

GAIN Capital Holdings, Inc.  
Form 10-Q  
November 06, 2018  
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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-Q

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

For the Quarterly Period Ended September 30, 2018

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

For the Transition Period from \_\_\_\_\_ to \_\_\_\_\_  
Commission File Number 001-35008

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

Delaware 20-4568600  
(State or other jurisdiction of (I.R.S. Employer  
incorporation or organization) Identification No.)

Bedminster One 07921  
135 Route 202/206  
Bedminster, New Jersey  
(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.  Yes  No  
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

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

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

As of October 26, 2018, the registrant had 44,281,501 shares of common stock, \$0.00001 par value per share, outstanding.

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FORM 10-Q FOR THE QUARTER ENDED SEPTEMBER 30, 2018

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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)

	September 30, 2018	December 31, 2017
<b>ASSETS:</b>		
Cash and cash equivalents	\$362,345	\$209,688
Cash and cash equivalents held for customers	887,282	978,828
Receivables from brokers	57,452	78,503
Property and equipment, net	33,457	40,742
Intangible assets, net	36,195	61,969
Goodwill	28,044	33,036
Other assets	37,489	45,881
Total assets	\$1,442,264	\$1,448,647
<b>LIABILITIES AND SHAREHOLDERS' EQUITY:</b>		
<b>Liabilities</b>		
Payables to customers	\$887,282	\$978,828
Payables to brokers	1,754	2,789
Accrued compensation and benefits	11,118	10,104
Accrued expenses and other liabilities	38,031	33,947
Income tax payable	7,461	599
Convertible senior notes	136,864	132,221
Total liabilities	\$1,082,510	\$1,158,488
<b>Commitments and contingent liabilities</b>		
Redeemable non-controlling interests	\$2,543	\$4,411
<b>Shareholders' equity</b>		
Common stock (\$0.00001 par value; 120 million shares authorized, 54,355,426 shares issued and 44,335,477 shares outstanding as of September 30, 2018; 120 million shares authorized, 53,612,340 shares issued and 45,152,299 shares outstanding as of December 31, 2017)	\$—	\$—
Additional paid-in capital	241,124	235,659
Retained earnings	209,157	122,686
Accumulated other comprehensive loss	(24,538	) (15,670 )
Treasury stock, at cost (10,019,949 shares at September 30, 2018 and 8,460,041 at December 31, 2017)	(68,532	) (56,927 )
Total shareholders' equity	357,211	285,748
Total liabilities and shareholders' equity	\$1,442,264	\$1,448,647

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 Operations and Comprehensive Income

(Unaudited)

(in thousands, except share and per share data)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
REVENUE:				
Retail revenue	\$82,917	\$62,143	\$239,069	\$180,153
Futures revenue	8,666	9,031	30,440	29,176
Other revenue	1,171	1,229	1,655	3,062
Total non-interest revenue	92,754	72,403	271,164	212,391
Interest revenue	3,305	1,621	8,206	3,703
Interest expense	518	264	1,284	563
Total net interest revenue	2,787	1,357	6,922	3,140
Net revenue	\$95,541	\$73,760	\$278,086	\$215,531
EXPENSES:				
Employee compensation and benefits	\$22,853	\$20,811	\$69,664	\$64,345
Selling and marketing	10,215	6,402	22,953	23,154
Referral fees	8,148	12,924	30,043	42,677
Trading expenses	5,770	4,741	17,122	15,075
General and administrative	12,207	11,221	38,899	32,285
Depreciation and amortization	4,685	4,373	15,394	12,322
Purchased intangible amortization	3,504	3,524	10,784	10,407
Communications and technology	5,507	4,635	16,393	14,161
Bad debt provision	334	143	1,734	49
Restructuring expenses	—	—	25	—
Contingent provision	4,975	—	4,975	—
Impairment of investment	—	—	(130)	—
Total operating expense	78,198	68,774	227,856	214,475
OPERATING PROFIT	17,343	4,986	50,230	1,056
Interest expense on long term borrowings	3,404	2,985	10,132	8,344
Loss on extinguishment of debt	—	4,944	—	4,944
INCOME/(LOSS) BEFORE INCOME TAX EXPENSE/(BENEFIT)	13,939	(2,943)	40,098	(12,232)
Income tax (benefit)/expense	3,970	97	11,383	(4,300)
Equity in net loss of affiliate	—	(40)	—	(94)
Net income/(loss) from continuing operations	9,969	(3,080)	28,715	(8,026)
Income from discontinued operations, including gain on sale of \$69,439, net of income tax of \$3,222	2,344	725	67,330	977
NET INCOME/(LOSS)	12,313	(2,355)	96,045	(7,049)
Less income attributable to non-controlling interest	137	225	638	463
NET INCOME/(LOSS) APPLICABLE TO GAIN CAPITAL HOLDINGS, INC.	12,176	(2,580)	95,407	(7,512)
Other comprehensive income:				
Foreign currency translation adjustment	(3,185)	6,758	(8,868)	19,059
COMPREHENSIVE INCOME APPLICABLE TO GAIN CAPITAL HOLDINGS, INC.	\$8,991	\$4,178	\$86,539	\$11,547

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		Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Total	
	Outstanding Shares	Treasury Amount					
BALANCE—December 31, 2017	45,152,299	\$ —	\$(56,927)	\$ 235,659	\$ 122,686	\$ (15,670 )	\$ 285,748
Net income applicable to Gain Capital Holdings, Inc.	—	—	—	—	95,407	—	95,407
Exercise of options	87,000	—	—	597	—	—	597
Conversion of restricted stock into common stock	614,551	—	—	—	—	—	—
Issuance of common stock for the employee stock purchase plan	41,535	—	—	314	—	—	314
Purchase of treasury stock	(1,550,504 )	—	(11,530 )	—	—	—	(11,530 )
Shares withheld for net settlements of share-based awards	(9,404 )	—	(75 )	—	—	—	(75 )
Share-based compensation	—	—	—	4,554	—	—	4,554
Adjustment to fair value of redeemable non-controlling interests	—	—	—	—	(901 )	—	(901 )
Dividends declared (\$0.06 per share)	—	—	—	—	(8,035 )	—	(8,035 )
Foreign currency translation adjustment	—	—	—	—	—	(8,868 )	(8,868 )
BALANCE—September 30, 2018	44,335,477	\$ —	\$(68,532)	\$ 241,124	\$ 209,157	\$ (24,538 )	\$ 357,211
	Common Stock						
	Outstanding Shares	Treasury Amount	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Total	
BALANCE—December 31, 2016	48,220,243	\$ —	\$(30,767)	\$ 218,392	\$ 143,399	\$ (36,842 )	\$ 294,182
Net loss applicable to Gain Capital Holdings, Inc.	—	—	—	—	(7,512 )	—	(7,512 )
Exercise of options	82,774	—	—	335	—	—	335
Conversion of restricted stock into common stock	526,113	—	—	—	—	—	—
Issuance of common stock for the employee stock purchase plan	64,546	—	—	402	—	—	402
Purchase of treasury stock	(3,776,283 )	—	(25,778 )	—	—	—	(25,778 )
Shares withheld for net settlements of share-based awards	(55,190 )	—	(382 )	—	—	—	(382 )
Share-based compensation	—	—	—	3,855	—	—	3,855
Recognition of debt discount on convertible notes	—	—	—	18,399	—	—	18,399
Tax effect of debt discount on convertible notes	—	—	—	(7,024 )	—	—	(7,024 )
Repurchase of convertible notes	—	—	—	(186 )	—	—	(186 )
Adjustment to fair value of redeemable non-controlling interests	—	—	—	—	1,711	—	1,711

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Dividends declared (\$0.06 per share)	—	—	—	—	(8,469 )	—	(8,469 )
Foreign currency translation adjustment	—	—	—	—	—	19,059	19,059
BALANCE—September 30, 2017	45,062,203	\$	—\$(56,927)	\$234,173	\$129,129	\$ (17,783 )	\$288,592

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)

	Nine Months Ended September 30,	
	2018	2017
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net income/(loss)	\$96,045	\$(7,049 )
Adjustments to reconcile net income/(loss) to cash (used in)/provided by operating activities		
Loss/(gain) on foreign currency exchange rates	1,092	(234 )
Depreciation and amortization	27,460	24,974
Deferred tax benefit	(2,009 )	(7,025 )
Amortization of deferred financing costs	489	332
Bad debt provision	1,734	49
Convertible senior notes discount amortization	4,153	3,438
Share-based compensation	4,554	3,855
Loss on extinguishment of debt	—	4,944
Equity in net loss of affiliate	—	94
Gain on sale of GTX	(69,439 )	—
Changes in operating assets and liabilities:		
Receivables from brokers	20,833	2,488
Other assets	4,937	1,490
Payables to customers	(103,889 )	(18,532 )
Payables to brokers	(877 )	—
Accrued compensation and benefits	(1,688 )	(3,343 )
Accrued expenses and other liabilities	3,366	(9,882 )
Income tax payable	8,131	5,753
Net cash provided by/(used in) operating activities	(5,108 )	1,352
Cash provided by/(used in) operating activities - continuing operations	(23,802 )	16,060
Cash provided by/(used in) operating activities - discontinued operations	18,694	(14,708 )
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchases of property and equipment	(11,494 )	(16,698 )
Purchase of minority interest in GAA	(2,854 )	—
Proceeds from sale of GTX	96,518	—
Acquisition of FXCM assets	—	(7,184 )
Net cash provided by/(used in) investing activities	82,170	(23,882 )
Cash used in investing activities - continuing operations	(13,504 )	(22,904 )
Cash provided by/(used in) investing activities - discontinued operations	95,674	(978 )
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Proceeds from exercise of stock options	597	335
Proceeds from employee stock purchase plan	314	402
Purchase of treasury stock	(11,605 )	(26,160 )
Dividend payments	(8,035 )	(8,468 )
Distributions to non-controlling interest holders	(553 )	(983 )
Convertible note issuance, net	—	89,010
Repurchase of convertible notes	—	(73,057 )
Net cash used in financing activities	(19,282 )	(18,921 )
Effect of exchange rate changes on cash and cash equivalents	3,331	46,421

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NET INCREASE IN CASH, CASH EQUIVALENTS, AND RESTRICTED CASH	61,111	4,970
CASH, CASH EQUIVALENTS, AND RESTRICTED CASH — Beginning of period	1,188,516	1,180,228
CASH, CASH EQUIVALENTS, AND RESTRICTED CASH — End of period	\$1,249,627	\$1,185,198

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Cash and cash equivalents	362,345	225,581
Cash and cash equivalents held for customers	887,282	959,617
CASH, CASH EQUIVALENTS, AND RESTRICTED CASH — End of period	\$1,249,627	\$1,185,198

SUPPLEMENTARY DISCLOSURES OF CASH FLOW INFORMATION:

Cash paid during the year for:

Interest	\$(8,401	) \$(3,412	)
Income taxes	\$(7,406	) \$(4,701	)

Non-cash financing activities:

Adjustment to redemption value of non-controlling interests	\$(901	) \$1,711
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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 owns all outstanding membership units of GAIN Capital Group, LLC (“Group, LLC”), the Company’s primary regulated entity in the United States. GAIN Capital Holdings Ltd. is the holding company of the Company’s primary regulated entity in the United Kingdom.

The Company is a global provider of trading services and solutions, specializing in over-the-counter, or OTC, and exchange-traded markets. The Company operates its business in two segments. Through its retail segment, the Company provides its retail customers around the world with access to a diverse range of global financial markets, including spot forex, precious metals, as well as spread bets and contracts for difference, or CFDs, on currencies, commodities, indices, individual equities, cryptocurrencies, bonds and interest rate products, as well as OTC options. The Company’s futures segment offers execution and risk management services for exchange-traded products on major U.S. and European exchanges, including Bitcoin. For more information about the Company’s segments, please see Note 19.

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 UK Limited (“GCUK”) is registered in the United Kingdom (“U.K.”) and regulated by the Financial Conduct Authority (“FCA”) as a full scope €730k IFPRU Investment Firm.

Sale of GTX ECN Business

On June 29, 2018, the Company completed the sale of the GTX ECN business, which previously comprised the Company’s institutional segment, to Deutsche Börse Group via its FX unit, 360T, for a total purchase price of \$100 million less a working capital adjustment which amounted to a \$0.2 million reduction in the purchase price. The Company determined that the institutional segment met the discontinued operations criteria set forth in Accounting Standards Codification (ASC) Subtopic 205-20-45, Presentation of Financial Statements, in the quarter ended June 30, 2018. As such, the institutional segment results have been classified as discontinued operations in the accompanying Condensed Consolidated Statements of Operations and Comprehensive Income. For more information relating to the discontinued operations of the Company’s GTX ECN business, please see Note 3.

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 (“U.S. GAAP”). 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, 2017. 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.

## 2. ACCOUNTING PRONOUNCEMENTS

### Recently Adopted

In January 2017, the Financial Accounting Standards Board (the “FASB”) issued ASU No. 2017-04, “Intangibles-Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment,” which eliminates the requirement to calculate the implied fair value of goodwill to measure a goodwill impairment charge (Step 2) from the goodwill impairment test. Instead, an

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impairment charge will equal the amount by which a reporting unit's carrying amount exceeds its fair value, not to exceed the amount of goodwill allocated to the reporting unit. The guidance will be effective for the Company for its annual or any interim goodwill impairment tests in fiscal years beginning after December 15, 2019, with early adoption permitted after January 1, 2017. The Company has adopted this ASU as of January 1, 2018, and will apply Step 2 going forward to the extent it is required.

In November 2016, the FASB issued ASU No. 2016-18, "Restricted Cash," which requires that companies present cash, cash equivalents and amounts generally described as restricted cash or restricted cash equivalents (restricted cash) when reconciling beginning-of-period and end-of-period totals on the Statement of Cash Flows. The Company has retrospectively adopted this ASU as of January 1, 2018 and includes cash and cash equivalents held for customers as restricted cash. As a result, Net cash provided by operating activities on the Statement of Cash Flows decreased by \$18.5 million for the nine months ended September 30, 2017.

The Company defines restricted cash to include cash and cash equivalents held for customers, which represents cash and other highly liquid assets held to fund customer liabilities in connection with trading positions. Included in this balance are funds deposited by customers and funds accruing to customers as a result of trades or contracts. The Company records a corresponding liability in connection with this amount in Payables to customers. In addition, the Company holds certain customer funds in segregated or secured broker accounts. Legally segregated balances are not available for general use, in accordance with certain jurisdictional regulatory requirements.

In May 2014, the FASB issued ASU No. 2014-09, "Revenue from Contracts with Customers", which is part of ASC Topic 606. It defines how companies report revenues from contracts with customers and also requires certain enhanced disclosures. The standard's provisions and related amendments are effective for annual reporting periods beginning after December 15, 2017. On January 1, 2018, the Company adopted this guidance, which did not have a material impact on the Company's financial statements. A substantial portion of revenue falls under ASC Topic 825, Financial Instruments, which is excluded from the scope of the new guidance. The Company adopted ASU No. 2014-09 using the modified retrospective approach. See Note 4 Revenue Recognition for additional disclosure.

### Not Yet Adopted

In February 2016, the FASB issued ASU No. 2016-02, "Leases (Topic 842)," which amended the guidance on accounting for leases. The FASB issued this update to increase transparency and comparability among organizations. This update requires 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. We are in the process of collecting and reviewing leases that have been entered into by the Company within the scope of ASC 842, including potential disclosures, in order to complete our evaluation of the impact of the standard on our consolidated financial statements prior to the end of 2018. In addition, we continue to monitor additional changes, modifications, clarifications or interpretations undertaken by the FASB or others, which may impact our current conclusions. We will adopt the requirements of the new standard effective January 1, 2019.

In February 2018, the FASB issued ASU No. 2018-02, "Income Statement - Reporting Comprehensive Income (Topic 220)," to address certain income tax effects in Accumulated Other Comprehensive Income (AOCI) resulting from the tax reform enacted in 2017. The amended guidance provides an option to reclassify tax effects within AOCI to retained earnings in the period in which the effect of the tax reform is recorded. The amendments are effective for fiscal years beginning after December 15, 2018, including interim periods. Early adoption is permitted. This will not have an impact on the Company as there are no balances in AOCI that are tax effected.

### 3. DISCONTINUED OPERATIONS

On June 29, 2018, the Company completed the sale of its GTX ECN business, which previously comprised the Company's institutional segment, to Deutsche Börse via its FX unit, 360T, for a total purchase price of \$100 million less a working capital adjustment which amounted to a \$0.2 million reduction in purchase price.

The Company recorded a gain of \$69.4 million on the sale of the GTX business.

The Company determined that the sale of the GTX business qualifies as a discontinued operation under the criteria set forth in Accounting Standards Codification 205-20-45, Presentation of Financial Statements and the Company does not have any significant continuing involvement in these operations.

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The results of operations from the discontinued segment for the three and nine months ended September 30, 2018 are as follows (in thousands):

	Three Months Ended September 30, 2018		Nine Months Ended September 30, 2017	
<b>REVENUE:</b>				
Institutional revenue	\$—	\$7,520	\$16,379	\$23,322
Other revenue/(loss)	—	—	(2)	—
Total non-interest revenue	—	7,520	16,377	23,322
Interest revenue	—	33	103	81
Total net interest revenue	—	33	103	81
Net revenue	\$—	\$7,553	\$16,480	\$23,403
<b>EXPENSES:</b>				
Employee compensation and benefits	\$94	\$2,993	\$5,973	\$9,999
Trading expenses	—	2,409	5,439	7,320
Other expenses	30	1,104	3,955	4,287
Total operating expense	124	6,506	15,367	21,606
OPERATING PROFIT/(LOSS)	(124)	1,047	1,113	1,797
Gain/(loss) on sale of discontinued operations	(142)	—	69,439	—
INCOME/(LOSS) BEFORE INCOME TAX EXPENSE/(BENEFIT)	(266)	1,047	70,552	1,797
Income tax expense/(benefit)	(2,610)	322	3,222	820
NET INCOME FROM DISCONTINUED OPERATIONS	\$2,344	\$725	\$67,330	\$977

Since the sale of the GTX ECN business closed on June 29, 2018, there were no assets held for sale as of September 30, 2018. As of December 31, 2017, total assets of \$28.5 million and total liabilities of \$3.8 million were related to the discontinued segment.

#### 4. REVENUE RECOGNITION

In May 2014, the FASB issued ASU No. 2014-09, “Revenue from Contracts with Customers”, which is part of ASC Topic 606. It defines how companies report revenues from contracts with customers and also requires certain enhanced disclosures. The standard’s provisions and related amendments are effective for annual reporting periods beginning after December 15, 2017. On January 1, 2018, the Company adopted this guidance, which did not have a material impact on the Company’s financial statements. A substantial portion of the Company’s retail revenue as well as interest revenue falls under ASC Topic 825, “Financial Instruments”, which is excluded from the scope of Topic 606. Additionally, the Company’s futures segment revenue was not materially impacted as the satisfaction of performance obligations under the new guidance is materially consistent with the Company’s previous revenue recognition policies. Accordingly, the adoption of the new standard did not result in a transition adjustment to opening retained earnings, and as a result, revenues for contracts with customers would not have been adjusted in prior periods and are not presented herein on an adjusted basis.

Similarly, the amended guidance did not have a material impact on the recognition of costs incurred to obtain new contracts. As a result of the adoption of the new guidance, the Company recorded a gross up of \$1.0 million for the nine months ended September 30, 2018 which impacted referral fee expense in the Company’s discontinued operations. There was no gross up required for the three months ended September 30, 2018. The Company adopted ASU No. 2014-09 using the modified retrospective approach.



Under ASC Topic 606, revenues are recognized when control of the promised goods or services is transferred to customers in exchange for an amount that reflects the consideration the Company expects to be entitled to in transferring those goods or services. The following is a description of the Company's revenue recognition policies as they relate to revenue from contracts with customers.

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## Futures Revenue

Futures revenue consists primarily of commissions earned on futures and futures options trades. The Company acts as an agent for the trades executed in our futures segment and are not exposed to market risk in connection with that activity. The Company earns commission revenue by acting as an agent on behalf of customers. The Company's futures revenue performance obligations also consist of trade execution and are satisfied on the trade date; accordingly, commission revenues are recorded on the trade date.

## Disaggregation of Revenues

The following table presents the Company's revenue from contracts with customers disaggregated by the services described above for the futures segment for the three and nine months ended September 30, 2018:

	Three months ended September 30, 2018	Nine months ended September 30, 2018
Futures		
Direct Customers <sup>(1)</sup>	\$ 2,106	\$ 7,272
Indirect Customers <sup>(2)</sup>	5,270	18,854
Other	2,361	7,202
Total Segment Revenue	\$ 9,737	\$ 33,328

(1) Direct customers are all customers not classified as indirect

(2) Indirect customers are referred to the Company by introducing brokers

## Contract Assets and Contract Liabilities

The timing of revenue recognition may differ from the timing of payment from customers. The Company records a receivable when revenue is recognized prior to payment, and when the Company has an unconditional right to payment. The Company records a contract liability when payment is received, prior to the time at which the service obligation is satisfied.

## 5. FAIR VALUE INFORMATION

Fair value is defined as the price that would be received in exchange for an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. U.S. Generally Accepted Accounting Principles ("US GAAP") establishes a three level hierarchy that ranks the quality and reliability of information used in developing fair value estimates for financial instruments. The hierarchy gives the highest priority to quoted prices in active markets and the lowest priority to unobservable data. In cases where two or more levels of inputs are used to determine fair value, a financial instrument's level is determined based on the lowest level input that is considered significant to the fair value measurement in its entirety. The three levels of fair value hierarchy are summarized below:

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

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

Level 3 - Valuations that require inputs that are both unobservable to a market participant and significant to the fair value measurement.

For assets and liabilities that are transferred between levels during the period, fair values are ascribed as if the assets or liabilities had been transferred as of the beginning of the period.

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):

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	Fair Value Measurements on a Recurring Basis as of September 30, 2018			
	Level 1	Level 2	Level 3	Total
Financial Assets/(Liabilities):				
Cash and cash equivalents:				
Money market accounts	\$ 265,260	\$ —	\$ —	—\$ 265,260
Cash and cash equivalents held for customers:				
US treasury bills: U.S. government and agency securities	103,109	—	—	103,109
Receivable from brokers:				
Broker derivative contracts	—	(8,148	) —	(8,148
Other assets:				
Certificates of deposit	176	—	—	176
Other	119	—	—	119
Payables to customers:				
Customer derivative contracts	—	121,174	—	121,174
Payables to brokers:				
Broker derivative contracts	—	3,335	—	3,335
Total	\$ 368,664	\$ 116,361	\$ —	—\$ 485,025

	Fair Value Measurements on a Recurring Basis as of December 31, 2017			
	Level 1	Level 2	Level 3	Total
Financial Assets/(Liabilities):				
Cash and cash equivalents:				
Money market accounts	\$ 219,286	\$ —	\$ —	—\$ 219,286
Cash and cash equivalents held for customers:				
US treasury bills: U.S. government and agency securities	105,190	—	—	105,190
Receivable from brokers:				
Broker derivative contracts	—	4,966	—	4,966
Other assets:				
Certificates of deposit	175	—	—	175
Other	130	—	—	130
Payables to customers:				
Customer derivative contracts	—	129,966	—	129,966
Payables to brokers:				
Broker derivative contracts	\$ —	(3,170	) \$ —	—(3,170
Total	\$ 324,781	\$ 131,762	\$ —	—\$ 456,543

The Company has not changed its valuation approaches or techniques in measuring the fair value of any financial assets and liabilities during the nine months ended September 30, 2018, nor has there been any movement between levels during the period.

## Level 1 Financial Assets

The Company has U.S. Treasury bills, money market accounts and certificates of deposit that are Level 1 financial instruments that are recorded based upon listed or quoted market rates. The U.S. Treasury bills and money market accounts are recorded in Cash and cash equivalents and Cash and cash equivalents held for customers and the certificates of deposit are 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.

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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.

Level 3 Financial Liabilities

The Company did not have any Level 3 Financial Assets or Liabilities on September 30, 2018 or December 31, 2017.

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 posted funds with brokers that are required as collateral for holding trading positions, 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 be expected to 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 cash due to brokers. The cash within this balance is not measured at fair value but does approximate fair value, because it is immediately payable to the brokers. Settlement with brokers generally occurs either on the same or next business day following a margin call.

The carrying value of Convertible senior notes represents the notes' principal amounts net of unamortized discount (refer to Note 14). 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 September 30, 2018		Fair Value Measurements using:		
		Carrying Value	Fair Value	Quoted Prices in Active Markets for Identifiable (Level 1)	Significant Observable Inputs (Level 2)
				Significant Unobservable Inputs (Level 3)	
Financial Assets:					
Receivables from brokers	\$65,600	\$65,600	\$-\$65,600	\$	—
Financial Liabilities:					
Payables to customers	\$1,008,456	\$1,008,456	\$-\$1,008,456	\$	—

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Payable to brokers	\$5,089	\$5,089	\$-5,089	\$	—
Convertible senior notes	\$136,864	\$164,501	\$-164,501	\$	—

As of December 31, Fair Value Measurements

2017 using:  
 Quoted Prices  
 in  
 Active Markets for  
 Identical Assets  
 (Level 1)  
 Significant  
 Observable  
 Inputs  
 (Level 2)  
 Significant  
 Unobservable  
 Inputs  
 (Level 3)

Carrying Value

Financial Assets:

Receivables from brokers	\$73,537	\$73,537	\$-73,537	\$	—
Payables to brokers	\$381	\$381	\$-381	\$	—

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## Financial Liabilities:

Payables to customers	\$ 1,108,794	\$ 1,108,794	\$ -1,108,794	\$ —
Convertible senior notes	\$ 132,221	\$ 205,073	\$ -205,073	\$ —

## 6. DERIVATIVES

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):

	September 30, 2018		
	Gross amounts of		
	assets for	Gross amount of	Net amounts of
	derivative	(liabilities) for	assets/(liabilities)
	open	derivative open	for derivative
	positions at	positions at fair	open positions at
	fair	value	fair value
	value		
Derivative Instruments:			
Foreign currency exchange contracts	\$97,454	\$ (21,747	) \$ 75,707
CFD contracts	88,122	(54,058	) 34,064
Metals contracts	8,584	(1,994	) 6,590
Total	\$194,160	\$ (77,799	) \$ 116,361

	September 30, 2018		
	Cash	Net amounts of	Net amounts of
	Collateral	assets/(liabilities)	assets/(liabilities)
		for derivative	presented in the
		open positions at	balance sheet
		fair value	
Derivative Assets/(Liabilities):			
Receivables from brokers	\$65,600	\$ (8,148	) \$ 57,452
Payables to customers	\$(1,008,456)	\$ 121,174	\$ (887,282
Payable to brokers	\$(5,089	) \$ 3,335	\$ (1,754

	December 31, 2017		
	Gross amounts of		
	assets for	Gross amount of	Net amounts of
	derivative	(liabilities) for	assets/(liabilities)
	open	derivative open	for derivative
	positions	positions at fair	open positions at
	at fair	value	fair value
	value		
Derivative Instruments:			
Foreign currency exchange contracts	\$121,104	\$ (31,556	) \$ 89,548
CFD contracts	102,659	(62,322	) 40,337
Metals contracts	4,084	(2,207	) 1,877
Total	\$227,847	\$ (96,085	) \$ 131,762



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December 31, 2017

Cash	Net amounts of assets/liabilities for derivative open positions at fair value	Net amounts of assets/liabilities presented in the balance sheet
Collateral		

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## Derivative Assets/(Liabilities):

Receivables from brokers	\$73,537	\$4,966	\$78,503
Payables to customers	\$(1,108,794)	\$129,966	\$(978,828)
Payables to brokers	\$381	\$(3,170)	\$(2,789)

The Company's derivatives include different underlyings which vary in price. Foreign exchange contracts typically have prices less than two dollars, while certain metals contracts and CFDs can have considerably higher prices. The amounts reported within Receivables from brokers, Payables to customers, and Payables to brokers on the Condensed Consolidated Balance Sheets are derived from the number of contracts below (amounts in thousands):

September 30, 2018

Total	Total
contracts	contracts
in long	in short
positions	positions

## Derivative Instruments:

Foreign currency exchange contracts	2,323,419	3,031,582
CFD contracts	109,109	151,645
Metals contracts	87	47
Total	2,432,615	3,183,274

December 31, 2017

Total	Total
contracts	contracts
in long	in short
positions	positions

## Derivative Instruments:

Foreign currency exchange contracts	2,075,789	4,148,056
CFD contracts	126,519	174,835
Metals contracts	414	217
Total	2,202,722	4,323,108

The Company did not designate any of its derivatives as hedging instruments. Net gains with respect to derivative instruments reflected in Retail revenue in the accompanying Condensed Consolidated Statements of Operations and Comprehensive Income for the three and nine months ended September 30, 2018 and September 30, 2017 were as follows (amounts in thousands):

Three Months		Nine Months Ended	
Ended September		September 30,	
30,			
2018	2017	2018	2017

## Derivative Instruments:

Foreign currency exchange contracts	\$57,619	\$30,487	\$150,484	\$91,496
CFD contracts	16,298	25,073	68,126	78,286
Metals contracts	8,928	6,583	20,413	10,365
Total	\$82,845	\$62,143	\$239,023	\$180,147

## 7. RECEIVABLES FROM BROKERS

The Company has posted funds with brokers as collateral required by agreements for holding trading positions. These amounts are reflected as Receivables from brokers on the Condensed Consolidated Balance Sheets.

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

September	December
30, 2018	31, 2017

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Required collateral	\$ 65,600	\$ 73,537
Open foreign exchange positions	(8,148 )	4,966
Total	\$ 57,452	\$ 78,503

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## 8. PROPERTY AND EQUIPMENT

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

	September 30, 2018	December 31, 2017
Software	\$ 59,442	\$ 57,047
Computer equipment	13,744	18,390
Leasehold improvements	10,904	11,068
Telephone equipment	656	643
Office equipment	1,945	2,110
Furniture and fixtures	3,324	3,592
Web site development costs	635	386
Gross property and equipment	90,650	93,236
Less: Accumulated depreciation and amortization	(57,193 )	(52,494 )
Property and equipment, net	\$ 33,457	\$ 40,742

Depreciation and amortization expense for property and equipment was \$4.7 million and \$4.4 million for the three months ended September 30, 2018 and 2017, respectively, and \$15.4 million and \$12.3 million for the nine months ended September 30, 2018 and 2017, respectively.

## 9. INTANGIBLE ASSETS

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

Intangibles	September 30, 2018			December 31, 2017		
	Gross	Accumulated Amortization	Net	Gross	Accumulated Amortization	Net
Customer lists	\$59,213	\$ (38,377 )	\$ 20,836	\$60,420	\$ (31,698 )	\$ 28,722
Technology	49,926	(37,976 )	11,950	72,204	(43,270 )	28,934
Trademarks	7,447	(4,401 )	3,046	7,680	(3,730 )	3,950
Total finite lived intangibles	116,586	(80,754 )	35,832	140,304	(78,698 )	61,606
Trademark not subject to amortization <sup>(1)</sup>	363	—	363	363	—	363
Total intangibles	\$ 116,949	\$ (80,754 )	\$ 36,195	\$ 140,667	\$ (78,698 )	\$ 61,969

(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. The Company compares the recorded value of the indefinite-life intangible assets to their fair value on an annual basis and whenever circumstances arise that indicate that impairment may have occurred.

The Company had the following identifiable intangible assets and weighted average amortization periods as of September 30, 2018:

Intangible Assets	Amount (in thousands)	Weighted average amortization period
Customer lists	\$ 59,213	7.4 years
Technology	49,926	7.2 years
Trademarks <sup>(1)</sup>	7,810	6.7 years
Total intangible assets	\$ 116,949	

(1) Trademarks with an indefinite-life, as described above, comprise \$0.4 million of the \$7.8 million of trademarks.

Amortization expense for the purchased intangibles was \$3.5 million and \$3.5 million for the three months ended September 30, 2018 and 2017, respectively, and \$10.8 million and \$10.4 million for the nine months ended September 30, 2018 and 2017, respectively.

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On February 7, 2017, the Company entered into an Asset Purchase Agreement (the “Purchase Agreement”) with Forex Capital Markets L.L.C. (“FXCM”). Pursuant to the terms of the Purchase Agreement, FXCM transferred substantially all of its U.S.-domiciled customer accounts to the Company effective as of February 24, 2017. The Company paid \$7.2 million to FXCM as consideration for the purchased accounts for the full year 2017, which was capitalized within Purchased intangible amortization and amortized on a straight line basis over its two year useful life.

**Goodwill**

Goodwill is evaluated for impairment on an annual basis on October 31 and in interim periods when events or changes indicate the carrying value may not be recoverable. As a result of the sale of the GTX ECN business, the Company tested the institutional goodwill for impairment using data as of June 30, 2018 and concluded there was no impairment. The \$4.6 million of institutional goodwill was allocated to discontinued operations.

The Company operates under two reporting units: retail and futures. There were no additions or impairments to the carrying value of the Company’s goodwill during the nine months ended September 30, 2018.

For the year ended December 31, 2017, the Company performed a qualitative analysis to determine whether it was more likely than not that the fair value of its reporting units was less than their carrying value. As a result of this assessment, the Company determined that it was not necessary to perform a quantitative impairment test and concluded that goodwill assigned to each of its reporting units was not impaired at December 31, 2017.

As of September 30, 2018 and December 31, 2017, the Company had recorded goodwill of approximately \$28.0 million and \$33.0 million, respectively. The decrease of \$5.0 million was primarily related to the discontinued operations of GTX.

The following represents the changes in the carrying amount of goodwill by segment (amounts in thousands):

	Retail	Institutional	Futures	Total
Carrying amount of goodwill as of December 31, 2017	\$25,952	\$ 4,650	\$2,434	\$33,036
Foreign currency translation adjustments	(313 )	(34 )	(29 )	(376 )
Discontinued operations	—	(4,616 )	—	(4,616 )
Carrying amount of goodwill as of September 30, 2018	\$25,639	\$ —	\$2,405	\$28,044

**10. OTHER ASSETS**

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

	September 30, 2018	December 31, 2017
Vendor and security deposits	\$6,943	\$11,923
Income tax receivable	—	2,132
Deferred tax assets, net	12,563	10,698
GTX trade receivables	178	5,758
Customer debit positions	4,526	2,384
Allowance on customer debit positions	(3,532 )	(1,959 )
Prepaid assets	11,490	9,523
Miscellaneous receivables	4,930	4,872
Deferred commitment fees	391	550
Total other assets	\$37,489	\$45,881

**11. 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 \$0.2 million at each of September 30, 2018 and December 31, 2017.

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 \$12.4 million and \$15.9 million as of September 30, 2018 and December 31, 2017, respectively.

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The net revenue generated by any individual related party was not deemed to be material in any period.

**12. NON-CONTROLLING INTERESTS**

## Non-controlling interests

In March 2014, the Company acquired controlling interests in Global Asset Advisors (“GAA”) and Top Third (“TT”). The Company purchased 55% of each entity, and the respective sellers maintained a 45% interest in each entity, subject to immediately exercisable call options for the Company to purchase the remaining interests, as well as put options for the sellers to sell their remaining interests in each entity to the Company that were to become exercisable in 2017. In December 2016, the Company acquired an additional 24% of each entity and, accordingly, the respective sellers now maintain a 21% interest in each entity. In connection with the purchase of these additional interests, the Company and the respective sellers agreed that neither would exercise the call options or put options with respect to the remaining interests prior to December 31, 2017. In December 2017, the Company and the sellers of TT extended their agreement that neither would exercise the relevant call options or put options through December 31, 2018.

In February 2018, the minority owners of GAA notified the Company that they were exercising their put option with respect to their combined 21% ownership of GAA.

In September 2018, the Company settled its purchase of the minority ownership interests in GAA for approximately \$2.9 million.

In accordance with ASC 480-10-S99-3A, Classification and Measurement of Redeemable Securities, non-controlling interests are classified outside of permanent equity as their redemption is not (i) mandatory, (ii) at fixed prices, and (iii) exclusively within the Company’s control.

The non-controlling interest related to TT is not classified as a liability, because redemption is not mandatory or at a fixed price. It is not classified as equity because the redemption is not exclusively in the Company’s control. Therefore, the non-controlling interest is held in 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 reflects any changes caused by such an adjustment in retained earnings, rather than in current earnings.

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

	Redeemable non-controlling interests
January 1, 2018	\$ 4,411
Adjustment to the redemption value of non-controlling interests	901
Net income attributable to non-controlling interests	638
Distributions to non-controlling interest holders	(553 )
Purchase of additional shares of non-controlling interest	(2,854 )
September 30, 2018	\$ 2,543

**13. REVOLVING CREDIT ARRANGEMENT**



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On August 3, 2017, the Company entered into a Credit Agreement, dated as of August 2, 2017, for a three year U.S. \$50.0 million senior secured first lien revolving credit facility that matures in August 2020. Upon request of the Company, the credit facility may be increased by up to \$25.0 million, with a minimum increase of \$5.0 million. The credit facility contains covenants that are customary for an issuer with senior debt. The commitment fees of \$0.4 million is amortized over the life of the facility and is recorded to Other Assets. As of September 30, 2018, the Company was in compliance with the covenants for its credit facility.

As of September 30, 2018, there were no amounts outstanding under the revolving line of credit.

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## 14. CONVERTIBLE SENIOR NOTES

## Convertible Senior Notes due 2022

On August 22, 2017, the Company issued \$92.0 million aggregate principal amount of its 5.00% Convertible Senior Notes due 2022, in a private offering to qualified institutional buyers pursuant to Rule 144A under the Securities Act of 1933, as amended. The Notes bear interest at a fixed rate of 5.00% per year, payable semi-annually in arrears on February 15 and August 15 of each year. The Notes are convertible into cash, shares of the Company's common stock, or a combination thereof, at the Company's election. The Company currently intends to settle the debt in cash. The Notes will mature on August 15, 2022, unless earlier converted, redeemed or repurchased. The Company may not redeem the Notes prior to August 15, 2020. The net proceeds from the offering were approximately \$89.0 million, after deducting discounts to the initial purchasers but prior to other offering expenses payable by the Company.

## 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. The Company currently intends to settle the debt in cash upon maturity.

## Convertible Senior Notes due 2018

On November 27, 2013, the Company issued \$80.0 million principal amount of 4.125% Convertible Senior Notes due 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 2018, for an aggregate purchase price of \$1.7 million. During the third quarter of 2017, the Company repurchased \$71.8 million in principal amount of the convertible senior notes due 2018, for an aggregate purchase price of \$73.7 million with the proceeds from the issuance of Convertible Senior Notes due 2022. As a result, the Company recognized an extinguishment loss of \$4.9 million. The Company currently intends to settle the remaining outstanding debt in cash upon maturity.

U.S. GAAP requires an entity to separately account for the liability and equity components of a convertible debt instrument 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 as of September 30, 2018 and December 31, 2017 were as follows (amounts in thousands):

	September 30, 2018	December 31, 2017
Liability component - principal	\$158,350	\$158,350
Deferred bond discount	(21,069 )	(25,624 )
Deferred financing cost	(417 )	(505 )
Liability component - net carrying value	\$136,864	\$132,221
Additional paid in capital	\$39,405	\$39,405
Discount attributable to equity	(826 )	(826 )
Equity component	\$38,579	\$38,579

Interest expense related to the Convertible Senior Notes, included in Interest Expense on long term borrowings in the Condensed Consolidated Statements of Operations and Comprehensive Income, was as follows (amounts in

thousands):

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	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2018	2017	2018	2017
Interest expense - stated coupon rate	\$ 1,834	\$ 1,701	\$ 5,503	\$ 4,551
Interest expense - amortization of deferred bond discount and costs	1,570	1,284	4,629	3,793
Total interest expense - convertible senior notes	\$ 3,404	\$ 2,985	\$ 10,132	\$ 8,344
15. EARNINGS/(LOSS) PER COMMON SHARE				

Basic and diluted earnings/(loss) per common share are computed by dividing net income/(loss) by the weighted average number of common shares outstanding during the period. Diluted earnings/(loss) 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 0.4 million stock options were excluded from the calculation of diluted earnings per share for the three and nine months ended September 30, 2018, respectively, as they were anti-dilutive. Approximately 0.6 million and 0.6 million stock options were excluded from the calculation of diluted earnings per share for the three and nine months ended September 30, 2017, respectively, as they were anti-dilutive.

Diluted earnings (loss) per share excludes any shares of Company common stock potentially issuable under the Company's convertible senior notes, which are discussed in Note 14. 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 the 2018, 2020, and 2022 convertible senior notes were satisfied, there would be no additional dilutive shares for the 2018 note and an additional 1.5 million and 4.2 million dilutive shares as of September 30, 2018, for the 2020 and 2022 notes, respectively.

The following table sets forth the computation of earnings/(loss) per share (amounts in thousands except share and per share data):

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	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2018	2017	2018	2017
Net income/(loss) from continuing operations	\$9,969	\$ (3,080 )	\$28,715	\$ (8,026 )
Less income attributable to non-controlling interests	\$137	\$ 225	\$638	\$ 463
Net income/(loss) from continuing operations	\$9,832	\$ (3,305 )	\$28,077	\$ (8,489 )
Adjustment <sup>(1)</sup>	(10 )	728	(901 )	1,711
Net income/(loss) available to GAIN common shareholders from continuing operations	\$9,822	\$ (2,577 )	\$27,176	\$ (6,778 )
Net income from discontinued operations	2,344	725	67,330	977
Weighted average common shares outstanding:				
Basic weighted average common shares outstanding	44,553,906	46,323,038	44,787,875	47,295,843
Effect of dilutive securities:				
Stock options	238,172	206,964	258,934	247,575
RSUs/RSAs	192,646	—	223,988	4,615
Diluted weighted average common shares outstanding	44,984,724	46,323,038	45,270,797	47,295,843
Basic earnings/(loss) from continuing operations	\$0.22	\$ (0.06 )	\$0.61	\$ (0.14 )
Basic earnings from discontinued operations	\$0.05	\$ 0.02	\$1.50	\$ 0.02
Diluted earnings/(loss) from continuing operations	\$0.22	\$ (0.06 )	\$0.60	\$ (0.14 )
Diluted earnings from discontinued operations	\$0.05	\$ 0.02	\$1.49	\$ 0.02

During the three and nine months ended September 30, 2018 and 2017, the Company concluded that the carrying value of the Company's redeemable noncontrolling interests was less than their redemption value, requiring that an (1) adjustment to the carrying value be recorded for purposes of calculating earnings/(loss) per common share. The adjustment to increase or reduce the carrying value will, respectively, reduce or increase earnings/(loss) per common share by reducing or increasing net income available to common shareholders.

#### 16. COMMITMENT AND CONTINGENCIES

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 reasonably 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 can be reasonably estimated for any proceeding.

The Company recorded a contingent provision for the three months ended September 30, 2018 which relates to an ongoing contractual dispute with a service provider relating to the historical deployment of software supporting one of our legacy

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trading platforms. This amount is reflected within Contingent provision on the Condensed Consolidated Statement of Operations and Comprehensive Income.

## 17. INCOME TAXES

The Company's provisions for income taxes were approximately \$4.0 million and \$11.4 million, respectively, for the three and nine months ended September 30, 2018 and a provision/(benefit) of approximately \$0.1 million and \$(4.3) million for the three and nine months ended September 30, 2017. These amounts reflect the Company's estimate of the annual effective tax rates of 28.5% and (3.3)%, adjusted for certain discrete items, for the three months ended September 30, 2018 and 2017, respectively. The Company's effective tax rates of 28.4% and 35.2% for the nine months ended September 30, 2018 and 2017, respectively, reflect the Company's estimate of the annual effective tax rate adjusted for certain discrete items, primarily changes in uncertain tax positions. Changes in the Company's effective tax rate arise primarily from changes in the geographic mix of revenues and expenses, as well as changes to statutory tax rates.

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. Certain net deferred tax assets of the Company are included in Other assets on the Condensed Consolidated Balance Sheets.

## 18. REGULATORY REQUIREMENTS

The following table illustrates the minimum regulatory capital our subsidiaries were required to maintain as of September 30, 2018 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	\$ 34.3	\$ 51.9	\$ 17.6	151	%
GAIN Capital Securities, Inc.	0.1	0.4	0.3	400	%
GAIN Capital U.K., Ltd.	69.1	198.5	129.4	287	%
GAIN Capital Japan Co., Ltd.	1.4	9.7	8.3	693	%
GAIN Capital Australia, Pty. Ltd.	0.7	5.7	5.0	814	%
GAIN Capital-Forex.com Hong Kong, Ltd.	1.9	3.7	1.8	195	%
GAIN Global Markets, Inc.	0.7	1.3	0.6	186	%
GAIN Capital-Forex.com Canada, Ltd.	0.2	1.5	1.3	750	%
GAIN Capital Singapore Pte., Ltd.	0.4	8.1	7.7	2,025	%
Trade Facts, Ltd.	0.6	3.5	2.9	583	%
Global Asset Advisors, LLC	0.0	2.2	2.2	100	%
GTX SEF, LLC	0.7	0.9	0.2	129	%
Total	\$ 110.1	\$ 287.4	\$ 177.3	261	%

## 19. SEGMENT INFORMATION

ASC Topic 280, Disclosures about Segments of an Enterprise and Related Information, establishes standards for reporting information about operating segments. Operating segments are defined as components of an enterprise which engage in business activities from which they may earn revenues and incur expenses and about which separate financial information is available that is evaluated regularly by the chief operating decision-maker, or decision making group, in deciding how to allocate resources and in assessing performance. Reportable segments are defined as an operating segment that either (a) exceeds 10% of revenue, or (b) the reported profit or loss in absolute amount of which exceeds 10% of profit of all operating segments that did not report a loss or (c) exceeds 10% of the combined assets of all operating segments. The Company's operations relate to global trading services and solutions.

During the first quarter of 2018, the Company completed its implementation of global support groups in the areas of finance, legal, human resources, and treasury. These groups are now centrally managed and support all business functions. Therefore,

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all costs related to these groups previously recorded within the retail segment will now be classified in our corporate and other segment to better align the cost reporting with the support services. The change in segment reporting has no impact on the net profit or loss of the Company. To enable comparisons with prior period performance, historical segment information for the periods included in the tables below reflect this reporting change.

On June 29, 2018, the Company completed the sale of its GTX ECN business, which previously comprised the Company's institutional segment, to Deutsche Börse Group via its FX unit, 360T, for a total purchase price of \$100 million less a working capital adjustment which amounted to a \$0.2 million reduction in purchase price. The Company determined that the institutional segment met the discontinued operations criteria set forth in ASC Subtopic 205-20-45, Presentation of Financial Statements, in the quarter ended June 30, 2018. As such, the institutional segment results have been classified as discontinued operations in the accompanying Condensed Consolidated Statements of Operations and Comprehensive Income. For more information relating to the discontinued operations of the Company's GTX ECN business, please see Note 3.

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 over 12,500 global financial markets, including spot forex, precious metals, and CFDs on currencies, commodities, indices, individual equities, cryptocurrencies, bonds 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.

Futures Segment

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

Corporate and other

Corporate and other provides general corporate services to the Company's segments. 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):

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	Retail			
	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Net revenue	\$85,856	\$63,927	\$246,060	\$184,619
Employee compensation and benefits	14,355	12,726	43,427	40,466
Selling and marketing	9,957	6,280	22,117	22,429
Referral fees	5,321	9,796	20,047	31,945
Other operating expenses	17,194	15,634	53,206	44,253
Segment profit	\$39,029	\$19,491	\$107,263	\$45,526
	Futures			
	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Net revenue	\$9,737	\$9,777	\$33,328	\$30,757
Employee compensation and benefits	2,416	2,327	7,790	7,372
Selling and marketing	181	121	625	607
Referral fees	2,827	3,128	9,996	10,732
Other operating expenses	3,043	2,904	10,392	9,879
Segment profit	\$1,270	\$1,297	\$4,525	\$2,167
	Corporate and Other			
	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Other revenue/(loss)	\$(52 )	\$56	\$(1,302 )	\$155
Employee compensation and benefits	6,082	5,758	18,447	16,507
Selling and marketing	77	1	211	118
Other operating expenses	3,581	2,202	10,550	7,438
Loss	\$(9,792 )	\$(7,905 )	\$(30,510 )	\$(23,908 )
Reconciliation of operating segment profit to Income before income tax expense				
			Three Months Ended September 30,	Nine Months Ended September 30,
			2018	2017
Retail segment			\$39,029	\$19,491
Futures segment			1,270	1,297
Corporate and other			(9,792 )	(7,905 )
SEGMENT PROFIT			30,507	12,883
Depreciation and amortization			4,685	4,373
Purchased intangible amortization			3,504	3,524
Restructuring expenses			—	—
			25	—

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Contingent provision	4,975	—	4,975	—
Impairment of investment	—	—	(130)	) —
OPERATING PROFIT	17,343	4,986	50,230	1,056
Interest expense on long term borrowings	3,404	2,985	10,132	8,344
Loss on extinguishment of debt	—	4,944	\$—	\$4,944
INCOME/(LOSS) BEFORE INCOME TAX EXPENSE	\$13,939	\$(2,943)	\$40,098	\$(12,232)

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20. SUBSEQUENT EVENTS

On October 9, 2018, the Company announced a “modified Dutch auction” tender offer to purchase up to \$50 million of shares of its common stock, or such lesser number of shares of its common stock as are properly tendered and not properly withdrawn, at a price not less than \$7.24 nor greater than \$7.94 per share of common stock, to the seller in cash, less any applicable withholding taxes and without interest (the “Offer”). The Offer is made upon the terms and subject to the conditions described in the offer to purchase and in the related letter of transmittal, each of which are attached as exhibits to the Company's Schedule TO, as filed with the SEC on October 9, 2018.

On October 25, 2018, the Company announced the payment of a \$0.06 dividend per share of Common Stock payable on December 18, 2018 to stockholders of record on December 11, 2018.

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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. GAIN's fiscal quarter ended on September 30, 2018.

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 Condensed Consolidated Financial Statements and Notes thereto included in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2017, as filed with the Securities and Exchange Commission on March 14, 2018, 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 GAIN operates and management's current beliefs and assumptions. Any statements contained herein (including, without limitation, statements to the effect that management or GAIN "believes," "expects," "anticipates," "plans" 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. These factors include, without limitation, 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, 2017, 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. 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 and futures segments service customers in more than 180 countries worldwide, and we conduct business from our offices in Bedminster, New Jersey; New York, New York; Jersey City, New Jersey; Chicago, Illinois; Powell, Ohio; London, England; Cornwall, England; Tokyo, Japan; Sydney, Australia; Shanghai, China; Hong Kong; Dubai, U.A.E.; Krakow, Poland and Singapore.

We have invested considerable resources since our inception 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 currently operate our business in two segments. Through our retail segment, we provide customers around the world access to a diverse range of global financial markets. We offer our customers access to over 12,500 financial products, including spot foreign exchange (forex), precious metals trading, as well as contracts for difference (CFDs), which are investment products with returns linked to the performance of underlying assets. We offer CFDs on currencies, commodities, indices, individual equities, cryptocurrencies, bonds and interest rate products. 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. In addition to these OTC products, our futures segment offers exchange-traded

futures, including on Bitcoin, and options on futures on more than 30 global exchanges. Each of our operating segments is discussed in more detail below. For financial information regarding our segments, please see Note 19 to our Condensed Consolidated Financial Statements elsewhere in this report.

As a global provider of online trading services, our results of operations are impacted by a number of external factors, including market volatility, competition, the regulatory environment in the various jurisdictions and markets in which we operate and the financial condition of the retail 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 factors may impact our results of operations in future periods. In addition, please refer to “Part II - Item 1A. Risk Factors” for a discussion of other factors that may impact our business.

#### Market Environment and Trading Volatility

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Our revenue and operating results may vary significantly from period to period primarily due to movements and trends in the world's financial markets and to fluctuations in market volatility. Market volatility is driven by a range of external factors, some of which are market specific and some of which are correlated to general macroeconomic conditions. As a general rule, our businesses typically benefit from volatility in the prices of the products that we offer, as periods of increased volatility often coincide with more clients trading and a higher volume of transactions per client. 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 market prices moving 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.

For the three months ended September 30, 2018, overall lower volatility and softer market conditions resulted in lower volumes and active customers during the quarter. Despite a less volatile market environment during the third quarter, our diverse product offerings, geographic reach and the execution of our strategic initiatives resulted in stronger financial and operational results in the period compared to the same period in the past year.

### Competition

The products we offer have generally been accessible to retail investors for a significantly shorter period than many other securities products, such as cash 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 which 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

The major global regulatory overhaul of financial markets which occurred following the financial crisis in 2008 has generally continued in the various jurisdictions in which we operate. Early examples of such overhaul in the United States included passage of the Dodd-Frank Act and various related amendments to the Commodity Exchange Act. More recently, in December 2016, the FCA issued a consultation paper, referred to as CP16/40, that included a number of proposed changes to the regulatory requirements relating to companies, such as GCUK, that offer CFDs and spread bets in the U.K. These proposed requirements included enhanced risk disclosures, a ban on offering account bonuses or similar promotional incentives to clients, mandatory margin close-out levels for retail clients and limitations on the leverage that may be offered to clients, with the limitations varying based on whether the clients are classified as experienced or inexperienced using criteria identified by the FCA. In June 2017, the FCA stated that any further action would be delayed pending action by the European Securities and Markets Authority, which has been reviewing the regulation of CFDs by various European regulators for several years.

In March 2018, ESMA announced product intervention measures to further regulate the marketing, distribution or sale of CFDs to retail investors in the European Union. These measures include leverage limits which vary based on the underlying asset, a margin close out rule on a per account basis, negative balance protection on a per account basis, a restriction on incentives offered to trade CFDs and a required standardized risk warning. These measures have now been published in the Official Journal of the European Union and became effective on August 1, 2018. While it is too early to assess the long-term impact of the ESMA changes introduced on August 1, 2018, particularly during a period of low volatility, early indications remain in line with the Company's initial expectations that the restrictions on leverage are not expected to have a material adverse impact on the Company's results of operations or financial condition.

As a result of historical and/or future regulatory changes, we may be required to change our business strategy, including the nature of the products that we offer, the target market for our products or our overall strategy toward one or more geographic markets.

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.

#### Sale of GTX ECN Business

On June 29, 2018, we completed the sale of the assets of our GTX ECN business, an institutional platform for trading foreign exchange, to 360T, a subsidiary of Deutsche Börse AG, pursuant to an Asset Purchase Agreement dated as of May 29, 2018 (the "Purchase Agreement"). The Purchase Agreement provides for a cash purchase price for the GTX business of \$100 million, less



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a working capital adjustment, which amounted to a \$0.2 million reduction in the purchase price. The Purchase Agreement contains customary representations and warranties that generally survive until the first anniversary of the closing date. We have also agreed to certain non-competition and non-solicitation obligations relating to the GTX business and its employees that expire on the third anniversary of the closing date. We have continued to provide certain transition services to the buyer following the closing date. The parties have entered into commercial agreements relating to a continued business relationship between GAIN and 360T.

Prior to its sale, we reported the results of our GTX ECN business as part of our institutional segment. We have determined that the institutional reportable segment met the discontinued operations criteria set forth in ASC Subtopic 205-20-45, Presentation of Financial Statements, in the quarter ended June 30, 2018. As such, the institutional segment results have been classified as discontinued operations in the accompanying Condensed Consolidated Statements of Operations and Comprehensive Income. For more information relating to the discontinued operations of our GTX ECN business, please see Note 3 to our Condensed Consolidated Financial Statements elsewhere in this report.

(“US GAAP”)

### FXCM Asset Acquisition

On February 7, 2017, we entered into an Asset Purchase Agreement (the “Purchase Agreement”) with Forex Capital Markets L.L.C. (“FXCM”). Pursuant to the terms of the Purchase Agreement, FXCM transferred substantially all of its U.S.-domiciled customer accounts to us effective as of February 24, 2017. In consideration of the transfer of these accounts, we agreed to pay FXCM, without duplication:

• \$500 per account for each transferred account that first executes a new trade with us during the 76-day period immediately following the closing of the account transfer (the “Initial Period”); and

• \$250 per account for each transferred account that (i) did not execute a new trade with us during the Initial Period and (ii) executes a new trade with us during the 77-day period immediately following the last day of the Initial Period.

We paid \$7.2 million to FXCM as consideration for the purchased accounts, which were capitalized and included as an intangible asset to be amortized on a straight line basis over its two year useful life.

### Credit Facility

On August 3, 2017, we entered into a Credit Agreement (the “Credit Agreement”), with Barclays Bank PLC (“Barclays”), as Administrative Agent, Collateral Agent, Arranger and Documentation Agent, Sterling National Bank as Joint Bookrunner (“Sterling”), and the other lenders from time to time party thereto (together with Barclays and Sterling, the “Lenders”).

The Credit Agreement provides for a U.S. \$50.0 million senior secured first lien revolving credit facility (the “Facility”), to be made available upon certain terms and conditions described below. Upon our request, the Facility may be increased by up to \$25.0 million, with a minimum increase of \$5.0 million. Each Lender has the absolute discretion to provide all or any part of the requested increase, or to decline to participate in the increase. Amounts available under the Facility may be borrowed, repaid and reborrowed on and after the closing date until the third anniversary of the closing date (the “Maturity Date”). All amounts outstanding under the Facility will initially bear interest, at our option, at a rate per annum equal to (i) the “Cost of Funds Rate” or, if applicable, “Base Rate” plus 1.75% per annum, or (ii) “LIBOR Rate” plus 2.75% per annum, in each case as such terms are defined in the Credit Agreement. Beginning on the date on which we deliver to the Lenders financial statements for the first full fiscal quarter after the closing date, the applicable margin for the Facility will be determined on a sliding scale based on our Consolidated Gross Leverage Ratio (as defined in the Facility). As of September 30, 2018, the interest rate was 7.25%.

All obligations under the Facility are guaranteed by each of our direct or indirect wholly-owned domestic subsidiaries (excluding our regulated subsidiaries) (collectively, the “Guarantors”). The obligations under the Facility are secured by a first priority security interest in all of the capital stock of each subsidiary owned by us or a Guarantor (collectively, the “Collateral”), which pledge, in the case of any foreign subsidiary, is limited to 65.0% of the voting stock of such foreign subsidiary and is limited to foreign subsidiaries directly owned by us or a Guarantor.

The Facility contains customary financial covenants, tested quarterly, including with respect to our Consolidated Gross Leverage Ratio, Consolidated Interest Coverage Ratio and Minimum Net Capital, in each case as such terms are defined in the Credit Agreement. The Facility contains such representations and warranties by us and the Guarantors as are customary for transactions and facilities of this type, subject to baskets for permitted acquisitions, dispositions, incurrence of additional

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indebtedness and similar transactions. The Facility also contains events of default that are customary for transactions and facilities of this type (subject to applicable grace periods and materiality standards).

On May 29, 2018, the Lenders entered into Consent and Waiver, pursuant to which the Lenders consented to the consummation of the sale of the GTX ECN business, and further agreed that, notwithstanding any other terms of the Credit Agreement, the Company could utilize a portion of the proceeds of the GTX ECN sale to repurchase the Company's outstanding 4.125% Convertible Senior Notes due 2020 and the Company's outstanding common stock, with such repurchases of common stock being excluded for purposes of the equity repurchase limits included in the Credit Agreement until the first anniversary of the Consent and Waiver. In a Second Consent and Waiver dated as of October 9, 2018, the Lenders agreed to extend the repurchase period for the common stock to December 31, 2019, and also consented to the Company's \$50.0 million modified Dutch auction tender offer, which is discussed in more detail below in "Part II. Item 2. Unregistered Sales of Equity Securities and Use of Proceeds."

### Convertible Notes

On August 22, 2017, we issued \$92.0 million aggregate principal amount of our 5.00% Convertible Senior Notes due 2022, which amount includes the exercise in full of the over-allotment option granted to the initial purchasers of the notes, in a private offering to qualified institutional buyers pursuant to Rule 144A under the Securities Act of 1933, as amended. The notes bear interest at a fixed rate of 5.00% per year, payable semi-annually in arrears on February 15 and August 15 of each year, beginning on February 15, 2018. The notes are convertible into cash, shares of our common stock, or a combination thereof, at our election. The notes will mature on August 15, 2022, unless earlier converted, redeemed or repurchased. We may not redeem the notes prior to August 15, 2020. The net proceeds from the offering of these notes were approximately \$88.4 million, after deducting discounts to the initial purchasers and offering expenses payable by the Company.

### Key Income Statement Line Items and Key Operating Metrics

The following section briefly describes the key components of our revenues and expenses, our use of non-GAAP financial measures, and key operating metrics we use to evaluate the performance of our business.

#### Revenue

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

#### Retail Revenue

Retail revenue is our largest source of revenue. Retail revenue is principally comprised of trading revenue from our retail segment.

Trading revenue in our retail segment is generated by customer activity in spot forex, precious metals, spread bets and CFDs on currencies, commodities, indices, individual equities, cryptocurrencies, bonds and interest rate products, as well as OTC options.

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 fees, including financing charges for positions held overnight, commissions on equity CFD trades, and other account related fees and (2) any net gains and losses generated through changes in the market value of the currencies and other products held in our net exposure.

For the three and nine months ended September 30, 2018, retail revenue represented 86.8% and 86.0% of our total net revenue, respectively. For the three and nine months ended September 30, 2017, retail revenue represented 84.3% and

83.6% of our total net revenue, respectively.

For each of the three and nine months ended September 30, 2018, approximately 97% 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% of our average daily retail trading volume consisted of our net exposure. For each of the three and nine months ended September 30, 2017, approximately 97% 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% of our average daily retail trading volume consisted of our net exposure.

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

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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 products at any given time. In the event of unfavorable market movements, we may experience losses on such positions. See “Our Retail Segment - Sophisticated Risk Management” in Item 1. Business, in our Annual Report on Form 10-K for the fiscal year ended December 31, 2017 for further details regarding our risk management policies for the retail segment.

### Futures Revenue

Futures revenue comprises primarily of commissions earned on futures and futures options trades. We act as an agent for the trades executed in our futures segment and are not exposed to market risk in connection with that activity.

### Other Revenue

Other revenue primarily comprises foreign currency translation gains and losses, account related fees, as well as revenue related to our swap dealer business that was previously reported in our institutional business prior to the sale of the GTX ECN business in June 2018.

### Net Interest Revenue

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 as well as U.S. Treasury bill, less interest paid to our customers.

Our cash and customer cash is generally invested in money market funds, which primarily invest in short-term United States government securities, treasury bills, and other money market instruments. 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 \$2.8 million for the three months ended September 30, 2018, compared to net interest revenue of \$1.4 million for the three months ended September 30, 2017.

### Expenses

Our expenses are principally comprised of the following:

#### Employee Compensation and Benefits

Employee compensation and benefits includes salaries, bonuses, commissions, stock-based compensation, 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, as well as client engagement and retention.

#### 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 customers to the Company.

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 the customers that they have introduced. Our indirect business accounted for 25.4% and 24.4% of retail trading volume in the three and nine months ended September 30, 2018, and 33.2% and 34.6% in the three and nine months ended September 30, 2017, respectively. The decline in indirect volume was due to our focus on expanding our direct business and efforts to optimize our indirect channel.

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Trading Expenses

Trading expenses consist of exchange fees paid to 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 and fees paid to prime brokers in connection with our futures segment.

General and Administrative

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

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 of the amortization of internally developed software.

Purchased Intangible Amortization

Purchased intangible amortization consists of amortization related to intangible assets we acquired in connection with our acquisitions. The principal intangible assets acquired were technology, customer relationships 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.

Contingent Provision

The contingent provision relates to an ongoing contractual dispute with a service provider relating to the historical deployment of software supporting one of our legacy trading platforms.

Interest Expense on Long Term Borrowings

Interest expense on long term borrowings consists of interest expense on our 4.125% Convertible Senior Notes due 2018, issued in November 2013, interest expense on our 4.125% Convertible Senior Notes due 2020, issued in April 2015 as part of the consideration for the City Index acquisition, and interest expense on our 5.00% Convertible Senior Notes due 2022, issued in August 2017.

Operating Metrics

We review various key operating metrics, which are described below, to evaluate the performance of our businesses.

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	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2018	2017	2018	2017
<b>Retail</b>				
OTC Trading Volume (billions) <sup>(1)</sup>	\$ 506.5	\$ 644.8	\$ 1,981.4	\$ 1,910.4
OTC Average Daily Volume (billions)	\$ 7.8	\$ 9.9	\$ 10.3	\$ 9.8
12 Month Trailing Active OTC Accounts <sup>(2)</sup>	129,182	133,813	129,182	133,813
3 Month Trailing Active OTC Accounts <sup>(2)</sup>	71,597	82,275	\$ 71,597	\$ 82,275
Client Assets (millions)	\$ 663.8	\$ 738.5	\$ 663.8	\$ 738.5
<b>Futures</b>				
Number of Futures Contracts <sup>(3)</sup>	1,622,114	1,518,417	5,856,029	5,234,214
Futures Average Daily Contracts	25,748	24,102	31,149	27,842
12 Month Trailing Active Futures Accounts <sup>(2)</sup>	7,550	8,056	7,550	8,056
Client Assets (millions)	\$ 223.5	\$ 221.1	\$ 223.5	\$ 221.1

(1) US dollar equivalent of notional amounts traded

(2) Accounts that executed a transaction during the relevant period

(3) Futures contracts represent the total number of contracts transacted by customers of our futures business

**OTC Trading Volume**

OTC trading volume is the U.S. dollar equivalent of the aggregate notional value of OTC trades executed by customers in our retail segment.

**OTC Average Daily Volume**

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 represents retail segment 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 trading volume and revenue in our retail segment.

**Client Assets**

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

**Number of Futures Contracts**

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

**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 customer trading volumes, and include:

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

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The volatility of financial markets has generally been positively correlated with customer trading volume. Our customer trading volume is also affected by the following four 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 and our customer service and education activities on attracting new customers and extending the duration and scope of the relationship our customers have with us.

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## RESULTS OF OPERATIONS

In light of the sale of our GTX ECN business in June 2018, which comprised our institutional segment, the results of the institutional segment are presented as discontinued operations in our Condensed Consolidated Statements of Operations and Comprehensive Income.

Unless otherwise stated, financial results discussed herein refer to our continuing operations in our retail, futures and corporate and other segments.

## Revenue

	Three Months Ended September 30, (amounts in thousands)				Nine Months Ended September 30, (amounts in thousands)			
	2018	2017	\$ Change	% Change	2018	2017	\$ Change	% Change
<b>REVENUE:</b>								
Retail revenue	\$82,917	\$62,143	\$20,774	33.4 %	\$239,069	\$180,153	\$58,916	32.7 %
Futures revenue	8,666	9,031	(365)	(4.0)%	30,440	29,176	1,264	4.3 %
Other revenue	1,171	1,229	(58)	(4.7)%	1,655	3,062	(1,407)	(46.0)%
Total non-interest revenue	92,754	72,403	20,351	28.1 %	271,164	212,391	58,773	27.7 %
Interest revenue	3,305	1,621	1,684	103.9 %	8,206	3,703	4,503	121.6 %
Interest expense	518	264	254	96.2 %	1,284	563	721	128.1 %
Total net interest revenue	2,787	1,357	1,430	105.4 %	6,922	3,140	3,782	120.4 %
Net revenue	\$95,541	\$73,760	\$21,781	29.5 %	\$278,086	\$215,531	\$62,555	29.0 %

The increase in retail revenue for the three months ended September 30, 2018 compared to the three months ended September 30, 2017 was primarily due to an increase in revenue capture, partially offset by a decrease in volume. The increase in retail revenue for the nine months ended September 30, 2018 compared to the nine months ended September 30, 2017 was primarily due to an increase in trading volume, as well as an increase in revenue capture. For the three months ended September 30, 2018, overall lower volatility and softer market conditions resulted in lower volumes and active customers during the quarter. Despite a less volatile market environment during the third quarter, our diverse product offerings, geographic reach and the execution of our strategic initiatives resulted in stronger financial and operational results in the period compared to the same period in the past year.

The decrease in futures revenue for the three months ended September 30, 2018 compared to the three months ended September 30, 2017 was primarily due to a decrease in revenue per contract, partially offset by an increase in total contracts. The increase in futures revenue for the nine months ended September 30, 2018 compared to the nine months ended September 30, 2017 was primarily due to an increase in volumes in the indirect business.

Other revenue remained relatively flat for the three months ended September 30, 2018 compared to the three months ended September 30, 2017. The decrease in other revenue for the nine months ended September 30, 2018 compared to the nine months ended September 30, 2017 was primarily due to the impact of foreign currency revaluation.

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## Expenses

	Three Months Ended September 30, (amounts in thousands)					Nine Months Ended September 30, (amounts in thousands)				
	2018	2017	\$ Change	% Change	%	2018	2017	\$ Change	% Change	%
Employee compensation and benefits	\$22,853	\$20,811	\$2,042	9.8	%	\$69,664	\$64,345	\$5,319	8.3	%
Selling and marketing	10,215	6,402	3,813	59.6	%	22,953	23,154	(201)	(0.9)	%
Referral fees	8,148	12,924	(4,776)	(37.0)	%	30,043	42,677	(12,634)	(29.6)	%
Trading expenses	5,770	4,741	1,029	21.7	%	17,122	15,075	2,047	13.6	%
General and administrative	12,207	11,221	986	8.8	%	38,899	32,285	6,614	20.5	%
Depreciation and amortization	4,685	4,373	312	7.1	%	15,394	12,322	3,072	24.9	%
Purchased intangible amortization	3,504	3,524	(20)	(0.6)	%	10,784	10,407	377	3.6	%
Communications and technology	5,507	4,635	872	18.8	%	16,393	14,161	2,232	15.8	%
Bad debt provision	334	143	191	133.6	%	1,734	49	1,685	nm	
Restructuring expenses	—	—	—	—	%	25	—	25	100.0	%
Contingent provision	4,975	—	4,975	100.0	%	4,975	—	4,975	100.0	%
Impairment of investment	—	—	—	—	%	(130)	—	(130)	(100.0)	%
Total operating expense	78,198	68,774	9,424	13.7	%	227,856	214,475	13,381	6.2	%
OPERATING PROFIT	17,343	4,986	12,357	247.8	%	50,230	1,056	49,174	nm	
Interest expense on long term borrowings	3,404	2,985	419	14.0	%	10,132	8,344	1,788	21.4	%
Loss on extinguishment of debt	—	4,944	(4,944)	(100.0)	%	—	4,944	(4,944)	(100.0)	%
INCOME/(LOSS) BEFORE INCOME TAX EXPENSE/(BENEFIT)	13,939	(2,943)	16,882	573.6	%	40,098	(12,232)	52,330	427.8	%
Income tax (benefit)/expense	3,970	97	3,873	nm		11,383	(4,300)	15,683	364.7	%
Equity in net loss of affiliate	\$—	\$(40)	40	100.0	%	\$—	\$(94)	94	100.0	%
Net income/(loss) from continuing operations	\$9,969	\$(3,080)	13,049	423.7	%	\$28,715	\$(8,026)	36,741	457.8	%
Income from discontinued operations, including gain on sale of \$69,439, net of income tax of \$3,222	\$2,344	\$725	\$1,619	NM		\$67,330	\$977	\$66,353	NM	

The increase in employee compensation and benefits for the three and nine months ended September 30, 2018 compared to the three and nine months ended September 30, 2017 was primarily related to an increase in amounts required to be paid pursuant to the Company's incentive compensation plan due to stronger financial results during the three and nine months ended September 30, 2018.

The increase in selling and marketing expense for the three months ended September 30, 2018 compared to the three months ended September 30, 2017 was primarily related to increases in marketing expenditures for our retail segment to support our key strategy of organic growth, with the aim of growing new and active direct customers going into 2019 and beyond. Selling and marketing expenses remained relatively flat for the nine months ended September 30, 2018 compared to the nine months ended September 30, 2017.

The decrease in referral fees for the three and nine months ended September 30, 2018 compared to the three and nine months ended September 30, 2017 was primarily related to the decrease in indirect volume and a lower referral fee per million due to ongoing partner optimization efforts during the three and nine months ended September 30, 2018.

The increase in trading expenses for the three and nine months ended September 30, 2018 compared to the three and nine months ended September 30, 2017 was primarily related to the increased clearing fees in the futures business due to the increase in volume.



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The increase in general and administrative expenses for the three and nine months ended September 30, 2018 compared to the three and nine months ended September 30, 2017 was due to an increase in payment processing fees and spreadbet duty driven by higher customer engagement and an increase in professional fees related to tax and legal services. The increase in general and administrative expenses also reflected an increase in value-added sales tax in the U.K. caused by the recovery of a smaller portion of such taxes as compared to the prior periods due to a change in the mix of business booked through our U.K. operating subsidiary, as well as the effect of a one-time credit received in the prior year.

The increase in communications and technology expense for the three and nine months ended September 30, 2018 compared to the three and nine months ended September 30, 2017 was primarily related to an increase in software maintenance costs.

The increase in bad debt provision for the three and nine months ended September 30, 2018 compared to the three and nine months ended September 30, 2017 was due to the negative balances experienced by certain of our customers due to the increased volatility during the three and nine months ended September 30, 2018 compared to lower customer bad debt for the three and nine months ended September 30, 2017.

The contingent provision relates to an ongoing contractual dispute with a service provider relating to the historical deployment of software supporting one of our legacy trading platforms.

During the third quarter of 2017 we repurchased \$71.8 million in principal amount of our 4.125% Convertible Senior Notes due 2018 using a portion of the net proceeds of the offering of our 5.00% Convertible Senior Notes due 2022. As a result we recognized a debt extinguishment loss of \$4.9 million for the three months ended September 30, 2017.

Income tax expense for the three months ended September 30, 2018 increased by \$3.9 million, with a tax expense of \$4.0 million compared to a tax expense of \$0.1 million in the three months ended September 30, 2017. Income tax expense for the nine months ended September 30, 2018 increased by \$15.7 million, with a tax expense of \$11.4 million compared to a tax benefit of \$4.3 million in the nine months ended September 30, 2017.

The increase in income from discontinued operations, net of tax for the three and nine months ended September 30, 2018 compared to the three and nine months ended September 30, 2017 was primarily related to gain on sale of our GTX ECN business. The net income for the institutional segment was accounted for as discontinued operations as presented in Note 3 to our Condensed Consolidated Financial Statements elsewhere in this report.

### Segment Results - Three and Nine Months Ended September 30, 2018 Compared to Three and Nine Months Ended September 30, 2017

#### Retail Segment (amounts in thousands)

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2018	2017	\$ Change	% Change	2018	2017	\$ Change	% Change
Net revenue	\$85,856	\$63,927	\$21,929	34.3 %	\$246,060	\$184,619	\$61,441	33.3 %
Employee compensation and benefits	14,355	12,726	1,629	12.8 %	43,427	40,466	2,961	7.3 %
Selling and marketing	9,957	6,280	3,677	58.6 %	22,117	22,429	(312)	(1.4)%
Referral fees	5,321	9,796	(4,475)	(45.7)%	20,047	31,945	(11,898)	(37.2)%
Other operating expenses	17,194	15,634	1,560	10.0 %	53,206	44,253	8,953	20.2 %
Segment profit	\$39,029	\$19,491	\$19,538	100.2 %	\$107,263	\$45,526	\$61,737	135.6 %

The increase in retail segment revenue for the three months ended September 30, 2018 compared to the three months ended September 30, 2017 was primarily due to an increase in revenue capture, partially offset by a decrease in volume. The increase in retail revenue for the nine months ended September 30, 2018 compared to the nine months ended September 30, 2017 was primarily due to an increase in trading volume, as well as an increase in revenue capture. For the three months ended September 30, 2018, overall lower volatility and softer market conditions resulted in lower volumes and active customers during the quarter. Despite a less volatile market environment during the third quarter, our diverse product offerings, geographic reach and the execution of our strategic initiatives resulted in stronger financial and operational results in the period compared to the same period in the past year.

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The increase in employee compensation and benefits expenses for the retail segment for the three and nine months ended September 30, 2018 compared to the three and nine months ended September 30, 2017 was primarily related to an increase in amounts required to be paid pursuant to the Company's incentive compensation plan due to stronger financial results during the three and nine months ended September 30, 2018.

The increase in selling and marketing expense for the retail segment for the three months ended September 30, 2018 compared to the three months ended September 30, 2017 was primarily related to supporting our key strategy of organic growth, with the aim of growing new and active direct customers going into 2019 and beyond. Selling and marketing expense for the retail segment remained relatively flat for the nine months ended September 30, 2018 compared to the nine months ended September 30, 2017.

The decrease in referral fees for the retail segment for the three and nine months ended September 30, 2018 compared to the three and nine months ended September 30, 2017 was primarily related to the decrease in indirect volume and a lower referral fee per million due to ongoing partner optimization efforts during the three and nine months ended September 30, 2018.

The increase in other operating expenses for the retail segment for the three and nine months ended September 30, 2018 compared to the three and nine months ended September 30, 2017 was primarily due to the increase in bad debt provision due to the negative balances experienced by certain of our customers during the three and nine months ended September 30, 2018, increased payment processing fees and spreadbet duty driven by higher customer engagement and an increase in communications and technology expense for software maintenance. The increase in other operating expenses also reflected an increase in value-added sales tax in the U.K. caused by our recovering a smaller portion of such taxes as compared to the prior periods due to a change in the mix of business booked through our U.K. operating subsidiary, as well as the effect of a one-time credit received in the prior year.

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

## Futures Segment (amounts in thousands)

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2018	2017	\$ Change	% Change	2018	2017	\$ Change	% Change
Net revenue	\$9,737	\$9,777	\$ (40 )	(0.4 )%	\$33,328	\$30,757	\$2,571	8.4 %
Employee compensation and benefits	2,416	2,327	89	3.8 %	7,790	7,372	418	5.7 %
Selling and marketing	181	121	60	49.6 %	625	607	18	3.0 %
Referral fees	2,827	3,128	(301 )	(9.6 )%	9,996	10,732	(736 )	(6.9 )%
Other operating expenses	3,043	2,904	139	4.8 %	10,392	9,879	513	5.2 %
Segment profit	\$1,270	\$1,297	\$ (27 )	(2.1 )%	\$4,525	\$2,167	\$2,358	108.8 %

The decrease in futures revenue for the three months ended September 30, 2018 compared to the three months ended September 30, 2017 was primarily due to a decrease in revenue per contract, partially offset by an increase in total contracts. The increase in futures revenue for the nine months ended September 30, 2018 compared to the nine months ended September 30, 2017 was primarily due to an increase in volumes mostly in the indirect business.

The increase in employee compensation and benefits expenses for the futures segment for the three and nine months ended September 30, 2018 compared to the three and nine months ended September 30, 2017 was primarily due to an



increase in sales commissions based on the increase in volume as well as an increase in amounts required to be paid pursuant to the Company's incentive compensation plan due to stronger financial results during the three and nine months ended September 30, 2018.

Selling and marketing expenses for the futures segment remained relatively flat for the three and nine months ended September 30, 2018 compared to the three and nine months ended September 30, 2017.

The decrease in referral fees for the futures segment for the three and nine months ended September 30, 2018 compared to the three and nine months ended September 30, 2017 was primarily related to a decrease in indirect referral fees per contract for

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the three and nine months ended September 30, 2018 due to an increase in volume from customers introduced by lower cost partners.

The increase in other operating expenses for the futures segment for the three and nine months ended September 30, 2018 compared to the three and nine months ended September 30, 2017 was primarily due to an increase in trading costs related to higher volumes.

Other operating expenses from the futures segment include general and administrative expenses, communication and technology expenses, trading expenses and bad debt.

Corporate and Other (amounts in thousands)

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2018	2017	\$ Change	% Change	2018	2017	\$ Change	% Change
Other revenue/(loss)	\$(52 )	\$56	\$(108 )	(193 )%	\$(1,302 )	\$155	\$(1,457)	(940 )%
Employee compensation and benefits	6,082	5,758	324	6 %	18,447	16,507	1,940	12 %
Selling and marketing	77	1	76	NM	211	118	93	79 %
Other operating expenses	3,581	2,202	1,379	63 %	10,550	7,438	3,112	42 %
Loss	\$(9,792)	\$(7,905)	\$(1,887)	(24 )%	\$(30,510)	\$(23,908)	\$(6,602)	(28 )%

The decrease in corporate and other revenue/(loss) for the three and nine months ended September 30, 2018 compared to the three and nine months ended September 30, 2017 was primarily due to the impact of foreign currency revaluation.

The increase in employee compensation and benefits expenses for employees not attributed to any of our operating segments, such as our executive officers, for the three and nine months ended September 30, 2018 compared to the three and nine months ended September 30, 2017 was primarily related to an increase in amounts required to be paid pursuant to the Company's incentive compensation plan due to stronger financial results during the three and nine months ended September 30, 2018.

Selling and marketing expenses not attributed to any of our operating segments remained relatively flat for the three and nine months ended September 30, 2018 compared to the three and nine months ended September 30, 2017.

The increase in other operating expenses not attributed to any of our operating segments for the three and nine months ended September 30, 2018 compared to the three and nine months ended September 30, 2017 was primarily due to an increase in professional fees related to tax and legal services. The increase in other operating expenses also reflected an increase in value-added sales tax in the U.K. caused by our recovering a smaller portion of such taxes as compared to the prior periods due to a change in the mix of business booked through our U.K. operating subsidiary, as well as the effect of a one-time credit received in the prior year.

#### Liquidity and Capital Resources

We have historically financed our liquidity and capital needs primarily through the use of funds generated from operations by our subsidiaries, the issuance of debt and equity securities, including the 4.125% Convertible Senior Notes due 2018 that we issued in the fourth quarter of 2013, the 4.125% Convertible Senior Notes due 2020 that were issued in 2015 in connection with our acquisition of City Index, the 5.00% Convertible Senior Notes due 2022 that were issued in the third quarter of 2017, and access to secured lines of credit, such as the revolving credit facility entered into in August 2017. In June 2018, we completed the sale of our GTX ECN business for a purchase price of \$100 million, less a working capital adjustment which amounted to a \$0.2 million reduction in the purchase price,

resulting in cash sale proceeds of approximately \$85.0 million, net of taxes and transaction-related expenses and fees. 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 lower than the comparable prior period, as we continue to identify areas for savings.

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 highly liquid investment grade securities including

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short-term U.S. treasury bills, as well as directly in U.S. treasury bills. In general, we believe all of our investments and deposits are of high credit quality and we have more than adequate liquidity to conduct our businesses.

Several of our operating subsidiaries are subject to requirements of regulatory bodies, including the CFTC and NFA in the United States, the FCA in the United Kingdom, the FSA and FFAJ in Japan, the SFC in Hong Kong, IIROC and the OSC in Canada, MAS in Singapore, ASIC in Australia, and the CIMA in the Cayman Islands, 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.

**Regulatory Capital Requirements**

The following table illustrates the minimum regulatory capital our subsidiaries were required to maintain as of September 30, 2018 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	\$ 34.3	\$ 51.9	\$ 17.6
GAIN Capital Securities, Inc.	0.1	0.4	0.3
GAIN Capital U.K., Ltd.	69.1	198.5	129.4
GAIN Capital Japan Co., Ltd.	1.4	9.7	8.3
GAIN Capital Australia, Pty. Ltd.	0.7	5.7	5.0
GAIN Capital-Forex.com Hong Kong, Ltd.	1.9	3.7	1.8
GAIN Global Markets, Inc.	0.7	1.3	0.6
GAIN Capital-Forex.com Canada, Ltd.	0.2	1.5	1.3
GAIN Capital Singapore Pte., Ltd.	0.4	8.1	7.7
Trade Facts, Ltd.	0.6	3.5	2.9
Global Asset Advisors, LLC	0.0	2.2	2.2
GTX SEF, LLC	0.7	0.9	0.2
Total	\$ 110.1	\$ 287.4	\$ 177.3

Our futures commission merchant and forex dealer subsidiary, GCG, LLC (“GCGL”), is subject to the Commodity Futures Trading Commission Net Capital Rule (Rule 1.17) and NFA Financial Requirements, Sections 1 and 11. Under applicable provisions of these regulations, GCGL is required to maintain adjusted net capital of the greater of \$1.0 million or 8% of Customer and Non-Customer Risk Maintenance Margin, or \$20.0 million plus 5% of all liabilities owed to retail customers exceeding \$10.0 million, plus 10% of all liabilities owed to eligible contract participant counterparties acting as a dealer that are not an affiliate. Net capital represents current assets less total liabilities as defined by CFTC Rule 1.17. GCGL’s current assets primarily consist of cash and cash equivalents reported on its balance sheet as cash, receivables from brokers and trading securities, which are generally short-term U.S. government securities. GCGL’s total liabilities include payables to customers, accrued expenses, accounts payable, sales and marketing expense payable, introducing broker fees payable and other liabilities. From net capital we take certain percentage deductions or haircuts against assets held based on factors required by the Commodity Exchange Act to calculate adjusted net capital. GCGL’s net capital and adjusted net capital changes from day to day. As of September 30, 2018, GCGL had net capital of approximately \$51.9 million and net capital requirements and haircut charges of \$34.3 million. As of September 30, 2018, GAIN Capital Group’s excess net capital was \$17.6 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 GCGL’s net capital and a 30.0% decrease in excess net capital due to a planned equity withdrawal requires regulatory notification and/or approval.

## Edgar Filing: GAIN Capital Holdings, Inc. - Form 10-Q

GAIN Capital Securities, Inc. (“GCSI”) is a broker-dealer registered with the SEC under the Securities Exchange Act of 1934, as amended. GCSI is a member of the Financial Industry Regulatory Authority (“FINRA”), Municipal Securities Rulemaking Board (“MSRB”), and Securities Investor Protection Corporation (“SIPC”). Pursuant to the SEC’s Uniform Net Capital Rule 15c3-1, GCSI is required to maintain a minimum net capital balance (as defined) of \$0.1 million. GCSI must also maintain a ratio of aggregate indebtedness (as defined) to net capital of not more than 15 to 1. At September 30, 2018, GCSI maintained \$0.3 million more than the minimum required regulatory capital for a total of 4.0 times the required capital.

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GCUK is regulated by the FCA as a full scope €730k IFPRU Investment Firm. GCUK is required to maintain the greater of approximately \$0.9 million (€730,000) or the Financial Resources Requirement, which is calculated as the sum of the firm's operational, credit, counterparty, concentration and market risk. At September 30, 2018, GCUK maintained \$129.4 million more than the minimum required regulatory capital for a total of 2.9 times the required capital.

GAIN Capital Japan Co., Ltd. ("GC Japan") is a registered Type I financial instruments business firm regulated by the Japan Financial Services Agency ("FSA") in accordance with Financial Instruments and Exchange Law (Law No. 25 of 1948, as amended). GC Japan is a member of the Financial Futures Association of Japan. GC Japan is subject to a minimum capital adequacy ratio of 140%, which is derived by dividing Net Capital (as defined in Law No. 25) by the sum of GC Japan's market, counterparty credit risk and operational risk. At September 30, 2018, GC Japan maintained \$8.3 million more than the minimum required regulatory capital for a total of 6.9 times the required capital.

GAIN Capital Australia, Pty. Ltd. ("GCAU") is regulated under the laws of Australia, including the Corporations Act 2001 (Commonwealth of Australia). GCAU holds an Australian Financial Services License that has been issued by ASIC. GCAU is required to maintain a minimum capital requirement of \$0.7 million (1.0 million AUD). The regulatory capital held is required to be in excess of 110% of its requirements at all times. At September 30, 2018, GCAU maintained \$5.0 million more than the minimum required regulatory capital for a total of 8.1 times the required capital.

GAIN Capital-Forex.com Hong Kong, Ltd. ("GCHK") is licensed by the Securities and Futures Commission ("SFC") to carry out Type 3 Regulated Activity, Leveraged Foreign Exchange Trading. GCHK is subject to the requirements of section 145 of the Securities and Futures Ordinance (Cap.571). Under this rule, GCHK is required to maintain a minimum liquid capital requirement of \$1.9 million. At September 30, 2018, GCHK maintained \$1.8 million more than the minimum required regulatory capital for a total of 1.9 times the required capital. As a result of a shift in strategic priorities in the region, a process has commenced with the SFC to return GCHK's license.

GAIN Global Markets, Inc. ("GGMI"), the Company's Cayman Island subsidiary, is a registered securities arranger and market maker with the Cayman Islands Monetary Authority ("CIMA"). GGMI is required to maintain a capital level that is the greater of one quarter of relevant annual expenditure, or the financial resources requirement which is the sum of the Base Requirement, counterparty and position risk requirement, or \$0.7 million. At September 30, 2018, GGMI maintained \$0.6 million more than the minimum required regulatory capital for a total of 1.9 times the required capital.

GAIN Capital-Forex.com Canada, Ltd. ("GCCA") is a Dealer Member of the Investment Industry Regulatory Organization of Canada ("IIROC") and regulated under the laws of Canada, including the Canadian Investor Protection Fund. In Canada, the securities industry is governed by provincial or territorial legislation, and there is no national regulator. Local legislation differs from province to province and territory to territory, but generally requires that forex dealing representatives register with applicable regulators and self-regulatory organizations in order to offer forex and/or CFD products to retail clients. GCCA's principal provincial regulator is the Ontario Securities Commission, or OSC. GCCA is required to maintain risk-adjusted capital in excess of the minimum capital requirement. At September 30, 2018, GCCA maintained \$1.3 million more than the minimum required regulatory capital for a total of 7.5 times the required capital.

GAIN Capital Singapore Pte., Ltd. ("GCS") is registered by the Monetary Authority of Singapore ("MAS") and operates as an approved holder of Capital Market Services License. GCS is subject to the requirements of MAS and pursuant to the Securities and Futures Act (Cap 289). Under these rules GCS is required to maintain a minimum base capital of approximately \$0.4 million (1.0 million SGD) and Financial Resources in excess of 120% of the total risk requirements at all times, which is calculated as the sum of operational, counterparty, large exposure and market risk.

At September 30, 2018, GCS maintained \$7.7 million more than the required minimum regulatory capital for a total of 20.3 times the required capital.

Trade Facts, Ltd. (“Trade Facts”) is regulated by the FCA as a BIPRU Limited License Firm. Trade Facts is required to maintain the greater of a base financial resources requirement of approximately \$0.1 million (€0.05 million) and a capital requirement of the higher of either credit risk plus market risk or a fixed overhead requirement. At September 30, 2018, Trade Facts maintained \$2.9 million more than the minimum required regulatory capital for a total of 5.8 times the required capital.

GAA is a registered Introducing Broker and is subject to the CFTC Net Capital Rule (Rule 1.17). Under applicable provisions of these rules, GAA is required to maintain adjusted net capital of less than \$0.1 million. At September 30, 2018, GAA maintained \$2.2 million more than the minimum required regulatory capital.

GAIN GTX, LLC (“GTX SEF”) is a registered swap execution facility with the CFTC and is subject to the requirements under CFTC regulations 37.1300-1306. Under applicable provisions of these regulations, GTX SEF is required to maintain financial resources of more than or equal to the total of its operating costs for a period of at least one year financial resources

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requirements, calculated on a rolling basis. At September 30, 2018, GTX SEF maintained \$0.2 million more than the minimum required regulatory capital for a total of 1.3 times the required capital.

Effective from 2016, the FCA began transitioning in additional capital requirements in the form of a conservation buffer and a countercyclical capital buffer as set out in Capital Requirements Directive, or CRD IV, Article 160 Transitional Provisions for Capital Buffers. The transitional period began on January 1, 2016 and the minimum common equity tier 1 capital ratio requirement, currently at 6.375% for the year of 2018, will increase to 7.0% as of January 1, 2019. Given the nature of our UK-regulated firms' activities, the effect of the countercyclical buffer is expected to be negligible.

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 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 June 2016, GTX SEF, LLC became permanently registered with the CFTC as a swap execution facility, replacing the temporary registration previously granted in April 2014. 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 proposed rules for new minimum capital requirements. GAIN GTX, LLC and GTX SEF, LLC have faced, and may continue to face, increased costs due to the registration and regulatory requirements listed above, as may any other of our subsidiaries that register as a swap dealer and/or swap execution facility. In particular, the CFTC has proposed rules that would require a swap-dealer to maintain regulatory capital of at least \$20.0 million. Compliance with this or other swap-related regulatory capital requirements may require us to devote more capital to our GTX business or otherwise restructure our operations, such as by combining our GTX business with other regulated subsidiaries that must also satisfy regulatory capital requirements. 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.

Operating Cash

We are required to maintain cash on deposit with our liquidity providers in order to conduct our hedging activities. As of September 30, 2018, we posted \$57.5 million in cash with liquidity providers. As of September 30, 2018, our total client assets were \$887.3 million compared to \$978.8 million as of December 31, 2017, a decrease of \$91.5 million. Total client assets represent amounts due to clients, including deposits and unrealized gains or losses arising from open positions.

The table set forth below provides a measure of our available liquidity as of September 30, 2018 and as of December 31, 2017. We believe our reporting of available liquidity assists investors in evaluating our performance. We use this non-GAAP measure to evaluate our ability to continue to fund growth in our business (amounts in millions):

	September 30, 2018	December 31, 2017
Cash and cash equivalents	\$ 362.3	\$ 209.7
Receivables from brokers	57.5	78.5
Revolving credit facility (undrawn)	50.0	50.0



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Net operating cash	469.8	338.2
Less: Minimum regulatory requirements	(110.1 )	(112.9 )
Less: Payables to brokers	(1.8 )	(2.8 )
Less: Convertible senior notes due 2018	(6.4 )	(6.4 )
Liquidity <sup>(1)</sup>	\$ 351.5	\$ 216.1

(1) The repayment of our Convertible Senior Notes due 2020 and 2022 is excluded given the long-dated maturity of these convertible notes.

The increase in our liquidity for the nine months ended September 30, 2018 was primarily due to sale proceeds from the GTX ECN business of approximately \$96.8 million, net of transaction-related expenses and fees, net income from continuing operations of \$28.7 million, a decrease in minimum regulatory requirements of \$2.8 million, a decrease in receivables from

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brokers of \$21.0 million, and changes in foreign currency, partially offset by the purchase of treasury stock of \$11.5 million and dividend payments of \$8.0 million.

Convertible Senior Notes

On November 27, 2013, we issued \$80.0 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 to the initial purchasers and estimated offering expenses payable by the Company. We used a portion of the net proceeds of the offering of our 5.00% Convertible Senior Notes due 2022 to repurchase \$71.8 million in principal amount of our 4.125% Convertible Senior Notes due 2018.

The notes bear interest at a fixed rate of 4.125% per year, payable semi-annually in arrears on June 1 and December 1 of each year, beginning on June 1, 2014. The notes are convertible into cash, shares of our common stock, or a combination thereof, at our election. The notes will mature on December 1, 2018, unless earlier converted, redeemed or repurchased.

On April 1, 2015, as part of the consideration for our acquisition of City Index, we issued \$60.0 million aggregate principal amount of our 4.125% Convertible Senior Notes due 2020 to City Index Group Limited. These notes bear interest at a fixed rate of 4.125% per year, payable semi-annually in arrears on April 1 and October 1 of each year, beginning on October 1, 2015. 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.

On August 22, 2017, we issued \$92.0 million aggregate principal amount of our 5.00% Convertible Senior Notes due 2022, which includes the exercise in full of the over-allotment option granted to the initial purchasers of the notes, in a private offering to qualified institutional buyers pursuant to Rule 144A under the Securities Act of 1933, as amended. The notes bear interest at a fixed rate of 5.00% per year, payable semi-annually in arrears on February 15 and August 15 of each year, beginning on February 15, 2018. The notes are convertible into cash, shares of our common stock, or a combination thereof, at our election. The notes will mature on August 15, 2022, unless earlier converted, redeemed or repurchased. We may not redeem the notes prior to August 15, 2020. The net proceeds from the offering of these notes were approximately \$88.4 million, after deducting discounts to the initial purchasers and estimated offering expenses payable by the Company.

An entity must separately account for the liability and equity components of convertible debt instruments whose conversion may be settled entirely or partially in cash 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 is reflected as a liability in our Condensed Consolidated Balance Sheets in an amount equal to the fair value, which, as of September 30, 2018 and December 31, 2017, was \$136.9 million and \$132.2 million, respectively. The equity component of the notes is included in the additional paid-in capital section of our shareholders' equity on our Condensed Consolidated Balance Sheets, 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 September 30, 2018 and December 31, 2017, for our convertible senior notes was \$38.6 million and \$38.6 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 reported lower net income in our financial results than would have been recorded had we reflected only cash interest expense in our Condensed Consolidated Income Statement and Comprehensive Income because GAAP requires the interest expense associated with the notes to include both the current period's amortization of the original issue discount and the notes' cash 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 due 2018, 4.125% Convertible Senior Notes due 2020, and 5.00% Convertible Senior Notes due 2022) 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 (loss) per share could be adversely affected.

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## Credit Facility

On August 3, 2017, the Company entered into a Credit Agreement, dated as of August 2, 2017, for a three year U.S. \$50.0 million senior secured first lien revolving credit facility that matures in August 2020. Upon request of the Company, the credit facility may be increased by up to \$25.0 million, with a minimum increase of \$5.0 million. The credit facility contains covenants that are customary for an issuer with senior debt. As of September 30, 2018, we were in compliance with the covenants for our credit facility. The Company will pay a quarterly commitment fee based on the undrawn portion of the facility and interest on amounts drawn.

As of September 30, 2018, there were no amounts outstanding under the revolving line of credit.

## Cash Flow

The following table sets forth a summary of our cash flow for the nine months ended September 30, 2018 and the nine months ended September 30, 2017 (amounts in thousands):

	For the Nine Months Ended September 30,	
	2018	2017
Net cash provided by/(used in) operating activities	\$(5,108 )	\$1,352
Net cash provided by/(used in) investing activities	82,170	(23,882)
Net cash used in financing activities	(19,282 )	(18,921)
Effect of exchange rate changes on cash and cash equivalents	3,331	46,421
<b>NET INCREASE/(DECREASE) IN CASH, CASH EQUIVALENTS, AND RESTRICTED CASH</b>	<b>\$61,111</b>	<b>\$4,970</b>

The primary drivers of our cash flow provided by/(used in) operating activities are net income, adjusted for non-cash charges, such as depreciation and amortization, and amounts posted as collateral with liquidity providers.

Our largest operating expenses are employee compensation and benefits, selling and marketing and referral fees. Employee compensation and benefits include salaries, bonuses and other employee related costs, as well as commissions paid to certain sales personnel. Selling and marketing expenses consist primarily of selling and promotional costs to support our retail, institutional and futures brands. Referral fees consist primarily of payments made to our white label partners and introducing brokers.

Unrealized gains and losses on cash positions revalued at prevailing foreign currency exchange rates are included in trading revenue but have no direct impact on cash flow from operations. Gains and losses become realized and impact cash flow from operations when customer transactions are liquidated. To some extent, the amount of net deposits made by our customers in any given period is influenced by the impact of unrealized gains and losses on our customer balances, such that customers may be required to post additional funds to maintain open positions or may choose to withdraw excess funds on open positions.

## Operating Activities

Cash used for operating activities was \$5.1 million for the nine months ended September 30, 2018, compared to cash provided by operating activities of \$1.4 million for the nine months ended September 30, 2017. The aggregate change in operating assets and liabilities was \$47.2 million for the nine months ended September 30, 2018 compared to the nine months ended September 30, 2017. This was offset by the change in net income from continuing operations of \$36.7 million for the nine months ended September 30, 2018 compared to the nine months ended September 30, 2017.

## Investing Activities

Cash provided by investing activities was \$82.2 million for the nine months ended September 30, 2018 compared to cash used for investing activities of \$23.9 million for the nine months ended September 30, 2017. The increase in cash provided by investing activities was primarily due to sale of the GTX business in the nine months ended September

30, 2018.

Capital expenditures were \$11.5 million for the nine months ended September 30, 2018 compared to \$16.7 million for the nine months ended September 30, 2017. The decrease in capital expenditures is primarily the result of our ongoing efforts to migrate customers onto a single retail trading platform, leading to a reduction in development and other costs associated with maintaining multiple trading platforms.

Financing Activities

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Cash used for financing activities was \$19.3 million for the nine months ended September 30, 2018 compared to cash used for financing activities of \$18.9 million for the nine months ended September 30, 2017. The increase in cash used for financing activities was primarily due to the effect of proceeds from the issuance for the nine months ended September 30, 2017 but not in the nine months ended September 30, 2018, partially offset by the decrease in distributions to non-controlling interest holders and a decrease in the purchase of treasury stock for the nine months ended September 30, 2018 compared to the nine months ended September 30, 2017.

### Contractual Obligations

For the nine months ended September 30, 2018, 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, 2017.

### Off-Balance Sheet Arrangements

At September 30, 2018 and December 31, 2017, we did not have any relationships with unconsolidated entities or financial partnerships, such as entities often referred to as structured finance or special purpose entities, which would have been established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes.

### Critical Accounting Policies and Estimates

For the nine months ended September 30, 2018, there were no significant changes to our critical accounting policies and estimates 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, 2017.

## 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 Condensed 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 affects our interest revenue. We estimate that as of September 30, 2018, an immediate 100 basis point increase in short-term interest rates would result in approximately \$9.6 million more in annual pretax income.

### Foreign Currency Risk

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 take proprietary directional market positions.

Virtually all sales and related operating costs are denominated in the currency of the local country and translated into USD for consolidated reporting purposes. Although the majority of the assets and liabilities of these subsidiaries are denominated in the functional currency of the subsidiary, they may also hold assets or liabilities denominated in other currencies. These items may give rise to foreign currency transaction gains and losses. As a result, our results of

operations and financial position are exposed to changing currency exchange rates. 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

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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, with limits on our exposure to any single financial institution. In the event that our access to one or more financial institutions becomes limited, our ability to hedge may be impaired.

### 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 instrument, 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 September 30, 2018, we maintained capital levels of \$287.4 million, which represented approximately 2.6 times the capital we were required to hold under applicable regulations.

### Cash Liquidity Risk



In normal conditions, our market making business 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 markets 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. These relationships provide us with sufficient access to liquidity to allow us to consistently execute significant trades in varying market conditions at the notional amounts our customers desire by providing us with as much as 50:1 leverage on the notional amounts of our available collateral we have on deposit with such financial institutions. We generally maintain collateral on deposit, which includes our funds and our customers' funds, with our liquidity providers. Collateral on deposit ranged from \$92.3 million to \$149.6 million in the aggregate during the nine months ended September 30, 2018.

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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. Our computer infrastructure is potentially vulnerable to physical or electronic computer break-ins, viruses and similar disruptive problems and security breaches. 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.

ITEM 4. CONTROLS AND PROCEDURES

(a) Evaluation of Disclosure 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.

Management of the Company, with the participation of its CEO and CFO, evaluated the effectiveness of the Company's disclosure controls and procedures. Based on their evaluation, as of the end of the period covered by this Quarterly Report on Form 10-Q, the Company's CEO and CFO have concluded that the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended) were effective.

(b) Changes in Internal Control over Financial Reporting

There have not been any changes in the Company's internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the fiscal quarter to which this report relates that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

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## PART II – OTHER INFORMATION

## ITEM 1. LEGAL PROCEEDINGS

For the nine months ended September 30, 2018, 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, 2017.

## ITEM 1A. RISK FACTORS

Our Annual Report on Form 10-K for the fiscal year ended December 31, 2017 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 to the risk factors disclosed in that section of our Annual Report on Form 10-K, 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 nine months ended September 30, 2018:

Period <sup>(1)</sup>	Total Number of Shares Purchased <sup>(1)</sup>	Average Price Paid per Share <sup>(1)</sup>	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs <sup>(1)</sup>	Maximum Number (or Approximate Dollar Value) of Shares that May Yet Be Purchased Under the Plans or Programs <sup>(1)(2)</sup>
January 1, 2018-January 31, 2018	124,337	\$ 8.04	124,337	\$ 12,264,759
February 1, 2018-February 28, 2018	225,497	\$ 6.87	225,497	\$ 10,710,340
March 1, 2018-March 31, 2018	230,230	\$ 7.06	230,230	\$ 9,080,835
April 1, 2018-April 30, 2018	190,761	\$ 7.60	190,761	\$ 32,627,108
May 1, 2018-May 31, 2018	163,137	\$ 8.12	163,137	\$ 31,298,959
June 1, 2018-June 30, 2018	164,918	\$ 7.88	164,918	\$ 29,995,746
July 1, 2018-July 31, 2018	140,775	\$ 7.64	140,775	\$ 28,918,018
August 1, 2018-August 31, 2018	161,579	\$ 7.12	161,579	\$ 27,764,886
September 1, 2018-September 30, 2018	149,270	\$ 6.87	149,270	\$ 26,736,982

(1) On May 16, 2011, the Company announced that its Board of Directors approved a share repurchase plan, which authorized 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. On November 3, 2016, the Company announced that its Board of Directors had increased the total amount available for the repurchase of the Company’s common stock under the Company’s share repurchase plan to \$30.0 million. On August 14, 2017, in connection and concurrent with the offering of the Company’s 5.00% Convertible Senior Notes due in 2022, the Board of Directors approved the expenditure of up to \$15.0 million for the purchase of the Company’s common stock, of which \$14.5 million was repurchased. On April 24, 2018, the Board of Directors approved an increase in the total amount of available cash for the purchase of the Company’s common stock of \$25.0 million.

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

On October 9, 2018, the Company announced a "modified Dutch auction" tender offer to purchase up to \$50 million of shares of its common stock, or such lesser number of shares of its common stock as are properly tendered and not properly withdrawn, at a price not less than \$7.24 nor greater than \$7.94 per share of common stock, to the seller in cash, less any applicable withholding taxes and without interest (the "Offer"). The Offer is made upon the terms and subject to the conditions described in the offer to purchase and in the related letter of transmittal, each of which are attached as exhibits to the Company's Schedule TO, as filed with the SEC on October 9, 2018. The Offer is not reflected in the table above.

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ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

None.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

Exhibit No.	Description
10.1	<u>Form of CEO Restricted Stock Unit Grant (Performance Based)†*</u>
10.2	<u>Form of CEO Restricted Stock Unit Grant (Time Based)†*</u>
10.3	<u>Form of Executive Restricted Stock Unit Grant (Performance Based)†*</u>
10.4	<u>Form of Executive Restricted Stock Unit Grant (Time Based)†*</u>
10.5	<u>Form of Employee Restricted Stock Unit Grant (Performance Based)†*</u>
10.6	<u>Form of Employee Restricted Stock Unit Grant (Time Based)†*</u>
31.1	<u>Certification of Chief Executive</u>

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

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	XBRL
101.SCH	Taxonomy Extension Schema XBRL
101.CAL	Taxonomy Extension Calculation XBRL
101.DEF	Taxonomy Extension Definition XBRL
101.LAB	Taxonomy Extension Labels XBRL
101.PRE	Taxonomy Extension Presentation

\* Filed  
herewith.  
Compensation

† related  
contract.

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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.

GAIN Capital Holding, Inc.

Date: November 6, 2018 /s/ Glenn H. Stevens  
Glenn H. Stevens  
President, Chief Executive Officer and Director  
(Principal Executive Officer)

Date: November 6, 2018 /s/ Nigel Rose  
Nigel Rose  
Chief Financial Officer  
(Principal Financial Officer and Principal Accounting Officer)