GAIN Capital Holdings, Inc.
Form 10-Q
August 09, 2016
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

ý QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the Quarterly Period Ended June 30, 2016
OR
¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the Transition Period from to .
Commission File Number 001-35008

GAIN CAPITAL HOLDINGS, INC.
(Exact name of registrant as specified in its charter)

Delaware	20-4568600
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
Bedminster One 135 Route 202/206 Bedminster, New Jersey	07921
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code: (908) 731-0700

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. ý Yes ¨ No
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files) ý Yes ¨ No
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ¨	Accelerated filer ý
Non-accelerated filer ¨ (Do not check if a smaller reporting company)	Smaller reporting company ¨

Indicate by a check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). ¨ Yes ý No
As of August 3, 2016, the registrant had 48,639,059 shares of common stock, $0.00001 par value per share, outstanding.

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FORM 10-Q FOR THE QUARTER ENDED JUNE 30, 2016

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PART I – FINANCIAL INFORMATION
Item 1 - Condensed Consolidated Financial Statements
GAIN CAPITAL HOLDINGS, INC.
Condensed Consolidated Balance Sheets
(Unaudited)
(in thousands, except share data)

	As of June 30, 2016	As of December 31, 2015
ASSETS:		
Cash and cash equivalents	$89,447	$171,888
Cash and securities held for customers	1,060,813	920,621
Receivables from brokers, of which ($14,681) and ($12,568), respectively, are open contracts at fair value	218,116	121,153
Prepaid assets	7,414	7,835
Property and equipment, net of accumulated depreciation of ($48,681) and ($44,750), respectively	33,458	30,367
Intangible assets, net of accumulated amortization of ($54,393) and ($47,906), respectively	78,139	91,512
Goodwill	32,878	34,017
Other assets, net of allowance for doubtful accounts of ($8,398) and ($6,832), respectively	51,300	47,166
Total assets	$1,571,565	$1,424,559
LIABILITIES AND SHAREHOLDERS’ EQUITY:		
Liabilities		
Payables to customers, of which ($126,663) and ($143,918), respectively, are open contracts at fair value	$1,060,813	$920,621
Payables to brokers, of which ($61) and $0, respectively, are open contracts at fair value	4,783	—
Accrued compensation and benefits	8,946	12,362
Accrued expenses and other liabilities	50,949	51,638
Income tax payable	6,973	1,068
Convertible senior notes	122,349	121,740
Total liabilities	$1,254,813	$1,107,429
Commitments and contingent liabilities		
Redeemable non-controlling interests	$13,206	$11,046
Shareholders’ equity		
Common stock ($0.00001 par value; 120 million shares authorized, 52,658,149 shares issued and 48,634,364 shares outstanding as of June 30, 2016; 120 million shares authorized, 52,072,884 shares issued and 48,771,015 shares outstanding as of December 31, 2015)	—	—
Accumulated other comprehensive loss	(18,858)	(5,865)
Additional paid-in capital	216,120	212,981
Treasury stock, at cost (4,087,123 shares at June 30, 2016 and 3,301,869 at December 31, 2015)	(27,257)	(21,808)
Retained earnings	133,541	120,776
Total shareholders’ equity	303,546	306,084
Total liabilities and shareholders’ equity	$1,571,565	$1,424,559

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

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GAIN CAPITAL HOLDINGS, INC.
Condensed Consolidated Statements of Income and Comprehensive Income
(Unaudited)
(in thousands, except share and per share data)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
REVENUE:				
Retail revenue	$88,083	$86,422	$183,125	$159,364
Institutional revenue	7,209	8,383	13,916	18,254
Futures revenue	12,743	10,806	24,761	22,326
Other revenue	(60)	5,841	1,513	4,474
Total non-interest revenue	107,975	111,452	223,315	204,418
Interest revenue	443	314	761	651
Interest expense	128	309	232	627
Total net interest revenue	315	5	529	24
Net revenue	108,290	111,457	223,844	204,442
EXPENSES:				
Employee compensation and benefits	26,615	30,676	53,008	52,815
Selling and marketing	6,805	8,415	13,244	12,973
Referral fees	17,553	29,539	38,216	56,117
Trading expenses	7,761	8,119	16,194	15,094
General and administrative	15,027	14,143	31,065	23,514
Depreciation and amortization	3,559	2,738	6,712	4,713
Purchased intangible amortization	3,843	4,257	7,765	6,408
Communications and technology	5,684	5,835	10,963	8,593
Bad debt provision	1,189	1,236	1,761	4,560
Acquisition expenses	—	2,442	—	2,479
Restructuring expenses	22	1,935	803	1,935
Integration expenses	1,043	12,309	1,856	12,373
Legal settlement	—	—	9,412	—
Total operating expense	89,101	121,644	190,999	201,574
OPERATING PROFIT/(LOSS)	19,189	(10,187)	32,845	2,868
Interest expense on long term borrowings	2,560	2,554	5,152	4,056
INCOME/(LOSS) BEFORE INCOME TAX EXPENSE/(BENEFIT)	16,629	(12,741)	27,693	(1,188)
Income tax expense/(benefit)	5,025	(6,039)	7,372	(294)
Equity in net loss of affiliate	(18)	—	(34)	—
NET INCOME/(LOSS)	$11,586	$(6,702)	$20,287	$(894)
Net income attributable to non-controlling interests	745	416	1,094	760
NET INCOME/(LOSS) APPLICABLE TO GAIN CAPITAL HOLDINGS, INC.	$10,841	$(7,118)	$19,193	$(1,654)
Other comprehensive income:				
Foreign currency translation adjustment	(10,249)	9,540	(12,993)	7,291
NET COMPREHENSIVE INCOME APPLICABLE TO GAIN CAPITAL HOLDINGS, INC.	$592	$2,422	$6,200	$5,637
Earnings/(loss) per common share:				
Basic	$0.19	$(0.16)	$0.36	$(0.07)
Diluted	$0.19	$(0.16)	$0.36	$(0.07)

Weighted average common shares outstanding used in computing earnings per common share:				
Basic	48,546,253	49,070,387	48,584,534	46,154,717

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Diluted	48,737,188	49,070,387	48,860,533	46,154,717

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

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GAIN CAPITAL HOLDINGS, INC.
Condensed Consolidated Statement of Changes in Shareholders' Equity
(Unaudited)
(in thousands, except share data)

	Common Stock		Treasury Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Total
	Shares	Amount					
BALANCE—December 31, 2015	48,771,015	$ —	$ (21,808)	$ 212,981	$ 120,776	$ (5,865)	$ 306,084
Exercise of options	150,566	—	—	577	—	—	577
Conversion of restricted stock into common stock	434,699	—	—	—	—	—	—
Employee stock purchase plan	63,338	—	—	400	—	—	400
Repurchase of shares	(785,254)	—	(5,449)	—	—	—	(5,449)
Stock compensation expense	—	—	—	2,148	—	—	2,148
Tax benefit of stock options exercises	—	—	—	119	—	—	119
Convertible note buyback	—	—	—	(105)	—	—	(105)
Adjustment to the redemption value of put options related to non-controlling interests	—	—	—	—	(1,591)	—	(1,591)
Dividend declared ($0.05 quarterly dividend per share)	—	—	—	—	(4,837)	—	(4,837)
Foreign currency translation adjustment	—	—	—	—	—	(12,993)	(12,993)
Net income applicable to Gain Capital Holdings, Inc.	—	—	—	—	19,193	—	19,193
BALANCE—June 30, 2016	48,634,364	$ —	$ (27,257)	$ 216,120	$ 133,541	$ (18,858)	$ 303,546

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

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Gain Capital Holdings, Inc.
Condensed Consolidated Statements of Cash Flows
(Unaudited)
(in thousands)

	Six Months Ended June 30, 2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income/(loss)	$20,287	$(894)
Adjustments to reconcile net income/(loss) to cash provided by/(used for) operating activities		
Loss on foreign currency exchange rates	1,357	3,103
Depreciation and amortization	14,477	11,121
Non-cash integration costs	366	10,249
Deferred taxes	(1,416)	(2,460)
Amortization of deferred financing costs	221	177
Bad debt provision	1,761	4,560
Convertible senior notes discount amortization	2,112	1,567
Stock compensation expense	2,148	2,019
Gain on extinguishment of debt	(89)	—
Equity in net loss of affiliate	34	—
Adjustment to fair value of contingent consideration	—	(4,043)
Changes in operating assets and liabilities:		
Cash and securities held for customers	(161,579)	(103,483)
Receivables from brokers	(97,988)	12,382
Prepaid assets	(73)	(1,988)
Other assets	(5,430)	2,815
Payables to customers	161,579	103,483
Payables to brokers	5,205	—
Accrued compensation and benefits	(3,061)	(11,212)
Accrued expenses and other liabilities	1,303	(12,463)
Income tax payable	5,540	(220)
Cash (used for)/provided by operating activities	(53,246)	14,713
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	(12,185)	(8,517)
Sale of treasury bills	—	(4)
Funding of acquisitions, net of cash acquired	—	(3,258)
Cash used for investing activities	(12,185)	(11,779)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Contractual payments for acquisitions	—	(9,842)
Proceeds from exercise of stock options	577	1,987
Proceeds from employee stock purchase plan	400	394
Purchase of treasury stock	(5,449)	(400)
Tax benefit from employee stock option exercises	302	865
Dividend payments	(4,837)	(4,627)
Distributions to non-controlling interest holders	(525)	(756)
Repurchase of convertible notes	(1,735)	—
Cash used for financing activities	(11,267)	(12,379)
Effect of exchange rate changes on cash and cash equivalents	(5,743)	5,116
DECREASE IN CASH AND CASH EQUIVALENTS	(82,441)	(4,329)

CASH AND CASH EQUIVALENTS—Beginning of period	171,888	139,351
CASH AND CASH EQUIVALENTS—End of period	$89,447	$135,022
SUPPLEMENTARY DISCLOSURES OF CASH FLOW INFORMATION:		

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Cash (paid)/received during the year for:		
Interest	$(3,081)	$(2,472)
Taxes	$142	$(1,677)
Non-cash financing activities:		
Common stock issued as consideration for asset and business acquisitions	$—	$(48,280)
Convertible senior notes issued as consideration for business acquisitions	$—	$(65,000)
Deferred taxes related to convertible senior notes	$—	$(3,827)
Adjustment to redemption value of put options related to non-controlling interests	$(1,591)	$(1,441)

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

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GAIN CAPITAL HOLDINGS, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)
1. DESCRIPTION OF BUSINESS AND BASIS OF PRESENTATION
Description of Business

GAIN Capital Holdings, Inc. (together with its subsidiaries, the “Company”) is a Delaware corporation formed and incorporated on March 24, 2006. GAIN Holdings, LLC is a wholly-owned subsidiary of GAIN Capital Holdings, Inc., and it owns all outstanding membership units of GAIN Capital Group, LLC (“Group, LLC”), the Company's primary regulated entity in the United States. City Index (Holdings) Ltd (“City Index”) is the holding company of the Company's primary regulated entity outside of the United States.

Group, LLC is a retail foreign exchange dealer (“RFED”) and a Futures Commission Merchant (“FCM”) registered with the Commodity Futures Trading Commission (the “CFTC”). As such, it is subject to the regulations of the CFTC, an agency of the U.S. government, and the rules of the National Futures Association (“NFA”), an industry self-regulatory organization.

GAIN Capital-Forex.com U.K. Ltd. (“GCUK1”) and GAIN Capital UK Limited ("GCUK2") are each registered in the United Kingdom ("U.K.") and regulated by the Financial Conduct Authority (“FCA”) as full scope €730k IFPRU Investment Firms.
The following list includes each of the Company’s significant U.S. and international regulated subsidiaries as of June 30, 2016:

GAIN Capital Group, LLC
GAIN Capital Forex.com U.K., Ltd.
GAIN Capital Japan Co., Ltd.
GAIN Capital Forex.com Australia Pty. Ltd.
GAIN GTX, LLC
Global Assets Advisors, LLC
Top Third Ag Marketing LLC
Trade Facts, Ltd. (previously known as Galvan Research and Trading, Ltd.)
GAIN Capital UK Limited
GAIN Capital Australia Pty. Ltd.
GAIN Capital Singapore Pte. Ltd.
GAIN Capital Payments Ltd.

In April 2015, the Company acquired all of the outstanding share capital of City Index from City Index Group Limited.
GCUK2, GAIN Capital Australia Pty. Ltd. (“GCAU2”) , and GAIN Capital Singapore Pte. Ltd. ("GCS") are each subsidiaries that were acquired as part of the City Index acquisition. Each of these entities is regulated locally by the relevant regulators, including the FCA.
See Note 10 for further details related to the Company's acquisitions.
Basis of Presentation and Principles of Consolidation

The accompanying unaudited condensed consolidated financial statements reflect all adjustments that, in the opinion of management, are necessary for a fair presentation of the financial statements for the interim periods. The financial statements are presented in accordance with accounting principles generally accepted in the United States of America. The unaudited condensed consolidated financial statements have been prepared in accordance with the Securities and Exchange Commission's ("SEC") regulations for interim financial statements, and, in accordance with SEC rules, omit or condense certain information
and footnote disclosures. Results for the interim periods are not necessarily indicative of results to be expected for any other interim period or for the full year. These financial statements should be read in conjunction with the audited consolidated financial statements and related notes included in the Company’s Annual Report on Form 10-K as of and for the year ended December 31, 2015, as amended on May 2, 2016. The unaudited condensed consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries, after the elimination of inter-company transactions and balances.

In April 2015, the Financial Accounting Standards Board ("FASB") issued new guidance regarding the accounting for debt issuance costs. The guidance requires a company to present any deferred financing costs from debt issuance as a reduction of debt. The Company adopted this guidance in the first quarter of 2016. The table below shows the impact of this adoption on the Company's reported consolidated balance sheet.

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	As of December 31, 2015 (As Reported)	Adjustment	As of December 31, 2015 (Adjusted)
Assets:			
Other assets	47,422	(256)	47,166
Liabilities:			
Convertible senior notes	121,996	(256)	121,740

2. RECENT ACCOUNTING PRONOUNCEMENTS

In May 2016, the FASB issued new guidance regarding the accounting for revenue from contracts with customers. The FASB issued this update to address certain issues related to assessing collectibility, presentation of sales taxes, non-cash consideration, completed contracts, and contract modifications at transition by reducing cost, complexity, and the potential for diversity in practice at initial application. The guidance affects the revenue recognition guidance issued in May 2014, which is not yet effective. The effective date and transition requirements for the amendments in this update are the same as the effective date and transition requirements of the revenue recognition guidance issued in May 2014, discussed below. The Company is currently assessing the impact of adopting this guidance on its financial statements.

In September 2015, the FASB issued new guidance regarding the accounting for provisional adjustments of business combinations. The guidance states that if changes are required to be made to provisional amounts included in previously issued financial statements, such changes should be included in the period in which they are identified. These changes include adjustments to goodwill, as well as the cumulative impact of adjustments for depreciation, amortization or other income. The guidance is effective for annual periods beginning after December 15, 2015, including interim periods within that reporting period. The Company adopted this guidance in the first quarter of 2016; however, the accounting for all acquisitions was finalized prior to January 1, 2016 and, therefore, there was no impact on the Company following adoption of this new guidance.

In March 2016, FASB issued new guidance regarding the accounting for investments - equity method and joint ventures. The FASB issued this update to eliminate the requirement to retroactively adopt the equity method of accounting. The guidance is effective for fiscal years and interim periods within those fiscal years, beginning after December 15, 2016. The Company is currently assessing the impact of adopting this guidance on its financial statements.

In March 2016, the FASB issued new guidance regarding the accounting for stock compensation. The FASB issued this update to simplify several aspects of the accounting for share-based payment transactions, including income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows, forfeitures, minimum statutory tax withholding requirements, classification of employee taxes paid on the Statement of Cash Flows when an employer withholds shares for tax-withholding purposes, expected term, intrinsic value, and eliminating the indefinite
deferral. The guidance is effective for annual periods beginning after December 15, 2016, and interim periods within those annual periods. The Company is currently assessing the impact of adopting this guidance on its financial statements.

In March and April 2016, the FASB issued new guidance regarding the accounting for revenue from contracts with customers. The FASB issued this update to improve the operability and understandability of the implementation guidance on principal versus agent considerations, and to provide clarification on identifying performance obligations and the licensing implementation guidance, while retaining the related principles for those areas. The guidance affects the revenue recognition guidance issued in May 2014, which is not yet effective. The effective date and transition requirements for the amendments in this update are the same as the effective date and transition requirements of the revenue recognition guidance issued in May 2014, discussed below. The Company is currently assessing the impact of adopting this guidance on its financial statements.

In February 2016, the FASB issued new guidance regarding the accounting for leases. The FASB issued this update to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. The guidance is effective for fiscal years beginning after December 15, 2018, including interim periods within that fiscal year. The Company is currently assessing the impact on its consolidated financial statements of adopting this guidance.

In May 2014, the FASB issued new revenue recognition guidance that supersedes the existing revenue recognition guidance and most industry-specific guidance applicable to revenue recognition. The guidance requires a company to recognize revenue

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when it transfers promised goods or services to customers. Recognition should be in an amount that reflects the consideration to which the company expects to be entitled in exchange for those services. The guidance requires enhanced disclosures to help users of financial statements better understand the nature, amount, timing, and uncertainty of revenues recognized. The guidance is effective for annual periods beginning after December 15, 2016. In July 2015, the FASB deferred the effective date of the new revenue recognition standard by one year, and it is effective for interim and annual periods beginning after December 15, 2017. Early adoption is permitted, but no earlier than the original effective date of January 1, 2017. The Company is currently assessing the impact of adopting this guidance on its financial statements.

3. FAIR VALUE

The following table presents the Company's assets and liabilities that were measured at fair value on a recurring basis during the reporting period and the related hierarchy levels (amounts in thousands):

	Fair Value Measurements on a Recurring Basis as of June 30, 2016			
	Level 1	Level 2	Level 3	Total
Financial Assets/(Liabilities):				
Customer derivative positions	$ —	$ 126,663	$ —	$ 126,663
Broker derivative contracts	—	(14,742)	—	(14,742)
Money market accounts	51,069	—	—	51,069
Certificates of deposit	174	—	—	174
Investment in gold	132	—		132
Total	$ 51,375	$ 111,921	$ —	$ 163,296

	Fair Value Measurements on a Recurring Basis as of December 31, 2015			
	Level 1	Level 2	Level 3	Total
Financial Assets/(Liabilities):				
Customer derivative positions	$ —	$ 143,918	$ —	$ 143,918
Broker derivative contracts	—	(12,568)	—	(12,568)
Money market accounts	25,167	—	—	25,167
Certificates of deposit	174	—	—	174
Investment in gold	107	—	—	107
Total	$ 25,448	$ 131,350	$ —	$ 156,798

The Company has not changed its valuation techniques for measuring the fair value of any financial assets and liabilities during the six months ended June 30, 2016, nor have there been any transfers between levels during this period.

Level 1 Financial Assets

The Company has money market accounts, certificates of deposit and an investment in gold that are Level 1 financial instruments that are recorded based upon listed or quoted market rates. The money market accounts are recorded in Cash and cash equivalents and Cash and securities held for customers; the certificates of deposit are recorded in Other Assets and the investment in gold is recorded in Other Assets.

Level 2 Financial Assets and Liabilities

The Company has customer derivative contracts that are Level 2 financial instruments recorded in Payables to customers.

The Company has broker derivative contracts that are Level 2 financial instruments recorded in Receivables from brokers and Payables to brokers.

The fair values of these Level 2 financial instruments are based upon directly observable values for underlying instruments.

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Level 3 Financial Liabilities

The Company did not have any level 3 Financial Assets or Liabilities on June 30, 2016 or December 31, 2015.

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 in the condensed consolidated balance sheets (amounts in thousands).

Receivables from brokers comprise open trades, which are measured at fair value (disclosed above), and the Company's deposits, which are not measured at fair value but approximate fair value. These deposits approximate fair value because they
are cash balances that the Company may withdraw at its discretion. Settlement would occur within a relatively short period of time once a withdrawal is initiated.

Payables to customers comprise open trades, which are measured at fair value (disclosed above), and customer deposits that the
Company holds for its role as clearing broker. These deposits are not measured at fair value, but approximate fair value, because they are cash balances that the Company or its customers can settle at either party's discretion. Such settlement would occur within a relatively short period of time once a withdrawal is initiated.

Payables to brokers comprise open trades, which are measured at fair value (disclosed above) and the cash due to brokers, which are not measured at fair value but approximate fair value. This balance approximates fair value because cash is immediately payable to the brokers. Settlement would occur within a relatively short period of time after the broker initiates a margin call.

The carrying value of Convertible senior notes represents the notes’ principal amounts net of unamortized discount (see Note
12). The Company assessed the notes' fair value as determined by current Company-specific and risk free interest rates as of the
balance sheet date.

	As of June 30, 2016		Fair Value Measurements using:		
	Carrying Value	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Financial Assets:					
Receivables from brokers	$232,797	$232,797	$—	$232,797	$ —
Financial Liabilities:					
Payables to customers	$1,187,476	$1,187,476	$—	$1,187,476	$ —
Payables to brokers	$4,844	$4,844		$4,844	
Convertible senior notes	$122,349	$121,220	$—	$121,220	$ —

	As of December 31, 2015		Fair Value Measurements using:		
	Carrying Value	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Financial Assets:					
Receivables from brokers	$133,721	$133,721	$—	$133,721	$ —
Financial Liabilities:					
Payables to customers	$1,064,539	$1,064,539	$—	$1,064,539	$ —
Convertible senior notes	$121,740	$122,264	$—	$122,264	$ —

4. DERIVATIVES

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The Company's contracts with its customers and its liquidity providers are deemed to be derivative instruments. The table below represents the fair values of the Company’s derivative instruments reported within Receivables from brokers, Payables to customers, and Payables to brokers on the accompanying condensed Consolidated Balance Sheets (amounts in thousands):

	June 30, 2016		
	Gross amounts of assets for derivative open positions at fair value	Gross amount of (liabilities) for derivative open positions at fair value	Net amounts of assets/(liabilities) for derivative open positions at fair value
Derivative Instruments:			
Foreign currency exchange contracts	$116,922	$ (47,011)	$ 69,911
CFD contracts	91,574	(55,223)	36,351
Metals contracts	13,676	(8,017)	5,659
Total	$222,172	$ (110,251)	$ 111,921

	June 30, 2016		
	Cash Collateral	Net amounts of assets/(liabilities) for derivative open positions at fair value	Net amounts of assets/(liabilities) presented in the balance sheet
Derivative Assets/Liabilities:			
Receivables from brokers	$232,797	$ (14,681)	$ 218,116
Payables to customers	$(1,187,476)	$ 126,663	$ (1,060,813)
Payables to brokers	$(4,722)	$ (61)	$ (4,783)

	December 31, 2015		
	Gross amounts of assets for derivative open positions at fair value	Gross amount of (liabilities) for derivative open positions at fair value	Net amounts of assets/(liabilities) for derivative open positions at fair value
Derivative Instruments:			
Foreign currency exchange contracts	$138,140	$ (59,468)	$ 78,672
CFD contracts	111,844	(70,429)	41,415
Metals contracts	18,866	(7,603)	11,263
Total	$268,850	$ (137,500)	$ 131,350

	December 31, 2015		
	Cash Collateral	Net amounts of assets/liabilities for derivative	Net amounts of assets/liabilities presented in the

		open positions at fair value	balance sheet
Derivative Assets/Liabilities:			
Receivables from brokers	$133,721	$ (12,568)	$ 121,153
Payables to customers	$(1,064,539)	$ 143,918	$ (920,621)

The Company’s derivatives have many different underlyings, which vary in price. Foreign exchange contracts typically have prices less than two dollars, while certain metals contracts and contracts for difference ("CFD") can have considerably higher prices. The table below represents the number of contracts underlying amounts reported within Receivables from brokers, Payables to customers, and Payables to brokers on the condensed consolidated balance sheets (amounts in thousands):

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	June 30, 2016	
	Total contracts in long positions	Total contracts in short positions
Derivative Instruments:		
Foreign currency exchange contracts	1,943,541	2,101,159
CFD contracts	119,091	223,330
Metals contracts	530	531
Total	2,063,162	2,325,020

	December 31, 2015	
	Total contracts in long positions	Total contracts in short positions
Derivative Instruments:		
Foreign currency exchange contracts	3,106,885	2,931,109
CFD contracts	139,465	285,640
Metals contracts	1,278	308
Total	3,247,628	3,217,057

The Company did not designate any of its derivatives as hedging instruments at June 30, 2016 or December 31, 2015. Net gains with respect to derivative instruments are reflected in Retail revenue in the accompanying condensed consolidated statements of income and comprehensive income for the three and six months ended June 30, 2016 and 2015 were as follows (amounts in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Derivative Instruments:				
Foreign currency exchange contracts	$52,430	$61,587	$106,727	$98,247
CFD contracts	29,659	18,317	64,881	47,381
Metals contracts	5,805	5,721	10,765	11,708
Total	$87,894	$85,625	$182,373	$157,336

5. RECEIVABLES FROM BROKERS

Amounts receivable from brokers consisted of the following as of (amounts in thousands):

	June 30, 2016	December 31, 2015
Required collateral	$232,797	$129,042
Excess from futures broker - Restricted	—	4,679
Open foreign exchange positions	(14,681)	(12,568)
Total	$218,116	$121,153

The Company has posted funds with brokers as collateral required by agreements for holding trading positions. The increase in required collateral resulted from trading activity by several larger futures accounts onboarded during the quarter. Amounts receivable from brokers are reflected as Receivables from brokers on the condensed consolidated balance sheets.

6. PROPERTY AND EQUIPMENT

Property and equipment, including leasehold improvements and capitalized software development costs, consisted of the following as of (amounts in thousands):

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	June 30, 2016	December 31, 2015
Software	$49,153	$44,194
Computer equipment	16,926	14,300
Leasehold improvements	10,683	11,200
Telephone equipment	790	881
Office equipment	2,128	2,113
Furniture and fixtures	1,814	1,761
Web site development costs	645	668
Gross property and equipment	82,139	75,117
Less: Accumulated depreciation and amortization	(48,681)	(44,750)
Property and equipment, net	$33,458	$30,367

Depreciation and amortization expense for property and equipment was $3.6 million and $2.7 million for the three months ended June 30, 2016 and 2015, respectively, and $6.7 million and $4.7 million for the six months ended June 30, 2016 and 2015, respectively.
The Company adjusted the amortization period of certain property and equipment that experienced changes in useful lives as a result of the City Index acquisition. This change in useful lives resulted in an additional charge of $0.2 million and $3.7 million during the three months ended June 30, 2016, and 2015, respectively, and $0.4 million and $3.7 million for the six months ended June 30, 2016 and 2015, respectively. The additional charge was recorded in Integration expenses.

7. INTANGIBLE ASSETS

The Company's various intangible assets consisted of the following as of (amounts in thousands):

	June 30, 2016			December 31, 2015		
Intangibles	Gross	Accumulated Amortization	Net	Gross	Accumulated Amortization	Net
Customer lists	$52,731	$ (17,562)	$35,169	$56,388	$ (14,111)	$42,277
Technology	71,855	(34,718)	37,137	74,378	(32,117)	42,261
Trademarks	7,583	(2,113)	5,470	8,289	(1,678)	6,611
Total finite lived intangibles	132,169	(54,393)	77,776	139,055	(47,906)	91,149
Trademark not subject to amortization (1)	363	—	363	363	—	363
Total intangibles	$132,532	$ (54,393)	$78,139	$139,418	$ (47,906)	$91,512

(1) These indefinite-life trademarks relate to the Forex.com and foreignexchange.com domain names where management determined there was no legal, regulatory or technological limitation on their useful lives. These trademarks are also supported annually in the Company's impairment test for intangible assets.

The Company has the following identifiable intangible assets as of June 30, 2016:

Intangible Assets	Amount (in thousands)	Weighted average amortization period
Customer lists	$ 52,731	7.6 years
Technology	71,855	9.0 years
Trademarks (1)	7,946	6.7 years
	$ 132,532	

(1) Trademarks with an indefinite-life, as described above, comprise $0.4 million of the $7.9 million of trademarks.
Amortization expense for the purchased intangibles was $3.8 million and $4.3 million for the three months ended June 30, 2016 and 2015, respectively, and $7.8 million and $6.4 million for the six months ended June 30, 2016 and 2015, respectively.

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The Company adjusted the amortization period of certain intangible assets that experienced changes in useful lives as a result of the City Index acquisition. This change in useful lives resulted in no additional charge for the three and six months ended June 30, 2016, and $6.5 million and $6.5 million for the three and six months ended June 30, 2015, respectively. The additional charge is recorded in Integration expenses.

Goodwill

As of June 30, 2016 and December 31, 2015, the Company had recorded goodwill of approximately $32.9 million and $34.0 million, respectively. The decrease of $1.1 million was related to foreign currency translation adjustments. The following represents the carrying amount of goodwill by segment (amounts in thousands):

	Retail	Institutional	Futures	Total
Carrying amount of goodwill as of December 31, 2015	$26,722	$ 4,788	$2,507	$34,017
Foreign currency translation adjustments	$(895)	$ (160)	$(84)	$(1,139)
Carrying amount of goodwill as of June 30, 2016	$25,827	$ 4,628	$2,423	$32,878

8. Other Assets

Other assets consisted of the following as of (amounts in thousands):

	June 30, 2016	December 31, 2015
Vendor and security deposits	$12,219	$11,486
Income tax receivable	8,076	9,482
Deferred tax assets, net	19,089	17,827
GTX trade receivables	5,461	4,881
Customer debit positions	9,104	7,340
Allowance on customer debit positions	(8,398)	(6,832)
Insurance receivable	3,250	—
Miscellaneous receivables	1,692	2,160
Equity method investment	807	822
	$51,300	$47,166

9. RELATED PARTY TRANSACTIONS

Certain officers and directors of the Company have personal funds on deposit in separate customer accounts with the Company. These accounts are recorded in Payables to customers on the condensed consolidated balance sheets. The aggregate amount of these funds was $0.3 million and $0.3 million at June 30, 2016 and December 31, 2015, respectively.

IPGL Limited, the majority selling shareholder in the acquisition of City Index, has a trading account with the Company, which is recorded in Payables to customers on the condensed consolidated balance sheets. The aggregate amount of these funds was $6.5 million and $21.7 million at June 30, 2016 and December 31, 2015, respectively.

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10. ACQUISITIONS

City Index (Holdings) Limited

On April 1, 2015, the Company acquired the entire issued and outstanding share capital of City Index. City Index is a global online trading firm specializing in offering CFDs, forex and spread betting for retail customers. This acquisition was made to strengthen and diversify the Company's existing global footprint in the retail business.

The purchase price consisted of approximately $6.1 million in cash, inclusive of working capital adjustments and $1.0 million in cash to be held in escrow; 5,319,149 shares of the Company's common stock, inclusive of 4,787,234 shares to be held in escrow; and 4.125% unsecured Convertible Senior Notes with an aggregate principal amount of $60.0 million and fair value of $65.0 million, inclusive of an aggregate principal amount of $54.0 million to be held in escrow. In addition, the Company paid City Index approximately $22.4 million, which was used to settle certain inter-company liabilities between City Index and City Index Group Limited (its former parent company).

The purchase price was derived as follows (amounts in thousands):

Cash	$6,103
Convertible senior notes	65,000
Common stock issued	45,100
Total purchase price	$116,203

The purchase price of City Index was allocated to the fair value of various assets and liabilities as follows (amounts in thousands):

Cash	$10,546
Cash and securities held for customers	281,576
Receivable from brokers	35,974
Property and equipment	10,466
Prepaid assets	4,038
Other assets	5,119
Total tangible assets	347,719
Total liabilities assumed	299,000
Net assets acquired	48,719
Identifiable intangible assets:	
Customer list	34,277
Trade name	6,645
Technology	26,157
Intangible assets, net	67,079
Goodwill	$405

Pro Forma Information:

The following unaudited pro forma data is presented as if the acquisition of City Index had occurred on January 1, 2015. The unaudited pro forma data does not include the impact of forecasted operating expense synergies.

The unaudited pro forma data is provided for informational purposes only and may not necessarily be indicative of future results of operations or what the results of operations would have been had the Company and City Index operated as a combined entity for the periods presented.

Unaudited pro forma income statement line items for the six months ended June 30, 2015 were as follows (amounts in thousands):

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	For the Six Months Ended June 30, 2015
REVENUE:	
Total non-interest revenue	$ 241,461
Interest revenue	734
Interest expense	627
Total net interest revenue	107
Net revenue	241,568
EXPENSES:	
Depreciation and amortization	5,360
Purchased intangible amortization	8,492
Other expense items	224,885
Total operating expense	238,737
OPERATING PROFIT	2,831
Interest on long term borrowings	5,101
INCOME BEFORE INCOME TAX EXPENSE	(2,270)
Income tax expense	215
NET INCOME	(2,485)
Net income attributable to non-controlling interests	760
Net income applicable to Gain Capital Holdings, Inc.	$ (3,245)

Restructuring

During the second quarter of 2016, the Company incurred restructuring expenses related to the global headcount reductions following the City Index acquisition. The Company incurred $0.8 million of restructuring expenses for the six months ended June 30, 2016. These expenses are recorded in Restructuring expenses in the condensed consolidated statements of income and comprehensive income. The restructuring liabilities are recorded in Accrued compensation and benefits in the condensed consolidated balance sheets.

	For the Six Months Ended June 30, 2016
Restructuring liability as of January 1, 2016	$ 499
2016 restructuring expenses	803
Payments made in 2016	(1,302)
Restructuring liability as of June 30, 2016	$ —

11. NON-CONTROLLING INTERESTS

Non-controlling interests

In March 2014, the Company acquired controlling interests in GAA and Top Third. The Company purchased 55% of each entity, and the respective sellers maintained a 45% interest in each entity. The 45% interests are redeemable at prices determined by applying a contractually agreed upon formula to the respective acquired company's financial results. The Company owns immediately exercisable call options to purchase the remaining interests in each company. The minority owners hold put options, which become exercisable in 2017 or upon the occurrence of certain events, to compel the Company to purchase the remaining interests.

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The non-controlling interests are not classified as liabilities, because redemption is not mandatory or at fixed prices. They are not classified as equity, because their redemption is not exclusively in the Company's control. Therefore, the non-controlling interests are classified as temporary equity in the Condensed Consolidated Balance Sheets.

The non-controlling interests' carrying value is determined by the Company's purchase prices and the non-controlling interests' share of the Company's subsequent net income. This value is benchmarked against the redemption value of the sellers' put options. The carrying value is adjusted to the latter, provided that it does not fall below the initial carrying values, as determined by the Company's purchase price allocation. The Company has made a policy election to reflect any changes caused by such an adjustment in retained earnings, rather than in current earnings. The Company recorded an adjustment of $1.6 million for the six months ended June 30, 2016.

The table below reflects the non-controlling interests' effects on the Company's financial statements (amounts in thousands):

	Redeemable non-controlling interests
January 1, 2016	$ 11,046
Adjustment to the redemption value of non-controlling interests	1,591
Net income attributable to non-controlling interests	1,094
Distributions to non-controlling interest holders	(525)
June 30, 2016	$ 13,206

12. CONVERTIBLE SENIOR NOTES

Convertible Senior Notes due 2020

On April 1, 2015, as part of the City Index acquisition consideration, the Company issued to the sellers $60.0 million aggregate principal amount of 4.125% Convertible Senior Notes maturing on April 1, 2020. These Convertible Senior Notes pay interest semi-annually on April 1 and October 1 at a rate of 4.125% per year, which commenced on October 1, 2015.

Convertible Senior Notes due 2018

On November 27, 2013, the Company issued $80.0 million aggregate principal amount of 4.125% Convertible Senior Notes maturing on December 1, 2018. The Company received net proceeds of $77.9 million, after deducting the initial purchasers' discount. These Convertible Senior Notes pay interest semi-annually on June 1 and December 1 at a rate of 4.125% per year, which commenced on June 1, 2014. During the first quarter of 2016, the Company repurchased $1.9 million in principal amount of the convertible senior notes due in 2018, for an aggregate purchase price of $1.7 million.

Under accounting guidance, an entity must separately account for the liability and equity components of convertible debt instruments that may be settled entirely or partially in cash upon conversion. The separate accounting must reflect the issuer's economic interest cost.

The balances of the liability and equity components of the Convertible Senior Notes as of June 30, 2016 and December 31, 2015 were as follows (amounts in thousands):

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	June 30, 2016	December 31, 2015
Liability component - principal	$138,150	$140,000
Deferred bond discount	15,589	18,004
Deferred financing cost	$212	256
Liability component - net carrying value	$122,349	$121,740
Additional paid in capital	$27,822	$27,920
Discount attributable to equity	(419)	(412)
Equity component	$27,403	$27,508

In April 2015, the FASB issued new guidance regarding the accounting for debt issuance costs. The guidance requires a company to present any deferred financing costs from debt issuance as a reduction of debt, which is a change from current presentation in assets. The Company adopted this guidance in the first quarter of 2016.

Interest expense related to the Convertible Senior Notes, included in Interest on long term borrowings in the condensed consolidated statements of income and comprehensive income was as follows (amounts in thousands):

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2016	2015	2016	2015
Interest expense - stated coupon rate	$1,431	$1,443	$2,875	$2,268
Interest expense - amortization of deferred bond discount and costs	1,091	1,023	2,156	1,611
Total interest expense - convertible senior notes	$2,522	$2,466	$5,031	$3,879

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13. EARNINGS PER COMMON SHARE

Basic and diluted earnings per common share are computed by dividing net income by the weighted average number of common shares outstanding during the period. Diluted earnings per share includes the determinants of basic net income per share and, in addition, gives effect to the potential dilution that would occur if securities or other contracts to issue common stock were exercised, vested or converted into common stock, unless they are anti-dilutive. Diluted weighted average common shares include vested and unvested stock options, unvested restricted stock units and unvested restricted stock awards. Approximately 0.3 million and 0.7 million stock options were excluded from the calculation of diluted earnings per share for the three and six months ended June 30, 2016, respectively, as they were anti-dilutive. Because of the loss for the three and six months ended June 30, 2015, no shares were dilutive.

Diluted earnings per share excludes any shares of Company common stock potentially issuable under the Company's convertible senior notes, which are discussed in Note 12. Based upon an assumed trading price of $13 for each share of the Company's common stock, and if the relevant conditions under the indenture governing both 2018 and 2020 convertible senior notes were satisfied, there would be an additional 0.5 million and 1.5 million dilutive shares, for the 2018 and 2020 notes, respectively.
The following table sets forth the computation of earnings per share (amounts in thousands except share and per share data):

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2016	2015	2016	2015
Net income/(loss) applicable to GAIN Capital Holdings, Inc.	$10,841	$ (7,118)	$19,193	$ (1,654)
Adjustment to the redemption value of put options related to non-controlling interests (1)	(1,690)	(917)	(1,591)	(1,441)
Income/(loss) available to common shareholders	$9,151	$ (8,035)	$17,602	$ (3,095)
Weighted average common shares outstanding:				
Basic weighted average common shares outstanding	48,546,253	49,070,387	48,584,534	46,154,717
Effect of dilutive securities:				
Stock options	85,115	—	128,654	—
RSUs/RSAs	105,820	—	147,345	—
Diluted weighted average common shares outstanding	48,737,188	49,070,387	48,860,533	46,154,717
Net earnings/(loss) per common share:				
Basic	$0.19	$ (0.16)	$0.36	$ (0.07)
Diluted	$0.19	$ (0.16)	$0.36	$ (0.07)

(1) During the three and six months ended June 30, 2016, the Company recorded an adjustment of $(1.7) million and $(1.6) million, respectively, to the carrying value of the put options related to the Company's redeemable non-controlling interests, which decreased retained earnings and increased non-controlling interests. During the three and six months ended June 30, 2015, adjustments of $(0.9) million and $(1.4) million were recorded respectively to the carrying value of the put options related to the Company's redeemable non-controlling interests, which decreased retained earnings and increased non-controlling interests. The adjustment to the carrying value decreased earnings available to the Company's shareholders for purposes of calculating basic and diluted earnings per common share for the three and six months ended June 30, 2016 and June 30, 2015.

14. LEGAL

From time to time the Company becomes involved in legal proceedings and in each case the Company assesses the likely liability and/or the amount of damages as appropriate. Where available information indicates that it is probable a liability had been incurred at the date of the condensed consolidated financial statements and the Company can reasonably estimate the amount of that loss, the Company accrues the estimated loss by a charge to income. In many proceedings, however, it is inherently difficult to determine whether any loss is probable or even possible or to estimate the amount of any loss. In addition, even where loss is possible or an exposure to loss exists in excess of the liability already accrued with respect to a previously recognized loss contingency, it is often not possible to reasonably estimate the size of the possible loss or range of loss.

For certain legal proceedings, the Company can estimate possible losses, additional losses, ranges of loss or ranges of additional loss in excess of amounts accrued. For certain other legal proceedings, the Company cannot reasonably estimate such losses, if any, since the Company cannot predict if, how or when such proceedings will be resolved or what the eventual settlement, fine, penalty or other relief, if any, may be, particularly for proceedings that are in their early stages of development or where plaintiffs seek substantial or indeterminate damages. Numerous issues must be developed, including the need to discover and determine important factual matters and the need to address novel or unsettled legal questions relevant to the proceedings in question, before a loss or additional loss or range of loss or additional loss can be reasonably estimated for any proceeding.

Litigation

On February 16, 2012, the Company received a Letter of Claim on behalf of certain individuals who had lost money in an investment scheme operated by a third-party money management firm, incorporated in the United Kingdom, which has since been closed down by the United Kingdom’s Financial Services Authority. The investment firm, Cameron Farley Ltd, had opened a corporate account with the Company and invested the individuals’ money, representing such funds as its own, while operating a fraudulent scheme. Though a complaint had been filed and served on the Company, the claimants requested, and the Company agreed, to follow the United Kingdom’s Pre-Action Protocol, a pre-litigation process intended to resolve matters without the need to engage in formal litigation. The Company submitted a Response to the Letter before Claim on July 4, 2012. On July 5, 2012 the Company received a substantially similar Letter of Claim on behalf of further individuals. Subsequently, the parties agreed to consolidate claims by those other similarly situated individuals with the pending Pre-Action Protocol process. The parties agreed it would be more appropriate for the proceedings to be dealt with in the Commercial Court and the matters were transferred pursuant to Consent Orders dated March 14, 2013. The Company subsequently filed an application for strike out and/or summary judgment in respect of all claims on March 15, 2013. The claimants filed an answer to the Company's motion on June 2, 2013 and subsequently the Company filed a response to this answer on July 15, 2013. A hearing was held on the Company's application for strike out and/or summary judgment on September 18 and 19, 2013. After the hearing, the judge asked the claimants to respond in writing to his additional questions from the hearing. The claimants had until October 11, 2013 to provide answers and the Company was given until November 1, 2013 to respond. On February 26, 2014, the judge denied the Company's motion for strike out and/or summary judgment. Case management conferences were held by the Court on October 17, 2014 and June 18, 2015. On August 3, 2015, the claimants filed an Amended Master Particulars of Claim, and on October 6, 2015, the Company filed an Amended Defense. The parties completed discovery and provided disclosure on October 30, 2015. On April 28, 2016, the parties entered into a Settlement Agreement in which the Company agreed to make a one-time settlement payment in exchange for a full and final settlement of all claims. The settlement amount, net of anticipated insurance recoveries, totaled approximately $9.4 million.

15. INCOME TAXES

The Company's provision for income taxes was approximately $5.0 million and $7.4 million for the three and six months ended June 30, 2016, respectively. The Company’s benefit for income taxes was approximately $6.0 million and $0.3 million for the three and six months ended June 30, 2015, respectively. These amounts reflect effective tax rates of 30.2% and 47.4%, adjusted for certain discrete items, for the three months ended June 30, 2016 and 2015, respectively. The Company's effective tax rates of 26.6% and 24.7% for the six months ended June 30, 2016 and 2015, respectively, reflect the Company's estimate of the annual effective tax rate adjusted for certain discrete items. Changes in the Company's effective rate arise primarily from changes in the geographic mix of revenues and expenses.

Deferred income taxes reflect the net tax effects of temporary differences between the financial reporting and tax basis of assets and liabilities and are measured using the enacted tax rates and laws that will be in effect when such differences are expected to reverse. The Company’s net deferred tax assets are included in Other assets on the condensed consolidated balance sheets.

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16. REGULATORY REQUIREMENTS

The following table illustrates the minimum regulatory capital our subsidiaries were required to maintain as of June 30, 2016 and the actual amounts of capital that were maintained (amounts in millions):

Entity Name	Minimum Regulatory Capital Requirements	Capital Levels Maintained	Excess Net Capital	Percent of Requirement Maintained	
GAIN Capital Group, LLC	$ 28.4	$ 43.1	$ 14.7	152	%
GAIN Capital-Forex.com U.K., Ltd.	27.9	71.2	43.3	255	%
GAIN Capital Japan Co., Ltd.	1.4	10.0	8.6	714	%
GAIN Capital-Forex.com Hong Kong, Ltd.	1.9	4.2	2.3	221	%
GAIN Capital Forex.com Australia, Pty. Ltd.	0.7	2.6	1.9	371	%
Trade Facts, Ltd.	0.7	3.9	3.2	557	%
GAIN Capital-Forex.com Canada Ltd.	0.2	1.4	1.2	700	%
GAIN Capital Securities, Inc.	0.1	0.4	0.3	400	%
GAIN Global Markets, Inc.	0.2	0.3	0.1	150	%
Gain Capital UK, Ltd.	59.9	127.0	67.1	212	%
Gain Capital Singapore Pte, Ltd.	0.4	8.5	8.1	2,125	%
Gain Capital Australia Pty Ltd.	0.7	3.1	2.4	443	%
Global Assets Advisors, LLC	0.1	1.9	1.8	1,900	%
Gain Capital Payments Ltd.	0.7	0.7	—	100	%
Total	$ 123.3	$ 278.3	$ 155.0	226	%

17. SEGMENT INFORMATION

The Company's segment reporting structure includes three operating segments, retail, institutional and futures. These operating segments are discussed in more detail below. The Company also reports information relating to general corporate services in a fourth component, corporate and other. Information in these condensed consolidated financial statements reflects the information presented to the chief operating decision maker, and prior periods have been retrospectively adjusted to reflect the current segment structure. The chief operating decision maker does not review total assets by operating segment.

Retail Segment

Business in the retail segment is conducted primarily through the Company's FOREX.com and City Index brands. The Company provides its retail customers around the world with access to a diverse range of 12,500 global financial markets, including spot forex, precious metals and CFDs on commodities, indices, individual equities and interest rate products, as well as OTC options on forex. In the United Kingdom, the Company also offer spread bets, which are investment products similar to CFDs, but that offer more favorable tax treatment to residents of that country.

Institutional Segment

The institutional segment provides agency execution services and offers access to markets and self-directed trading in foreign exchange, commodities, equities, options and futures via an electronic communications network, or ECN, through the Company's GTX platform. The Company also offers high touch sales and trading aided by a team of sales employees.

Futures Segment

The futures segment offers execution and related services for exchange-traded futures and futures options on major U.S. and European exchanges. The Company offers futures services through its subsidiary, Group, LLC, under the GAIN Capital Futures brand. In addition, in 2014, the Company expanded its futures business by acquiring majority interests in GAA and TT.

Corporate and other

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Corporate and other provides general corporate services to the Company's segments and also includes eliminations between operating segments which were \$0.3 million, \$0.6 million for the three months ended June 30, 2016 and 2015. Eliminations between operating segments which were \$0.7 million, \$0.6 million for the six months ended June 30, 2016 and 2015. Corporate and other revenue primarily comprises foreign currency transaction gains and losses.
Selected financial information by segment is presented in the following tables (amounts in thousands):
Retail

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Net revenue	$89,370	$87,593	$186,075	$160,935
Employee compensation and benefits	16,897	20,418	33,599	32,575
Selling and marketing	6,546	8,118	12,760	12,326
Referral fees	13,699	25,942	30,301	48,615
Other operating expenses	20,749	20,631	41,628	31,918
Segment profit	$31,479	$12,484	$67,787	$35,501

Institutional

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Net revenue	$7,482	$8,925	$14,601	$18,999
Employee compensation and benefits	3,462	4,300	6,664	8,260
Selling and marketing	35	38	41	109
Other operating expenses	2,518	2,497	4,959	5,009
Segment profit	$1,467	$2,090	$2,937	$5,621

Futures

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Net revenue	$12,857	10,877	$25,060	22,413
Employee compensation and benefits	3,111	2,716	6,097	5,235
Selling and marketing	224	259	443	539
Referral fees	3,854	3,597	7,915	7,501
Other operating expenses	3,846	3,320	7,829	6,931
Segment profit	$1,822	$985	$2,776	$2,207

Corporate and Other

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Other revenue/(expense)	$(1,420)	$(550)	$(1,894)	$(2,516)
Employee compensation and benefits	3,145	3,242	6,648	6,745
Other operating expenses	2,547	2,616	5,565	5,135

Loss	$(7,112)	$(6,408)	$(14,107)	$(14,396)

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Reconciliation of operating segment profit to Income/(loss) before income tax expense

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Retail segment	$31,479	$12,484	$67,787	$35,501
Institutional segment	1,467	2,090	2,937	5,621
Futures segment	1,822	985	2,776	2,207
Corporate and other	(7,112)	(6,408)	(14,107)	(14,396)
SEGMENT PROFIT	27,656	9,151	59,393	28,933
Depreciation and amortization	3,559	2,738	6,712	4,713
Purchased intangible amortization	3,843	4,257	7,765	6,408
Acquisition expenses	—	2,442	—	2,479
Restructuring expenses	22	1,935	803	1,935
Integration expenses	1,043	12,309	1,856	12,373
Legal settlement	—	—	9,412	—
SNB bad debt provision	—	—	—	2,500
Adjustment to fair value of contingent consideration	—	(4,343)	—	(4,343)
OPERATING PROFIT/(LOSS)	19,189	(10,187)	32,845	2,868
Interest expense on long term borrowings	2,560	2,554	5,152	4,056
INCOME/(LOSS) BEFORE INCOME TAX EXPENSE/(BENEFIT)	$16,629	$(12,741)	$27,693	$(1,188)

18. SUBSEQUENT EVENTS

In August 2016, the Company announced the payment of a $0.05 dividend per share of Common Stock payable on September 20, 2016 to stockholders of record on September 13, 2016.

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

FORWARD-LOOKING INFORMATION

In this Quarterly Report on Form 10-Q, the words "GAIN", the "Company", "our", "we" and "us" refer to GAIN Capital Holdings, Inc. and, except as otherwise specified herein, to GAIN's subsidiaries. Our fiscal quarter ended on June 30, 2016.

The following discussion of the financial condition and results of operations of the Company should be read in conjunction with the Selected Financial Data and the Consolidated Financial Statements and Notes thereto included in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2015, as amended on May 2, 2016, and the Condensed Consolidated Financial Statements and Notes thereto contained in this Quarterly Report on Form 10-Q. This Quarterly Report on Form 10-Q contains a number of forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). These forward-looking statements are based on current expectations, estimates, forecasts and projections about the industry and markets in which we operate and management's current beliefs and assumptions. Any statements contained herein (including, without limitation, statements to the effect that we "believe", "expect", "anticipate", "plan" and similar expressions) that are not statements of historical fact should be considered forward-looking statements and should be read in conjunction with the Condensed Consolidated Financial Statements and Notes thereto included in this report and the discussion below. These statements are not guarantees of future performance and involve certain risks, uncertainties and assumptions that are difficult to predict. There are a number of important factors that could cause actual results to differ materially from those indicated by such forward-looking statements. Such factors include those set forth in the section entitled "Item 1A – Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2015, as amended on May 2, 2016, and discussed elsewhere in this Quarterly Report on Form 10-Q. The risks and uncertainties described therein and herein are not the only ones we face. Additional risks and uncertainties, including those not presently known to us or that we currently deem immaterial, may also impair the business. We expressly disclaim any obligation to update any forward-looking statements, except as may be required by law.

OVERVIEW

We are a global provider of trading services and solutions, specializing in over-the-counter, or OTC, and exchange-traded markets. Our retail, institutional and futures segments service customers in more than 180 countries worldwide, and we conduct business from our offices in Bedminster, New Jersey; Jersey City, New Jersey; London, England; Cornwall, England; Chicago, Illinois; Powell, Ohio; Tokyo, Japan; Sydney, Australia; Beijing, China; Shanghai, China; Pembroke, Bermuda; Hong Kong and Singapore.

We offer our customers access to a diverse range of over 12,500 financial products, including spot foreign exchange, or forex, and precious metals trading, as well as "contracts for difference", or CFDs, which are investment products with returns linked to the performance of underlying asset. We offer CFDs on currencies, commodities, indices, individual equities, bonds and interest rate products. We also support trading of exchange-traded futures and options on futures on more than 30 global exchanges. In the United Kingdom, we offer spread bets, which are investment products similar to CFDs, but that offer more favorable tax treatment for residents of that country.

We have invested considerable resources over the past 16 years to develop our proprietary trading platforms to provide our customers with advanced price discovery, trade execution and order management functions, while improving our ability to acquire and service our customers efficiently, as well as manage market and credit risk associated with our customer's trading activity. Today our customers can trade through web-based, downloadable and mobile trading platforms and have access to innovative trading tools to assist them with research and analysis, automated trading and account management.

We operate our business in three segments. Through our retail segment, we provide our retail customers around the world with access to a diverse range of global financial markets, including spot forex, precious metals, spread bets and CFDs on commodities, indices, individual equities and interest rate products, as well as OTC options on forex. Our institutional segment provides agency execution services and offers access to markets and self-directed trading in foreign exchange, commodities, equities, options and futures via our GTX platform. Our futures segment offers execution and risk management services for exchange-traded futures and futures options on major U.S. and European futures and options exchanges. Each of our operating segments is discussed in more detail below.

As a global provider of online trading services, our results of operations are impacted by a number of external market factors, including market volatility and transaction volumes, competition, the regulatory environment in the various jurisdictions and markets in which we operate and the financial condition of the retail and institutional customers to whom we provide our services. These factors are not the only factors that impacted our results of operations for the most recent fiscal period, and additional or other factors may impact, or have different degrees of impact, on our results of operations in future periods.

Market Environment and Trading Volatility

Our revenue and operating results may vary significantly from period to period due primarily to movements and trends in the world's financial markets and to fluctuations in market volatility. As a general rule, our businesses typically benefit from volatility in the markets that we serve, as periods of increased volatility often coincide with higher levels of trading by our clients and a higher volume of transactions. However, periods of extreme volatility may result in significant market dislocations that can also lead clients to reduce their trading activity. In addition, volatility that results in trading within a relatively narrow band of prices may lead to less profitable trading activity. Also, low or extremely high market volatility can adversely affect our ability to profitably manage our net exposure, which represents the unhedged portion of the trading positions we enter into with customers in our retail segment.

Overall market conditions in the six months ended June 30, 2016 reflected increased volatility, and as a result, we experienced a level of revenue capture in our retail segment which was higher than our trailing twelve- and twenty-four month averages.

Competition

The products we offer have generally been accessible to retail investors for a significantly shorter period than many other securities products, such as equities, and our industry is rapidly evolving and characterized by intense competition. Entering new markets often requires us to lower our pricing in order to attract customers and compete with other companies who have already established customer bases in such markets. In addition, in existing markets, on occasion we make short-term decisions to be more aggressive regarding the pricing we offer our customers, or we may decide to offer additional services at reduced rates, or free of charge, in order to attract customers and take market share from our competitors.

Regulatory Environment

In recent years, the financial markets have experienced a major global regulatory overhaul, as regulators and legislators in the United States and abroad have proposed and, in some instances, adopted, a wide range of regulatory changes that have had a significant effect on the manner in which we operate our business.

Part of our growth strategy is to enter new markets, and as we do so we will become subject to regulation in those markets. Complying with different regulatory regimes in multiple markets is expensive, and in many markets the regulatory environment is unclear and evolving. New regulatory requirements and changes in the interpretation of existing regulatory requirements may force us to alter our business practices.

City Index Acquisition

On April 1, 2015, we completed the acquisition of the entire issued and outstanding share capital of City Index (Holdings) Limited, or City Index, a global online trading firm specializing in CFDs, forex and spread betting from City Index Group Limited. The purchase price consisted of approximately (i) $6.1 million in cash, inclusive of working capital adjustments and $1.0 million in cash to be held in escrow; (ii) 5,319,149 shares of our common stock, including 4,787,234 shares to be held in escrow; and (iii) 4.125% unsecured Convertible Senior Notes with an aggregate principal amount of $60.0 million, and fair value of $65.0 million, including convertible senior notes with an aggregate principal amount of $54.0 million to be held in escrow. In addition, we paid City Index approximately $22.4 million, which was used to settle certain inter-company liabilities between City Index and City Index Group Limited.

Key Income Statement Line Items

The following table sets forth key financial metrics for our business for the periods indicated:

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2016	2015	2016	2015
Net revenue	$108,290	$111,457	$223,844	$204,442
Net income/(loss) applicable to GAIN Capital Holdings, Inc.	$10,841	$(7,118)	$19,193	$(1,654)

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Revenue

Revenue from our business consists of retail segment revenue, institutional segment revenue, futures segment revenue, other revenue and interest revenue.

Retail Segment Revenue

Retail segment revenue is our largest source of revenue. Retail segment revenue is comprised of trading revenue from our retail segment, commission revenue from our sales trader (which was fully integrated into the rest of the retail segment in the latter part of 2015), advisory businesses, as well as inactivity fees and interest revenue.

Prior to our acquisitions of Global Futures and Forex, Ltd., or GFT, and City Index, trading revenue in our retail segment had been generated primarily by forex products. As a result of the GFT and City Index acquisitions, trading revenue generated by non-forex products, particularly CFDs relating to equity indices, single stock equities and commodities, has increased both in magnitude and as a percentage of total revenue in our retail segment.

We generate revenue in our retail segment in two ways: (1) trading revenue from our market making activities for OTC products, earned principally from the bid/offer spread we offer our customers and any net gains and losses generated through changes in the market value of the currencies and other products held in our net exposure and (2) fees, including financing charges for positions held overnight, commissions on equity CFD trades and advisory services, and other account related fees.

For the three and six months ended June 30, 2016, retail segment revenue represented 81.3% and 81.8% of our total net revenue, respectively. For the three and six months ended June 30, 2015, retail segment revenue represented 77.5% and 78.0% of our total net revenue, respectively.

For the three and six months ended June 30, 2016, approximately 97% and 96%, respectively, of our average daily retail trading volume was either naturally hedged or hedged by us with one of our liquidity providers, and the remaining 3% and 4%, respectively, of our average daily retail trading volume consisted of our net exposure. Trade flow that is naturally hedged allows us to keep the entire bid/ask spread on the two transactions which offset each other in market risk terms. In contrast, when we hedge trade flow with our liquidity providers, we keep the difference between the retail bid/ask spread we offer our customers and the wholesale bid/ask spread we pay to our liquidity providers.

We manage our net exposure by applying position and exposure limits established under our risk-management policies and by continuous, active monitoring by our trading and risk teams. Based on our risk management policies and procedures, over time a portion of our net exposure may be hedged with our liquidity providers. Although we do not actively initiate proprietary market positions in anticipation of future movements in the relative prices of the products we offer, through our net exposure we are likely to have open positions in various currencies at any given time. In the event of unfavorable market movements, we may experience losses on such positions.

Our retail sales trader business has historically provided high-touch trading services and execution to high net worth customers. We primarily earn commissions on this trade flow, which we typically hedge fully. As noted above, our sales trader business was fully integrated into the rest of the retail segment in the latter part of 2015.

Institutional Segment Revenue

Institutional segment revenue consists primarily of revenue from our GTX business, which provides a proprietary trading platform and sales and trading services to institutions as well as interest revenue and expense. Revenue for our GTX business is generated primarily through commissions on trades executed on the GTX platform. We act as an agent for the trades executed on the GTX platform and, therefore, do not assume any market or credit risk in connection with those transactions.

Our institutional segment revenue includes revenue generated by intercompany transactions with other segments/affiliates that are eliminated when calculating our consolidated net revenue. This intercompany revenue totaled approximately $0.3 million, and $0.7 million, respectively, for the three and six months ended June 30, 2016.

Futures Segment Revenue

Futures revenue is comprised primarily of commissions earned on futures and futures options trades, as well as interest revenue. We are not exposed to market risk in connection with customer trades in our futures segment.

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Corporate and Other Revenue

Corporate and other revenue primarily comprises foreign currency transaction gains and losses.

Net Interest Revenue / Expense

Net interest revenue/expense consists primarily of the revenue generated by our cash and customer cash held by us at banks and on deposit as collateral with our liquidity providers, less interest paid to our customers.
Our cash and customer cash is generally invested in money market funds, which primarily invest in short-term U.S. government securities or treasury bills. Interest paid to customers varies primarily due to the net value of a customer account. A customer's net account value equals cash on deposit plus the mark-to-market of open positions as of the measurement date. Interest income and interest expense are recorded when earned and incurred, respectively. Net interest revenue was \$0.3 million for the three months ended June 30, 2016. Net interest revenue was negligible for the three months ended June 30, 2015.

Expenses

Our expenses principally comprise employee compensation and benefits, selling and marketing, referral fees, trading expenses, general and administrative expenses, communications and technology expenses, and interest on long term borrowings, as well as expenses related to acquisitions and integration activities.

Employee Compensation and Benefits

Employee compensation and benefits includes salaries, commissions, bonuses, stock-based compensation expense, contributions to benefit programs and other related employee costs.

Selling and Marketing

Our marketing strategy employs a combination of direct online marketing and focused branding programs, with the goal of raising awareness and cost-effectively acquiring customers for our products and services.

Referral Fees

Referral fees consist of compensation paid to our white label partners and introducing brokers. We generally provide white label partners with the platform, systems, and back-office services necessary for them to offer trading services to their customers. Introducing brokers identify and direct trading customers to us.
Referral fees are largely variable and change principally based on the level of customer trading volume directed to us from our white label partners and introducing brokers, the specific terms of our agreements with the white label partners and introducing brokers, which vary on a partner-by-partner and regional basis, and the relative percentage of trading volume generated from particular relationships in any given period. The majority of our white label and introducing broker partners are paid based on the trading volume generated by the customers they introduce, directly or indirectly, to us, rather than on a revenue sharing basis. As such, during periods in which their customers' trading activity is not profitable for us, if the associated trading volume remains high, we may be required to make larger payments to these partners despite the fact that we are generating lower revenue from their customers. Our indirect business accounted for 42.9% and 44.7% of retail trading volume in the three and six months ended June 30, 2016, and 50.0% of retail trading volume in the three and six months ended June 30, 2015, respectively.

Trading expenses

Trading expenses consist of exchange fees paid to stock exchanges and other third-parties for exchange market data that we provide to our customers or use to create our own derived data products, as well as fees for news services, clearing firms and fees paid to prime brokers in connection with our institutional GTX and futures businesses.

General and Administrative

General and administrative expenses consist of bank fees, professional fees, occupancy and equipment and other miscellaneous expenses.

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Depreciation and amortization
Depreciation and amortization consists of the recognition of expense for physical assets and software purchased for use over a period of several years and the amortization for internally developed software.

Purchased Intangible Amortization
Purchased intangible amortization consists of amortization related to intangible assets we acquired since 2012 in connection with our acquisitions. The principal intangible assets acquired were technology, customer assets and trademarks. These intangible assets have useful lives ranging from one year to ten years.

Communications and Technology
Communications and technology consists of communications fees, data fees, product development, software and maintenance expenses.

Bad debt provision
Bad debt provision represents the amounts estimated for the uncollectibility of certain outstanding balances during the period.

Restructuring Expenses
For the three and six months ended June 30, 2016 and June 30, 2015, we incurred restructuring expenses, which reflected costs arising from headcount reductions and other exit costs, measured and disclosed in accordance with accounting guidance.

Acquisition Expenses
For the three and six months ended June 30, 2015, we incurred acquisition-related expenses, which included costs, such as legal, accounting, valuation and other costs specified in accounting guidance. These costs are expensed as incurred.

Integration Expenses
For the three and six months ended June 30, 2016 and June 30, 2015, we incurred integration expenses, which are acquisition related costs that do not meet the definition of acquisition costs specified in accounting guidance. These costs include retention bonuses paid to employees and the cost of retiring redundant assets.

Legal Settlement
On April 28, 2016, we entered into a settlement agreement with the claimants in the Cameron Farley Ltd. matter discussed below in "Part II - Other Information - Item 1. Legal Proceedings". Pursuant to the terms of the settlement agreement, we agreed to make a one-time settlement payment in exchange for a full and final settlement of all claims. The settlement amount, net of anticipated insurance recoveries, totaled approximately $9.4 million.

Interest on long term borrowings
Interest on long-term borrowings consists of interest expense on our 4.125% Convertible Senior Notes due 2018, issued in November 2013, and our 4.125% Convertible Senior Notes due 2020, issued in April 2015 in connection with the City Index acquisition.
Operating Metrics
The following table sets forth key operating metrics for our business for the periods indicated:

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2016	2015	2016	2015

Retail Segment				
OTC Trading Volume (billions)	$710.9	$1,160.2	$1,572.6	$2,054.8
OTC Average Daily Volume (billions)	$10.9	$17.8	$12.2	$16.1
Active OTC Accounts	139,022	148,730	139,022	148,730
Client Assets (millions)	$641.3	$877.6	$641.3	$877.6

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Institutional Segment				
ECN Volume (billions)	$ 526.9	$ 502.8	$ 1,058.5	$ 998.6
ECN Average Daily Volume (billions)	$ 8.1	$ 7.7	$ 8.2	$ 7.8
Swap Dealer Volume (billions)	$ 186.2	$ 183.2	$ 372.9	$ 424
Swap Dealer Average Daily Volume (billions)	$ 2.9	$ 2.8	$ 2.9	$ 3.3
Futures Segment				
Futures Contracts	2,223,501	2,055,878	4,557,809	4,436,951
Futures Average Daily Contracts	34,742	32,633	36,462	35,782
Active Futures Accounts	8,822	8,799	8,822	8,799
Client Assets (millions)	$ 419.5	$ 231.8	$ 419.5	$ 231.8

OTC Trading Volume

OTC trading volume is the U.S. dollar equivalent of the aggregate notional value of OTC trades executed by our retail customers. Approximately 57.4% and 59.8% of our customer trading volume for the three and six months ended June 30, 2016, respectively, was generated by our retail businesses, compared to 69.8% and 67.3% for the three and six months ended June 30, 2015, respectively.

OTC Average Daily Volume

OTC average daily volume is the U.S. dollar equivalent of the aggregate notional value of trades executed by our customers in a given period divided by the number of trading days in the given period.

Active OTC Accounts

Active OTC accounts represent customers who executed at least one trade during the relevant period. We believe active OTC accounts is an important operating metric because it correlates to our trading volume and revenue.

Client Assets

Client assets represent amounts due to clients, including customer deposits and unrealized gains or losses arising from open positions.

ECN Volume

ECN volume is the U.S. dollar equivalent of the aggregate notional value of trades executed on our GTX platform.

ECN Average Daily Volume

ECN average daily volume is the U.S. dollar equivalent of the aggregate notional value of trades executed on our GTX platform in a given period divided by the number of trading days in the given period.

Swap Dealer Volume

Swap dealer volume is the U.S. dollar equivalent of the aggregate notional value of trades executed through our non-platform institutional trading services.

Swap Dealer Average Daily Volume

Swap dealer average daily volume is the U.S. dollar equivalent of the aggregate notional value of trades executed through our non-platform institutional trading services in a given period divided by the number of trading days in the given period.

Futures Contracts

Futures contracts represent the total number of contracts transacted by customers of our futures segment.

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Futures Average Daily Contracts
Average daily futures contracts is the number of futures contracts transacted by our futures customers in a given period divided by the number of trading days in the given period.

Active Futures Accounts
Active futures accounts represent customers who executed at least one futures trade during the relevant period.

We believe that our customer trading volumes are driven by eight main factors. Four of these factors are broad external factors outside of our control that generally impact the market for leveraged trading, as well as customer trading volumes, and include:

- overall economic conditions and outlook;
- volatility of financial markets;
- legislative changes; and
- regulatory changes.

The volatility of financial markets has generally been positively correlated with customer trading volume. Our customer trading volume is also affected by the following additional factors:

- the effectiveness of our sales activities;
- the competitiveness of our products and services;
- the effectiveness of our customer service team; and
- the effectiveness of our marketing activities.

In order to increase customer trading volume, we focus our marketing, customer service and education activities on attracting new customers and extending the duration and scope of the relationship our customers have with us.

For the three and six months ended June 30, 2016, no single retail customer accounted for more than 2.0% of our retail trading volume for the period. For the three and six months ended June 30, 2015, no single retail customer accounted for more than 3.0% of our retail trading volume for the period.

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RESULTS OF OPERATIONS

Revenue

	Three Months Ended June 30, (amounts in thousands)		Six Months Ended June 30, (amounts in thousands)	
	2016	2015	2016	2015
REVENUE:				
Retail revenue	$88,083	$86,422	$183,125	$159,364
Institutional revenue	7,209	8,383	13,916	18,254
Futures revenue	12,743	10,806	24,761	22,326
Other revenue	(60)	5,841	1,513	4,474
Total non-interest revenue	107,975	111,452	223,315	204,418
Interest revenue	443	314	761	651
Interest expense	128	309	232	627
Total net interest revenue	315	5	529	24
Net revenue	$108,290	$111,457	$223,844	$204,442

Our total net revenue decreased $3.2 million, or 2.8%, for the three months ended June 30, 2016 compared to the three months ended June 30, 2015. Total net revenue increased $19.4 million, or 9.5%, for the six months ended June 30, 2016 compared to the six months ended June 30, 2015.

Retail revenue increased $1.7 million, or 1.9%, for the three months ended June 30, 2016 compared to the three months ended June 30, 2015 primarily due to an increase in the amount of revenue per million in notional trading volume, partially offset by a decrease in volume. Retail revenue increased $23.8 million, or 14.9%, for the six months ended June 30, 2016 compared to the six months ended June 30, 2015. The increase was primarily a result of the City Index acquisition on April 1, 2015.

Institutional revenue decreased $1.2 million, or 14.0%, for the three months ended June 30, 2016 compared to the three months ended June 30, 2015. Institutional revenue decreased $4.3 million, or 23.8%, for the six months ended June 30, 2016 compared to the six months ended June 30, 2015. The decreases primarily resulted from a decrease in volume in our non-platform institutional trading services business and shifts in trading volume on our GTX platform towards lower margin transactions.

Futures revenue increased $1.9 million, or 17.9%, for the three months ended June 30, 2016 compared to the three months ended June 30, 2015. Futures revenue increased $2.4 million, or 10.9%, for the six months ended June 30, 2016 compared to the six months ended June 30, 2015. The increases were primarily due to an increase in revenues per traded contract during the six month period ended June 30, 2016 as compared to the same period in 2015.

Other revenue decreased $5.9 million and $3.0 million for the three and six months ended June 30, 2016, respectively, compared to the three and six months ended June 30, 2015. The decreases were primarily due to the impact of foreign currency revaluation.

Expenses

	Three Months Ended June 30, (amounts in thousands)		Six Months Ended June 30, (amounts in thousands)	
	2016	2015	2016	2015
Total Operating Expenses	$89,101	$121,644	$190,999	$201,574
As a percentage of net revenue	82.3 %	109.1 %	85.3 %	98.6 %

Our total operating expenses for the three months ended June 30, 2016 decreased $32.5 million, or 26.8% compared to the three months ended June 30, 2015. Our total operating expenses for the six months ended June 30, 2016 decreased $10.6 million, or 5.2% compared to the six months ended June 30, 2015. The decreases were primarily due to our ongoing integration and expense reduction efforts following the City Index acquisition.

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For the three months ended June 30, 2016, the decrease in operating expenses consisted primarily of decreases of $12.0 million in referral fees, $11.3 million in integration expenses, $4.1 million in employee compensation and benefits, $0.4 million in trading expense, $1.6 million in selling and marketing expense, $2.4 million in acquisition expenses, $0.2 million in communications and technology expenses, $1.9 million in restructuring expenses, and $0.4 million in purchased intangible amortization. These decreases were partially offset by an increase of $0.9 million in general and administrative expenses.

For the six months ended June 30, 2016, the decrease in operating expenses consisted primarily decreases of $17.9 million in referral fees, $10.5 million in integration expenses, $2.8 million in bad debt provision, , $2.5 million in acquisition expenses, and $1.1 million in restructuring expenses. These decreases were partially offset by increases of $0.2 million in employee compensation and benefits, $1.1 million in trading expense, $2.4 million in communications and technology expenses, $7.6 million in general and administrative expenses, $0.3 million in selling and marketing expense, $1.4 million in purchased intangible amortization, and $2.0 million in depreciation and amortization.

Employee Compensation and Benefits

	Three Months Ended June 30, (amounts in thousands)		Six Months Ended June 30, (amounts in thousands)	
	2016	2015	2016	2015
Employee compensation and benefits	$26,615	$30,676	$53,008	$52,815
As a percentage of net revenue	24.6 %	27.5 %	23.7 %	25.8 %

Employee compensation and benefits for the three months ended June 30, 2016 decreased $4.1 million, or 13.2% compared to the three months ended June 30, 2015. The decrease is primarily due to the restructuring actions taken in 2015 to reduce headcount following the City Index acquisition.

Employee compensation and benefits for the six months ended June 30, 2016 increased $0.2 million, or 0.4% compared to the six months ended June 30, 2015. The increase was primarily due to the compensation and benefits for the additional employees acquired in the acquisition of City Index, partially offset by the impact of headcount reductions in the first half of 2015.

Referral fees

	Three Months Ended June 30, (amounts in thousands)		Six Months Ended June 30, (amounts in thousands)	
	2016	2015	2016	2015
Referral fees	$17,553	$29,539	$38,216	$56,117
As a percentage of net revenue	16.2 %	26.5 %	17.1 %	27.4 %

Referral fees for the three months ended June 30, 2016 decreased $12.0 million, or 40.6% compared to the three months ended June 30, 2015. Referral fees for the six months ended June 30, 2016 decreased $17.9 million, or 31.9% compared to the six months ended June 30, 2015. These decreases resulted from our focus on terminating unprofitable partner relationships and, to a lesser extent, renegotiating ongoing partner terms to provide for more favorable payouts to partners relating to the trading volume and/or trading revenue generated by the customers they introduce.

Trading expenses

	Three Months Ended June 30, (amounts in thousands)		Six Months Ended June 30, (amounts in thousands)	
	2016	2015	2016	2015
Trading expenses	$7,761	$8,119	$16,194	$15,094
As a percentage of net revenue	7.2 %	7.3 %	7.2 %	7.4 %

Trading expenses for the three months ended June 30, 2016 decreased $0.4 million, or 4.4%, compared to the three months ended June 30, 2015. The decrease was primarily related to the wind down of SalesTrader.
Trading expenses for the six months ended June 30, 2016 increased $1.1 million, or 7.3%, compared to the six months ended June 30, 2015. The increase was primarily due to increased trading expenses resulting from the expansion of our business

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following the acquisition of City Index. Retail trading expenses relate to exchange fees paid to stock exchanges and other third-parties for exchange market data that we provide to our customers or use to create our own derived data products.

Communications and technology

	Three Months Ended June 30, (amounts in thousands)		Six Months Ended June 30, (amounts in thousands)	
	2016	2015	2016	2015
Communications and technology	$5,684	$5,835	$10,963	$8,593
As a percentage of net revenue	5.2 %	5.2 %	4.9 %	4.2 %

Communications and technology expenses for the three months ended June 30, 2016 decreased $0.2 million, or 2.6%, compared to the three months ended June 30, 2015. The decrease was primarily related to a decrease in vendor spending.

Communications and technology expenses for the six months ended June 30, 2016 increased $2.4 million, or 27.6%, compared to the for the six months ended June 30, 2015. The increase was primarily due to the acquisition of City Index in 2015.

General and Administrative

	Three Months Ended June 30, (amounts in thousands)		Six Months Ended June 30, (amounts in thousands)	
	2016	2015	2016	2015
General and administrative	$15,027	$14,143	$31,065	$23,514
As a percentage of net revenue	13.9 %	12.7 %	13.9 %	11.5 %

General and administrative expenses for the three months ended June 30, 2016 increased $0.9 million, or 6.3%, compared to the three months ended June 30, 2015, and $7.6 million, or 32.1%, for the six months ended June 30, 2016 compared to the six months ended June 30, 2015. These increases were primarily due to the acquisition of City Index.

Selling and Marketing Expense

	Three Months Ended June 30, (amounts in thousands)		Six Months Ended June 30, (amounts in thousands)	
	2016	2015	2016	2015
Selling and marketing	$6,805	$8,415	$13,244	$12,973
As a percentage of net revenue	6.3 %	7.5 %	5.9 %	6.3 %

Selling and marketing expense for the three months ended June 30, 2016 decreased $1.6 million, or 19.1%, compared to the three months ended June 30, 2015. The decrease was primarily related a reduction in marketing spend during the period.

Selling and marketing expense increased $0.3 million, or 2.1%, for the six months ended June 30, 2016 compared to the six months ended June 30, 2015. The increase was primarily due to supporting additional brands following the acquisition of City Index.

Purchased Intangible Amortization

	Three Months Ended June 30, (amounts in thousands)	Six Months Ended June 30, (amounts in thousands)

	2016		2015		2016		2015	
Purchased intangible amortization	$3,843		$4,257		$7,765		$6,408	
As a percentage of net revenue	3.5	%	3.8	%	3.5	%	3.1	%

Purchased intangible amortization for the three months ended June 30, 2016 decreased $0.4 million compared to the three months ended June 30, 2015. The decrease was primarily related to the full amortization of the GFT acquisition in the fourth quarter of 2015.

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Purchased intangible amortization for the six months ended June 30, 2016 increased $1.4 million compared to the six months ended June 30, 2015. The increase was primarily from the amortization of intangible assets acquired as part of the City Index transaction.

Depreciation and Amortization

	Three Months Ended June 30, (amounts in thousands)		Six Months Ended June 30, (amounts in thousands)	
	2016	2015	2016	2015
Depreciation and amortization	$3,559	$2,738	$6,712	$4,713
As a percentage of net revenue	3.3 %	2.5 %	3.0 %	2.3 %

Depreciation and amortization increased $0.8 million, or 30.0%, for the three months ended June 30, 2016 compared to the three months ended June 30, 2015. Depreciation and amortization increased $2.0 million, or 42.4%, for the six months ended June 30, 2016 compared to the six months ended June 30, 2015. The increases resulted primarily from depreciation of property and equipment acquired in the City Index acquisition.

Bad Debt Provision

	Three Months Ended June 30, (amounts in thousands)		Six Months Ended June 30, (amounts in thousands)	
	2016	2015	2016	2015
Bad debt provision	$1,189	$1,236	$1,761	$4,560
As a percentage of net revenue	1.1 %	1.1 %	0.8 %	2.2 %

Bad debt provision was flat for the three months ended June 30, 2016 compared to the three months ended June 30, 2015. Bad debt provision decreased $2.8 million for the six months ended June 30, 2016 compared to the six months ended June 30, 2015. The decrease was primarily related to the $2.5 million in negative balances experienced by certain of our customers following actions taken by the Swiss National Bank in January 2015.

Acquisition Expenses

	Three Months Ended June 30, (amounts in thousands)		Six Months Ended June 30, (amounts in thousands)	
	2016	2015	2016	2015
Acquisition expenses	$—	$2,442	$—	$2,479
As a percentage of net revenue	— %	2.2 %	— %	1.2 %

There were no acquisition expenses for the three and six months ending June 30, 2016, as compared to $2.4 million and $2.5 million for the three and six months ending June 30, 2015. Acquisition expenses are costs directly attributable to the City Index acquisition in 2015, primarily consisting of legal, accounting and other professional advisory fees.

Restructuring Expenses

	Three Months Ended June 30, (amounts in thousands)		Six Months Ended June 30, (amounts in thousands)	
	2016	2015	2016	2015
Restructuring expenses	$22	$1,935	$803	$1,935
As a percentage of net revenue	— %	1.7 %	0.4 %	0.9 %

Restructuring expenses were $0.0 million and $0.8 million for the three and six months ending June 30, 2016, as compared to $1.9 million and $1.9 million for the three and six months ending June 30, 2015. Restructuring expenses include severance payments and related expenses that arose in connection with headcount reductions relating to our ongoing integration of City Index.

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Integration Expenses

	Three Months Ended June 30, (amounts in thousands)		Six Months Ended June 30, (amounts in thousands)	
	2016	2015	2016	2015
Integration expenses	$1,043	$12,309	$1,856	$12,373
As a percentage of net revenue	1.0 %	11.0 %	0.8 %	6.1 %

Integration expenses were $1.0 million and $1.9 million for the three and six months ending June 30, 2016, as compared to $12.3 million and $12.4 million for the three and six months ending June 30, 2015. Integration expenses relate to acquisition-related activity; primarily employee relocation costs, retention payments to employees and accelerated amortization of assets.

Legal Settlement

	Three Months Ended June 30, (amounts in thousands)		Six Months Ended June 30, (amounts in thousands)	
	2016	2015	2016	2015
Legal Settlement	$ —	$ —	$9,412	$ —
As a percentage of net revenue	—%	—%	4.2 %	—%

On April 28, 2016, we entered into a settlement agreement with the claimants in the Cameron Farley Ltd. matter discussed below in "Part II - Other Information - Item 1. Legal Proceedings". Pursuant to the terms of the settlement agreement, we agreed to make a one-time settlement payment in exchange for a full and final settlement of all claims. The settlement amount, net of anticipated insurance recoveries, totaled approximately $9.4 million.

Interest on long term borrowings

	Three Months Ended June 30, (amounts in thousands)		Six Months Ended June 30, (amounts in thousands)	
	2016	2015	2016	2015
Interest on long term borrowings	$2,560	$2,554	$5,152	$4,056
As a percentage of net revenue	2.4 %	2.3 %	2.3 %	2.0 %

Interest paid on long term borrowings were $2.6 million and $2.6 million for the three months ended June 30, 2016 and three months ended June 30, 2015, respectively. Interest paid on long term borrowings were $5.2 million and $4.1 million for the six months ended June 30, 2016 and six months ended June 30, 2015, respectively. Interest on long-term borrowings consists of interest expense on our 4.125% Convertible Senior Notes due 2018, issued in November 2013, and our 4.125% Convertible Senior Notes due 2020, issued in April 2015 in connection with the City Index acquisition.

Income Taxes

	Three Months Ended June 30, (amounts in thousands)		Six Months Ended June 30, (amounts in thousands)	
	2016	2015	2016	2015
Income tax expense/(benefit)	$5,025	$(6,039)	$7,372	$(294)

Effective Tax Rate	30.2	%	47.4	%	26.6	%	24.7	%

Income tax expense increased by $11.1 million for the three months ended June 30, 2016 compared to the three months ended June 30, 2015. Income tax expense increased by $7.7 million for the six months ended June 30, 2016 compared to six months ended June 30, 2015. Our effective tax rates for the three months ended June 30, 2016 and three months ended June 30, 2015 were 30.2% and 47.4% respectively. Our effective tax rates for the six months ended June 30, 2016 and six months ended June 30, 2015 were 26.6% and 24.7%, respectively. The change in effective tax was due to changes in the jurisdictions in which profits were recognized.

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Segment Results - Three and Six Months Ended June 30, 2016 Compared to Three and Six Months Ended June 30, 2015

Retail Segment

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Net revenue	$89,370	$87,593	$186,075	$160,935
Employee compensation and benefits	16,897	20,418	33,599	32,575
Selling and marketing	6,546	8,118	12,760	12,326
Referral fees	13,699	25,942	30,301	48,615
Other operating expenses	20,749	20,631	41,628	31,918
Segment profit	$31,479	$12,484	$67,787	$35,501

Retail segment net revenue increased $1.8 million, or 2.0%, for the three months ended June 30, 2016, compared to the three months ended June 30, 2015. The increase was primarily related to increase in revenue per million. Retail segment net revenue increased $25.1 million, or 15.6%, for the six months ended June 30, 2016, compared to the six months ended June 30, 2015. The increase was primarily the result of the City Index acquisition in April 2015.

Employee compensation and benefits expenses for the retail segment decreased $3.5 million, or 17.2%, for the three months ended June 30, 2016, compared to the three months ended June 30, 2015. The decrease was primarily due to the restructuring actions taken in 2015 to reduce headcount. Employee compensation and benefits expenses for the retail segment increased $1.0 million, or 3.1%, for the six months ended June 30, 2016, compared to the six months ended June 30, 2015. The increase was primarily due to the compensation and benefits for the additional employees employed following the acquisition of City Index, partially offset by the headcount reductions effected in the third and fourth quarters of 2015.

Selling and marketing expense for the retail segment decreased $1.6 million, or 19.4%, for the three months ended June 30, 2016, compared to the three months ended June 30, 2015. The decrease was primarily due a reduction in marketing spend. Selling and marketing expense for the retail segment increased $0.4 million, or 3.5%, for the six months ended June 30, 2016, compared to the six months ended June 30, 2015. The increase was primarily due to costs incurred to support additional brands following the acquisition of City Index.

Referral fees for the retail segment decreased $12.2 million, or 47.2%, for the three months ended June 30, 2016, compared to the three months ended June 30, 2015. Referral fees for the retail segment decreased $18.3 million, or 37.7%, for the six months ended June 30, 2016, compared to the six months ended June 30, 2015. These decreases resulted from our focus on terminating unprofitable partner relationships and, to a lesser extent, renegotiating ongoing partner terms to provide for more favorable payouts to partners relating to the trading volume and/or trading revenue generated by the customers they introduce.

Other operating expenses for the retail segment increased $0.1 million, or 0.6%, for the three months ended June 30, 2016, compared to the three months ended June 30, 2015. Other operating expenses for the retail segment increased $9.7 million, or 30.4%, for the six months ended June 30, 2016, compared to the six months ended June 30, 2015. The increases were primarily due to increased trading expenses resulting from the expansion of our business following the acquisition of City Index.

Other operating expenses for the retail segment include general and administrative expenses, communication and technology expenses and trading expenses.

Institutional Segment

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Net revenue	$7,482	$8,925	$14,601	$18,999
Employee compensation and benefits	3,462	4,300	6,664	8,260

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Selling and marketing	35	38	41	109
Other operating expenses	2,518	2,497	4,959	5,009
Segment profit	$1,467	$2,090	$2,937	$5,621

Institutional segment net revenue decreased $1.4 million, or 16.2%, for the three months ended June 30, 2016, compared to the three months ended June 30, 2015. Institutional segment net revenue decreased $4.4 million, or 23.1%, for the six months ended June 30, 2016, compared to the six months ended June 30, 2015. The decreases primarily resulted from a decrease in volume in our non-platform institutional trading services business and shifts in trading volume on our GTX platform towards lower margin transactions, partially offset by an increase in ECN trading volume.

Employee compensation and benefits expenses for the institutional segment decreased $0.8 million, or 19.5%, for the three months ended June 30, 2016, compared to the three months ended June 30, 2015. Employee compensation and benefits expenses for the institutional segment decreased $1.6 million, or 19.3%, for the six months ended June 30, 2016, compared to the six months ended June 30, 2015. The decreases were primarily due to a decrease in commissions paid to employees as a result of the decrease in revenue.

Selling and marketing expenses for the institutional segment remained flat for the three months ended June 30, 2016, compared to the three months ended June 30, 2015, and for the six months ended June 30, 2016, compared to the six months ended June 30, 2015.

Other operating expenses for the institutional segment remained flat for the three months ended June 30, 2016, compared to the three months ended June 30, 2015, and for the six months ended June 30, 2016, compared to the six months ended June 30, 2015. Other operating expenses from the institutional segment include general and administrative expenses, communication and technology expenses and trading expenses.

Futures Segment

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Net revenue	$12,857	$10,877	$25,060	$22,413
Employee compensation and benefits	3,111	2,716	6,097	5,235
Selling and marketing	224	259	443	539
Referral fees	3,854	3,597	7,915	7,501
Other operating expenses	3,846	3,320	7,829	6,931
Segment profit	$1,822	$985	$2,776	$2,207

Futures segment net revenue increased $2.0 million, or 18.2%, for the three months ended June 30, 2016, compared to the three months ended June 30, 2015. Futures segment net revenue increased $2.6 million, or 11.8%, for the six months ended June 30, 2016, compared to the six months ended June 30, 2015. The increases were primarily due to an increase in revenues per traded contract during the period in 2016 as compared to the same period in 2015.

Employee compensation and benefits expenses for the futures segment increased $0.4 million, or 14.5%, for the three months ended June 30, 2016, compared to the three months ended June 30, 2015. Employee compensation and benefits expenses for the futures segment increased $0.9 million, or 16.5%, for the six months ended June 30, 2016, compared to the six months ended June 30, 2015. The increases were primarily due to additional commissions paid to employees as a result of the increase in revenue.

Selling and marketing expenses for the futures segment remained flat, for the three months ended June 30, 2016, compared to the three months ended June 30, 2015, and for the six months ended June 30, 2016, compared to the six months ended June 30, 2015.

Referral fees for the futures segment increased $0.3 million, or 7.1%, for the three months ended June 30, 2016, compared to the three months ended June 30, 2015. Referral fees for the futures segment increased $0.4 million, or 5.5%, for the six months

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ended June 30, 2016, compared to the six months ended June 30, 2015. The increases were primarily due to an increase in indirect futures business.

Other operating expenses for the futures segment increased $0.5 million, or 15.8%, for the three months ended June 30, 2016, compared to the three months ended June 30, 2015. Other operating expenses for the futures segment increased $0.9 million, or 13.0%, for the six months ended June 30, 2016, compared to the six months ended June 30, 2015. The increases were primarily due to an increase in trading expenses. Other operating expenses from the futures segment include general and administrative expenses, communication and technology expenses and trading expenses.

Corporate and Other

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Other revenue	$(1,420)	$(550)	$(1,894)	$(2,516)
Employee compensation and benefits	3,145	3,242	6,648	6,745
Other operating expenses	2,547	2,616	5,565	5,135
Loss	$(7,112)	$(6,408)	$(14,107)	$(14,396)

Corporate and other revenue decreased $0.9 million for the three months ended June 30, 2016, compared to the three months ended June 30, 2015. The decrease was primarily due to foreign currency revaluations. Corporate and other revenue increased $0.6 million for the six months ended June 30, 2016, compared to the six months ended June 30, 2015. The increase was largely due changes in foreign currency revaluations.

Employee compensation and benefits expenses for employees not attributed to any of our operating segments, such as our executive officers, decreased $0.1 million, or 3.0%, for the three months ended June 30, 2016, compared to the three months ended June 30, 2015. Employee compensation and benefits expenses decreased $0.1 million, or 1.4%, for the six months ended June 30, 2016, compared to the six months ended June 30, 2015. The decreases were primarily due to the restructuring actions taken in 2015 to reduce headcount following the City Index acquisition.

Other operating expenses not attributed to any of our operating segments remained flat for the three months ended June 30, 2016, compared to the three months ended June 30, 2015. Other operating expenses not attributed to any of our operating segments increased $0.4 million, or 8.4%, for the six months ended June 30, 2016, compared to the six months ended June 30, 2015. The increase was primarily due to an increase in professional fees.

Liquidity and Capital Resources

We have historically financed our liquidity and capital needs primarily through the use of funds generated from operations, the issuance of debt and equity securities, including the Convertible Senior Notes due 2018 and Convertible Senior Notes due 2020 that we issued in the fourth quarter of 2013 and second quarter of 2015, respectively, and access to secured lines of credit. We plan to finance our future operating liquidity and regulatory capital needs in a manner consistent with our past practice. We expect that our capital expenditures for the next 12 months will be consistent with our historical annual spend.
We primarily hold and invest our cash at various financial institutions and in various investments, including cash held at banks, deposits at our liquidity providers and money market funds which invest in short-term U.S. government securities. In general, we believe all of our investments and deposits are of high credit quality and we have adequate liquidity to conduct our businesses.

As a holding company, nearly all of our funds from operations are generated by our operating subsidiaries. Historically, we have accessed these funds through receipt of dividends from these subsidiaries. The following table shows the amount of cash held by our operating subsidiaries outside the United States and the amount of undistributed earnings (amounts in millions) at June 30, 2016:

Entity Name	Cash	Undistributed Earnings
GAIN Capital-Forex.com U.K., Ltd.	$223.2	$ 94.5

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Forex.com Japan Co., Ltd.	60.8	—
GAIN Capital-Forex.com Hong Kong, Ltd.	4.4	—
GAIN Capital Forex.com Australia, Pty. Ltd.	2.8	0.1
Trade Facts Ltd.	0.3	3.3
GAIN Capital-Forex.com Canada Ltd.	7.9	—
GAIN Global Markets, Inc.	0.3	—
GAIN Capital UK, Ltd.	303.2	11.5
GAIN Capital Singapore Pte. Ltd.	29.0	—
GAIN Capital Australia Pty Ltd.	23.1	—
Faraday Research LLP	0.5	0.6
GTX Bermuda Ltd.	9.2	11.2
Gain Global Markets Bermuda, Ltd.	13.1	
Total	$677.8	$121.2

At June 30, 2016, we had approximately $121.2 million of undistributed earnings of our foreign subsidiaries indefinitely invested outside the United States. In connection with the previously announced restatement of our financial statements for the years ended December 31, 2014 and 2013 and certain quarters of 2015, we took a charge for U.S. taxes that would arise on distribution if $48.3 million of these earnings were repatriated to the United States. The remaining earnings are indefinitely invested outside the United States and are expected to be reinvested in the working capital and other business needs of the foreign subsidiaries. If the remaining earnings had been repatriated into the United States as of June 30, 2016, in the form of dividends or otherwise, the Company would have been subject to additional income taxes of approximately $13.2 million.

Some of our operating subsidiaries are subject to requirements of various regulatory bodies, including the CFTC and NFA in the United States, the FCA in the United Kingdom, the FSA, METI and MAFF in Japan, the SFC in Hong Kong, IIROC and the OSC in Canada and the CIMA in the Cayman Islands, relating to liquidity and capital standards, which limit funds available for the payment of dividends to GAIN Capital Holdings, Inc. As a result, we may be unable to access funds which are generated by our operating subsidiaries when we need them.

The following table illustrates the minimum regulatory capital our subsidiaries were required to maintain as of June 30, 2016 and the actual amounts of capital that were maintained on that date (amounts in millions):

Entity Name	Minimum Regulatory Capital Requirements	Capital Levels Maintained	Excess Net Capital
GAIN Capital Group, LLC	$ 28.4	$ 43.1	$ 14.7
GAIN Capital-Forex.com U.K., Ltd.	27.9	71.2	43.3
GAIN Capital Japan Co., Ltd.	1.4	10.0	8.6
GAIN Capital-Forex.com Hong Kong, Ltd.	1.9	4.2	2.3
GAIN Capital Forex.com Australia, Pty. Ltd.	0.7	2.6	1.9
Trade Facts, Ltd.	0.7	3.9	3.2
GAIN Capital-Forex.com Canada Ltd.	0.2	1.4	1.2
GAIN Capital Securities, Inc.	0.1	0.4	0.3
GAIN Global Markets, Inc.	0.2	0.3	0.1
Gain Capital UK, Ltd.	59.9	127.0	67.1
Gain Capital Singapore Pte, Ltd.	0.4	8.5	8.1
Gain Capital Australia Pty Ltd.	0.7	3.1	2.4
Global Assets Advisors, LLC	0.1	1.9	1.8
Gain Capital Payments Ltd.	0.7	0.7	—
Total	$ 123.3	$ 278.3	$ 155.0

Our futures commission merchant and forex dealer subsidiary, GAIN Capital Group, LLC, is subject to CFTC Net Capital Rule (Rule 1.17) and NFA Financial Requirement Sections 11 and 12. Under applicable provisions of these regulations, GAIN

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Capital Group, LLC is required to maintain adjusted net capital of the greater of $1.0 million or 8% of Customer and Non-Customer Maintenance Margin, or $20 million, plus 5% of all liabilities owed to customers and to eligible contract participant counterparties that are not an affiliate of the Forex Dealer Member and are not acting as a dealer exceeding $10 million, plus 10% of all liabilities the Forex Dealer Member owes to eligible contract participant counterparties acting as a dealer that are not an affiliate of the Forex Dealer Member. Net capital represents current assets less total liabilities as defined by CFTC Rule 1.17. Our current assets primarily consist of cash and cash equivalents reported on our balance sheet as cash, receivables from brokers and trading securities, which are generally short-term U.S. government securities. Our total liabilities include payables to customers, payables to brokers, accrued expenses, accounts payable, sales and marketing expense payable, introducing broker fees payable and other liabilities. From net capital we take certain percentage deductions against net assets held based on factors required by the Commodity Exchange Act to calculate adjusted net capital. Our net capital and adjusted net capital changes from day to day. As of June 30, 2016, GAIN Capital Group, LLC had net capital of approximately $43.1 million and net capital requirements of $28.4 million. As of June 30, 2016, the excess net capital of GAIN Capital Group, LLC was $14.7 million. We believe that we currently have sufficient capital to satisfy these on-going minimum net capital requirements. In accordance with CFTC regulation 1.12 and NFA Financial Requirements Section 1, a 20.0% decrease in GAIN Capital Group, LLC's net capital and a 30.0% decrease in excess net capital due to a planned equity withdrawal requires regulatory notification and/or approval.

GAIN Capital Forex.com U.K. Ltd., or GCUK1, GAIN Capital UK Limited, or GCUK2, and Trade Facts, Ltd., or Trade Facts, all three together the U.K. Entities, are all registered in the U.K. and are regulated by the Financial Conduct Authority in respect of their trading activity. The U.K. Entities are required to comply with relevant U.K. and E.U. legislation. In addition they must comply with the rules and guidance contained in the FCA Handbook of rules and guidance, or FCA Handbook.
GCUK1 is regulated by the FCA, as a full scope €730k IFPRU Investment Firm. GCUK1 is required to maintain the greater of $1.0 million (€730,000) or the Financial Resources Requirement, which is calculated as the sum of the firm's operational, credit, counterparty, concentration, market and forex risk. At June 30, 2016, GCUK1 maintained $43.3 million more than the minimum required regulatory capital for a total of 2.6 times the required capital and at all times maintained compliance with all applicable regulations.

GCUK2 is regulated by the FCA as a full scope €730k IFPRU Investment Firm. GCUK2 is required to maintain the greater of $1.0 million (€730,000) or the Financial Resources Requirement, which is calculated as the sum of the firm's operational, credit, counterparty, concentration, market and forex risk. At June 30, 2016, GCUK2 maintained $67.1 million more than the minimum required regulatory capital for a total of 2.1 times the required capital and at all times maintained compliance with all applicable regulations.

Effective from January 1, 2016, the FCA has introduced the addition of a capital conservation buffer and a countercyclical capital buffer in line with the requirements set out in Capital Requirements Directive, or CRD IV, Article 160 Transitional Provisions for Capital Buffers. This will require all firms to maintain an additional buffer on top of the minimum capital requirements. The required amount of buffer, which is a percentage of the firm's common equity tier 1 capital against the total risk exposure amount, will increase during a transitional period from January 1, 2016 to December 31, 2018. During that period, the minimum common equity tier 1 capital ratio requirement will increase from 5.125% to 7%. At June 30, 2016, the common equity tier 1 capital ratios of GCUK1 and GCUK2 were well in excess over the minimum requirements.

Trade Facts is regulated by the FCA as a BIPRU Limited License Firm. Trade Facts is required to maintain a base financial resources requirement of $0.1 million (€0.05 million) and a capital requirement of the higher of either credit risk plus market risk or fixed overhead requirement. At June 30, 2016, Trade Facts maintained $3.2 million more than the minimum required regulatory capital for a total of 5.6 times the required capital and at all times maintained compliance with all applicable regulations.

In July 2010, Congress passed the Dodd-Frank Wall Street Reform and Consumer Protection Act, or the Dodd-Frank Act. A number of significant provisions contained in the law affect, or will affect once implementing regulations are adopted by the appropriate federal agencies, our business. Among other things, the Dodd-Frank Act provides for additional regulation of swaps and security-based swaps, including some types of foreign exchange and metals derivatives in which we engage. The Dodd-Frank Act requires the registration of swap dealers and swap execution facilities with the CFTC and imposes significant regulatory requirements on swap dealers and swap execution facilities. Effective February 27, 2013, GAIN GTX, LLC, became provisionally registered with the CFTC and NFA as a swap dealer. Effective May 2016, GTX SEF, LLC became permanently registered with the CFTC as a swap execution facility. Certain of our other subsidiaries may be required to register, or may register voluntarily, as swap dealers and/or swap execution facilities. Swap dealers and swap execution facilities are subject to a comprehensive regulatory regime with new obligations for the swaps activities for which they are registered, including adherence to risk management policies, supervisory procedures, trade record and real time reporting requirements as well as

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proposed rules for new minimum capital requirements. The specific parameters of these swap dealer and swap execution facility requirements are being developed by the CFTC and other regulators. The full impact of the regulation on GAIN GTX, LLC, GTX SEF, LLC and any other of our subsidiaries that register as a swap dealer and/or swap execution facility remains unclear. It is likely, however, that these entities will face increased costs due to the registration and regulatory requirements listed above. Complying with the proposed regulation of swap dealers and swap execution facilities could require us to restructure our businesses, require extensive systems changes, require personnel changes or raise additional potential liabilities and regulatory oversight. Compliance with swap-related regulatory capital requirements may require us to devote more capital to our GTX business. The increased costs associated with compliance, and the changes that will be required in our OTC and clearing businesses, may adversely impact our results of operations, cash flows, or financial condition.
We are required to maintain cash on deposit with our liquidity providers in order to conduct our hedging activities. As of June 30, 2016, we had posted $218.1 million with liquidity providers compared to $121.2 million as of December 31, 2015, an increase of $97.0 million. The increase in cash posted with our liquidity providers resulted from trading activity by several larger futures accounts onboarded during the quarter. As of June 30, 2016, total client assets were $1.1 billion compared to $920.6 million as of December 31, 2015, an increase of $140.2 million. Total client assets represent amounts due to clients, including deposits and unrealized gains or losses arising from our clients’ open positions.
The table set forth below provides information regarding our total available liquidity as of June 30, 2016 and as of December 31, 2015.

(amounts in millions)	As of June 30, 2016	As of December 31, 2015
Cash and cash equivalents	$89.4	$ 171.9
Receivable from brokers	218.1	121.2
Net operating cash	307.5	293.1
Less: Minimum regulatory requirements	(123.3)	(114.5)
Payable to brokers	(4.8)	—
Free cash available[1]	$179.4	$ 178.6

(1) Our Convertible Senior Notes due 2018 and 2020 are not factored into our assessment of current liquidity due to their long maturity dates.

Cash and cash equivalents are highly liquid investments having a maturity of three months or less. Free cash is a non-GAAP financial measure of the cash that is available in our business operations and assists the Company in analyzing our ability to fund our operations and grow through additional acquisitions. This non-GAAP financial measure has certain limitations, including that it does not have a standardized meaning and, therefore, our definition may be different from similar non-GAAP financial measures used by other companies and/or analysts. Thus, it may be more difficult to compare our free cash calculations to those of other companies. We believe our reporting of free cash assists investors in evaluating our operating performance. However, because free cash is not calculated in accordance with GAAP, such measure should be considered in addition to, but not as a substitute for, other measures calculated in accordance with GAAP, such as cash and cash equivalents. The following table reconciles cash and cash equivalents to free cash.

Convertible Senior Notes

On November 27, 2013, we issued $80 million aggregate principal amount of our 4.125% Convertible Senior Notes due 2018 in a private offering to qualified institutional buyers pursuant to Rule 144A under the Securities Act of 1933, as amended. The net proceeds from the note offering were approximately $77.2 million, after deducting discounts and commissions to the initial purchasers and offering expenses payable by the company.

The notes bear interest at a fixed rate of 4.125% per year, payable semiannually in arrears on June 1 and December 1 of each year, commenced on June 1, 2014. The semi-annual interest payment on the notes will equal approximately $1.7 million, payable in June and December. The notes are convertible into cash, shares of our common stock, or a combination thereof, at our election, subject to certain limitations. The notes will mature on December 1, 2018, unless earlier converted, redeemed or repurchased. We may not redeem the notes prior to December 1, 2016. During the six months ended June 30, 2016, the Company repurchased $1.9 million in principal amount of the convertible senior notes due in 2018, for an aggregate purchase price of $1.7 million.

As part of the consideration for our acquisition of City Index, we have issued 4.125% unsecured convertible senior notes with an aggregate principal amount of $60,000,000. These notes bear interest at a fixed rate of 4.125% per year, payable semiannually in arrears on April 1 and October 1 of each year. The notes are convertible into cash, shares of our common stock, or a combination thereof, at our election, subject to certain limitations. The notes will mature on April 1, 2020, unless earlier converted, redeemed or repurchased. We may not redeem the notes until the two year period prior to the maturity date of the notes.

In May 2008, the Financial Accounting Standards Board, or FASB, issued FASB Staff Position No. APB 14-1, Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion (Including Partial Cash Settlement), which has subsequently been codified as Accounting Standards Codification 470-20, Debt with Conversion and Other Options, or ASC 470-20. ASC 470-20 requires an entity to separately account for the liability and equity components of convertible debt instruments whose conversion may be settled entirely or partially in cash (such as our 4.125% Convertible Senior Notes and the convertible senior notes issued in connection with our acquisition of City Index) in a manner that reflects the issuer's economic interest cost for non-convertible debt. The liability component of the notes is initially valued at the fair value of a similar debt instrument that does not have an associated equity component and was reflected as a liability in our condensed consolidated balance sheet in an amount equal to the fair value, which, as of June 30, 2016 and December 31, 2015, was $122.3 million and $121.7 million, respectively. The equity component of the notes is included in the additional paid-in capital section of our stockholders' equity on our condensed consolidated balance sheet, and the value of the equity component is treated as original issue discount for purposes of accounting for the debt component. The equity component, as of June 30, 2016 and December 31, 2015, was $27.4 million and $27.5 million, respectively. This original issue discount is amortized to non-cash interest expense over the term of the notes, and, as a result, we record a greater amount of interest expense in current periods. Accordingly, we will report lower net income in our financial results than would have been recorded had we reflected only cash interest expense in our consolidated income statement because ASC 470-20 will require the interest expense associated with the notes to include both the current period's amortization of the debt discount and the notes' coupon interest, which could adversely affect our reported or future financial results, the trading price of our common stock and the trading price of the notes.

In addition, under certain circumstances, convertible debt instruments whose conversion may be settled entirely or partly in cash (such as our 4.125% Convertible Senior Notes and the convertible senior notes issued in connection with our acquisition of City Index) are currently accounted for using the treasury stock method. Under this method, the shares issuable upon conversion of the notes are not included in the calculation of diluted earnings per share unless the conversion value of the notes exceeds their principal amount at the end of the relevant reporting period. If the conversion value exceeds their principal amount, then, for diluted earnings per share purposes, the notes are accounted for as if the number of shares of common stock that would be necessary to settle the excess, if we elected to settle the excess in shares, were issued. The accounting standards in the future may not continue to permit the use of the treasury stock method. If we are unable to use the treasury stock method in accounting for the shares, if any, issuable upon conversion of the notes, then our diluted earnings per share could be adversely affected.

Cash Flow

The following table sets forth a summary of our cash flow for the six months ended June 30, 2016 and the six months ended June 30, 2015 (amounts in thousands):

	For the Six Months Ended June 30,	
	2016	2015
Cash provided by/(used for) operating activities	$(53,246)	$14,713
Cash used for investing activities	(12,185)	(11,779)
Cash used for financing activities	(11,267)	(12,379)
Effect of exchange rate changes on cash and cash equivalents	(5,743)	5,116
Decrease in cash and cash equivalents	$(82,441)	$(4,329)

Cash used for operating activities was $53.2 million for the six months ended June 30, 2016, compared to cash provided by operating activities of $14.7 million for the six months ended June 30, 2015.

For the six months ended June 30, 2016, receivables from brokers reduced $98.0 million of operating cash as opposed to $12.4 million provided to operating cash in the six months ended June 30, 2015. In addition, net income contributed

$20.3 million for the six months ended June 30, 2016, compared to a reduction in operating cash of $0.9 million for the six months ended June 30, 2015. Finally, cash outflows for accrued compensation were $3.1 million for the six months ended June 30, 2016, as compared to $11.2 million for the six months ended June 30, 2015.

Cash used for investing activities was $12.2 million for the six months ended June 30, 2016, compared to $11.8 million for the six months ended June 30, 2015. The increase was primarily due to increased purchases of property and equipment.

Cash used for financing activities was $11.3 million for the six months ended June 30, 2016, compared to cash used for financing activities of $12.4 million for the six months ended June 30, 2015. The reduction in cash used was primarily due to a deferred payment for the acquisition of GFT in 2015, with no similar expenditures in 2016, partially offset by the purchase of treasury shares and the repurchase of convertible notes in 2016, with no similar expenditures in 2015.

Capital Expenditures

Capital expenditures were $12.2 million for the six months ended June 30, 2016, compared to $8.5 million for the six months ended June 30, 2015. Capital expenditures for both periods primarily related to the development of our trading platforms and websites.

Contractual Obligations

For the six months ended June 30, 2016, there were no significant changes to our vendor or operating lease obligations from those disclosed in the section “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in our Annual Report on Form 10-K for the year ended December 31, 2015, as amended on May 2, 2016.

Off-Balance-Sheet Arrangements

At June 30, 2016 and December 31, 2015, we did not have any off-balance-sheet arrangements.

Critical Accounting Policies and Estimates

Our Unaudited Condensed Consolidated Financial Statements and accompanying notes have been prepared in accordance with GAAP applied on a consistent basis. The preparation of these financial statements requires us to make certain estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the periods presented. We evaluate these estimates and assumptions on an ongoing basis. We base our estimates on the information currently available to us and on various other assumptions that we believe to be reasonable under the circumstances. Actual results may differ materially from these estimates under different assumptions or conditions.

An accounting policy is deemed to be critical if it requires an accounting estimate to be made based on assumptions about matters that are highly uncertain at the time the estimate is made, if different estimates reasonably could have been used, or if changes in the estimate that are reasonably likely to occur periodically could materially impact the financial statements. While our significant accounting policies are described in more detail in the notes to our Consolidated Financial Statements included in our Annual Report on Form 10-K for the year ended December 31, 2015, as amended on May 2, 2016, we believe the following accounting policies to be critical to the estimates and assumptions used in the preparation of our Unaudited Condensed Consolidated Financial Statements.

Revenue Recognition

Retail revenue comprises trading and commission revenue from our retail segment. OTC trading includes forex trading, or forex, metals trading, contracts-for-difference, or CFDs, and spread-betting (in markets which do not prohibit such transactions), as well as other financial products.

Gains or losses are realized when customer transactions are liquidated. Unrealized gains or losses on trading positions are revalued at prevailing foreign currency exchange rates (the difference between contract price and market price) at the date of the balance sheet and are included in Receivables brokers, Payables to customers, as well as Payables to brokers on the Consolidated Balance Sheet. Changes in net unrealized gains or losses are recorded in Retail revenue on the Consolidated Statements of Income and Comprehensive Income. Retail revenue is recorded on a trade date basis.

Institutional revenue consists of revenue from our institutional segment, which provides a proprietary trading platform and sales and trading services to institutions. Revenue from the institutional segment is generated primarily through commissions or spreads on trades executed on the GTX platform or by voice-brokers. We act as an agent for the trades executed on the GTX platform and therefore do not assume any market or credit risk in connection with those transactions. Revenues are booked on a trade date basis.

Futures revenue consists of revenue from our futures segment, which offers exchange-based trading execution services, focusing on the indices, agricultural hedging, and commodities sectors. Revenues in this business are generated through commissions, which are earned for executing our customers' trades. These revenues are booked on a trade date basis. We act in an agency capacity with respect to the clearing of trades, but as a principal with respect to fees paid to introducing brokers in the futures business. Therefore, we take no market risk in this business.

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Income Taxes

Current income tax is calculated on the basis of the tax laws enacted or substantially enacted at the balance sheet date in the countries where we operate and generate taxable income.

Deferred income tax expenses are determined using the asset and liability method, under which deferred tax assets and liabilities are determined based upon the temporary differences between the consolidated financial statements and the income tax basis, using currently enacted tax rates. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in our condensed consolidated statements of operations and comprehensive income in the period of enactment. We routinely evaluate all deferred tax assets to determine the likelihood of their realization.

We use estimates in determining income tax positions under ASC 740-10-25, Income Taxes. Although we believe that our tax estimates are reasonable, the ultimate tax determination involves significant judgment and is subject to audit by tax authorities in the ordinary course of business.

To the extent we are required to pay amounts in excess of our reserves, our effective income tax rate in a given financial statement period could be materially affected. An unfavorable tax settlement could require use of our cash and result in an increase in our effective income tax rate in the period of resolution.

In accordance with ASC 740, we evaluate a tax position to determine whether it is more likely than not that the tax position will be sustained upon examination, based on the technical merits of the position. If the position does not meet a more likely than not threshold, a tax reserve is established and no income tax benefit is recognized. We are audited by U.S. federal and state, as well as foreign, tax authorities. In some cases, many years may elapse before a tax return containing tax positions for which an ASC 740 reserve has been established is examined and an audit is completed. As audit settlements are reached, we adjust the corresponding reserves, if required, in the period in which the final determination is made. While it is difficult to predict the final outcome or timing of a particular tax matter, we believe that our reserves for uncertain tax positions are recorded pursuant to the provisions of ASC 740.

We operate a permanent reinvestment strategy, under which earnings derived from foreign business remain invested in the Company’s foreign subsidiaries. We have no plans to repatriate these earnings.

Impairment of Long-Lived Assets

In accordance with ASC 360-10, Property, Plant and Equipment, we periodically evaluate the carrying value of long-lived assets when events and circumstances warrant such review. The carrying value of a long-lived asset is considered impaired when the anticipated undiscounted cash flow from such an asset is separately identifiable and is less than the carrying value. In that event, a loss is recognized in the amount by which the carrying value exceeds the fair market value of the long-lived asset.

Convertible Senior Notes

In November 2013, we issued $80 million aggregate principal amount of our 4.125% Convertible Senior Notes due 2018. In April 2015, we issued $60 million aggregate principal amount of our 4.125% Unsecured Convertible Senior Notes due 2020. These notes are hybrid instruments, having both a debt and an equity component, and we accounted for them in accordance with relevant guidance for such instruments. The debt component includes an initial discount determined by the notes' coupon rate and prevailing market interest rates. The equity component is included in Additional Paid in Capital. The discount will amortize over the life of the notes, as we record interest expense.The notes will mature on December 1, 2018 and April 1, 2020, respectively, unless earlier converted, redeemed or repurchased. We may not redeem the notes prior to December 1, 2016 and April 1, 2018, respectively. During the six months ended June 30, 2016, we repurchased $1.9 million in principal amount of the convertible senior notes due in 2018, which had an aggregate fair value of $1.6 million, for an aggregate purchase price of $1.7 million.

Business Combinations

In April 2015, we completed our acquisition of City Index. We accounted for City Index in accordance with accounting guidance for business combinations, which required identifying the acquirer, determining the acquisition date, determining the purchase price and determining fair values for assets and liabilities assumed, as well as calculating goodwill.

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Goodwill and Intangible Assets

Relevant accounting guidance requires purchased intangible assets other than goodwill to be amortized over their useful life unless the useful life is determined to be indefinite. If the asset is determined to have a finite life in the future, we will amortize the carrying value over the remaining useful life at that time. Our URLs (foreignexchange.com and forex.com) are indefinite life intangible assets and are, therefore, not amortized. We compare the recorded value of the indefinite life intangible assets and goodwill to their fair value on an annual basis and whenever circumstances arise that indicate that impairment may have occurred.

Accrued Compensation

We make estimates in determining our quarterly and annual accrued non-share-based compensation. A significant portion of our employee incentive compensation programs are discretionary. Each quarter and year-end we determine the amount of discretionary cash bonus pools. We also review compensation throughout the year to determine how overall performance compares to management’s expectations. We take these and other factors, including historical performance and our performance relative to budget, into account in reviewing accrued discretionary cash compensation estimates quarterly and adjusting accrual rates as appropriate. Changes to these factors could cause a material increase or decrease in the amount of compensation expense that we report in a particular period.

Derivatives

Forex, metals and CFDs allow for the exchange of the difference in value of a particular asset such as a stock index, energy product, or gold contracts, between the time at which a contract is opened and the time at which it is closed. Our open positions and those of our retail customers are considered derivatives under FASB ASC 815. Therefore, they are accounted for at fair value and are included in Receivables from brokers, Payables to customers, and Payables to brokers in the condensed consolidated balance sheet.

Share Based Payments

ASC 718-10, Compensation – Stock Compensation, requires measurement of share based payment arrangements at fair value and recognition of compensation cost over the service period, net of estimated forfeitures. The fair value of restricted stock units is determined based on the number of units granted and the grant date fair value of GAIN Capital Holding, Inc.’s common stock.

We measure the fair value of stock options on the date of grant using the Black-Scholes option pricing model which requires the use of several estimates, including:

- The volatility of our stock price;
- The expected life of the option;
- Risk free interest rates; and
- Expected dividend yield.

The use of different assumptions in the Black-Scholes pricing model would result in different amounts of stock-based compensation expense. Furthermore, if different assumptions are used in future periods, stock-based compensation expense could be materially impacted in the future.

The expected volatility was calculated based upon the volatility of public financial services companies, or companies in similar industries. The average risk free rate is based upon the five year bond rate converted to a continuously compounded interest rate.

Contingent Consideration

Under the agreements governing certain of our business combinations, we are obligated to make contingent payments that are Level 3 financial liabilities. These contingent payments are recorded under Accrued expenses and other liabilities on our condensed consolidated balance sheet. The fair value of these payments is determined using prevailing interest rates as of the balance sheet date and forecasts of the acquired company's performance, estimation of which does not have any basis in quoted or observable markets. Interest expense associated with our contingent consideration is included in earnings in 2015. In

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December 2015, we entered into an agreement with the former owners of Trade Facts to satisfy all remaining obligations under the contingent earn-out arrangement we entered into in connection with the Trade Facts acquisition for a one-time payment of $1.5 million, which was paid in early 2016.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Interest Rate Risk

Interest rate risk arises from the possibility that changes in interest rates will impact our consolidated financial statements. Our net interest revenue is directly affected by the short-term interest rates we earn from re-investing our cash and our customers' cash. As a result, a portion of our interest income will decline if interest rates fall. Short-term interest rates are highly sensitive to factors that are beyond our control, including general economic conditions and the policies of various governmental and regulatory authorities. Our cash and cash equivalents and customer cash and cash equivalents are held in cash and cash equivalents including cash at banks, deposits at liquidity providers, in money market funds that invest in short-term U.S. government securities and in United States and Canadian Imperial Bank of Commerce treasury bills. The interest rates earned on these deposits and investments affect our interest revenue. Based on the prevailing interest rates at June 30, 2016, an immediate 100 basis point increase in short-term interest rates would result in approximately $10.1 million more in annual pretax income.

Foreign Currency Exposures

Currency risk arises from the possibility that fluctuations in foreign exchange rates will impact the value of our earnings and assets. Entities that have assets and liabilities denominated in currencies other than the primary economic environment in which the entity operates are subject to re-translation.

We monitor our exchange rate exposure and may make settlements to reduce our exposure. We do not currently take proprietary directional market positions.

Historically we have experienced relatively small impacts due to the composition of our balance sheet and the lack of volatility between exchanges rates in the jurisdictions in which we operate. Our exposure to foreign currency exchange rates may increase in the future and we may consider entering into hedging transactions to mitigate our exposure to foreign currency exchange rates. These hedging transactions may not be successful.

Credit Risk

Our trading operations require a commitment of our capital and involve risk of loss because of the potential that a customer’s losses may exceed the amount of cash in their account. While we are able to closely monitor each customer’s exposure, it does not guarantee our ability to eliminate negative customer account balances prior to an adverse currency price change or other market events, such as the extreme volatility in the Swiss franc following the SNB market event in January 2015. Changes in market conditions or unforeseen extreme market events could result in our customers experiencing losses in excess of the funds they have deposited with us. In such an event, we may not be able to recover the negative client equity from our customers, which could materially adversely affect our results of operations. In addition, if we cannot recover funds from our customers, we may nonetheless be required to fund positions we hold with our liquidity providers or other third parties and, in such an event, our available funds may not be sufficient to meet our obligations to these third parties, which could materially adversely affect our business, financial condition, results of operations and cash flows.

In order to help mitigate this risk, we require that each trade must be collateralized in accordance with our margin policies described below. Each customer is required to have minimum funds in their account for opening positions, which we refer to as the initial margin, and for maintaining positions, which we refer to as maintenance margin, depending on the product being traded. Margin requirements are expressed as a percentage of the customer’s total position in that product, and the customer’s total margin requirement is based on the aggregate margin requirement across all of the positions that a customer holds at any one moment in time. Each net position in a particular product is margined separately. Accordingly, we do not net across different positions, thereby following a more conservative margin policy. Our systems automatically monitor each customer’s margin requirements in real time, and we confirm that each of our customers has sufficient cash collateral in his or her account before we execute their trades. We may also adjust required customer margins (both initial and maintenance) from time to time based on our monitoring of various factors, including volatility and liquidity. If at any point in time a customer's trading position does not comply with the applicable margin requirement, the position may be automatically liquidated, partially or entirely, in accordance with our margin policies and procedures. This policy protects both us and the customer. Our margin and liquidation policies are set forth in our customer agreements.

We are also exposed to potential credit risk relating to the counterparties with which we hedge our trades and the financial institutions with which we deposit cash. We mitigate these risks by transacting with several of the largest financial institutions in the world. In the event that our access to one or more financial institutions becomes limited, our ability to hedge may be impaired.

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Market Risk
We are exposed to market risk in connection with our retail trading activities. Because we act as counterparty to our retail customers' transactions, we are exposed to risk on each trade that the market price of our position will decline. Accordingly, accurate and efficient management of our net exposure is a high priority, and as such we have developed both automated and manual policies and procedures to manage our exposure. These risk-management policies and procedures are established and reviewed regularly by the Risk Committee of our Board of Directors. Our risk-management policies require quantitative analyses by currency pair, as well as assessment of a range of market inputs, including trade size, dealing rate, customer margin and market liquidity. Our risk-management procedures require our team of senior traders to monitor risk exposure on a continuous basis and update senior management both informally over the course of the trading day and formally through intraday and end of day reporting. A key component of our approach to managing market risk is that we do not initiate market positions for our own account in anticipation of future movements in the relative prices of products we offer. To facilitate our risk-management activities, we maintain levels of capital in excess of those currently required under applicable regulations. As of June 30, 2016, we maintained capital levels of $278.3 million, which represented approximately 2.3 times the capital we were required to hold under applicable regulations.
Cash Liquidity Risk
In normal conditions, our market making business of providing online forex trading and related services is self financing as we generate sufficient cash flows to pay our expenses as they become due. As a result, we generally do not face the risk that we will be unable to raise cash quickly enough to meet our payment obligations as they arise. Our cash flows, however, are influenced by customer trading volume, currency volatility and liquidity in foreign currency pairs in which we have positions. These factors are directly impacted by domestic and international market and economic conditions that are beyond our control. In an effort to manage this risk, we have secured a substantial liquidity pool by establishing trading relationships with several financial institutions offering prime brokerage services across a variety of products, some on exchanges and some OTC. We believe that these relationships provide us with sufficient access to liquidity to allow us to consistently execute significant trade volumes when needed in varying market conditions. We generally maintain collateral on deposit, which includes our funds and our customers' funds. Collateral on deposit was $232.8 million and $133.7 million at June 30, 2016 and December 31, 2015, respectively. In addition, our trading operations involve the risk of losses due to the potential failure of our customers to perform their obligations under the transactions we enter into with them, which increases our exposure to cash liquidity risk. To reduce this risk, our margin policy requires that we mark our customers' accounts to market each time the market price of a position in their portfolio changes and provides for automatic liquidation of positions, as described above.

Operational Risk
Our operations are subject to broad and various risks resulting from technological interruptions, failures or capacity constraints in addition to risks involving human error or misconduct. Regarding technological risks, we are heavily dependent on the capacity and reliability of the computer and communications systems supporting our operations. We have established a program to monitor our computer systems, platforms and related technologies and to promptly address issues that arise. We have also established disaster recovery facilities in strategic locations to ensure that we can continue to operate with limited interruptions in the event that our primary systems are damaged. As with our technological systems, we have established policies and procedures designed to monitor and prevent both human errors, such as clerical mistakes or incorrectly placed trades, as well as human misconduct, such as unauthorized trading, fraud or negligence. In addition, we seek to mitigate the impact of any operational issues by maintaining insurance coverage for various contingencies.
Regulatory Capital Risk
Various domestic and foreign government bodies and self-regulatory organizations responsible for overseeing our business activities require that we maintain specified minimum levels of regulatory capital in our operating subsidiaries. If not properly monitored or adjusted, our regulatory capital levels could fall below the required minimum amounts set by our regulators, which could expose us to various sanctions ranging from fines and censure to

imposing partial or complete restrictions on our ability to conduct business. To mitigate this risk, we continuously evaluate the levels of regulatory capital at each of our operating subsidiaries and adjust the amounts of regulatory capital in each operating subsidiary as necessary to ensure compliance with all regulatory capital requirements. These requirements may increase or decrease from time to time as required by regulatory authorities. We also maintain excess regulatory capital to provide liquidity during periods of unusual or unforeseen market volatility, and we intend to continue to follow this policy. In addition, we monitor regulatory developments regarding capital requirements so that we may be prepared for increases in the required minimum levels of regulatory capital that may occur from time to time in the future.

Regulatory Risk

We operate in a highly regulated industry and are subject to the risk of sanctions from U.S., federal and state, and international authorities if we fail to comply adequately with regulatory requirements. Failure to comply with applicable regulations could result in financial, operational and other penalties. Our authority to conduct business could be suspended or revoked. In addition, efforts to comply with applicable regulations may increase our costs or limit our ability to pursue certain business opportunities. Federal, state, and international regulations significantly limit the types of activities in which we may engage.

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ITEM 4. CONTROLS AND PROCEDURES

The Company maintains disclosure controls and procedures that are designed to ensure that information required to be disclosed in the Company's reports under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to management, including our Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO") as appropriate, to allow timely decisions regarding required disclosure.

On May 2, 2016, the Company filed an amended Annual Report on Form 10-K/A in which the management of the Company concluded that a material weakness in internal control over financial reporting existed at December 31, 2015, resulting from the manner in which the Company accounted for income taxes for the years ended December 31, 2013 and 2014 and for certain quarters of 2015 under ASC 740, "Income Taxes". These errors related primarily to the manner in which certain intercompany payables and receivables between domestic and overseas subsidiaries of the Company were treated for accounting and tax purposes during the impacted periods. While the Company has made good progress in implementing its remediation plan, as described below under "- Remediation Plan", the management of the Company has concluded that the material weakness identified in the Form 10-K/A continues to exist as of the date of this report.

In light of this material weakness in internal control over financial reporting, the CEO and CFO have concluded that, as of June 30, 2016, the Company's disclosure controls and procedures were not effective to ensure that information the Company is required to disclose in reports that the Company files or submits under the Exchange Act is recorded, processed, summarized, or reported, within the time periods specified in rules and forms of the SEC, and is accumulated and communicated to management as appropriate to allow timely decisions regarding required disclosures.

Remediation Plan

Since identifying the material weakness in our internal control over financial reporting discussed above, the Company's management has implemented formal preventive and detective controls requiring the enhanced review of the accounting for and tax treatment of intercompany payables and receivables, particularly those between domestic and overseas subsidiaries. The Company has also added new personnel to its tax team specializing in tax provision work, and continues to review resource requirements and capabilities in its finance team to determine whether roles and responsibilities need to be realigned and/or new personnel added. The Company has also recently engaged a new external tax advisor to advise on provision work and is reviewing its other external service providers. The management of the Company is continuing to review these matters to ensure that similar failures of internal control over financial reporting do not recur.

PART II – OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

For the six months ended June 30, 2016, we incorporate herein by reference the discussions set forth under "Legal Proceedings" in Part I, Item 3 of our Form 10-K for the year ended December 31, 2015, as amended on May 2, 2016. The following supplements and amends those discussions.

As previously disclosed, on February 16, 2012, we received a Letter of Claim on behalf of certain individuals who had lost money in an investment scheme operated by a third-party money management firm, incorporated in the United Kingdom, which has since been closed down by the United Kingdom's Financial Services Authority. The investment firm, Cameron Farley Ltd, had opened a corporate account with us and invested the individuals' money, representing such funds as its own, while operating a fraudulent scheme. Though a complaint has been filed and served on us, the claimants requested, and we agreed, to follow the United Kingdom's Pre-Action Protocol, a pre-litigation process intended to resolve matters without the need to engage in formal litigation. We submitted a Response to the Letter before Claim on July 4, 2012. On July 5, 2012, we received a substantially similar Letter of Claim on behalf of further individuals. Subsequently, the parties agreed to consolidate claims by those other similarly situated individuals with the pending Pre-Action Protocol process. The parties agreed it would be more appropriate for the proceedings to be dealt with in the Commercial Court and the matters were transferred pursuant to Consent Orders dated March 14, 2013. We subsequently filed an application for strike out and/or summary judgment in respect of all claims on March 15, 2013. The claimants filed an answer to our motion on June 2, 2013 and subsequently we filed a response to this answer on July 15, 2013. A hearing was held on our application for strike out and/or summary judgment on September 18 and 19, 2013. After the hearing, the judge asked the claimants to respond in writing to his additional questions from the hearing. The claimants had until October 11, 2013 to provide answers and we were given until November 1, 2013 to respond. On February 26, 2014, the judge denied our motion for strike out/summary judgment. Case management conferences

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were held by the Court on October 17, 2014 and June 18, 2015. On August 3, 2015, the claimants filed an Amended Master Particulars of Claim, and on October 6, 2015, we filed an Amended Defense. The parties completed discovery and provided disclosure on October 30, 2015. On April 28, 2016, the parties entered into a Settlement Agreement in which we agreed to make a one-time settlement payment in exchange for a full and final settlement of all claims.

ITEM 1A. RISK FACTORS

Our Annual Report on Form 10-K for the fiscal year ended December 31, 2015, as amended on May 2, 2016, describes the various important risk factors facing our business in Part I, Item 1A under the heading “Risk Factors.” There have been no material changes from the risk factors disclosed in that section of our Annual Report on Form 10-K, as amended, which is incorporated herein by reference.

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

(a) Unregistered Sales of Equity Securities

None.

(b) Purchase of Equity Securities by the Issuer

The following table presents information regarding our purchases of common stock in the six months ended June 30, 2015:

Period(1)	Total Number of Shares Purchased(1)	Average Price Paid per Share(1)	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs(1)	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs(1)(2)
January 1, 2016-January 31, 2016	190,000	$ 7.00	190,000	$ 2,106,089
February 1, 2016-February 29, 2016	200,000	$ 6.94	200,000	$ 8,528,167
March 1, 2016-March 31, 2016	110,000	$ 7.36	110,000	$ 14,903,590
April 1, 2016-April 30, 2016	251,924	$ 6.66	251,924	$ 13,220,906
May 1, 2016-May 31, 2016	24,000	$ 6.86	24,000	$ 13,055,887
June 1, 2016-June 30, 2016	—	$ —	—	$ —

(1) On May 16, 2011, the Company announced that its Board of Directors approved a share repurchase plan, which authorizes the expenditure of up to $10.0 million for the purchase of the Company’s common stock. On May 6, 2013, the Company announced that the Board of Directors approved to increase the total amount available for the purchase of the Company's common stock by $15.0 million. On May 3, 2016, the Company's Board of Directors approved to increase the total amount available for the purchase of the Company's common stock by an additional $15.0 million, including amounts allocable to certain prior purchases made in March, April and May 2016.

(2) Transaction fees related to the share purchases are deducted from the total remaining allowable expenditure amount.

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ITEM 6. EXHIBITS

Exhibit No.	Description
31.1	Certification of Chief Executive Officer pursuant to rule 13a-14(a) under the Securities Exchange Act of 1934, as amended.*
31.2	Certification of Chief Financial Officer pursuant to rule 13a-14(a) under the Securities Exchange Act of 1934, as amended.*
32.1	Certification of Chief Executive Officer as required by section 906 of the Sarbanes-Oxley Act of 2002.*
32.2	Certification of Chief Financial Officer as required by section 906 of the Sarbanes-Oxley Act of 2002.*
101.INS	XBRL Instance
101.SCH	XBRL Taxonomy Extension Schema
101.CAL	XBRL Taxonomy Extension Calculation
101.DEF	XBRL Taxonomy Extension

	Definition
101.LAB	XBRL Taxonomy Extension Labels
101.PRE	XBRL Taxonomy Extension Presentation

* Filed herewith.

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SIGNATURES

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

Date: August 8, 2016	/s/ Glenn H. Stevens Glenn H. Stevens President and Chief Executive Officer (Principal Executive Officer)
Date: August 8, 2016	/s/ Nigel Rose Nigel Rose Chief Financial Officer (Principal Financial and Accounting Officer)

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EXHIBIT INDEX

Exhibit No.	Description
31.1	Certification of Chief Executive Officer pursuant to rule 13a-14(a) under the Securities Exchange Act of 1934, as amended.*
31.2	Certification of Chief Financial Officer pursuant to rule 13a-14(a) under the Securities Exchange Act of 1934, as amended.*
32.1	Certification of Chief Executive Officer as required by section 906 of the Sarbanes-Oxley Act of 2002.*
32.2	Certification of Chief Financial Officer as required by section 906 of the Sarbanes-Oxley Act of 2002.*
101.INS	XBRL Instance
101.SCH	XBRL Taxonomy Extension Schema
101.CAL	XBRL Taxonomy Extension Calculation
101.DEF	XBRL Taxonomy Extension

	Definition
101.LAB	XBRL Taxonomy Extension Labels
101.PRE	XBRL Taxonomy Extension Presentation

* Filed herewith.

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