | 383,779 | (1,262 ) |
| Timing of revenue recognition: | | | |
| Services transferred at a point in time | 432,536 | 381,444 | (1,262 ) |
| Services transferred over time | — | 2,335 | — |
| Total Revenues | 432,536 | 383,779 | (1,262 ) |

Information on Remaining Performance Obligations and Revenue Recognized

As of March 31, 2018, the aggregate amount of the transaction price allocated to the performance obligations relating to Technology Services revenues that are unsatisfied (or partially unsatisfied) was not material.

Contract Assets and Contract Liabilities

The timing of the revenue recognition may differ from the timing of payment from customers. The Company records a receivable when revenue is recognized prior to payment, and when the Company has an unconditional right to payment. The Company records contract liability when payment is received, prior to the time at which the satisfaction of the service obligation. We had receivables related to revenues from contracts with customers of $5.6 million and $7.1 million as of March 31, 2018 and December 31, 2017.

14. Income Taxes

The Company is subject to U.S. federal, state and local income tax at the rate applicable to corporations less the rate attributable to the noncontrolling interest in Virtu Financial. These noncontrolling interests are subject to U.S. taxation as partnerships. Accordingly, for the three months ended March 31, 2018 and 2017, the income attributable to these noncontrolling interests is reported in the condensed consolidated statements of comprehensive income, but the related U.S. income tax expense attributable to these noncontrolling interests is not reported by the Company as it is the obligation of the individual partners. The Company’s provisions for income taxes and effective tax rates were $58.5 million and 12.5% and $2.8 million and 11.8% for the three months ended March 31, 2018 and 2017, respectively. Income tax expense is also affected by the differing effective tax rates in foreign, state and local jurisdictions where certain of the Company’s subsidiaries are subject to corporate taxation.

Included in Other assets on the condensed consolidated statements of financial condition at March 31, 2018 and December 31, 2017 are current income tax receivables of $103.6 million and $115.2 million, respectively. The balances primarily comprises the income tax benefit of KCG net operating losses that were generated prior to the Acquisition and that are eligible to be carried back by the Company. Included in Accounts payable and accrued expenses and other liabilities on the condensed consolidated statements of financial condition at March 31, 2018 and December 31, 2017 are current tax liabilities of $52.6 million and $7.6 million, respectively. The balances primarily comprise income taxes owed to federal, state and local, and foreign tax jurisdictions based on income before taxes. Deferred income taxes arise primarily due to the amortization of the deferred tax assets recognized in connection with the IPO (Note 6 "Tax Receivable Agreements") and the Acquisition of KCG (Note 3 "Acquisition of KCG Holdings, Inc."), differences in the valuation of financial assets and liabilities, and in connection with other temporary differences arising from the deductibility of compensation and depreciation expenses in different time periods for book and income tax return purposes.

There are no expiration dates on the deferred tax assets. The Company's deferred tax asset at March 31, 2018 and December 31, 2017 includes an alternative minimum tax credit carryforward of $0.6 million and $0.6 million, respectively,



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which can be either be refunded over a period of years or applied against future income tax liability pursuant to the 2017 Tax Act. 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. As a result of the Acquisition of KCG, the Company has non-U.S. net operating losses at March 31, 2018 and December 31, 2017 of $231.8 million and $231.8 million, respectively, and has recorded a related deferred tax asset of $43.5 million and $43.5 million, respectively. A full valuation allowance was also recorded against this deferred tax asset at March 31, 2018 and December 31, 2017 as it is more likely than not that this deferred tax asset will not be realized. No valuation allowance against the remaining deferred taxes was recorded as of March 31, 2018 and December 31, 2017 because it is more likely than not that these deferred tax assets will be fully realized.

The Company is subject to taxation in U.S. federal, state, local and foreign jurisdictions. As of March 31, 2018, the Company's tax years for 2013 through 2017 and 2010 through 2017 are subject to examination by U.S. and non-U.S. tax authorities, respectively. As a result of the Acquisition of KCG, the Company has assumed any KCG tax exposures. KCG is currently subject to U.S. federal income tax examinations for 2013 through 2017, and to non-U.S. income tax examinations for the tax years 2007 through 2017. In addition, the Company is subject to state and local income tax examinations in various jurisdictions for the tax years 2007 through 2017. The final outcome of these examinations is not yet determinable. However, the Company anticipates that adjustments to the unrecognized tax benefits, if any, will not result in a material change to the financial condition, results of operations and cash flows.

The 2017 Tax Act was signed into law on December 22, 2017 and significantly revises the U.S. corporate income tax by, among other things, lowering the statutory corporate tax rate from 35% to 21%, and eliminating certain deductions. The Company has not completed its determination of the accounting implications of the 2017 Tax Act on its tax accruals. However, the Company has reasonably estimated the effects of the 2017 Tax Act and recorded provisional amounts in our financial statements as of December 31, 2017. The Company recorded a provisional deferred tax expense for the impact of the 2017 Tax Act of approximately $90.6 million, which is primarily composed of the remeasurement of federal net deferred tax assets as a result of the permanent reduction in the U.S. statutory corporate tax rate to 21% from 35%. During the first quarter of 2018, the Company did not make any adjustments due to the 2017 Tax Act. The Company expects to complete its analysis of the 2017 Tax Act by the third quarter of 2018, which is within the one-year measurement period prescribed by SEC Staff Accounting Bulletin No. 118. As the Company completes its analysis, collects and prepares necessary data, and interprets any additional guidance issued by the U.S. Treasury Department, the IRS, and other standard-setting bodies, it may make adjustments to the provisional amounts. Those adjustments may materially impact the Company's provision for income taxes in the period in which the adjustments are made.

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15. Commitments, Contingencies and Guarantees

Legal Proceedings

In the ordinary course of business, the nature of the Company's business subjects it to claims, lawsuits, regulatory examinations or investigations and other proceedings. The Company and its subsidiaries are subject to several of these matters at the present time. Given the inherent difficulty of predicting the outcome of litigation and regulatory matters, particularly in regulatory examinations or investigations or other proceedings in which substantial or indeterminate damages or fines are sought, or where such matters are in the early stages, the Company cannot estimate losses or ranges of losses for such matters where there is only a reasonable possibility that a loss may be incurred. In addition, there are numerous factors that result in a greater degree of complexity in class-action lawsuits as compared to other types of litigation. There can be no assurance that these matters will not have a material adverse effect on the Company's results of operations in any future period, and a material judgment, fine or sanction could have a material adverse impact on the Company's financial condition, results of operations and cash flows. However, it is the opinion of management, after consultation with legal counsel that, based on information currently available, the ultimate outcome of these matters will not have a material adverse impact on the business, financial condition or operating results of the Company although they might be material to the operating results for any particular reporting period. The Company carries directors' and officers' liability insurance coverage for potential claims, including securities actions, against the Company and its respective directors and officers.

In connection with the Acquisition of KCG, a previously filed complaint, which was initially captioned Greenway v. KCG Holdings, Inc., et al., Case No. 2017-421-JTL and filed on behalf of a putative class in Delaware Chancery Court, was recaptioned Chester County Employees' Retirement Fund v. KCG Holdings, Inc., et al., amended and refiled on February 14, 2018 to include claims for the alleged breach of fiduciary duties against former KCG board members, claims against each of Virtu and Jefferies for allegedly aiding and abetting the KCG board members' alleged breaches of fiduciary duty and a claim against Virtu and Jefferies for alleged civil conspiracy. No amount of damages is stated in the amended complaint, which Virtu intends to defend vigorously.

Other Legal and Regulatory Matters

The Company owns subsidiaries including regulated entities that are subject to extensive oversight under federal, state and applicable international laws as well as self-regulatory organization ("SRO") rules. Changes in market structure and the need to remain competitive require constant changes to the Company's systems, order routing and order handling procedures. The Company makes these changes while continuously endeavoring to comply with many complex laws and rules. Compliance, surveillance and trading issues common in the securities industry are monitored by, reported to, and/or reviewed in the ordinary course of business by the Company's regulators in the U.S. and abroad. As a major order flow execution destination, the Company is named from time to time in, or is asked to respond to a number of regulatory matters brought by U.S. regulators, foreign regulators, SROs, as well as actions brought by private plaintiffs, which arise from its business activities. There has recently been an increased focus by regulators on Anti-Money Laundering and sanctions compliance by broker-dealers and similar entities, as well as an enhanced interest on suspicious activity reporting and transactions involving microcap securities. In addition, there has been an increased focus by Congress, federal and state regulators, SROs and the media on market structure issues, and in particular, high frequency trading, best execution, internalization, ATS manner of operations, market fragmentation and complexity, colocation, cybersecurity, access to market data feeds and remuneration arrangements, such as payment for order flow and exchange fee structures. The Company has received information requests from various authorities, including the SEC, requesting, among other items, information regarding these market structure matters, to which the Company has responded or is in the process of responding.

The Company is currently the subject of various regulatory reviews and investigations by federal, state and foreign regulators and SROs, including the SEC and the Financial Industry Regulatory Authority. In some instances, these matters may rise to a disciplinary action and/or a civil or administrative action. For example, the Autorité des Marchés Financiers ("AMF") fined the Company's European subsidiary in the amount of €5.0 million (approximately $5.4 million) based on its allegations that the subsidiary of a predecessor entity engaged in price manipulation and violations of the AMF General Regulation and Euronext Market Rules. The fine was subsequently reduced in 2017 to €3.3 million (approximately $3.9 million). The Company had fully reserved for the monetary penalty as of March 31, 2018 and anticipates paying the fine during the year ended December 31, 2018.

Indemnification Arrangements

Consistent with standard business practices in the normal course of business, the Company has provided general indemnifications to its managers, officers, directors, employees, and agents against expenses, judgments, fines, settlements, and

other amounts actually and reasonably incurred by such persons under certain circumstances as more fully disclosed in its operating agreement. The overall maximum amount of the obligations (if any) cannot reasonably be estimated as it will depend on the facts and circumstances that give rise to any future claims.

16. Capital Structure

The Company has four classes of authorized common stock. The Class A common stock and the Class C common stock have one vote per share. The Class B common stock and the Class D common stock have 10 votes per share. Shares of the Company's common stock generally vote together as a single class on all matters submitted to a vote of the Company's stockholders. For details related to the Company's IPO and Reorganization Transactions and other public offerings, refer to Note 16 "Capital structure" in the Company's 2017 Form 10-K.

Amended and Restated 2015 Management Incentive Plan

The Company's board of directors and stockholders adopted the 2015 Management Incentive Plan, which became effective upon consummation of the IPO, and was subsequently amended and restated following receipt of approval from the Company's stockholders on June 30, 2017. The Amended and Restated 2015 Management Incentive Plan provides for the grant of stock options, restricted stock units, and other awards based on an aggregate of 16,000,000 shares of Class A common stock, subject to additional sublimits, including limits on the total option grant to any one participant in a single year and the total performance award to any one participant in a single year.

Acquisition of KCG

On the Closing Date and in connection with the financing of the Acquisition, the Company issued 6,346,155 shares of the Company's Class A common stock to Aranda for an aggregate purchase price of approximately $99.0 million and 39,725,979 shares of the Company Class A Common Stock to NIH for an aggregate purchase price of approximately $613.5 million. On August 10, 2017, the Company issued an additional 1,666,666 shares of its Class A Common Stock for an aggregate purchase price of $26.0 million and an additional 338,124 shares of its Class A Common Stock for an aggregate purchase price of $5.2 million. See Note 3 "Acquisition of KCG Holdings, Inc." for further details.

Employee Exchanges

In February 2017 and 2018, pursuant to the exchange agreement by and among the Company, Virtu Financial and holders of Virtu Financial common units, certain current and former employees elected to exchange 683,762 and 795,521 units, respectively, in Virtu Financial held directly or on their behalf by Virtu Employee Holdco LLC ("Employee Holdco") on a one-for-one basis for shares of Class A common stock.

As a result of the completion of the IPO, the Reorganization Transactions, the Secondary Offerings, employee exchanges, and the share issuance in connection with the Acquisition, the Company holds approximately 49.1% interest in Virtu Financial at March 31, 2018.

17. Share-based Compensation

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

During the period prior to the Company's Reorganization and IPO, Class A-2 profits interests were issued to Employee Holdco , a holding company that holds the interests on behalf of certain key employees or stakeholders. During the three months ended March 31, 2018 and 2017, the Company recorded expense relating to non-voting common interest units, which were originally granted as Class A-2 profits interests and were reclassified into non-voting common interest units in connection with the Reorganization Transactions. The non-voting common interest units are subject to the same vesting requirements as the prior Class A-2 profits interests, which were either fully vested upon issuance or vested over a period of up to four years, and in each case are subject to repurchase provisions upon certain termination events. These awards were accounted for as equity awards and were measured at

fair value at the date of grant. The Company recognized compensation expense related to the vesting of non-voting common interest units (formerly Class A-2 profits interests) of $0.0 million and $0.2 million for the three months ended March 31, 2018 and 2017, respectively. As of March 31, 2018 and December 31, 2017, total unrecognized share-based compensation expense related to unvested non-voting common interest units (formerly Class A-2 profits interests), was $0.0 million and $0.1 million, respectively; and this amount is expected to be recognized over a weighted average period of 0 and 0.1 years, respectively.

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Additionally, Class B interests were issued to Employee Holdco on behalf of certain key employees and stakeholders on various dates prior to the IPO. Class B interests were subject to time based vesting over four years and only fully vested upon the consummation of a qualifying capital transaction by the Company, including an IPO. In connection with the Reorganization Transactions, Class B Interests were reclassified into non-voting common interest units. The Company recognized compensation expense in respect of non-voting common interest units (formerly Class B interests) vested of $0 and $0.2 million for the three months ended March 31, 2018 and 2017, respectively. The compensation expense related to non-voting common interest units (formerly Class B interests) was included within charges related to share based compensation at IPO in the condensed consolidated statements of comprehensive income. As of March 31, 2018 and December 31, 2017, total unrecognized share-based compensation expense related to unvested non-voting common interest units (formerly Class B interests) was $0 and $0.1 million, respectively; and this amount is expected to be recognized over a weighted average period of 0 and 0.8 years, respectively.

Additionally, in connection with the compensation charges related to non-voting common interest units (formerly Class B interests) mentioned above, the Company capitalized $0.00 million and $0.01 million for the three months ended March 31, 2018 and 2017, respectively. The amortization costs related to these capitalized compensation charges and previously capitalized compensation charges related to East MIP Class B interests and Class B interests were approximately $0.01 million and $0.0 million for the three months ended March 31, 2018 and 2017, respectively. The costs attributable to employees incurred in development of software for internal use were included within charges related to share based compensation at IPO in the condensed consolidated statements of comprehensive income.
The fair value of the Class A-2 profit and Class B interest was estimated by the Company using an option pricing methodology based on expected volatility, risk-free rates and expected life. Expected volatility is calculated based on companies in the same peer group as the Company.

In connection with the Reorganization Transactions, all Class A-2 profits interests and Class B interests were reclassified into non-voting common interest units. As of March 31, 2018 and December 31, 2017, there were 11,512,297 and 12,301,067 non-voting common interest units outstanding, respectively, and 788,770 and 729,272 non-voting common interest units and corresponding Class C common stock were exchanged into Class A common stock, forfeited or repurchased during the three months ended March 31, 2018 and 2017, respectively.

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

Pursuant to 2015 Management Incentive Plan as described in Note 16 "Capital structure", and in connection with the IPO, non-qualified stock options to purchase shares of Class A common stock were granted, each of which vests in equal annual installments over a period of the four years from grant date and expires not later than 10 years from the date of grant.

The following table summarizes activity related to stock options for the three months ended March 31, 2018 and 2017:

| | Options Outstanding | | | Options Exercisable | |
|---|---|---|---|---|---|
| | Number of Options | Weighted Average Exercise Price Per Share | Weighted Average Remaining Contractual Life | Number of Options | Weighted Average Exercise Price Per Share |
| December 31, 2016 | 8,234,000 | $ 19.00 | 8.29 | 2,058,500 | $ 19.00 |
| Granted | — | — | — | — | — |
| Exercised | — | — | — | — | — |

| | | | | | |
|---|---|---|---|---|---|
| Forfeited or expired | (195,000 ) | — | — | — | — |
| March 31, 2017 | 8,039,000 | $ 19.00 | 8.05 | 2,009,750 | $ 19.00 |
| | | | | | |
| December 31, 2017 | 7,783,000 | $ 19.00 | 7.29 | 3,891,500 | $ 19.00 |
| Granted | — | — | — | — | — |
| Exercised | (732,000 ) | 19.00 | — | (732,000 ) | 19.00 |
| Forfeited or expired | — | — | — | — | — |
| March 31, 2018 | 7,051,000 | $ 19.00 | 7.05 | 3,182,000 | $ 19.00 |

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

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The Company recognized $1.4 million and $1.4 million of compensation expense in relation to the stock options issued and outstanding for the three months ended March 31, 2018 and 2017, respectively. As of March 31, 2018 and December 31, 2017, total unrecognized share-based compensation expense related to unvested stock options was $6.1 million and $7.5 million, respectively, and these amounts are to be recognized over a weighted average period of 1.1 and 1.3 years, respectively.

Class A common stock and Restricted Stock Units

Pursuant to the 2015 Management Incentive Plan as described in Note 16 "Capital structure", subsequent to the IPO, shares of immediately vested Class A common stock and restricted stock units were granted, the latter which vest over a period of up to 4 years. The fair value of the Class A common stock and RSUs was determined based on a volume weighted average price and is being recognized on a straight line basis over the vesting period. For the three months ended March 31, 2018, there were 594,536 shares of immediately vested Class A common stock granted as part of 2017 year-end compensation, with a fair value of $11.3 million which was recorded as an increase to the condensed consolidated statements of changes in equity. In addition, the Company accrued compensation expense of $3.9 million and $4.7 million for the three months ended March 31, 2018 and 2017 related to immediately vested Class A common stock expected to be awarded as part of year-end incentive compensation, which was included in employee compensation and payroll taxes on the condensed consolidated statements of comprehensive income and accounts payable and accrued expenses and other liabilities on the condensed consolidated statements of financial condition.

The following table summarizes activity related to the RSUs:

| | Number of Shares | Weighted Average Fair Value |
|---|---|---|
| At December 31, 2016 | 1,573,441 | $ 18.28 |
| Granted | — | — |
| Forfeited | (95,481 ) | 18.38 |
| Vested | — | — |
| At March 31, 2017 | 1,477,960 | $ 18.28 |
| | | |
| At December 31, 2017 | 853,047 | $ 17.94 |
| Granted | 1,044,690 | 20.64 |
| Forfeited | (30,626 ) | 18.52 |
| Vested | — | — |
| At March 31, 2018 | 1,867,111 | $ 18.85 |

The Company recognized $4.0 million and $2.6 million of compensation expense in relation to the restricted stock units for the three months ended March 31, 2018 and 2017, respectively. As of March 31, 2018 and December 31, 2017, total unrecognized share-based compensation expense related to unvested RSUs was $34.8 million and $14.3 million, respectively, and this amount is to be recognized over a weighted average period of 1.9 and 1.5, respectively.

18. Regulatory Requirement

As of March 31, 2018 and December 31, 2017, broker-dealer subsidiaries of the Company are subject to the SEC Uniform Net Capital Rule 15c3-1, which requires the maintenance of minimum net capital of $1.0 million for each of the three broker-dealer subsidiaries. Pursuant to NYSE and NYSE MKT (formerly NYSE Amex) rules, Virtu Financial Capital Markets LLC was also required to maintain $3.7 million and $4.1 million of capital in connection with the operation of its designated market maker (“DMM”) business as of March 31, 2018 and December 31, 2017,

respectively. The required amount is determined under the exchange rules as the greater of $1 million or 15% of the market value of 60 trading units for each symbol in which the broker-dealer subsidiary is registered as the DMM.

The regulatory capital and regulatory capital requirements of these subsidiaries as of March 31, 2018 was as follows:

| (in thousands) | Regulatory Capital | Regulatory Capital Requirement | Excess Regulatory Capital |
|---|---|---|---|
| Virtu Americas LLC | $ 411,168 | $ 1,000 | $ 410,168 |
| Virtu Financial BD LLC | 88,280 | 1,000 | 87,280 |
| Virtu Financial Capital Markets LLC | 8,563 | 4,696 | 3,867 |

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The regulatory capital and regulatory capital requirements of these subsidiaries as of December 31, 2017 was as follows:

| (in thousands) | Regulatory Capital | Regulatory Capital Requirement | Excess Regulatory Capital |
|---|---|---|---|
| Virtu Americas LLC | $ 379,875 | $ 1,000 | $ 378,875 |
| Virtu Financial BD LLC | 40,683 | 1,000 | 39,683 |
| Virtu Financial Capital Markets LLC | 8,308 | 5,114 | 3,194 |

19. Geographic Information and Business Segments

The Company operates its business in the U.S. and internationally, primarily in Europe and Asia. Significant transactions and balances between geographic regions occur primarily as a result of certain Company's subsidiaries incurring operating expenses such as employee compensation, communications and data processing and other overhead costs, for the purpose of providing execution, clearing and other support services to affiliates. Charges for transactions between regions are designed to approximate full costs. Intra-region income and expenses and related balances have been eliminated in the geographic information presented below to accurately reflect the external business conducted in each geographical region. The revenues are attributed to countries based on the locations of the subsidiaries. The following table presents total revenues by geographic area for the three months ended March 31, 2018 and 2017:

| (in thousands) | 2018 | 2017 |
|---|---|---|
| Revenues: | | |
| United States | $743,152 | $91,987 |
| Ireland | 14,023 | 28,251 |
| United Kingdom | 11,600 | — |
| Singapore | 46,200 | 27,006 |
| Others | 78 | 43 |
| Total revenues | 815,053 | 147,287 |

Prior to the Acquisition, the Company was managed and operated as one business, and, accordingly, operated under one reportable segment.  As a result of the acquisition of KCG, beginning in the third quarter of 2017 the Company has three operating segments: (i) Market Making; (ii) Execution Services; and (iii) Corporate.

The Market Making segment principally consists of market making in the cash, futures and options markets across global equities, options, fixed income, currencies and commodities. As a market maker, the Company commits capital on a principal basis by offering to buy securities from, or sell securities to, broker dealers, banks and institutions. The Company engages in principal trading in the Market Making segment direct to clients as well as in a supplemental capacity on exchanges, ECNs and alternative trading systems ATSs. The Company is an active participant on all major global equity and futures exchanges and also trades on substantially all domestic electronic options exchanges. As a complement to electronic market making, the cash trading business handles specialized orders and also transacts on the OTC Bulletin Board marketplaces operated by the OTC Markets Group Inc. and the AIM.

The Execution Services segment comprises agency-based trading and trading venues, offering execution services in global equities, options, futures and fixed income on behalf of institutions, banks and broker dealers as well as technology services revenues. The Company earns commissions and commission equivalents as an agent on behalf of clients as well as between principals to transactions; in addition, the Company will commit capital on behalf of clients

as needed. Agency-based, execution-only trading in the segment is done primarily through a variety of access points including: (i) algorithmic trading and order routing in global equities and options; (ii) institutional sales traders executing program, block and riskless principal trades in global equities and ETFs; (iii) a fixed income ECN that also offers trading applications; and (iv) an ATS for U.S. equities. Technology licensing fees are earned from third parties for licensing of the Company’s proprietary risk management and trading infrastructure technology and the provision of associated management and hosting services.

The Corporate segment contains the Company's investments, principally in strategic trading-related opportunities and maintains corporate overhead expenses and all other income and expenses that are not attributable to the Company's other segments.

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Management evaluates the performance of its segments on a pre-tax basis. Segment assets and liabilities are not used for evaluating segment performance or in deciding how to allocate resources to segments. The Company's total revenues and income before income taxes and noncontrolling interest ("Pre-tax earnings") by segment for the three months ended March 31, 2018 and 2017 are summarized in the following table:

| (in thousands) | Market Making | Execution Services | Corporate (1) | Consolidated Total |
|---|---|---|---|---|
| 2018: | | | | |
| Total revenue | $432,536 | $383,779 | $(1,262 ) | $ 815,053 |
| Income before income taxes and noncontrolling interest | 163,163 | 331,185 | (25,812 ) | 468,536 |
| 2017: | | | | |
| Total revenue | $144,448 | $2,779 | $60 | $ 147,287 |
| Income (loss) before income taxes and noncontrolling interest | 23,465 | 489 | (72 ) | 23,882 |

(1) Amounts shown in the Corporate segment include eliminations of income statement and balance sheet items included in the Company's other segments.

20. Related Party Transactions

The Company incurs expenses and maintains balances with its affiliates in the ordinary course of business. As of March 31, 2018, and December 31, 2017 the Company had a receivable of $1.3 million and a receivable of $0.1 million to its affiliates, respectively.

The Company conducts securities lending transactions with Industrial and Commercial Bank of China ("ICBC"), which is partially owned by Temasek and its affiliates. As of March 31, 2018, the Company had a securities loaned contract of $0.7 million with ICBC. The Company had a securities borrowed contract of $23.1 million and a securities loaned contract of $1.1 million outstanding with ICBC as of December 31, 2017.

The Company purchases network connections services from affiliates of Level 3 Communications ("Level 3"). Temasek and its affiliates have a significant ownership interest in Level 3. For the three months ended March 31, 2018 and 2017, the Company paid $0.7 million and $0.7 million, respectively, to Level 3 for these services.
The Company purchases and leases computer equipment and maintenance and support from affiliates of Dell Inc. ("Dell"). Temasek and its affiliates have a significant ownership interest in Dell. For the three months ended March 31, 2018 and 2017, the Company paid $0.6 million and $0.8 million, respectively, to Dell for these purchases and leases.

The Company purchases market data and software licenses from affiliates of Markit Group Holdings Limited ("MarkIt"). Temasek and its affiliates have a significant ownership interest in MarkIt. For the three months ended March 31, 2018 , the Company paid $0.4 million to MarkIt for these services. The amount paid to MarkIt was immaterial for the three months ended March 31, 2017.

The Company has held a minority interest in SBI since 2016 (See Note 11 "Financial assets and liabilities"). The Company pays exchange fees to SBI for the trading activities conducted on its proprietary trading system. The Company paid $2.3 million and $1.5 million for the three months ended March 31, 2018 and for the period since the completion of the minority interest investment to March 31, 2017, respectively.

The Company makes payments to two JVs (See Note 2, "Summary of Significant Accounting Policies") to fund the construction of the microwave communication networks, and to purchase microwave communication networks, which are recorded within communications and data processing on the condensed consolidated statements of comprehensive income. The Company made payments of $5.6 million and $0.1 million to the JVs for the three months ended March 31, 2018 and 2017, respectively.

21. Subsequent Events

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

On April 13, 2018, the Company received $39.3 million tax distribution from Virtu Financial.

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On April 19, 2018, the Company prepaid $100.0 million of principal under its Fourth Amended and Restated Credit Agreement, as amended. The total principal outstanding under the senior secured facility is $524.0 million.

On May 4, 2018, the Company’s board of directors declared a dividend of $0.24 per share of Class A common stock and Class B common stock and per Restricted Stock Unit that will be paid on June 15, 2018 to holders of record as of June 1, 2018.

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

The following management's discussion and analysis covers the three months ended March 31, 2018 and 2017 and should be read in conjunction with the condensed consolidated financial statements of Virtu Financial, Inc. (the "Company") for the three months ended March 31, 2018 and 2017. This management's discussion and analysis contains forward-looking statements that involve risks and uncertainties. Our actual results could differ materially from those discussed below. Unless otherwise stated, all amounts are presented in thousands of dollars.

### Forward-Looking Statements

This quarterly report on Form 10-Q contains forward-looking statements. You should not place undue reliance on forward-looking statements because they are subject to numerous uncertainties and factors relating to our operations and business environment, all of which are difficult to predict and many of which are beyond our control. Forward-looking statements include information concerning our possible or assumed future results of operations, including descriptions of our business strategy. These forward-looking statements can be identified by the use of forward-looking terminology, including the terms "may," "will," "should," "believe," "expect," "anticipate," "intend," "plan," "project" or, in each case, their negative, or other variations or comparable terminology and expressions. These statements are based on assumptions that we have made in light of our experience in the industry as well as our perceptions of historical trends, current conditions, expected future developments and other factors we believe are appropriate under the circumstances. As you read and consider this quarterly report on Form 10-Q, you should understand that forward-looking statements are not guarantees of performance or results and that our actual results of operations, financial condition and liquidity, and the development of the industry in which we operate, may differ materially from those made in or suggested by the forward-looking statements contained in this quarterly report on Form 10-Q. By their nature, forward-looking statements involve known and unknown risks and uncertainties, including those described under the heading "Risk Factors" in this quarterly report on Form 10-Q, because they relate to events and depend on circumstances that may or may not occur in the future. Although we believe that the forward-looking statements contained in this quarterly report on Form 10-Q are based on reasonable assumptions, you should be aware that many factors, including those described under the heading "Risk Factors" in this quarterly report on Form 10-Q or in Part I "Item 1A. Risk factors" in our 2017 Form 10-K as filed with the Securities and Exchange Commission ("SEC") on March 13, 2018, could affect our actual financial results or results of operations and cash flows, and could cause actual results to differ materially from those in such forward-looking statements, including but not limited to:

- reduced levels of overall trading activity;
- dependence upon trading counterparties and clearing houses performing their obligations to us;
- failures of our customized trading platform;
- risks inherent to the electronic market making business and trading generally;
- increased competition in market making activities and execution services;
- dependence on continued access to sources of liquidity;
- risks associated with self clearing and other operational elements of our business;
- compliance with laws and regulations, including those specific to our industry;
- obligations to comply with applicable regulatory capital requirements;
- litigation or other legal and regulatory based liabilities;
- proposed legislation that would impose taxes on certain financial transactions in the European Union, the U.S. and other jurisdictions;
- obligations to comply with laws and regulations applicable to our international operations;
- enhanced media and regulatory scrutiny and its impact upon public perception of us or of companies in our industry;
- need to maintain and continue developing proprietary technologies;
- failure to maintain system security or otherwise maintain confidential and proprietary information;

- the effect of the Acquisition of KCG on existing business relationships, operating results, and ongoing business operations generally;

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- the significant costs and significant indebtedness that we incurred in connection with the Acquisition of KCG, and the integration of KCG into our business;
- the risk that we may encounter significant difficulties or delays in integrating the two businesses and that the anticipated benefits, costs savings and synergies or capital release may not be achieved;
- the assumption of potential liabilities relating to KCG’s business;
- capacity constraints, system failures, and delays;
- dependence on third party infrastructure or systems;
- use of open source software;
- failure to protect or enforce our intellectual property rights in our proprietary technology;
- risks associated with international operations and expansion, including failed acquisitions or dispositions;
- the effects of and changes in economic conditions (such as volatility in the financial markets, inflation, monetary conditions and foreign currency and exchange rate fluctuations, foreign currency controls and/or government mandated pricing controls, as well as in trade, monetary, fiscal and tax policies in international markets) and political conditions (such as military actions and terrorist activities);
- risks associated with potential growth and associated corporate actions;
- inability to access, or delay in accessing the capital markets to sell shares or raise additional capital;
- loss of key executives and failure to recruit and retain qualified personnel; and
- risks associated with losing access to a significant exchange or other trading venue.

Our forward-looking statements made herein are made only as of the date of this quarterly report on Form 10-Q. We expressly disclaim any intent, obligation or undertaking to update or revise any forward-looking statements made herein to reflect any change in our expectations with regard thereto or any change in events, conditions or circumstances on which any such statements are based. All subsequent written and oral forward-looking statements attributable to us or persons acting on our behalf are expressly qualified in their entirety by the cautionary statements contained in this quarterly report on Form 10-Q.

Basis of Preparation

Our condensed consolidated financial statements for the three months ended March 31, 2018 reflect our operations and those of our consolidated subsidiaries. As discussed in Note 1 "Organization and basis of presentation" and in Note 3 “Acquisition of KCG Holdings Inc.” of Part I Item 1 “Condensed Consolidated Financial Statements (Unaudited)” of this quarterly report on Form 10-Q, we are accounting for the acquisition of KCG Holdings, Inc. ("Acquisition of KCG") under the acquisition method of accounting.  Under the acquisition method of accounting, the assets and liabilities of KCG, as of July 20, 2017 (the "Closing Date"), were recorded at their respective fair values and added to the carrying value of our existing assets and liabilities. Our reported financial condition, results of operations and cash flows for the periods following the Acquisition of KCG reflect KCG's and our balances and reflect the impact of purchase accounting adjustments, including revised amortization and depreciation expense for acquired assets. As we are the accounting acquirer, the financial results for the three months ended March 31, 2018 comprise our results and the results of KCG for the three months ended March 31, 2018. All periods prior to the Closing Date comprise solely our results.

Overview

We are a leading financial services firm that leverages cutting edge technology to deliver liquidity to the global markets and innovative, transparent trading solutions to our clients. We believe that our broad diversification, in combination with our proprietary technology platform and low-cost structure, enables us to facilitate risk transfer between global capital markets participants by supplying competitive liquidity and execution services while at the same time earning attractive margins and returns.

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Technology and operational efficiency are at the core of our business, and our focus on market making technology is a key element of our success. We have developed a proprietary, multi-asset, multi-currency technology platform that is highly reliable, scalable and modular, and we integrate directly with exchanges and other liquidity centers. Our market data, order routing, transaction processing, risk management and market surveillance technology modules manage our market making activities in an efficient manner and enable us to scale our market making activities globally and across additional securities and other financial instruments and asset classes without significant incremental costs or third party licensing or processing fees.

We believe that technology-enabled market makers like Virtu serve an important role in maintaining and improving the overall health and efficiency of the global capital markets by continuously posting bids and offers for financial instruments and thereby providing market participants a transparent and efficient means to transfer risk. All market participants benefit from the increased liquidity, lower overall trading costs and execution certainty that Virtu provides.

As described in “Acquisition of KCG” below, on the Closing Date, we completed the Acquisition of KCG. KCG was a leading independent securities firm offering clients a range of services designed to address trading needs across asset classes, product types and geographies. KCG combined advanced technology with specialized client service across market making, agency execution and trading venues and also engaged in principal trading via exchange-based electronic market making. KCG offered multiple access points to trade global equities, options, futures, fixed income, currencies and commodities available via voice or electronically.

Prior to the Acquisition of KCG, Virtu operated as a single reportable business segment. As a result of the Acquisition of KCG, beginning in the third quarter of 2017, Virtu has three operating segments: Market Making, Execution Services, and Corporate. Our management allocates resources, assesses performance and manages our business according to these segments:

We believe that the most relevant asset class distinctions and venues for the markets we serve include the following:

| Asset Classes | Selected Venues in Which We Make Markets |
|---|---|
| Americas Equities | BATS, BM&F Bovespa, CHX, CME, MexDer, NASDAQ, NYSE, NYSE Arca, NYSE American, TSX, major private liquidity pools |
| Rest of World Equities | Amsterdam, Aquis, ASX, BATS Europe, Bolsa de Madrid, Borsa Italiana, Brussels, EUREX, Euronext -Paris, ICE Futures Europe, Johannesburg Stock Exchange, Lisbon, LSE, OSE, SBI Japannext, SGX, SIX Swiss Exchange, TOCOM, TSE |
| Global FICC, Options, and Other | BOX, BrokerTec, CME, Currenex, EBS, eSpeed, Hotspot, ICE, ICE Futures Europe, LMAX, NASDAQ Energy Exchange, NYSE Arca Options, PHLX, Reuters/Fxall, SGX, TOCOM |

Market Making

We provide competitive and deep liquidity that helps to create more efficient markets around the world. We stand ready, at any time, to buy or sell a broad range of securities, and we generate revenue by buying and selling large volumes of securities and other financial instruments and earning small bid/ask spreads. Our market structure expertise, broad diversification, and execution technology enables us to provide competitive bids and offers in over 25,000 securities, at over 235 venues, in 36 countries worldwide.

We believe the overall level of volumes and realized volatility in the various markets we serve have the greatest impact on our businesses. Increases in market volatility can cause bid/ask spreads to widen as market participants are more willing to pay market makers like us to transact immediately and as a result market makers capture rate per

notional amount transacted will increase.

Execution Services

We offer agency execution services and trading venues that provide transparent trading in global equities, ETFs, futures and fixed income to institutions, banks and broker dealers. We generally earn commissions as an agent between principals for transactions. Agency based, execution-only trading in the segment is done primarily through a variety of access points including: (a) algorithmic trading and order routing; (b) institutional sales traders who offer portfolio trading and single stock sales trading which provides execution expertise for program, block and riskless principal trades in global equities and ETFs; and (c) matching of client orders in Virtu BondPoint (a fixed income ECN, which we sold in January 2018 as further described

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in Note 4, Sale of BondPoint) and in Virtu MatchIt (our ATS for U.S. equities), We also earn technology services revenues by providing our proprietary technology and infrastructure to select third parties for a service fee.

Corporate

Our Corporate segment contains investments principally in strategic financial services-oriented opportunities and maintains corporate overhead expenses and all other income and expenses that are not attributable to our other segments.

Acquisition of KCG

On the Closing Date, pursuant to the terms of the Agreement and Plan of Merger, dated as of April 20, 2017 (the “Merger Agreement”), by and among the Company, Orchestra Merger Sub, Inc., a Delaware corporation and an indirect wholly-owned subsidiary of the Company (“Merger Sub”), and KCG, Merger Sub merged with and into KCG (the “Merger”), with KCG surviving the Merger as a wholly owned subsidiary of the Company.

In connection with the financing of the Acquisition, on the Closing Date, the Company issued to (i) Aranda Investments Pte. Ltd. (“Aranda”), an affiliate of Temasek Holding (Private) Limited ("Temasek"), 6,346,155 shares of the Company’s Class A common stock, par value $0.00001 per share (the "Class A Common Stock") for an aggregate purchase price of approximately $99.0 million and (ii) North Island Holdings I, LP (“NIH”) 39,725,979 shares of Class A Common Stock for an aggregate purchase price of approximately $613.5 million. On August 10, 2017, the Company issued additional 1,666,666 shares and 338,124 shares of Class A Common Stock to Aranda and NIH respectively, for an aggregate additional purchase price of approximately $26.0 million and $5.2 million, respectively.

Also in connection with the financing of the Acquisition, on June 16, 2017, Orchestra Borrower LLC (the "Escrow Issuer") a wholly owned subsidiary of Virtu Financial LLC (“Virtu Financial”) and Orchestra Co-Issuer, Inc. (the “Co-Issuer”) completed the offering of $500 million aggregate principal amount of 6.750% Senior Secured Second Lien Notes due 2022 (the “Notes”) as more fully described under - Senior Secured Second Lien Notes. On July 20, 2017, VFH Parent LLC ("VFH") assumed all of the obligations of the Escrow Issuer under the Notes and the indenture governing the Notes.

On June 30, 2017, Virtu Financial and VFH entered into a fourth amended and restated credit agreement (the “Fourth Amended and Restated Credit Agreement”) for $1.15 billion first lien secured term loans with the lenders party thereto and JPMorgan Chase Bank, N.A., as administrative agent, sole lead arranger and bookrunner, which amended and restated in its entirety VFH’s existing credit agreement.

On July 21, 2017, the outstanding 6.875% Senior Secured Notes due 2020 issued by KCG were redeemed at a redemption price equal to 103.438% of the principal amount, plus accrued and unpaid interest, pursuant to the indenture, dated as of March 13, 2015 (as amended, restated, supplemented or otherwise modified), by and among KCG, the subsidiary guarantors party thereto and The Bank of New York Mellon, as trustee and collateral agent.

Amended and Restated 2015 Management Incentive Plan

The Company’s board of directors and stockholders adopted the 2015 Management Incentive Plan, which became effective upon consummation of the Company's initial public offering in April 201 (the "IPO") (the "2015 Management Incentive Plan"). The 2015 Management Incentive Plan, which was amended and restated in 2017 (the “Amended and Restated 2015 Management Incentive Plan”), provides for the grant of stock options, restricted stock units, and other awards based on an aggregate of 16,000,000 shares of Class A Common Stock, subject to additional sublimits, including limits on the total option grant to any one participant in a single year and the total performance

award to any one participant in a single year.

In connection with the IPO, non-qualified stock options to purchase 9,228,000 shares were granted at the IPO per share price, each of which vests in equal annual installments over a period of four years from the grant date and expires not later than 10 years from the grant date. Subsequent to the IPO and during the three months ended March 31, 2018, options to purchase 1,444,500 shares in the aggregate were forfeited and 732,000 options were exercised. The fair value of the stock option grants was determined through the application of the Black-Scholes-Merton model and will be recognized on a straight line basis over the vesting period. In connection with and subsequent to the IPO, 1,677,318 shares of immediately vested Class A Common Stock and 2,690,692 restricted stock units were granted, which vest over a period of up to 4 years and are settled in shares of Class A Common Stock. The fair value of the Class A Common Stock and restricted stock units was determined based on the volume weighted average price for the three days preceding the grant, and with respect to the restricted stock units will be recognized on a straight line basis over the vesting period.

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Parent Company Financial Information

There are no material differences between our financial statements and the financial statements of Virtu Financial LLC (“Virtu Financial”) except as follows: (i) cash and cash equivalents reflected on our Condensed Consolidated Statement of Financial Condition in the amount of $59.3 million; (ii) deferred tax assets reflected on our Condensed Consolidated Statement of Financial Condition in the amount of $122.1 million and tax receivable agreement obligation in the amount of $147.0 million, in each case as described in greater detail in Note 6 "Tax Receivable Agreements"; (iii) a portion of the member's equity of Virtu Financial is represented as non-controlling interest on our Condensed Consolidated Statement of Financial Condition; and (iv) provision for corporate income tax in the amount of $52.1 million as reflected on our Condensed Consolidated Statements of Comprehensive Income.

Components of Our Results of Operations

The following tables show the total revenues and Adjusted Net Trading Income by operating segment for the three months ended March 31, 2018 and 2017:

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| (in thousands) | Three Months Ended March 31, | |
|---|---|---|
| Market Making | 2018 | 2017 |
| Total revenue | 432,536 | 144,448 |
| Total operating expenses | 269,373 | 123,405 |
| Income before income taxes and noncontrolling interest | 163,163 | 21,043 |
| Execution Services | | |
| Total revenue | 383,779 | 2,779 |
| Total operating expenses | 52,593 | — |
| Income before income taxes and noncontrolling interest | 331,186 | 2,779 |
| Corporate | | |
| Total revenue | (1,262 ) | 60 |
| Total operating expenses | 24,550 | — |
| Income before income taxes and noncontrolling interest | (25,812 ) | 60 |
| Consolidated | | |
| Total revenue | 815,053 | 147,287 |
| Total operating expenses | 346,517 | 123,405 |
| Income before income taxes and noncontrolling interest | 468,536 | 23,882 |

| (in thousands) | Three Months Ended March 31, 2018 | 2017 |
|---|---|---|
| Revenues: | | |
| Trading income, net | $406,162 | $139,574 |
| Interest and dividends income | 17,949 | 4,874 |
| Commissions, net and technology services | 53,844 | 2,779 |
| Other, net | 337,098 | 60 |
| Total revenue | 815,053 | 147,287 |
| Operating Expenses: | | |
| Brokerage, exchange and clearance fees, net | 87,824 | 52,770 |
| Communication and data processing | 49,486 | 18,207 |
| Employee compensation and payroll taxes | 64,670 | 21,347 |
| Payments for order flow | 16,256 | — |
| Interest and dividends expense | 33,624 | 12,280 |
| Operations and administrative | 19,919 | 4,846 |
| Depreciation and amortization | 15,339 | 6,757 |
| Amortization of purchased intangibles and acquired capitalized software | 6,851 | 53 |
| Termination of office leases | 19,970 | — |
| Debt issue cost related to debt refinancing | 6,021 | — |
| Transaction advisory fees and expenses | 7,496 | 132 |
| Charges related to share based compensation at IPO | 14 | 185 |
| Financing interest expense on long-term borrowings | 19,047 | 6,828 |
| Total operating expenses | 346,517 | 123,405 |
| Income before income taxes and noncontrolling interest | 468,536 | 23,882 |

| | | |
|---|---|---|
| Provision for income taxes | 58,514 | 2,808 |
| Net income | $410,022 | $21,074 |

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Total Revenues

The majority of our revenue is generated through market making activities and is recorded as trading income, net. In addition, we generate revenues from interest and dividends income as well as the technology services revenue generated by using our proprietary technology to provide technology infrastructure and agency execution services to select third parties. Following the Acquisition of KCG, we also earn commissions and commission equivalents terms, as well as, in certain cases, contingent fees based on client revenues, which represents variable consideration. The services offered under these contracts have the same pattern of transfer; accordingly, they are being measured and recognized as a single performance obligation. The performance obligation is satisfied over time, and accordingly, revenue is recognized as time passes. Variable consideration has not been included in the transaction price as the amount of consideration is contingent on factors outside the Company's control and thus it is not probable that a significant reversal of cumulative revenue recognized will not occur. Recurring fees, which exclude variable consideration, are billed and collected on a monthly basis.

Trading Income, Net. Trading income, net, represents revenue earned from bid/ask spreads. Trading income is generated in the normal course of our market making activities and is typically proportional to the level of trading activity, or volumes, in the asset classes we serve. Our trading income is highly diversified by asset class and geography and is comprised of small amounts earned on millions of trades on various exchanges, primarily in the following three categories: Americas Equities, Rest of World Equities, and Global FICC, options and other. Our trading income, net, results from gains and losses associated with economically neutral trading strategies, which are designed to capture small bid ask spreads and often involve making markets in a derivative versus a correlated instrument that is not a derivative. These transactions often result in a gain or loss on the derivative and a corresponding loss or gain on the non-derivative. Trading income, net, accounted for 49.8% and 94.8% of our total revenues for the three months ended March 31, 2018, and 2017, respectively.

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

Commissions, Net and Technology Services. Technology services revenues include technology licensing fees and agency commission fees. Technology licensing fees are charged for the licensing of our proprietary technology and the provision of related services, including hosting, management and support. These fees include an up-front component and a recurring fee for the relevant terms, which may include both fixed and variable components. Revenue is recognized ratably for these services over the contractual term of the agreement.

Agency commission fees are charged for agency trades executed by us on behalf of third party broker-dealers, institutions and other financial institutions. We began providing agency execution services in April 2016, and revenue is recognized on a trade date basis, which is the point at which the performance obligation to the customer is satisfied, based on the trade volume executed. Revenues on transactions for which we charge explicit commissions or commission equivalents, which include the majority of our institutional client orders, are included within commissions, net and technology services. Commissions and fees are primarily affected by changes in our equity, fixed income and futures transaction volumes with institutional clients; client relationships; changes in commission rates; client experience on the various platforms; level of volume based fees from providing liquidity to other trading venues; and the level of our soft dollar and commission recapture activity.

Other, Net. In July 2016, we made a minority investment in SBI Japannext Co., Ltd. (“SBI”), a proprietary trading system based in Tokyo. In connection with the investment, we issued bonds to certain affiliates of SBI and used the proceeds to partially finance the transaction. Revenues or losses are recognized due to the changes in fair value of the investment or fluctuations in Japanese Yen conversion rates within other, net.

We have interests in two telecommunications joint ventures (“JV”).  We record our pro-rata share of each JV’s earnings or losses within other, net while fees related to the use of communication services provided by the JVs are recorded within communications and data processing. In addition, We also recorded gains or losses on certain one-time transactions within other, net.

Operating Expenses

Brokerage, Exchange and Clearance Fees, Net. Brokerage, exchange and clearance fees are our most significant expenses, which include the direct expenses of executing and clearing transactions that we consummate in the course of our market making activities. Brokerage, exchange and clearance fees primarily consist of fees charged by third parties for executing, processing and settling trades. These fees generally increase and decrease in direct correlation with the level of trading activity, or volumes, in the markets we serve. Execution fees are paid primarily to exchanges and venues where we trade. Clearance fees are paid to clearing houses and clearing agents. Rebates based on volume discounts, credits or payments received from exchanges or other market places are netted against brokerage, exchange and clearance fees.

Payments for Order Flow. Payments for order flow are a result of the Acquisition of KCG, and they primarily represent payments to broker dealer clients, in the normal course of business, for directing their order flow to us primarily in U.S. equities. Payments for order flow will fluctuate as we modify our rates and as the percentage of our clients with policies not to accept payments for order flow varies. Payments for order flow also fluctuate based on U.S. equity share and option volumes, our profitability and the mix of market orders, limit orders, and customers.

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

Employee Compensation and Payroll Taxes. Employee compensation and payroll taxes include employee salaries, cash and non-cash incentive compensation, employee benefits, payroll taxes, severance and other employee related costs. Subsequent to the completion of a series of reorganization transactions prior to the IPO pursuant to which the Company became the sole managing member of Virtu Financial (the "Reorganization Transactions"). Employee compensation and payroll taxes includes non-cash compensation expenses with respect to the stock options and restricted stock units granted in connection with and subsequent to the IPO pursuant to the 2015 Management Incentive Plan.

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

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

Depreciation and Amortization. Depreciation and amortization expense results from the depreciation of fixed assets, such as computing and communications hardware, as well as amortization of leasehold improvements and capitalized in-house software development. We depreciate our computer hardware and related software, office hardware and furniture and fixtures on a straight line basis over a period of 3 to 7 years based on the estimated useful life of the underlying asset, and we amortize our capitalized software development costs on a straight line basis over a period of 1.5 to 2.5 years, which represents the estimated useful lives of the underlying software. We amortize leasehold improvements on a straight line basis over the lesser of the life of the improvement or the term of the lease.

Amortization of Purchased Intangibles and Acquired Capitalized Software. Amortization of purchased intangibles and acquired capitalized software represents the amortization of $1.9 million, $2.0 million and $175.0 million of assets

acquired in connection with the acquisitions of certain assets from Nyenburgh Holding B.V., Teza Technologies (the "Teza Acquisition") and KCG, respectively. These assets are amortized over their useful lives, ranging from 1 to 17 years, except for certain assets which were categorized as having indefinite useful lives.

Termination of office leases. Termination of office leases represents the one-time expense write-off on the present value of the future lease obligations on the office leases we abandoned in connection with the Acquisition of KCG. The aggregated write-off amount includes legal fees, broker fees and other miscellaneous expense associated with the abandonment.

Debt Issue Costs Related to Debt Refinancing. As a result of the refinancing or early termination of our debt, we accelerate the capitalized debt issue costs and the discount on debt that would otherwise to be amortized or accreted over the life of the loan.

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Transaction Advisory Fees and Expenses. Transaction advisory fees and expenses primarily reflect professional fees incurred by us in connection with the Company's October 2017 sale of specified assets and assignment of specified liabilities constituting the Company's BondPoint division and fixed income venue ("BondPoint").
Charges Related to Share Based Compensation at IPO. At the consummation of the IPO and through the three months ended March 31, 2018, we recognized non-cash compensation expenses in respect of the outstanding time-vested Class B and East MIP Class B interests, net of capitalization and amortization of costs attributable to employees incurred in development of software for internal use, as defined and discussed in Note 17 "Share-based compensation" of Part I “Financial Information” of this quarterly report on Form 10-Q.

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

Provision for Income Taxes

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

Our effective tax rate is subject to significant variation due to several factors, including variability in our pre-tax and taxable income and loss and the mix of jurisdictions to which they relate, changes in how we do business, acquisitions (including the Acquisition of KCG) and investments, audit-related developments, tax law developments (including changes in statutes, regulations, case law, and administrative practices), and relative changes of expenses or losses for which tax benefits are not recognized. Additionally, our effective tax rate can be more or less volatile based on the amount of pre-tax income or loss. For example, the impact of discrete items and non-deductible expenses on our effective tax rate is greater when our pre-tax income is lower.

Public Law No. 115-97, commonly referred to as the Tax Cuts and Jobs Act (the “2017 Tax Act”) was signed into law on December 22, 2017 and significantly revises the U.S. corporate income tax by, among other things, lowering the statutory corporate tax rate from 35% to 21%, and eliminating certain deductions. We have not completed our determination of the accounting implications of the 2017 Tax Act on our tax accruals. However, we have reasonably estimated the effects of the 2017 Tax Act and recorded provisional amounts in our financial statements as of March 31, 2018. We recorded a provisional deferred tax expense for the impact of the 2017 Tax Act of approximately $90.6 million, which is primarily composed of the remeasurement of federal net deferred tax assets as a result of the permanent reduction in the U.S. statutory corporate tax rate to 21% from 35%. As we complete our analysis of the 2017 Tax Act, collect and prepare necessary data, and interpret any additional guidance issued by the U.S. Treasury Department, the IRS, and other standard-setting bodies, we may make adjustments to the provisional amounts. Those adjustments may materially impact our provision for income taxes in the period in which the adjustments are made.

We regularly assess whether it is more likely than not that we will realize our deferred tax assets in each taxing jurisdiction in which we operate. In performing this assessment with respect to each jurisdiction, we review all available evidence, including actual and expected future earnings, capital gains, and investment in such jurisdiction, the carry-forward periods available to us for tax reporting purposes, and other relevant factors.

See Note 14 "Income taxes" of Part I “Financial Information” of this quarterly report on Form 10-Q for additional information.

Non-GAAP Financial Measures and Other Items

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

- "Adjusted Net Trading Income", which is the amount of revenue we generate from our market making activities, or trading income, net, plus commissions, net and technology services, plus interest and dividends income and expense, net, less direct costs associated with those revenues, including brokerage, exchange and clearance fees,

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net, and payments for order flow. Management believes that this measurement is useful for comparing general operating performance from period to period. Although we use Adjusted Net Trading Income as a financial measure to assess the performance of our business, the use of Adjusted Net Trading Income is limited because it does not include certain material costs that are necessary to operate our business. Our presentation of Adjusted Net Trading Income should not be construed as an indication that our future results will be unaffected by revenues or expenses that are not directly associated with our market making activities.

- "EBITDA", which measures our operating performance by adjusting net income to exclude financing interest expense on long-term borrowings, debt issue cost related to debt refinancing, depreciation and amortization, amortization of purchased intangibles and acquired capitalized software, and income tax expense, and "Adjusted EBITDA", which measures our operating performance by further adjusting EBITDA to exclude severance, reserve for legal matters, transaction advisory fees and expenses, termination of office leases, acquisition related retention bonus, trading related settlement income, other, net, share based compensation, charges related to share based compensation at IPO, 2015 Management Incentive Plan, and charges related to share based compensation at IPO.
- "Normalized Adjusted Net Income", "Normalized Adjusted Net Income before income taxes", "Normalized provision for income taxes", and "Normalized Adjusted EPS", which we calculate by adjusting Net Income to exclude certain items including IPO-related adjustments and other non-cash items, assuming that all vested and unvested Virtu Financial Units have been exchanged for Class A Common Stock, and applying a corporate tax rate of 35.5% to 37%.

Adjusted Net Trading Income, EBITDA, Adjusted EBITDA, Normalized Adjusted Net Income, Normalized Adjusted Net Income before income taxes, Normalized provision for income taxes and Normalized Adjusted EPS are non-GAAP financial measures used by management in evaluating operating performance and in making strategic decisions. Additional information provided regarding the breakdown of total Adjusted Net Trading Income by category is also a non-GAAP financial measure but is not used by the Company in evaluating operating performance and in making strategic decisions. In addition, these non-GAAP financial measures or similar non-GAAP financial measures are used by research analysts, investment bankers and lenders to assess our operating performance. Management believes that the presentation of Adjusted Net Trading Income, EBITDA, Adjusted EBITDA, Normalized Adjusted Net Income, Normalized Adjusted Net Income before income taxes, Normalized provision for income taxes and Normalized Adjusted EPS provide useful information to investors regarding our results of operations and cash flows because they assist both investors and management in analyzing and benchmarking the performance and value of our business. Adjusted Net Trading Income, EBITDA, Adjusted EBITDA, Normalized Adjusted Net Income, Normalized Adjusted Net Income before income taxes, Normalized provision for income taxes and Normalized Adjusted EPS provide indicators of general economic performance that are not affected by fluctuations in certain costs or other items. Accordingly, management believes that these measurements are useful for comparing general operating performance from period to period. Furthermore, our Fourth Amended and Restated Credit Agreement contains covenants and other tests based on metrics similar to Adjusted EBITDA. Other companies may define Adjusted Net Trading Income, Adjusted EBITDA, Normalized Adjusted Net Income, Normalized Adjusted Net Income before income taxes, Normalized provision for income taxes and Normalized

Adjusted EPS differently, and as a result our measures of Adjusted Net Trading Income, Adjusted EBITDA, Normalized Adjusted Net Income, Normalized Adjusted Net Income before income taxes, Normalized provision for income taxes and Normalized Adjusted EPS may not be directly comparable to those of other companies. Although we use these non-GAAP measures as financial measures to assess the performance of our business, such use is limited because they do not include certain material costs necessary to operate our business.

Adjusted Net Trading Income, EBITDA, Adjusted EBITDA, Normalized Adjusted Net Income, Normalized Adjusted Net Income before income taxes, Normalized provision for income taxes and Normalized Adjusted EPS should be considered in addition to, and not as a substitute for, Net Income in accordance with U.S. GAAP as a measure of performance. Our presentation of Adjusted Net Trading Income, EBITDA, Adjusted EBITDA, Normalized Adjusted Net Income, Normalized Adjusted Net Income before income taxes, Normalized provision for income taxes and Normalized Adjusted EPS should not be construed as an indication that our future results will be unaffected by

unusual or nonrecurring items. Adjusted Net Trading Income, Normalized Adjusted Net Income, Normalized Adjusted Net Income before income taxes, Normalized provision for income taxes and Normalized Adjusted EPS and our EBITDA-based measures have limitations as analytical tools, and you should not consider them in isolation or as substitutes for analysis of our results as reported under U.S. GAAP. Some of these limitations are:

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

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

The following tables reconcile condensed consolidated statements of comprehensive income to arrive at EBITDA, Adjusted EBITDA, Adjusted Net Trading Income, and selected Operating Margins.

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| | For the Three Months Ended March 31, | |
|---|---|---|
| Reconciliation of Trading income, net to Adjusted Net Trading Income | 2018 | 2017 |
| Trading income, net | 406,162 | 139,574 |
| Interest and dividends income | 17,949 | 4,874 |
| Commissions, net and technology services | 53,844 | 2,779 |
| Brokerage, exchange and clearance fees, net | (87,824 ) | (52,770 ) |
| Payments for order flow | (16,256 ) | — |
| Interest and dividends expense | (33,624 ) | (12,280 ) |
| Adjusted Net Trading Income | 340,251 | 82,177 |
| | | |
| Reconciliation of Net Income to EBITDA and Adjusted EBITDA | | |
| Net Income | 410,022 | 21,074 |
| Financing interest expense on long-term borrowings | 19,047 | 6,828 |
| Debt issue cost related to debt refinancing | 6,021 | — |
| Depreciation and amortization | 15,339 | 6,757 |
| Amortization of purchased intangibles and acquired capitalized software | 6,851 | 53 |
| Provision for Income Taxes | 58,514 | 2,808 |
| EBITDA | 515,794 | 37,520 |
| | | |
| Severance | 3,744 | 877 |
| Transaction advisory fees and expenses | 7,496 | 132 |
| Termination of office leases | 19,970 | — |
| Connectivity early termination | 2,500 | — |
| Gain on sale of business | (337,549) | — |
| Other, net | 451 | (60 ) |
| Equipment write-off | 936 | — |
| Share based compensation | 7,902 | 7,579 |
| Charges related to share based compensation at IPO, 2015 Management Incentive Plan | 1,398 | 1,425 |
| Charges related to share based compensation awards at IPO | 14 | 185 |
| Adjusted EBITDA | 222,656 | 47,658 |
| | | |
| Selected Operating Margins | | |
| Net Income Margin (1) | 120.5 % | 25.6 % |
| EBITDA Margin (2) | 151.6 % | 45.7 % |
| Adjusted EBITDA Margin (3) | 65.4 % | 58.0 % |

(1) Calculated by dividing net income by Adjusted Net Trading Income.
(2) Calculated by dividing EBITDA by Adjusted Net Trading Income.
(3) Calculated by dividing Adjusted EBITDA by Adjusted Net Trading Income.

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

| | Three Months Ended March 31, | |
|---|---|---|
| (in thousands, except share and per share data) | 2018 | 2017 |
| Reconciliation of Net Income to Normalized Adjusted Net Income | | |
| Net income | 410,022 | 21,074 |
| Provision for income taxes | 58,514 | 2,808 |
| Income before income taxes | 468,536 | |