



CORE FOCUS

KCG 2015 Annual Report

KCG 2015 Annual Report

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At KCG, our core focus is to be a trading firm designed for the financial marketplace of the future.

The expansion of new, innovative technologies is creating more efficient markets across asset classes and improving trading performance. Global regulations implemented to strengthen the system following the financial crisis are designed to reduce the risks posed by large financial institutions. Clients demanding greater accessibility, transparency, and choice are driving higher standards for best execution.

Since KCG's formation, we've worked tirelessly to form a simpler, leaner, and more agile firm. We've moved from the necessary integration to a more strategic refashioning of trading, infrastructure, and support. The core focus at KCG is to create something new.

Dear KCG Stockholder,

March 15, 2016

In our second full calendar year as a new firm, KCG's financial results did not meet our expectations. I am confident, however, that we accomplished important work that will help KCG reach its goals in 2016 and beyond.

Foremost, our financial condition continues to strengthen. At the close of the year, KCG held approximately \$580 million in cash and cash equivalents on the balance sheet and more than 97 percent of assets measured at fair value consisted of liquid Level I assets. During the year, we refinanced debt to lower the effective interest rate. We also repurchased just over \$375 million in stock and warrants, primarily through a \$330 million tender offer completed during the second quarter. We ended 2015 with 90.2 million shares outstanding including restricted stock units, a decrease of 23 percent from the beginning of the year.

In the past year, KCG's businesses demonstrated significant improvement, growing market share in many products. KCG market making increased average daily U.S. equity share volume from the leading 10 U.S. retail brokers by 33 percent year over year and grew total market share by more than 200 basis points. KCG algorithmic trading increased average daily U.S. equity share volume from the largest 25 U.S. asset managers by 72 percent year over year. KCG Acknowledge FI increased average daily U.S. Treasury market making notional volume 30 percent year over year. KCG BondPoint grew average daily par value traded by nearly 6 percent year over year, primarily in corporate and municipal securities. The gains softened the financial impacts from the continued strong competition for retail U.S. equity order flow, periodic lulls in institutional trading activity, and dampened market volumes in certain rates products and commodities.

Although created by the merger of two mature firms, KCG approaches strategy and operations from the

Total repurchases of KCG stock
and warrants (in \$ millions)

2014

 95.0

2015

376.1

standpoint of a new entrant. From inception, our approach has been to evaluate each business, process, and system in order to determine how best to support the new firm's sharpened strategic focus and future growth.

During the year, we continued to get leaner and more focused by shedding assets that were non-core, unscalable, overly complex, or simply no longer attractive from an economic standpoint. For example, in the first quarter of 2015, KCG completed the sale of FX trading venue KCG Hotspot for \$365 million plus the potential for additional future payments. During the fourth quarter of 2015, KCG sold interests in several small investments including Aperture Group, which is the corporate parent of OptionsHouse. In addition, we made the decision to exit retail U.S. equity options market making and initiated the sale of our NYSE Designated Market Maker (DMM).

Driving our costs lower and increasing scale are priorities that we will continue into 2016. The efforts to reengineer technology and support functions are central to growing revenues without growing expenses and delivering stronger financial results. During the year, compensation expense declined \$51 million on an operating basis and compensation as a percentage of net revenues dropped to 44.5 percent in 2015 from 47.8 percent in 2014. In aggregate, KCG's non-compensation, non-transaction-based expenses decreased \$8.8 million year over year to \$363.6 million on an operating basis. Management targets for 2016 include decreasing the ratio of compensation to net revenues to between 40 and 42 percent as well as reducing total non-transaction-based expenses to \$700 million in 2016 from \$735.9 million in 2015.

KCG generated \$1,198 million in revenues and \$836 million in net revenues in 2015 on a non-GAAP operating basis. Year-over-year operating net revenues were roughly flat, adjusting for the divestitures of KCG

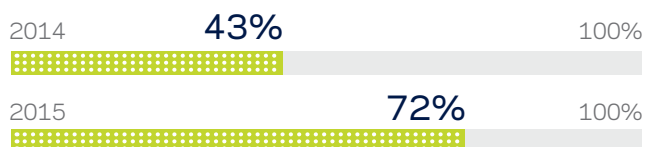
In the past year, KCG's businesses demonstrated significant improvement, growing market share in many products.

Percentage growth of average daily market making U.S. equity share volume from the 10 leading U.S. retail brokers¹



¹ As represented on the annual *Barron's* online broker survey.

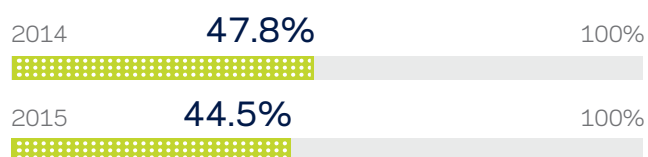
Percentage growth of average daily algorithmic trading U.S. equity share volume from the 25 largest U.S. asset managers²



² As represented on the annual *Institutional Investor* ranking of U.S. asset management firms by assets under management.

We believe that we can streamline our cost structure to earn an appropriate return on equity (ROE) even with moderate, mid-single digit revenue growth.

Ratio of compensation to net revenues³



³ Net revenues are comprised of total revenues less transaction-based expenses and one-time gains or losses.

Total non-transaction-based expenses⁴ (in \$ millions)



⁴ Represents non-transaction-based expenses on a non-GAAP operating basis.

Hotspot in the first quarter of 2015 and KCG's Futures Commission Merchant (FCM) in the fourth quarter of 2014. The reductions in costs enabled KCG to produce a non-GAAP pre-tax profit of \$100.1 million in 2015 compared to \$90.1 million in 2014. KCG's return on equity rose to 4 percent from 3.7 percent while tangible book value per share grew to \$14.90 from \$11.72 over the same period.

While 2015 reflects a general improvement in our financial performance over 2014, we believe there is more we can do to reengineer our cost structure so that we have not only the mindset of a new entrant but the associated competitive advantages from an operational standpoint as well. We believe that we can streamline our cost structure to earn an appropriate return on equity (ROE) even with moderate, mid-single digit revenue growth. We also believe that by analyzing where and how we can improve our systems, we will gain a long-term competitive advantage. It is not enough for us to incrementally enhance legacy systems. In each area of our business we must answer the question: How would we build this if we were creating it today? Where our analysis uncovers gaps between the desired state and our current state, we will work to undertake improvements.

In my letter last year, I cited numerous regulatory changes that would provide tailwinds for our business including the unbundling of liquidity and execution services from other products and services banks and brokers may offer. Since last year, European rule changes with respect to unbundling commission payments have been postponed to 2018. The process of uncoupling execution services from research and other offerings by many asset managers, however, has already started. In other markets, regulators and market participants are demanding more transparency with respect to how foreign exchange orders are being handled by service providers and obligations around best execution are now a real possibility for FX dealers.

In 2015, two new issues dominated the headlines: the liquidity of the credit fixed income markets and stability of the U.S. Treasury market. As with the issues mentioned last year, liquidity and stability reflect issues coming from changes in the market participants' ability to fund and carry positions without commensurate change in market structure. If banks are no longer able to warehouse a significant amount of risk with respect to carrying inventory due to leverage, capital, and liquidity regulations, then the market for banking products can no longer operate as if nothing has changed. Automated, transparent markets enabling many market participants to provide liquidity can create a market that is as liquid in most products as it was before the rule changes, without having to return to markets where dealers have to hold massive inventories.

Moreover, the U.S. Treasury market is about 75 percent of the size of the U.S. equity market, with only a fraction of the issues, and trades twice as much volume on a daily basis. There is no reason why the market should be transparent and real time only for the very largest participants. The market impacts the pricing of many derivative products, including Treasury and Eurodollars futures. Prices also determine how financial firms finance their books, how they and their counterparties value collateral, and how analysts value future cash flows to determine what financial assets are worth in general. The current market structure, in which roughly 60 percent of U.S. Treasuries trade without printing to any tape, does not provide the price discovery that market participants deserve.

KCG welcomes all of these prospective changes. Transparent, competitive markets can address the issues of liquidity by replacing the opaque, bilateral markets of banking products that no longer function properly under the new banking capital, leverage, and liquidity rules. We are preparing for these changes by

investing in businesses that trade these products in KCG Acknowledge FI and KCG Acknowledge FX. We are continuing to invest in KCG BondPoint so it can play a larger role in bringing buyers and sellers together in credit fixed income. With all secular changes to market structure, there is a tipping point when the participants change behavior. Although we are confident these changes will happen, the timing is hard to predict.

While we prepare for more opportunities that will come our way as an independent, technology-driven securities firm, we are not counting on these changes happening in 2016. As we enter our third full year as KCG, we are focused on what we can control: returning capital to stockholders when appropriate, driving down costs across all aspects of our business, tirelessly innovating to pass on savings and lower friction costs for our clients, and leveraging technology to build a more efficient and scalable business. We are committed to doing what it takes to create long-term value for our stockholders. At some point in the future, we expect these secular changes will fully shift in our favor. The steps we are taking today will ensure that we will be ready to take advantage of that shift.

We appreciate your support and look forward to providing regular reports on progress during the year.

Sincerely,

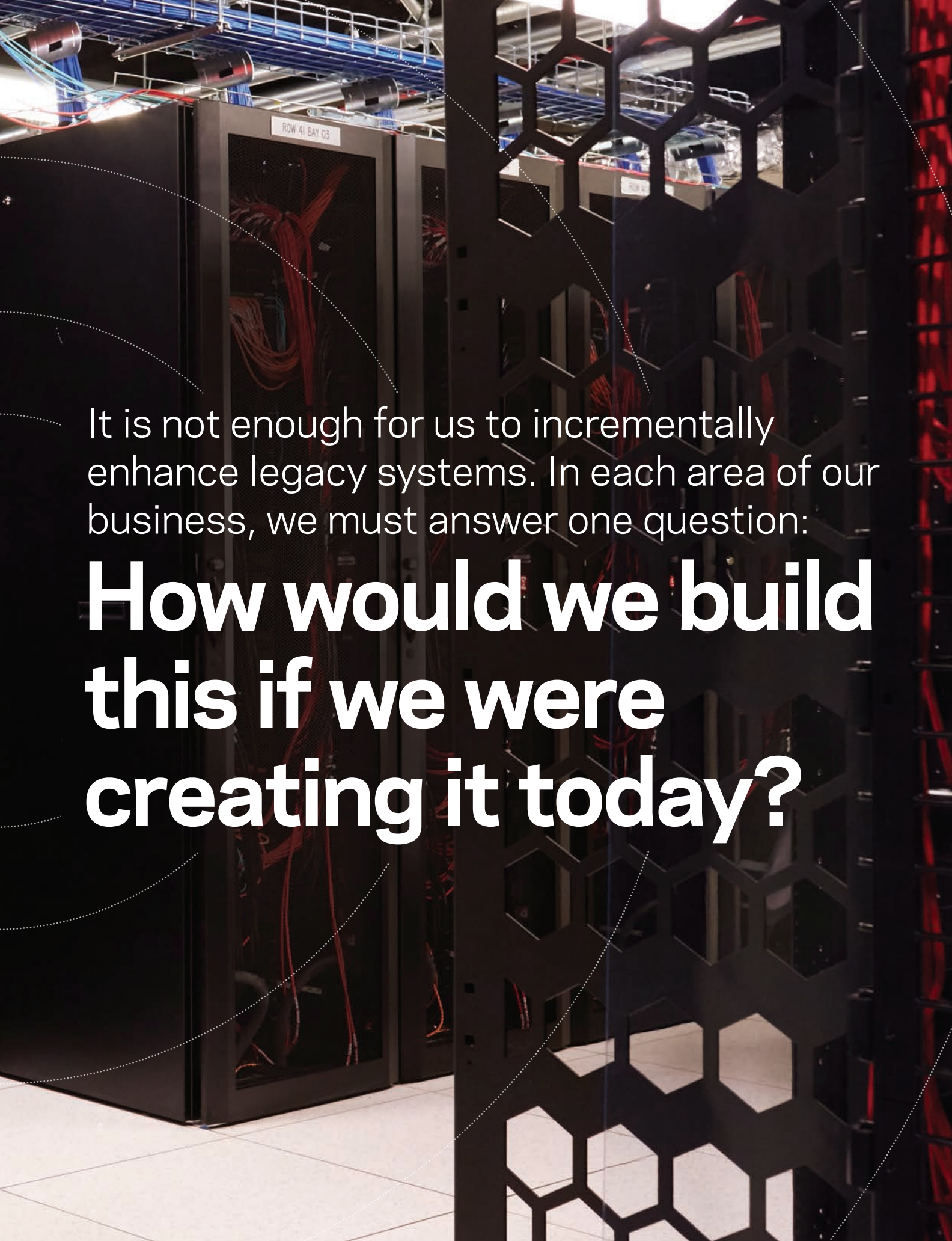
A handwritten signature in black ink, appearing to read 'Daniel Coleman', with a long horizontal flourish extending to the right.

Daniel Coleman
Chief Executive Officer

For a reconciliation of GAAP to non-GAAP financial results, please see the Annual Report on Form 10-K for the year ended December 31, 2015.



ROW
41



It is not enough for us to incrementally enhance legacy systems. In each area of our business, we must answer one question:

How would we build this if we were creating it today?

Refining the Tools of the Trade

KCG is an independent, technology-driven financial intermediary that facilitates trading of liquid financial assets across asset classes and regions.

At present, KCG derives a majority of its revenues from direct-to-client U.S. equity market making for retail brokers and banks as well as providing supplemental liquidity on exchanges and alternative trading systems (ATS). One way KCG is working to improve the diversity, quality, and predictability of earnings is to grow commissions and fees from agency-based trading.

KCG Institutional Equities encompasses algorithmic trading and sales trading in single stocks, ETFs, and programs, primarily as an agent on behalf of asset managers. KCG is particularly focused on expanding algorithmic trading, which plays to the firm's natural strengths and offers margin expansion from building scale.

Algorithms are utilized by asset managers to source liquidity across the U.S. equity market, while minimizing price slippage and controlling transaction costs. An algorithm incorporates the client's intent, stock price, lot size, displayed liquidity, and prevailing market conditions in determining the trading strategy. Large, block "parent" orders are routinely broken up into smaller "child" orders for execution across fragmented yet fast-moving, interconnected markets. Algorithms adjust tactics as necessary in response to small price shifts resulting from the execution of "child" orders and related market activity until the "parent" order is completed.

Industry analysts estimate that direct algorithmic trading currently accounts for roughly 35 percent of all trading in U.S. equities among asset managers, with the actual percentage rising higher due to indirect trading through sales traders, program traders, and order routers.

As a leading market maker, KCG possesses development capabilities that surpass those of most securities firms. KCG employs approximately 250 quantitative strategists and traders across the firm with detailed knowledge of market microstructure. The firm develops quantitative models that evaluate data on complex situations in microseconds, utilize sophisticated technologies capable of processing one trillion operations per second, and handle multiple petabytes of data per day to inform modeling. KCG applies these resources to algorithmic trading strategies that seek to generate micro alpha for clients in every "child" order of every "parent" order, which can add up to dramatically meaningful gains over time.

KCG sales trading is central to cultivating longstanding relationships at the largest U.S. asset managers, which account for a disproportionate amount of total institutional trading activity. The efforts are demonstrating results. Among the top 25 firms on the *IH300*, *Institutional Investor's* annual ranking of U.S. asset management firms by assets under management, KCG trade volumes from algorithmic trading rose 43 percent in 2014 and a further 72 percent in 2015.

KCG is particularly focused on expanding algorithmic trading, which plays to the firm's natural strengths and offers margin expansion from building scale.

Bringing the Best Talent to the Table

KCG is undergoing a fundamental redesign of its global workforce.

The approach to human capital is simple. KCG recruits specialized talent from leading firms as well as direct from top graduate and undergraduate programs. The firm focuses on individual development, emphasizing collaboration, upgrading technical skills, and developing leadership skills. KCG is allowing its new culture to continue to naturally emerge and take hold, underpinned by essential values and behaviors established at KCG's inception.

At the start, the firm had just over 1,600 full-time employees. KCG formed the senior management team gradually through a series of internal appointments and new hires. Initial reductions in the firm's overall headcount followed from the completion of asset sales and elimination of redundancies in support functions. The firm has actively added new employees in select disciplines, predominantly quantitatives and technologists, as well as in regions including Europe.

Recruiting from top graduate and undergraduate programs is central to KCG's strategy for human capital. The firm cultivates select educational institutions, providing knowledge on the global securities markets, trading, and technology in exchange for access to new talent that can potentially drive future growth. In the process, KCG hires Ph.D.s, masters graduates, and undergraduates from outstanding institutions and

integrates them with senior practitioners, enabling the exchange of theoretical and practical knowledge through collaboration. This produces highly engaged employees who want to build a career at KCG.

The continual development of senior practitioners is just as vital. KCG maintains programs designed to produce better managers and leaders across the firm. The wide-ranging curriculum is brought to life through real-world scenarios and reinforced with regular assessments. As individuals progress, the focus turns to the transformational shifts required to drive meaningful change and continual improvement.

A steady influx of new talent, coupled with the decline in the overall headcount, has already profoundly changed the underlying composition of the employee base. In 2014, KCG added 126 new employees and finished the year with a total headcount of 1,093. In 2015, KCG added 132 new employees and finished the year with a total headcount of 1,006. Nearly one third of all current employees joined the firm following KCG's formation.

KCG headcount⁵



⁵ Denotes full-time employees.

Delivering on the Full Potential Value

KCG has a strong early record of definitive actions—strategic, operational, and financial—coordinated to increase the value of the firm.

As part of the consolidation and reengineering, KCG undertook a series of divestitures and closings of non-core businesses, including the recent exit of retail U.S. options market making and announced agreement to sell the DMM. The firm cut non-GAAP, non-transaction-based expenses 7.6 percent in 2015. Using funds from asset sales, free cash flow, released capital, and distributions from investments, KCG reduced debt by \$715 million and repurchased \$471 million in stock and warrants over the past 10 quarters.

At year-end 2015, KCG's tangible book value (TBV) per share was \$14.90, compared to a TBV per share of \$10.64 at December 31, 2013.

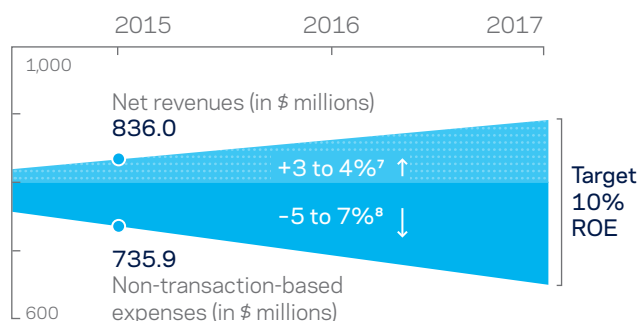
Among brokers, KCG is part of a subcategory of specialized, predominantly electronic trading firms emerging as alternative intermediaries to the global banks. The defining characteristics are pure-play, technology-driven, liquid, and lean. KCG's reengineering efforts are concentrated on leveraging technology to create further operational efficiencies, specifically in trading systems and support functions.

In annual planning meetings, KCG management established new targets for 2016 and 2017. Priorities for 2016 include lowering the ratio of compensation to net revenues to between 40 and 42 percent, reducing total non-transaction-based expenses to \$700 million, and continuing to return capital to stockholders. The overarching priority for 2017 is to achieve a return on equity (ROE) of 10 percent.

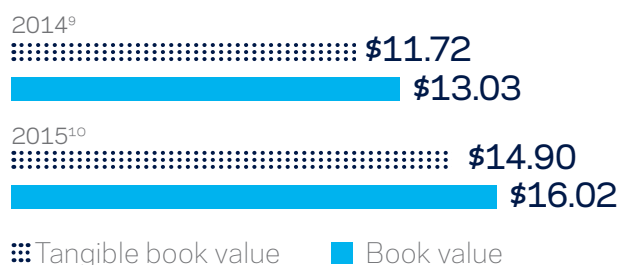
KCG management believes the targets are achievable given the realistic underlying assumptions. For example, to reach double-digit ROE will require growth in net revenues of 3 to 4 percent in 2016 and 2017 along with further reductions in non-transaction-based expenses of 5 to 7 percent each year. KCG's efforts will get an automatic lift as projected expenses of \$30 million in 2016 from the corporate relocation, real estate consolidation and duplicative rents will substantially fall away at the end of 2016.

KCG's reengineering is central to reducing the cost structure and attaining a scale few firms possess. The ability to grow revenues without growing fixed costs will allow KCG to deliver compelling financial results and continue to increase value for stockholders.

A path to double-digit return on equity⁶

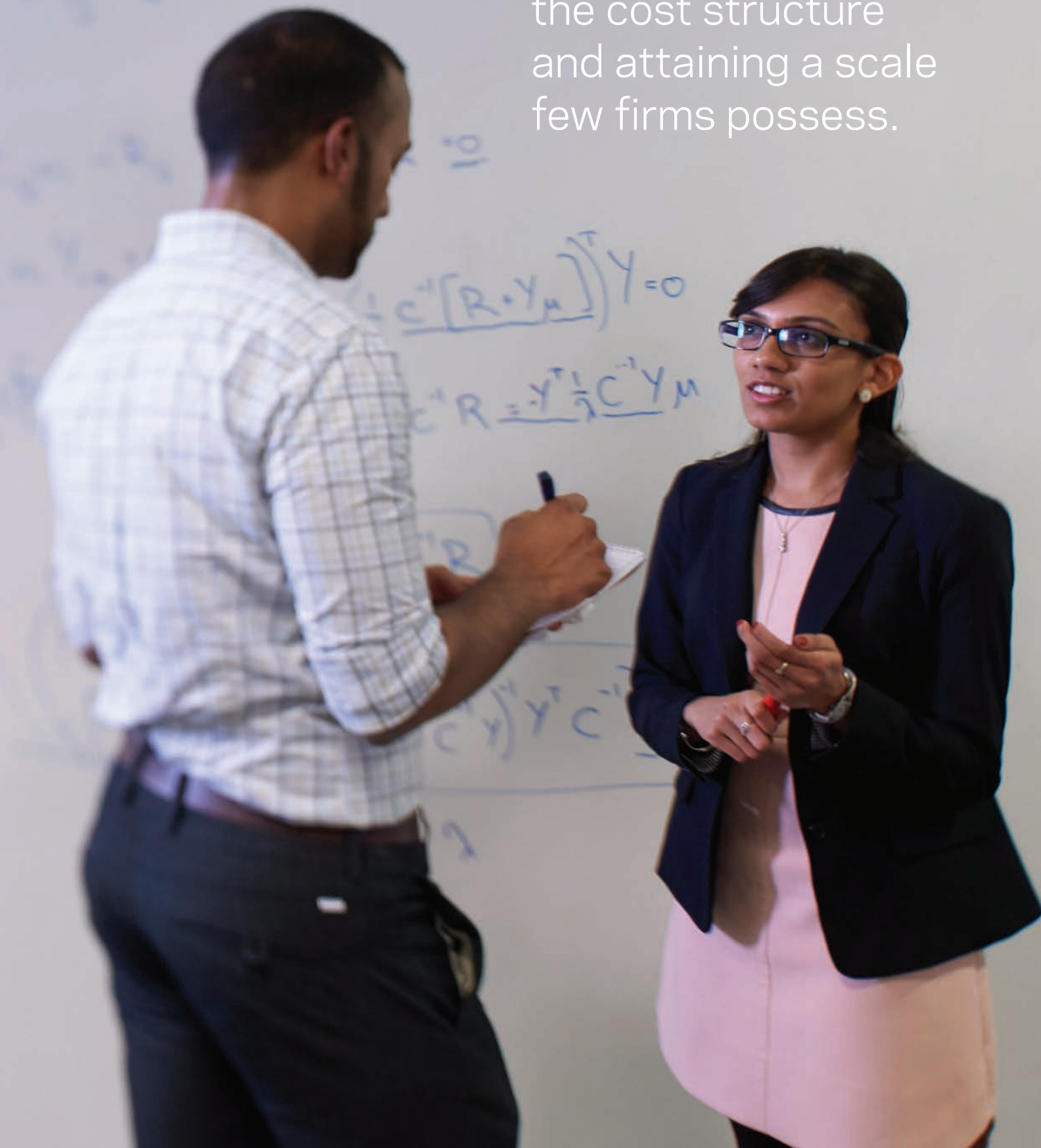


KCG valuation per share



⁶ Assumes a tax rate of 38 percent and book value of \$1.5B. ⁷ Target growth in annual net revenues in 2016 and 2017. ⁸ Target reduction in non-transaction-based expenses in 2016 and 2017. ⁹ Based on 116.9 million shares outstanding including restricted stock units at December 31, 2014. ¹⁰ Based on 90.2 million shares outstanding including restricted stock units at December 31, 2015.

KCG's reengineering
is central to reducing
the cost structure
and attaining a scale
few firms possess.



Management Committee

Daniel B. Coleman
Chief Executive Officer

Philip Allison
Chief Executive Officer,
KCG Europe Limited

Doug Borden
Co-Head of Equities
Client Market Making

Phil Chung
Head of Technology for
Client Market Making

Jerry Dark
Chief Human
Resources Officer

John DiBacco
Global Head of
Equities Trading

John McCarthy
General Counsel &
Corporate Secretary

Farid Moslehi
Head of Asia

Vladimir Neyman
Co-Head of Equities
Client Market Making

Nick Ogurtsov
Chief Operating Officer
and Chief Risk Officer

Steffen Parratt
Chief Financial Officer

Ryan Primmer
Global Head of Quantitative
and Systematic Trading

Jon Ross
Chief Technology Officer

Sophie Sohn
Chief Communications
Officer

Greg Tusar
Head of Global Execution
Services and Platforms

Board of Directors

Charles Haldeman
Non-Executive Chairman of
the Board of Directors, KCG
Holdings, Inc.
Retired Chief Executive
Officer, Federal Home Loan
Mortgage Corporation

Debra Chrapaty
Chief Operating Officer
of Declara, an education
technology company

Daniel B. Coleman
Chief Executive Officer,
KCG Holdings, Inc.

Rene M. Kern
Managing Director,
General Atlantic, a
private investment firm

James T. Milde
President, Financial
Services and Insurance,
NTT Data, Inc., an IT
management consulting firm

John C. (Hans) Morris
Managing Partner, Nyca
Partners LLC, a venture
capital firm

Alastair (Alex) Rampell
General Partner,
Andreessen Horowitz,
a private investment firm

Daniel F. Schmitt
Retired Partner, KPMG,
a public accounting firm

Stephen Schuler
Retired Co-Founder, GETCO

Laurie M. Shahn
President and Founder,
Wilton Capital Group,
a private direct
investment firm

Corporate Information

KCG is a leading independent securities firm offering investors a range of services designed to address trading needs across asset classes, product types, and time zones. The firm combines advanced technology with specialized client service across market making, agency execution, and venues, and also engages in principal trading via exchange-based market making. KCG has multiple access points to trade global equities, fixed income, options, currencies, and commodities via voice or automated execution. www.kcg.com

Headquarters
KCG Holdings, Inc.
545 Washington Boulevard
Jersey City, New Jersey 07310
Telephone 800-544-7508
www.kcg.com

Common Stock
KCG's Class A Common Stock trades under the ticker symbol "KCG" on The New York Stock Exchange. The CUSIP number is 48244B 100.

Financial Information
Copies of the Annual Report to Stockholders, the Annual Report on SEC Form 10-K, Quarterly Reports on SEC Form 10-Q, Current Reports on SEC Form 8-K, Forms 3, 4 and 5 filed on behalf of directors and executive officers, proxy statements, press releases and general information are available free of charge through KCG's website at www.kcg.com.

Annual Meeting
The 2016 Annual Meeting of Stockholders will be held May 11, 2016 beginning at 1:00 p.m. ET at KCG's headquarters, 545 Washington Boulevard, Jersey City, New Jersey 07310.

Independent Auditor
PricewaterhouseCoopers LLP
300 Madison Avenue
New York, New York 10017
Telephone 646-471-3000
www.pwc.com

Corporate Counsel
Sullivan & Cromwell
125 Broad Street
New York, New York 10004
Telephone 212-558-4000
www.sullcrom.com

Transfer Agent
Computershare Limited
480 Washington Boulevard
Jersey City, New Jersey 07310
Telephone 201-324-0014
www.computershare.com



UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

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

FOR THE FISCAL YEAR ENDED DECEMBER 31, 2015

OR

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

000-54991

Commission File Number

KCG HOLDINGS, INC.

(Exact name of registrant as specified in its charter)

DELAWARE

(State or other jurisdiction of incorporation or organization)

38-3898306

(I.R.S. Employer Identification Number)

545 Washington Boulevard, Jersey City, NJ 07310

(Address of principal executive offices and zip code)

Registrant's telephone number, including area code: **(201) 222-9400**

Securities registered pursuant to Section 12(b) of the Act:

<u>Title of each class</u>	<u>Name of each exchange on which registered</u>
Class A Common Stock, \$0.01 par value	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act:

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☒ No ☐

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ☐ No ☒

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☒ No ☐

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. 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	<input checked="" type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>

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

The aggregate market value of the Class A Common Stock held by nonaffiliates of the Registrant was approximately \$783.4 million at June 30, 2015 based upon the closing price for shares of KCG's Class A Common Stock as reported by the New York Stock Exchange.

At February 24, 2016, the number of shares outstanding of the Registrant's Class A Common Stock was 90,878,650 (including restricted stock units) and there were no shares outstanding of the Registrant's Class B Common Stock or Preferred Stock.

DOCUMENTS INCORPORATED BY REFERENCE

Definitive Proxy Statement relating to the Company's 2016 Annual Meeting of Stockholders to be filed hereafter (incorporated, in part, into Part III hereof).

EXPLANATORY NOTE

On July 1, 2013, Knight Capital Group, Inc. ("Knight"), through a series of transactions (the "Mergers"), merged with GETCO Holding Company, LLC ("GETCO") to form KCG Holdings, Inc. ("KCG"). The Mergers were consummated pursuant to the Amended and Restated Agreement and Plan of Merger, dated as of December 19, 2012 and amended and restated as of April 15, 2013 (the "Merger Agreement"). Following the Mergers, each of Knight and GETCO became a wholly-owned subsidiary of KCG.

All references herein to the "Company", "we", "our" or "KCG" relate solely to KCG and not Knight or GETCO. All references to GETCO relate solely to GETCO Holding Company, LLC and not KCG.

The Mergers were treated as a purchase of Knight by GETCO for accounting and financial reporting purposes. As a result, the financial results for the year ended December 31, 2013 comprise six months of results of KCG plus six months of GETCO and the financial results for the years ended December 31, 2015 and 2014 comprise the results of KCG. All periods prior to 2013 reflect solely the results and financial condition of GETCO.

All GETCO earnings per share and unit share outstanding amounts in this Annual Report on Form 10-K have been calculated as if the conversion of GETCO units to KCG Class A Common Stock took place on January 1, 2013, at the exchange ratio, as defined in the Merger Agreement.

On January 29, 2016, we issued a press release announcing our preliminary financial results for the fourth quarter and full year ended December 31, 2015. In the press release, we reported net income (loss) of \$(4.6) million and \$247.5 million for the three months and year ended December, 31, 2015, respectively. Those preliminary results reflected our estimate of the value of businesses held for sale and were also based upon our preliminary estimate of Other income. Since the issuance of that press release and prior to the filing date of this Form 10-K, information became available that allowed us to make a final determination of the value of one of our businesses held for sale and of our Other income. This final determination resulted in an adjustment to preliminary results of approximately \$1.6 million, increasing our Other income, reducing our Writedowns of assets and other real estate related charges, and affecting our Income tax expense (benefit) by the income tax effects of these adjustments from the estimate reflected in our January 29, 2016 press release. See "Explanatory Note" included in Part II, Item 7 "Management's Discussion and Analysis of Financial Condition and Results of Operations" of this Form 10-K for further details regarding these changes.

KCG HOLDINGS, INC.
FORM 10-K ANNUAL REPORT
For the Year Ended December 31, 2015
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FORWARD LOOKING STATEMENTS

Certain statements contained in this Annual Report on Form 10-K, including without limitation, those under “Legal Proceedings” in Part I, Item 3, “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in Part II, Item 7 (“MD&A”), and “Quantitative and Qualitative Disclosures About Market Risk” in Part II, Item 7A, the documents incorporated by reference herein and statements containing the words “believes,” “intends,” “expects,” “anticipates,” and words of similar meaning, may constitute forward-looking statements as defined in the Private Securities Litigation Reform Act of 1995. These “forward-looking statements” are not historical facts and are based on current expectations, estimates and projections about KCG’s industry, management’s beliefs and certain assumptions made by management, many of which, by their nature, are inherently uncertain and beyond our control. Any forward-looking statement contained herein speaks only as of the date on which it is made. Accordingly, readers are cautioned that any such forward-looking statements are not guarantees of future performance and are subject to certain risks, uncertainties and assumptions that are difficult to predict including, without limitation, risks associated with: (i) the inability to manage trading strategy performance and sustain revenue and earnings growth; (ii) the sale of KCG Hotspot, including the receipt of additional payments that are subject to certain contingencies; (iii) changes in market structure, legislative, regulatory or financial reporting rules, including the increased focus by Congress, federal and state regulators, the self regulatory organizations (“SROs”) and the media on market structure issues, and in particular, the scrutiny of high frequency trading, alternative trading systems, market fragmentation, colocation, access to market data feeds, and remuneration arrangements such as payment for order flow and exchange fee structures; (iv) past or future changes to KCG’s organizational structure and management; (v) KCG’s ability to develop competitive new products and services in a timely manner and the acceptance of such products and services by KCG’s customers and potential customers; (vi) KCG’s ability to keep up with technological changes; (vii) KCG’s ability to effectively identify and manage market risk, operational and technology risk, cybersecurity risk, legal risk, liquidity risk, reputational risk, counterparty and credit risk, international risk, regulatory risk, and compliance risk; (viii) the cost and other effects of material contingencies, including litigation contingencies, and any adverse judicial, administrative or arbitral rulings or proceedings; (ix) the effects of increased competition and KCG’s ability to maintain and expand market share; (x) the announced plan to relocate KCG’s global headquarters from Jersey City, NJ to New York, NY; and (xi) KCG’s ability to complete the sale or disposition of any or all of the assets or businesses that are classified as held for sale. The list above is not exhaustive. Because forward looking statements involve risks and uncertainties, the actual results and performance of KCG may materially differ from the results expressed or implied by such statements. Given these uncertainties, readers are cautioned not to place undue reliance on such forward-looking statements. Unless otherwise required by law, KCG also disclaims any obligation to update its view of any such risks or uncertainties or to announce publicly the result of any revisions to the forward-looking statements made herein. Readers should carefully review the risks and uncertainties disclosed in KCG’s reports with the U.S. Securities and Exchange Commission (“SEC”), including those detailed under “Certain Factors Affecting Results of Operations” in the MD&A and in “Risk Factors” in Part I, Item 1A herein, and in other reports or documents KCG files with, or furnishes to, the SEC from time to time. This information should be read in conjunction with KCG’s Consolidated Financial Statements and the Notes thereto contained in this Form 10-K, and in other reports or documents KCG files with, or furnishes to, the SEC from time to time.

PART I

Item 1. Business

Overview

KCG Holdings, Inc., a Delaware corporation (collectively with its subsidiaries, “KCG” or the “Company”), is a leading independent securities firm offering clients a range of services designed to address trading needs across asset classes, product types and time zones. The Company combines advanced technology with specialized client service across market making, agency execution and trading venues and also engages in principal trading via exchange-based electronic market making. KCG has multiple access points to trade global equities, options, fixed income, currencies and commodities via voice or automated execution.

On July 1, 2013, Knight Capital Group, Inc. (“Knight”), through a series of transactions (the “Mergers”), merged with GETCO Holding Company, LLC (“GETCO”) to form KCG. The Mergers were consummated pursuant to the Amended and Restated Agreement and Plan of Merger, dated as of December 19, 2012 and amended and restated as of April 15, 2013 (the “Merger Agreement”). Following the Mergers, each of Knight and GETCO became a wholly-owned subsidiary of KCG.

Our corporate headquarters are located at 545 Washington Boulevard, Jersey City, New Jersey 07310. Our telephone number is (201) 222-9400.

Financial information concerning our business segments for each of 2015, 2014 and 2013 is set forth in “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in Part II, Item 7 (“MD&A”) and in the Consolidated Financial Statements and Notes thereto located in Part II, Item 8 “Financial Statements and Supplementary Data.”

Available Information

Our Internet address is www.kcg.com. Our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, Forms 3, 4 and 5 filed on behalf of directors and executive officers, and any amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, as well as our proxy statements, are made available free of charge on or through the “Investors” section of our corporate website under “SEC Filings”, as soon as reasonably practicable after such materials are electronically filed with or furnished to, the U.S. Securities and Exchange Commission (“SEC”). We also post on our corporate website our Code of Business Conduct and Ethics (the “Code”) governing our directors, officers and employees. Within the time period required by the SEC, we will post on our corporate website any amendments and waivers to the Code applicable to our executive officers and directors, as defined in the Code.

Our Board of Directors (the “Board”) has a standing Finance and Audit Committee, Risk Committee, Compensation Committee and Nominating and Corporate Governance Committee. Each of these Board committees has a written charter approved by the Board. Our Board has also adopted a set of Corporate Governance Guidelines. Each committee charter, along with the Corporate Governance Guidelines, is posted on the Company’s website. None of the information on our corporate website is incorporated by reference into this report.

All of the above materials are also available in print, without charge, to any person who requests them by writing or telephoning:

KCG Holdings, Inc.
Investor Relations
545 Washington Boulevard, 3rd Floor
Jersey City, NJ 07310
(201) 222-9400

Unless otherwise indicated, references to the “Company,” “KCG,” “We,” “Us,” or “Our” shall mean KCG Holdings, Inc. and its subsidiaries.

Operating Segments

As of December 31, 2015, we had three operating segments: (i) Market Making, (ii) Global Execution Services, and (iii) Corporate and Other.

- **Market Making** - Our Market Making segment principally consists of market making in the cash, futures and options markets across global equities, options, fixed income, currencies and commodities. As a market maker, we commit capital on a principal basis by offering to buy securities from, or sell securities to, broker dealers, banks and institutions. Principal trading in the Market Making segment primarily consists of direct-to-client and non-client exchange-based electronic market making, including trade executions conducted as an equities Designated Market Maker ("DMM") on the New York Stock Exchange ("NYSE") and NYSE Amex Equities ("NYSE Amex"). We are an active participant on all major global equity and futures exchanges and we also trade on substantially all domestic electronic options exchanges. As a complement to electronic market making, our cash trading business handles specialized orders and also transacts on the OTC Bulletin Board marketplaces operated by the OTC Markets Group Inc. and the Alternative Investment Market of the London Stock Exchange ("AIM").
- **Global Execution Services** - Our Global Execution Services segment comprises agency execution services and trading venues offering trading in global equities, options, futures and fixed income to institutions, banks and broker dealers. We generally earn commissions as an agent between principals for transactions; however, we will commit capital on behalf of clients as needed. Agency-based, execution-only trading in the segment is done primarily through a variety of access points including: (i) algorithmic trading and order routing in global equities and options; (ii) institutional sales traders executing program, block and riskless principal trades in global equities and exchange traded funds ("ETFs"); (iii) a fixed income electronic communication network ("ECN") that also offers trading applications; and (iv) an alternative trading system ("ATS") for global equities.
- **Corporate and Other** - Our Corporate and Other segment contains investments principally in strategic financial services-oriented opportunities; manages the deployment of capital across the organization; houses executive management functions; and maintains corporate overhead expenses and all other income and expenses that are not attributable to our other segments. Our Corporate and Other segment also contains functions that support the Company's other segments such as self-clearing services, including stock lending activities.

Management from time to time conducts a strategic review of its businesses and evaluates their potential value in the marketplace relative to their current and expected returns. To the extent management and the Company's Board of Directors determine a business may return a higher value to stockholders, or is no longer core to our strategy, the Company may divest or exit such business.

In November 2013, we sold Urban Financial of America, LLC ("Urban"), the reverse mortgage origination and securitization business that was previously owned by Knight, to an investor group.

In November 2014, we sold certain assets and liabilities related to our Futures Commission Merchant ("FCM ") business to Wedbush Securities Inc.

In March 2015, we sold KCG Hotspot, our institutional spot foreign exchange ECN, to BATS Global Markets.

On February 4, 2016, we entered into an asset purchase agreement with Citadel Securities LLC ("Citadel"), pursuant to which we agreed to sell our NYSE DMM business to Citadel. The transaction is expected to close during the second quarter of 2016. See "Subsequent Events" included in Part II, Item 7 "Management's Discussion and Analysis of Financial Condition and Results of Operations" of this Form 10-K for further details.

See Footnote 5 "Discontinued Operations, Assets and Liabilities of Businesses Held for Sale" to the Company's Consolidated Financial Statements included in Part II, Item 8 "Financial Statements and Supplementary Data" of this Form 10-K for a discussion of the presentation of these businesses in our Consolidated Financial Statements.

The following table sets forth: (i) Revenues, (ii) Expenses and (iii) Pre-tax earnings (loss) from continuing operations of our segments and on a consolidated basis (in thousands):

	For the year ended December 31,		
	2015	2014	2013
Market Making			
Revenues	\$ 884,858	\$ 901,152	\$ 688,197
Expenses	760,830	754,439	584,585
Pre-tax earnings	124,028	146,713	103,612
Global Execution Services			
Revenues	667,723	345,710	197,765
Expenses	298,766	334,654	223,559
Pre-tax earnings (loss)	368,957	11,056	(25,794)
Corporate and Other			
Revenues	46,529	69,369	141,374
Expenses	159,552	141,951	194,216
Pre-tax loss	(113,023)	(72,582)	(52,842)
Consolidated			
Revenues	1,599,110	1,316,232	1,027,336
Expenses	1,219,148	1,231,045	1,002,358
Pre-tax earnings	\$ 379,962	\$ 85,187	\$ 24,978

Totals may not add due to rounding.

For additional details regarding our segments, see Footnote 25 "Business Segments" included in Part II, Item 8. "Financial Statements and Supplementary Data" herein.

Market Making Segment

Business Segment Overview

We make markets primarily in global equities, futures, options, fixed income, currencies and commodities. We are an active participant on all major global equity and futures exchanges. As a market maker, we commit capital on a principal basis by offering to buy securities from, or sell securities to, broker dealers, banks and institutions. Principal trading in the Market Making segment primarily consists of direct-to-client and non-client exchange-based electronic market making in equity securities quoted and traded on the NYSE, Nasdaq Stock Market, OTC market, NYSE Amex, NYSE Arca and several European exchanges. We are connected to a large number of external market centers including exchanges, ECNs, ATSS, dark liquidity pools, alternative display facilities ("ADF"), multilateral trading facilities ("MTF") and other broker dealers.

The majority of revenues for this segment are derived from direct-to-client electronic market making in U.S. equities. As a complement to electronic market making, our cash trading business handles specialized orders and also transacts on the OTC Bulletin Board, marketplaces operated by the OTC Markets Group Inc., and the AIM. We also provide trade executions as an equities DMM on the NYSE and NYSE Amex and will continue to do so until the completion of our sale of this business as noted above. See "Subsequent Events" included in Part II, Item 7 "Management's Discussion and Analysis of Financial Condition and Results of Operations" of this Form 10-K for further details.

The majority of market making activity is conducted on a principal basis through the use of automated quantitative models. In direct-to-client market making, we derive revenues from the difference between the amount paid when securities are bought and the amount received when the securities are sold. In non-client, exchange-based market making, we generally derive revenues from pricing and arbitrage opportunities from financial instruments within the marketplace.

Clients and Products

We offer direct-to-client market making services across multiple asset classes primarily to sell-side clients including global, national and regional broker dealers and banks as well as buy-side clients comprising, among others, mutual

funds, pension plans, plan sponsors, hedge funds, trusts and endowments in North America, Europe and Asia. In 2015, we did not have any client that accounted for more than 10% of Market Making segment revenues.

In this segment, we generally compete based on execution quality, market coverage, payment for order flow, fulfillment rates and client service. In direct-to-client electronic market making in U.S. equities, execution quality is generally accepted as speed, spread and price improvement under SEC Rule 605. In other asset classes, standards for execution quality are client defined. In non-client exchange-based market making the Company seeks to provide best prices for buy and sell orders on market centers throughout the day and competes with proprietary trading firms based on, among other things, speed and price.

We continually work to provide clients with high quality, low-cost trade executions that enable them to satisfy their fiduciary obligation to seek the best execution on behalf of the end client. We continually refine our automated quantitative models so that we may remain competitive.

Global Execution Services Segment

Business Segment Overview

We provide agency execution services and trading venues for agency-based, execution-only trading in global equities, fixed income, futures and options to institutions, banks and broker dealers. We are an active participant on all major global equity, futures and options exchanges. We generally earn commissions and commission-equivalents as an agent between principals for transactions, however, we will commit capital on behalf of clients as needed. We are connected to a large number of external market centers including exchanges, ECNs, ATSS, dark liquidity pools, ADFs, MTFs and other broker dealers.

The majority of revenues for this segment are derived from agency-based, execution-only trading encompassing algorithmic trading and order routing in global equities; institutional sales traders executing program, block and riskless principal trades in global equities and ETFs; a fixed income ECN that also offers trading applications (KCG BondPoint); and an ATS for global equities (KCG MatchIt).

As previously noted, in November 2014, we sold our FCM business, which was part of this segment and whose results, through the date of sale, are included within this segment. Additionally, in March 2015 we sold our KCG Hotspot business, whose results, through the date of sale, are included within this segment.

Clients and Products

We offer agency execution services and trading venues across multiple asset classes to buy-side clients including mutual funds, pension plans, plan sponsors, hedge funds, trusts and endowments and sell-side clients including global, national and regional broker dealers and banks in North America, Europe and Asia. In 2015, our Global Execution Services segment did not have any client that accounted for more than 10% of our commissions earned.

In this segment, we generally compete on market coverage, liquidity, platform capabilities, anonymity, trading costs and client service. We draw on in-house developed advanced trading technologies to meet client criteria for best execution and managing trading costs. As a result, we are able to attract a diverse array of clients in terms of strategy, size and style. We also provide algorithmic trading and order routing that combine advanced technology, access to our differentiated liquidity and support from experienced professionals to help clients execute trades.

Through KCG Electronic Trading, we offer electronic execution services in global equities, options, futures and commodities via algorithmic trading, order routing and an execution management system ("EMS") as well as via internal crossing through our registered ATS. We operate an ATS providing clients with an anonymous source of non-displayed liquidity.

This segment also offers clients a broad range of products and services and voice access to the global markets including sales and trading for equities, ETFs and options. Additionally, we provide buy-side clients with deep liquidity, actionable market insights, anonymity and trade executions with minimal market impact and offer comprehensive trade execution services covering the depth and breadth of the market. We handle large complex trades, accessing liquidity from its order flow and other sources. We also provide soft dollar and commission recapture programs.

KCG BondPoint provides electronic fixed income trading solutions to sell-side firms via a fixed income ECN that serves as an electronic inter-dealer system and allows clients to access live and executable retail-sized offerings in corporate bonds, municipals, government agency, treasuries and certificates of deposits. KCG BondPoint also provides front-end applications for brokers and advisors as well as a trading application for traders.

Corporate and Other Segment

Our Corporate and Other segment contains investments principally in strategic financial services-oriented opportunities; manages the deployment of capital across the organization; houses executive management functions; and maintains corporate overhead expenses and all other income and expenses that are not attributable to our other segments. Our Corporate and Other segment contains functions that support our other segments, such as self-clearing services, including stock lending activities. We self-clear substantially all of our domestic and international equity, ETF and equity option order flow.

Our Corporate and Other segment's revenues include returns from strategic investments, interest income from treasury investments and other income. Operating expenses primarily consist of compensation for certain senior executives and support employees, legal and other professional expenses related to corporate matters, directors' fees, investor and public relations expenses and directors' and officers' insurance.

Competition

Our client offerings, encompassing direct-to-client market making, agency execution services and trading venues, compete primarily with similar products offered by domestic and international broker dealers, exchanges, ATSs, crossing networks, ECNs and dark liquidity pools. Non-client, exchange-based market making competes with various market participants including proprietary trading firms that utilize highly automated, electronic trading models. Another source of competition is broker dealers who execute portions of their client flow through internal market-making desks rather than sending the client flow to third party execution destinations, such as KCG.

Our Market Making segment competes primarily on the basis of execution quality (including price, liquidity, speed and other client-defined measures), client relationships, client service, payments for order flow and technology. Over the past several years, regulatory changes, competition and the continued focus by regulators and investors on execution quality and overall transaction costs have resulted in a market environment characterized by narrowed spreads and reduced revenue capture. Consequently, maintaining profitability has become extremely challenging for the industry. In general, improvements in execution quality, such as faster execution speed and greater price improvement, have negatively impacted the ability to derive profitability from executing client order flow. We have made, and continue to make, changes to our execution protocols and quantitative models, which have had, or could have, a significant impact on our profitability. To remain profitable, some competitors have limited or ceased activity in illiquid or marginally profitable securities or, conversely, have sought to execute a greater volume of trades at a lower cost by increasing the automation and efficiency of their operations.

Competition for order flow in the U.S. equity markets continues to be intense as reflected in publicly disclosed execution metrics, i.e., SEC Rules 605 and 606. These rules, applicable to broker dealers, add greater disclosure to execution quality and order-routing practices. Rule 605 requires market centers that trade national market system securities to make available to the public monthly electronic reports that include uniform statistical measures of execution quality on a security-by-security basis. These statistics vary by order sender based on their mix of business. Rule 606 requires broker dealers that route equity and option orders on behalf of their customers to make publicly available quarterly reports that describe their order routing practices and disclose the venues to which customer orders are routed for execution. This rule also requires the disclosure of payment for order flow arrangements and internalization practices. The intent of this rule is to encourage routing of order flow to destinations based primarily on the demonstrable quality of executions at those destinations, supported by the order entry firms' fiduciary obligations to seek to obtain best execution for their customers' orders.

Our Global Execution Services segment competes with other electronic trading platforms for orders from institutional firms and, to a lesser extent, with sales and trading teams at larger firms. Competition for business with institutional clients is based on a variety of factors, including execution quality, research, soft dollar, commission sharing and recapture services, technology, market access (including direct market access and execution algorithms), client relationships, client service; cost; capital facilitation and reputation.

We believe the trend toward increased competition and the growth of alternative trading venues will continue. We may experience competitive pressures in these and other areas in the future as some of our competitors seek to obtain greater market share by reducing prices.

Infrastructure

We continue to invest significant resources to expand our execution capabilities, upgrade our trading systems and infrastructure and enhance and strengthen our controls. We plan to make additional investments in technology

and infrastructure. We are continuing to identify duplicative systems and working to rationalize them in future architectures. Our ability to identify and deploy emerging technologies that facilitate the execution of trades, including developing and enhancing our quantitative client market making models and proprietary trading models is key to the successful execution of our business model. Technology has enhanced our capacity and ability to handle order flow faster and also has been an important component of our strategy to comply with government and industry regulations, achieve competitive execution standards, increase trading automation and provide superior client service. We continually enhance our use of technology and quantitative models to further refine our execution services, develop and enhance our non-client principal trading models and reduce trading costs.

We use our proprietary technology and technology licensed from third parties, among other items, to execute trades, manage risk, monitor the performance of our traders, assess our inventory positions and provide ongoing information to our clients. We are electronically linked to institutions and broker dealers to provide immediate access to our trading operations and facilitate the handling of client orders. Our business-to-business portal and KCG Acknowledge product suite, KCG MatchIt, KCG BondPoint and KCG Electronic Trading platforms along with our suites of algorithms, provide our clients with an array of tools to interact with our trading systems, multiple marketplaces throughout the globe and most U.S. equity, options, fixed income, currency and futures market centers.

We have developed a proprietary clearing platform in connection with our self-clearing activities and have leveraged technology as well as operations, finance, legal and compliance functions to support these efforts. We self-clear substantially all of our domestic and international equity, ETF and equity option order flow.

Alternative trading and data center facilities are in place for our primary domestic operations. These facilities have been designed to allow us to continue a substantial portion of our operations if we are prevented from accessing or utilizing our primary office locations for an extended period of time. While we take significant steps to develop, implement and maintain reasonable business continuity plans, we cannot guarantee that our alternative systems and facilities will provide full continuity of operations should a significant business disruption occur.

Intellectual Property and Other Proprietary Rights

Our success and ability to compete are dependent to a significant degree on our intellectual property, which includes our execution technology, quantitative client market making and non-client principal trading models and information regarding our client base. A large portion of our technology was developed internally, and we rely primarily on trade secret, trademark, copyright, domain name, patent, commercial and contract law to protect our intellectual property. It is our policy to enter into confidentiality, intellectual property invention assignment, non-competition and non-solicitation agreements or restrictions with our employees, independent contractors and business partners and to control access to and the distribution of our intellectual property.

Government Regulation and Market Structure

Most aspects of our business are subject to extensive regulation under federal, state and international laws, rules and regulations. Regulators in the U.S. and international jurisdictions continue to promulgate numerous rules and regulations that may impact our business. In the U.S., these regulatory bodies include the SEC, the Commodity Futures Trading Commission ("CFTC"), Financial Industry Regulatory Authority, Inc. ("FINRA"), National Futures Association ("NFA"), NYSE, NASDAQ, other self-regulatory organizations ("SROs"), and other regulatory bodies, such as state securities commissions and state attorneys general. In Europe and Asia, these regulatory bodies include, but are not limited to, the UK Financial Conduct Authority ("FCA"), the French Autorité des Marchés Financiers (the "AMF"), the Singapore Exchange, the Securities and Exchange Board of India ("SEBI"), and the Australian Securities and Investment Commission ("ASIC"). In addition, we are subject to other laws and rules in the countries where we do business.

As a matter of public policy, regulatory bodies are charged with safeguarding the integrity of the financial markets and protecting the interests of investors by ensuring that trading on their markets is reliable, transparent, competitive, fair and orderly. Regulated entities, such as KCG, are subject to rules concerning all aspects of their business, including trade practices, best execution for customers, anti-money laundering and sanctions compliance, anti-bribery compliance, capital adequacy, record retention, technology implementation, risk management, supervision, and officer, supervisor and employee conduct. Failure to comply with any of these or any other laws, rules or regulations affecting our businesses could result in administrative actions or court proceedings, censures, fines, the issuance of cease-and-desist orders, loss of membership, injunctions or the suspension or disqualification of the entity and/or its officers, supervisors or employees.

The regulatory environment in which we operate is subject to constant review and change. Legislation and

regulatory requirements and market structure changes have had and will in the future have an impact on KCG's subsidiaries by directly affecting their method of operation and, at times, their profitability by imposing significant obligations and restraints on KCG and its affiliates. These increased obligations and restraints require the implementation and maintenance of internal practices, procedures and controls, which have increased our costs and may subject us to regulatory inquiries, administrative actions, court proceedings, claims, disciplinary fines or penalties for non-compliance. In addition, future changes may require significant technological, operational and compliance costs associated with the obligations that derive from compliance with such laws, rules and regulations.

On July 21, 2010, the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act") was enacted in the U.S. Implementation of the Dodd-Frank Act continues to be accomplished through extensive rulemaking by the CFTC, SEC and other governmental agencies. The Dodd-Frank Act and the current rulemaking to implement this law are not currently expected to have a material impact on our businesses. It is possible, however, that future rulemaking or changes to the market structure and practices in response to the Dodd-Frank Act may impact our businesses.

The SEC and other regulatory bodies have enacted and are actively considering rules that may affect the operation and profitability of KCG. In particular, on August 1, 2012, SEC Rule 613 was published in the Federal Register. This rule requires the securities exchanges and FINRA to act jointly in developing a national market system plan to develop, implement, and maintain a consolidated audit trail ("CAT"), with respect to the trading of listed equity securities and listed options. Regulators are still working towards implementing a CAT and, once implemented, maintaining a CAT will impose substantial new reporting requirements on broker dealers, such as KCG. In addition, on November 19, 2014, the SEC adopted Regulation Systems Compliance and Integrity ("Regulation SCI"). Regulation SCI requires securities exchanges and broker dealer operators of alternative trading systems with significant volume to (1) establish and enforce written policies and procedures designed to ensure operational capabilities of technological systems, (2) take immediate remedial action and notify the SEC and those affected of system incidents, (3) conduct annual compliance reviews and industry or sector-wide business continuity testing, and (4) file periodic reports with the SEC. KCG's alternative trading system may meet the volume thresholds and KCG may be required to comply with Regulation SCI. Additionally, SEC Chair Mary Jo White directed SEC staff to prepare recommendations to consider whether an SCI-like framework should be developed for other key market participants, which could include KCG's broader operations. Also, on November 18, 2015, the SEC proposed amendments to Regulation ATS that would require alternative trading systems that trade NMS stocks, including "dark pools" to publicly disclose detailed information about the operations of the ATS and the activities of the ATS operator and its affiliates. If implemented, the amendments to Regulation ATS will impose substantial new disclosure and reporting requirements on operators of NMS stock ATSs, such as KCG.

Regulators may also propose other market structure changes particularly considering the continued regulatory scrutiny of high frequency trading, alternative trading systems, market fragmentation, colocation, access to market data feeds, extreme market volatility, and remuneration arrangements such as payment for order flow and exchange fee structures. On June 5, 2014, SEC Chair White provided her wide-ranging views on market structure. Chair White called for the creation of a market structure advisory committee and a comprehensive, data-driven review of equity market structure that will examine the above-referenced topics as well as the use of rebates by exchanges. On January 13, 2015, the SEC announced the members of the market structure advisory committee, which is a formal mechanism established to provide advice and recommendations to the SEC on market structure issues, including the above-referenced topics.

The financial services industry in many countries is heavily regulated, much like in the U.S. The compliance requirements of these different regulatory jurisdictions and other factors may limit our ability to conduct business or expand internationally. For example, the review of Markets in Financial Instruments Directive ("MiFID"), which was implemented in November 2007, is nearing completion. Proposed changes to MiFID, which consist of a directive called MiFID 2 and regulations called MiFIR, are expected to be finalized during 2016. The adoption of MiFID 2/MiFIR will include many changes likely to affect our businesses. For example, the changes will require firms like KCG and other market participants to conduct all trading on European markets through authorized investment firms. MiFID 2/MiFIR will also require market makers, including KCG, to post firm quotes at competitive prices and will supplement current requirements with regard to investment firms' risk controls related to the safe operation of electronic systems. MiFID 2/MiFIR may also impose additional requirements on trading platforms on which we trade, such as circuit breakers, synchronization of business clocks and flagging of algorithms. The implementation of these new requirements is expected to be set for 2018 and may impose technological and compliance costs on KCG as a participant in those trading platforms.

The European Commission has proposed a financial transaction tax ("FTT"). European Union member states, including Germany and Spain, have discussed the adoption of a FTT. The scope of instruments and transactions that may be covered by these FTTs is still under discussion, and it is, therefore, premature to determine the impact of such FTTs on KCG's business. In addition to the European Commission's proposal, France and Italy have each separately adopted FTTs. These taxes have not had a material impact on our profitability, however, changes to or expansion of these FTTs or the adoption of any subsequent FTTs could adversely impact our business, financial condition and operating results.

For risks related to government regulation and market structure, see "Risk Factors - Regulatory and legal uncertainties could harm KCG's business" included in Part I, Item 1A herein.

Net Capital Requirements

Certain of our subsidiaries are subject to the SEC's Uniform Net Capital Rule or capital adequacy requirements by foreign regulators. These rules, which specify minimum net capital requirements for registered broker dealers, are designed to measure the general financial integrity and liquidity of a broker dealer and require that at least a minimum part of their assets be kept in relatively liquid form. In general, net capital is defined as net worth (assets minus liabilities), plus qualifying subordinated borrowings and certain discretionary liabilities, less certain mandatory deductions that result from excluding assets that are not readily convertible into cash and from valuing conservatively certain other assets. Among these are deductions of non-allowable assets and adjustments, commonly called haircuts, which reflect the possibility of a decline in the fair value of an asset before disposition.

Failure to maintain the required net capital may subject a firm to suspension or revocation of registration by the SEC or FCA and suspension or expulsion by FINRA and other regulatory bodies, and ultimately could require the relevant entity's liquidation. The Uniform Net Capital Rule prohibits payments of dividends, redemption of stock, the prepayment of subordinated indebtedness and the making of any unsecured advance or loan to a stockholder, employee or affiliate, if such payment would reduce the firm's net capital below required levels.

A change in the Uniform Net Capital Rule or other similar rules effected by foreign regulatory authorities, the imposition of new rules or any unusually large charges against net capital could limit our businesses that require the intensive use of capital and also could restrict our ability to withdraw capital from our broker dealer subsidiaries. A significant operating loss or any unusually large charge against net capital could adversely affect our ability to expand or even maintain our present levels of business.

For additional discussion related to net capital, see Footnote 23 "Net Capital Requirements" included in Part II, Item 8 "Financial Statements and Supplementary Data" of this document.

Employees

At December 31, 2015, our headcount was 1,006 full-time employees, compared to 1,093 full-time employees at December 31, 2014. The decrease in headcount from December 31, 2014 is primarily due to the sale of KCG Hotspot. Of our 1,006 full-time employees at December 31, 2015, 832 were employed in the U.S. and 174 outside the U.S., primarily in London. None of our employees are subject to a collective bargaining agreement. We believe that our relations with our employees are good.

Item 1A. Risk Factors

A number of industry-related and other risks may adversely affect the business, financial condition and operating results of KCG. Additional risks and uncertainties not currently known to KCG also may adversely affect its business, financial condition and/or operating results in a material manner. In addition, KCG may be affected by general risks not directly related to its business, including, but not limited to, acts of war, terrorism and natural disasters. KCG cannot assure that the risks described below or elsewhere in this or its other reports filed or furnished with the SEC are a complete set of all potential risks KCG may face.

Conditions in the financial services industry and the securities markets may adversely affect KCG's trading volumes and market liquidity

KCG's revenues are primarily transaction-based, and declines in global trading volumes, volatility levels, securities prices, commission rates or market liquidity could adversely affect KCG's business and its profitability. The level of activity in the markets in which KCG conducts business is directly affected by numerous national and international

factors that are beyond KCG's control, including economic, political and market conditions, the availability of short-term and long-term funding and capital, the level and volatility of interest rates, legislative and regulatory changes, currency values and inflation, broad trends in business and finance and changes in the markets in which KCG's transactions occur. Declines in the trading volume of equities, fixed income and other financial instruments will generally result in lower revenues from market making and execution activities. Lower levels of volatility, which tends to correlate with trading volumes, will have the same directional impact. Lower price levels of securities and other instruments, as well as tighter spreads, may reduce profitability from trade executions. Increased competition can put pressure on commission rates, spreads and related fee schedules. Declines in market values of securities or other financial instruments can result in illiquid markets, which can increase the potential for losses on securities or other instruments held in inventory, the failure of buyers and sellers to fulfill their obligations and settle their trades, and increases in claims and litigation. Accordingly, reductions in trading volumes, volatility levels, securities prices, commission rates or market liquidity could materially affect KCG's business and profitability. As a result of the foregoing, period-to-period comparisons of KCG's revenues and operating results are not necessarily meaningful, and such comparisons cannot be relied upon as indicators of future performance.

KCG trading activities expose it to the risk of significant losses

KCG conducts the majority of its trading activities as principal, which subjects its capital to significant risks. These activities involve the purchase, sale or short sale of securities and other financial instruments for KCG's own account and, accordingly, involve risks of price fluctuations and illiquidity, or rapid changes in the liquidity of markets that may limit or restrict KCG's ability to either resell securities or other financial instruments KCG purchases or to repurchase securities or other financial instruments KCG sells in such transactions. From time to time, KCG may have large position concentrations in securities or other financial instruments of a single issuer or issuers engaged in a specific industry or segment, which could result in higher trading losses than would occur if KCG's positions and activities were less concentrated. The performance of KCG's trading activities primarily depends on its ability to attract order flow, the composition and profile of its order flow, the dollar value of securities and other financial instruments traded, the performance, size and volatility of KCG's market making portfolios, the performance, size and volatility of KCG's client and non-client principal trading activities (including high frequency trading), market interaction, the skill of KCG's trading personnel, the ability of KCG to design, build and effectively deploy the necessary technologies and operations to support all of its trading activities and enable KCG to remain competitive, general market conditions, effective hedging strategies and risk management processes, the price volatility of specific securities or other financial instruments, and the availability and allocation of capital. To attract order flow, KCG must be competitive on price, size of securities positions and other financial instruments traded, liquidity offerings, order execution speed, technology, reputation, payment for order flow and client relationships and service. In KCG's role as a market maker, it attempts to derive a profit from the difference between the prices at which it buys and sells securities. However, competitive forces and regulatory requirements often require KCG to match, or improve upon, the quotes other market makers display and to hold varying amounts of securities in inventory. By maintaining inventory positions, KCG is subject to a high degree of risk. There can be no assurance that KCG will be able to manage such risk successfully or that KCG will not experience significant losses from such activities. All of the above factors could have a material adverse effect on KCG's business, financial condition and operating results.

KCG is exposed to losses due to lack of perfect information

As a market maker, KCG provides liquidity by continuously buying securities from sellers and selling securities to buyers. KCG may at times trade with others who have different and possibly better information than it does, and as a result, KCG may accumulate unfavorable positions preceding large price movements in securities. Should the frequency or magnitude of these events increase, KCG's losses would likely increase correspondingly, which could have a material adverse effect on KCG's business, financial condition and results of operations.

KCG's market making activities have been and may be affected by changes in the levels of market volatility

Certain of KCG's market making activities depend on market volatility to provide trading and arbitrage opportunities to KCG's clients, and decreases in volatility may reduce these opportunities and adversely affect the results of these activities. On the other hand, increased volatility, while it can increase trading volumes and spreads, also increases risk as measured by Value-at-Risk, which KCG refers to as VaR, and may expose the Company to increased risks in connection with market making activities or cause KCG to reduce its market making positions in order to avoid increasing VaR. Limiting the size of KCG's market making positions can adversely affect profitability. In periods when volatility is increasing, but asset values are declining significantly, it may not be possible to sell assets at all or it may only be

possible to do so at steep discounts. In such circumstances the Company may be forced to either take on additional risk or to incur losses in order to decrease KCG's VaR.

The valuation of the financial instruments KCG holds may result in large and occasionally anomalous swings in the value of its positions and in its earnings in any period

The market prices of KCG's long and short positions are reflected on its books at closing prices which are typically the last trade price before the official close of the primary exchange on which each such security trades. Given that KCG manages a globally integrated portfolio, it may have large and substantially offsetting positions in securities that trade on different exchanges that close at different times of the trading day. As a result, there may be large and occasionally anomalous swings in the value of KCG's positions daily and, accordingly, in its earnings in any period. This is especially true on the last business day of each calendar quarter.

Substantial competition could reduce KCG's market share and harm KCG's financial performance

All aspects of KCG's business are intensely competitive. KCG faces competition in its businesses primarily from global, national and regional broker dealers, exchanges, and ATSs. ATSs include crossing networks that match orders in private or without a public quote, ECNs that match orders off-exchange based on a displayed public quote, and dark liquidity pools which offer a variety of market models enabling investors to trade off-exchange. Equities competition is based on a number of factors, including KCG's execution standards (e.g., price, liquidity, speed and other client defined measures), client relationships and service, reputation, payment for order flow, market structure, product and service offerings, and technology. KCG will continue to face intense competition in connection with all of its trading activities, and KCG's ability to effectively compete will depend on a number of factors including its ability to design, build and effectively deploy the necessary technologies and operations to support all of its trading activities. A number of competitors of KCG's businesses may have greater financial, technical, marketing and other resources than KCG. Some of KCG's competitors offer a wider range of services and financial products than KCG does and have greater name recognition and a more extensive client base. These competitors may be able to respond more quickly than KCG to new or evolving opportunities and technologies, market changes and client requirements and may be able to undertake more extensive promotional activities and offer more business attractive terms to clients including larger order flow rebate payments. Moreover, current and potential competitors have established or may establish cooperative relationships among themselves or with third parties or may consolidate to enhance their services and products. It is possible that new competitors, or alliances among competitors, may also emerge, and they may acquire significant market share. The trend toward increased competition in KCG's businesses is expected to continue and it is possible that KCG's competitors may acquire increased market share.

As a result of the above, there can be no assurance that KCG will be able to compete effectively with current or future competitors, which could have a material adverse effect on KCG's business, financial condition and operating results.

KCG may not be able to keep up with rapid technological and other changes or adequately protect its intellectual property

The markets in which KCG competes are characterized by rapidly changing technology, evolving industry standards, frequent new product and service announcements, introductions and enhancements and changing client demands. If KCG is not able to keep up with these rapid changes on a timely and cost-effective basis, it may be at a competitive disadvantage. The widespread adoption of new internet, networking or telecommunications technologies or other technological changes could require KCG to incur substantial expenditures to modify or adapt its services or infrastructure. Any failure by KCG to anticipate or respond adequately to technological advancements (including advancements related to telecommunications, data transfer, execution and messaging speeds), client requirements or changing industry standards or to adequately protect its intellectual property, or any delays in the development, introduction or availability of new services, products or enhancements, could have a material adverse effect on KCG's business, financial condition and operating results.

Additionally, the success of KCG and its subsidiaries has largely been attributable to its sophisticated proprietary technology that has taken many years to develop. KCG has benefited from the fact that the type of proprietary technology it employs has not been widely available to its competitors. If KCG's technology becomes more widely available to its current or future competitors for any reason, KCG's operating results may be adversely affected.

KCG uses trademark, trade secret, copyright and other proprietary rights and procedures to protect its intellectual property and technology resources. Despite its efforts, monitoring unauthorized use of KCG's intellectual property is

difficult and costly, and KCG cannot be certain that the steps it takes to prevent unauthorized use of its proprietary rights are sufficient to prevent misappropriation of its technology, particularly in foreign countries where laws or law enforcement practices may not protect proprietary rights as fully as in the United States. In addition, KCG cannot be sure that courts will adequately enforce contractual arrangements KCG has entered into to protect its proprietary technologies. If any of KCG's proprietary information were misappropriated by or otherwise disclosed to its competitors, its competitive position could be adversely affected. KCG may incur substantial costs to defend ownership of its intellectual property or to replace misappropriated proprietary technology. If a third party were to assert a claim of infringement of KCG's proprietary rights, obtained through patents or otherwise, against KCG with respect to one or more of its methods of doing business or conducting its operations, KCG could be required to spend significant amounts to defend such claims, develop alternative methods of operations, pay substantial money damages or obtain a license from the third party.

KCG may experience disasters or business disruptions

KCG has business continuity capabilities that could be utilized in the event of a disaster or disruption. Since the timing and impact of disasters and disruptions are unpredictable, KCG must be flexible in responding to actual events as they occur. Significant business disruptions can vary in their scope. A disruption might only affect KCG, a building that KCG occupies, a business district in which KCG is located, a city in which KCG is located or an entire region. Within each of these areas, the severity of the disruption can also vary from minimal to severe. KCG's business continuity facilities are designed to allow it to substantially continue operations if KCG is prevented from accessing or utilizing its primary offices for an extended period of time. Although KCG has employed significant effort to develop, implement and maintain reasonable business continuity plans, KCG cannot ensure that its systems will properly or fully recover after a significant business disruption in a timely fashion. If KCG is prevented from using any of its current trading operations or any third party services, or if its business continuity operations do not work effectively, KCG may not have complete business continuity. This could have a material adverse effect on KCG's business, financial condition and operating results.

KCG will incur risks in connection with the move of its corporate headquarters and the migration of its data center

KCG is planning to move its corporate headquarters from Jersey City, New Jersey to downtown New York City in 2016, and its Jersey City data center operations to other commercial data centers and colocations by the end of April 2018. As part of these moves, KCG's existing New York City office at One Liberty Plaza will also be moved to the new headquarters location. As with every move of this magnitude, there are a number of risks involved that could have a potential negative impact on KCG's operations. These risks include, but are not limited to, missing project timelines (which could have the potential for disruption of market making or trading services or other operations), risks related to changes to office infrastructure and technology, and unexpected costs associated with the relocation. The diversion of business, technology and management attention from other business concerns and a multitude of external factors also pose a risk. While KCG employs a significant amount of internal and external resources to mitigate these and other risks associated with the relocation, they could have an adverse impact on KCG's business, financial condition or operating results.

Regulatory and legal uncertainties could harm KCG's business

The capital markets industry in the U.S. and the foreign jurisdictions in which KCG conducts its business is subject to extensive oversight under federal, state and applicable foreign laws, rules and regulations, as well as the rules of SROs. Broker dealers, investment advisors and financial services firms are subject to regulations concerning all aspects of their businesses, including, but not limited to, trade practices, best execution practices, capital adequacy, record-keeping, anti-money laundering, fair and requisite disclosure and the conduct of their officers, supervisors and employees. KCG's operations and profitability may be directly affected by, among other things, additional legislation or regulation, or changes in rules promulgated by domestic or foreign governments or regulators; and changes in the interpretation or enforcement of existing laws, regulations and rules. Failure to comply with these laws, rules or regulations could result in, among other things, administrative actions or court proceedings, censure, fines, the issuance of cease-and-desist orders or injunctions, loss of membership, or the suspension or disqualification of the market participant or broker dealer, and/or their officers, supervisors or employees. Furthermore, domestic and foreign stock exchanges, other SROs and state and foreign securities commissions can censure, fine and issue cease-and-desist orders to suspend or expel a broker-dealer or other market participant or any of its officers or employees. In recent years, the size of penalties and fees sought by regulators has increased significantly. Noncompliance with applicable laws or regulations could also negatively impact KCG's reputation, client relationships, prospects, revenues and

earnings.

KCG's ability to comply with applicable laws, regulations and rules is largely dependent on its internal systems to ensure compliance, as well as its ability to attract and retain qualified compliance personnel. Each of KCG's regulators engages in a series of periodic and special examinations and investigations to monitor compliance with such laws, rules and regulations that may result in disciplinary actions in the future due to alleged noncompliance. KCG is currently the subject of regulatory reviews and investigations that may, in the future, result in disciplinary actions, including the imposition of fines and penalties due to alleged non-compliance.

Federal, state and foreign legislators, regulators and SROs are constantly proposing, or enacting, new regulations which may impact KCG's business. These include rules regarding, among others, a CAT designed to improve the ability of the SEC and others to oversee trading in the U.S. securities markets, private or over-the-counter markets, sometimes referred to as dark liquidity pools, increased transaction and other fees, transaction taxes, enhanced requirements regarding market access (including SEC Rule 15c3-5) and for technology testing and implementation, increased obligations for market makers, higher capital requirements, and order routing limitations. Additionally, Section 31 fees are reviewed regularly. These fees could increase substantially in the future in order to recover the costs incurred by the government, including the SEC, for supervising and regulating the securities markets.

Regulators may also consider proposing other market structure changes. Following the market events of May 6, 2010, both the SEC and the CFTC issued concept releases seeking public comment on certain market structure issues such as high frequency trading, the colocation of servers with exchange matching engines, off-exchange trading, including internalization where brokers match orders with their own inventory, and markets that do not publicly display price quotations including dark liquidity pools. In particular, high frequency trading continues to be a controversial feature of modern markets and regulatory scrutiny by federal, state and foreign regulators and SROs is likely to continue, as evidenced by SEC Chair White's June 5, 2014 speech. Market participants continue to call upon the U.S. Congress and the SEC to make changes to limit high-frequency trading and these changes could impact KCG's business negatively.

In addition, the financial services industry in many foreign countries is heavily regulated, much like in the U.S. The varying compliance requirements of these different regulatory jurisdictions and other factors may limit KCG's ability to conduct business or expand internationally. Further, public debate in Europe regarding high-frequency trading is leading policymakers to consider laws and regulations that may impact KCG's business, including potential taxes, limits on order-to-execution ratios and requirements for country-specific authorization for high frequency traders. To continue to operate and to expand its services internationally, KCG will have to comply with the regulatory controls of each country in which it conducts or intends to conduct business, the requirements of which may not be clearly defined. The varying compliance requirements of these different regulatory jurisdictions, which are often unclear, may limit KCG's ability to continue existing international operations and further expand internationally.

Any of these laws, rules or regulations, if adopted, as well as any regulatory or legal actions or proceedings, changes in legislation or regulation, and changes in market customs and practices could have a material adverse effect on KCG's business, financial condition and operating results. In addition, changes in current laws or regulations or in governmental policies could negatively impact KCG's operations, revenues and earnings.

At any given time, KCG may be the subject of one or more regulatory or SRO enforcement actions. KCG's business or reputation could be negatively impacted if it were determined that disciplinary or other enforcement actions were required.

KCG's business is subject to substantial risk from litigation, regulatory investigations and rules and regulations

Many aspects of KCG's business involve substantial risks of liability. KCG is exposed to potential liability under federal, state and foreign securities laws, other federal, state and foreign laws and court decisions, as well as rules and regulations promulgated by U.S. and foreign regulators. KCG is also subject to the risk of potential litigation. From time to time, KCG and its subsidiaries and certain of their past and present officers, directors and employees, are, or may be in the future, named as parties in legal actions, regulatory investigations and proceedings, arbitrations and administrative claims. KCG has been the subject of claims alleging the violation of such laws, rules and regulations, some of which have resulted in the payment of fines, awards, judgments and settlements. Moreover, KCG may be required to indemnify past and present officers, directors and employees in regards to these matters. Certain corporate events, such as a reduction in KCG's workforce, could also result in additional litigation or arbitration. KCG could incur significant legal expenses in defending such litigations or proceedings. An adverse resolution of any current or future

lawsuits, legal or regulatory proceedings or claims against KCG could have a material adverse effect on its business and reputation, financial condition and operating results.

Rules governing specialists and designated market makers may require KCG to make unprofitable trades or prevent KCG from making profitable trades

Specialists and designated market makers are granted certain rights and have certain obligations to "make a market" in a particular security. They agree to specific obligations to maintain a fair and orderly market. In acting as a specialist or designated market maker, KCG is subjected to a high degree of risk by having to support an orderly market. In this role, KCG may at times be required to make trades that adversely affect its profitability. In addition, KCG may at times be unable to trade for its own account in circumstances in which it may be to its advantage to trade, and KCG may be obligated to act as a principal when buyers or sellers outnumber each other. In those instances, KCG may take a position counter to the market, buying or selling securities to support an orderly market. Additionally, the rules of the markets which govern KCG's activities as a specialist or designated market maker are subject to change. If these rules are made more stringent, KCG's trading revenues and profits as specialist or designated market maker could be adversely affected.

KCG's reliance on computer systems and software, including third-party systems, could adversely affect its business

KCG relies significantly on its computer systems and software to receive and properly process internal and external data and utilize such data to generate orders and other messages. This includes certain third-party computer systems or third-party service providers, including clearing systems, exchange systems, internet service, communications facilities and other facilities. A disruption or corruption of the proper functioning of KCG's computer systems or software, or deterioration in their performance, could be disruptive to KCG's business. KCG cannot guarantee that its efforts to maintain competitive computer systems and software will be successful. Although KCG has implemented, and continues to implement, technological changes to prevent the failure of its computer systems and software, KCG's computer systems and software may nonetheless fail or be subject to bugs or other errors, resulting in service interruptions or other unintended consequences. Additionally, if KCG's arrangement with any third party is terminated, KCG may not be able to find an alternative source of systems support on a timely basis or on commercially reasonable terms. If any of these risks materialize, they could have a material adverse effect on KCG's business, financial condition and results of operations.

Capacity constraints, systems failures and delays could harm KCG's business

KCG's business activities are heavily dependent on the integrity and performance of the computer and communications systems supporting them and the services of certain third parties. KCG's systems and operations are vulnerable to damage or interruption from human error, technological or operational failures, natural disasters, power loss, computer viruses, intentional acts of vandalism, terrorism and other similar events. The nature of KCG's businesses involves a high volume of transactions made in rapid fashion which could result in certain errors being repeated or compounded before they are discovered and successfully rectified. Extraordinary trading volumes or other events could cause KCG's computer systems to operate at an unacceptably slow speed or even fail. KCG's necessary dependence upon automated systems to record and process transactions and large transaction volume may further increase the risk that technical flaws or employee tampering or manipulation of those systems will result in losses that are difficult to detect.

While KCG has invested significant amounts of capital to upgrade the capacity, reliability, scalability and speed of its systems, there can be no assurance that its systems will be sufficient to handle current or future trading volumes, and the modifications themselves may result in unanticipated and undesirable consequences. Although KCG will continually update and modify its trading software in response to changes in its business, rule changes and for various other reasons, there are no assurances that such updates and modifications to KCG's trading software will not result in future trading losses. Many of KCG's systems are, and much of its infrastructure is, designed to accommodate additional growth without material redesign or replacement; however, KCG may need to make significant investments in additional hardware and software to accommodate growth. Failure to make necessary expansions and upgrades to its systems and infrastructure, including any inability to develop and upgrade existing technology, transaction-processing systems or network infrastructure to accommodate increased sales volume through KCG's transaction-processing systems, could lead to unanticipated system disruptions, slower response time, degradation in levels of customer service and impaired quality and speed of order fulfillment.

From time to time, KCG has reimbursed its clients for losses incurred in connection with systems failures and delays. Capacity constraints, systems failures and delays may occur in the future and could cause, among other things, unanticipated problems with KCG's trading or operating systems, disruptions in its client and non-client market making activities, disruptions in service to its clients, slower system response times resulting in transactions not being processed as quickly as KCG's clients desire, decreased levels of client service and client satisfaction, and harm to KCG's reputation. If any of these events were to occur, KCG could suffer substantial financial losses, loss of clients or reduction in the growth of its client base, increased operating expenses, litigation, arbitration or other client claims and regulatory sanctions or additional regulatory burdens.

KCG may be the target of a significant cyber-attack or threat that impairs internal systems or causes reputational damage

KCG relies heavily on technology and automation to perform many functions within the firm. This reliance on technology opens the firm to various forms of cyber-attacks; including data loss or destruction, unauthorized access, unavailability of service or the introduction of malicious code.

KCG has taken significant steps to mitigate the various cyber threats, and devotes significant resources to maintain and regularly upgrade its systems and networks and reviews the ever changing threat landscape. KCG has created a dedicated Information Security Group, created and filled the role of Information Security Officer ("ISO") and formed an Information Security Steering Committee. In addition, the firm has enhanced the communication channels with government and law enforcement agencies for better information sharing and awareness. The firm will continue to periodically review policies and procedures to ensure they are effective in mitigating current cyber and other information security threats. In addition to the policy reviews, the firm continues to look to implement technology solutions that enhance preventive and detection capabilities, and has an Emergency Management Plan ("EMP") that sets forth procedures for firm-wide crisis responses, including in the case of a cyber-attack. See "Operational Risks" under "Quantitative and Qualitative Disclosures About Market Risk" in Part II, Item 7A of this Form 10-K.

Notwithstanding these efforts, KCG's cybersecurity measures may not detect or prevent all attempts to compromise its systems, including denial-of-service attacks, viruses, malicious software, break-ins, phishing attacks, social engineering, security breaches or other attacks and similar disruptions that may jeopardize the security of information stored in and transmitted by KCG's systems or that it otherwise maintains. Breaches of KCG's cybersecurity measures could result in any of the following: unauthorized access to KCG's systems; unauthorized access to and misappropriation of information or data, including confidential or proprietary information about ourselves, third parties with whom KCG does business or its proprietary systems; viruses, worms, spyware or other malware being placed in KCG's systems; deletion or modification of client information; or a denial-of-service or other interruptions to KCG's business operations. Although KCG devotes significant resources to maintain and regularly upgrade its systems and networks and review the ever changing threat landscape, the methods of attack change frequently, with many vulnerabilities not publicly known until the very point in time when they are exploited. Because techniques used to obtain unauthorized access to or sabotage systems change frequently and may not be known until launched against KCG or its third-party service providers, KCG may be unable to anticipate these attacks or to implement adequate protections in advance.

The current measures by KCG or any other measures cannot prevent every potential threat. Although KCG maintains insurance coverage that may, subject to policy terms and conditions, cover certain aspects of cyber risks, such insurance coverage may be insufficient to cover all losses. Any actual or perceived breach of KCG's cybersecurity could damage its reputation, expose it to a risk of loss, regulatory action or litigation and possible liability, require it to expend significant capital and other resources to alleviate problems caused by such breaches and otherwise have a material adverse effect on KCG's business, financial condition, results of operations and cash flows.

The use of open source software may expose KCG to additional risks

KCG uses software development tools covered by open source licenses and may incorporate such open source software into its proprietary software from time to time. "Open source software" refers to any code, shareware or other software that is made generally available to the public without requiring payment of fees or royalties and/or that may require disclosure or licensing of any software that incorporates such source code, shareware or other software. Given the nature of open source software, third parties might assert contractual or copyright and other intellectual property-related claims against KCG based on its use of such tools and software programs or might seek to compel the disclosure of the source code of its software or other proprietary information. If any such claims materialize, KCG could be required to (i) seek licenses from third parties in order to continue to use such tools and software or to continue to operate certain elements of KCG's technology, (ii) release certain proprietary software code comprising KCG's modifications

to such open source software, (iii) make KCG's software available under the terms of an open source license or (iv) re-engineer all, or a portion of, that software, any of which could materially and adversely affect KCG's business, financial condition and results of operations. While KCG monitors the use of all open source software in its solutions, processes and technology and seeks to ensure that no open source software is used (i) in such a way as to require KCG to disclose the source code to the related solution when it does not wish to do so nor (ii) in connection with critical or fundamental elements of its software or technology, such use may have inadvertently occurred in deploying KCG's proprietary solutions. If a third-party software provider has incorporated certain types of open source software into software KCG licenses from such third party for its products and solutions, KCG could, under certain circumstances, be required to disclose the source code to its solutions. In addition to risks related to license requirements, usage of open software can lead to greater risks than use of third-party commercial software because open source licensors generally do not provide warranties or controls on the origin of the software. Many of the risks associated with usage of open source software cannot be eliminated and could potentially have a material adverse effect on KCG's business, financial condition and results of operations.

KCG may incur losses as a result of ineffective risk management processes and strategies

KCG seeks to monitor and control its risk exposure through a risk and control framework encompassing a variety of separate but complementary financial, credit, operational, compliance and legal reporting systems, internal controls, management review processes and other mechanisms. While KCG employs a broad and diversified set of risk monitoring and risk mitigation techniques, those techniques and the judgments that accompany their application cannot anticipate every economic and financial outcome or the specifics and timing of such outcomes. Thus, KCG may, in the course of its activities, incur losses.

KCG's failure to maintain effective internal control over financial reporting in accordance with Section 404 of the Sarbanes-Oxley Act could cause investors to lose confidence in its financial statements and have a material adverse effect on KCG's business and stock price

KCG devotes considerable resources, including management's time and other internal resources, to complying with regulatory requirements relating to internal control over financial reporting. Internal control over financial reporting, no matter how well designed, has inherent limitations. Therefore, internal control over financial reporting determined to be effective can provide only reasonable assurance with respect to financial statement preparation and may not prevent or detect all misstatements. Moreover, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate. As such, KCG could lose investor confidence in the accuracy and completeness of its financial reports, which may have a material adverse effect on its stock price.

Self-clearing exposes KCG to significant operational, financial and liquidity risks

KCG self-clears substantially all of its domestic and international equities transactions using proprietary platforms and may expand self-clearing across product offerings and asset classes in the future. Self-clearing requires KCG to finance the majority of its inventory and maintain margin deposits at clearing organizations. Self-clearing exposes KCG's business to operational risks, including business and technology disruption, operational inefficiencies, liquidity and financing risks and potentially increased expenses and lost revenue opportunities. While KCG's clearing platform, operational processes, enhanced infrastructure and current and future financing arrangements have been carefully designed, KCG may nevertheless encounter difficulties that may lead to operating inefficiencies, including technology issues, dissatisfaction amongst KCG's client base, disruption in the infrastructure that supports the business, inadequate liquidity, increased margin requirements with clearing organizations and counterparties who provide financing with respect to inventories, reductions in available borrowing capacity and financial loss. Any such delay, disruption, expense or failure could adversely affect KCG's ability to effect transactions and manage its exposure to risk. Moreover, any of these events could have a material adverse effect on KCG's business, financial condition and operating results.

KCG could lose significant sources of revenues if it loses any of its larger clients

At times, a limited number of clients could account for a significant portion of KCG's order flow, revenues and profitability, and KCG expects a large portion of the future demand for, and profitability from, its trade execution services to remain concentrated within a limited number of clients. The loss of one or more larger clients could have an adverse effect on KCG's revenues and profitability in the future.

None of KCG's clients is currently contractually obligated to utilize KCG for trade execution services and, accordingly, these clients may direct their trade execution activities to other execution providers or market centers at

any time. Some of these clients have grown organically or acquired market makers and specialist firms to internalize order flow or will have entered into strategic relationships with competitors. There can be no assurance that KCG will be able to retain these major clients or that such clients will maintain or increase their demand for KCG's trade execution services. Further, the continued integration of legacy systems could result in disruption to KCG's ongoing businesses and relationships or cause issues with standards, controls, procedures and policies that adversely affect the ability of KCG to maintain relationships with customers, or to solicit new customers. The loss, or a significant reduction, of demand for KCG's services from any of these clients could have a material adverse effect on KCG's business, financial condition and operating results.

KCG is highly dependent on key personnel

KCG is highly dependent on a limited number of key personnel. KCG's success is dependent to a large degree on its ability to retain the services of its existing key executives and to attract and retain additional qualified personnel in the future. Competition for such personnel is intense. The loss of the services of any of KCG's key executives or the inability to identify, hire and retain necessary highly qualified executive management in the future could have a material adverse effect on KCG's business, financial condition and operating results.

KCG's success also depends, in part, on the highly skilled, and often specialized, individuals KCG employs. KCG's ability to attract and retain management, trading, market making, sales and technology professionals, as well as quantitative analysts and programmers is important to KCG's business strategy. KCG strives to provide high quality services that allow it to establish and maintain long-term relationships with its clients. KCG's ability to do so depends, in large part, upon the individual employees who represent KCG in its dealings with such clients. KCG may lose such professionals due to increased competition or other factors in the future, or such professionals may leave KCG voluntarily. The loss of sales, trading or technology professionals, particularly senior professionals with broad industry or technical expertise and long-term relationships with clients, could have a material adverse effect on KCG's business, financial condition and operating results.

International activities involve certain risks

KCG's international operations expose it to financial, cultural, regulatory and governmental risks, including restrictions imposed by the Foreign Corrupt Practices Act (the "FCPA") and trade sanctions administered by the Office of Foreign Assets Control ("OFAC"). The FCPA is intended to prohibit bribery of foreign officials and requires companies whose securities are listed in the U.S. to keep books and records that accurately and fairly reflect those companies' transactions and to devise and maintain an adequate system of internal accounting controls. OFAC administers and enforces economic and trade sanctions based on U.S. foreign policy and national security goals against designated foreign states, organizations and individuals.

Approximately 13% of the revenue of KCG in 2015, resulted from international operations. The financial services industry in many foreign countries is heavily regulated, much like the U.S., but differences, whether cultural, legal or otherwise, do exist. KCG is exposed to risks and uncertainties, including political, economic and financial instability, changes in requirements, exchange rate fluctuations, staffing challenges and the requisite controls needed to manage such operations. To continue to operate and expand its services globally, KCG will have to comply with the unique legal and regulatory controls of each country in which it conducts, or intends to conduct business, the requirements of which may be onerous or may not be clearly defined. The varying compliance requirements of these different regulatory jurisdictions and other factors may limit KCG's ability to successfully conduct or expand its business internationally. It may increase KCG's costs of investment. Additionally, operating international locations involves both execution and reputational risk. KCG may not be able to manage these costs or risks effectively.

Fluctuations in currency exchange rates could adversely affect KCG's earnings

A significant portion of KCG's international business is conducted in currencies other than the U.S. dollar, and changes in foreign exchange rates relative to the U.S. dollar can therefore affect the value of non-U.S. dollar net assets, revenues and expenses. Potential exposures as a result of these fluctuations in currencies are closely monitored, and, where cost-justified, strategies are adopted that are designed to reduce the impact of these fluctuations on KCG's financial performance. These strategies may include the financing of non-U.S. dollar assets with borrowings in the same currency and the use of various hedging transactions related to net assets, revenues, expenses or cash flows. Any material fluctuations in currencies could have a material effect on our operating results.

KCG has leverage

In March 2015, KCG issued \$500.0 million aggregate principal amount of 6.875% Senior Secured Notes (the “6.875% Senior Secured Notes”). As a result of KCG's history of debt offerings including the 6.875% Senior Secured Notes, KCG has leverage. This leverage may have important negative consequences for KCG and its stockholders, including:

- increasing its vulnerability to general adverse economic and industry conditions;
- requiring it to dedicate a portion of its cash flow from operations to payments on its indebtedness, thereby reducing the availability of cash flow to fund working capital, capital expenditures, acquisitions and investments and other general corporate purposes;
- making it difficult for KCG to optimally manage the cash flow for its businesses;
- limiting its flexibility in planning for, or reacting to, changes in its businesses and the markets in which it operates;
- placing it at a competitive disadvantage compared to its competitors that have less debt;
- subjecting it to a number of restrictive covenants that, among other things, limit its ability to pay dividends and distributions, make acquisitions and dispositions, borrow additional funds, and make capital expenditures and other investments, and
- exposing it to interest rate risk due to the variable interest rate on borrowings under its revolving credit agreement.

KCG's ability to make payments of the principal on and refinance its indebtedness will depend on its future performance, its ability to generate cash flow and market conditions, each of which is subject to economic, financial, competitive and other factors beyond its control. KCG's business may not continue to generate cash flow from operations sufficient to service its debt and make necessary capital expenditures. If KCG is unable to generate such cash flow, it may be required to adopt one or more alternatives, such as selling assets, restructuring debt, undertaking additional borrowings or issuing additional debt or obtaining additional equity capital on terms that may be onerous or highly dilutive to current shareholders. KCG's ability to refinance all or a portion of its indebtedness will depend on KCG's financial condition and its ability to access the capital markets and the credit markets. KCG may not be able to engage in any of these activities or engage in these activities on desirable terms, which could result in increased financing costs or a default on its debt obligations.

KCG may be unable to remain in compliance with the financial maintenance and other affirmative and negative covenants contained in its debt instruments and the obligation to comply with such covenants may adversely affect its ability to operate its business

KCG's current debt instruments contain financial maintenance and other affirmative and negative covenants that impose significant requirements on KCG and limit its ability to engage in certain transactions or activities. In addition, in the future KCG may enter into other debt instruments with covenants different from, and potentially more onerous than KCG's current debt facilities. These covenants could limit KCG's flexibility in managing its businesses. In the event that KCG is unable to either comply with these restrictions and other covenants or obtain waivers from its lenders, KCG would be in default under these debt instruments and, among other things, the repayment of KCG's debt could be accelerated by its lenders. In such case, KCG might not be able to repay its debt or borrow sufficient funds to refinance its debt on commercially reasonable terms, or on terms that are acceptable to KCG, resulting in a default on its debt obligations, which could have an adverse effect on its financial condition.

KCG's outstanding senior secured notes contain customary affirmative and negative covenants and customary exceptions, qualifications and “baskets” which provide KCG exceptions to certain of the negative covenant restrictions on its business up to certain specified amounts. The negative covenants include, among other things, limitations on indebtedness, liens, hedging agreements, investments, loans and advances, asset sales, mergers and acquisitions, dividends, transactions with affiliates, prepayments of other indebtedness, modifications of organizational documents and other material agreements, restrictions on subsidiaries, capital expenditures, issuance and repurchases of capital stock, negative pledges and business activities.

KCG may be able to incur substantially more debt and take other actions that could diminish its ability to make payments on its indebtedness when due, which could further exacerbate the risks associated with its current level of indebtedness

Despite KCG's indebtedness level and the negative covenants contained in the senior secured notes, KCG may be able to incur substantially more indebtedness in the future. KCG is not fully restricted under the terms of the indenture for the senior secured notes from incurring additional debt, securing existing or future debt, recapitalizing KCG's debt or taking a number of other actions, including certain additional indebtedness incurred in the ordinary course of business by KCG's broker dealer subsidiaries and certain other regulated subsidiaries, any of which additional indebtedness could diminish KCG's ability to make payments on its indebtedness when due and further exacerbate the risks associated with KCG's current level of indebtedness. If new debt is added to KCG's or any of its existing and future subsidiaries' current debt, the related risks that KCG now faces could intensify.

KCG's reported financial results depend on management's selection of accounting methods and certain assumptions and estimates

KCG's accounting policies and assumptions are fundamental to its reported financial condition and results of operations. KCG's management must exercise judgment in selecting and applying many of these accounting policies and methods so they comply with generally accepted accounting principles and reflect management's judgment of the most appropriate manner to report KCG's financial condition and results. In some cases, management must select the accounting policy or method to apply from two or more alternatives, any of which may be reasonable under the circumstances, yet may result in KCG reporting materially different results than would have been reported under a different alternative.

Certain accounting policies are critical to presenting KCG's reported financial condition and results. They require management to make difficult, subjective or complex judgments about matters that are uncertain. Materially different amounts could be reported under different conditions or using different assumptions or estimates. If such estimates or assumptions underlying KCG's financial statements are incorrect, KCG may experience material losses.

In November 2013, KCG restated certain legacy historical financial statements of GETCO. As a result of these restatements, KCG's management concluded that there were material weaknesses in GETCO's financial statement preparation processes and the related disclosure controls for the period leading up to the Mergers. Any future restatements or corrections of errors may result in a loss of investor confidence in KCG's financial reporting.

Additionally, from time to time, the Financial Accounting Standards Board and the SEC change the financial accounting and reporting standards or the interpretation of those standards that govern the preparation of KCG's financial statements. These changes are beyond KCG's control, can be difficult to predict and could materially impact how KCG reports its financial condition and results of operations. Changes in these standards are continuously occurring, and given the current economic environment, more drastic changes may occur. The implementation of such changes could have a material adverse effect on KCG's business, financial condition and results of operations.

Exposure to credit risk may adversely affect KCG's results of operations

KCG will be at risk if issuers whose securities or other instruments KCG holds, customers, trading counterparties, counterparties under derivative contracts, financing agreements or repurchase and equity finance agreements, clearing agents, exchanges, clearing houses, custodians or other financial intermediaries or guarantors default on their obligations to KCG, fail to perform under their agreements with KCG or are precluded to perform their obligations due to bankruptcy, insolvency, lack of liquidity, adverse economic conditions, operational failure, legal or regulatory issues, fraud or other reasons. Although KCG engages in hedging and other risk management processes in order to mitigate these risks, KCG may not be able to enter into an offsetting contract or may be prevented from entering into an offsetting contract in order to cover the risk of such defaults or failures, and such defaults or failures could nonetheless result in financial losses for KCG and could have a material adverse effect on KCG's results of operations, financial condition and cash flows. Notwithstanding KCG's ability to enter into an offsetting contract, KCG may still suffer financial losses as a result of a counterparty's default resulting from these issues.

KCG conducts the majority of its trade executions as principal or riskless-principal with broker dealers, financial services firms and institutional counterparties. KCG self-clears a considerable portion of its trade executions, which requires that KCG compare and match trades, record all transaction details, finance inventory and maintain deposits with clearing organizations, rather than rely upon an outside party to provide those services. When KCG self-clears its securities transactions, it is required to hold the securities subject to those transactions until the transactions settle,

which typically occurs three trading days following the date of execution of the transaction. During the period of time from the execution to the settlement of a securities transaction, the securities to be transferred in the transaction may incur a significant change in value or the counterparty to the transaction may become insolvent, may default on its obligation to settle the transaction or may otherwise become unable to comply with its securities financing contractual obligations, resulting in potential losses to KCG. KCG is also exposed to credit risk from its counterparties when it self-clears securities transactions and when it clears securities transactions through an unaffiliated clearing broker, the latter of which is the case with a minority of KCG's trade executions. Counterparty credit risk relates to both the deposits held with clearing organizations and instances where a trade might have failed, or be contested, adjusted or generally deviate from the terms understood at the time of execution. Under the terms of the agreements between KCG and its clearing brokers, the clearing brokers have the right to charge KCG for losses that result from a counterparty's failure to fulfill its contractual obligations. No assurance can be given that any such counterparty will not default on its obligations, which default could have a material adverse effect on KCG's business, financial condition and operating results.

Although KCG has procedures for reviewing credit exposures to specific customers and counterparties to address present credit concerns, default risk may arise from events or circumstances that are difficult to detect or foresee, including rapid changes in securities, commodity and foreign exchange price levels, or operational, legal or regulatory risks applicable to such customers or counterparties. Even if KCG's credit review and analysis procedures work properly, KCG may experience financial losses in dealings with such parties. Some of KCG's risk management methods also depend upon the evaluation of information regarding markets, clients or other matters that are publicly available or otherwise accessible by KCG. That information may not, in all cases, be accurate, complete, up-to-date or properly evaluated. In addition, concerns about, or a default by, one institution could lead to significant liquidity problems, losses or defaults by other institutions, which in turn could adversely affect KCG. KCG may be materially and adversely affected in the event of a significant default by any of its customers or counterparties.

Acquisitions, strategic investments, divestitures and other strategic relationships involve certain risks

KCG is the product of strategic relationships and acquisitions, and it may continue to pursue opportunistic strategic acquisitions of, investments in, or divestitures of businesses and technologies. Acquisitions may entail numerous risks, including difficulties in assessing values for acquired businesses, intangible assets and technologies, difficulties in the assimilation of acquired operations and products, diversion of management's attention from other business concerns, employee retention issues, assumption of unknown material liabilities of acquired companies, amortization of acquired intangible assets and the potential writedown of goodwill due to impairment, which could reduce future reported earnings, or result in potential loss of clients and/or key employees of acquired companies. KCG may not be able to integrate successfully certain operations, personnel, services or products that it has acquired or may acquire in the future.

As KCG has sought to refocus on its core strategies, it has shutdown, reconstituted or disposed of several non-core businesses, including its reverse mortgage origination and securitization business, its FCM business and KCG Hotspot. In addition, in February 2016, KCGA entered into an asset purchase agreement with Citadel, pursuant to which KCGA agreed to sell its NYSE DMM business to Citadel. The transaction is expected to close during the second quarter of 2016. Additional divestitures are possible in the future and may have a material impact on KCG's balance sheet or results of operations. KCG may not be able to replace the revenue generated by any divested business. Divestitures generally also entail numerous risks. The divestiture of an existing business could reduce KCG's future operating cash flows and revenues, make its financial results more volatile, and/or cause a decline in revenues and profits. A divestiture could also cause a decline in the price of KCG Class A Common Stock and increased reliance on other elements of its core business operations. In addition, the agreements to sell any divested businesses may require KCG to indemnify the buyer in certain situations. If KCG does not successfully manage the risks associated with a divestiture, its business, financial condition, and results of operations could be adversely affected. KCG also may not find suitable purchasers for businesses it may wish to divest. In addition, the decision to pursue acquisitions, divestitures or other strategic transactions may jeopardize KCG's ability to retain the services of its existing key employees and to attract and retain additional qualified personnel in the future.

Strategic investments also entail some of the other risks described above. If these investments are unsuccessful, KCG may need to incur charges against earnings. KCG may build and establish a number of strategic relationships. These relationships and others KCG may enter into in the future may be important to its business and growth prospects. KCG may not be able to maintain these relationships or develop new strategic alliances.

KCG may incur risks in connection with the further integration of GETCO and Knight

Although the major steps in integrating Knight and GETCO are complete, there remain certain aspects of the businesses of GETCO and Knight that operate separately. If KCG is not able to successfully integrate these operations, the anticipated benefits of the Mergers may not be realized fully or may take longer to realize than expected. Business combinations involve numerous risks, including difficulties in the assimilation of the operation, systems, controls and technologies of the companies and the diversion of management's attention from other business concerns. The continued integration of GETCO and Knight may require KCG to incur significant cost in connection with, among other things, implementing financial and operating systems, and integrating technology platforms, which could have a material adverse effect on KCG's business, financial condition and operating results.

Additional remedial steps may be required in connection with the events of August 1, 2012

Knight experienced a technology issue at the opening of trading at the NYSE on August 1, 2012. This issue was related to its installation of trading software and resulted in Knight's broker dealer subsidiary, Knight Capital Americas LLC ("KCA"), sending numerous erroneous orders in NYSE-listed and NYSE Arca securities into the market. Although this software was subsequently removed from Knight's systems and the software issue was limited to the routing of certain NYSE-listed stocks, it resulted in Knight realizing a pre-tax loss including related legal and professional fees of approximately \$468.1 million. As a result of the technology issue, Knight implemented various remedial measures, including those at the direction of its regulators and, retained an independent consultant. Although remediation is in the final stages, KCG may incur additional expenses in implementing further technical changes and remedial measures which may be required or otherwise necessary or advisable. Further, these potential additional remedial steps may be burdensome to KCG's business operations or costly to complete and there is no guarantee that the remedial steps taken by KCG will satisfy any applicable regulatory requirements imposed in connection with the technology issue.

KCG is a holding company and depends on its subsidiaries for dividends, distributions and other payments

KCG is a legal entity separate and distinct from its broker dealer and other subsidiaries. KCG's principal source of cash flow, including cash flow to pay principal and interest on its outstanding debt, will be dividends and distributions from its subsidiaries. There are statutory and regulatory limitations on the payment of dividends or distributions by regulated subsidiaries, such as broker dealers. If KCG's subsidiaries are unable to make dividend payments or distributions to it and sufficient cash or liquidity is not otherwise available, KCG may not be able to make principal and interest payments on its outstanding debt and could default on its debt obligations. In addition, KCG's right to participate in a distribution of assets upon a subsidiary's liquidation or reorganization will be subject to the prior claims of the subsidiary's creditors.

KCG's two largest stockholders own a substantial percentage of KCG's Class A Common Stock, which could limit the ability of other stockholders to influence corporate matters or result in actions that the other stockholders do not believe to be in KCG's interests or their interests

As of February 24, 2016, KCG's two largest stockholders beneficially owned an aggregate of approximately 40% of KCG's outstanding Class A Common Stock (including restricted stock units) (or 39%, assuming exercise of all KCG warrants outstanding) based on the most recent Schedule 13D or 13G or Form 4s filed by the holders. As a result, these large stockholders may be able to exert influence over KCG's affairs and policies, including the election of directors and the approval of mergers, acquisitions and other extraordinary transactions. In addition, one of the largest stockholders has representation on KCG's Board of Directors. This concentrated control could limit the ability of the remaining stockholders to influence corporate matters, and the interests of the large stockholders may not coincide with KCG's interests or the interests of the remaining stockholders. The concentration of ownership may also have the effect of delaying, preventing or deterring a change of control of KCG, could deprive KCG's stockholders of an opportunity to receive a premium for their common stock as part of a sale of KCG and might ultimately affect the market price of KCG's common stock.

These large stockholders may in the future seek to sell large portions of KCG Class A Common Stock in one or a series of related transactions, including through block trades, 10b5-1 sales plans or underwritten secondary offerings. In connection with the Mergers, one of these stockholders was granted registration rights, which, subject to certain limitations, require KCG to assist such stockholder in conducting one or more registered offerings of all or a portion of its holdings. Any significant sales of KCG Class A Common Stock or any market perception of future sales of KCG Class A Common Stock may result in a decrease in the trading price of KCG's Class A Common Stock.

Shares of KCG Class A Common Stock are subject to dilution as a result of exercise of the warrants

The shares of KCG Class A Common Stock are subject to dilution upon exercise of KCG's warrants. Approximately 21.6 million shares of KCG Class A Common Stock may be issued in connection with exercise of the warrants. These warrants have exercise prices ranging from \$11.70 to \$14.63 and terms of between four and six years, with the first expiration occurring on July 1, 2017. The warrants may be exercised at any time, even if the current market price of the KCG Class A Common Stock is below the applicable exercise price. As the expiration date for any class of warrants approaches, the likelihood of exercise increases.

The market price of KCG Class A Common Stock will likely be influenced by the warrants. For example, the market price of KCG Class A Common Stock could become more volatile and could be depressed by investors' anticipation of the potential resale in the market of a substantial number of additional shares of KCG Class A Common Stock received upon exercise of the warrants. This effect may be more significant as the expiration date for a class of warrants approaches.

The market price of KCG's common stock could fluctuate significantly

The U.S. securities markets in general have experienced significant price fluctuations in recent years. If the market price of KCG Class A Common Stock fluctuates significantly, KCG may become the subject of securities class action litigation which may result in substantial costs and a diversion of management's attention and resources. KCG's future quarterly operating results may not consistently meet the expectations of securities analysts or investors, which could have a material adverse effect on the market price of KCG Class A Common Stock.

Certain additional payments to be made to KCG in connection with the sale of KCG Hotspot are uncertain

The sale of KCG Hotspot is structured as a taxable asset sale and BATS Global Markets, Inc. ("BATS") and KCG have agreed to share certain related tax benefits that potentially accrue to BATS after the closing of the transaction. KCG will share in 70% of the actual tax benefits to BATS for the first three years after the closing and 50% of the actual tax benefits thereafter (the "Annual Tax Benefits"). However, KCG has a one-time option exercisable within 30 days of the third anniversary of the closing of the transaction to terminate the continued tax sharing arrangement in exchange for a one-time payment of \$50 million, which BATS has the right to exercise after KCG's option expires.

However, the receipt of the Annual Tax Benefits by KCG is subject to BATS having sufficient net income to receive the tax benefits. BATS's net income could decrease due to numerous factors, which are outside of the control of KCG. In addition, any decrease in the corporate tax rates applicable to BATS could reduce the size or certainty of the Annual Tax Benefits.

KCG may not pay dividends

KCG does not currently expect to pay dividends on its common stock. Any determination to pay dividends in the future will be at the discretion of the KCG Board of Directors and will depend, upon among other factors, KCG's cash requirements, financial condition, requirements to comply with the covenants under its debt instruments and credit facilities, earnings and legal considerations. If KCG does not pay dividends, then the return on an investment in its common stock will depend entirely upon any future appreciation in its stock price. There is no guarantee that KCG Class A Common Stock will appreciate in value or maintain its value.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

Our corporate headquarters are located in Jersey City, New Jersey. We lease approximately 266,000 square feet at 545 Washington Boulevard under a lease that expires in April 2018. In July 2015, we entered into a new lease agreement for our new corporate headquarters in New York City. The new 169,000 square foot headquarters is located at 300 Vesey Street and we plan to occupy these premises in the fourth quarter of 2016. We also collectively lease approximately 371,000 square feet for our office locations in the U.S., Europe and Asia.

Item 3. Legal Proceedings

The information required by this Item is set forth in the "Legal Proceedings" section in Footnote 22 "Commitments and Contingent Liabilities" to the Company's Consolidated Financial Statements included in Part II, Item 8 "Financial Statements and Supplementary Data" herein.

Item 4. *Mine Safety Disclosures*

Not applicable.

PART II

Item 5. *Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities*

Our Class A Common Stock is listed on the New York Stock Exchange ("NYSE") under the ticker symbol "KCG". The following table sets forth the high and low quarterly closing sales price per share of the Class A Common Stock as reported by the NYSE during the relevant periods.

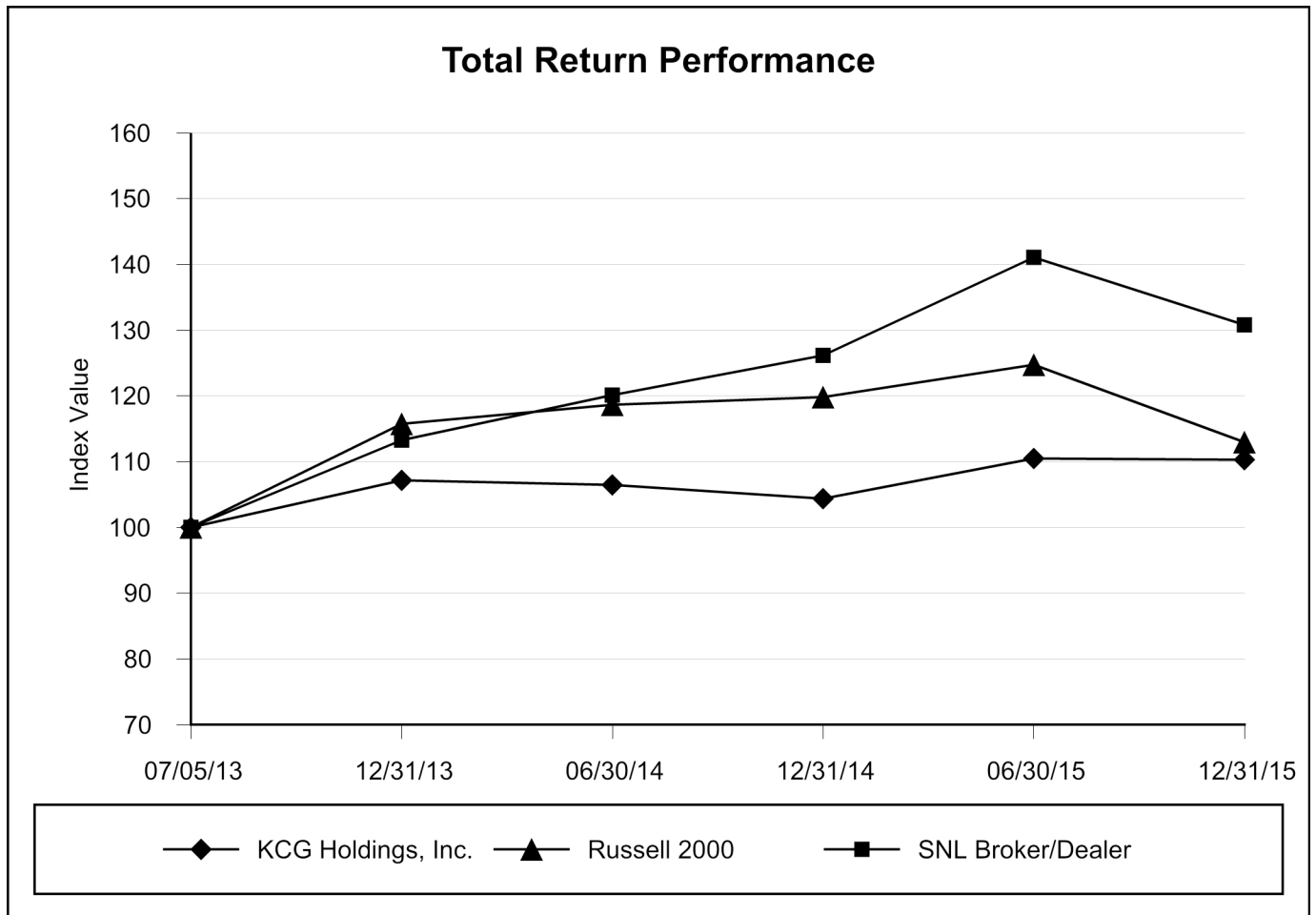
	<u>High</u>	<u>Low</u>
<u>2015</u>		
First Quarter	\$ 12.92	\$ 11.55
Second Quarter	13.63	12.24
Third Quarter	12.49	9.88
Fourth Quarter	12.98	11.24
<u>2014</u>		
First Quarter	\$ 12.49	\$ 10.91
Second Quarter	12.27	9.71
Third Quarter	12.09	10.10
Fourth Quarter	11.93	9.99

The closing sale price of our Class A Common Stock as reported by the NYSE on February 24, 2016, was \$10.43 per share. As of that date there were 126 holders of record of our Class A Common Stock based on information provided by our transfer agent. The number of stockholders does not reflect the actual number of individual or institutional stockholders that hold our stock because certain stock is held in the name of nominees. Based on information made available to us by our transfer agent, as of the same date there were 16,773 beneficial holders of our Class A Common Stock. Holders of restricted stock units are not included in the calculation of holders of record.

We have never declared or paid a cash dividend on our Class A Common Stock. The payment of cash dividends is within the discretion of our Board of Directors and will depend on many factors, including, but not limited to, our results of operations, financial condition, capital and liquidity requirements and restrictions imposed by financing arrangements, as further described in the "Financial Condition, Liquidity and Capital Resources" section included in Part II, Item 7 "Management's Discussion and Analysis of Financial Condition and Results of Operation", and in Footnote 13, "Debt" to the Company's Consolidated Financial Statements included in Part II, Item 8 "Financial Statements and Supplementary Data".

Comparative Stock Performance Graph

The graph below compares the total cumulative return of the KCG Class A Common Stock from July 5, 2013 (the day KCG commenced regular-way trading on the NYSE) through December 31, 2015, to the Russell 2000 Index and the SNL Broker/Dealer Index. The graph assumes that dividends were reinvested and is based on an investment of \$100 on July 5, 2013.



<i>Index</i>	<i>Period Ending</i>					
	07/05/13	12/31/13	06/30/14	12/31/14	06/30/15	12/31/15
KCG Holdings, Inc.	100.00	107.17	106.45	104.39	110.48	110.30
Russell 2000	100.00	115.74	118.66	119.82	124.72	112.98
SNL Broker/Dealer	100.00	113.26	120.12	126.17	141.08	130.82

The following table contains information about our purchases of KCG Class A Common Stock during the fourth quarter of 2015 (in thousands, except average price paid per share):

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs ⁽¹⁾	Approximate Dollar Value of Shares That May Yet Be Purchased Under the Plans or Programs ⁽³⁾
October 1, 2015 - October 31, 2015				
Common stock repurchases	—		—	\$ 57,790
Employee transactions ⁽²⁾	12		—	
Total	12	\$ 11.06	—	
November 1, 2015 - November 30, 2015				
Common stock repurchases	2,285		2,285	\$ 23,906
Employee transactions ⁽²⁾	4		—	
Total	2,289	\$ 12.89	2,285	
December 1, 2015 - December 31, 2015				
Common stock repurchases	—		—	\$ 23,906
Employee transactions ⁽²⁾	26		—	
Total	26	\$ 12.44	—	
Total				
Common stock repurchases	2,285		2,285	\$ 23,906
Employee transactions ⁽²⁾	41		—	
Total	2,326	\$ 12.87	2,285	

Totals may not add due to rounding.

⁽¹⁾ During the second quarter of 2014, our Board of Directors approved an initial program to repurchase up to a total of \$150.0 million in shares of our outstanding KCG Class A Common Stock and Warrants. In April 2015, our Board of Directors authorized an expanded share repurchase program of up to \$400.0 million of our Class A Common Stock and Warrants (including the \$55.0 million of remaining capacity under the previously authorized repurchase program). We may repurchase shares from time to time in open market transactions, accelerated stock buyback programs, tender offers, privately negotiated transactions or by other means. Repurchases may also be made under Rule 10b5-1 plans. The timing and amount of repurchase transactions will be determined by our management based on its evaluation of market conditions, share price, legal requirements and other factors. The program may be suspended, modified or discontinued at any time without prior notice. We caution that there are no assurances that any further repurchases will actually occur. During the fourth quarter of 2015, the Company purchased approximately 1.9 million shares of KCG Class A Common Stock from Serenity for \$12.89 per share, the closing stock price of the KCG Class A Common Stock on that date. Stephen Schuler, a director of the Company, and his wife separately hold equity interests that together represent a controlling interest in Serenity. See Footnote 4 "Tender Offer and Stock Repurchase" and Footnote 14 "Related Parties" included in Part II, Item 8. "Financial Statements and Supplementary Data" of this Form 10-K for further information.

⁽²⁾ Represents shares of the Company's Class A Common Stock withheld in satisfaction of tax withholding obligations upon vesting of employee restricted equity awards.

⁽³⁾ In November 2015, the Company repurchased 2.6 million KCG Warrants for \$4.4 million under the share repurchase program authorized by our Board of Directors. As of December 31, 2015, approximately \$23.9 million in authority remained under the share repurchase program authorized by our Board of Directors in April 2015. See Footnote 4 "Tender Offer and Stock Repurchase" and Footnote 14 "Related Parties" included in Part II, Item 8. "Financial Statements and Supplementary Data" of this Form 10-K for further information.

Equity Compensation Plan Information

The following table sets forth certain information as of December 31, 2015, regarding the Company's equity compensation plans for stock-based awards.

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted-average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))
	(In thousands, except weighted-average exercise price)		
	(a)	(b)	(c)
Equity compensation plans approved by security holders	4,371	\$ 17.36	16,347
Equity compensation plans not approved by security holders	—	—	—
Total	4,371	\$ 17.36	16,347

Item 6. Selected Financial Data

The following should be read in conjunction with the Consolidated Financial Statements and the discussion under “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations” included elsewhere in this document. The Consolidated Statements of Operations Data for 2015, 2014 and 2013 and the Consolidated Statements of Financial Condition Data at December 31, 2015 and 2014 have been derived from our audited Consolidated Financial Statements included elsewhere in this document. The Consolidated Statements of Operations Data for 2012 and 2011 and the Consolidated Statements of Financial Condition Data at December 31, 2013, 2012 and 2011 are derived from Consolidated Financial Statements not included in this document.

	For the year ended December 31,				
	2015	2014	2013	2012	2011
Consolidated Statements of Operations Data:	(In thousands, except per share amounts)				
Revenues					
Trading revenues, net	\$ 803,181	\$ 837,357	\$ 628,304	\$ 421,063	\$ 611,845
Commissions and fees	376,673	437,022	275,474	105,518	284,620
Interest, net	(2,128)	621	(537)	(2,357)	(1,211)
Investment income and other, net	421,384	41,232	124,095	27,010	20,194
Total revenues	1,599,110	1,316,232	1,027,336	551,234	915,448
Expenses					
Employee compensation and benefits	405,609	437,269	349,192	157,855	241,753
Execution and clearance fees	265,186	305,177	246,414	185,790	289,025
Communications and data processing	139,263	150,595	123,552	90,623	87,116
Depreciation and amortization	90,231	81,448	55,570	34,938	45,675
Payments for order flow	61,741	70,183	35,711	2,964	3,299
Debt interest expense	36,755	32,456	34,938	2,665	1,299
Collateralized financing interest	34,678	27,860	9,847	—	—
Occupancy and equipment rentals	30,128	32,707	24,812	12,804	9,903
Professional fees	27,055	25,596	46,662	14,072	17,142
Business development	8,479	9,763	4,609	23	108
Debt extinguishment charges	25,006	9,552	13,209	—	—
Writedown of assets and other real estate related charges	56,642	8,625	14,748	—	—
Other	38,375	39,814	43,094	23,073	26,587
Total expenses	1,219,148	1,231,045	1,002,358	524,807	721,907
Income from continuing operations before income taxes	379,962	85,187	24,978	26,427	193,541
Income tax expense (benefit)	130,858	22,753	(101,114)	10,276	30,841
Income from continuing operations, net of tax	249,104	62,434	126,092	16,151	162,700
(Loss) income from discontinued operations, net of tax	—	(1,332)	80	—	—
Net income	\$ 249,104	\$ 61,102	\$ 126,172	\$ 16,151	\$ 162,700
Net (loss) income allocated to preferred and participating units	\$ —	\$ —	\$ (21,565)	\$ 1,092	\$ 12,510
Net income attributable to common shareholders	\$ 249,104	\$ 61,102	\$ 147,737	\$ 15,059	\$ 150,190
Basic earnings per common share from continuing operations	\$ 2.48	\$ 0.55	\$ 1.84	\$ 0.31	\$ 2.96
Diluted earnings per common share from continuing operations	\$ 2.42	\$ 0.54	\$ 1.82	\$ 0.31	\$ 2.96
Basic loss per common share from discontinued operations	\$ —	\$ (0.01)	\$ —	\$ —	\$ —
Diluted loss per common share from discontinued operations	\$ —	\$ (0.01)	\$ —	\$ —	\$ —
Basic earnings per common share	\$ 2.48	\$ 0.54	\$ 1.84	\$ 0.31	\$ 2.96
Diluted earnings per common share	\$ 2.42	\$ 0.52	\$ 1.82	\$ 0.31	\$ 2.96
Shares used in computation of basic earnings (loss) per common share	100,437	112,854	80,143	48,970	50,688
Shares used in computation of diluted earnings (loss) per common share	102,922	116,534	81,015	48,970	50,688

	December 31,				
	2015	2014	2013	2012	2011
	(In thousands)				
Consolidated Statements of Financial Condition Data:					
Cash and cash equivalents	\$ 581,313	\$ 578,768	\$ 674,281	\$ 427,631	\$ 607,689
Financial instruments owned, at fair value	2,444,400	2,707,371	2,721,839	654,875	240,338
Total assets	6,051,178	6,830,654	6,997,004	1,687,536	1,302,023
Financial instruments sold, not yet purchased, at fair value	2,113,404	2,285,707	2,165,500	512,553	140,530
Debt	495,632	422,259	657,259	15,000	15,000
Redeemable preferred member's equity	—	—	—	311,139	314,440
Equity	1,444,098	1,522,577	1,509,537	654,672	622,996

Item 7. *Management's Discussion and Analysis of Financial Condition and Results of Operations*

Explanatory Note

On July 1, 2013, Knight Capital Group, Inc. ("Knight"), through a series of transactions (the "Mergers"), merged with GETCO Holding Company, LLC ("GETCO") to form KCG Holdings, Inc. ("KCG"). The Mergers were consummated pursuant to the Amended and Restated Agreement and Plan of Merger, dated as of December 19, 2012 and amended and restated as of April 15, 2013 (the "Merger Agreement"). Following the Mergers, each of Knight and GETCO became a wholly-owned subsidiary of KCG.

All references herein to the "Company", "we", "our" or "KCG" relate solely to KCG and not Knight or GETCO. All references to GETCO relate solely to GETCO Holding Company, LLC and not KCG.

The Mergers were treated as a purchase of Knight by GETCO for accounting and financial reporting purposes. As a result, the financial results for the year ended December 31, 2013 comprise six months of results of KCG plus six months of GETCO and the financial results for the years ended December 31, 2014 and 2015 comprise the results of KCG.

All GETCO earnings per share and unit share outstanding amounts in this Annual Report on Form 10-K have been calculated as if the conversion of GETCO units to KCG Class A Common Stock took place on January 1, 2013, at the exchange ratio, as defined in the Merger Agreement.

On January 29, 2016, we issued a press release announcing our preliminary financial results for the fourth quarter and full year ended December 31, 2015. In the press release, we reported net income (loss) of \$(4.6) million and \$247.5 million for the three months and year ended December, 31, 2015, respectively. Those preliminary results reflected our estimate of the value of businesses held for sale and were also based upon our preliminary estimate of Other income. Since the issuance of that press release and prior to the filing date of this Form 10-K, information became available that allowed us to make a final determination of the value of one of our businesses held for sale and of our Other income. This final determination resulted in an adjustment to preliminary results of approximately \$1.6 million, increasing our Other income, reducing our Writedowns of assets and other real estate related charges, and affecting our Income tax expense (benefit) by the income tax effects of these adjustments from the estimate reflected in our January 29, 2016 press release.

The following table presents a reconciliation of the preliminary net income (loss) and net income (loss) per share announced in our press release on January 29, 2016 to the final results reported in this Form 10-K:

	Three Months Ended December 31, 2015	Year Ended December 31, 2015
	(in thousands, except for per share data)	
Net income (loss) announced on January 29, 2016	\$ (4,596)	\$ 247,480
Adjustments, net of tax:		
Fair value of businesses held for sale	772	772
Other income	853	853
Net income (loss) reported in Form 10-K	<u>\$ (2,971)</u>	<u>\$ 249,104</u>
Net income (loss) per share:		
Basic - announced on January 29, 2016	\$ (0.05)	\$ 2.46
Basic - reported in Form 10-K	\$ (0.03)	\$ 2.48
Diluted - announced on January 29, 2016	\$ (0.05)	\$ 2.40
Diluted - reported in Form 10-K	\$ (0.03)	\$ 2.42

Totals may not add due to rounding.

Cautionary Statement Regarding Forward-Looking Information

Certain statements contained in this Annual Report on Form 10-K, including without limitation, those under “Legal Proceedings” in Part I, Item 3, “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in Part II, Item 7 (“MD&A”), and “Quantitative and Qualitative Disclosures About Market Risk” in Part II, Item 7A, the documents incorporated by reference herein and statements containing the words “believes,” “intends,” “expects,” “anticipates,” and words of similar meaning, may constitute forward-looking statements as defined in the Private Securities Litigation Reform Act of 1995. These “forward-looking statements” are not historical facts and are based on current expectations, estimates and projections about KCG’s industry, management’s beliefs and certain assumptions made by management, many of which, by their nature, are inherently uncertain and beyond our control. Any forward-looking statement contained herein speaks only as of the date on which it is made. Accordingly, readers are cautioned that any such forward-looking statements are not guarantees of future performance and are subject to certain risks, uncertainties and assumptions that are difficult to predict including, without limitation, risks associated with: (i) the inability to manage trading strategy performance and sustain revenue and earnings growth; (ii) the sale of KCG Hotspot, including the receipt of additional payments that are subject to certain contingencies; (iii) changes in market structure, legislative, regulatory or financial reporting rules, including the increased focus by Congress, federal and state regulators, the self regulatory organizations (“SROs”) and the media on market structure issues, and in particular, the scrutiny of high frequency trading, alternative trading systems, market fragmentation, colocation, access to market data feeds, and remuneration arrangements such as payment for order flow and exchange fee structures; (iv) past or future changes to KCG’s organizational structure and management; (v) KCG’s ability to develop competitive new products and services in a timely manner and the acceptance of such products and services by KCG’s customers and potential customers; (vi) KCG’s ability to keep up with technological changes; (vii) KCG’s ability to effectively identify and manage market risk, operational and technology risk, cybersecurity risk, legal risk, liquidity risk, reputational risk, counterparty and credit risk, international risk, regulatory risk, and compliance risk; (viii) the cost and other effects of material contingencies, including litigation contingencies, and any adverse judicial, administrative or arbitral rulings or proceedings; (ix) the effects of increased competition and KCG’s ability to maintain and expand market share; (x) the announced plan to relocate KCG’s global headquarters from Jersey City, NJ to New York, NY; and (xi) KCG’s ability to complete the sale or disposition of any or all of the assets or businesses that are classified as held for sale. The list above is not exhaustive. Because forward looking statements involve risks and uncertainties, the actual results and performance of KCG may materially differ from the results expressed or implied by such statements. Given these uncertainties, readers are cautioned not to place undue reliance on such forward-looking statements. Unless otherwise required by law, KCG also disclaims any obligation to update its view of any such risks or uncertainties or to announce publicly the result of any revisions to the forward-looking statements made herein. Readers should carefully review the risks and uncertainties disclosed in KCG’s reports with the U.S. Securities and Exchange Commission (“SEC”), including those detailed under “Certain Factors Affecting Results of Operations” in the MD&A and in “Risk Factors” in Part I, Item 1A herein, and in other reports or documents KCG files with, or furnishes to, the SEC from time to time. This information should be read in conjunction with KCG’s Consolidated Financial Statements and the Notes thereto contained in this Form 10-K, and in other reports or documents KCG files with, or furnishes to, the SEC from time to time.

Executive Overview

We are a leading independent securities firm offering clients a range of services designed to address trading needs across asset classes, product types and time zones. We combine advanced technology with specialized client service across market making, agency execution and trading venues and also engage in principal trading via exchange-based electronic market making. We have multiple access points to trade global equities, options, futures, fixed income, currencies and commodities via voice or automated execution.

Results of Operations

As of December 31, 2015, our operating segments comprised the following:

- **Market Making**— Our Market Making segment principally consists of market making in the cash, futures and options markets across global equities, options, fixed income, currencies and commodities. As a market maker, we commit capital on a principal basis by offering to buy securities from, or sell securities to, broker dealers, banks and institutions. Principal trading in the Market Making segment primarily consists of direct-to-client and non-client exchange-based electronic market making, including trade executions conducted as an equities Designated Market Maker ("DMM") on the New York Stock Exchange ("NYSE") and NYSE Amex Equities ("NYSE Amex"). We are an active participant on all major global equity and futures exchanges and also trade on substantially all domestic electronic options exchanges. As a complement to electronic market making, our cash trading business handles specialized orders and also transacts on the OTC Bulletin Board marketplaces operated by the OTC Markets Group Inc. and the Alternative Investment Market of the London Stock Exchange ("AIM").
- **Global Execution Services**— Our Global Execution Services segment comprises agency execution services and trading venues, offering trading in global equities, options, futures and fixed income to institutions, banks and broker dealers. We generally earn commissions as an agent between principals for transactions; however, we will commit capital on behalf of clients as needed. Agency-based, execution-only trading in the segment is done primarily through a variety of access points including: (i) algorithmic trading and order routing in global equities and options; (ii) institutional sales traders executing program, block and riskless principal trades in global equities and exchange traded funds ("ETFs"); (iii) a fixed income electronic communication network ("ECN") that also offers trading applications; and (iv) an alternative trading system ("ATS") for global equities.
- **Corporate and Other**— Our Corporate and Other segment contains investments principally in strategic financial services-oriented opportunities; manages the deployment of capital across the organization; houses executive management functions; and maintains corporate overhead expenses and all other income and expenses that are not attributable to our other segments. Our Corporate and Other segment also contains functions that support the Company's other segments such as self-clearing services, including stock lending activities.

Management from time to time conducts a strategic review of our businesses and evaluates their potential value in the marketplace relative to their current and expected returns. To the extent management and our Board of Directors determine a business may return a higher value to stockholders, or is no longer core to our strategy, the Company may divest or exit such business.

In November 2013, we sold Urban Financial of America, LLC, ("Urban"), the reverse mortgage origination and securitization business that was previously owned by Knight to an investor group.

In November 2014, we sold certain assets and liabilities related to our former Futures Commission Merchant ("FCM") business to Wedbush Securities Inc.

In March 2015, we completed the sale of KCG Hotspot to BATS Global Markets, Inc. ("BATS") and recorded a gain on sale of \$385.0 million or \$373.8 million net of direct costs associated with the sale which comprised professional fees of \$6.7 million and compensation of \$4.5 million.

On February 4, 2016, we entered into an asset purchase agreement with Citadel Securities LLC ("Citadel"), pursuant to which we agreed to sell our NYSE DMM business to Citadel. The transaction is expected to close during the second quarter of 2016. See "Subsequent Events" included later in this section for further details.

The results of the businesses and gains on sale of the FCM and KCG Hotspot are included in the Global Execution Services segment and continuing operations, up through the dates of their respective sales. For additional information, see Footnote 5 "Discontinued Operations, Assets and Liabilities of Businesses Held for Sale" to the Company's Consolidated Financial Statements included in Part II, Item 8 "Financial Statements and Supplementary Data" herein.

During the fourth quarter of 2015, management conducted a strategic review of its businesses and evaluated their potential value in the marketplace relative to their current and expected returns. As a result of such a review, KCG determined that certain of its businesses, including its NYSE DMM business, are no longer considered core to its strategy, and KCG began seeking opportunities to exit or divest of these businesses. KCG believes that this current

course of action does not represent a strategic shift that will have a major effect on its operations and financial results, but does meet the requirements to be considered held-for-sale at December 31, 2015. As part of this review, KCG determined that the carrying value of certain assets that are considered held for sale exceeded their fair value, and, as a result, recorded a charge in the Consolidated Statement of Operations for the year ending December 31, 2015 totaling \$15.0 million as it relates to such held-for-sale businesses. The fair value of such assets, of \$26.0 million, are included within assets of businesses held-for-sale on the December 31, 2015 Consolidated Statement of Financial Condition. See Footnote 5 "Discontinued Operations, Assets and Liabilities of Businesses Held for Sale" and Footnote 27 "Subsequent Events" to the Company's Consolidated Financial Statements included in Part II, Item 8 "Financial Statements and Supplementary Data" for further details.

The following table sets forth: (i) Revenues, (ii) Expenses and (iii) Pre-tax earnings (loss) from continuing operations of our segments and on a consolidated basis (in thousands):

	For the year ended December 31,		
	2015	2014	2013
Market Making			
Revenues	\$ 884,858	\$ 901,152	\$ 688,197
Expenses	760,830	754,439	584,585
Pre-tax earnings	124,028	146,713	103,612
Global Execution Services			
Revenues	667,723	345,710	197,765
Expenses	298,766	334,654	223,559
Pre-tax earnings (loss)	368,957	11,056	(25,794)
Corporate and Other			
Revenues	46,529	69,369	141,374
Expenses	159,552	141,951	194,216
Pre-tax loss	(113,023)	(72,582)	(52,842)
Consolidated			
Revenues	1,599,110	1,316,232	1,027,336
Expenses	1,219,148	1,231,045	1,002,358
Pre-tax earnings	\$ 379,962	\$ 85,187	\$ 24,978

Totals may not add due to rounding.

For additional details regarding our segments, see Footnote 25 "Business Segments" included in Part II, Item 8 "Financial Statements and Supplementary Data" herein.

Reconciliation of GAAP Revenues and Pre-Tax Earnings to Non-GAAP Revenues and Pre-Tax Earnings

We believe that certain non-GAAP financial presentations, when taken into consideration with the corresponding GAAP financial presentations, are important in understanding our operating results. The non-GAAP adjustments incorporate certain charges which we believe are unrelated to our core operations.

We believe the presentation of results excluding these adjustments provides meaningful information to stockholders and investors as they provide a useful summary of our results of operations for the years ended December 31, 2015, 2014 and 2013.

The following tables provide a full reconciliation of GAAP to non-GAAP revenues ("Adjusted revenues") and pre-tax results from continuing operations ("Adjusted pre-tax earnings") for the years ended December 31, 2015, 2014 and 2013 (in thousands):

Year ended December 31, 2015	Market Making	Global Execution Services	Corporate and Other	Consolidated
Reconciliation of GAAP Revenues to Non-GAAP Revenues:				
GAAP Revenues	\$ 884,858	\$ 667,723	\$ 46,529	\$ 1,599,110
Gain on sale of KCG Hotspot	—	(385,026)	—	(385,026)
Gain on sales of investments	—	—	(19,751)	(19,751)
Writedowns of investments	—	—	3,224	3,224
Adjusted revenues	\$ 884,858	\$ 282,697	\$ 30,002	\$ 1,197,557

Year ended December 31, 2015	Market Making	Global Execution Services	Corporate and Other	Consolidated
Reconciliation of GAAP Pre-Tax to Non-GAAP Pre-Tax:				
GAAP Income (loss) from continuing operations before income taxes	\$ 124,028	\$ 368,957	\$ (113,023)	\$ 379,962
Gain on sale of KCG Hotspot	—	(385,026)	—	(385,026)
Gain on sales of investments	—	—	(19,751)	(19,751)
Writedowns of investments	—	—	3,224	3,224
Other real estate related charges	—	—	35,284	35,284
Accelerated stock-based compensation	19,844	8,202	803	28,849
Writedown of goodwill and intangible assets	14,016	907	1,014	15,937
Debt make-whole premium	—	—	16,500	16,500
Writedown of capitalized debt costs	—	—	8,506	8,506
Professional fees related to the sale of KCG Hotspot	—	6,736	—	6,736
Writedown of assets	4,595	—	825	5,420
Compensation expense related to the sale of KCG Hotspot	—	4,457	—	4,457
Adjusted pre-tax earnings	\$ 162,483	\$ 4,233	\$ (66,618)	\$ 100,098

Year ended December 31, 2014	Market Making	Global Execution Services	Corporate and Other	Consolidated
Reconciliation of GAAP Revenues to Non-GAAP Revenues:				
GAAP Revenues	\$ 901,152	\$ 345,710	\$ 69,369	\$ 1,316,232
Net gain related to tradeMONSTER combination with OptionsHouse	—	—	(15,105)	(15,105)
Income resulting from the merger of BATS and Direct Edge, net	—	—	(9,644)	(9,644)
Gain on sale of FCM	—	(2,116)	—	(2,116)
Adjusted revenues	\$ 901,152	\$ 343,594	\$ 44,620	\$ 1,289,367

Year ended December 31, 2014	Market Making	Global Execution Services	Corporate and Other	Consolidated
Reconciliation of GAAP Pre-Tax to Non-GAAP Pre-Tax:				
GAAP Income (loss) from continuing operations before income taxes	\$ 146,713	\$ 11,056	\$ (72,582)	\$ 85,187
Net gain related to tradeMONSTER combination with OptionsHouse	—	—	(15,105)	(15,105)
Income resulting from the merger of BATS and Direct Edge, net	—	—	(9,644)	(9,644)
Gain on sale of FCM	—	(2,116)	—	(2,116)
Compensation related to reduction in workforce and other employee separations	3,169	5,463	4,958	13,590
Writedown of capitalized debt costs	—	—	9,552	9,552
Writedown of assets and lease loss accrual, net	811	—	7,814	8,625
Adjusted pre-tax earnings	\$ 150,693	\$ 14,403	\$ (75,007)	\$ 90,089

Year ended December 31, 2013	Market Making	Global Execution Services	Corporate and Other	Consolidated
Reconciliation of GAAP Revenues to Non-GAAP Revenues:				
GAAP Revenues	\$ 688,197	\$ 197,765	\$ 141,374	\$ 1,027,336
Gain on investment in Knight Capital Group, Inc.	—	—	(127,972)	(127,972)
Strategic asset impairment	—	—	7,825	7,825
Adjusted revenues	\$ 688,197	\$ 197,765	\$ 21,227	\$ 907,189

Year ended December 31, 2013	Market Making	Global Execution Services	Corporate and Other	Consolidated
Reconciliation of GAAP Pre-Tax to Non-GAAP Pre-Tax:				
GAAP Income (loss) from continuing operations before income taxes	\$ 103,612	\$ (25,794)	\$ (52,842)	\$ 24,978
Gain on investment in Knight Capital Group, Inc.	—	—	(127,972)	(127,972)
Professional and other fees related to Mergers and Knight's August 1st, 2012 technology issue	—	—	47,183	47,183
Writedown of capitalized debt costs	—	—	13,209	13,209
Compensation and other expenses related to reduction in workforce	11,518	21,444	708	33,670
Unit based compensation acceleration due to Mergers	—	—	22,031	22,031
Strategic asset impairment	—	—	7,825	7,825
Writedown of assets and lease loss accrual, net	108	1,681	13,344	15,133
Adjusted pre-tax earnings	\$ 115,238	\$ (2,669)	\$ (76,514)	\$ 36,057

The following tables provide a full reconciliation of GAAP non transactional based expenses to non-GAAP non-transactional based expenses for the years ended December 31, 2015, 2014 and 2013 (in thousands):

Year ended December 31, 2015	GAAP	Adjustments for non-GAAP presentation	Non-GAAP expenses
Reconciliation of GAAP non-transactional based expenses to Non-GAAP non-transactional based expenses*			
Employee compensation and benefits	\$ 405,609	\$ 33,306	\$ 372,303
Communications and data processing	139,263	—	139,263
Depreciation and amortization	90,231	—	90,231
Debt interest expense	36,755	—	36,755
Occupancy and equipment rentals	30,128	—	30,128
Professional fees	27,055	6,736	20,319
Business development	8,479	—	8,479
Debt extinguishment charges	25,006	25,006	—
Writedown of assets and other real estate related charges	56,642	56,642	—
Other	38,375	—	38,375
Total	\$ 857,543	\$ 121,690	\$ 735,853

* Non-transactional based expenses refers to all expenses except Execution and clearance fees, Payments for order flow and Collateralized financing interest.

Year ended December 31, 2014	GAAP	Adjustments for non-GAAP presentation	Non-GAAP expenses
Reconciliation of GAAP non-transactional based expenses to Non-GAAP non-transactional based expenses*			
Employee compensation and benefits	\$ 437,269	\$ 13,590	\$ 423,679
Communications and data processing	150,595	—	150,595
Depreciation and amortization	81,448	—	81,448
Debt interest expense	32,456	—	32,456
Occupancy and equipment rentals	32,707	—	32,707
Professional fees	25,596	—	25,596
Business development	9,763	—	9,763
Debt extinguishment charges	9,552	9,552	—
Writedown of assets and other real estate related charges	8,625	8,625	—
Other	39,814	—	39,814
Total	\$ 827,825	\$ 31,767	\$ 796,058

* Non-transactional based expenses refers to all expenses except Execution and clearance fees, Payments for order flow and Collateralized financing interest.

Year ended December 31, 2013	GAAP	Adjustments for non-GAAP presentation	Non-GAAP expenses
Reconciliation of GAAP non-transactional based expenses to Non-GAAP non-transactional based expenses*			
Employee compensation and benefits	\$ 349,192	\$ 55,701	\$ 293,491
Communications and data processing	123,552	—	123,552
Depreciation and amortization	55,570	—	55,570
Debt interest expense	34,938	2,963	31,975
Occupancy and equipment rentals	24,812	—	24,812
Professional fees	46,662	34,213	12,449
Business development	4,609	—	4,609
Debt extinguishment charges	13,209	13,209	—
Writedown of assets and other real estate related charges	14,748	14,748	—
Other	43,094	10,392	32,702
Total	\$ 710,386	\$ 131,226	\$ 579,160

* Non-transactional based expenses refers to all expenses except Execution and clearance fees, Payments for order flow and Collateralized financing interest.

Consolidated revenues for 2015 were \$1.60 billion, which represented an increase of \$282.9 million from \$1.32 billion in 2014. Consolidated adjusted pre-tax earnings for 2015 were \$100.1 million as compared to \$90.1 million in 2014.

The Company's net revenues, which we define as Adjusted revenues, less execution and clearance fees, payments for order flow, and collateralized financing interest ("Net revenues") were \$836.0 million for 2015, compared to \$886.1 million for 2014. Net revenues is a non-GAAP measure that we use to measure our performance as well as to make certain strategic decisions.

The following tables provide a full reconciliation of total revenues to Net revenues for the years ended December 31, 2015, 2014 and 2013 (in thousands):

	For the year ended December 31,		
	2015	2014	2013
Reconciliation of total revenues to net revenues:			
Total revenues per Consolidated Statements of Operations	\$ 1,599,110	\$ 1,316,232	\$ 1,027,336
Less:			
Execution and clearance fees	265,186	305,177	246,414
Payments for order flow	61,741	70,183	35,711
Collateralized financing interest	34,678	27,860	9,847
Gain on sale of KCG Hotspot	385,026	—	—
Gain on sales of investments	19,751	—	—
Writedowns of investments	(3,224)	—	—
Net gain related to tradeMONSTER combination with OptionsHouse	—	15,105	—
Income resulting from the merger of BATS and Direct Edge, net	—	9,644	—
Gain on sale of FCM	—	2,116	—
Gain on investment in Knight Capital Group, Inc.	—	—	127,972
Strategic asset impairment	—	—	(7,825)
Net revenues	\$ 835,952	\$ 886,147	\$ 615,217

Adjusted pre-tax earnings for 2015 exclude non-GAAP adjustments totaling a net benefit of \$279.9 million. These non-GAAP adjustments primarily comprise:

- (i) Items related to our sale of KCG Hotspot, which was sold to BATS in the first quarter of 2015
- (ii) Activity related to our investments comprising gains on sales and writedowns
- (iii) Accelerated stock-based compensation as a result of an amendment to vesting provisions made to prior years' bonus-related annual equity awards
- (iv) Charges related to the early retirement of debt including a contractual make-whole premium and writedown of capitalized debt costs
- (v) Other real estate related charges including lease losses for our Jersey City and New York City offices and accelerated amortization of leasehold improvements for related to abandoned space in our Jersey City and Chicago offices

Adjusted pre-tax earnings for 2014 exclude non-GAAP adjustments totaling a net benefit of \$4.9 million. These non-GAAP adjustments primarily comprise:

- (i) Net gains related to tradeMONSTER's combination with OptionsHouse
- (ii) BATS and Direct Edge Holdings LLC ("Direct Edge") merger
- (iii) Sale of our FCM business
- (iv) Compensation related to reductions in workforce and other employee separations
- (v) Writedown of capitalized debt costs and writedown of assets and lease loss accruals

A detailed breakdown of these items can be found in the Reconciliation of GAAP pre-tax to Non-GAAP pre-tax earnings tables above.

Consolidated Adjusted revenues for 2015 of \$1.20 billion decreased \$91.8 million from \$1.29 billion in 2014. The decrease is due to the sale of KCG Hotspot and our FCM businesses as well as lower trading revenues within our

Market Making segment.

The changes in our Adjusted pre-tax earnings by segment from 2014 are summarized as follows:

- **Market Making**— Our Adjusted pre-tax earnings from Market Making for 2015 were \$162.5 million, compared to adjusted pre-tax earnings of \$150.7 million for 2014. Results for 2015 were aided, primarily, by lower expenses offset, in part, by higher competition which negatively impacted revenues.
- **Global Execution Services**— Our Adjusted pre-tax earnings from Global Execution Services for 2015 were \$4.2 million, compared to adjusted pre-tax earnings of \$14.4 million in 2014. The results were affected by lower earnings as a result of the sale of KCG Hotspot, as its results were included for all of 2014 but only through the date of sale in the first quarter of 2015 and the sale of our FCM business in the fourth quarter of 2014 offset, in part, by improved results in our algorithmic trading and ETF businesses, which aided 2015 results.
- **Corporate and Other**— Our Adjusted pre-tax earnings from our Corporate and Other segment was a loss of \$66.6 million for 2015 compared to a loss of \$75.0 million in 2014.

Writedown of assets and other real estate related charges

In the second quarter of 2015, we adopted a plan to consolidate our metro New York City area real estate, which currently comprises our Jersey City, NJ and New York, NY locations, through a relocation of our corporate headquarters to lower Manhattan in late 2016. As a result of this plan, we expect to abandon the majority of our Jersey City, NJ location on a staggered basis through the end of 2016 and expect to abandon our current New York, NY location by the end of 2016.

Upon adopting the relocation plan, we prospectively shortened the remaining useful lives of the leasehold improvements and other fixed assets associated with these locations to reflect the projected abandonment dates. We are recording approximately \$5.0 million per quarter of incremental depreciation and amortization which began in the third quarter of 2015 and will run through the end of 2016 as a result of shortening the remaining useful lives.

As a result of the planned relocation of our new corporate headquarters, we expect to incur additional occupancy expenses of approximately \$1.6 million per quarter in 2016.

Additionally, we have completed the consolidation of our offices in Chicago and abandoned a portion of such premises in the third quarter of 2015.

See Footnote 19 "Writedowns and Other Charges" included in Part II, Item 8. "Financial Statements and Supplementary Data" of this Form 10-K for a description of real estate related charges in 2015.

Certain Factors Affecting Results of Operations

We may experience significant variation in our future results of operations. Fluctuations in our future performance may result from numerous factors, including, among other things, global financial market conditions and the resulting competitive, credit and counterparty risks; cyclicity, seasonality and other economic conditions; the value of our securities positions and other financial instruments and our ability to manage the risks attendant thereto; the volume, notional dollar value traded and volatility levels within the core markets where our market making and trade execution businesses operate; the composition, profile and scope of our relationships with institutional and broker dealer clients; the performance, size and volatility of our direct-to-client market making portfolios; the performance, size and volatility of our non-client exchange-based trading activities; the overall size of our balance sheet and capital usage; impairment of goodwill and/or intangible assets; the performance of our global operations, trading technology and technology infrastructure; the effectiveness of our self-clearing and futures platforms and our ability to manage risks related thereto; the availability of credit and liquidity in the marketplace; our ability to prevent erroneous trade orders from being submitted due to technology or other issues (such as the events that affected Knight on August 1, 2012) and avoiding the consequences thereof; the performance, operation and connectivity to various market centers; our ability to manage personnel, compensation, overhead and other expenses, including our occupancy expenses under our office leases (and related expenses in connection with the planned relocation of our headquarters) and expenses and charges relating to legal and regulatory proceedings; the strength of our client relationships; changes in payments for order flow; changes to execution quality and changes in clearing, execution and regulatory transaction costs; interest rate movements; the addition or loss of executive management, sales, trading and technology professionals; geopolitical, legislative, legal, regulatory and financial reporting changes specific to financial services and global trading; legal or

regulatory matters and proceedings; the amount, timing and cost of business divestitures/acquisitions or capital expenditures; the integration, performance and operation of acquired businesses; the incurrence of costs associated with acquisitions and dispositions; actions taken relating to our strategic investments; investor sentiment; the effectiveness of the measures we take to mitigate the risks of cyber threats; and technological changes and events.

Such factors may also have an impact on our ability to achieve our strategic objectives, including, without limitation, increases in market share, growth and profitability in the businesses in which we operate. If demand for our services declines or our performance deteriorates significantly due to any of the above factors, and we are unable to adjust our cost structure on a timely basis, our operating results could be materially and adversely affected. As a result of the foregoing factors, period-to-period comparisons of our revenues and operating results are not necessarily meaningful and such comparisons cannot be relied upon as indicators of future performance. There also can be no assurance that we will be able to continue to achieve the level of revenues that we have experienced in the past or that we will be able to improve our operating results.

Trends Affecting Our Company

We believe that our businesses are affected by the aforementioned global economic trends as well as more specific trends. Some of the specific trends that impact our operations, financial condition and results of operations are:

- Clients continue to focus on statistics measuring the quality of their executions (including speed of execution and amount of price improvement). In an effort to improve the quality of their executions as well as increase efficiencies, market makers continue to increase the level of sophistication and automation within their operations and the extent of price improvement they provide to their clients. The continued focus on execution quality has resulted in greater price competition in the marketplace, which, along with market structure changes and market conditions, has negatively impacted the performance of our trading models and margin metrics and those of other market making firms.
- Market Making and Global Execution Services transaction volumes executed by clients have fluctuated over the past few years due to market conditions, retail and institutional investor sentiment and a variety of other factors. Market Making and Global Execution Services transaction volumes are not predictable and may not be sustainable.
- Over the past several years exchanges have become far more competitive, and market participants have created ATSS, ECNs and other execution venues which compete with the OTC and listed trading venues. Initiatives by these and other market participants could draw market share away from the Company, and thus negatively impact our business. In addition, while there is the possibility for consolidation among trading venues, there are many new entrants into the market, including ATS, Multilateral Trading Facilities, systematic internalizers, dark liquidity pools, high frequency trading firms and market making firms competing for retail and institutional order flow. Further, many broker dealers offer their own internal crossing networks. These factors continue to create further fragmentation and competition in the marketplace.
- Market structure changes, competition, market conditions and a steady increase in electronic trading have resulted in a reduction in institutional commission rates and volumes which may continue in the future. Additionally, many institutional clients allocate commissions to broker dealers based not only on the quality of executions, but also in exchange for research or participation in soft dollar and commission recapture programs.
- There continues to be growth in electronic trading, including direct market access platforms, algorithmic and program trading, high frequency trading ECNs, ATSS and dark liquidity pools. In addition, electronic trading continues to expand to other asset classes, including options, currencies and fixed income. The expansion of electronic trading may result in the growth of innovative electronic products and competition for order flow and may further reduce demand for traditional institutional voice services.
- Market structure changes, competition and technology advancements have led to an industry focus on increasing execution speeds and a dramatic increase in electronic message traffic. Increases in execution speeds and message traffic require additional expenditures for technology infrastructure and place heavy strains on the technology resources, bandwidth and capacities of market participants. Additionally, the expansion by market participants into trading of non-equities products offers similar challenges.

- There has been increased scrutiny of the capital markets industry by the regulatory and legislative authorities, both in the U.S. and abroad, which could result in increased regulatory costs in the future particularly as it relates to the trading of equities, fixed income, commodities, and currencies. As has been widely reported, there has been an increased focus by securities regulators, federal and state law enforcement agencies, Congress and the media on market structure issues, and, in particular, high frequency trading, best execution, ATS manner of operations, market fragmentation, public disclosures around order types and execution protocols, market structure complexity, colocation, access to market data feeds and remuneration arrangements such as payment for order flow and exchange fee structures. New legislation or new or modified regulations and rules could occur in the future. Members of the U.S. Congress continue to ask the SEC and other regulators to closely review the financial markets regulatory structure and make the changes necessary to insure the rule framework governing the U.S. financial markets is comprehensive and complete. The SEC and other regulators, both in the U.S. and abroad, have adopted and will continue to propose and adopt rules and take other policy actions where necessary, on a variety of marketplace issues – including, but not limited to: high frequency trading, market fragmentation and complexity, transaction taxes, off-exchange trading, dark liquidity pools, internalization, post-trade attribution, colocation, market access, short sales, consolidated audit trails, policies and procedures relating to technology controls and systems, optimal tick sizes, and market volatility rules.
- Unique instances of trading volatility impact our businesses. For example, on October 15, 2014, the market for U.S. Treasury securities, futures and other closely related financial markets experienced an unusually high level of volatility. More recently, on August 24, 2015, the securities markets experienced an unusually high level of volatility that contributed to the delayed opening of securities on primary exchanges, sharp price moves in the major indices and in ETFs, and frequent triggering of trading halts. Market structure changes that may ensue as a result of these events and their effect on the Company are difficult to forecast.
- There could be continued fluctuations, including possible substantial increases, in Section 31 fees and fees imposed by other regulators. In addition, clearing corporations are considering various proposals which could require substantial increases in clearing margin, liquidity and collateral requirements, and FTTs have been introduced in certain jurisdictions and may be introduced in others.
- The Dodd-Frank Act affects nearly all financial institutions that operate in the U.S. While the weight of the Dodd-Frank Act falls more heavily on large, complex financial institutions, smaller institutions will continue to face a more complicated and expensive regulatory framework.
- There has recently been an increased focus and increased sanction levels by regulators on broker-dealers' controls and surveillance for Anti-Money Laundering and sanctions compliance, as well as an enhanced interest on transactions involving microcap securities.

Income Statement Items

The following section briefly describes the key components of, and drivers to, our significant revenues and expenses.

Revenues

Our revenues consist principally of Trading revenues, net and Commissions and fees from all of our business segments.

Trading profits and losses on principal transactions primarily relate to our global market making activities and are included within Trading revenues, net. These revenues are primarily affected by trading volumes, including the number and dollar value of equities, fixed income, options, futures and FX trades; volatility in the marketplace; the performance of our direct-to-client and non-client trading models; our ability to derive trading gains by taking proprietary positions; changes in our execution standards and execution quality that we provide to customers; our market share; the mix of order flow from broker dealer and institutional clients; client service and relationships; and regulatory changes and evolving industry customs and practices.

Revenues on transactions for which we charge explicit commissions or commission equivalents, which include the majority of our institutional client orders and commissions on futures transactions, prior to the sale of our FCM, are included within Commissions and fees. Also included in Commissions and fees are volume based fees earned from providing liquidity to other trading venues. Commissions and fees are primarily affected by changes in our equity, fixed income, futures and, prior to the sale of KCG Hotspot, foreign exchange transaction volumes with institutional clients;

client relationships; changes in commission rates; client experience on the various platforms; level of volume based fees from providing liquidity to other trading venues; and the level of our soft dollar and commission recapture activity.

Interest, net is earned from our cash held at banks, cash held in trading accounts at third party clearing brokers and from collateralized financing arrangements, such as securities borrowing. The Company's third party clearing agreements call for payment or receipt of interest income, net of transaction-related interest charged by clearing brokers for facilitating the settlement and financing of securities transactions. Net interest is primarily affected by interest rates; the level of cash balances held at banks and third party clearing brokers including those held for customers; the level of our securities borrowing activity; our level of securities positions in which we are long compared to our securities positions in which we are short; and the extent of our collateralized financing arrangements.

Investment income and other, net primarily represents returns on our investments as well as gains on the sales of our businesses. Such income or loss is primarily affected by the performance and activity of our strategic investments and the effect of gains on the sale of businesses.

Expenses

Employee compensation and benefits expense primarily consists of salaries and wages paid to all employees; performance-based compensation, which includes compensation paid to sales personnel and incentive compensation paid to other employees based on individual performance and the performance of our business; employee benefits; and stock and unit-based compensation. Employee compensation and benefits expense fluctuates, for the most part, based on changes in our Net revenues and business mix, profitability and the number and mix of employees. Compensation for certain employees engaged in sales activities is determined primarily based on a percentage of their gross revenues net of certain transaction-based expenses.

Execution and clearance fees primarily represent fees paid to third party clearing brokers for clearing equities, options and fixed income transactions; transaction fees paid to Nasdaq and other exchanges, clearing organizations and regulatory bodies; and fees paid to third parties, primarily for executing, processing and settling trades on the NYSE, other exchanges, ECNs and other third party execution destinations. Execution and clearance fees primarily fluctuate based on changes in trade and share volume, execution strategies, rate of clearance fees charged by clearing brokers and rate of fees paid to ECNs, exchanges, other third party execution destinations and certain regulatory bodies.

Communications and data processing expense primarily consists of costs for obtaining market data, connectivity, telecommunications services, colocation and systems maintenance.

Depreciation and amortization expense results from the depreciation of fixed assets, which consist of computer hardware, furniture and fixtures, and the amortization of purchased software, capitalized software development costs, acquired intangible assets and leasehold improvements. We depreciate our fixed assets and amortize our intangible assets on a straight-line basis over their expected useful lives. We amortize leasehold improvements on a straight-line basis over the lesser of the life of the improvement or the remaining term of the lease.

Payments for order flow primarily represent payments to broker dealer clients, in the normal course of business, for directing to us their order flow in U.S. equities and options. Payments for order flow will fluctuate as we modify our rates and as our percentage of clients whose policy is not to accept payments for order flow varies. Payments for order flow also fluctuate based on U.S. equity share and option volumes, our profitability and the mix of market orders, limit orders, and customer mix.

Debt interest expense consists primarily of costs associated with our debt and capital lease obligations.

Collateralized financing interest consists primarily of costs associated with financing arrangements such as securities lending and sale of financial instruments under our agreements to repurchase.

Occupancy and equipment rentals consist primarily of rent and utilities related to leased premises and office equipment.

Professional fees consist primarily of legal, accounting, consulting, and other professional fees.

Business development consists primarily of costs related to sales and marketing, conferences and client relationship management.

Debt extinguishment charges represent make-whole premiums paid to note holders and the writedown of capitalized debt costs as a result of the early retirement of our debt.

Writedown of assets and other real estate related charges consist primarily of charges related to our operating leases and the acceleration of amortization and depreciation of leaseholds and fixed assets for office space that has or is soon to be abandoned. Also included here are charges for impairments of assets including goodwill, intangible and fixed assets.

Other expenses include regulatory fees, corporate insurance, employment fees, amortization of capitalized debt costs and general office expense.

Results of Operations

The following table sets forth the consolidated statements of operations data as a percentage of total revenues:

	For the year ended December 31,		
	2015	2014	2013
Revenues			
Trading revenues, net	50.2%	63.6%	61.2%
Commissions and fees	23.6%	33.2%	26.8%
Interest, net	-0.1%	0.0%	-0.1%
Investment income and other, net	26.4%	3.1%	12.1%
Total revenues	100.0%	100.0%	100.0%
Expenses			
Employee compensation and benefits	25.4%	33.2%	34.0%
Execution and clearance fees	16.6%	23.2%	24.0%
Communications and data processing	8.7%	11.4%	12.0%
Depreciation and amortization	5.6%	6.2%	5.4%
Payments for order flow	3.9%	5.3%	3.5%
Debt interest expense	2.3%	2.5%	3.4%
Collateralized financing interest	2.2%	2.1%	1.0%
Occupancy and equipment rentals	1.9%	2.5%	2.4%
Professional fees	1.7%	1.9%	4.5%
Business development	0.5%	0.7%	0.4%
Debt extinguishment charges	1.6%	0.7%	1.3%
Writedown of assets and other real estate related charges	3.5%	0.7%	1.4%
Other	2.4%	3.0%	4.2%
Total expenses	76.2%	93.5%	97.6%
Income from continuing operations before income taxes	23.8%	6.5%	2.4%
Income tax expense (benefit)	8.2%	1.7%	-9.8%
Income from continuing operations, net of tax	15.6%	4.7%	12.3%
Income (loss) from discontinued operations, net of tax	0.0%	-0.1%	0.0%
Net income	15.6%	4.6%	12.3%

* Percentages may not add due to rounding.

Year Ended December 31, 2015 and 2014

Revenues

Market Making

	For the year ended December 31,			
	2015	2014	Change	% of Change
Trading revenues, net (thousands)	\$ 767,951	\$ 809,371	\$ (41,420)	(5.1)%
Commissions and fees (thousands)	122,516	117,058	5,458	4.7 %
Interest, net and other (thousands)	(5,609)	(25,277)	19,669	N/M
Total revenues from Market Making (thousands)	\$ 884,858	\$ 901,152	(16,294)	(1.8)%
U.S. equity Market Making statistics:				
Average daily dollar volume traded (\$ millions)	29,814	27,197	2,617	9.6 %
Average daily trades (thousands)	3,797	3,732	65	1.7 %
Average daily NYSE and Nasdaq shares traded (millions)	931	820	111	13.5 %
Average daily OTC Bulletin Board and OTC Market shares traded (millions)	4,156	8,317	(4,161)	(50.0)%
Average revenue capture per U.S. equity dollar value traded (bps)	0.95	1.00	(0.05)	(5.0)%

Totals may not add due to rounding.

N/M - Not meaningful

Global Execution Services

	For the year ended December 31,			
	2015	2014	Change	% of Change
Commissions and fees (thousands)	\$ 254,157	\$ 319,964	\$ (65,807)	(20.6)%
Trading revenues, net (thousands)	35,121	28,355	6,766	23.9 %
Interest, net and other (thousands)	378,445	(2,609)	381,054	N/M
Total revenues from Global Execution Services (thousands)	\$ 667,723	\$ 345,710	322,013	93.1 %
Average daily KCG algorithmic trading and order routing U.S. equities shares traded (millions)	303.7	282.1	21.6	7.7 %
Average daily KCG BondPoint fixed income par value traded (\$ millions)	141.1	133.6	7.5	5.6 %

Totals may not add due to rounding.

N/M - Not meaningful

Corporate and Other

	For the year ended December 31,			
	2015	2014	Change	% of Change
Total revenues from Corporate and Other (thousands)	\$ 46,529	\$ 69,369	\$ (22,840)	(32.9)%

Trading revenues, net were \$803.2 million in 2015 and were down 4.1% from 2014. Trading revenues, net are primarily driven by the performance of our direct-to-client and non-client based strategies within our Market Making segment. The majority of these revenues are derived from our market making in U.S. equities, however, the main driver of the decrease in trading revenues from 2014 related to the performance of our non-U.S. equity market making due to various factors including decreased volumes and volatility. This decrease was slightly offset by our market making revenues in U.S. equities due to increased volume, partially offset by a lower revenue capture.

We calculate average revenue capture per U.S. equity market making dollar value traded ("revenue capture") to measure the revenue that we earn per dollar traded within U.S. equity market making. Average revenue capture per U.S. equity dollar traded was 0.95 basis points ("bps") in 2015, down 5.0% from 1.00 bps in 2014. The revenue capture metric is calculated as the total of net domestic market making trading revenues plus volume based fees from providing liquidity to other trading venues (included in Commissions and fees), (collectively "U.S. Equity Market Making Revenues"), divided by the total dollar value of the related equity transactions for the relevant period. U.S. Equity Market Making Revenues were \$710.9 million and \$684.0 million for 2015 and 2014, respectively.

Revenue capture is a calculated metric that is impacted in a similar manner to the components that make it up, including market volumes and volatility and the performance of our U.S. equity trading strategies.

Commissions and fees decreased 13.8% to \$376.7 million in 2015, compared to \$437.0 million in 2014. The primary reason for the decrease relates to the sales of our KCG Hotspot business, in March 2015, and our FCM business, in November 2014. Excluding the commissions and fees related to our FCM business from the 2014 balance and those of Hotspot from both 2014 and through the date of sale in March 2015, commissions and fees would have decreased slightly over the comparable periods. The decrease is related to a small decrease in volumes and commissions from institutional customers within our Global Execution Services segment, offset by an increase in volume based fees within our Market Making segment.

Interest income, net decreased to a net loss of \$2.1 million in 2015, compared to a positive \$0.6 million in 2014. Our interest varies based on the amount of cash held and level of our balances held at our third party clearing brokers, and interest rates.

Investment income and other was \$421.4 million in 2015, compared to \$41.2 million in 2014. Income for 2015 includes the \$385.0 million gain on the sale of KCG Hotspot within our Global Execution Services segment. Also included in the 2015 balance are gains from the sales of certain of our investments including Aperture Holdings, LP, ("Aperture"), the corporate parent of OptionsHouse LLC ("OptionsHouse"). The balance for 2014 also includes income from our investments including gains related to the combination of tradeMONSTER Group, Inc. ("tradeMONSTER") with OptionsHouse and the merger of BATS and Direct Edge.

Expenses

Employee compensation and benefits expense fluctuates, for the most part, based on net revenues, profitability, changes in our business mix and the number and mix of employees. Employee compensation and benefits expense was \$405.6 million for 2015 and \$437.3 million in 2014. Excluding the \$28.8 million related to the acceleration of stock-based compensation and \$4.5 million in compensation expense related to the sale of KCG Hotspot, employee compensation and benefits was \$372.3 million in 2015 or 44.5% of Net revenues. In 2014, excluding compensation related to reduction in workforce of \$13.6 million, employee compensation and benefits was \$423.7 million or 47.8% of Net revenues. The decrease on a dollar basis was primarily due to lower discretionary compensation as a result of fewer employees and stated cost cutting goals.

The number of full time employees decreased to 1,006 at December 31, 2015 from 1,093 at December 31, 2014. The decrease was primarily due to the sale of KCG Hotspot.

Execution and clearance fees were \$265.2 million for 2015 and \$305.2 million in 2014. Execution and clearance fees were 22.1% of Adjusted revenues for 2015 and 23.7% of Adjusted revenues in 2014. Execution and clearance fees fluctuate based on changes in transaction volumes, shift in business mix, regulatory fees and operational efficiencies and scale.

Communications and data processing expenses were \$139.3 million for 2015 and \$150.6 million in 2014. The decrease in communications and data processing expense primarily relates to lower market data and connectivity expenses as a result of headcount reductions as well as cost cutting throughout the integration in 2014 and 2015.

Depreciation and amortization expense results from the depreciation of fixed assets and the amortization of purchased software, capitalized software development costs, acquired intangible assets and leasehold improvements. Depreciation and amortization expense was \$90.2 million for 2015 and \$81.4 million in 2014. The increase relates to additional depreciation as a result of purchases of fixed assets and increased capitalized internal-use software as well as accelerated amortization and depreciation of certain leasehold improvements at our existing Jersey City and New York City offices as a result of reducing the remaining estimated useful lives of such assets upon adopting a plan in July 2015 to relocate our headquarters in late 2016. These increases were offset, in part, by the reduction of intangible amortization expense due to the sale of KCG Hotspot. We expect that the increased depreciation related to fixed assets and leasehold improvements in our Jersey City and New York City offices will continue until the end of 2016. See "Writedown of assets and other real estate related charges" earlier in this section for further information.

Payments for order flow fluctuate as a percentage of revenue due to changes in volume, client and product mix, client preference, profitability, and competition. Payments for order flow were \$61.7 million for 2015 and \$70.2 million in 2014. As a percentage of Adjusted revenues, Payments for order flow decreased to 5.2% for 2015 from 5.4% in 2014.

Debt interest expense was \$36.8 million for 2015 and \$32.5 million in 2014. Interest expense increased as a result of increased debt due to the issuance of \$500.0 million in 6.875% Senior Secured Notes in March 2015 which

generated increased interest expense as compared to the \$305.0 million 8.25% Senior Secured Notes and \$117.3 million Cash Convertible Senior Subordinated Notes which were retired at such time.

Collateralized financing interest expense was \$34.7 million for 2015 and \$27.9 million in 2014. Collateralized financing interest expense relates to the funding of our securities positions through stock loan and repurchase agreements. The increase is a result of additional funding being secured from additional parties.

Professional fees were \$27.1 million for 2015 and \$25.6 million in 2014. Excluding the \$6.7 million in legal, consulting and investment banking fees related to the sale of KCG Hotspot, professional fees were \$20.3 million for 2015. Excluding these charges, professional fees decreased due to lower legal and auditing fees compared to the prior year.

Debt extinguishment charges of \$25.0 million for 2015 comprised a \$16.5 million contractual debt make-whole premium paid to the note holders and an \$8.5 million writedown of capitalized debt costs as a result of the early retirement of our \$305.0 million 8.25% Senior Secured Notes in April 2015. Debt extinguishment charges for 2014 comprise the writedown of \$9.6 million of debt issuance costs as a result of repayment of \$235.0 million principal of the First Lien Credit Facility.

Writedown of assets and other real estate related charges of \$56.6 million for 2015 primarily represent lease termination charges as well as accelerated amortization and depreciation of certain leasehold improvements and fixed assets related to abandoned space in our Jersey City and Chicago offices. See "Writedown of assets and other real estate related charges" earlier in this section for further information. Writedown of assets and other real estate related charges of \$8.6 million for 2014 primarily relates to adjustments to the previous calculations of lease losses due to actual and updated assumptions.

All other expenses were \$77.0 million for 2015 and \$82.3 million for 2014. The decrease primarily relates to the decrease in marketing and client related activity included in Business development costs as well as lower occupancy and equipment rentals cost.

Our effective tax rate from continuing operations for 2015 of 34.4% differed from the federal statutory rate of 35% primarily due to the recognition of state and local deferred tax assets and a benefit from federal tax credits offset, in part, by state and local taxes and the effect of nondeductible expenses including certain compensation and meals and entertainment. Our effective tax rate for 2014 from continuing operations of 26.7% differed from the federal statutory rate of 35% primarily due to the recognition of state deferred tax assets which primarily relate to state tax net operating losses, and a benefit from federal tax credits, offset in part by state and local taxes and the effect of nondeductible expenses including certain compensation and meals and entertainment.

Year Ended December 31, 2014 and 2013

Revenues

Market Making

	For the year ended December 31,		Change	% of Change
	2014	2013		
Trading revenues, net (thousands)	\$ 809,371	\$ 614,232	\$ 195,140	31.8%
Commissions and fees (thousands)	117,058	86,260	30,798	35.7%
Interest, net and other (thousands)	(25,277)	(12,294)	(12,983)	N/M
Total Revenues from Market Making (thousands)	\$ 901,152	\$ 688,197	212,955	30.9%

Totals may not add due to rounding.

N/M - Not meaningful

Global Execution Services

	For the year ended December 31,			
	2014	2013	Change	% of Change
Commissions and fees (thousands)	\$ 319,964	\$ 189,215	130,749	69.1%
Trading revenues, net (thousands)	28,355	11,823	16,532	139.8%
Interest, net and other (thousands)	(2,609)	(3,273)	663	N/M
Total Revenues from Global Execution Services (thousands)	\$ 345,710	\$ 197,765	147,944	74.8%

Totals may not add due to rounding.

N/M - Not meaningful

Corporate and Other

	For the year ended December 31,			
	2014	2013	Change	% of Change
Total Revenues from Corporate and Other (thousands)	\$ 69,369	\$ 141,374	\$ (72,005)	N/M

N/M - Not meaningful

Trading revenues, net were \$837.4 million in 2014 and were up 33.3% from \$628.3 million in 2013. Trading revenues, net are primarily driven by the performance of our direct-to-client and non-client based strategies within our Market Making segment. The majority of these revenues are derived from our market making in U.S. equities, however, the main driver of the increase were the inclusion of full year results from the Knight businesses in 2014 as well as increased overall market volumes and volatility which helped the performance of both our direct-to-client and non-client trading strategies offset, in part, by the effects of increased competition and an increased client focus on execution quality including price improvement, which gives our clients better prices on trades, but lowers our revenues earned on trades.

Commissions and fees increased 58.6% to \$437.0 million in 2014, from \$275.5 million in 2013, primarily due to the Mergers. As a result of the Mergers, Knight's commission-based businesses, including additional algorithmic trading strategies, high touch institutional traders earning commissions on program and block trades, a soft dollar business, KCG Hotspot, KCG Bondpoint, and the FCM were all added to the Company. In the first half of 2013, prior to the Mergers, KCG's total Commissions and fees were \$55.3 million, as compared to \$220.2 million in the post-Mergers second half of 2013, a 298% increase. While certain of these businesses have been combined since the Mergers, the increase from the first half of 2013 to the second half of 2013 is primarily attributable to the Mergers. The addition of these businesses is also the primary factor when comparing 2013 revenues to 2014 revenues, a period which includes a full year of commissions and fees from these businesses.

Interest income, net increased to a positive \$0.6 million in 2014, compared to a net loss of \$0.5 million in 2013. Our interest will vary based on the amount of cash held and level of our balances held at our third party clearing brokers.

Investment income and other was \$41.2 million in 2014, compared to \$124.1 million in 2013. The balance for 2014 includes income from our investments including gains related to tradeMONSTER's combination with OptionsHouse and the merger of BATS and Direct Edge as well as a gain on the sale of our FCM. The balance for 2013 includes a gain of \$128.0 million on our investment in Knight Common Stock.

Expenses

As noted in the *Explanatory Note* above, the Mergers were treated as a purchase of Knight by GETCO for accounting and financial reporting purposes, and, as a result, the financial results for the year ended December 31, 2013 comprise six months of results of KCG plus six months of GETCO whereas the financial results for the year ended December 31, 2014 comprise the results of KCG. As a result of the Mergers, most expenses are significantly higher for the year ended December 31, 2014 than during the year ended December 31, 2013. Specific expenses are discussed in the following paragraphs.

Employee compensation and benefits expense fluctuates, for the most part, based on changes in our business mix, revenues, profitability and the number and mix of employees. Employee compensation and benefits expense was \$437.3 million for 2014 and \$349.2 million in 2013. The increase on a dollar basis was primarily due to the Mergers which increased headcount significantly offset, in part, by the effects of a reduction in workforce in 2014. Excluding compensation expense related to the 2014 reduction in workforce of \$13.6 million, employee compensation and benefits

was \$423.7 million or 47.8% of Net revenues. For 2013, excluding the compensation expense related to a reduction in workforce of \$33.7 million and \$22.0 million in stock based compensation acceleration due to the Mergers, employee compensation was \$293.5 million or 47.7% of Net revenues.

The number of full time employees decreased to 1,093 at December 31, 2014 as compared to 1,229 at December 31, 2013.

Execution and clearance fees were \$305.2 million for 2014 and \$246.4 million in 2013. Execution and clearance fees fluctuate based on changes in transaction volumes, shift in business mix, regulatory fees and operational efficiencies and scale. Execution and clearance fees were 23.7% of adjusted revenues for 2014 and 27.2% in 2013. The variance on a percentage of Adjusted revenues primarily relates to better rates due to the utilization of higher volume pricing tiers and other efficiencies.

Communications and data processing expenses were \$150.6 million for 2014 and \$123.6 million in 2013. Communications and data processing expense primarily relates to market data, colocation and connectivity expenses. The increase primarily relates to the higher costs due to the acquisition of Knight.

Depreciation and amortization expense results from the depreciation of fixed assets and the amortization of purchased software, capitalized software development costs, acquired intangible assets and leasehold improvements. Depreciation and amortization expense was \$81.4 million for 2014 and \$55.6 million in 2013. The increase relates to purchases of fixed assets including new microwave communication assets put into service in 2014.

Payments for order flow fluctuate as a percentage of revenue due to changes in volume, client and product mix, client preference, profitability, and competition. Payments for order flow were \$70.2 million for 2014 and \$35.7 million in 2013. The variance is due to higher payments as a result of higher trading volumes after the Mergers. As a percentage of Adjusted revenues, Payments for order flow were 5.4% in 2014 and 3.9% in 2013.

Debt interest expense was \$32.5 million for 2014 and \$34.9 million in 2013. Interest expense decreased as a result of the pay down of the remaining \$235.0 million of the First Lien Credit Facility in the first half of 2014.

Collateralized financing interest expense was \$27.9 million for 2014 and \$9.8 million in 2013. Collateralized financing interest expense relates to the funding of our securities positions through stock loan and repurchase agreements. The increase is a result of additional funding being secured from additional parties.

Professional fees were \$25.6 million for 2014 and \$46.7 million in 2013. Excluding \$34.2 million in legal, consulting and investment banking fees related to the Mergers, Professional fees were \$12.4 million in 2013. Professional fees increased as a result of becoming a publicly traded firm as well as integrating the two firms which led to an increase in legal, consulting and auditing fees compared to the prior year.

Writedown of assets and other real estate charges of \$8.6 million for 2014 primarily relates to adjustments to previously calculated lease losses. Writedown of assets and other real estate charges of \$14.7 million in 2013 comprised the writedown of leasehold improvements and fixed assets as a result of excess real estate capacity.

Debt extinguishment charges of \$9.6 million for 2014 and \$13.2 million in 2013 relate to the writedown of debt issuance costs as a result of the repayment of \$235.0 million and \$300.0 million principal of the First Lien Credit Facility in 2014 and 2013, respectively.

All other expenses were \$82.3 million for 2014 and \$72.5 million in 2013. The increase primarily relates to the increase in Occupancy and equipment rental costs due to the Mergers. Business development expense increased primarily due to additional client-related events and marketing.

Our effective tax rate for 2014 from continuing operations of 26.7% differed from the federal statutory rate of 35% primarily due to the recognition of state deferred tax assets which primarily relate to state tax net operating losses, and a benefit from federal tax credits, offset in part by state and local taxes and the effect of nondeductible expenses including certain compensation and meals and entertainment. Our effective tax rate for 2013 from continuing operations of -574% differed from the federal statutory rate of 35% primarily due to the recognition of \$103.5 million of deferred tax benefits as a result of GETCO becoming subject to U.S. corporate income taxes following the Mergers, the nontaxable gain from GETCO's investment in Knight common stock, foreign taxes, nondeductible expenses including certain compensation and meals and entertainment and GETCO being structured as a pass through entity that was not largely subject to U.S. corporate income taxes prior to the Mergers.

Financial Condition, Liquidity and Capital Resources

Financial Condition

We have historically maintained a highly liquid balance sheet, with a substantial portion of our total assets consisting of cash, highly liquid marketable securities and short term receivables. As of December 31, 2015 and December 31, 2014, we had total assets of \$6.05 billion and \$6.83 billion, respectively, a significant portion of which consisted of cash or assets readily convertible into cash as follows (in thousands):

	December 31, 2015	December 31, 2014
Cash and cash equivalents	\$ 581,313	\$ 578,768
Financial instruments owned, at fair value:		
Equities	2,129,208	2,479,910
Listed options	178,360	144,586
Debt securities	136,387	82,815
Collateralized agreements:		
Securities borrowed	1,636,284	1,632,062
Receivable from brokers, dealers and clearing organizations ⁽¹⁾	571,222	1,095,025
Total cash and assets readily convertible to cash	\$ 5,232,774	\$ 6,013,166

Totals may not add due to rounding.

⁽¹⁾ Excludes \$110.0 million and \$93.8 million of securities failed to deliver as of December 31, 2015 and December 31, 2014, respectively.

Substantially all of the non-cash amounts disclosed in the table above can be liquidated into cash within five business days under normal market conditions, however, the liquidated values may be subjected to haircuts during distressed market conditions.

Cash and cash equivalents increased from December 31, 2014 as a result of pre-tax earnings, the proceeds of our new debt offering of \$500.0 million 6.875% Senior Secured Notes and from the sale of KCG Hotspot offset by our \$330.0 million "modified Dutch auction" Tender offer ("Tender Offer") and other KCG common stock and warrant repurchases, early retirement of \$305.0 million 8.25% Senior Secured Notes, repayment of Knight's Cash Convertible Senior Subordinated Notes ("Convertible Notes"), payments of 2014 year-end bonuses in 2015 and estimated income taxes. See Footnote 4 "Tender Offer and Stock Repurchase" and Footnote 13 "Debt" included in Part II, Item 8. "Financial Statements and Supplementary Data" of this Form 10-K for further information.

Financial instruments owned principally consist of equities and listed options that trade on the NYSE, NYSE Amex and NYSE Arca markets, Nasdaq and unlisted securities that trade over-the-counter and through marketplaces operated by the OTC Markets Group Inc. as well as U.S. government and non-U.S. government obligations and corporate debt securities, which include short-term bond funds. These financial instruments are used to generate revenues in our Market Making and Global Execution Services segments.

Securities borrowed represent the value of cash or other collateral deposited with securities lenders to facilitate our trade settlement process.

Receivable from brokers, dealers and clearing organizations include interest bearing cash balances held with third party clearing brokers, including, or net of, amounts related to securities transactions that have not yet reached their contracted settlement date, which is generally within three business days of the trade date.

As of December 31, 2015, \$1.35 billion of securities, primarily equities, have been pledged as collateral to third-parties under financing arrangements. As of December 31, 2014, \$1.52 billion of securities, primarily equities, were pledged as collateral to third-parties under financing arrangements.

Goodwill and intangible assets, net of accumulated amortization were lower at December 31, 2015 primarily due the sale of KCG Hotspot, amortization and intangibles associated with businesses held for sale which we included within Assets of businesses held for sale on the Company's Consolidated Statement of Financial Condition as of December 31, 2015, offset in part, by additional capitalized internal-use software.

Other assets primarily comprises deposits, prepaids and other miscellaneous receivables. Other assets increased primarily as a result of recording a receivable from BATS related to our sale of KCG Hotspot. See Footnote 11

"Investments" to the Company's Consolidated Financial Statements included in Part II, Item 8 "Financial Statements and Supplementary Data" of this Form 10-K for further information on the BATS receivable.

The change in the balances of Financial instruments owned, Receivable from brokers, dealers and clearing organizations and Securities borrowed are all consistent with activity of our trading strategies. Our securities inventory fluctuates based on trading volumes, market conditions, trading strategies utilized and our pre-determined risk limits.

Total liabilities were \$4.61 billion at December 31, 2015 and \$5.31 billion at December 31, 2014. Similar to the asset side, the change in Financial instruments sold, not yet purchased, Collateralized financings and Payable to brokers, dealers and clearing organizations is related to the activity of our trading strategies. We issued \$500.0 million of new debt while repaying the remaining \$117.3 million of Convertible Notes in the first quarter 2015 and the \$305.0 million 8.25% Senior Secured Notes during the second quarter 2015. The increase in our Accrued compensation expense is due to a portion of our 2014 bonus being paid in 2014, thereby reducing the 2014 year end accrued compensation, while the 2015 bonus amounts were not paid until in 2016. This increase was offset, in part, by the effect of lower compensation expense in 2015.

Equity decreased by \$78.5 million, from \$1.52 billion at December 31, 2014 to \$1.44 billion at December 31, 2015. The decrease in equity from December 31, 2014 was primarily a result of our stock repurchase activity including our Tender Offer, offset by Net income, including the gain on sale of KCG Hotspot and stock-based compensation activity in 2015.

Liquidity and Capital Resources

We have financed our business primarily through cash generated by operations, sales of businesses, a series of debt transactions and the issuance of equity.

At December 31, 2015, we had net current assets, which consist of net assets readily convertible into cash including assets segregated or held in separate accounts under federal and other regulations, less current liabilities, of approximately \$1.26 billion.

Net Income during 2015 was \$249.1 million compared to \$61.1 million during 2014. Included in these amounts were certain non-cash income and expenses such as gains on investments, stock and unit-based compensation, depreciation, amortization and certain non-cash writedowns. Stock and unit-based compensation was \$84.7 million and \$58.9 million during 2015 and 2014, respectively. Depreciation and amortization expense was \$90.2 million and \$81.4 million during 2015 and 2014, respectively. We had non-cash writedowns of assets and other real estate related charges of \$56.6 million and \$8.6 million during 2015 and 2014, respectively, and non-cash writedowns of capitalized debt issuance costs of \$8.5 million and \$9.6 million, respectively. Included in the \$56.6 million non-cash writedowns of assets and other real estate related charges during 2015 is \$15.9 million of writedowns of goodwill as well as intangible assets related to assets of businesses held for sale. We also had non-cash net gains of \$5.8 million and \$15.1 million related to strategic investments in 2015 and 2014, respectively.

Capital expenditures, including capitalized software costs, were \$59.1 million and \$49.0 million during 2015 and 2014, respectively. Purchases of investments were \$8.0 million and \$0.7 million during 2015 and 2014, respectively. Proceeds and distributions received from investments were \$34.6 million and \$58.7 million during 2015 and 2014, respectively.

See Footnote 13 "Debt" included in Part II, Item 8 "Financial Statements and Supplementary Data" of this Form 10-K for a description of our Debt as of December 31, 2015.

Tender Offer and Stock Repurchases

During the second quarter of 2014, our Board of Directors approved an initial program to repurchase up to a total of \$150.0 million in shares of our outstanding KCG Class A Common Stock and Warrants. In April 2015, our Board of Directors authorized an expanded share repurchase program of up to \$400.0 million of our Class A Common Stock and Warrants (including the \$55.0 million of remaining capacity under the previously authorized repurchase program at the time).

We may repurchase shares from time to time in open market transactions, accelerated stock buyback programs, tender offers, privately negotiated transactions or by other means. Repurchases may also be made under Rule 10b5-1 plans. The timing and amount of repurchase transactions will be determined by our management based on its evaluation of market conditions, share price, legal requirements and other factors. The program may be suspended, modified or

discontinued at any time without prior notice. We caution that there are no assurances that any further repurchases will actually occur.

Using this authority, in May 2015, we commenced the Tender Offer which expired on June 2, 2015. Under the terms of the Tender Offer, stockholders had the opportunity to sell KCG Class A Common Stock to the Company at specified prices per share of not less than \$13.50 and not greater than \$14.00, or at the purchase price determined by us in accordance with the terms of the Tender Offer.

Following the expiration of the Tender Offer on June 2, 2015 and based on the number of shares tendered and the prices specified by the tendering stockholders, we accepted for purchase 23.6 million shares of KCG Class A Common Stock at a purchase price of \$14.00 per share, for a cost of \$330.0 million. The 23.6 million shares of KCG Class A Common Stock that we accepted for purchase were retired as of June 9, 2015.

In 2015, outside of the Tender Offer, we repurchased 3.5 million KCG Class A Common Stock for \$41.7 million and 2.6 million KCG Warrants for \$4.4 million under our share repurchase program. As of December 31, 2015, approximately \$23.9 million in authority remained under the share repurchase program authorized by our Board of Directors in April 2015.

As of December 31, 2015 we had 90.2 million shares of KCG Class A Common Stock outstanding including RSUs as compared to 116.9 million shares at December 31, 2014.

See Footnote 4 "Tender Offer and Stock Repurchase" and Footnote 27 "Subsequent Events" included in Part II, Item 8. "Financial Statements and Supplementary Data" of this Form 10-K for further information.

Regulatory requirements

KCG Americas LLC ("KCGA"), our U.S. registered broker dealer, is subject to regulatory requirements intended to ensure the general financial soundness and liquidity of broker dealers and require the maintenance of minimum levels of net capital, as defined in SEC Rule 15c3-1 as well as other capital requirements from several commodity organizations including the CFTC and the National Futures Association. These regulations also prohibit a broker dealer from repaying subordinated borrowings, paying cash dividends, making loans to its parent, affiliates or employees, or otherwise entering into transactions which would result in a reduction of its total net capital to less than 120% of its required minimum capital. Moreover, broker dealers are required to notify the SEC, CFTC and other regulators prior to repaying subordinated borrowings, paying dividends and making loans to its parent, affiliates or employees, or otherwise entering into transactions, which, if executed, would result in a reduction of 30% or more of its excess net capital (net capital less minimum requirement). The SEC and the CFTC have the ability to prohibit or restrict such transactions if the result is detrimental to the financial integrity of the broker dealer. As of December 31, 2015, KCGA was in compliance with the applicable regulatory net capital rules.

The following table sets forth the net capital level and requirements for KCGA at December 31, 2015, as reported in its amended regulatory filing (in thousands):

	Net Capital	Net Capital Requirement	Excess Net Capital
KCG Americas LLC	\$ 286,757	\$ 1,000	\$ 285,757

Our U.K. registered broker dealer is subject to certain financial resource requirements of the Financial Conduct Authority ("FCA"). The following table sets forth the financial resource requirement for KCG Europe Limited, our U.K. registered broker dealer, at December 31, 2015 (in thousands):

	Financial Resources	Resource Requirement	Excess Financial Resources
KCG Europe Limited	\$ 155,081	\$ 131,840	\$ 23,241

Our other U.K. registered broker dealer, GETCO Europe Limited withdrew from its membership with the FCA during the first quarter of 2015. All business of GETCO Europe Limited had previously been transferred to KCG Europe Limited.

Our Australian and Indian trading entities are subject to certain financial resource requirements of the Australian Securities and Investment Commission and the Foreign Investment Promotion Board, respectively. As of December 31, 2015, we were in compliance with all such requirements.

Off-Balance Sheet Arrangements

As of December 31, 2015, we did not have any off-balance sheet arrangements, as defined in Item 303(a)(4)(ii) of SEC Regulation S-K.

Effects of Inflation

The majority of our assets are liquid in nature and therefore are not significantly affected by inflation. However, the rate of inflation may affect our expenses, such as employee compensation, office leasing costs and communications expenses, which may not be readily recoverable in the prices of the services offered by us. To the extent inflation results in rising interest rates and has other adverse effects on the securities markets, it may adversely affect our financial position and results of operations.

Subsequent Events

On February 4, 2016, KCGA entered into an Asset Purchase Agreement with Citadel Securities LLC ("Citadel"), pursuant to which KCGA agreed to sell its NYSE DMM business to Citadel. The transaction is expected to close during the second quarter of 2016.

Subsequent to the year ended December 31, 2015, we have repurchased in the open market \$35.0 million par value of our 6.875% Senior Secured Notes.

Critical Accounting Policies

Our Consolidated Financial Statements are based on the application of Generally Accepted Accounting Principles ("GAAP") which requires us to make estimates and assumptions about future events that affect the amounts reported in our financial statements and the accompanying notes. Future events and their effects cannot be determined with certainty. Therefore, the determination of estimates requires the exercise of judgment. Actual results could differ from those estimates and any such differences may be material to our Consolidated Financial Statements. We believe that the estimates set forth below may involve a higher degree of judgment and complexity in their application than our other accounting estimates and represent the critical accounting estimates used in the preparation of our consolidated financial statements. We believe our judgments related to these accounting estimates are appropriate. However, if different assumptions or conditions were to prevail, the results could be materially different from the amounts recorded.

Financial Instruments and Fair Value—We value our financial instruments using a hierarchy of fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs when measuring fair value.

The fair value hierarchy can be summarized as follows:

- Level 1—Valuations based on quoted prices in active markets for identical assets or liabilities that we have the ability to access. Since valuations are based on quoted prices that are readily and regularly available in an active market, valuation of these products does not entail a significant degree of judgment.
- Level 2—Valuations based on quoted prices in markets that are not active or for which all significant inputs are observable, either directly or indirectly.
- Level 3—Valuations based on inputs that are unobservable and significant to the overall fair value measurement.

Changes in fair value are recognized in earnings each period for financial instruments that are carried at fair value.

Our financial instruments owned and financial instruments sold, not yet purchased will generally be classified within Level 1 of the fair value hierarchy because they are valued using quoted market prices or broker or dealer quotations with reasonable levels of price transparency.

The types of instruments that trade in markets that are not considered to be active, but are valued based on observable inputs such as quoted market prices or alternative pricing sources with reasonable levels of price transparency are generally classified within Level 2 of the fair value hierarchy.

Our receivable from BATS related to the sale of KCG Hotspot, foreign currency forward contracts, investment in the CME and certain other investments are also classified within Level 2 of the fair value hierarchy, and at December 31, 2015, a receivable related to the sale of an investment is classified within Level 3 of the fair value hierarchy.

Goodwill and Intangible Assets—As a result of our various acquisitions, we have acquired goodwill and identifiable intangible assets. We determine the values and estimated useful lives of intangible assets upon acquisition. Goodwill is the cost of acquired businesses in excess of the fair value of net assets, including identifiable intangible assets, at the acquisition date. We test goodwill and intangible assets with an indefinite useful life for impairment at least annually or when an event occurs or circumstances change that signifies the existence of impairment.

Goodwill

Goodwill of \$16.4 million at December 31, 2015 is primarily a result of the Mergers and relates to our Market Making segment. We test the goodwill in each of our reporting units for impairment at least annually by comparing the estimated fair value of each reporting unit with its estimated net book value. We will derive the fair value of each of our reporting units based on valuation techniques we believe market participants would use for each segment (observable market multiples and discounted cash flow analyses) and we will derive the net book value of our reporting units by estimating the amount of stockholders' equity required to support the activities of each reporting unit. As part of our test for impairment, we will also consider the profitability of the applicable reporting unit as well as our overall market value, compared to our book value.

Intangible Assets

Intangible assets, less accumulated amortization, of \$84.1 million at December 31, 2015 primarily result from the Mergers and are primarily attributable to our Market Making and Global Execution Services segments.

We amortize intangible assets with finite lives on a straight-line basis over their remaining estimated useful lives, the majority of which have been determined to range from one to 8 years. We will test amortizable intangibles for recoverability whenever events indicate that the carrying amounts may not be recoverable.

Investments—Investments primarily comprise strategic investments and deferred compensation investments. Strategic investments include noncontrolling equity ownership interests in financial services-related businesses held by us within our non-broker dealer subsidiaries. Strategic investments are accounted for under the equity method, at cost or at fair value. We use the equity method of accounting when, in our judgment, we have significant influence, generally considered to be between 20% and 50% equity ownership or greater than 3% to 5% of a partnership interest. We hold strategic investments at cost, less impairment if any, when we are not considered to exert significant influence on operating and financial policies of the investee. Strategic investments which are publicly traded are held at fair value.

We review investments on an ongoing basis to ensure that the carrying values of the investments have not been impaired. If we assess that an impairment loss on a strategic investment has occurred due to a decline in fair value or other market conditions, we write the investment down to its estimated impaired value.

We maintain a deferred compensation plan related to certain employees. This plan provides a return to the participants based upon the performance of various investments. In order to hedge our liability under this plan, we generally acquire the underlying investments and hold such investments until the deferred compensation liabilities are satisfied. We record changes in value of such investments in Investment income and other, net, with a corresponding charge or credit to Employee compensation and benefits on the Consolidated Statements of Operations.

Employee Compensation—Stock and unit based compensation is primarily measured based on the grant date fair value of the awards. These costs are amortized over the requisite service period, if any. Expected forfeitures are considered in determining stock-based employee compensation expense. See Footnote 15 "Stock-Based Compensation" included in Part II, Item 8 "Financial Statements and Supplementary Data" of this Form 10-K for further discussion.

When determining stock-based employee compensation expense, we make certain estimates and assumptions relating to volatility and forfeiture rates. We estimate volatility based on several factors including implied volatility of market-traded options on our Class A Common Stock on the grant date and the historical volatility of our Class A Common Stock. We estimate forfeiture rates based on historical rates of forfeiture of employee stock awards. See Footnote 15 "Stock-Based Compensation" included in Part II, Item 8 "Financial Statements and Supplementary Data" of this Form 10-K for further discussion.

A portion of our Employee compensation and benefits expense on the Consolidated Statements of Operations represents discretionary bonuses, which are accrued for throughout the year and paid after the end of the year. Among

many factors, discretionary bonus accruals are generally influenced by our overall performance and competitive industry compensation levels.

Income Taxes—The Company is a corporation subject to U.S. corporate income tax as well as non-U.S. income taxes in the jurisdictions in which it operates. The Company records deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the financial reporting and tax bases of assets and liabilities and measures them using the enacted tax rates and laws that will be in effect when such differences are expected to reverse. The Company evaluates the recoverability of future tax deductions by assessing the adequacy of future expected taxable income from all sources, including reversal of temporary differences and forecasted operating earnings.

Other Estimates—The preparation of financial statements in conformity with GAAP requires management to make certain estimates and assumptions. In addition to the estimates that we make in connection with accounting for the items noted above, the use of estimates is also important in determining provisions for potential losses that may arise from discontinued operations, litigation, regulatory proceedings and tax audits.

We accrue for potential losses that may arise out of litigation and regulatory proceedings to the extent that such losses are probable and can be estimated. Significant judgment is required in making these estimates and our final liabilities may ultimately be materially different. Our total liability accrued with respect to litigation and regulatory proceedings is determined on a case-by-case basis and represents an estimate of probable losses based on, among other factors, the progress of each case, our experience and industry experience with similar cases and the opinions and views of internal and external legal counsel. Given the inherent difficulty of predicting the outcome of our litigation and regulatory matters, particularly in cases or proceedings in which substantial or indeterminate damages or fines are sought, or where cases or proceedings are in the early stages, we cannot estimate losses or ranges of losses for cases or proceedings where there is only a reasonable possibility that a loss may be incurred. For more information on our legal and regulatory matters, see Footnote 22 "Commitments and Contingent Liabilities" included in Part II, Item 8 "Financial Statements and Supplementary Data" of this Form 10-K and other reports or documents the Company files with, or furnishes, to the SEC from time to time.

See Footnote 3 "Significant Accounting Policies" and Footnote 11 "Investments" included in Part II, Item 8 "Financial Statements and Supplementary Data" of this Form 10-K for a further discussion of our accounting policies.

Accounting Standards Updates

See Footnote 3 "Significant Accounting Policies" included in Part II, Item 8 "Financial Statements and Supplementary Data" of this Form 10-K for further discussion of accounting guidance recently adopted and accounting guidance to be adopted in future periods.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

We are exposed to numerous risks in the ordinary course of our business and activities; therefore, effective risk management is critical to our financial soundness and profitability. We have a comprehensive global risk management structure and processes to monitor and evaluate the principal risks we assume in conducting our business. Our risk management policies, procedures and methodologies are subject to ongoing review and modification. The principal risks we face are as follows:

Market Risk

Our market making and trading activities expose our capital to significant risks. These risks include, but are not limited to, absolute and relative price movements, price volatility, interest rates, foreign exchange rates, credit spreads and changes in liquidity. Price risks result from exposure to changes in prices of individual financial instruments, baskets and indices. Further risks may result from changes in the factors determining options prices. Interest rate risks result primarily from exposure and changes in the yield curve, the volatility of interest rates and credit spreads. As market makers we are also exposed to "open order" risk where during unusual market conditions we could have an abnormally high percentage of our open orders filled simultaneously and therefore acquire a larger than average position in securities or derivative instruments.

For working capital purposes, we invest in money market funds and government securities or maintain interest bearing balances at banks and in our trading accounts with clearing brokers, which are classified as Cash and cash equivalents and Receivable from brokers, dealers and clearing organizations, respectively, on the Consolidated

Statements of Financial Condition. These financial instruments do not have maturity dates; the balances are short term, which helps to mitigate our market risks. Our cash and cash equivalents held in foreign currencies are subject to the exposure of foreign currency fluctuations. These balances are monitored daily and are hedged or reduced when appropriate and therefore not material to our overall cash position.

We employ proprietary position management and trading systems that provide real-time, on-line risk exposure calculations, position management and inventory control. We monitor our risks by reviewing trading positions and their appropriate risk measures. We have established a system whereby transactions are monitored by senior management and an independent risk control function on a real-time basis as are aggregate risk exposures, sub unit risk exposures and aggregate dollar and inventory position totals, capital allocations, and real-time profits and losses. Our management of trading positions is enhanced by our review of mark-to-market valuations and position summaries on a daily basis.

In the normal course of business, we maintain inventories of exchange-listed and other equity securities, and to a lesser extent, listed equity options and fixed income securities. The fair value of these financial instruments at December 31, 2015 and 2014 was \$2.44 billion and \$2.71 billion, respectively, in long positions and \$2.11 billion and \$2.29 billion, respectively, in short positions. We also enter into futures contracts, which are recorded on our Consolidated Statements of Financial Condition within Receivable from brokers, dealers and clearing organizations or Payable to brokers, dealers and clearing organizations as applicable.

We calculate daily the potential losses that might arise from a series of different stress events. These include both single factor and multi factor shocks to asset prices based off both historical events and hypothetical scenarios. The stress calculations include a full recalculation of any option positions, non-linear positions and leverage. Senior management and the independent risk function carefully monitor the highest stress scenarios to ensure that the Company is not unduly exposed to any extreme events.

The potential change in fair value is estimated to be a gain of \$8.4 million using a hypothetical 10% increase in equity prices as of December 31, 2015, and an estimated loss of \$14.8 million using a hypothetical 10% decrease in equity prices at December 31, 2015. These estimates take into account the offsetting effect of such hypothetical price movements on the fair value of short positions against long positions, and the effect on the fair value of options, futures, nonlinear positions and leverage. The Company uses both third party applications as well as its own internal systems in order to model and calculate stress risks to a variety of different scenarios.

The following table illustrates, for the period indicated, our average, highest and lowest month-end inventory at fair value (based on both the aggregate and the net of the long and short positions of financial instruments (in thousands)).

	2015		2014		2013	
	Aggregate of Long and Short Positions	Net of Long and Short Positions	Aggregate of Long and Short Positions	Net of Long and Short Positions	Aggregate of Long and Short Positions	Net of Long and Short Positions
Average month-end	\$ 5,050,512	\$ 415,058	\$ 5,155,626	\$ 431,355	\$ 3,137,170	\$ 175,171
Highest month-end	5,862,353	691,202	5,901,615	805,837	5,268,422	561,353
Lowest month-end	4,556,914	98,204	4,671,405	40,708	1,198,112	(224,760)

Operational Risk

Operational risk can arise from many factors ranging from routine processing errors to potentially costly incidents arising, for example, from major systems failures or human errors. For example, on August 1, 2012, at the open of trading at the NYSE, Knight experienced a technology issue related to the installation of trading software which resulted in its broker dealer subsidiary, Knight Capital Americas LLC, sending numerous erroneous orders in NYSE-listed and NYSE Arca securities into the market. As a result of this technology issue, Knight incurred a pre-tax loss of \$468.1 million which principally related to trading losses.

Following the events of August 1, 2012, the Company has taken numerous remedial measures designed to enhance its processes and controls. Today KCG has a robust framework to manage operational risk events. The framework includes a sound risk management governance structure, including a Chief Risk Officer, a risk function, a Board Risk Committee and Management Risk Committee. Within the risk function, KCG has created a formal Operational Risk Management team lead by the Global Head of Operational Risk, responsible for managing the Company's operational risk exposure. The Emergency Response Center has been established and is tasked with monitoring and responding to operational incidents and natural disasters in real time. The Emergency Management

Plan ("EMP") sets forth procedures for firm-wide crisis response, should incidents go beyond the emergency solving capabilities of individual businesses. The EMP is tested several times a year with simulated emergencies of various kinds. Furthermore, the framework incorporates market access controls designed to closely monitor inbound and outbound orders and enable the rapid automatic shut-down for specific applications.

Our businesses are highly dependent on our ability and our market centers' ability to process, on a daily basis, a large number of transactions across numerous and diverse markets in several currencies and products. We incur operational risk across all of our business activities, including revenue generating activities as well as support functions. Legal and compliance risk is included in the scope of operational risk and is discussed below under "Legal Risk."

We rely heavily on technology and automation to perform many functions within KCG, which exposes us to various forms of cyber-attacks, including data loss or destruction, unauthorized access, unavailability of service or the introduction of malicious code. We have taken significant steps to mitigate the various cyber threats, and we devote significant resources to maintain and regularly upgrade our systems and networks and review the ever changing threat landscape. We have created a dedicated Information Security Group, created and filled the role of Information Security Officer and formed an Information Security Steering Committee. In addition, we have enhanced the communication channels with government and law enforcement agencies for better information sharing and awareness. We will continue to periodically review policies and procedures to ensure they are effective in mitigating current cyber and other information security threats. In addition to the policy reviews, we continue to look to implement technology solutions that enhance preventive and detection capabilities. We also maintain insurance coverage that may, subject to policy terms and conditions, cover certain aspects of cyber risks. However, such insurance may be insufficient to cover all losses.

Primary responsibility for the management of operational risk lies with our operating segments and supporting functions, and secondary responsibility lies with the Operational Risk Management function. Our operating segments maintain controls designed to manage and mitigate operational risk for existing activities. As new products and business activities are developed or new third parties are being on boarded, we endeavor to identify operational risks and design controls to seek to mitigate the identified risks.

Disaster recovery plans are in place for critical facilities related to our primary operations and resources, and redundancies are built into the systems as deemed reasonably appropriate. We have also established policies, procedures and technologies designed to seek to protect our systems and other assets from unauthorized access. There is no assurance that such plans, policies, procedures and technologies will prevent a significant disruption to our business.

Liquidity Risk

Liquidity risk is the risk that we would be unable to meet our financial obligations as they arise in both normal and strained funding environments. To that end, we have established a comprehensive and conservative set of policies and procedures that govern the management of liquidity risk for the Company at the corporate level and at the subsidiary entity level.

We maintain a liquidity pool consisting of primarily cash and other highly liquid instruments at the holding company level to satisfy intraday and day-to-day funding needs, as well as potential cash needs in a strained funding environment.

Secured funding for the majority of our inventory is done through our regulated U.S. broker dealer subsidiary, KCGA. As such, a significant portion of our liquidity risk lies within KCGA. We consider cash and other highly liquid instruments held within KCGA, up to \$150.0 million, a part of our liquidity pool to support financial obligations in normal and strained funding environments. We target having \$350.0 million in our liquidity pool of cash and highly liquid instruments held at the holding company level and KCGA.

Cash and other highly liquid investments held by all other subsidiary entities are available to support financial obligations within those entities.

Our liquidity pool comprises the following (in thousands):

	December 31, 2015	December 31, 2014
Liquidity Pool Composition		
Holding company		
Cash held at banks	\$ 3,283	\$ 150,622
Money market and other highly liquid investments	330,698	152,077
KCGA		
Cash held at banks	28,485	58,972
Money market and other highly liquid investments	121,515	81,997
Total Liquidity Pool	\$ 483,981	\$ 443,668
Cash and other highly liquid investments held by other subsidiary entities	\$ 73,779	\$ 135,100

In addition, we maintain committed and uncommitted credit facilities with a number of unaffiliated financial institutions. In connection with the uncommitted credit facilities, the lenders are at no time under any obligation to make any advances under the credit facilities, and any outstanding loans must be repaid on demand. See Footnote 13 "Debt" included in Part II, Item 8 "Financial Statements and Supplementary Data" of this Form 10-K for additional information regarding our credit facilities.

We regularly perform liquidity risk stress testing based on a scenario that considers both market-wide stresses and a company-specific stress over a one-month period. Given the nature of the Company's business activity and balance sheet composition, survival over the first one to three days of a severe stress environment is most critical, after which management actions could be effectively implemented to navigate through prolonged periods of financial stress. The modeled cash inflows and outflows from the stress test serve as a quantitative input to assist us in establishing the Company's liquidity risk appetite and amount of liquid assets to be held at the corporate level. The liquidity stress test considers cash flow risks arising from, but not limited to, a dislocation of the secured funding market, additional unexpected margin requirements, and operational events.

We maintain a contingency funding plan ("CFP") which clearly delineates the roles, responsibilities and actions that will be utilized as the Company encounters various levels of liquidity stress with the goal of fulfilling all financial obligations as they arise while maintaining business activity. We periodically update and test the operational functionality of various aspects of the CFP to ensure it remains current with changing business activity.

Capital Risk

Government regulators, both in the U.S. and globally, as well as self-regulated organizations, have supervisory responsibility over our regulated activities and require us to maintain specified minimum levels of regulatory capital in our broker dealer subsidiaries. If not properly monitored, our regulatory capital levels could fall below the required minimum amounts set by our regulators, which could expose us to various sanctions ranging from fines and censure to imposing partial or complete restrictions on our ability to conduct business.

To mitigate this risk, we continuously evaluate the levels of regulatory capital at each of our regulated subsidiaries and adjust the amounts of regulatory capital as necessary to ensure compliance with regulatory capital requirements. We also maintain excess regulatory capital to accommodate periods of unusual or unforeseen market volatility. In addition, we monitor regulatory developments regarding capital requirements and prepare for changes in the required minimum levels of regulatory capital that may occur in the future.

Legal Risk

Legal risk includes the risk of non-compliance with applicable legal and regulatory requirements and standards. Legal risk also includes contractual and commercial risk such as the risk that counterparty's performance obligations will be unenforceable. We are generally subject to extensive regulation in the different jurisdictions in which we conduct our business. We have established procedures based on legal and regulatory requirements that are designed to foster compliance with applicable statutory and regulatory requirements. We have also established procedures that are designed to require that our policies relating to conduct, ethics and business practices are followed.

Credit Risk

Credit risk represents the loss that we would incur if a counterparty fails to perform its contractual obligations in a timely manner. We manage credit risk with a global, independent credit risk management function that is responsible for measuring, monitoring and controlling the counterparty credit risks inherent in our business activities.

Our credit risk function's process for managing credit risk includes a qualitative and quantitative risk assessment of significant counterparties prior to engaging in business activity, as well as on an ongoing basis. The review includes formal financial analysis and due diligence when appropriate.

Our credit risk function is responsible for approving new counterparties and establishing credit limits to manage credit risk exposure by counterparty and business line. The assigned limits reflect the various elements of assessed credit risk and are subsequently revised to correspond with changes in the counterparties' credit profiles. Our credit risk function communicates counterparty limits to the business areas as well as senior management, and oversees compliance with the established limits.

Where appropriate, counterparty exposure is monitored on a daily basis and the collateral, if required, is marked to market daily to accurately reflect the current exposure.

Foreign Currency Risk

Our international businesses include transactions in currencies other than the U.S. dollar. As such, changes in foreign exchange rates relative to the U.S. dollar can affect the value of our non-U.S. dollar assets, liabilities, revenues and expenses. Additionally, our foreign subsidiary in India has a functional currency other than the U.S. dollar which exposes us to foreign currency transaction gains and losses. A portion of these risks are hedged, but fluctuations in currency exchange rates could impact our results of operations, financial position and cash flows.

Consolidated Quarterly Results

The following table sets forth certain unaudited consolidated quarterly statement of operations data for 2015 and 2014. In the opinion of management, this unaudited information has been prepared on substantially the same basis as the Consolidated Financial Statements appearing elsewhere in this document and includes all adjustments (consisting of normal recurring adjustments) necessary for a fair statement of the unaudited consolidated quarterly data. The unaudited consolidated quarterly data should be read in conjunction with the audited Consolidated Financial Statements and notes thereto appearing elsewhere in this document. The results of any quarter are not necessarily indicative of results for any future period.

	Quarter Ended*							
	Dec. 31, 2015	Sept. 30, 2015	Jun. 30, 2015	Mar. 31, 2015	Dec 31, 2014	Sept. 30, 2014	Jun 30, 2014	Mar 31, 2014
	(in thousands, except per share amounts)							
Revenues								
Trading revenues, net	\$ 145,959	\$ 277,677	\$ 170,750	\$ 208,795	\$ 221,415	\$ 150,865	\$ 206,780	\$ 258,297
Commissions and fees	94,315	95,027	87,370	99,961	117,326	102,663	104,776	112,257
Interest, net	(429)	(1,080)	(596)	(23)	(177)	139	(289)	948
Investment income and other, net	24,191	5,412	4,358	387,423	7,575	18,635	2,866	12,155
Total revenues	<u>264,036</u>	<u>377,036</u>	<u>261,882</u>	<u>696,156</u>	<u>346,139</u>	<u>272,302</u>	<u>314,133</u>	<u>383,657</u>
Expenses								
Employee compensation and benefits	67,823	121,597	109,471	106,718	116,214	95,307	103,430	122,319
Execution and clearance fees	66,613	67,502	62,598	68,473	82,377	74,058	73,242	75,501
Communications and data processing	36,003	35,256	34,240	33,764	36,945	38,576	38,279	36,796
Depreciation and amortization	25,077	23,813	20,726	20,615	21,224	20,298	19,823	20,103
Payments for order flow	14,464	17,121	14,935	15,221	14,698	15,377	18,076	22,032
Debt interest expense	9,186	9,117	9,989	8,463	7,721	7,714	7,497	9,524
Collateralized financing interest	8,746	8,617	8,859	8,456	7,973	7,330	6,395	6,162
Occupancy and equipment rentals	7,842	7,472	7,474	7,340	8,514	7,672	8,235	8,285
Professional fees	5,774	4,406	5,694	11,181	5,695	7,161	7,337	5,402
Business development	1,751	1,846	3,025	1,857	2,308	3,163	2,609	1,683
Debt extinguishment charges	—	—	25,006	—	—	—	1,995	7,557
Writedown of assets and other real estate related charges	16,154	34,029	6,327	132	6,117	301	1,941	266
Other	9,074	10,841	10,652	7,808	9,822	10,580	10,767	8,643
Total expenses	<u>268,507</u>	<u>341,617</u>	<u>318,996</u>	<u>290,028</u>	<u>319,608</u>	<u>287,537</u>	<u>299,626</u>	<u>324,273</u>
(Loss) income from continuing operations before income taxes	(4,471)	35,419	(57,114)	406,128	26,531	(15,235)	14,507	59,384
Income tax (benefit) expense	(1,500)	13,482	(37,952)	156,827	562	(5,796)	5,520	22,467
(Loss) income from continuing operations, net of tax	(2,971)	21,937	(19,162)	249,301	25,969	(9,439)	8,987	36,917
Income (loss) from discontinued operations, net of tax	—	—	—	—	165	(177)	(67)	(1,253)
Net (loss) income	<u>\$ (2,971)</u>	<u>\$ 21,937</u>	<u>\$ (19,162)</u>	<u>\$ 249,301</u>	<u>\$ 26,134</u>	<u>\$ (9,616)</u>	<u>\$ 8,920</u>	<u>\$ 35,664</u>
Basic (loss) earnings per common share from continuing operations	<u>\$ (0.03)</u>	<u>\$ 0.24</u>	<u>\$ (0.18)</u>	<u>\$ 2.25</u>	<u>\$ 0.24</u>	<u>\$ (0.09)</u>	<u>\$ 0.08</u>	<u>\$ 0.32</u>
Diluted (loss) earnings per common share from continuing operations	<u>\$ (0.03)</u>	<u>\$ 0.24</u>	<u>\$ (0.18)</u>	<u>\$ 2.19</u>	<u>\$ 0.23</u>	<u>\$ (0.09)</u>	<u>\$ 0.08</u>	<u>\$ 0.31</u>
Basic and diluted loss per common share from discontinued operations	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ (0.01)</u>
Basic (loss) earnings per common share	<u>\$ (0.03)</u>	<u>\$ 0.24</u>	<u>\$ (0.18)</u>	<u>\$ 2.25</u>	<u>\$ 0.24</u>	<u>\$ (0.09)</u>	<u>\$ 0.08</u>	<u>\$ 0.31</u>
Diluted (loss) earnings per common share	<u>\$ (0.03)</u>	<u>\$ 0.24</u>	<u>\$ (0.18)</u>	<u>\$ 2.19</u>	<u>\$ 0.23</u>	<u>\$ (0.09)</u>	<u>\$ 0.08</u>	<u>\$ 0.30</u>

* Quarterly totals may not add to full year due to rounding.

Item 8. *Financial Statements and Supplementary Data*

**KCG HOLDINGS, INC.
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MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

KCG Holdings, Inc.'s ("KCG") management is responsible for establishing and maintaining adequate internal control over financial reporting. Internal control over financial reporting is defined in Rule 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934, as amended, as a process designed by, or under the supervision of, the Company's principal executive and principal financial officers and effected by the Company's board of directors, management and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles and includes those policies and procedures that:

- pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of KCG;
- provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of KCG; and
- provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risks that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management assessed the effectiveness of KCG's internal control over financial reporting as of December 31, 2015. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission in *Internal Control-Integrated Framework (2013)*.

Based on our assessment, KCG's management has concluded that, as of December 31, 2015, internal control over financial reporting is effective.

The effectiveness of KCG's internal control over financial reporting as of December 31, 2015 has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report which appears herein.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of KCG Holdings, Inc.

In our opinion, the accompanying consolidated statements of financial condition and the related consolidated statements of operations, comprehensive income, changes in equity and cash flows present fairly, in all material respects, the financial position of KCG Holdings, Inc. and its subsidiaries (the "Company") at December 31, 2015 and 2014, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2015 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2015, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these financial statements, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express opinions on these financial statements and on the Company's internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ PricewaterhouseCoopers LLP

New York, New York

February 29, 2016

KCG HOLDINGS, INC.
CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

	December 31, 2015	December 31, 2014
Assets		
	(In thousands)	
Cash and cash equivalents	\$ 581,313	\$ 578,768
Cash and cash equivalents segregated under federal and other regulations	3,000	3,361
Financial instruments owned, at fair value, including securities pledged to counterparties that had the right to deliver or repledge of \$324,146 at December 31, 2015 and \$536,124 at December 31, 2014:		
Equities	2,129,208	2,479,910
Listed options	178,360	144,586
Debt securities	136,387	82,815
Other financial instruments	445	60
Total financial instruments owned, at fair value	2,444,400	2,707,371
Collateralized agreements:		
Securities borrowed	1,636,284	1,632,062
Receivable from brokers, dealers and clearing organizations	681,211	1,188,833
Fixed assets and leasehold improvements, less accumulated depreciation and amortization	94,858	134,051
Investments	98,943	100,726
Goodwill and Intangible assets, less accumulated amortization	100,471	152,594
Deferred tax asset, net	151,225	154,759
Assets of businesses held for sale	25,999	40,484
Other assets	233,474	137,645
Total assets	\$ 6,051,178	\$ 6,830,654
Liabilities and equity		
Liabilities		
Financial instruments sold, not yet purchased, at fair value:		
Equities	\$ 1,856,171	\$ 2,069,342
Listed options	151,893	115,362
Debt securities	105,340	101,003
Total financial instruments sold, not yet purchased, at fair value	2,113,404	2,285,707
Collateralized financings:		
Securities loaned	463,377	707,744
Financial instruments sold under agreements to repurchase	954,902	933,576
Total collateralized financings	1,418,279	1,641,320
Payable to brokers, dealers and clearing organizations	273,805	676,089
Payable to customers	17,387	22,110
Accrued compensation expense	154,547	114,559
Accrued expenses and other liabilities	134,026	143,677
Liabilities of businesses held for sale	—	2,356
Debt	495,632	422,259
Total liabilities	4,607,080	5,308,077
Commitments and Contingent Liabilities (Note 22)		
Equity		
Class A Common Stock		
Shares authorized: 1,000,000 at December 31, 2015 and December 31, 2014; Shares issued: 106,025 at December 31, 2015 and 127,508 at December 31, 2014; Shares outstanding: 90,156 at December 31, 2015 and 116,860 at December 31, 2014	1,060	1,275
Additional paid-in capital	1,436,671	1,369,298
Retained earnings	192,120	272,780
Treasury stock, at cost; 15,869 shares at December 31, 2015 and 10,649 shares at December 31, 2014	(186,103)	(122,909)
Accumulated other comprehensive income	350	2,133
Total equity	1,444,098	1,522,577
Total liabilities and equity	\$ 6,051,178	\$ 6,830,654

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

KCG HOLDINGS, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS

	For the year ended December 31,		
	2015	2014	2013
	(In thousands, except per share amounts)		
Revenues			
Trading revenues, net	\$ 803,181	\$ 837,357	\$ 628,304
Commissions and fees	376,673	437,022	275,474
Interest, net	(2,128)	621	(537)
Investment income and other, net	421,384	41,232	124,095
Total revenues	1,599,110	1,316,232	1,027,336
Expenses			
Employee compensation and benefits	405,609	437,269	349,192
Execution and clearance fees	265,186	305,177	246,414
Communications and data processing	139,263	150,595	123,552
Depreciation and amortization	90,231	81,448	55,570
Payments for order flow	61,741	70,183	35,711
Debt interest expense	36,755	32,456	34,938
Collateralized financing interest	34,678	27,860	9,847
Occupancy and equipment rentals	30,128	32,707	24,812
Professional fees	27,055	25,596	46,662
Business development	8,479	9,763	4,609
Debt extinguishment charges	25,006	9,552	13,209
Writedown of assets and other real estate related charges	56,642	8,625	14,748
Other	38,375	39,814	43,094
Total expenses	1,219,148	1,231,045	1,002,358
Income from continuing operations before income taxes	379,962	85,187	24,978
Income tax expense (benefit)	130,858	22,753	(101,114)
Income from continuing operations, net of tax	249,104	62,434	126,092
(Loss) income from discontinued operations, net of tax	—	(1,332)	80
Net income	\$ 249,104	\$ 61,102	\$ 126,172
Net loss allocated to preferred and participating units	\$ —	\$ —	\$ (21,565)
Net income attributable to common shareholders	\$ 249,104	\$ 61,102	\$ 147,737
Basic earnings per share from continuing operations	\$ 2.48	\$ 0.55	\$ 1.84
Diluted earnings per share from continuing operations	\$ 2.42	\$ 0.54	\$ 1.82
Basic loss per share from discontinued operations	\$ —	\$ (0.01)	\$ —
Diluted loss per share from discontinued operations	\$ —	\$ (0.01)	\$ —
Basic earnings per share	\$ 2.48	\$ 0.54	\$ 1.84
Diluted earnings per share	\$ 2.42	\$ 0.52	\$ 1.82
Shares used in computation of basic earnings (loss) per share	100,437	112,854	80,143
Shares used in computation of diluted earnings (loss) per share	102,922	116,534	81,015

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

KCG HOLDINGS, INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	For the year ended December 31,		
	2015	2014	2013
	(In thousands)		
Net income	\$ 249,104	\$ 61,102	\$ 126,172
Other comprehensive income (loss):			
Unrealized (loss) gain on available for sale securities, net of tax	(202)	316	(114,283)
Cumulative translation adjustment, net of tax	(1,581)	416	1,365
Comprehensive income	\$ 247,321	\$ 61,834	\$ 13,254

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

KCG HOLDINGS, INC.
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the years ended December 31, 2013, 2014 and 2015

	(in thousands)	Class A Common Stock				Treasury Stock				
		Redeemable preferred member's equity	Members' Equity	Unrecognized Compensation	Class A Common Stock		Retained Earnings	Treasury Stock		
					Shares	Amount		Shares	Amount	
Balance, January 1, 2013	\$ 311,139	\$559,292	\$ (18,939)	—	\$ —	—	\$ —	—	\$ 114,319	\$ 654,672
Contributions	—	11,339	18,939	—	—	—	—	—	—	30,278
Repurchase of Membership interests	—	(5,833)	—	—	—	—	—	—	—	(5,833)
Distributions	—	(2,054)	—	—	—	—	—	—	—	(2,054)
Net (loss) income	—	(89,305)	—	—	—	—	—	—	—	(89,305)
Unrealized gain on available for sale securities	—	—	—	—	—	—	—	—	4,550	4,550
Cumulative translation adjustment	—	—	—	—	—	—	—	—	(403)	(403)
Modification of redemption value	(21,565)	21,565	—	—	—	—	—	—	—	21,565
Balance, June 30, 2013	289,574	495,004	—	—	—	—	—	—	118,466	613,470
Gain on investment in Knight Capital Group, Inc.	—	—	—	—	—	—	—	—	9,103	9,103
Reclassification of investment in Knight out of other comprehensive income	—	—	—	—	—	—	—	—	(127,972)	(127,972)
Equity issued to General Atlantic	—	55,000	—	—	—	—	—	—	—	55,000
Exchange of membership interests for shares of KCG Class A Common Stock	(289,574)	(550,004)	—	75,868	759	754,417	—	—	—	205,172
Exchange of membership interests for warrants to purchase KCG Class A Common Stock	—	—	—	—	—	74,896	—	—	—	74,896
Issuance of KCG Class A Common Stock to Knight stockholders	—	—	—	41,889	419	453,419	—	—	—	453,838
Change in estimated distribution payable to members	—	—	—	—	—	1,757	—	—	—	1,757
KCG Class A Common Stock repurchased	—	—	—	—	—	—	—	(1,079)	(11,324)	(11,324)
Stock-based compensation	—	—	—	5,560	55	22,060	—	—	—	22,115
Unrealized gain on available for sale securities, net	—	—	—	—	—	—	—	—	36	36
Cumulative translation adjustment, net	—	—	—	—	—	—	—	—	1,768	1,768
Net income	—	—	—	—	—	—	209,393	—	—	209,393
Balance, December 31, 2013 - as reported	—	—	—	123,317	\$ 1,233	\$1,306,549	\$209,393	(1,079)	\$ (11,324)	\$ 1,507,252
Cumulative effect of change in accounting principle - See Footnote 3	—	—	—	—	—	—	2,285	—	—	2,285
Balance, December 31, 2013 - as adjusted	—	—	—	123,317	1,233	1,306,549	211,678	(1,079)	(11,324)	1,509,537
KCG Class A Common Stock repurchased	—	—	—	—	—	—	—	(9,570)	(111,585)	(111,585)
Stock-based compensation	—	—	—	4,191	42	61,865	—	—	—	61,907
Income tax provision-stock based compensation	—	—	—	—	—	884	—	—	—	884
Unrealized gain on available for sale securities, net	—	—	—	—	—	—	—	—	316	316
Cumulative translation adjustment, net	—	—	—	—	—	—	—	—	416	416
Net income	—	—	—	—	—	—	61,102	—	—	61,102
Balance, December 31, 2014	—	—	—	127,508	1,275	1,369,298	272,780	(10,649)	(122,909)	1,522,577
KCG Class A Common Stock repurchased and retired via Tender Offer	—	—	—	(23,571)	(236)	—	(329,764)	—	—	(330,000)
KCG Class A Common Stock repurchased	—	—	—	—	—	—	—	(5,220)	(63,194)	(63,194)
Stock-based compensation	—	—	—	1,883	19	67,390	—	—	—	67,409
Income tax provision-stock based compensation	—	—	—	—	—	2,647	—	—	—	2,647

KCG HOLDINGS, INC.
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the years ended December 31, 2013, 2014 and 2015

Stock options exercised	—	—	151	2	1,245	—	—	—	—	1,247
Warrants exercised	—	—	54	—	532	—	—	—	—	532
Warrants repurchased	—	—	—	—	(4,441)	—	—	—	—	(4,441)
Unrealized gain on available for sale securities, net	—	—	—	—	—	—	—	—	(202)	(202)
Cumulative translation adjustment, net	—	—	—	—	—	—	—	—	(1,581)	(1,581)
Net income	—	—	—	—	—	249,104	—	—	—	249,104
Balance, December 31, 2015	\$	—	\$	\$ 1,060	\$1,436,671	\$192,120	(15,869)	\$(186,103)	\$	\$ 1,444,098

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

KCG HOLDINGS, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the years ended December 31,		
	2015	2014	2013
	(In thousands)		
Cash flows from operating activities			
Net income	\$ 249,104	\$ 61,102	\$ 126,172
(Loss) income from discontinued operations, net of tax	—	(1,332)	80
Income from continuing operations, net of tax	249,104	62,434	126,092
Adjustments to reconcile income from continuing operations, net of tax to net cash provided by operating activities			
Gain on sale of KCG Hotspot	(385,026)	—	—
Non-cash gain from sale of Futures Commission Merchant	—	(116)	—
Realized gain on investments	(19,751)	—	—
Unrealized gain on investments	(10,173)	(36,456)	(4,539)
Stock and unit-based compensation	84,663	58,940	64,286
Depreciation and amortization	90,231	81,448	55,570
Non-cash gain on Knight Common Stock	—	—	(127,972)
Deferred taxes	9,976	19,397	(103,499)
Debt discount accretion and other debt related expenses	12,829	13,217	17,332
Writedown of assets and other real estate related charges	56,642	8,625	14,748
Deferred rent	2,075	930	58
Change in value in receivable from BATS	(2,102)	—	—
Realized gain from reclassification of available for sale securities	(497)	—	—
Operating activities from discontinued operations	—	(1,073)	6,952
Decrease (increase) in operating assets			
Cash and cash equivalents segregated under federal and other regulations	361	(54,955)	19,963
Financial instruments owned, at fair value	265,763	14,468	(129,035)
Securities borrowed	(4,223)	(274,675)	(146,145)
Receivable from brokers, dealers and clearing organizations	507,623	(321,087)	252,266
Other assets	(26,340)	(6,459)	25,785
(Decrease) increase in operating liabilities			
Financial instruments sold, not yet purchased, at fair value	(172,302)	120,207	139,951
Securities loaned	(244,368)	(25,486)	106,339
Financial instruments sold under agreements to repurchase	21,327	292,625	95,950
Payable to brokers, dealers and clearing organizations	(402,285)	268,563	(185,992)
Payable to customers	(4,724)	92,096	(46,877)
Accrued compensation expense	21,726	(29,536)	24,441
Accrued expenses and other liabilities	(37,545)	(40,583)	(64,470)
Net cash provided by operating activities	12,984	242,524	141,204
Cash flows from investing activities			
Cash acquired upon acquisition of Knight Capital Group, Inc.	—	—	509,133
Cash received from sale of KCG Hotspot, net of cash provided	360,928	—	—
Cash received from sale of Urban Financial Group, Inc.	—	—	85,406
Cash received from sale of Futures Commission Merchant	—	2,000	—
Proceeds and distributions from investments	34,620	58,660	3,251
Purchases of fixed assets and leasehold improvements	(34,581)	(34,139)	(25,147)
Capitalized software development costs	(24,530)	(14,859)	(2,556)
Purchases of investments	(7,959)	(744)	(158)
Investing activities from discontinued operations	—	—	12,963
Sale of trading rights	—	554	—
Net cash provided by investing activities	328,478	11,472	582,892
Cash flows from financing activities			
Proceeds from issuance of 6.875% Senior Secured Notes, net	494,810	—	—
Repayment of 8.25% Senior Secured Notes	(305,000)	—	—
Repayment of convertible notes	(117,259)	—	—
Issuance of equity to General Atlantic	—	—	55,000
Payment to former Knight Capital Group, Inc. stockholders	—	—	(720,000)
Payment of debt issuance costs	(12,645)	—	(34,592)
Borrowings under capital lease obligations	—	5,892	—
Principal payments on capital lease obligations	(4,033)	(9,232)	(14,152)
Cost of common stock repurchased - Tender Offer	(330,000)	—	—
Cost of common stock repurchased	(63,194)	(111,585)	(11,324)
Stock options exercised	1,247	—	—
Warrants exercised	532	—	—
Cost of warrants repurchased	(4,441)	—	—
Income tax provision on stock awards exercised	2,647	—	—
Proceeds from issuance of Credit Agreement	—	—	535,000
Partial repayment of Credit Agreement	—	(235,000)	(300,000)
Proceeds from issuance of Senior Secured Notes	—	—	305,000

KCG HOLDINGS, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS

Repayment of Knight Convertible Notes	—	—	(257,741)
Funding of collateral account for Knight Convertible Notes	—	—	(117,259)
Release of collateral account for Knight Convertible Notes	—	—	117,259
Borrowings under secured credit facility	—	—	25,000
Repayment of secured credit facility	—	—	(25,000)
Members' distributions	—	—	(21,002)
Repayment of Notes	—	—	(15,000)
Net cash used in financing activities	<u>(337,336)</u>	<u>(349,925)</u>	<u>(478,811)</u>
Effect of exchange rate changes on cash and cash equivalents	<u>(1,581)</u>	<u>416</u>	<u>1,365</u>
Increase (decrease) in cash and cash equivalents	2,545	(95,513)	246,650
Cash and cash equivalents at beginning of period	578,768	674,281	427,631
Cash and cash equivalents at end of period	<u>\$ 581,313</u>	<u>\$ 578,768</u>	<u>\$ 674,281</u>
Supplemental disclosure of cash flow information:			
Cash paid for interest	<u>\$ 81,349</u>	<u>\$ 76,003</u>	<u>\$ 56,227</u>
Cash paid for income taxes	<u>\$ 124,461</u>	<u>\$ 16,975</u>	<u>\$ 10,198</u>
Non-cash investing activities - Contribution of fixed assets to joint venture	<u>\$ 3,370</u>	<u>\$ —</u>	<u>\$ —</u>

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

KCG HOLDINGS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Organization and Description of the Business

KCG Holdings, Inc. (collectively with its subsidiaries, "KCG" or the "Company") is a leading independent securities firm offering clients a range of services designed to address trading needs across asset classes, product types and time zones. The Company combines advanced technology with specialized client service across market making, agency execution and trading venues and also engages in principal trading via direct-to-client and non-client exchange-based electronic market making. KCG has multiple access points to trade global equities, options, futures, fixed income, currencies and commodities via voice or automated execution.

KCG was formed as a result of a strategic business combination (the "Mergers") of Knight Capital Group, Inc. ("Knight") and GETCO Holding Company, LLC ("GETCO") in July 2013.

As of December 31, 2015, the Company's operating segments comprised the following: (i) Market Making; (ii) Global Execution Services; and (iii) Corporate and Other.

Market Making

The Market Making segment principally consists of market making in the cash, futures and options markets across global equities, options, fixed income, currencies and commodities. As a market maker, the Company commits capital on a principal basis by offering to buy securities from, or sell securities to, broker dealers, banks and institutions. Principal trading in the Market Making segment primarily consists of direct-to-client and non-client exchange-based electronic market making, including trade executions conducted as an equities Designated Market Maker ("DMM") on the New York Stock Exchange ("NYSE") and NYSE Amex Equities ("NYSE Amex"). KCG is an active participant on all major global equity and futures exchanges and also trades on substantially all domestic electronic options exchanges. As a complement to electronic market making, the Company's cash trading business handles specialized orders and also transacts on the OTC Bulletin Board marketplaces operated by the OTC Markets Group Inc. and the Alternative Investment Market of the London Stock Exchange ("AIM").

Global Execution Services

The Global Execution Services segment comprises agency execution services and trading venues, offering trading in global equities, options, futures and fixed income to institutions, banks and broker dealers. The Company generally earns commissions as an agent between principals for transactions; however, the Company will commit capital on behalf of clients as needed. Agency-based, execution-only trading in the segment is done primarily through a variety of access points including: (i) algorithmic trading and order routing in global equities and options; (ii) institutional sales traders executing program, block and riskless principal trades in global equities and exchange traded funds ("ETFs"); (iii) a fixed income electronic communication network ("ECN") that also offers trading applications; and (iv) an alternative trading system ("ATS") for global equities.

Corporate and Other

The Corporate and Other segment contains investments principally in strategic financial services-oriented opportunities; manages the deployment of capital across the organization; houses executive management functions; and maintains corporate overhead expenses and all other income and expenses that are not attributable to the other segments. The Corporate and Other segment also contains functions that support the Company's other segments such as self-clearing services, including stock lending activities.

Sales of Businesses

Management from time to time conducts a strategic review of its businesses and evaluates their potential value in the marketplace relative to their current and expected returns. To the extent management and the Company's Board of Directors determine a business may return a higher value to stockholders, or is no longer core to its strategy, the Company may divest or exit such business.

In November 2013, the Company sold Urban Financial of America, LLC, ("Urban"), the reverse mortgage origination and securitization business that was previously owned by Knight to an investor group.

In November 2014, the Company sold certain assets and liabilities related to its former Futures Commission Merchant ("FCM") business to Wedbush Securities Inc.

In March 2015, the Company sold KCG Hotspot, the Company's former spot institutional foreign exchange ECN,

KCG HOLDINGS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – Continued

to BATS Global Markets, Inc. ("BATS").

See Footnote 5 "Discontinued Operations, Assets and Liabilities Held for Sale & Sales of Businesses" and Footnote 27 "Subsequent Event" for further details.

2. Merger of GETCO and Knight

Background

Pursuant to the Merger Agreement, each outstanding share of Knight Class A common stock, par value \$0.01 per share ("Knight Common Stock"), was converted into the right to elect to receive either \$3.75 per share in cash or one third of a share of KCG Class A common stock, par value \$0.01 per share ("KCG Class A Common Stock"). As a result of the elections and proration procedures provided in the Merger Agreement, former Knight stockholders received cash payments aggregating \$720.0 million and 41.9 million shares of KCG Class A Common Stock.

Upon completion of the Mergers, GETCO unitholders received, in aggregate, 75.9 million shares of KCG Class A Common Stock and 24.3 million warrants to acquire shares of KCG Class A Common Stock. The warrants comprised 8.1 million Class A warrants, having a \$12.00 exercise price and exercisable for a four-year term; 8.1 million Class B warrants, having a \$13.50 exercise price and exercisable for a five-year term; and 8.1 million Class C warrants, having a \$15.00 exercise price and exercisable for a six-year term (collectively the "KCG Warrants"). The exercise price of each of the Class A, Class B, Class C Warrants was later adjusted as a result of the "modified Dutch auction" tender offer commenced by the Company on May 4, 2015 (the "Tender Offer"). See Footnote 4 "Tender Offer and Stock Repurchase" for further information.

Accounting treatment of the Mergers

The Mergers are accounted for as a purchase of Knight by GETCO under accounting principles generally accepted in the United States of America ("GAAP") based on, among other factors, the controlling ownership position of the former GETCO unitholders as of the closing of the Mergers. Under the purchase method of accounting, the assets and liabilities of Knight as of July 1, 2013 were recorded at their respective fair values and added to the carrying value of GETCO's existing assets and liabilities. The reported financial condition and results of operations of KCG for the periods following the Mergers reflect Knight's and GETCO's balances and reflect the impact of purchase accounting adjustments, including revised amortization and depreciation expense for acquired assets. As GETCO is the accounting acquirer, the financial results for KCG for the first six months of 2013 comprise solely the results of GETCO.

Prior to the Mergers, GETCO treated its investment in Knight as an available-for-sale security, which it recorded at fair value, with any gains or losses recorded in other comprehensive income as a component of equity.

All GETCO earnings per share and unit share outstanding amounts in these financial statements have been calculated as if the conversion of GETCO units to KCG Class A Common Stock took place on January 1, 2013, at the exchange ratio as defined in the Merger Agreement. See Footnote 20 "Earnings Per Share" for further information.

Purchase price and goodwill

The Knight acquisition was accounted for using the acquisition method of accounting. The aggregate purchase price of \$1.37 billion was determined as the sum of the fair value of KCG shares issued to former Knight stockholders at closing; the fair value of Knight employee stock based awards attributable to periods prior to closing; and the fair value of the Knight Common Stock owned by GETCO and its subsidiaries immediately prior to the Mergers (and subsequently canceled in conjunction with the Mergers).

Tax treatment of the Mergers

The Company believes that the Mergers will be treated as a transaction described in Section 351 of the Internal Revenue Code, and both Knight and GETCO have received tax opinions from external legal counsel to that effect. Knight's tax basis in its assets and liabilities therefore generally carries over to the Company following the Mergers. Upon completion of the Mergers, the Company became a corporation subject to U.S. corporate income taxes and, following the Mergers, the Company recorded deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the financial reporting and tax bases of assets and liabilities. The Company measures deferred taxes using the enacted tax rates and laws that will be in effect when such temporary differences are expected to reverse.

KCG HOLDINGS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – Continued

The Company recorded net deferred tax assets of \$65.5 million with respect to recording Knight's assets and liabilities under the purchase method of accounting as described above as well as recording the value of tax net operating loss ("NOL") carryforwards and other tax attributes acquired as a result of the Mergers, as described in Footnote 17 "Income Taxes".

The following table reflects the allocation of the purchase price to the assets acquired and liabilities assumed at the acquisition date (in thousands):

Identifiable Net Assets

Cash and cash equivalents	\$ 509,133
Cash and cash equivalents segregated under federal and other regulations	203,045
Financial instruments owned	1,937,929
Securities borrowed	1,158,981
Receivable from brokers, dealers and clearing organizations	1,369,474
Fixed assets and leasehold improvements	80,280
Investments	106,353
Intangible assets	155,425
Assets within discontinued operations	5,607,063
Deferred tax asset, net	65,465
Other assets	140,933

Total Assets	\$ 11,334,081
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Financial instruments sold, not yet purchased	\$ 1,512,983
Collateralized financings	1,166,211
Payable to brokers, dealers and clearing organizations	635,914
Payable to customers	527,918
Accrued compensation expense	107,409
Accrued expenses and other liabilities	130,010
Liabilities within discontinued operations	5,518,168
Debt	375,000

Total Liabilities	\$ 9,973,613
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Total identified assets acquired, net of assumed liabilities	1,360,468
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Goodwill	12,666
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Total Purchase Price	\$ 1,373,134
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Goodwill has been primarily assigned to the Market Making segment of the Company. None of the goodwill is expected to be deductible for tax purposes; however, as described in *Tax treatment of the Mergers* above, Knight's tax basis in its assets, including certain goodwill, has carried over to the Company as a result of the Mergers.

Amounts allocated to intangible assets and goodwill, and the amortization period for intangible assets with finite useful lives, were as follows (dollars in thousands):

	Amount	Amortization Years
Technology	\$ 110,504	5 years
Customer relationships	35,000	9 - 11 years
Trade names	4,000	10 years
Trading rights ⁽¹⁾	5,921	7 years
Intangible assets	155,425	
Goodwill	12,666	
Total	\$ 168,091	

⁽¹⁾ Trading rights include both assets with a finite useful life and assets with an indefinite useful life. The 7 years amortization period only applies to assets with a finite useful life.

KCG HOLDINGS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – Continued

3. Significant Accounting Policies

Basis of consolidation and form of presentation

The Consolidated Financial Statements, prepared in conformity with GAAP, include the accounts of the Company and its subsidiaries. All significant intercompany transactions and balances have been eliminated.

Change in accounting principle

As discussed in Footnote 11 "Investments", as a result of the merger of BATS and Direct Edge Holdings LLC ("Direct Edge") in the first quarter of 2014, the Company changed its method of accounting for its investment in BATS from the cost method to the equity method.

Cash and cash equivalents

Cash and cash equivalents include money market accounts, which are payable on demand, and short-term investments with an original maturity of less than 90 days. The carrying amount of such cash equivalents approximates their fair value due to the short-term nature of these instruments. These assets would be categorized as Level 1 in the fair value hierarchy if they were required to be recorded at fair value.

Cash and cash equivalents segregated under federal and other regulations

The Company maintains custody of customer funds and is obligated by rules and regulations mandated by the U.S. Securities and Exchange Commission ("SEC") and the Commodity Futures Trading Commission ("CFTC") to segregate or set aside cash and/or qualified securities to satisfy these regulations, which have been promulgated to protect customer assets. The amounts recognized as Cash and cash equivalents segregated under federal and other regulations approximate fair value. These assets would be categorized as Level 1 in the fair value hierarchy if they were required to be recorded at fair value.

Market making, sales, trading and execution activities

Financial instruments owned and Financial instruments sold, not yet purchased relate to market making and trading activities, and include listed and other equity securities, listed equity options and fixed income securities that are recorded on a trade date basis and are reported at fair value. Trading revenues, net, which comprises trading gains, net of trading losses on such financial instruments, are also recorded on a trade date basis.

Commissions, which primarily comprise commission equivalents earned on institutional client orders and volume based fees earned from providing liquidity to other trading venues, as well as related expenses, are also recorded on a trade date basis. Prior to its sale in November 2014, commissions earned by the Company's former FCM were recorded net of any commissions paid to independent brokers and were recognized on a half-turn basis.

The Company's third party clearing agreements call for payment or receipt of interest income, net of transaction-related interest charged by such clearing brokers, for facilitating the settlement and financing of securities transactions. Interest income and interest expense which have been netted within Interest, net on the Consolidated Statements of Operations are as follows (in thousands):

	For the year ended December 31,		
	2015	2014	2013
Interest Income	\$ 12,666	\$ 14,363	\$ 10,187
Interest Expense	(14,794)	(13,742)	(10,724)
Interest, net	\$ (2,128)	\$ 621	\$ (537)

Dividend income relating to financial instruments owned and dividend expense relating to financial instruments sold, not yet purchased, are derived primarily from the Company's market making activities and are included as a component of Trading revenues, net on the Consolidated Statements of Operations. Trading revenues, net includes dividend income and expense as follows (in thousands):

	For the year ended December 31,		
	2015	2014	2013
Dividend Income	\$ 63,971	\$ 45,910	\$ 26,237
Dividend Expense	\$ (42,398)	\$ (38,444)	\$ (21,630)

KCG HOLDINGS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – Continued

Payments for order flow represent payments to broker dealer clients, in the normal course of business, for directing their order flow in U.S. equities and options to the Company.

Fair value of financial instruments

The Company values its financial instruments using a hierarchy of fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs when measuring fair value.

The fair value hierarchy can be summarized as follows:

- Level 1—Valuations based on quoted prices in active markets for identical assets or liabilities that the Company has the ability to access. Since valuations are based on quoted prices that are readily and regularly available in an active market, valuation of these products does not entail a significant degree of judgment.
- Level 2—Valuations based on quoted prices in markets that are not active or for which all significant inputs are observable, either directly or indirectly.
- Level 3—Valuations based on inputs that are unobservable and significant to the overall fair value measurement.

Changes in fair value are recognized in earnings each period for financial instruments that are carried at fair value. See Footnote 6 “Fair Value” for a description of valuation methodologies applied to the classes of financial instruments at fair value.

Collateralized agreements and financings

Collateralized agreements consist of securities borrowed. Collateralized financings include securities loaned and financial instruments sold under agreements to repurchase.

- Securities borrowed and securities loaned transactions are recorded at the amount of cash collateral advanced or received. Securities borrowed transactions facilitate the securities settlement process and require the Company to deposit cash or other collateral with the lender. Securities loaned transactions help finance the Company’s securities inventory whereby the Company lends stock to counterparties in exchange for the receipt of cash or other collateral from the borrower. In these transactions, the Company receives or posts cash or other collateral in an amount generally in excess of the market value of the applicable securities borrowed or loaned. The Company monitors the market value of securities borrowed or loaned on a daily basis, and obtains additional collateral or refunds excess collateral as necessary.
- Financial instruments sold under agreements to repurchase are used to finance inventories of securities and other financial instruments and are recorded at their contractual amount. The Company has entered into bilateral and tri-party term and overnight repurchase agreements which bear interest at negotiated rates. The Company receives cash and makes delivery of financial instruments to a custodian who monitors the market value of these instruments on a daily basis. The market value of the instruments delivered must be equal to or in excess of the principal amount loaned under the repurchase agreements plus the agreed upon margin requirement. The custodian may request additional collateral, if appropriate.

The Company’s securities borrowed, securities loaned and financial instruments sold under agreements to repurchase are recorded at amounts that approximate fair value. These items are recorded based upon their contractual terms and are not materially sensitive to shifts in interest rates because they are short-term in nature and are substantially collateralized pursuant to the terms of the underlying agreements. These items would be categorized as Level 2 in the fair value hierarchy if they were required to be recorded at fair value.

Investments

Investments primarily comprise noncontrolling equity ownership interests in financial services-related businesses and are held by the Company’s non-broker dealer subsidiaries. These investments are accounted for under the equity method, at cost or at fair value. The equity method of accounting is used when the Company has significant influence over the operating and financial policies of the investee. Investments are held at cost, less impairment if any, when the investment does not have a readily determined fair value, and the Company is not considered to exert significant influence over operating and financial policies of the investee. Investments that are publicly traded are held at fair value and accounted for as available for sale securities on the Consolidated Statements of Financial Condition.

KCG HOLDINGS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – Continued

Prior to the Mergers, GETCO had a strategic investment in Knight which was classified as available for sale and held at fair value with any unrealized gains or losses recorded in Other comprehensive income or loss. As a result of the Mergers, the Company recognized a non-cash gain of \$128.0 million on its investment in Knight Common Stock, which it recorded within Investment income and other, net on the Consolidated Statement of Operations for the year ended December 31, 2013 and reversed any previous unrealized gains out of Other comprehensive income.

Investments are reviewed on an ongoing basis to ensure that the carrying values of the investments have not been impaired. If the Company determines that an impairment loss on an investment has occurred due to a decline in fair value or other market conditions, the investment is written down to its estimated fair value.

Included in the Company's investments are assets supporting a non-qualified deferred compensation plan for certain employees. This plan provides a return to the participants based upon the performance of various investments. In order to hedge its liability under this plan, the Company generally acquires the underlying investments and holds such investments until the deferred compensation liabilities are satisfied. Changes in value of such investments are recorded in Investment income and other, net, with a corresponding charge or credit to Employee compensation and benefits on the Consolidated Statements of Operations. Deferred compensation investments primarily consist of mutual funds, which are accounted for at fair value.

Goodwill and intangible assets

The Company tests goodwill and intangible assets with an indefinite useful life for impairment annually or when an event occurs or circumstances change that signifies that the carrying amounts may not be recoverable. The Company amortizes intangible assets with a finite life on a straight line basis over their estimated useful lives and tests for recoverability whenever events indicate that the carrying amounts may not be recoverable. The Company capitalizes certain costs associated with the acquisition or development of internal-use software and amortizes the software over its estimated useful life of three years, commencing at the time the software is placed in service.

Payable to customers

Payable to customers primarily relate to amounts due on cash and margin transactions. Due to their short-term nature, such amounts approximate fair value.

Repurchases of common stock

The Company may repurchase shares of KCG Class A Common Stock in the open market or through privately negotiated transactions. The Company may structure such repurchases as either a purchase of treasury stock or a retirement of shares. The Company records its purchases of treasury stock, which include shares repurchased in satisfaction of tax withholding obligations upon vesting of restricted awards, at cost as a separate component of stockholders' equity. The Company may re-issue treasury stock, at average cost, for the acquisition of new businesses and in certain other circumstances. For shares that are retired, the Company records its repurchases at cost, as a reduction in Class A Common Stock for the par value of such retired shares and a reduction in Retained earnings for the balance.

Repurchases of warrants

The Company may repurchase KCG Warrants through privately negotiated transactions. The Company records its purchases as a reduction in Additional paid-in capital for the total cost.

Foreign currency translation and foreign currency forward contracts

The Company's foreign subsidiaries generally use the U.S. dollar as their functional currency. The Company has a subsidiary in India that utilizes the Indian Rupee as its functional currency.

Assets and liabilities of the Indian subsidiary are translated at exchange rates at the end of a period. Revenues and expenses are translated at average exchange rates during the period. Gains and losses resulting from translating foreign currency financial statements into U.S. dollars are included in Accumulated other comprehensive income on the Consolidated Statements of Financial Condition and Cumulative translation adjustment, net of tax on the Consolidated Statements of Comprehensive Income.

Gains or losses resulting from foreign currency transactions are included in Investment income and other, net on the Company's Consolidated Statements of Operations. For the years ended December 31, 2015, 2014 and 2013, the Company recorded losses of \$0.7 million, \$2.0 million and \$4.1 million, respectively on foreign currency transactions.

KCG HOLDINGS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – Continued

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

Stock and unit based compensation

Stock and unit based compensation is primarily measured based on the grant date fair value of the awards. These costs are amortized over the requisite service period, if any. Expected forfeitures are considered in determining stock-based employee compensation expense. See Footnote 15 "Stock-Based Compensation" for further discussion.

Soft dollar expense

Under a commission management program, the Company allows institutional clients to allocate a portion of their gross commissions to pay for research and other services provided by third parties. As the Company acts as an agent in these transactions, it records such expenses on a net basis within Commissions and fees on the Consolidated Statements of Operations.

Depreciation, amortization and occupancy

Fixed assets are depreciated on a straight-line basis over their estimated useful lives of three to seven years. Leasehold improvements are being amortized on a straight-line basis over the shorter of the term of the related office lease or the expected useful life of the assets. The Company reviews fixed assets and leasehold improvements for impairment and their remaining useful lives whenever events or changes in circumstances indicate that the related carrying amounts may not be recoverable.

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

Lease loss accrual

The Company's policy is to identify excess real estate capacity and where applicable, accrue for related future costs, net of projected sub-lease income upon the date the Company ceases to use the excess real estate. Such accrual is adjusted to the extent the actual terms of sub-leased property differ from the assumptions used in the calculation of the accrual.

Income taxes

The Company is a corporation subject to U.S. corporate income tax as well as non-U.S. income taxes in the jurisdictions in which it operates. The Company records deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the financial reporting and tax bases of assets and liabilities and measures them using the enacted tax rates and laws that will be in effect when such differences are expected to reverse. The Company evaluates the recoverability of future tax deductions by assessing the adequacy of future expected taxable income from all sources, including reversal of temporary differences and forecasted operating earnings.

Variable interest entities

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

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

KCG HOLDINGS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – Continued

Since January 2015, the Company has owned 50% of the voting shares and 50% of the equity of a joint venture, (“JV”) which maintains microwave communication networks in the U.S. and Europe, and is considered to be a VIE. The Company and its JV partner each use the microwave communication networks in connection with their respective trading activities, and the JV sells excess bandwidth that is not utilized by the JV members to third parties. The Company pays the JV for the communication services that it uses, and such amounts are recorded within Communications and data processing on the Consolidated Statements of Operations.

The Company does not have the power to direct the activities of the VIE that most significantly impact the VIE’s economic performance; therefore it does not have a controlling financial interest in the JV and does not consolidate the JV. The Company records its interest in the JV under the equity method of accounting and records its investment in the JV within Investments and its amounts payable for communication services provided by the JV within Accrued expenses and other liabilities on the Consolidated Statements of Financial Condition. The Company records its pro-rata share of the JV’s earnings or losses within Investment income and other, net and communication services provided by the JV within Communications and data processing on the Consolidated Statements of Operations.

The Company’s exposure to the obligations of this VIE is generally limited to its interests in the JV, which is the carrying value of the equity investment in the JV.

The following table presents the Company’s nonconsolidated VIE at December 31, 2015 (in thousands):

	Carrying Amount		Maximum Exposure to loss	VIE's assets
	Asset	Liability		
Equity investment	\$ 10,632	\$ 5	\$ 10,632	\$ 22,197

Use of estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results may differ from those estimates.

Recently adopted accounting guidance

In April 2014, the Financial Accounting Standards Board (“FASB”) issued an Accounting Standard Update (“ASU”) that amends the requirements for reporting discontinued operations. Under the new guidance, discontinued operations reporting are limited to disposal transactions that represent strategic shifts having a major effect on operations and financial results. The amended guidance also enhances disclosures and requires assets and liabilities of a discontinued operation to be classified as such for all periods presented in the financial statements. The updated guidance is effective prospectively to all disposals occurring for interim and annual reporting periods beginning after December 15, 2014, with early adoption permitted. The Company early adopted this ASU in 2014, which resulted in additional disclosures within the Company’s Consolidated Financial Statements.

In June 2014, the FASB issued an ASU that amends the accounting and disclosure guidance on repurchase agreements. The amended guidance requires entities to account for repurchase-to-maturity transactions as secured borrowings. Additional disclosures will be required for the nature of collateral pledged in repurchase agreements and similar transactions accounted for as secured borrowings. The accounting changes and additional disclosures about certain transferred financial assets accounted for as sales were effective for reporting periods beginning after December 15, 2014. The additional disclosures for securities financing transactions are required for annual reporting periods beginning after December 15, 2014 and for interim reporting periods beginning after March 15, 2015. Other than additional disclosure requirements, the adoption of this ASU did not have an impact on the Company’s Consolidated Financial Statements.

Recent accounting guidance to be adopted in future periods

In May 2014, the FASB issued an ASU that updates the principles for recognizing revenue. The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The updated guidance is effective for interim and annual reporting periods beginning after December 15, 2017. Early adoption is permitted for reporting periods beginning after December 15, 2016. The Company is evaluating the impact of this ASU on its Consolidated Financial Statements.

KCG HOLDINGS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – Continued

In June 2014, the FASB issued an ASU to resolve diverse accounting treatment for share based awards in which the terms of the award are related to a performance target that affects vesting. The ASU requires an entity to treat a performance target that could be achieved after the requisite service period as a performance condition. Additionally, compensation cost should be recognized in the period in which it becomes probable that the performance target will be achieved, and should represent the compensation cost attributable to the period(s) for which the requisite service has already been rendered; if the performance target becomes probable of being achieved before the end of the requisite service period, then the remaining unrecognized compensation cost should be recognized prospectively over the remaining requisite service period. The guidance is effective for reporting periods beginning after December 15, 2015 and may be applied prospectively or retrospectively. The Company does not expect adoption of this ASU to have an impact on its Consolidated Financial Statements.

In August 2014, the FASB issued an ASU that requires an entity's management to evaluate whether there are conditions or events that raise substantial doubt about the entity's ability to continue as a going concern within one year after the date that the financial statements are issued. The guidance is effective for reporting periods beginning after December 15, 2016. Other than additional disclosure requirements, the Company does not expect the adoption of this ASU to have an impact on its Consolidated Financial Statements.

In February 2015, the FASB issued an ASU which requires entities to evaluate whether they should consolidate certain legal entities. The ASU simplifies consolidation accounting by reducing the number of consolidation models that an entity may apply. The guidance is effective for reporting periods beginning after December 15, 2015 and early adoption is permitted. The Company does not expect the adoption of this ASU to have an impact on its Consolidated Financial Statements.

In April 2015, the FASB issued an ASU regarding simplification of the presentation of debt issuance costs. The ASU requires that debt issuance costs related to a recognized debt liability be presented in the Consolidated Statements of Financial Condition as a direct deduction from the carrying amount of that debt liability. The guidance is effective retrospectively for reporting periods beginning after December 15, 2015 and early adoption is permitted. The adoption of this ASU is not expected to have a material impact on the Company's Consolidated Financial Statements.

In January 2016, the FASB issued an ASU that provides entities guidance for the accounting for equity investments, financial liabilities under the fair value option and the presentation and disclosure requirements of financial instruments. The guidance is effective for reporting periods beginning after December 15, 2018 and early adoption is permitted under a modified retrospective approach for certain financial liabilities as specified in this ASU. The Company is evaluating the impact of this ASU on its Consolidated Financial Statements.

4. Tender Offer and Stock Repurchase

On April 2, 2015, the Company's Board of Directors authorized the repurchase of up to \$400.0 million (including the previously unused \$55.0 million of authority under the repurchase program authorized on May 1, 2014) of KCG Class A Common Stock and warrants to purchase shares of KCG Class A Common Stock (the "Warrants"). On May 4, 2015, the Company commenced a "modified Dutch auction" tender offer ("Tender Offer") that expired on June 2, 2015. Under the terms of the Tender Offer, stockholders had the opportunity to sell up to \$330.0 million of KCG Class A Common Stock to the Company at specified prices per share of not less than \$13.50 and not greater than \$14.00, or at the purchase price determined by KCG in accordance with the terms of the Tender Offer.

Following the expiration of the Tender Offer on June 2, 2015 and based on the number of shares tendered and the prices specified by the tendering stockholders, the Company accepted for purchase 23.6 million shares of the Company's Class A Common Stock at a purchase price of \$14.00 per share, for a cost of \$330.0 million excluding fees and expenses related to the Tender Offer. The 23.6 million shares of KCG Class A Common Stock that the Company accepted for purchase in the Tender Offer were retired as of June 9, 2015. As a result, the Company reduced Class A Common Stock and Retained earnings on the Consolidated Statements of Financial Condition by \$0.2 million and \$329.8 million, respectively.

Shares of KCG Common Stock were accepted on a pro rata basis (except for tenders of odd lots, which were accepted in full) at a proration factor, after giving effect to the priority of odd lots, of approximately 29.1% as the Tender Offer was oversubscribed.

The Company incurred expenses of \$2.1 million in connection with the Tender Offer, which were recorded within Professional fees in the Consolidated Statements of Operations for the year ended December 31, 2015.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – Continued

In 2015, the Company repurchased an additional 3.5 million shares of KCG Class A Common Stock for \$41.7 million outside of the Tender Offer. As part of these additional repurchases, on November 4, 2015, the Company purchased approximately 1.9 million shares of KCG Class A Common Stock from Serenity Investments, LLC, a limited liability company organized under the laws of the state of Alaska ("Serenity") for \$12.89 per share, the closing stock price of the KCG Class A Common Stock on that date. Stephen Schuler, a director of the Company, and his wife separately hold equity interests that together represent a controlling interest in Serenity. See Footnote 14 "Related Parties" for additional information regarding repurchases of shares from related parties.

Warrants

As a portion of the consideration in the Mergers, former GETCO unitholders received, in addition to KCG Class A Common Stock, 24.3 million Class A, Class B and Class C Warrants, which were issued in accordance with the Warrant Agreement, dated July 1, 2013, between KCG and Computershare Shareowner Services LLC (the "Warrant Agreement") and which are subject to the terms and conditions of the Warrant Agreement.

The Warrant Agreement includes various anti-dilution and similar provisions that require adjustments to the exercise prices of the Class A, Class B and Class C Warrants and/or the number of shares of KCG Class A Common Stock issuable upon exercise of the KCG Warrants upon certain events and actions taken by the Company, including the Company's repurchase of KCG Class A Common Stock through a public tender offer.

As a result of the Company's Tender Offer, as described above, the exercise price of each of the Class A, Class B and Class C Warrants was adjusted in accordance with the terms of the Warrant Agreement. All other terms of the Warrants remained the same.

The adjusted exercise price for each class of Warrants and the activity for the year ended December 31, 2015 were as follows (Warrants in thousands):

	Class A	Class B	Class C	
Original Exercise Price	\$ 12.00	\$ 13.50	\$ 15.00	
Adjusted Exercise Price	\$ 11.70	\$ 13.16	\$ 14.63	
Initial term (years)	4	5	6	
Expiration	7/1/2017	7/1/2018	7/1/2019	
				Total
Warrants - Outstanding at January 1, 2015	8,114	8,114	8,113	24,341
Exercised	(158)	—	—	(158)
Repurchased	(859)	(859)	(859)	(2,578)
Warrants - Outstanding at December 31, 2015	7,097	7,254	7,254	21,605

During the fourth quarter of 2015, the Company repurchased 2.6 million KCG Warrants for \$4.4 million. See Footnote 14 "Related Parties" for additional information.

As of December 31, 2015, approximately \$23.9 million in authority remained under the share repurchase program, which is subject to the restrictive covenants in the 6.875% Senior Secured Notes Indenture.

5. Discontinued Operations, Assets and Liabilities Held for Sale & Sales of Businesses

In July 2013, the Company entered into an agreement to sell to an investor group Urban, the reverse mortgage origination and securitization business that was previously owned by Knight. The transaction was completed in November 2013, and, as a result, residual revenues and expenses of Urban's operations and costs of the related sale have been included in (Loss) income from discontinued operations, net of tax within the Consolidated Statements of Operations for the year ended December 31, 2014 and the six months ended December 31, 2013.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – Continued

The revenues and results of operations of discontinued operations are summarized as follows (in thousands):

	For the year ended December 31, 2014	For the six months ended December 31, 2013
Revenues and gain (adjustment to gain) on sale	\$ (1,148)	\$ 39,868
Expenses:		
Compensation	\$ 70	\$ 14,068
Payments for order flow	—	9,885
Execution and clearance fees	—	5,038
Other expenses	930	10,748
Total expenses	1,000	39,739
Pre-tax (loss) income from discontinued operations	(2,148)	129
Income tax expense (benefit)	816	(49)
(Loss) income from discontinued operations, net of tax	\$ (1,332)	\$ 80

For the year ended December 31, 2015, there was no activity related to discontinued operations.

In September 2014, KCG entered into an agreement to sell certain assets and liabilities related to its FCM business to Wedbush Securities Inc. The transaction closed on November 30, 2014. The FCM is not considered a discontinued operation, and therefore the results of the FCM's operations for 2013 and 2014 are included in the Global Execution Services segment and in Continuing Operations on the Consolidated Statements of Operations.

In October 2014, the Company announced that it began to explore strategic options for KCG Hotspot. KCG Hotspot was a single disposal group that was considered to be held-for-sale as of December 31, 2014 and, as a result, certain assets and liabilities related to KCG Hotspot were included in Assets of businesses held for sale and Liabilities of businesses held for sale on the Consolidated Statement of Financial Condition as of December 31, 2014. The Company determined that the sale of KCG Hotspot did not represent a strategic shift that would have a major effect on its operations and financial results, and therefore KCG Hotspot did not meet the requirements to be treated as a discontinued operation. As such, the results of KCG Hotspot's operations through the sale date of March 13, 2015 are included in the Global Execution Services segment and in Continuing Operations on the Consolidated Statements of Operations for all applicable periods presented.

In March 2015, the Company completed the sale of KCG Hotspot to BATS. The Company and BATS have agreed to share certain tax benefits, which could result in future payments to the Company of up to approximately \$70.0 million in the three-year period following the close, consisting of a \$50 million payment in 2018 and annual payments of up to \$6.6 million per year (the "Annual Payments"), from 2016 up to and including 2018. The additional potential payments are recorded at fair value in Other assets on the Consolidated Statements of Financial Condition and as of December 31, 2015, have a fair value of \$64.2 million. The Annual Payments were contingent on KCG Hotspot achieving various levels of trading volumes through June 2015. That contingency has been removed because the trading levels were achieved. However, the Annual Payments remain contingent on BATS generating sufficient taxable net income to receive the tax benefits.

The Company recorded a gain upon completion of the sale of \$385.0 million, which is recorded as Investment income and other, net on the Consolidated Statements of Operations for the year ended December 31, 2015. The net gain on the sale of KCG Hotspot was \$373.8 million which is net of direct costs associated with the sale which comprised professional fees of \$6.7 million and compensation of \$4.5 million, which are recorded in Professional fees and Employee compensation and benefits, respectively, on the Consolidated Statements of Operations for the year ended December 31, 2015.

The Company has elected the fair value option related to the \$64.2 million receivable from BATS. It considers the receivable to be a Level 2 asset in the fair value hierarchy as the fair value is derived from observable significant inputs such as contractual cash flows and market discount rates.

In accordance with the Company's strategic review of its businesses and evaluation of their potential value in the

KCG HOLDINGS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – Continued

marketplace relative to their current and expected returns, KCG determined in 2015 that certain of its businesses including its NYSE DMM business, are no longer considered core to its strategy, and KCG is currently seeking the opportunity to exit or divest of these businesses. KCG believes that the sale or divestiture of these businesses does not represent a strategic shift that will have a major effect on its operations and financial results, however, these businesses meet the requirements to be considered as held-for-sale at December 31, 2015. As part of this review, KCG determined that the carrying value of certain intangible assets related to businesses that are considered held for sale exceeded their fair value, and, as a result, recorded charges in the Consolidated Statement of Operations for the year ended December 31, 2015 totaling \$15.0 million to reflect the estimated fair value of such held-for-sale businesses. The estimated fair value of such assets of \$26.0 million is based on several factors including quoted market prices, and are included within Assets of businesses held for sale on the December 31, 2015 Consolidated Statement of Financial Condition. See Footnote 12 "Goodwill and Intangible Assets" and Footnote 27 "Subsequent Events" for further details.

The assets and liabilities of businesses held for sale as of December 31, 2015 and 2014 are summarized as follows (in thousands):

	December 31, 2015	December 31, 2014
Assets:		
Fixed assets, less accumulated depreciation	\$ —	\$ 391
Intangible assets, net of accumulated amortization	25,999	34,696
Other assets	—	5,397
Total assets of businesses held for sale	\$ 25,999	\$ 40,484
Liabilities:		
Accrued compensation expense	\$ —	\$ 2,298
Accrued expenses and other liabilities	—	58
Total liabilities of businesses held for sale	\$ —	\$ 2,356

KCG HOLDINGS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – Continued

6. Fair Value

The Company's financial instruments recorded at fair value have been categorized based upon a fair value hierarchy in accordance with accounting guidance, as described in Footnote 3 "Significant Accounting Policies." The following fair value hierarchy table presents information about the Company's financial assets and liabilities measured at fair value (in thousands):

December 31, 2015	Assets and Liabilities Measured at Fair Value on a Recurring Basis			
	Level 1	Level 2	Level 3	Total
Assets				
Financial instruments owned, at fair value:				
Equities ⁽¹⁾	\$ 2,129,208	\$ —	\$ —	\$ 2,129,208
Listed options	178,360	—	—	178,360
U.S. government and Non-U.S. government obligations ⁽²⁾	41,706	—	—	41,706
Corporate debt	94,681	—	—	94,681
Foreign currency forward contracts	—	445	—	445
Total Financial instruments owned, at fair value	2,443,955	445	—	2,444,400
Investment in CME Group ⁽³⁾	1,814	—	—	1,814
Other ⁽⁴⁾	—	65,732	5,789	71,521
Total assets held at fair value	\$ 2,445,769	\$ 66,177	\$ 5,789	\$ 2,517,735
Liabilities				
Financial instruments sold, not yet purchased, at fair value:				
Equities ⁽¹⁾	\$ 1,856,171	\$ —	\$ —	\$ 1,856,171
Listed options	151,893	—	—	151,893
U.S. government obligations ⁽²⁾	21,056	—	—	21,056
Corporate debt	84,284	—	—	84,284
Total liabilities held at fair value	\$ 2,113,404	\$ —	\$ —	\$ 2,113,404

⁽¹⁾ Equities of \$856.4 million have been netted by their respective long and short positions by CUSIP number.

⁽²⁾ U.S. government and Non-U.S. government obligations of \$0.1 million have been netted by their respective long and short positions by CUSIP number.

⁽³⁾ Investment in CME Group is included within Investments on the Consolidated Statements of Financial Condition. See Footnote 11 "Investments" for additional information.

⁽⁴⁾ Other primarily consists of a \$64.2 million receivable from BATS related to the sale of KCG Hotspot, \$5.8 million receivable from the sale of an investment and \$1.5 million of deferred compensation investments which are included within Other assets and Investments, respectively, on the Consolidated Statements of Financial Condition.

KCG HOLDINGS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – Continued

December 31, 2014	Assets and Liabilities Measured at Fair Value on a Recurring Basis			
	Level 1	Level 2	Level 3	Total
Assets				
Financial instruments owned, at fair value:				
Equities ⁽¹⁾	\$ 2,479,910	\$ —	\$ —	\$ 2,479,910
Listed options	144,586	—	—	144,586
U.S. government and Non-U.S. government obligations	22,983	—	—	22,983
Corporate debt ⁽²⁾	59,832	—	—	59,832
Foreign currency forward contracts	—	60	—	60
Total Financial instruments owned, at fair value	2,707,311	60	—	2,707,371
Investment in CME Group ⁽³⁾	4,435	—	—	4,435
Other investments ⁽³⁾	—	1,014	—	1,014
Total assets held at fair value	\$ 2,711,746	\$ 1,074	\$ —	\$ 2,712,820
Liabilities				
Financial instruments sold, not yet purchased, at fair value:				
Equities ⁽¹⁾	\$ 2,069,342	\$ —	\$ —	\$ 2,069,342
Listed options	115,362	—	—	115,362
U.S. government obligations	18,953	—	—	18,953
Corporate debt ⁽²⁾	82,050	—	—	82,050
Total liabilities held at fair value	\$ 2,285,707	\$ —	\$ —	\$ 2,285,707

⁽¹⁾ Equities of \$743.1 million have been netted by their respective long and short positions by CUSIP number.

⁽²⁾ Corporate debt instruments of \$0.3 million have been netted by their respective long and short positions by CUSIP number.

⁽³⁾ Investment in CME Group and Other investments, which primarily consist of deferred compensation investments, are included within Investments on the Consolidated Statements of Financial Condition.

The Company's derivative financial instruments are also held at fair value. See Footnote 7 "Derivative Financial Instruments" for further information.

The Company's equities, listed options, U.S. government and non-U.S. government obligations, corporate debt and strategic investments that are publicly traded are generally classified within Level 1 of the fair value hierarchy because they are valued using quoted market prices or broker or dealer quotations with reasonable levels of price transparency.

The types of instruments that trade in markets that are not considered to be active, but are valued based on observable inputs such as quoted market prices or alternative pricing sources with reasonable levels of price transparency are generally classified within Level 2 of the fair value hierarchy.

As of December 31, 2015, a receivable related to the sale of an investment was classified within Level 3 of the fair value hierarchy.

As of December 31, 2014 the Company had no financial instruments classified within Level 3 of the fair value hierarchy.

The Company's assets measured at fair value on a nonrecurring basis for the year ended December 31, 2015 solely relate to certain goodwill and assets of businesses held for sale. The fair value measurements of such goodwill and the assets of businesses held for sale at each of the impairment measurement date and at December 31, 2015 are classified as Level 3 measurements within the fair value hierarchy, with the exception of one business unit held for sale that is classified as Level 2 at December 31, 2015. The Level 2 fair value measurement of the business unit held for sale was based on actionable quotes for the business unit, while the Level 3 measurements were valued based on discounted cash flow and other models incorporating unobservable inputs such as earnings forecasts, estimated costs of equity and avoidable costs. Total fair value as of December 31, 2015 was \$0 and \$24.4 million for such goodwill and assets of businesses held for sale, respectively. See Footnote 12 "Goodwill and Intangible Assets" and Footnote 5 "Discontinued Operations, Assets and Liabilities of Businesses Held for Sale & Sales of Businesses" for additional information.

There were no transfers of assets or liabilities held at fair value between levels of the fair value hierarchy for any periods presented.

KCG HOLDINGS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – Continued

The following is a summary of changes in fair value of the Company's financial assets that have been categorized within Level 3 of the fair value hierarchy for the year ended December 31, 2015 (in thousands):

Level 3 Financial Assets for the year ended December 31, 2015								
	Balance at January 1, 2015	Realized gains (losses) during period	Unrealized gains (losses) during the period	Purchases	Sales	Settlements	Issuances	Transfers in or (out) of Level 3
Receivable from sold investment	—	—	—	—	—	—	5,789	—
	—	—	—	—	—	—	5,789	—

The following is a description of the valuation basis, techniques and significant inputs used by the Company in valuing its Level 2 and Level 3 assets and liabilities.

Foreign currency forward contracts

At December 31, 2015 and December 31, 2014, the Company had foreign currency forward contracts with a notional value of 850.0 million Indian Rupees (\$13.0 million U.S. dollars) and 700.0 million Indian Rupees (\$10.9 million U.S. dollars), respectively. These forward contracts are used to hedge the Company's investment in its Indian subsidiary.

The fair value of these forward contracts were determined based upon spot foreign exchange rates and dealer quotations.

Other

Other primarily consists of the fair value of the Company's receivable from BATS as more fully described in Footnote 5 "Discontinued Operations, Assets and Liabilities Held for Sale and Sales of Businesses". Also included in this category are deferred compensation investments which comprise investments in liquid mutual funds that the Company acquires to hedge its obligations to employees under certain non-qualified deferred compensation arrangements. These mutual fund investments can generally be redeemed at any time and are valued based upon quoted market prices.

The Company has elected the fair value option related to the \$64.2 million receivable from BATS. It considers the receivable to be a Level 2 asset in the fair value hierarchy as the fair value is derived from observable significant inputs such as contractual cash flows and market discount rates.

The Company has elected the fair value option related to a receivable originating from the sale of an investment which is classified within Level 3 of the fair value hierarchy. The valuation of this financial instrument was based upon the use of a model developed by Company management. Inputs into this model were based upon risk profiles of similar financial instruments in the market and reflects management's judgment relating to the appropriate discount on the receivable as well as a financial assessment of the debtor. To the extent that valuations based on models or inputs that are less observable or unobservable in the market, the determination of fair value requires more judgment.

7. Derivative Financial Instruments

The Company enters into derivative transactions as part of its trading activities and to manage foreign currency exposure. Cash flows associated with such derivative activities are included in cash flows from operating activities on the Consolidated Statements of Cash Flows.

During the normal course of business, the Company enters into futures contracts. These financial instruments are subject to varying degrees of risks whereby the fair value of the securities underlying the financial instruments, may be in excess of, or less than, the contract amount. The Company is obligated to post collateral against certain futures contracts.

The amounts and positions included in the tables below for futures contracts would be classified as Level 1 while swaps and forward contracts would be classified as Level 2 in the fair value hierarchy.

The following tables summarize the fair value and number of derivative instruments held at December 31, 2015 and December 31, 2014 and the gains and losses included in the Consolidated Statements of Operations for the periods then ended. These instruments include those classified as Financial Instruments, owned at fair value, Financial instruments sold, not yet purchased at fair value, as well as futures contracts which are reported within Receivable from or Payable to brokers, dealers and clearing organizations in the Consolidated Statements of Financial Condition

KCG HOLDINGS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – Continued

(fair value and gain (loss) in thousands):

		December 31, 2015			
		Assets		Liabilities	
Financial Statements	Location	Fair Value	Contracts	Fair Value	Contracts
Foreign currency					
Futures contracts	Receivable from/Payable to brokers, dealers and clearing organizations	\$ 578	3,675	\$ 955	6,586
Forward contracts	Financial instruments owned, at fair value	445	1	—	—
Equity					
Futures contracts	Receivable from/Payable to brokers, dealers and clearing organizations	1,558	4,038	1,743	3,432
Swap contracts	Receivable from brokers, dealers and clearing organizations	—	—	281	2
Listed options	Financial instruments owned/sold, not yet purchased, at fair value	178,360	360,469	151,893	390,949
Fixed income					
Futures contracts	Receivable from/Payable to brokers, dealers and clearing organizations	4,265	6,195	4,037	4,891
Commodity					
Futures contracts	Receivable from/Payable to brokers, dealers and clearing organizations	35,441	22,424	35,814	24,261
Total		\$ 220,647	396,802	\$ 194,723	430,121

		December 31, 2014			
		Assets		Liabilities	
Financial Statements	Location	Fair Value	Contracts	Fair Value	Contracts
Foreign currency					
Futures contracts	Receivable from/Payable to brokers, dealers and clearing organizations	\$ 1,212	8,108	\$ 651	9,090
Forward contracts	Financial instruments owned, at fair value	60	1	—	—
Equity					
Futures contracts	Receivable from/Payable to brokers, dealers and clearing organizations	1,790	2,590	2,047	3,085
Swap contracts	Receivable from/Payable to brokers, dealers and clearing organizations	98	1	13	1
Listed options	Financial instruments owned/sold, not yet purchased, at fair value	144,586	426,747	115,362	437,383
Fixed income					
Futures contracts	Receivable from/Payable to brokers, dealers and clearing organizations	6,432	11,901	6,891	10,628
Commodity					
Futures contracts	Receivable from/Payable to brokers, dealers and clearing organizations	15,245	8,894	14,847	9,105
Total		\$ 169,423	458,242	\$ 139,811	469,292

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – Continued

		Gain (Loss) Recognized		
		For the year ended December 31,		
		2015	2014	2013
Financial Statements				
Location				
Derivative instruments not designated as hedging instruments:				
Foreign currency				
Futures contracts	Trading revenues, net	\$ 4,273	\$ 10,535	\$ 12,191
Forward contracts	Investment income and other, net	(10)	526	—
Equity				
Futures contracts	Trading revenues, net	30,479	25,247	50,073
Swap contracts	Trading revenues, net	3,789	5,277	11,736
Listed options ⁽¹⁾	Trading revenues, net	(14,278)	(37,439)	37,035
Fixed income				
Futures contracts	Trading revenues, net	37,710	31,277	80,511
Commodity				
Futures contracts	Trading revenues, net	48,604	55,295	62,215
		\$ 110,567	\$ 90,718	\$ 253,761
Derivative instruments designated as hedging instruments:				
Foreign exchange - forward contract	Accumulated other comprehensive income	\$ 208	\$ —	\$ (3,298)

⁽¹⁾ Realized gains and losses on listed equity options relate to the Company's market making activities in such options. Such market making activities also comprise trading in the underlying equity securities with gains and losses on such securities generally offsetting the gains and losses reported in this table. Gains and losses on such equity securities are also included in Trading revenues, net on the Company's Consolidated Statements of Operations.

The Company has entered into and may continue to enter into International Swaps and Derivative Association, Inc. ("ISDA") master netting agreements with counterparties. Master agreements provide protection in bankruptcy in certain circumstances and, where legally enforceable, enable receivables and payables with the same counterparty to be settled or otherwise eliminated by applying amounts due against all or a portion of an amount due from the counterparty or a third party. The Company may also enter into bilateral trading agreements and other customer agreements that provide for the netting of receivables and payables with a given counterparty as a single net obligation.

Under the ISDA master netting agreements, the Company typically also executes credit support annexes, which provide for collateral, either in the form of cash or securities, to be posted or paid by a counterparty based on the fair value of the derivative receivable or payable based on the rates and parameters established in the credit support annex. In the event of counterparty's default, provisions of the ISDA master agreement permit acceleration and termination of all outstanding transactions covered by the agreement such that a single amount is owed by, or to, the non-defaulting party. Any collateral posted can be applied to the net obligations, with any excess returned and the collateralized party has a right to liquidate the collateral. Any residual claim after netting is treated along with other unsecured claims in bankruptcy court.

The Company is also a party to clearing agreements with various central clearing parties. Under these arrangements, the central clearing counterparty facilitates settlement between counterparties based on the net payable owed or receivable due and, with respect to daily settlement, cash is generally only required to be deposited to the extent of the net amount. In the event of default, a net termination amount is determined based on the market values of all outstanding positions and the clearing organization or clearing member provides for the liquidation and settlement of the net termination amount among all counterparties to the open derivative contracts.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – Continued

The table below provides information regarding (1) the extent to which, under enforceable master netting arrangements, such balances are presented net in the Consolidated Statements of Financial Condition as appropriate under GAAP and (2) the extent to which other rights of offset associated with these arrangements exist and could have had an effect on our financial position (in thousands):

December 31, 2015	Gross Amounts Recognized	Gross Amounts Offset in the Statements of Financial Condition	Net Amounts Presented in the Statements of Financial Condition	Gross Amounts Not Offset in the Statement of Financial Condition		
				Available Collateral ⁽¹⁾	Counterparty Netting ⁽²⁾	Net Amount
Assets						
Listed options	\$ 178,360	\$ —	\$ 178,360	\$ —	\$ —	\$ 178,360
Foreign currency forward contracts	445	—	445	—	—	445
Futures	41,842	41,146	696	—	—	696
Total Assets	\$ 220,647	\$ 41,146	\$ 179,501	\$ —	\$ —	\$ 179,501
Liabilities						
Listed options	\$ 151,893	\$ —	\$ 151,893	\$ —	\$ —	\$ 151,893
Futures ⁽³⁾	42,549	42,549	—	—	—	—
Swaps	281	281	—	—	—	—
Total Liabilities	\$ 194,723	\$ 42,830	\$ 151,893	\$ —	\$ —	\$ 151,893

(1) Includes securities received or delivered under collateral arrangements with counterparties that could be liquidated in the event of a counterparty default and thus offset against a counterparty's rights and obligations under the respective repurchase agreements or securities borrowing or lending arrangements.

(2) Under master netting agreements with its counterparties, the Company has the legal right of offset with a counterparty, which incorporates all of the counterparty's outstanding rights and obligations under the arrangement. These balances reflect additional credit risk mitigation that is available by counterparty in the event of a counterparty's default, but which are not netted in the Statement of Financial Condition because other netting provisions under U.S. GAAP are not met.

(3) The full amount of the liabilities related to futures of \$42.5 million has been netted against assets related to futures of \$6.1 million and margin posted by the Company at the clearing broker in excess of the net liability of \$36.4 million.

December 31, 2014	Gross Amounts Recognized	Gross Amounts Offset in the Statements of Financial Condition	Net Amounts Presented in the Statements of Financial Condition	Gross Amounts Not Offset in the Statement of Financial Condition		
				Available Collateral ⁽¹⁾	Counterparty Netting ⁽²⁾	Net Amount
Assets						
Listed options	\$ 144,586	\$ —	\$ 144,586	\$ —	\$ —	\$ 144,586
Foreign currency forward contracts	60	—	60	—	—	60
Swaps	98	13	85	—	—	85
Futures	24,679	24,436	243	—	—	243
Total Assets	\$ 169,423	\$ 24,449	\$ 144,974	\$ —	\$ —	\$ 144,974
Liabilities						
Listed options	\$ 115,362	\$ —	\$ 115,362	\$ —	\$ 17,359	\$ 98,003
Futures	24,436	24,436	—	—	—	—
Swaps	13	13	—	—	—	—
Total Liabilities	\$ 139,811	\$ 24,449	\$ 115,362	\$ —	\$ 17,359	\$ 98,003

(1) Includes securities received or delivered under collateral arrangements with counterparties that could be liquidated in the event of a counterparty default and thus offset against a counterparty's rights and obligations under the respective repurchase agreements or securities borrowing or lending arrangements.

(2) Under master netting agreements with its counterparties, the Company has the legal right of offset with a counterparty, which incorporates all of the counterparty's outstanding rights and obligations under the arrangement. These balances reflect additional credit risk mitigation that is available by counterparty in the event of a counterparty's default, but which are not netted in the Statement of Financial Condition because other netting provisions under U.S. GAAP are not met.

KCG HOLDINGS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – Continued

8. Collateralized Transactions

The Company receives financial instruments as collateral in connection with securities borrowed and financial instruments purchased under agreements to resell. Such financial instruments generally consist of equities, corporate obligations and obligations of the U.S. government, but may also include obligations of federal agencies, foreign governments and convertible securities. In most cases the Company is permitted to deliver or repledge these financial instruments in connection with securities lending, other secured financings or for meeting settlement obligations.

The table below presents financial instruments at fair value received as collateral related to Securities borrowed or Receivable from brokers, dealers and clearing organizations on the Consolidated Statements of Financial Condition that were permitted to be delivered or repledged and that were delivered or repledged by the Company as well as the fair value of financial instruments which could be further repledged by the receiving party (in thousands):

	December 31, 2015	December 31, 2014
Collateral permitted to be delivered or repledged	\$ 1,640,145	\$ 1,586,700
Collateral that was delivered or repledged	1,570,921	1,485,267
Collateral permitted to be further repledged by the receiving counterparty	188,345	147,696

In order to finance securities positions, the Company also pledges financial instruments that it owns to counterparties who, in turn, are permitted to deliver or repledge them. Under these transactions, the Company pledges certain financial instruments owned to collateralize repurchase agreements and other secured financings. Repurchase agreements and other secured financings are short-term and mature within one year. Financial instruments owned and pledged to counterparties that do not have the right to sell or repledge such financial instruments consist of equities, corporate obligations and obligations of the U.S. government, but may also include obligations of federal agencies, foreign governments and convertible securities.

The table below presents information about assets pledged by the Company (in thousands):

	December 31, 2015	December 31, 2014
Financial instruments owned, at fair value, pledged to counterparties that have the right to deliver or repledge	\$ 324,146	\$ 536,124
Financial instruments owned, at fair value, pledged to counterparties that do not have the right to deliver or repledge	1,027,847	979,652

The table below presents the gross carrying value of Securities loaned and Financial instruments sold under agreements to repurchase by class of collateral pledged (in thousands):

December 31, 2015		Financial instruments sold under agreements to repurchase
Asset Class	Securities Loaned	
Equities	\$ 451,085	\$ 855,632
U.S. government obligations	—	54,902
Corporate debt	12,292	44,368
Total	\$ 463,377	\$ 954,902

KCG HOLDINGS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – Continued

December 31, 2014		Financial instruments sold under agreements to repurchase
Asset Class	Securities Loaned	
Equities	\$ 696,162	\$ 832,614
U.S. government obligations	—	73,576
Corporate debt	11,582	27,386
Total	\$ 707,744	\$ 933,576

The Company may enter into master netting agreements and collateral arrangements with counterparties in order to manage its exposure to credit risk associated with securities financing transactions. Such transactions are generally executed under standard industry agreements, including, but not limited to, master securities lending agreements (securities lending transactions) and master repurchase agreements (repurchase transactions). Master agreements provide protection in bankruptcy in certain circumstances and, where legally enforceable, enable receivables and payables with the same counterparty to be settled or otherwise eliminated by applying amounts due against all or a portion of an amount due from the counterparty or a third party. The Company may also enter into bilateral trading agreements and other customer agreements that provide for the netting of receivables and payables with a given counterparty as a single net obligation.

In the event of counterparty's default, provisions of the master agreement permit acceleration and termination of all outstanding transactions covered by the agreement such that a single amount is owed by, or to, the non-defaulting party. Any collateral posted can be applied to the net obligations, with any excess returned and the collateralized party has a right to liquidate the collateral. Any residual claim after netting is treated along with other unsecured claims in bankruptcy court.

The Company is also a party to clearing agreements with various central clearing parties. Under these arrangements, the central clearing counterparty facilitates settlement between counterparties based on the net payable owed or receivable due and, with respect to daily settlement, cash is generally only required to be deposited to the extent of the net amount. In the event of default, a net termination amount is determined based on the market values of all outstanding positions and the clearing organization or clearing member provides for the liquidation and settlement of the net termination amount among all counterparties to the open repurchase and/or securities lending transactions.

The gross amounts of assets and liabilities subject to netting and gross amounts offset in the Consolidated Statements of Financial Condition were as follows (in thousands):

December 31, 2015	Gross Amounts Recognized	Gross Amounts Offset in the Statements of Financial Condition	Net Amounts Presented in the Statements of Financial Condition	Gross Amounts Not Offset in the Statement of Financial Condition		
				Available Collateral ⁽¹⁾	Counterparty Netting ⁽²⁾	Net Amount
Assets						
Securities borrowed	\$ 1,636,284	\$ —	\$ 1,636,284	\$ 1,575,568	\$ 8,277	\$ 52,439
Receivable from brokers, dealers and clearing organizations ⁽³⁾	65,433	—	65,433	62,580	—	2,853
Total Assets	\$ 1,701,717	\$ —	\$ 1,701,717	\$ 1,638,148	\$ 8,277	\$ 55,292
Liabilities						
Securities loaned	\$ 463,377	\$ —	\$ 463,377	\$ 440,486	\$ 8,277	\$ 14,614
Financial instruments sold under agreements to repurchase	954,902	—	954,902	954,902	—	—
Total Liabilities	\$ 1,418,279	\$ —	\$ 1,418,279	\$ 1,395,388	\$ 8,277	\$ 14,614

⁽¹⁾ Includes securities received or delivered under collateral arrangements with counterparties that could be liquidated in the event of a counterparty default and thus offset against a counterparty's rights and obligations under the respective repurchase agreements or securities borrowing or lending arrangements.

⁽²⁾ Under master netting agreements with its counterparties, the Company has the legal right of offset with a counterparty, which incorporates all of the counterparty's outstanding rights and obligations under the arrangement. These balances reflect additional credit risk mitigation that is available by counterparty in the event of a counterparty's default, but which are not netted in the Consolidated Statement of Financial Condition because other netting provisions under U.S. GAAP are not met.

⁽³⁾ Represents financial instruments purchased under agreement to resell.

KCG HOLDINGS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – Continued

December 31, 2014	Gross Amounts Recognized	Gross Amounts Offset in the Statements of Financial Condition	Net Amounts Presented in the Statements of Financial Condition	Gross Amounts Not Offset in the Statement of Financial Condition		
				Available Collateral ⁽¹⁾	Counterparty Netting ⁽²⁾	Net Amount
Assets						
Securities borrowed	\$ 1,632,062	\$ —	\$ 1,632,062	\$ 1,570,194	\$ 15,782	\$ 46,086
Receivable from brokers, dealers and clearing organizations ⁽³⁾	21,545	—	21,545	21,425	—	120
Total Assets	\$ 1,653,607	\$ —	\$ 1,653,607	\$ 1,591,619	\$ 15,782	\$ 46,206
Liabilities						
Securities loaned	\$ 707,744	\$ —	\$ 707,744	\$ 682,389	\$ 15,782	\$ 9,573
Financial instruments sold under agreements to repurchase	933,576	—	933,576	933,560	—	16
Total Liabilities	\$ 1,641,320	\$ —	\$ 1,641,320	\$ 1,615,949	\$ 15,782	\$ 9,589

(1) Includes securities received or delivered under collateral arrangements with counterparties that could be liquidated in the event of a counterparty default and thus offset against a counterparty's rights and obligations under the respective repurchase agreements or securities borrowing or lending arrangements.

(2) Under master netting agreements with its counterparties, the company has the legal right of offset with a counterparty, which incorporates all of the counterparty's outstanding rights and obligations under the arrangement. These balances reflect additional credit risk mitigation that is available by a counterparty in the event of a counterparty's default, but which are not netted in the Consolidated Statement of Financial Condition because other netting provisions under U.S. GAAP are not met.

(3) Represents financial instruments purchased under agreement to resell.

See Footnote 7 "Derivative Financial Instruments" for information related to the offsetting of derivatives in the Company's Consolidated Financial Statements.

Maturities of Securities loaned and Financial instruments sold under agreements to repurchase are provided in the table below (dollars in thousands):

As of December 31, 2015	Overnight	0 - 30 days	31 - 60 days	61 - 90 days	Total
Securities loaned	\$ 463,377	\$ —	\$ —	\$ —	\$ 463,377
Financial instruments sold under agreements to repurchase	54,902	635,000	150,000	115,000	954,902
Total	\$ 518,279	\$ 635,000	\$ 150,000	\$ 115,000	\$ 1,418,279

As of December 31, 2014	Overnight	0 - 30 days	31 - 60 days	61 - 90 days	Total
Securities loaned	\$ 707,744	\$ —	\$ —	\$ —	\$ 707,744
Financial instruments sold under agreements to repurchase	73,576	410,000	325,000	125,000	933,576
Total	\$ 781,320	\$ 410,000	\$ 325,000	\$ 125,000	\$ 1,641,320

KCG HOLDINGS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – Continued

9. Receivable from and Payable to Brokers, Dealers and Clearing Organizations

Amounts receivable from and payable to brokers, dealers and clearing organizations consist of the following (in thousands):

	December 31, 2015	December 31, 2014
Receivable:		
Clearing organizations and other	\$ 505,789	\$ 1,073,480
Financial instruments purchased under agreement to resell	65,433	21,545
Securities failed to deliver	109,989	93,808
Total Receivable	\$ 681,211	\$ 1,188,833
Payable:		
Clearing organizations and other	\$ 240,985	\$ 350,627
Securities failed to receive	32,820	325,462
Total Payable	\$ 273,805	\$ 676,089

Management believes that the carrying value of amounts receivable from and payable to brokers, dealers and clearing organizations approximates fair value since they are short term in nature.

10. Fixed Assets and Leasehold Improvements

Fixed assets and leasehold improvements comprise the following (in thousands):

	Depreciation Period	December 31, 2015	December 31, 2014
Computer hardware and software	3 years	\$ 253,113	\$ 242,498
Leasehold improvements	*	108,173	114,851
Telephone systems and equipment	5 years	3,651	3,962
Furniture and fixtures	7 years	12,216	12,120
		377,153	373,431
Less - Accumulated depreciation and amortization		(282,295)	(239,380)
		\$ 94,858	\$ 134,051

*Shorter of life of lease or useful life of assets

11. Investments

Investments primarily comprise strategic investments and deferred compensation investments. Investments consist of the following (in thousands):

	December 31, 2015	December 31, 2014
Strategic investments:		
Investments accounted for under the equity method	\$ 86,853	\$ 86,328
Investments held at fair value	1,814	4,435
Common stock or equivalent of companies representing less than 20% equity ownership held at adjusted cost	8,746	8,949
Total Strategic investments	97,413	99,712
Other investments	1,530	1,014
Total Investments	\$ 98,943	\$ 100,726

KCG HOLDINGS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – Continued

For the years ended December 31, 2015 and 2014, the Company recorded income of \$21.0 million and \$36.0 million, respectively, related to Investments accounted for under the equity method of accounting. The Company's investments accounted for under the equity method are considered to be related parties. See Footnote 14 "Related Parties".

Investments held at fair value are accounted for as available for sale securities and any unrealized gains or losses are recorded net of tax in Other comprehensive income.

In the third quarter of 2015, one of the Company's investments, with a fair value of \$2.8 million, was reclassified from an investment to a trading security and as of December 31, 2015 is therefore reported within Financial instruments owned, at fair value on the Consolidated Statements of Financial Condition. As a result of the reclassification, the Company recognized a gain of \$0.5 million within Investment income and other, net in the Consolidated Statements of Operations for the year ended December 31, 2015. This gain, net of taxes, was offset on the December 31, 2015 Statement of Financial Condition by a decrease in Accumulated other comprehensive income.

In the fourth quarter of 2015, the Company sold one of its investments and recognized a gain of \$9.3 million within Investment income and other, net in the Consolidated Statements of Operations for the year ended December 31, 2015. Upon the closing, \$3.5 million was received in cash and the remaining \$5.8 million was recorded as a receivable within Other assets on the Consolidated Statement of Financial Condition as of December 31, 2015. The receivable is included within Level 3 of the fair value hierarchy as noted in Footnote 6 "Fair Value".

Merger of BATS and Direct Edge

In January 2014, BATS and Direct Edge, each of whose equity the Company held as an investment, merged, with BATS being the surviving entity in the merger. Prior to the merger, the Company accounted for its investment in BATS under the cost method and accounted for its investment in Direct Edge under the equity method. The Company changed its method of accounting for its investment in BATS from the cost method to the equity method as a result of this merger, and the effect of the change in accounting principle was made retrospectively. Following the merger, the Company owns 16.7% of the overall equity of BATS and holds 19.9% of the voting equity and has appointed a director to BATS' board of directors. Based on these facts, the Company believes that it has significant influence over BATS' operating and financial policies and accounts for its interest in BATS under the equity method.

The Company received approximately \$42.2 million from the aggregate distributions paid by BATS and Direct Edge at or around the close of the merger, which the Company recorded as a return of capital under the equity method of accounting.

During the first quarter of 2014 the Company recognized income of \$9.6 million related to the merger of BATS and Direct Edge which is recorded within Investment income and other, net in the Consolidated Statements of Operations. The \$9.6 million comprises a partial realized gain with respect to the Company's investment in Direct Edge of \$16.2 million offset, in part, by the Company's share of BATS' and Direct Edge's merger related transaction costs that were charged against their earnings of \$6.6 million.

tradeMONSTER Group, Inc.

Prior to August 2014, the Company held an investment in tradeMONSTER Group, Inc. ("tradeMONSTER") which it accounted for under the equity method of accounting. In August 2014, tradeMONSTER combined with OptionsHouse LLC ("OptionsHouse") to form TM Holdings, L.P. now known as Aperture Holdings, LP, ("Aperture"). Following the combination, the Company continued to account for its interest in Aperture under the equity method of accounting.

During the third quarter of 2014 the Company recognized a net gain of \$15.1 million related to the combination, which is recorded within Investment income and other, net in the Consolidated Statements of Operations for the year ended December 31, 2014. The net gain of \$15.1 million comprises a gain on the Company's exchange of its investment in tradeMONSTER for its investment in Aperture of \$17.6 million offset, in part, by the Company's share of tradeMONSTER's transaction costs.

During the fourth quarter of 2015 the Company recognized a gain of \$10.5 million related to the sale of its investment in Aperture, which was recorded within Investment income and other, net in the Consolidated Statements of Operations for the year ended December 31, 2015.

KCG HOLDINGS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – Continued

12. Goodwill and Intangible Assets

Goodwill and intangible assets with indefinite lives are assessed for impairment annually or when events indicate that the amounts may be impaired. The Company assesses goodwill for impairment at the reporting unit level. The Company's reporting units are the components of its business segments for which discrete financial information is available and is regularly reviewed by the Company's management. As part of the assessment for impairment, the Company considers the cash flows of the respective reporting unit and assesses the fair value of the respective reporting unit as well as the overall market value of the Company compared to its net book value. The assessment of fair value of the reporting units is principally performed using a discounted cash flow methodology with a risk-adjusted weighted average cost of equity which the Company believes to be the most reliable indicator of the fair values of its respective reporting units. The Company also assesses the fair value of each reporting unit based upon its estimated market value and assesses the Company's overall market value based upon the market price of KCG Class A Common Stock.

Intangible assets are assessed for recoverability when events or changes in circumstances indicate that the carrying amount of the asset or asset group may not be recoverable. The Company assesses intangible assets for impairment at the "asset group" level which is the lowest level for which identifiable cash flows are largely independent of the cash flows of other groups of assets and liabilities. As part of the assessment for impairment, the Company considers the cash flows of the respective asset group and assesses the fair value of the respective asset group. Step one of the impairment assessment for intangibles is performed using undiscounted cash flow models, which indicates whether the future cash flows of the asset group are sufficient to recover the book value of such asset group. When an asset is not considered to be recoverable, step two of the impairment assessment is performed using a discounted cash flow methodology with a risk-adjusted weighted average cost of equity to determine the fair value of the intangible asset group. In cases where amortizable intangible assets and goodwill are assessed for impairment at the same time, the amortizable intangibles are assessed for impairment prior to goodwill being assessed.

In the fourth quarter of 2015, the Company assessed the impairment of goodwill and intangible assets as part of its annual assessment and concluded that there was an impairment relating to the goodwill within the Global Execution Services segment. The Company recorded a \$0.9 million charge within Writedown of assets and other real estate related charges in the Consolidated Statements of Operations for the year ended December 31, 2015.

As detailed in Footnote 5 "Discontinued Operations, Assets and Liabilities Held for Sale & Sales of Businesses" the Company conducted a strategic review of its businesses and determined that certain of its businesses are no longer considered core to its strategy and the Company is currently seeking the opportunity to exit or divest of these businesses. As a result, the Company recorded a charge of \$15.0 million in the Consolidated Statement of Operations for the year ended December 31, 2015 to reflect the excess of carrying value over estimated fair value of intangible assets of businesses held for sale. The \$26.0 million estimated fair value of such intangibles are reported within Assets of businesses held for sale on the Consolidated Statement of Financial Condition as of December 31, 2015.

The following table summarizes the Company's goodwill by segment (in thousands):

	December 31, 2015	December 31, 2014
Market Making	\$ 16,404	\$ 16,404
Global Execution Services	—	907
Total	\$ 16,404	\$ 17,311

Intangible assets with definite useful lives are amortized over their remaining estimated useful lives, the majority of which have been determined to range from one to eight years. The weighted average remaining life of the Company's intangible assets with definite useful lives at December 31, 2015 and December 31, 2014 was approximately three and five years, respectively.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – Continued

The following tables summarize the Company's Intangible assets, net of accumulated amortization by segment and type (in thousands):

	December 31, 2015	December 31, 2014
Market Making ⁽¹⁾		
Technology	\$ 38,151	\$ 50,542
Trading rights	8,530	44,358
Total	46,681	94,900
Global Execution Services ⁽²⁾		
Technology	21,446	18,200
Customer relationships	9,389	10,833
Trade names	750	850
Total	31,585	29,883
Corporate and Other		
Technology	5,801	10,500
Total	\$ 84,067	\$ 135,283

⁽¹⁾ Excluded from the December 31, 2015 balance is \$26.0 million of intangibles related to businesses which meet the requirements to be considered held-for-sale. As noted in Footnote 5 "Discontinued Operations, Assets and Liabilities Held for Sale & Sales of Businesses", such amount is included in Assets of businesses held for sale at December 31, 2015.

⁽²⁾ Excluded from the December 31, 2014 balance is \$34.7 million of intangibles related to KCG Hotspot which was held for sale at that time. As noted in Footnote 5 "Discontinued Operations, Assets and Liabilities Held for Sale & Sales of Businesses", such amount is included in Assets of businesses held for sale at December 31, 2014.

		December 31, 2015	December 31, 2014
Technology ⁽¹⁾	Gross carrying amount	\$ 120,256	\$ 115,804
	Accumulated amortization	(54,858)	(36,562)
	Net carrying amount	65,398	79,242
Trading rights ⁽²⁾	Gross carrying amount	9,209	62,468
	Accumulated amortization	(679)	(18,110)
	Net carrying amount	8,530	44,358
Customer relationships ⁽³⁾	Gross carrying amount	13,000	13,000
	Accumulated amortization	(3,611)	(2,167)
	Net carrying amount	9,389	10,833
Trade names ⁽⁴⁾	Gross carrying amount	1,000	1,000
	Accumulated amortization	(250)	(150)
	Net carrying amount	750	850
Total	Gross carrying amount	143,465	192,272
	Accumulated amortization	(59,398)	(56,989)
	Net carrying amount	\$ 84,067	\$ 135,283

⁽¹⁾ The weighted average remaining life for technology, including capitalized internal use software, was approximately two and three years as of December 31, 2015 and December 31, 2014, respectively. Excluded from the December 31, 2015 balance is \$8.8 million of technology assets related to Assets of businesses held for sale. Excluded from the December 31, 2014 balance is \$13.1 million of technology assets related to KCG Hotspot which as noted in Footnote 5 "Discontinued Operations, Assets and Liabilities Held for Sale & Sales of Businesses", is included in Assets of businesses held for sale at December 31, 2014.

⁽²⁾ Trading rights provide the Company with the rights to trade on certain exchanges. The weighted average remaining life of trading rights with definite useful lives was approximately five and seven years as of December 31, 2015 and December 31, 2014, respectively. As of December 31, 2015 and December 31, 2014, \$6.9 million of trading rights had indefinite useful lives. Excluded from the December 31, 2015 balance is \$17.2 million of trading rights related to Assets of businesses held for sale.

⁽³⁾ Customer relationships relate to KCG BondPoint. The weighted average remaining life was approximately 7 and 8 years as of December 31, 2015 and December 31, 2014, respectively. Lives may be reduced depending upon actual retention rates. Excluded from the December 31,

KCG HOLDINGS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – Continued

2014 balance is \$19.0 million of customer relationships related to KCG Hotspot which as noted in Footnote 5 "Discontinued Operations, Assets and Liabilities Held for Sale & Sales of Businesses", is included in Assets of businesses held for sale at December 31, 2014.

(4) Trade names relate to KCG BondPoint. The weighted average remaining life was approximately 7 and 8 years as of December 31, 2015 and December 31, 2014, respectively. Excluded from the December 31, 2014 balance is \$2.6 million of the trade name related to KCG Hotspot which as noted in Footnote 5 "Discontinued Operations, Assets and Liabilities Held for Sale & Sales of Businesses", is included in Assets of businesses held for sale at December 31, 2014.

The following table summarizes the Company's amortization expense from continuing operations relating to Intangible assets (in thousands):

	For the year ended December 31,		
	2015	2014	2013
Amortization expense	\$ 35,244	\$ 35,592	\$ 19,211

As of December 31, 2015, the following table summarizes the Company's estimated amortization expense for future periods (in thousands):

	Amortization expense
For the year ended December 31, 2016	\$ 28,739
For the year ended December 31, 2017	27,381
For the year ended December 31, 2018	15,127
For the year ended December 31, 2019	1,751
For the year ended December 31, 2020	1,659

13. Debt

The carrying value and fair value of the Company's debt is as follows (in thousands):

	December 31, 2015		December 31, 2014	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Cash Convertible Senior Subordinated Notes	\$ —	\$ —	\$ 117,259	\$ 116,819
8.25% Senior Secured Notes	—	—	305,000	309,194
6.875% Senior Secured Notes	495,632	450,000	—	—
Total Debt	\$ 495,632	\$ 450,000	\$ 422,259	\$ 426,013

The fair value of the Company's 6.875% Senior Secured Notes, 8.25% Senior Secured Notes and Cash Convertible Senior Subordinated Notes is based upon the value of such debt in the secondary market.

All of the above liabilities would be categorized as Level 2 in the fair value hierarchy if they were required to be recorded at fair value.

Cash Convertible Senior Subordinated Notes

In March 2010, Knight issued \$375.0 million aggregate principal amount of Cash Convertible Senior Subordinated Notes (the "Convertible Notes"), due on March 15, 2015, in a private offering exempt from registration under the Securities Act of 1933, as amended (the "Securities Act"). In connection with the closing of the Mergers, on July 1, 2013, KCG became a party to the indenture under which the Convertible Notes were issued.

On March 16, 2015, the Convertible Notes became due and were paid off in full with a payment of \$119.3 million comprising \$117.3 million in principal and \$2.1 million in interest.

The Convertible Notes bore interest at a rate of 3.50% per year, payable semi-annually in arrears, on March 15 and September 15 of each year, commencing on September 15, 2010.

8.25% Senior Secured Notes

On June 5, 2013 GETCO Financing Escrow LLC ("Finance LLC"), a wholly-owned subsidiary of GETCO, issued 8.25% senior secured notes due 2018 in the aggregate principal amount of \$305.0 million (the "8.25% Senior Secured

KCG HOLDINGS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – Continued

Notes”) pursuant to an indenture, dated June 5, 2013 (as amended and supplemented, the “8.25% Senior Secured Notes Indenture”). On July 1, 2013, KCG entered into a first supplemental indenture (the “First Supplemental Indenture”) pursuant to which KCG assumed all of the obligations of Finance LLC which comprised the 8.25% Senior Secured Notes plus certain escrow agent fees and expenses of \$3.0 million.

The 8.25% Senior Secured Notes were scheduled to mature on June 15, 2018 and bore interest at a rate of 8.25% per year, payable on June 15 and December 15 of each year, beginning on December 15, 2013.

The 8.25% Senior Secured Notes Indenture provided that KCG could redeem the 8.25% Senior Secured Notes, in whole or in part, at any time prior to June 15, 2015 at a price equal to 100% of the aggregate principal amount of the 8.25% Senior Secured Notes to be redeemed, plus a make-whole premium and accrued and unpaid interest, if any.

On March 13, 2015, KCG provided 30 days’ notice that it would be calling its existing 8.25% Senior Secured Notes, effective April 13, 2015. On March 13, 2015, the Company used a portion of the gross proceeds from the 6.875% Senior Secured Notes (as defined below), to deposit in an escrow account maintained by The Bank of New York Mellon, the trustee of the 8.25% Senior Secured Notes (“Bank of New York”) an amount sufficient to redeem the 8.25% Senior Secured Notes in full and accordingly satisfied and discharged the 8.25% Senior Secured Notes Indenture. The Company funded \$330.2 million into an escrow account maintained by Bank of New York comprising the following: principal of \$305.0 million, accrued interest for the period from December 16, 2014 to April 13, 2015 of \$8.2 million, make whole premium which included 4.125% early redemption cost plus additional interest due from April 13, 2015 through June 15, 2015 totaling \$16.5 million, and additional funds to cover other miscellaneous charges of \$0.4 million.

On April 13, 2015, the escrow amount of \$330.2 million was released and the required amount was paid out to the 8.25% Senior Secured Notes holders to redeem the 8.25% Senior Secured Notes. Upon the release of the \$330.2 million escrow account, the Company recognized charges for a make-whole premium of \$16.5 million and the write off of capitalized debt costs of \$8.5 million which are recorded as Debt extinguishment charges in the Consolidated Statements of Operations for the year ended December 31, 2015.

6.875% Senior Secured Notes

On March 10, 2015, the Company entered into a purchase agreement with Jefferies LLC, as initial purchaser (the “Initial Purchaser”), pursuant to which the Company agreed to sell, and the Initial Purchaser agreed to purchase, \$500.0 million aggregate principal amount of 6.875% Senior Secured Notes (the “6.875% Senior Secured Notes”), pursuant to an indenture dated March 13, 2015 (the “6.875% Indenture”), in a private offering exempt from registration under the Securities Act. The 6.875% Senior Secured Notes were resold by the Initial Purchaser to qualified institutional buyers in reliance on Rule 144A and Regulation S under the Securities Act.

The 6.875% Senior Secured Notes mature on March 15, 2020 and bear interest at a rate of 6.875% per year, payable on March 15 and September 15 of each year, beginning on September 15, 2015. The 6.875% Senior Secured Notes were issued at 98.962% with net proceeds (before fees and expenses) of \$494.8 million and a yield to maturity of 7.083%.

On March 13, 2015, KCG and certain subsidiary guarantors (the “6.875% Guarantors”) under the 6.875% Indenture, fully and unconditionally guaranteed on a joint and several basis the 6.875% Senior Secured Notes. The 6.875% Senior Secured Notes and the obligations under the 6.875% Indenture are currently secured by pledges of all of the equity interests in each of KCG’s and the 6.875% Guarantors’ existing and future domestic subsidiaries (but limited to 66% of the voting equity interests of controlled foreign company subsidiaries and excluding equity interests in regulated subsidiaries to the extent that such pledge would have a material adverse regulatory effect or is not permitted by applicable law) and security interests in substantially all other tangible and intangible assets of KCG and the 6.875% Guarantors, in each case subject to customary exclusions; provided, however, that if in the future KCG or any of the 6.875% Guarantors enter into certain first lien obligations (as described in the 6.875% Indenture) the collateral agent is authorized by the holders of the 6.875% Senior Secured Notes to enter into an Intercreditor Agreement pursuant to which the lien securing the 6.875% Senior Secured Notes would be contractually subordinated to the lien securing such first lien obligations, to the extent of the value of the collateral securing such obligations. The 6.875% Senior Secured Notes are effectively subordinated to any existing and future indebtedness that is secured by assets that do not constitute collateral under the 6.875% Senior Secured Notes to the extent of the value of such assets. All of the 6.875% Guarantors are wholly-owned subsidiaries of KCG.

KCG HOLDINGS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – Continued

On or after March 15, 2017, KCG may redeem all or a part of the 6.875% Senior Secured Notes upon not less than 30 nor more than 60 days' notice, at the redemption prices (expressed as percentages of principal amount) set forth below plus accrued and unpaid interest and additional interest on the 6.875% Senior Secured Notes redeemed, to the applicable redemption date, if redeemed during the 12-month period beginning on March 15 of the years indicated below:

Year	Percentage
2017	103.438%
2018	101.719%
2019 and thereafter	100.000%

KCG may also redeem the 6.875% Senior Secured Notes, in whole or in part, at any time prior to March 15, 2017 at a price equal to 100% of the aggregate principal amount of the 6.875% Senior Secured Notes to be redeemed, plus a contractual make-whole premium and accrued and unpaid interest. In addition, at any time on or prior to March 15, 2017, KCG may redeem up to 40% of the aggregate principal amount of the 6.875% Senior Secured Notes with the net cash proceeds of certain equity offerings, at a price equal to 106.875% of the aggregate principal amount of the 6.875% Senior Secured Notes, plus accrued and unpaid interest, if any.

The 6.875% Indenture contains customary affirmative and negative covenants, including limitations on indebtedness, liens, hedging agreements, investments, loans and advances, asset sales, mergers and acquisitions, dividends, transactions with affiliates, prepayments of other indebtedness, restrictions on subsidiaries, and issuance and repurchases of capital stock. As of December 31, 2015, the Company was in compliance with these covenants.

If at any time the 6.875% Senior Secured Notes are rated investment grade by Moody's Investors Service, Inc. and Standard & Poor's Ratings Group and no default or event of default has occurred and is continuing under the 6.875% Indenture, certain of the restrictive covenants will be suspended and will not apply to KCG or its restricted subsidiaries; provided, however, that such covenants will be reinstated if the 6.875% Senior Secured Notes subsequently cease to be rated or are no longer assigned an investment grade rating by both rating agencies.

The 6.875% Senior Secured Notes and the guarantee of the 6.875% Senior Secured Notes have not been registered under the Securities Act or the securities laws of any other jurisdiction and have no registration rights and may not be offered or sold in the United States absent registration or an applicable exemption from registration requirements.

The Company has determined that the terms of the 6.875% Senior Secured Notes do not give rise to a bifurcable derivative instrument under GAAP.

The Company incurred issuance costs of approximately \$12.6 million in connection with the issuance of the 6.875% Senior Secured Notes. The issuance costs are recorded within Other assets on the Consolidated Statements of Financial Condition and are being amortized over the remaining term of the 6.875% Senior Secured Notes. Including issuance costs and original issue discount, the 6.875% Senior Secured Notes had an effective yield of 7.590%. Of the above mentioned costs, \$11.3 million was paid to a related party. See Footnote 14 "Related Parties" for additional information relating to financing and advising activities.

See Footnote 27 "Subsequent Events" for further information regarding the repurchase of a portion of the Company's 6.875% Senior Secured Notes.

First Lien Credit Facility

On July 1, 2013, KCG, as borrower, entered into a first lien senior secured credit agreement (the "Credit Agreement") with Jefferies Finance LLC and Goldman Sachs Bank USA. The Credit Agreement was in the amount of \$535.0 million (the "First Lien Credit Facility"), all of which was drawn on July 1, 2013. The First Lien Credit Facility also provided for a future uncommitted incremental first lien senior secured revolving credit facility of up to \$50.0 million, including letter of credit and swingline sub-facilities, on certain terms and conditions contained in the Credit Agreement.

In 2013, the Company repaid \$300.0 million of principal of the First Lien Credit Facility. A portion of the \$300.0 million totaling \$117.3 million was drawn from cash held in a collateral account and the remainder of the \$300.0 million was paid out of available cash, including proceeds from the sale of Urban.

KCG HOLDINGS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – Continued

In the first half of 2014, the Company repaid the remaining \$235.0 million of principal of the First Lien Credit Facility out of available cash and the Credit Agreement was terminated. In conjunction with these payments, the Company wrote down \$9.6 million of its capitalized debt costs associated with the Credit Agreement.

Revolving Credit Agreement

On June 5, 2015, KCG Americas LLC ("KCGA"), a wholly-owned broker dealer subsidiary of KCG, as borrower, and KCG, as guarantor, entered into a credit agreement (the "KCGA Facility Agreement") with a consortium of banks. The KCGA Facility Agreement replaced the prior KCGA credit agreement, dated July 1, 2013, which was terminated as of June 5, 2015.

The KCGA Facility Agreement comprises two classes of revolving loans in a total aggregate committed amount of \$355.0 million, including a swingline facility with a \$50.0 million sub-limit, subject to two borrowing bases (collectively, the "KCGA Revolving Facility"): Borrowing Base A and Borrowing Base B (limited to a maximum loan amount of \$115.0 million). The KCGA Revolving Facility also provides for future increases of the revolving credit facility of up to \$145.0 million to a total of \$500.0 million on certain terms and conditions.

Borrowings under the KCGA Revolving Facility bear interest, at the borrower's option, at a rate based on the federal funds rate ("Base Rate Loans") or based on LIBOR ("Eurodollar Loans"), in each case plus an applicable margin. For each Base Rate Loan, the interest rate per annum is equal to the greater of the federal funds rate or an adjusted one-month LIBOR rate plus (a) for each Borrowing Base A loan, a margin of 1.50% per annum and (b) for each Borrowing Base B loan, a margin of 2.50% per annum. For each Eurodollar Loan, the interest rate per annum is equal to an adjusted LIBOR rate corresponding to an interest period of one, two or three months plus (a) for each Borrowing Base A loan, a margin of 1.50% per annum and (b) for each Borrowing Base B loan, a margin of 2.50% per annum. As of December 31, 2015, there were no outstanding borrowings under the KCGA Facility Agreement.

The proceeds of the Borrowing Base A loans may be used solely to finance the purchase and settlement of securities. The proceeds of Borrowing Base B loans may be used solely to fund clearing deposits with the National Securities Clearing Corporation ("NSCC").

KCGA is charged a commitment fee at a rate of 0.40% per annum on the average daily amount of the unused portion of the KCGA Facility Agreement.

The loans under the KCGA Facility Agreement will mature on June 5, 2017. The KCGA Revolving Facility is fully and unconditionally guaranteed on an unsecured basis by KCG and, to the extent elected by KCGA, any of its or KCG's other subsidiaries. It is secured by first-priority pledges of and liens on certain eligible securities, subject to applicable concentration limits, in the case of Borrowing Base A loans, and by first-priority pledges of and liens on the right to the return of certain eligible NSCC margin deposits, in the case of Borrowing Base B loans.

The KCGA Facility Agreement includes customary affirmative and negative covenants, including limitations on indebtedness, liens, hedging agreements, investments, loans and advances, asset sales, mergers and acquisitions, dividends, transactions with affiliates, restrictions on subsidiaries, issuance of capital stock, negative pledges and business activities. It contains financial maintenance covenants establishing a minimum total regulatory capital for KCGA, a maximum total asset to total regulatory capital ratio for KCGA, a minimum excess net capital limit for KCGA, a minimum liquidity ratio for KCGA, and a minimum tangible net worth threshold for KCGA. As of December 31, 2015, the Company and KCGA were in compliance with these covenants.

The KCGA Facility Agreement also contains events of default customary for facilities of its type, including: nonpayment of principal, interest, fees and other amounts when due, inaccuracy of representations and warranties in any material respect; violation of covenants; cross-default and cross-acceleration to material indebtedness; bankruptcy and insolvency events; material judgments; ERISA events; collateral matters; certain regulatory matters; and a "change of control"; subject, where appropriate, to threshold, notice and grace period provisions.

The terms of the prior KCGA credit agreement were substantially the same as the terms of the KCGA Facility Agreement, except that: (i) the facility size was \$450.0 million with an uncommitted incremental revolving credit facility of up to \$300.0 million on certain terms and conditions; (ii) for each Base Rate Loan, the interest rate per annum was equal to the greater of the federal funds rate or an adjusted one-month LIBOR rate plus (a) for each Revolving A Loan, a margin of 1.75% per annum and (b) for each Revolving B Loan, a margin of 2.25% per annum and for each Eurodollar Loan, the interest rate per annum was equal to an adjusted LIBOR rate corresponding to the interest period plus (a) for each Revolving A Loan, a margin of 1.75% per annum and (b) for each Revolving B loan, a margin of 2.25% per annum; (iii) the Revolving B Sublimit was \$150.0 million; and (iv) the commitment fee was 0.35%.

KCG HOLDINGS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – Continued

In connection with the KCGA Revolving Facility, the Company incurred issuance costs of \$1.7 million which are recorded within Other assets on the Consolidated Statements of Financial Condition and are being amortized over the term of the facility.

The Company recorded expenses with respect to its Debt as follows (in thousands):

	For the year ended December 31,		
	2015	2014	2013
Interest expense	\$ 35,591	\$ 31,724	\$ 34,138
Debt extinguishment charges	25,006	9,552	13,209
Amortization of debt issuance cost	3,537	3,665	3,623
Commitment fee	1,506	1,575	792
Total	\$ 65,640	\$ 46,516	\$ 51,762

14. Related Parties

The Company interacts with one party which is the beneficial owner of more than 10 percent of KCG's Class A Common Stock. It also has trading and other activities with certain investees for which KCG accounts for under the equity method of accounting. Each is considered a related party for all applicable periods. See Footnote 11 "Investments" for the carrying value of these investees at December 31, 2015 and 2014 and for the Company's income with respect to its equity earnings from these investees for the years ended December 31, 2015 and 2014.

The Company earns revenues, incurs expenses and maintains balances with these related parties or their affiliates in the ordinary course of business. As of the date and period indicated below, the Company had the following balances and transactions with its related parties or their affiliates (in thousands):

	For the year ended December 31,		
Statements of Operations	2015	2014	2013
<i>Revenues</i>			
Commissions and fees	\$ 15,844	\$ 14,528	\$ 4,045
Trading revenues, net	6,468	3,862	437
Interest, net	914	651	71
Total revenues from related parties	\$ 23,226	\$ 19,041	\$ 4,553
<i>Expenses</i>			
Execution and clearance fees ⁽¹⁾	\$ (15,472)	\$ (10,261)	\$ (19,491)
Communications and data processing	6,351	—	—
Payment for order flow	2,685	585	—
Collateralized financing interest	399	529	102
Professional fees	5,507	—	—
Other expense	2,349	1,719	651
Total expenses incurred with respect to related parties	\$ 1,819	\$ (7,428)	\$ (18,738)

⁽¹⁾ Represents net volume based fees received by KCG from providing liquidity to related trading venues.

KCG HOLDINGS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – Continued

Statements of Financial Condition	December 31, 2015	December 31, 2014
<i>Assets</i>		
Securities borrowed	\$ 10,573	\$ 26,110
Receivable from brokers, dealers and clearing organizations	1,987	20,075
Other assets	67,652	—
<i>Liabilities</i>		
Securities loaned	\$ 3,844	\$ 7,376
Payable to brokers, dealers and clearing organizations	61	8,509
Accrued expenses and other liabilities	4,159	5,667

In March 2015, the Company completed the sale of KCG Hotspot to BATS, a related party. The Company recorded a gain on sale of \$385.0 million which is included as Investment income and other, net on the Consolidated Statements of Operations for the year ended December 31, 2015. The Company and BATS have agreed to share certain tax benefits, which could result in future payments to the Company of up to approximately \$70.0 million in the three-year period following the close. The additional potential payments are recorded at their estimated fair value of \$64.2 million in Other assets on the December 31, 2015 Consolidated Statement of Financial Condition and in the table above. See Footnote 5 "Discontinued Operations, Assets and Liabilities Held for Sale & Sales of Businesses" for additional information.

Additionally, for the year ended December 31, 2015, the Company paid one of its related parties \$16.8 million in fees related to financing and advisory activities associated with the issuance of the 6.875% Senior Secured Notes and the sale of KCG Hotspot to BATS. The \$16.8 million comprised \$11.3 million that was capitalized as deferred debt costs within Other assets on the Consolidated Statement of Financial Condition and \$5.5 million that was recorded as Professional fees in the Consolidated Statement of Operations. While the Professional fees are included in the table above, the capitalized debt fees are not included in the table above. The \$11.3 million capitalized as deferred debt costs are being amortized over the life of the debt.

In 2015, the Company paid \$31,000 in fees to one of its related parties for acting as broker in connection with the Company's stock buyback program. Such fees are recorded within Treasury stock, at cost in the Consolidated Statement of Financial Condition as of December 31, 2015 and is not included in the above table.

In the third quarter of 2015, the Company contributed microwave communication network assets to the JV, which is considered a related party. These assets were contributed at fair value and resulted in the Company recording a \$4.3 million writedown of such assets. This charge is included in Writedown of assets and other real estate related charges on the Consolidated Statements of Operations for the year ended December 31, 2015.

As part of the Company's Tender Offer, it accepted for purchase validly tendered shares of the KCG Class A Common Stock at \$14.00 per share from the following directors and stockholders, or their affiliates, who owned more than 10% of KCG Class A Common Stock (in thousands):

Name	Relationship/ Title	Number of Shares Purchased	Total Purchase Price
Stephen Schuler and related entities ⁽¹⁾	Stockholder/Director	1,708	\$ 23,918
Daniel Tierney and related entities ⁽²⁾	Stockholder/Former Director	1,798	25,176
GA-GTCO Interholdco, LLC ⁽³⁾	Stockholder	8,285	115,989
Jefferies LLC	Stockholder	6,533	91,458

⁽¹⁾ Includes (i) Stephen Schuler, (ii) Serenity Investments, LLC, a limited liability company organized under the laws of the state of Alaska ("Serenity"), of which Mr. Schuler and his wife separately hold equity interests that together represent a controlling interest and with respect to which Mr. Schuler may be deemed to share voting and dispositive power and (iii) the Schuler Family GST Trust dated June 6, 2003, a trust that holds securities with respect to which Mr. Schuler may be deemed to share voting and dispositive power. Mr. Schuler disclaims beneficial ownership of the securities held by Serenity except to the extent of his pecuniary interest therein.

⁽²⁾ Includes (i) Daniel Tierney and (ii) the Daniel V. Tierney 2011 Trust (the "Tierney Trust"), a trust of which Daniel Tierney is the settlor and beneficiary. Mr. Tierney does not have or share voting or dispositive power over the securities held by the Tierney Trust, but does have the power to revoke the Tierney Trust and acquire beneficial ownership of such securities within 60 days. Mr. Tierney disclaims beneficial ownership of the securities held by the Tierney Trust. In November, 2015, Daniel Tierney resigned from his position as a director of the Company.

KCG HOLDINGS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – Continued

⁽³⁾ GA-GTCO Interholdco, LLC, an affiliate of General Atlantic, has appointed two directors to the Company's board of directors (Rene Kern, an employee of General Atlantic and John C. (Hans) Morris, a former employee of General Atlantic). Neither director participated in the Tender Offer with respect to shares they hold directly.

The purchases from the individuals and entities listed above were on the same terms that were available to all of the Company's stockholders.

On November 4, 2015, the Company purchased approximately 1.9 million shares of KCG Class A Common Stock from Serenity for \$24.5 million or \$12.89 per share, the closing stock price of the KCG Class A Common Stock on that date. Stephen Schuler, a director of the Company, and his wife separately hold equity interests that together represent a controlling interest in Serenity.

On November 11, 2015, the Company purchased approximately 2.0 million KCG Warrants from Daniel Tierney for \$3.6 million.

On December 29, 2015, Aperture, a related party, redeemed all the Company's interests in Aperture through a series of transactions, for an aggregate purchase price of \$28.5 million. The Company recognized a gain of \$10.5 million on the sale.

See Footnote 4 "Tender Offer and Stock Repurchase" for additional information on the Tender Offer and stock repurchases.

15. Stock-Based Compensation

KCG Equity Incentive Plan

KCG Holdings, Inc. Amended and Restated Equity Incentive Plan (the "KCG Plan") was initially assumed from Knight in connection with the Mergers, and since the Mergers, has been maintained by the Company for the purpose of granting incentive awards to officers, employees and directors of the Company.

In April 2015, the Company's Board of Directors approved and adopted an amended and restated version of the KCG Plan, the KCG Holdings, Inc. 2015 Amended and Restated Equity Incentive Plan ("the Amended 2015 Plan"), subject to approval by the KCG stockholders which was obtained on May 12, 2015 at the Company's annual meeting of stockholders.

The Amended 2015 Plan removed a legacy provision that required, subject to limited exceptions, that awards of restricted stock units ("RSUs") and restricted shares be subject to minimum three year vesting for time-based awards and minimum one year vesting for performance-based awards. In the second quarter of 2015, the Compensation Committee of the Company's Board of Directors (the "Compensation Committee") amended the terms of existing RSUs previously granted by the Company as a component of annual incentive compensation in respect of the 2012, 2013 and 2014 performance years (the "Outstanding Annual RSUs") to provide for the continued vesting of such RSUs following a voluntary resignation of employment, subject to the grantee's ongoing compliance with non-competition and non-solicitation requirements through the duration of the vesting period (the "Continued Vesting Amendment"). The RSUs granted by the Company as a component of 2015 annual incentive compensation provide for the continued vesting treatment described above, and the Company expects that future equity awards granted as a component of annual incentive compensation ("Annual Equity Awards") will have similar terms. As of December 31, 2015, there were approximately 27.5 million shares authorized for issuance under the Amended 2015 Plan, of which approximately 16.3 million shares are available for grant (subject to adjustment as provided under the Amended 2015 Plan).

The Amended 2015 Plan is administered by the Compensation Committee, and allows for the grant of stock options, stock appreciation rights ("SARs"), restricted stock and RSUs (collectively, the "awards"), as defined by the Amended 2015 Plan. In addition to overall limitations on the aggregate number of awards that may be granted, the Amended 2015 Plan also limits the number of awards that may be granted to a single individual.

Restricted Shares and Restricted Stock Units

The Company has historically awarded RSUs to eligible officers, employees and directors as a component of annual incentive compensation, and has also made off-cycle grants of RSUs for purposes of one-time, special or retention awards ("Off-Cycle Grants"). The majority of RSUs that have been granted by the Company vest ratably over three years and are subject to accelerated vesting, or continued vesting, following the grantee's termination of employment, in accordance with the applicable award documents and employment agreements between the Company and the grantee.

KCG HOLDINGS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – Continued

As a result of implementing the Continued Vesting Amendment described above, the Outstanding Annual RSUs are no longer considered to have a service condition from an expense perspective. This amendment resulted in the acceleration of the unrecognized expense associated with such awards and the Company recorded a charge of \$28.8 million in Employee compensation and benefits in the Consolidated Statements of Operations for the year ended December 31, 2015. Beginning in the second quarter of 2015, the Company also began to recognize the expense associated with the RSUs expected to be granted by the Company in early 2016 as a component of 2015 annual incentive compensation in respect of the 2015 performance year.

The Company measures compensation expense related to Off-Cycle Grants (and previously for Outstanding Annual RSUs) based on the fair value of KCG Class A Common Stock at the date of grant. When accruing compensation expense over the duration of a performance year prior to the grant of Annual Equity Awards for that year, the Company accrues compensation expense based on the estimated value of such future awards. For example, prior to granting the RSUs expected to be awarded by the Company in early 2016 as a component of annual incentive compensation for the 2015 performance year, the Company accrued compensation expense for such awards over the year ended December 31, 2015, based on the estimated value of such awards. The amount accrued during the year for Annual Equity Awards is included in Accrued compensation on the Consolidated Statements of Financial Condition.

Compensation expense from continuing operations relating to RSUs, which is primarily recorded in Employee compensation and benefits, and the corresponding income tax benefit, which is recorded in Income tax expense (benefit) on the Consolidated Statements of Operations are presented in the following table (in thousands):

	For the year ended December 31,		
	2015	2014	2013
Stock award compensation expense ⁽¹⁾	\$ 81,496	\$ 55,402	\$ 33,067
Income tax benefit	30,968	21,053	11,573

⁽¹⁾ Included in the year ended December 31, 2015 is \$28.8 million of accelerated stock compensation expense related to the Outstanding Annual RSUs as a result of implementing the Continued Vesting Amendment.

The following table summarizes restricted awards activity for the year ended December 31, 2015 (awards in thousands):

	Restricted Stock Units	
	Number of Units	Weighted-Average Grant date Fair Value
Outstanding at December 31, 2014	9,147	\$ 10.77
Granted	2,660	12.21
Vested	(4,293)	10.73
Forfeited	(777)	11.33
Outstanding at December 31, 2015	6,737	\$ 11.29

There is \$14.0 million of unamortized compensation related to unvested RSUs outstanding at December 31, 2015 that are not Annual Equity Awards. The cost of these unvested RSUs, unless a modification occurs, is expected to be recognized over a weighted average life of 0.87 years.

Stock Options and Stock Appreciation Rights

The Company's policy is to grant options for the purchase of shares of KCG Class A Common Stock and SARs to purchase or receive the cash value of shares of KCG Class A Common Stock. The stock options and SARs outstanding as of the date hereof have each been granted with an exercise price not less than the market value of KCG Class A Common Stock on the grant date and generally vest ratably over a three year period and expire on the fifth or tenth anniversary of the grant date, pursuant to the terms of the applicable award agreement. Like RSUs, stock options and SARs are subject to accelerated vesting, or continued vesting following certain termination circumstances, in accordance with the applicable award agreements and employment agreements between the Company and the grantee. The Company issues new shares upon stock option exercises by its employees and directors, and may either issue new shares or provide a cash payment upon SARs exercises by its employees.

KCG HOLDINGS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – Continued

The Company estimates the fair value of each stock option and SAR granted as of its respective grant date using the Black-Scholes option-pricing model. The principal assumptions utilized in valuing stock options and SARs and the methodology for estimating the inputs to such model include: 1) risk-free interest rate, the estimate of which is based on the yield of U.S. zero coupon securities with a maturity equal to the expected life of the stock option or SAR; 2) expected volatility, the estimate of which is based on several factors including implied volatility of market-traded stock options on the Company's common stock on the grant date and the volatility of the Company's common stock; and 3) expected option or SAR life, the estimate of which is based on internal studies of historical experience and projected exercise behavior based on different employee groups and specific stock option and SAR characteristics, including the effect of employee terminations. There were no stock options or SARs granted during the years ended December 31, 2015 or 2014.

The weighted average assumptions used for stock options granted in 2013 were as follows:

	2013
Dividend yield	—%
Expected volatility	35.0%
Risk-free interest rate	1.0%
Expected life (in years)	3.5

Compensation expense from continuing operations relating to stock options and SARs, all of which was recorded in Employee compensation and benefits, as well as the corresponding income tax benefit, which is recorded in Income tax expense (benefit) on the Consolidated Statements of Operations are as follows (in thousands):

	For the year ended December 31,		
	2015	2014	2013
Stock option and SAR compensation expense	\$ 2,999	\$ 3,807	\$ 1,813
Income tax benefit	1,140	1,447	635

The following table summarizes stock option and SAR activity and stock options exercisable for the year ended December 31, 2015 (awards in thousands):

	Number of Stock Awards	Weighted- Average Exercise Price	Aggregate Intrinsic Value	Weighted- Average Remaining Life (years)
Outstanding at December 31, 2014 ⁽¹⁾	4,691	\$ 17.41		
Granted at market value	—	—		
Exercised	(151)	8.24		
Forfeited or expired	(169)	26.99		
Outstanding at December 31, 2015 ⁽¹⁾	4,371	\$ 17.36	\$ 4,353	2.48
Exercisable at December 31, 2015	2,992	\$ 18.21	\$ 2,902	2.46
Available for future grants at December 31, 2015 ⁽²⁾	16,347			

⁽¹⁾ Includes 1.7 million SARs.

⁽²⁾ Represents shares available for grant of options, SARs, RSUs and other awards under the Amended 2015 Plan.

KCG HOLDINGS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – Continued

Range of Exercise Prices	Options and SARs Outstanding			Options and SARs Exercisable	
	Outstanding at 12/31/15	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price	Number Exercisable at 12/31/15	Weighted-Average Exercise Price
\$8.24 - \$8.25	740	2.61	\$ 8.24	493	\$ 8.24
\$11.65 - \$11.65	1,700	2.51	11.65	1,133	11.65
\$22.50 - \$22.50	1,700	2.51	22.50	1,133	22.50
\$30.72 - \$51.84	133	2.14	48.36	133	48.36
\$52.98 - \$52.98	25	0.88	52.98	25	52.98
\$53.91 - \$53.91	74	1.08	53.91	74	53.91
	4,371	2.48	\$ 17.36	2,992	\$ 18.21

The aggregate intrinsic value is the amount by which the closing price of KCG Class A Common Stock exceeds the exercise price of the stock options or SARs, as applicable, multiplied by the number of shares underlying such award. The total intrinsic value and cash received from stock options exercised during the year ended December 31, 2015 is \$0.7 million and \$1.2 million, respectively. There were no stock options or SARs exercised during the year ended December 31, 2014.

There is \$0.3 million of unamortized compensation related to unvested stock options and SARs outstanding at December 31, 2015. The cost of these unvested awards is expected to be recognized over a weighted average life of 0.5 years.

Incentive units

Prior to the Mergers, GETCO awarded deferred compensation to its employees in the form of incentive units that generally vested over time. The value of these incentive units was determined at the date of grant based on the estimated enterprise value of GETCO and the amount expensed was determined based on this valuation multiplied by the percent vested. In connection with the Mergers, all outstanding unvested incentive units vested and were converted into units based on the applicable exchange ratio of GETCO units to KCG Class A Common Stock. The units are marked to the current stock price of KCG Class A Common Stock at the end of each period with the resulting change in the liability reflected as either an expense or gain included in Employee compensation and benefits on the Consolidated Statements of Operations. Given that the units vested in connection with the Mergers, the Company fully amortized the costs associated with these units as of June 30, 2013. Deferred compensation payable at December 31, 2015 and December 31, 2014 related to incentive units were \$2.4 million and \$2.9 million, respectively, and is included in Accrued compensation expense on the Consolidated Statements of Financial Condition.

The following is a summary of the changes in the incentive units for the year ended December 31, 2015 (units in thousands):

	Vested
Incentive units at December 31, 2014	38
Issued	—
Vested	—
Exercised	(8)
Canceled	—
Incentive units at December 31, 2015	30

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – Continued

Compensation expense (benefit) related to the Incentive units which are recorded within Employee compensation and benefits on the Consolidated Statements of Operations are as follows (in thousands):

	For the year ended December 31,		
	2015	2014	2013
Incentive units	\$ 168	\$ (269)	2,446

Class B units

Prior to the Mergers, GETCO granted membership unit awards to employees in the form of Class B units. The Class B units were valued based on the same methodology used to value the GETCO incentive units. Prior to 2012, these non-voting units vested in full three years from the grant date, provided certain conditions of employment and performance were met by the employee. In 2012, GETCO changed the vesting of units granted in 2012 to annual vesting of one-third of the units over a three year period. Upon termination of employment, GETCO had the option to repurchase all or a portion of the units granted within six months. The purchase price for the unvested units was determined as a percentage of grant date fair value. GETCO classified these unit awards as equity as the employees received full membership rights with respect to allocation of income and participation in member distributions. In connection with the Mergers, all outstanding unvested Class B units vested on June 25, 2013.

Class E units

In 2012, GETCO also granted employees profit interests in the form of Class E units. Prior to 2012, Class E units primarily vested in full three years from the grant date. For units granted in 2012, GETCO changed the vesting of Class E units to an annual vesting of one-third of the units over the three year period and provided GETCO an option to repurchase the units at the end of 5 years. Class E units allowed for future appreciation in excess of the GETCO's value over a certain strike price per unit and allocation of income once the units are vested. Upon the departure of an employee, the Class E units were forfeited whether vested or not, and if vested, the cash value of the Class E units above their strike price was paid to the employee. GETCO classified these unit awards as equity. In connection with the Mergers all outstanding unvested Class E units vested on June 25, 2013 and were canceled for no consideration.

As noted, in connection with the Mergers, all outstanding incentive units, Class B units and Class E units vested, and as a result the remaining unamortized expense was accelerated. The accelerated amortization expense recorded during the year ended December 31, 2013 for incentive units, Class B units and Class E units was \$1.3 million, \$9.4 million and \$3.5 million, respectively.

Compensation expense related to the Class B and Class E, all of which are recorded within Employee compensation and benefits on the Consolidated Statements of Operations are as follows (in thousands):

	For the year ended December 31,		
	2015	2014	2013
Class B and E units	\$ —	\$ —	\$ 19,860

16. Employee Benefit Plan

The Company sponsors a 401(k) profit sharing plan (the "401(k) Plan") in which most of its employees are eligible to participate. Under the terms of the 401(k) Plan, the Company is required to make annual contributions to the 401(k) Plan equal to 100% of the contributions made by its employees, up to annual limits, however for 2013, such provisions only applied to Knight employees. The total expense recognized with respect to the 401(k) Plan is included in Employee compensation and benefits on the Consolidated Statements of Operations, as follows (in thousands):

	For the year ended December 31,		
	2015	2014	2013
Total expense	\$ 9,765	\$ 10,093	\$ 2,959

17. Income Taxes

Upon completion of the Mergers, the Company became subject to U.S. corporate income taxes. The Company and its subsidiaries file a consolidated federal income tax return as well as combined state income tax returns in certain

KCG HOLDINGS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – Continued

jurisdictions. In other jurisdictions, the Company and its subsidiaries will file separate company state and local income tax returns.

Prior to the Mergers, GETCO and the majority of its subsidiaries were treated as partnerships or disregarded entities for U.S. income tax purposes and, accordingly, were not subject to federal income taxes. Instead, former GETCO members were liable for federal income taxes on their proportionate share of taxable income; however, certain subsidiaries were subject to corporate income taxes related to the taxable income generated by their operations.

As described in Footnote 2 “Merger of GETCO and Knight”, following the Mergers on July 1, 2013 the Company recorded \$65.5 million of deferred tax assets as a result of recording Knight's assets and liabilities under the purchase method of accounting as well as recording the value of Knight's NOLs and tax credit carryforwards.

As a result of the Company becoming subject to U.S. corporate income taxes, the Company also recorded, upon the closing of the Mergers on July 1, 2013, a nonrecurring \$103.5 million deferred tax benefit and corresponding deferred tax asset relating to GETCO's existing tax attributes. This deferred tax asset primarily relates to differences between GETCO's book and tax bases in its intangible assets and its strategic investments.

The provision (benefit) for income taxes from continuing operations consists of (in thousands):

	For the year ended December 31,		
	2015	2014	2013
Current:			
U.S. federal	\$ 106,700	\$ 709	\$ (194)
U.S. state and local	19,665	4,081	2,902
Non U.S.	958	(828)	3,773
	<u>\$ 127,323</u>	<u>\$ 3,962</u>	<u>\$ 6,481</u>
Deferred:			
U.S. federal	\$ 25,221	30,331	(106,996)
U.S. state and local	(16,803)	(10,997)	—
Non U.S.	(4,883)	(543)	(599)
	<u>\$ 3,535</u>	<u>\$ 18,791</u>	<u>\$ (107,595)</u>
Provision (benefit) for income taxes	<u>\$ 130,858</u>	<u>\$ 22,753</u>	<u>\$ (101,114)</u>

The following table reconciles the U.S. federal statutory income tax to the Company's actual income tax from continuing operations (in thousands):

	For the year ended December 31,		
	2015	2014	2013
U.S. federal income tax expense at statutory rate	\$ 132,987	\$ 29,815	\$ 8,742
Income not subject to U.S. corporate income tax	—	—	(15,583)
U.S. state and local income tax expense (benefit), net of U.S. federal income tax effect	18,101	(4,495)	1,881
Recognition of state deferred tax assets and net operating losses, net of U.S. federal income tax effect	(16,242)	—	—
Deferred tax benefit resulting from the Company becoming subject to U.S. corporate income taxes	—	—	(103,499)
Nondeductible expenses ⁽¹⁾	3,223	230	3,627
Federal research & development tax credits	(3,753)	(1,241)	—
Foreign taxes	(3,927)	(1,371)	3,603
Other, net	469	(185)	115
Income tax expense (benefit)	<u>\$ 130,858</u>	<u>\$ 22,753</u>	<u>\$ (101,114)</u>

⁽¹⁾ Nondeductible expenses include nondeductible compensation and meals and entertainment.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – Continued

Deferred income taxes reflect the net tax effects of temporary differences between the financial reporting and tax bases 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. Valuation allowances recorded on the balance sheet dates are necessary in cases where management believes that it is more likely than not that some portion or all of the deferred tax assets will not be realized. The Company's net deferred tax assets are reported as Deferred tax asset, net on the Consolidated Statements of Financial Condition. At December 31, 2015, and December 31, 2014, the Company's net deferred tax assets were \$151.2 million and \$154.8 million, respectively, and comprised the following:

	December 31, 2015	December 31, 2014
Deferred tax assets:		
Employee compensation and benefit plans	\$ 41,447	\$ 24,587
Fixed assets and other amortizable assets	79,765	82,882
Reserves	7,875	2,668
Valuation of investments	13,590	32,962
Net operating loss carryforwards and tax credits, net	43,419	94,770
Less: Valuation allowance on net operating loss carryforwards	(9,715)	(15,238)
Total deferred tax assets	<u>\$ 176,381</u>	<u>\$ 222,631</u>
Deferred tax liabilities:		
Fixed assets and other amortizable assets	243	26,244
Reserves	—	2,226
Valuation of investments	280	19,912
Reduction in foreign tax credit for Non-U.S. NOL carryforwards	24,633	19,490
Total deferred tax liabilities	<u>25,156</u>	<u>67,872</u>
Net deferred tax assets	<u>\$ 151,225</u>	<u>\$ 154,759</u>

A valuation allowance is established when management determines that it is more likely than not that the Company will be able to realize its deferred tax assets in the future. With the exception of certain NOLs and state and local deferred tax assets as discussed below, the Company has not recorded any valuation allowance with respect to its deferred tax assets at December 31, 2015 or December 31, 2014.

At December 31, 2015, the Company had U.S. federal NOL carryforwards of \$27.7 million which are subject to annual limitations pursuant to Section 382 of the Internal Revenue Code. The Company recorded a deferred income tax asset related to these federal NOLs of \$9.7 million and a partial valuation allowance of \$6.5 million at December 31, 2015, which represents the portion of these net operating loss carryforwards that are considered more likely than not to expire unutilized.

At December 31, 2014, the Company had U.S. federal NOL carryforwards of \$133.5 million of which \$28.5 million were subject to annual limitations pursuant to Section 382 of the Internal Revenue Code. The Company recorded a deferred income tax asset related to these federal NOLs of \$46.7 million and a partial valuation allowance of \$6.8 million at December 31, 2014, which represents the portion of these net operating loss carryforwards that are considered more likely than not to expire unutilized.

At December 31, 2015, the Company recorded deferred income tax assets related to state and local NOLs of \$8.8 million and a partial valuation allowance of \$12 thousand, which represents the portion of these NOLs that are considered more likely than not to expire unutilized. At December 31, 2014, the Company recorded deferred income tax assets related to state and local NOLs of \$18.5 million and a partial valuation allowance of \$8.1 million, which represents the portion of these NOLs that are considered more likely than not to expire unutilized. Certain of these carryforwards are subject to annual limitations on utilization and these NOLs will begin to expire in 2019.

Prior to 2015, the Company had recorded a partial valuation allowance against certain of its state and local NOLs and other deferred tax assets as it was more likely than not that the benefit of such items would not be realized. During 2015, the Company undertook an internal restructuring which resulted in profits of certain subsidiaries flowing into a formerly unprofitable subsidiary for U.S. corporate income tax purposes, and as a result the Company reversed this

KCG HOLDINGS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – Continued

partial valuation allowance as these loss carryforwards and other state and local deferred tax assets are now expected to be utilized.

At December 31, 2015, the Company had non-U.S. NOL carryforwards of \$114.6 million. The Company recorded a foreign deferred income tax asset of \$24.6 million for these NOL carryforwards as of December 31, 2015 along with an offsetting U.S. federal deferred tax liability of \$24.6 million, for the expected future reduction in U.S. foreign tax credits associated with the use of the non-U.S. loss carryforwards. At December 31, 2014, the Company had non-U.S. NOL carryforwards of \$90.6 million. The Company recorded a foreign deferred income tax asset of \$19.5 million for these NOL carryforwards as of December 31, 2014 along with an offsetting U.S. federal deferred tax liability of \$19.5 million, for the expected future reduction in U.S. foreign tax credits associated with the use of the non-U.S. loss carryforwards. The Company's non-U.S. net operating losses may be carried forward indefinitely.

At December 31, 2015, and December 31, 2014, the Company had unrecognized tax benefits, respectively, of \$3.6 million and \$2.2 million, all of which would affect the Company's effective tax rate if recognized.

The following table reconciles the beginning and ending amount of unrecognized tax benefits (in thousands):

	December 31, 2015	December 31, 2014
Balance at beginning of period	\$ 2,312	\$ 1,464
Increases based on tax positions related to prior periods	1,332	1,843
Decreases based on tax positions related to prior periods	—	(995)
Balance at the end of the period	\$ 3,644	\$ 2,312

As of December 31, 2015, the Company is subject to U.S. Federal income tax examinations for the tax years 2012 through 2014, and to non U.S. income tax examinations for the tax years 2007 through 2014. In addition, the Company is subject to state and local income tax examinations in various jurisdictions for the tax years 2007 through 2014. The final outcome of these examinations is not yet determinable, however, the Company does not anticipate that any adjustments would result in a material change to its results of operations or financial condition.

The Company's policy for recording interest and penalties associated with audits is to record such items as a component of income or loss from continuing operations before income taxes. Penalties, if any, are recorded in Other expenses and interest paid or received is recorded in Debt interest expense and Interest, net, on the Consolidated Statements of Operations.

18. Accumulated Other Comprehensive Income

The following table presents changes in Accumulated other comprehensive income, net of tax by component for the years ended December 31, 2015, 2014 and 2013 (in thousands):

	Unrealized Gains (Losses) on Available-for-Sale Securities	Foreign Currency Translation Adjustments	Total
Balance January 1, 2013	\$ 114,319	\$ —	\$ 114,319
Other Comprehensive Income	13,689	1,365	15,054
Amount reclassified from Accumulated Other Comprehensive Income	(127,972)	—	(127,972)
Net current-period other comprehensive (loss) income	(114,283)	1,365	(112,918)
Balance, December 31, 2013	36	1,365	1,401
Other comprehensive income	316	416	732
Balance, December 31, 2014	352	1,781	2,133
Other comprehensive income	106	(1,581)	(1,475)
Amount reclassified from Accumulated Other Comprehensive Income	(308)	—	(308)
Net current-period other comprehensive loss	(202)	(1,581)	(1,783)
Balance, December 31, 2015	\$ 150	\$ 200	\$ 350

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – Continued

The following table presents the effects of reclassifications out of Accumulated Other Comprehensive Income and into the Consolidated Statements of Operations (in thousands):

For the year ended December 31, 2013	Amounts Reclassified from Other Comprehensive Income	Affected Line Item in the Consolidated Statement of Operations where Net Income is Presented
Accumulated Other Comprehensive Income Components		
Available-for-sale securities:		
Reclassification of unrealized net gains	(127,972)	Investment income and other, net
Related income tax expense	48,629	Income tax expense
	<u>\$ (79,343)</u>	Net of tax

As a result of the Mergers, the Company recorded a non-cash gain of \$128.0 million on its investment in Knight Common Stock, which it recognized within Investment income and other, net on the Consolidated Statements of Operations for the year ended December 31, 2013 and reversed any previous unrealized gains out of Other comprehensive income.

For the year ended December 31, 2015	Amounts Reclassified from Other Comprehensive Income	Affected Line Item in the Consolidated Statement of Operations where Net Income is Presented
Accumulated Other Comprehensive Income Components		
Available-for-sale securities:		
Reclassification of unrealized net gains	(497)	Investment income and other, net
Related income tax expense	189	Income tax expense
	<u>\$ (308)</u>	Net of tax

See Footnote 11 "Investments" for information related to the reclassification of Available-for-sale securities.

19. Writedowns and Other Charges

Writedown of assets and other real estate related charges

For the year ended December 31, 2015, the Company recorded \$15.9 million in writedowns primarily related to goodwill and intangible assets of businesses held for sale. See Footnote 5 "Discontinued Operations, Assets and Liabilities Held for Sale & Sales of Businesses" and Footnote 12 "Goodwill and Intangible Assets" for further details.

In the second quarter of 2015, the Company adopted a plan to consolidate its metro New York City area real estate, which currently comprises the Company's Jersey City, NJ and New York, NY locations, through a relocation of its corporate headquarters to lower Manhattan in late 2016. As a result of this plan, the Company expects to abandon the majority of its Jersey City, NJ location on a staggered basis through the end of 2016 and expects to abandon its current New York, NY location by the end of 2016. Upon adopting the relocation plan, the Company prospectively shortened the remaining useful lives of the leasehold improvements and other fixed assets associated with these locations to reflect the projected abandonment dates.

Additionally, the Company completed consolidating its offices in Chicago and abandoned a portion of its Chicago premises in the third quarter of 2015.

For the year ended December 31, 2015, the Company recorded writedowns of fixed assets totaling \$17.0 million which comprises accelerated amortization related to leaseholds and furniture on partially vacated properties at its Jersey City and Chicago locations and losses on the sale of certain microwave communication network assets to the JV.

In addition, the Company recorded \$23.7 million in charges in 2015 primarily related to the early termination of its Jersey City lease, modification of its New York City lease, and lease loss accruals for its Chicago and Greenwich premises.

For the years ended December 31, 2014 and 2013, the Company recorded \$8.6 million and \$7.1 million, respectively, of net lease loss accruals related to excess real estate capacity.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – Continued

For the year ended December 31, 2013, the Company recorded \$7.7 million in writedown of assets primarily related to leasehold improvements and fixed assets.

The activity in the liability accounts related to the Company's lease losses and lease terminations for its U.S. leases are recorded in Accrued expenses and other liabilities on the Consolidated Statements of Financial Condition as follows (in thousands):

	December 31, 2015	December 31, 2014
Balance as of beginning of period	\$ 5,897	\$ 6,120
Real estate charges incurred	23,186	5,360
Payments made, net	(8,921)	(4,468)
Interest accretion	(1,270)	(1,115)
Balance as of end of period	\$ 18,892	\$ 5,897

Debt extinguishment charges

In 2015, the Company wrote off \$8.5 million of capitalized debt costs and paid \$16.5 million as a contractual make-whole premium related to the early retirement of the Company's \$305.0 million 8.25% Senior Secured Notes. See Footnote 13 "Debt" for further details.

In 2014, the Company made \$235.0 million principal repayments under the Credit Agreement. As a result, the Company wrote off \$9.6 million in capitalized debt costs.

20. Earnings Per Share

Basic earnings or loss per common share ("EPS") has been calculated by dividing net income from continuing operations by the weighted average shares of the Company's Class A Common Stock outstanding during each respective period. Diluted EPS reflects the potential reduction in EPS using the treasury stock method to reflect the impact of common stock equivalents if stock options, SARs and Warrants to purchase shares of the Company's Class A Common Stock were exercised and restricted awards were to vest.

The number of such RSUs, options, Warrants and SARs excluded from the EPS calculation was approximately 16.5 million, 28.3 million and 29.1 million for the years ended December 31, 2015, 2014 and 2013, respectively. Such RSUs, options, Warrants and SARs were excluded from the EPS calculation as their inclusion would have an anti-dilutive impact on the EPS calculation. The computation of diluted shares can vary among periods due in part to the change in the average price of the Company's Class A Common Stock.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – Continued

The following is a reconciliation of the numerators and denominators of the basic and diluted earnings per share computations from continuing operations for the years ended December 31, 2015, 2014 and 2013 (in thousands, except per share amounts):

	For the years ended December 31,					
	2015		2014		2013	
	Numerator / net income	Denominator / shares	Numerator / net income	Denominator / shares	Numerator / net income	Denominator / shares
Income from continuing operations and shares used in basic calculations	\$ 249,104	100,437	\$ 62,434	112,854	126,092	80,143
Effect of dilutive stock based awards						
Restricted awards		1,955		3,579		855
Stock options and SARs		316		101		17
Warrants		214		—		—
Income from continuing operations and shares used in diluted calculations	\$ 249,104	102,922	\$ 62,434	116,534	\$ 126,092	81,015
Loss from continuing operations allocated to preferred and participating units	\$ —		\$ —		\$ (21,565)	
Income from continuing operations attributable to common stockholders	\$ 249,104		\$ 62,434		\$ 147,657	
Basic earnings per common share from continuing operations		\$ 2.48		\$ 0.55		\$ 1.84
Diluted earnings per common share from continuing operations		\$ 2.42		\$ 0.54		\$ 1.82

Prior to the Mergers, GETCO units comprised preferred and common units, and net income was allocated among the various classes of units based upon participation rights in undistributed earnings. The number of shares used to calculate EPS for 2013 are GETCO units converted into KCG shares using an exchange ratio as detailed in the Merger Agreement.

21. Significant Clients

The Company considers significant clients to be those clients who account for 10% or more of the total U.S. equity market making dollar value traded by the Company. No clients accounted for more than 10% of the Company's U.S. equity dollar value traded during the years ended December 31, 2015, 2014 or 2013.

22. Commitments and Contingent Liabilities

Legal Proceedings

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

KCG HOLDINGS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – Continued

Other Legal and Regulatory Matters

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

The Company is currently the subject of various regulatory reviews and investigations by federal, state and foreign regulators and SROs, including the SEC, the U.S. Department of Justice, Financial Industry Regulatory Authority, Inc. and the Financial Conduct Authority ("FCA"). In some instances, these matters may rise to a disciplinary action and/or a civil or administrative action. In addition, the Autorité des Marchés Financiers ("AMF") is investigating GETCO's trading activities on Euronext for the period 2010 to 2012. The AMF board, upon the report of its investigation division, has referred the matter to the AMF enforcement committee who could decide to impose administrative sanctions or monetary penalties.

In May 2015, the Company received a Wells Notice from the staff of the New York office of the SEC concerning the handling of orders by KCGA (formerly, Knight Capital Americas LLC) in Over-the-Counter securities quoted on OTC Link (an inter-dealer quotation system formerly referred to as the "Pink Sheets") during the period of January 1, 2010 through July 2013, which indicated that the staff made a preliminary determination to recommend that the Commission file an enforcement action alleging that KCGA violated Sections 17(a)(2) and 17(a)(3) of the Securities Act of 1933. KCGA and the staff of the SEC reached an agreement in principle pursuant to which KCGA would pay a fine in the sum of \$300,000, disgorge approximately \$686,000 and pay approximately \$70,000 in prejudgment interest. On December 21, 2015, the agreement in principle was formally approved by the Commission, and on December 22, 2015, the Company paid the fine, disgorgement and prejudgment interest. The amount of the settlement had been fully accrued for in prior quarters. The settlement resolves the matter referred to in the SEC's Wells Notice referred to above.

Capital Leases

The Company enters into capitalized lease obligations related to certain computer equipment. These obligations represent drawdowns under a revolving secured lending facility with a single lender. At December 31, 2015, the obligations have a weighted-average interest rate of 4.44% per annum and are on varying 3-year terms. The carrying amounts of the capital leases approximate fair value. The future minimum payments including interest under the capitalized leases at December 31, 2015 consist of (in thousands):

	Minimum Payments
2016	\$ 2,126
2017	620
Total	\$ 2,746

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – Continued

The total interest expense related to capital leases for the years ended December 31, 2015, 2014 and 2013 included in Debt interest expense on the Consolidated Statements Operations is as follows (in thousands):

	For the year ended December 31,		
	2015	2014	2013
Interest expense - Capital leases	\$ 189	\$ 370	\$ 700

Operating Leases

The Company leases office space under noncancelable operating leases. Certain office leases contain fixed dollar-based escalation clauses. Rental expense from continuing operations under the office leases was \$17.8 million, \$19.7 million and \$16.0 million for the years ended December 31, 2015, 2014 and 2013, respectively, and is included in Occupancy and equipment rentals on the Consolidated Statements of Operations.

The Company leases certain computer and other equipment under noncancelable operating leases. As of December 31, 2015, future minimum rental commitments under all noncancelable office, computer and equipment leases ("Gross Lease Obligations"), and Sublease Income were as follows (in thousands):

	Gross Lease Obligations	Sublease Income	Net Lease Obligations
Year ending December 31, 2016	\$ 24,613	\$ 5,116	\$ 19,497
Year ending December 31, 2017	28,677	4,633	24,044
Year ending December 31, 2018	27,003	4,286	22,717
Year ending December 31, 2019	24,367	3,630	20,737
Year ending December 31, 2020	22,918	2,482	20,436
Thereafter through December 31, 2031	175,323	6,538	168,785
Total	\$ 302,901	\$ 26,685	\$ 276,216

Contract Obligations

During the normal course of business, the Company collateralizes certain leases or other contractual obligations through letters of credit or segregated funds held in escrow accounts. At December 31, 2015, the Company had provided letters of credit for \$11.6 million, collateralized by cash, as a guarantee for several of its lease obligations and for a trading JV. In the ordinary course of business, KCG also has provided, and may provide in the future, unsecured guarantees with respect to the payment obligations of certain of its subsidiaries under trading, repurchase, financing and stock loan arrangements, as well as under certain leases.

Guarantees

The Company is a member of exchanges that trade and clear futures contracts. Associated with its memberships, the Company may be required to pay a proportionate share of the financial obligations of another member who may default on its obligations to the exchange. Although the rules governing different exchange memberships vary, in general the Company's guarantee obligations would arise only if the exchange had previously exhausted its resources. In addition, any such guarantee obligation would be apportioned among the other nondefaulting members of the exchange. Any potential contingent liability under these membership agreements cannot be estimated. The Company has not recorded any contingent liability in the financial statements for these agreements and management believes that any potential requirement to make payments under these agreements is remote.

There were no compensation guarantees at December 31, 2015 or 2014 that extended beyond the respective year end.

Representations and Warranties

In the normal course of its operations, the Company enters into contracts that contain a variety of representations and warranties which provide general indemnifications. The Company's maximum exposure under these arrangements is unknown, as this would involve future claims that may be made against the Company that have not yet occurred. However, based on experience, the Company believes the risk of significant loss is minimal.

Urban has advised KCG that it will seek indemnification from KCG for losses on certain loans that were underwritten prior to KCG's disposition of Urban. This potential obligation relates to approximately 40 loans which have been identified

KCG HOLDINGS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – Continued

as either loans pursuant to which Urban was required to provide an indemnification to the U.S. Department of Housing and Urban Development ("HUD") in the event the loans sustained losses or as not qualifying for HUD insurance. Based on information currently available, KCG estimates that its maximum exposure to losses with respect to reimbursing Urban for any potential losses on these loans will not exceed \$8.5 million. For the year ended December 31, 2015, the Company has paid \$0.5 million to Urban as a result of this indemnification. The Company has not recorded any liabilities related to these potential losses as of December 31, 2015.

23. Net capital requirements

KCG Americas LLC ("KCGA"), the Company's U.S. registered broker dealer is subject to the SEC's Uniform Net Capital Rule, which requires the maintenance of minimum net capital. As of December 31, 2015, KCGA was in compliance with the applicable regulatory net capital rules.

The following table sets forth the net capital levels and requirements for the Company's U.S. registered broker dealer subsidiary at December 31, 2015 as filed in its amended regulatory filings (in thousands):

	Net Capital	Net Capital Requirement	Excess Net Capital
KCG Americas LLC	\$ 286,757	\$ 1,000	\$ 285,757

The Company's U.K. registered broker dealer is subject to certain financial resource requirements of Financial Conduct Authority ("FCA"). The following table sets forth the financial resource requirement for KCG Europe Limited, our U.K. registered broker dealer, at December 31, 2015 (in thousands):

	Financial Resources	Resource Requirement	Excess Financial Resources
KCG Europe Limited	\$ 155,081	\$ 131,840	\$ 23,241

The Company's other U.K. registered broker dealer, GETCO Europe Limited, withdrew from its membership with the FCA during the first quarter of 2015. All business of GETCO Europe Limited had previously been transferred to KCG Europe Limited.

24. Financial instruments with Off-Balance Sheet Risk and Concentrations of Credit Risk

As a market maker in global equities, fixed income, futures, options, commodities and currencies, the majority of the Company's securities transactions are conducted as principal or riskless principal with broker dealers and institutional counterparties primarily located in the United States. The Company self-clears substantially all of its U.S. equity and option securities transactions. The Company clears a portion of its securities transactions through third party clearing brokers. Foreign transactions are settled pursuant to global custody and clearing agreements with major U.S. banks. Substantially all of the Company's credit exposures are concentrated with its clearing brokers, broker dealer and institutional counterparties. The Company's policy is to monitor the credit standing of counterparties with which it conducts business.

Financial instruments sold, not yet purchased, at fair value represent obligations to purchase such securities (or underlying securities) at a future date. The Company may incur a loss if the market value of the securities subsequently increases.

The Company currently has no loans outstanding to any former or current executive officer or director.

KCG HOLDINGS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – Continued

25. Business Segments

As of December 31, 2015, the Company's operating segments comprised the following: (i) Market Making; (ii) Global Execution Services; and (iii) Corporate and Other.

The Market Making segment principally consists of market making in the cash, futures and options markets across global equities, options, fixed income, currencies and commodities. As a market maker, the Company commits capital on a principal basis by offering to buy securities from, or sell securities to, broker dealers, banks and institutions. Principal trading in the Market Making segment primarily consists of direct-to-client and non-client exchange-based electronic market making, including trade executions conducted as a DMM on the NYSE and NYSE Amex. KCG is an active participant on all major global equity and futures exchanges and also trades on substantially all domestic electronic options exchanges. As a complement to electronic market making, the Company's cash trading business handles specialized orders and also transacts on the OTC Bulletin Board marketplaces operated by the OTC Markets Group Inc. and the AIM.

The Global Execution Services segment comprises agency execution services and trading venues, offering trading in global equities, options, futures and fixed income to institutions, banks and broker dealers. The Company generally earns commissions as an agent between principals for transactions; however, the Company will commit capital on behalf of clients as needed. Agency-based, execution-only trading in the segment is done primarily through a variety of access points including: (i) algorithmic trading and order routing in global equities and options; (ii) institutional sales traders executing program, block and riskless principal trades in global equities and ETFs; (iii) a fixed income ECN that also offers trading applications; and (iv) an ATS for global equities.

The Corporate and Other segment contains investments principally in strategic financial services-oriented opportunities; manages the deployment of capital across the organization; houses executive management functions; and maintains corporate overhead expenses and all other income and expenses that are not attributable to the other segments. The Corporate and Other segment also contains functions that support the Company's other segments such as self-clearing services, including stock lending activities.

The Company's revenues, income (loss) from continuing operations before income taxes ("Pre-tax earnings") and total assets by segment are summarized in the following table (in thousands):

	Market Making	Global Execution Services	Corporate and Other	Consolidated Total
<i>For the year ended December 31, 2015:</i>				
Revenues	\$ 884,858	\$ 667,723	\$ 46,529	\$ 1,599,110
Pre-tax earnings	124,028	368,957	(113,023)	379,962
Total assets	4,855,482	727,029	468,667	6,051,178
<i>For the year ended December 31, 2014:</i>				
Revenues	\$ 901,152	\$ 345,710	\$ 69,369	\$ 1,316,232
Pre-tax earnings	146,713	11,056	(72,582)	85,187
Total assets	4,401,021	786,734	1,642,899	6,830,654
<i>For the year ended December 31, 2013:</i>				
Revenues	\$ 688,197	\$ 197,765	\$ 141,374	\$ 1,027,336
Pre-tax earnings	103,612	(25,794)	(52,842)	24,978
Total assets	3,939,965	1,106,448	1,950,591	6,997,004

In the first quarter of 2015, the Company began to allocate costs incurred to operate its self-clearing function to the Market Making and Global Execution Services segments and no longer report it as a distinct business within the Corporate and Other segment. Previously, these support costs were embedded within the internal clearing rates charged by the Corporate and Other segment to the various businesses, which eliminated during consolidation.

In the first quarter of 2014, the Company began to charge the Market Making and Global Execution Services segments for the cost of aggregate debt interest. The interest amount charged to each of the segments is determined based on capital limits and requirements. Historically, debt interest was included within the Corporate and Other segment. This change in the measurement of segment profitability has no impact on the consolidated results and has

KCG HOLDINGS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – Continued

only been reported prospectively, and is not reflected in financial results prior to January 1, 2014. For the year ended December 31, 2014 debt interest expense included in the results of the Market Making and Global Execution Services segments was \$24.7 million and \$7.1 million, respectively. For the year ended December 31, 2015, debt interest expense included in the results of the Market Making and Global Execution Services segments was \$21.2 million and \$4.9 million, respectively.

Additionally, prior to 2015, funding costs of inventory positions were recorded in the Corporate and Other segment, primarily within Collateralized financing interest on the Consolidated Statements of Operations. These costs were subsequently charged out to the Market Making and Global Execution Services segments primarily through the Interest, net line item, with an equal and offsetting revenue item within the Corporate and Other segment. With the move of the self clearing team to a support function, these third party costs are now charged directly to the businesses within the Market Making and Global Execution Services segments. This shift in how the Company's self clearing unit is reported has no impact to the Consolidated Statements of Operations, nor any of the individual line items within it. However, on a segment level, this decreases the amount of total revenues reported by the Corporate and Other segment, because it no longer records the offsetting revenue for these third party funding costs. This change in the measurement of segment profitability, which has no impact to the consolidated results, is reported prospectively, and, therefore, is not reflected in the financial results for any period prior to January 1, 2015.

Included in Revenues and Pre-tax earnings within Global Execution Services for the year ended December 31, 2015 are results of KCG Hotspot through March 13, 2015, the date of the sale. Also included in Revenues and Pre-tax earnings for the year ended December 31, 2015 is a gain related to the sale of KCG Hotspot of \$385.0 million and \$373.8 million, respectively. Revenue and Pre-tax earnings from KCG Hotspot and the Company's former FCM business (through the date of sale in the fourth quarter of 2014) are included in the Global Execution Services segment for the years ended December 31, 2014 and 2013.

Included in total assets within market Making at December 31, 2015 is \$26.0 million related to Assets of businesses held for sale. Included in total assets within Global Execution Services at December 31, 2014 is \$40.5 million related to KCG Hotspot. As noted in Footnote 5 "Discontinued Operations & Assets and Liabilities Held for Sale", such assets are included as Assets held for sale at December 31, 2015 and 2014.

The Company operates in the U.S. and internationally, primarily in Europe and Asia. The following table presents Revenues by geographic area.

	<u>U.S.</u>	<u>International</u>	<u>Consolidated Total</u>
<i>For the year ended December 31, 2015:</i>			
Revenues	\$ 1,449,370	\$ 149,740	\$ 1,599,110
<i>For the year ended December 31, 2014:</i>			
Revenues	\$ 1,127,088	\$ 189,144	\$ 1,316,232
<i>For the year ended December 31, 2013:</i>			
Revenues	\$ 834,410	\$ 192,926	\$ 1,027,336

KCG HOLDINGS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – Continued

26. Condensed Financial Statements of KCG Holdings, Inc. (parent only)

Presented below are the Condensed Statements of Financial Condition, Operations and Cash Flows for the Company on an unconsolidated basis.

Statements of Financial Condition
KCG Holdings, Inc. (parent only)

	December 31,	
	2015	2014
	(in thousands)	
Assets		
Cash and cash equivalents	\$ 333,982	\$ 302,700
Receivable from subsidiaries	212,336	21,851
Investments in subsidiaries	1,039,250	1,122,254
Fixed assets and leasehold improvements, at cost, less accumulated depreciation and amortization	2,755	—
Goodwill and intangible assets, less accumulated amortization	218	—
Deferred tax asset, net	76,747	137,009
Subordinated loans to subsidiaries	280,000	280,000
Other assets	51,821	33,396
Total assets	\$ 1,997,109	\$ 1,897,210
Liabilities and equity		
Liabilities		
Accrued compensation expense	\$ 21,775	\$ 13,208
Payable to subsidiaries	—	42,478
Accrued expenses and other liabilities	35,604	13,947
Debt	495,632	305,000
Total liabilities	553,011	374,633
Total equity	1,444,098	1,522,577
Total liabilities and equity	\$ 1,997,109	\$ 1,897,210

KCG HOLDINGS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – Continued

Statements of Operations and Comprehensive Income
KCG Holdings, Inc. (parent only)

	For the year ended December 31,		
	2015	2014	2013
	(in thousands)		
Revenues			
Investment income and other, net	\$ 7,341	\$ 3,415	\$ 3,717
Total revenues	<u>7,341</u>	<u>3,415</u>	<u>3,717</u>
Expenses			
Employee compensation and benefits	48,863	50,256	31,970
Debt interest expense	35,883	11,939	28,476
Depreciation and amortization	—	—	698
Professional fees	15,728	9,211	30,488
Business development	2,759	3,625	—
Occupancy and equipment rentals	2,059	—	—
Other	31,331	25,460	29,829
Total expenses	<u>136,623</u>	<u>100,491</u>	<u>121,461</u>
Loss before income taxes and equity in earnings of subsidiaries	(129,282)	(97,076)	(117,744)
Income tax benefit	(75,784)	(35,972)	(120,761)
(Loss) income before equity in earnings of subsidiaries	(53,498)	(61,104)	3,017
Equity in earnings of subsidiaries	302,602	122,206	123,155
Net income	249,104	61,102	126,172
Other comprehensive income (loss)	(1,783)	732	(112,918)
Comprehensive income	<u>\$ 247,321</u>	<u>\$ 61,834</u>	<u>\$ 13,254</u>

KCG HOLDINGS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – Continued

Statements of Cash Flows
KCG Holdings, Inc. (parent only)

	For the year ended December 31,		
	2015	2014	2013
	(In thousands)		
Cash flows from operating activities			
Net income	\$ 249,104	\$ 61,102	\$ 126,172
Adjustments to reconcile net income to net cash provided by operating activities			
Equity in earnings of subsidiaries, net of tax	(302,602)	(122,206)	(123,155)
Stock-based compensation	14,942	16,997	—
Debt discount accretion and other debt related expenses	12,103	12,548	16,931
Amortization of intangibles	—	—	698
Dividends received from subsidiaries	85,323	224,524	396,425
Decrease (increase) in operating assets			
Subordinated loan receivable	—	(30,000)	(250,000)
Deferred tax asset	60,262	6,019	(144,109)
Other assets	(17,255)	(25,897)	5,568
(Decrease) increase in operating liabilities			
Accrued compensation expense	5,050	13,208	—
Accrued expenses and other liabilities	20,063	3,178	64,571
Net cash provided by operating activities	126,990	159,473	93,101
Cash flows from investing activities			
Cash acquired upon acquisition of Knight Capital Group, Inc.	—	—	509,133
Cash received from sale of Urban Financial of America, LLC	—	—	85,406
Purchase of fixed assets and leasehold improvements	(2,972)	—	—
Capital contributions to subsidiaries	—	—	(164,975)
Net cash (used in) provided by investing activities	(2,972)	—	429,564
Cash flows from financing activities			
Proceeds from issuance of Credit Agreement	—	—	535,000
Partial payment of Credit Agreement	—	(235,000)	(300,000)
Proceeds from issuance of 6.875% Senior Secured Notes, net	494,810	—	—
Proceeds from issuance of 8.25% Senior Secured Notes	—	—	305,000
Repayment of 8.25% Senior Secured Notes	(305,000)	—	—
Repayment of notes payable	—	—	(15,000)
Payment of debt issuance costs	(12,645)	—	(34,592)
Cost of common stock repurchased - Tender Offer	(330,000)	—	—
Cost of common stock repurchased	(63,194)	(111,585)	(11,324)
Issuance of equity to General Atlantic	—	—	55,000
Payment to former Knight Capital Group, Inc. stockholders	—	—	(720,000)
Repayment of Knight Convertible Notes	—	—	(257,741)
Funding of collateral account for Knight Convertible Notes	—	—	(117,259)
Payment out of collateral account for Knight Convertible Notes	—	—	117,259
Members distributions	—	—	(21,002)
Cash funding transactions with subsidiaries	123,308	236,795	80,500
Stock options exercised	1,247	—	—
Warrants exercised	532	—	—
Cost of warrants repurchased	(4,441)	—	—
Income tax (provision) benefit related to stock-based compensation	2,647	—	—
Net cash used in financing activities	(92,736)	(109,790)	(384,159)
Increase in cash and cash equivalents	31,282	49,683	138,506
Cash and cash equivalents at beginning of period	302,700	253,017	114,511
Cash and cash equivalents at end of period	\$ 333,982	\$ 302,700	\$ 253,017
Supplemental disclosure of cash flow information:			
Cash paid for interest	\$ 33,878	\$ 28,426	\$ 26,239
Cash paid for income taxes	\$ 124,461	\$ 15,456	\$ 365
Non-cash net funding financing activities with subsidiaries	\$ 54,510	\$ 131,840	\$ 1,082,031

KCG HOLDINGS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – Continued

During the fourth quarter of 2015, the Company identified errors in the presentation of its previously reported parent company only Statements of Cash Flows for the years ended December 31, 2014 and 2013. Cash flows from operating, investing and financing activities have been revised to correct for the previous inclusion of non-cash items as well as the classification of certain cash flows. The errors impacted the line items that reflected activity between the parent company and its subsidiaries within the Statements of Cash Flows for the parent company only, and had no impact on the ending cash balances or any other parent company only financial statements or the Consolidated Financial Statements. The Company evaluated the materiality of these errors in accordance with SEC Staff Accounting Bulletin No. 99, *Materiality*, and SEC Staff Accounting Bulletin No. 108, *Considering the Effects of Prior Year Misstatements When Quantifying Misstatements in Current Year Financial Statements*, and concluded that these errors, individually and in the aggregate, were immaterial to the Consolidated Financial Statements for all prior periods. While the adjustments were immaterial, the Company revised its previously reported parent company only Statements of Cash Flows. The impact of the errors on the subtotals within the statement are shown in the following table:

	For the year ended December 31,	
	2014	2013
	(in thousands)	
Net cash used in operating activities - as reported	\$ (14,358)	\$ (398,890)
Net cash provided by operating activities - as revised	159,473	93,101
Net cash provided by investing activities - as reported	410,626	1,002,055
Net cash provided by investing activities - as revised	—	429,564
Net cash used in financing activities - as reported	(346,585)	(464,659)
Net cash used in by financing activities - as revised	(109,790)	(384,159)

As noted in Footnote 1 "Organization and Description of Business", the Mergers were treated as a purchase of Knight by GETCO for accounting and financial reporting purposes.

The Statements of Operations and Cash Flows included in this footnote for the year ended December 31, 2013 include the combined financial results and cash flows for GETCO Holding Company, LLC for the six month period January 1, 2013 to June 30, 2013 and for KCG Holdings, Inc. for the six month period July 1, 2013 to December 31, 2013.

27. Subsequent Events

On February 4, 2016, KCGA entered into an asset purchase agreement with Citadel Securities LLC ("Citadel"), pursuant to which KCGA agreed to sell its NYSE DMM business to Citadel. The transaction is expected to close during the second quarter of 2016.

Subsequent to the year ended December 31, 2015, the Company repurchased in the open market \$35.0 million par value of its 6.875% Senior Secured Notes.

KCG HOLDINGS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – Continued

Item 9. *Changes in and Disagreements With Accountants on Accounting and Financial Disclosures*

None

Item 9A. *Controls and Procedures*

(a) Disclosure Controls and Procedures. KCG's management, with the participation of KCG's Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")) as of the end of the period covered by this report. Based on such evaluation, KCG's Chief Executive Officer and Chief Financial Officer have concluded that, as of December 31, 2015, KCG's disclosure controls and procedures are effective.

(b) Internal Control Over Financial Reporting. Management's annual report on internal control over financial reporting is contained in Part II, Item 8 of this Form 10-K.

(c) Changes in Internal Control Over Financial Reporting. There have not been any changes in KCG's internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) which occurred during the fourth quarter of our year ended December 31, 2015 that have materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Item 9B. *Other Information*

Not Applicable.

PART III—ITEMS 10, 11, 12, 13 and 14

The Company's Proxy Statement for its 2016 Annual Meeting of Stockholders, which, when filed pursuant to Regulation 14A under the Securities Exchange Act of 1934, will be incorporated by reference in this Annual Report on Form 10-K pursuant to General Instruction G (3) of Form 10-K, provides the information required under Part III (Items 10, 11, 12, 13 and 14)

PART IV

Item 15. *Exhibits and Financial Statements Schedules*

- (a) The following documents are filed as part of this report:

Consolidated Financial Statements and Financial Statement Schedules. See “Part II Item 8, Financial Statements and Supplementary Data”

- (c) INDEX TO EXHIBITS

NUMBER ASSIGNED TO EXHIBIT (I.E. 601 OF REGULATION S-K)

DESCRIPTION OF EXHIBITS

2.1	Amended and Restated Agreement and Plan of Merger, dated as of December 19, 2012 and amended and restated as of April 15, 2013, by and among GETCO Holding Company, LLC, GA-GTCO, LLC, Knight Capital Group, Inc., Knight Holdco, Inc., Knight Acquisition Corp, GETCO Acquisition, LLC and GA-GTCO Acquisition, LLC (exhibits excluded) - Incorporated herein by reference to Exhibit 2.1 of the Registrant's Form 8-K12G3 Current Report filed on July 1, 2013.
2.2	Stock Purchase Agreement, dated July 29, 2013, by and among Knight Libertas Holdings LLC, KCG Holdings, Inc. and UFG Holdings LLC - Incorporated herein by reference to Exhibit 2.1 of the Registrant's Quarterly Report on Form 10-Q filed on August 9, 2013.
2.3	Securities Purchase Agreement, dated January 27, 2015, between Knight Capital Group, Inc. and BATS Global Markets, Inc. - Incorporated herein by reference to Exhibit 2.1 of the Registrant's Form 8-K Current Report filed on January 29, 2015.
3.1	Amended and Restated Certificate of Incorporation of KCG Holdings, Inc. - Incorporated herein by reference to Exhibit 3.1 of the Registrant's Form 8-K12G3 Current Report filed on July 1, 2013.
3.2	Second Amended and Restated Bylaws of KCG Holdings, Inc. - Incorporated herein by reference to Exhibit 3.2 of the Registrant's Current Report on Form 8-K filed on December 4, 2015.
4.1	Form of Certificate of Class A Common Stock of KCG Holdings, Inc. - Incorporated herein by reference to Exhibit 4.1 of the Registrant's Form 8-K12G3 Current Report filed on July 1, 2013.
4.2	Registration Rights Agreement, dated July 1, 2013, among KCG Holdings, Inc., Daniel V. Tierney 2011 Trust, Serenity Investments, LLC and GA-GTCO Interholdco, LLC. - Incorporated herein by reference to Exhibit 4.2 of the Registrant's Form 8-K12G3 Current Report filed on July 1, 2013.
4.3	Warrant Agreement, dated July 1, 2013, between KCG Holdings, Inc and Computershare Shareowner Services LLC. - Incorporated herein by reference to Exhibit 4.3 of the Registrant's Form 8-K12G3 Current Report filed on July 1, 2013.
4.4	Form of Class A Warrant Certificate (included in Exhibit 4.3)
4.5	Form of Class B Warrant Certificate (included in Exhibit 4.3)
4.6	Form of Class C Warrant Certificate (included in Exhibit 4.3)
4.7	Indenture (the “8.250% Senior Secured Indenture”), dated June 5, 2013, between GETCO Financing Escrow LLC and the Trustee in connection with the 8.250% senior secured notes due 2018 in the aggregate principal amount of \$305,000,000 - Incorporated herein by reference to Exhibit 4.7 of the Registrant's Form 8-K12G3 Current Report filed on July 1, 2013.
4.8	First Supplemental Indenture, dated July 1, 2013, by and between KCG Holdings, Inc. and The Bank of New York Mellon, as trustee (the “Trustee”), amending the 8.250% Senior Secured Indenture - Incorporated herein by reference to Exhibit 4.8 of the Registrant's Form 8-K12G3 Current Report filed on July 1, 2013.

- 4.9 Second Supplemental Indenture, dated July 1, 2013, by and between KCG Holdings, Inc., certain Guarantors and the Trustee, amending the 8.250% Senior Secured Indenture - Incorporated herein by reference to Exhibit 4.9 of the Registrant's Form 8-K12G3 Current Report filed on July 1, 2013.
- 4.10 Third Supplemental Indenture, dated as of October 15, 2013, by and among the Company, the Guarantors and the Trustee, amending the 8.250% Senior Secured Indenture - Incorporated herein by reference to Exhibit 4.1 of the Registrant's Current Report on Form 8-K filed on October 16, 2013.
- 4.11 Registration Rights Agreement (the "Original Senior Secured Registration Rights Agreement"), dated June 5, 2013, between GETCO Financing Escrow LLC and Jefferies LLC as representative of the initial purchasers of the 8.250% senior secured notes due 2018 in the aggregate principal amount of \$305,000,000 - Incorporated herein by reference to Exhibit 4.10 of the Registrant's Form 8-K12G3 Current Report filed on July 1, 2013.
- 4.12 Joinder, dated July 1, 2013, by KCG Holdings Inc. and certain Guarantors to the Original Senior Secured Registration Rights Agreement - Incorporated herein by reference to Exhibit 4.11 of the Registrant's Form 8-K12G3 Current Report filed on July 1, 2013.
- 4.13 Intercreditor Agreement, dated July 1, 2013, by and among KCG Holdings, Inc., certain Guarantors, Jefferies Finance LLC, as first lien collateral agent, and the Indenture Trustee, as second lien collateral agent - Incorporated herein by reference to Exhibit 4.12 of the Registrant's Form 8-K12G3 Current Report filed on July 1, 2013.
- 4.13 First Amendment to Registration Rights Agreement, dated May 30, 2014, by KCG Holdings Inc. - Incorporated herein by reference to Exhibit 4.1 of the Registrant's Form 8-K Current Report filed on June 2, 2014
- 4.14 Indenture (the "Original Convertible Notes Indenture"), dated March 19, 2010, between Knight Capital Group, Inc. and Deutsche Bank Trust Company Americas in connection with that certain 3.50% cash convertible senior subordinated notes due 2015 in the aggregate principal amount of \$375,000,000 - Incorporated herein by reference to Exhibit 4.1 of Knight Capital Group, Inc.'s Form 8-K filed on March 19, 2010.
- 4.15 First Supplemental Indenture, dated July 1, 2013, by and among KCG Holdings, Inc., Knight Capital Group, Inc. and The Bank of New York Mellon, as successor in interest to Deutsche Bank Trust Company Americas, amending the Original Convertible Notes Indenture - Incorporated herein by reference to the Registrant's Current Report on Form 8-K filed on July 2, 2013.
- 4.16 Indenture, dated March 13, 2015, among KCG Holdings, Inc., the guarantors named therein and The Bank of New York Mellon, as trustee and collateral agent, in connection with the 6.875% senior secured notes due 2020 in the aggregate principal amount of \$500,000,000 - Incorporated herein by reference to Exhibit 4.1 of the Registrant's Current Report on Form 8-K filed on March 16, 2015.
- 10.1 Employment Agreement between the Company and Daniel Coleman - Incorporated herein by reference to Exhibit 10.4 of the Registrant's Form 8-K12G3 Current Report filed on July 1, 2013.
- 10.2 Form of Employment Agreement - Incorporated herein by reference to Exhibit 10.1 of the Registrant's Form 8-K Current Report filed August 9, 2013.
- 10.3 Term Schedule to Employment Agreement between the Company and John DiBacco - Incorporated herein by reference to Exhibit 10.3 of the Registrant's Form 8-K Current Report filed August 9, 2013.
- 10.4 Term Schedule to Employment Agreement between the Company and John McCarthy - Incorporated herein by reference to Exhibit 10.4 of the Registrant's Form 8-K Current Report filed August 9, 2013.
- 10.5 Term Schedule to Employment Agreement between the Company and Nick Ogurtsov - Incorporated herein by reference to Exhibit 10.5 of the Registrant's Form 8-K Current Report filed August 9, 2013.

- 10.6 Revised Term Schedule to Employment Agreement between the Company and Jonathan Ross - Incorporated herein by reference to Exhibit 10.1 of the Registrant's Form 10-Q Quarterly Report filed November 12, 2013.
- 10.7 Revised Term Schedule to Employment Agreement between the Company and George Sohos - Incorporated herein by reference to Exhibit 10.8 of the Registrant's Form 10-K Annual Report filed March 3, 2014.
- 10.8 Term Schedule to Employment Agreement between the Company and Ryan Primmer - Incorporated herein by reference to Exhibit 10.9 of the Registrant's Form 10-K Annual Report filed March 3, 2014.
- 10.9 Term Schedule to Employment Agreement between the Company and Gregory Tusar - Incorporated herein by reference to Exhibit 10.10 of the Registrant's Form 10-K Annual Report filed March 3, 2014.
- 10.10 Term Schedule to Employment Agreement between the Company and Steffan Parratt - Incorporated herein by reference to Exhibit 10.12 of the Registrant's Form 10-K Annual Report filed March 2, 2015.
- 10.11 Employment Agreement, dated March 19, 2014, between KCG Europe Limited and Philip Allison - Incorporated herein by reference to Exhibit 10.2 of the Registrant's Form 8-K Current Report filed January 6, 2015.
- 10.12 KCG Holdings, Inc. Amended and Restated Equity Incentive Plan - Incorporated herein by reference to Exhibit 10.1 of the Registrant's Form 10-Q Quarterly Report filed on August 10, 2015.
- 10.13 KCG Holdings, Inc. Amended and Restated Executive Incentive Plan - Incorporated herein by reference to Exhibit 10.7 of the Registrant's Form 8-K12G3 Current Report filed on July 1, 2013.
- 10.14 KCG Holdings, Inc. Amended and Restated Equity Incentive Plan Form of Restricted Stock Unit Agreement- Incorporated herein by reference to Exhibit 10.8 of the Registrant's Form 8-K12G3 Current Report filed on July 1, 2013.
- 10.15 KCG Holdings, Inc. Amended and Restated Equity Incentive Plan Form of Employee Stock Option Agreement- Incorporated herein by reference to Exhibit 10.9 of the Registrant's Form 8-K12G3 Current Report filed on July 1, 2013.
- 10.16 KCG Holdings, Inc. Amended and Restated Equity Incentive Plan Form of Employee Stock Appreciation Right Agreement- Incorporated herein by reference to Exhibit 10.10 of the Registrant's Form 8-K12G3 Current Report filed on July 1, 2013.
- 10.17 KCG Holdings, Inc. Compensation Recoupment Policy- Incorporated herein by reference to Exhibit 10.16 of the Registrant's Form 8-K12G3 Current Report filed on July 1, 2013.
- 10.18 Amended and Restated Aircraft Timeshare Agreement, dated as of April 17, 2014, by and between KCG Holdings, Inc. and Redmont Holdings LLC - Incorporated herein by reference to Exhibit 10.1 of the Registrant's Form 10-Q Quarterly Report filed on May 12, 2014.
- 10.19 Credit Agreement (the "Original Credit Agreement"), dated July 1, 2013, by and among OCTEG, LLC and Knight Capital Americas LLC, as borrowers, KCG Holdings, Inc., as guarantor, the lenders from time to time party thereto, BMO Harris Bank N.A., as administrative agent and collateral agent, JPMorgan Chase Bank N.A. and Bank of America, N.A., as syndication agents, and BMO Capital Markets, JPMorgan Securities, LLC and Merrill Lynch, Pierce, Fenner & Smith Incorporated, as joint lead arrangers and joint book runners - Incorporated herein by reference to Exhibit 10.1 of the Registrant's Current Report on Form 8-K filed on July 2, 2013.
- 10.20 First Amendment to the Original Credit Agreement, dated October 24, 2013, by and among OCTEG, LLC and Knight Capital Americas LLC, as borrowers, KCG Holdings, Inc., as guarantor, the lenders from time to time party thereto and BMO Harris Bank N.A., as administrative agent - Incorporated herein by reference to Exhibit 10.21 of the Registrant's Form 10-K Annual Report filed March 3, 2014.

- 10.21 Credit Agreement, dated June 5, 2015, by and among KCG Americas LLC, as borrower, KCG Holdings, Inc., as guarantor, the lenders from time to time party thereto, BMO Harris Bank N.A., as administrative agent and collateral agent, Bank of America, N.A., as syndication agent, and BMO Capital Markets and Merrill Lynch, Pierce, Fenner & Smith Incorporated, as joint lead arrangers and joint book runners - Incorporated herein by reference to Exhibit 10.1 of the Registrant's Current Report on Form 8-K filed on June 9, 2015.
- 10.22 Security Agreement, dated March 13, 2015 among KCG Holdings, Inc., the guarantors named therein and The Bank of New York Mellon, as trustee and collateral agent - Incorporated herein by reference to Exhibit 10.1 of the Registrant's Current Report on Form 8-K filed on March 16, 2015.
- 10.23 Master Agreement to Lease Equipment, dated as of October 30, 2009, between Global Colocation Services LLC and Cisco Systems Capital Corporation - Incorporated herein by reference to Exhibit 10.2 of the Registrant's Form 8-K12G3 Current Report filed on July 1, 2013.
- 10.24 Guaranty of GETCO Holding Company, LLC under the Master Agreement to Lease Equipment, dated as of October 30, 2009 - Incorporated herein by reference to Exhibit 10.3 of the Registrant's Form 8-K12G3 Current Report filed on July 1, 2013.
- 10.25 Master Agreement to Lease Equipment, dated as of March 10, 2014, between KCG Americas LLC and Cisco Systems Capital Corporation - Incorporated herein by reference to Exhibit 10.2 of the Registrant's 10-Q Quarterly Report filed on May 12, 2014.
- 10.26 Amendment No. 1 to Master Agreement to Lease Equipment, dated as of March 10, 2014, between KCG Americas LLC and Cisco Systems Capital Corporation - Incorporated herein by reference to Exhibit 10.3 of the Registrant's 10-Q Quarterly Report filed on May 12, 2014.
- 10.27 Guaranty of KCG Holdings, Inc. under the Master Agreement to Lease Equipment, dated as of March 13, 2014 - Incorporated herein by reference to Exhibit 10.4 of the Registrant's 10-Q Quarterly Report filed on May 12, 2014.
- 10.28 U.S. Securities and Exchange Commission Order against Knight Capital Americas LLC, dated October 16, 2013 - Incorporated herein by reference to Exhibit 10.1 of the Registrant's Current Report on Form 8-K filed on October 16, 2013.
- 10.29 Separation Agreement dated March 30, 2015, by and between KCG Holdings, Inc. and George Sohos - Incorporated herein by reference to Exhibit 10.1 of the Registrant's Current Report on Form 8-K filed on April 2, 2015.
- 10.30 Lease Agreement between KCG Holdings, Inc. and BOP One North End LLC, dated July 31, 2015. - Incorporated herein by reference to Exhibit 10.1 of the Registrant's 10-Q Quarterly Report filed on November 6, 2015.
- 21.1* Subsidiaries of the Registrant as of December 31, 2015.
- 23.1* Consent of Independent Registered Public Accounting Firm.
- 24.1 Powers of Attorney (included on signature page).
- 31.1* Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 31.2* Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 32.1* Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 32.2* Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

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The following financial statements from KCG Holdings, Inc's Annual Report on Form 10-K for the year ended December 31, 2015, formatted in XBRL (eXtensible Business Reporting Language): (i) Consolidated Statements of Financial Condition at December 31, 2015 and 2014, (ii) Consolidated Statements of Operations for the years ended December 31, 2015, 2014 and 2013 (iii) Consolidated Statements of Comprehensive Income for the years ended December 31, 2015, 2014 and 2013, (iv) Consolidated Statements of Changes in Equity for the years ended December 31, 2015, 2014 and 2013 (v) Consolidated Statements of Cash Flows for the years ended December 31, 2015, 2014 and 2013 and (vi) the Notes to Consolidated Financial Statements.

* Filed herewith.

** Pursuant to rule 406T of Regulation S-T, the Interactive Data Files on Exhibit 101 hereto are deemed not filed for purposes of Sections 11 or 12 of the Securities Act of 1933, as amended, are deemed not filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and otherwise are not subject to liability under those sections.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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, on this 29th day of February 2016.

KCG HOLDINGS, INC.

By: /s/ DANIEL COLEMAN
Daniel Coleman
Chief Executive Officer

POWER OF ATTORNEY

KNOW ALL PERSONS BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints Daniel Coleman and Steffen Parratt, and each of them severally, his or her true and lawful attorney-in-fact with power of substitution and resubstitution to sign in his or her name, place and stead, in any and all capacities, to do any and all things and execute any and all instruments that such attorney may deem necessary or advisable under the Securities Exchange Act of 1934 and any rules, regulations and requirements of the U.S. Securities and Exchange Commission in connection with this Annual Report on Form 10-K and any and all amendments hereto, as fully for all intents and purposes as he or she might or could do in person, and hereby ratifies and confirms all said attorneys-in-fact and agents, each acting alone, and his or her substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, this Annual Report on Form 10-K has been signed by the following persons in the capacities and on the date indicated.

Name	Title	Date
<u> /s/ DANIEL COLEMAN </u> Daniel Coleman	Chief Executive Officer (Principal Executive Officer)	February 29, 2016
<u> /s/ STEFFEN PARRATT </u> Steffen Parratt	Chief Financial Officer (Principal Financial Officer)	February 29, 2016
<u> /s/ SEAN P. GALVIN </u> Sean P. Galvin	Chief Accounting Officer (Principal Accounting Officer)	February 29, 2016
<u> /s/ CHARLES E. HALDEMAN JR. </u> Charles E. Haldeman, Jr.	Non-Executive Chairman of the Board	February 29, 2016
<u> /s/ DEBRA J. CHRAPATY </u> Debra J. Chrapaty	Director	February 29, 2016
<u> /s/ RENE KERN </u> Rene Kern	Director	February 29, 2016

<u>/s/ JAMES T. MILDE</u> James T. Milde	Director	February 29, 2016
<u>/s/ JOHN C. MORRIS</u> John C. Morris	Director	February 29, 2016
<u>/s/ ALASTAIR RAMPELL</u> Alastair Rampell	Director	February 29, 2016
<u>/s/ DANIEL F. SCHMITT</u> Daniel F. Schmitt	Director	February 29, 2016
<u>/s/ STEPHEN SCHULER</u> Stephen Schuler	Director	February 29, 2016
<u>/s/ LAURIE M. SHAHON</u> Laurie M. Shahon	Director	February 29, 2016

Significant Subsidiaries of the Registrant

The following are significant subsidiaries of KCG Holdings, Inc. as of December 31, 2015 and the states in which they are organized. Indentation indicates the principal parent of each subsidiary. Except as otherwise specified, in each case KCG Holdings, Inc. owns, directly or indirectly, at least 99% of the voting securities of each subsidiary. The names of particular subsidiaries have been omitted because, considered in the aggregate as a single subsidiary, they would not constitute, as of December 31, 2015, a "significant subsidiary" as that term is defined in Rule 1-02(w) of regulation S-X under the Securities Exchange Act of 1934.

Name	State of Entity
KCG Holdings, Inc.	Delaware
Knight Capital Group LLC	Delaware
Knight Capital Holdings LLC	Delaware
KCG Americas LLC	Delaware
KCG Europe Limited	England and Wales
GETCO, LLC	Illinois
Global Colocation Services LLC	Delaware
GETCO Holding Company, LLC	Delaware
GETCO Europe Limited	England and Wales
GETCO Trading, LLC	Delaware
GETCO Investments, LLC	Delaware
KCG Asia Pacific Pte. Ltd.	Singapore

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We hereby consent to the incorporation by reference in the Registration Statements on Form S-3ASR (No. 333-189747) and Form S-8 (No. 333-189746) of KCG Holdings, Inc. of our report dated February 29, 2016 relating to the financial statements and the effectiveness of internal control over financial reporting, which appears in this Form 10-K.

/s/ PricewaterhouseCoopers LLP

New York, New York

February 29, 2016

CERTIFICATIONS

I, Daniel Coleman, certify that:

1. I have reviewed this Quarterly Report on Form 10-K for the year ended December 31, 2015 of KCG Holdings, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal controls over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ DANIEL COLEMAN

Name: Daniel Coleman
Title: Chief Executive Officer
(Principal Executive Officer)

Date: February 29, 2016

CERTIFICATIONS

I, Steffen Parratt, certify that:

1. I have reviewed this Annual Report on Form 10-K for the year ended December 31, 2015 of KCG Holdings, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal controls over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ STEFFEN PARRATT

Name: Steffen Parratt
Title: Chief Financial Officer
(Principal Financial Officer)

Date: February 29, 2016

**Statement of Chief Executive Officer Pursuant to
18 U.S.C. Section 1350,
as Adopted Pursuant to
Section 906 of the Sarbanes-Oxley Act of 2002**

In connection with the Annual Report on Form 10-K of KCG Holdings, Inc. (the "Company") for the year ended December 31, 2015 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), Daniel Coleman, as Chief Executive Officer of the Company, hereby certifies, pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of his knowledge:

1. The Report fully complies with the requirements of Section 13(a) or, 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ DANIEL COLEMAN

Name:	Daniel Coleman
Title:	Chief Executive Officer
Date:	February 29, 2016

This certification accompanies the Report pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, and shall not, except to the extent required by the Sarbanes-Oxley Act of 2002, be deemed filed by the Company for purposes of Section 18 of the Securities Exchange Act of 1934, as amended.

**Statement of Chief Financial Officer Pursuant to
18 U.S.C. Section 1350,
as Adopted Pursuant to
Section 906 of the Sarbanes-Oxley Act of 2002**

In connection with the Annual Report on Form 10-K of KCG Holdings, Inc. (the "Company") for the year ended December 31, 2015 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), Steffen Parratt as Chief Financial Officer of the Company, hereby certifies, pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of his knowledge:

1. The Report fully complies with the requirements of Section 13(a) or, 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ STEFFEN PARRATT

Name:	Steffen Parratt
Title:	Chief Financial Officer
Date:	February 29, 2016

This certification accompanies the Report pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, and shall not, except to the extent required by the Sarbanes-Oxley Act of 2002, be deemed filed by the Company for purposes of Section 18 of the Securities Exchange Act of 1934, as amended.

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Corporate Disclaimers

KCG Holdings, Inc. provides its offerings through its Market Making, Global Execution Services, and Corporate and Other operating segments. Securities and services are primarily offered by its regulated broker-dealer subsidiary duly registered with, and a member of, the Securities and Exchange Commission (SEC), the Securities Investor Protection Corporation, and certain national, regional, and foreign exchanges and self-regulatory organizations. For 2015, the Company's material domestic regulated broker-dealer entity was KCG Americas LLC. Securities and services were also provided by the following entities: GETCO LLC, Knight Quantitative Trading LLC, and KCG Hotspot FX LLC. The Company's material international regulated broker-dealer entity was KCG Europe Limited, authorized and regulated by the FCA.

Unless the context otherwise requires, "KCG," the "Company," "We," or "Our" shall mean KCG Holdings, Inc. and its consolidated subsidiaries.

Certain statements contained in this Annual Report and the documents incorporated by reference containing the words "believes," "intends," "expects," "anticipates," and words of similar meaning, may constitute forward-looking statements as defined in the Private Securities Litigation Reform Act of 1995. These "forward-looking statements" are not historical facts and are based on current expectations, estimates, and projections about KCG's industry, management's beliefs, and certain assumptions made by management, many of which, by their nature, are inherently uncertain and beyond our control. Any forward-looking statement contained herein speaks only as of the date on which it is made. Accordingly, readers are cautioned that any such forward-looking statements are not guarantees of future performance and are subject to certain risks, uncertainties, and assumptions that are difficult to predict including, without limitation, risks associated with: (i) the inability to manage trading strategy performance and sustain revenue and earnings growth; (ii) the sale of KCG Hotspot, including the receipt of additional payments that are subject to certain contingencies; (iii) changes in market structure, legislative, regulatory, or financial reporting rules, including the increased focus by Congress, federal and state regulators, the SROs, and the media on market structure issues, and in particular, the scrutiny of high frequency trading, alternative trading systems, market fragmentation, colocation, access to market data feeds, and remuneration arrangements such as payment for order flow and exchange fee structures; (iv) past or future changes to KCG's organizational structure and management; (v) KCG's ability to develop competitive new products and services in a timely manner and the acceptance of such products and services by KCG's customers and potential customers; (vi) KCG's ability to keep up with technological changes; (vii) KCG's ability to effectively identify and manage market risk, operational and technology risk, cybersecurity risk, legal risk, liquidity risk, reputational risk, counterparty and credit risk, international risk, regulatory risk, and compliance risk; (viii) the cost and other effects of material contingencies, including litigation contingencies, and any adverse judicial, administrative, or arbitral rulings or proceedings; (ix) the effects of increased competition and KCG's ability to maintain and expand market share; (x) the announced plan to relocate KCG's global headquarters from Jersey City, NJ, to New York, NY; and (xi) KCG's ability to complete the sale or disposition of any or all of the assets or businesses that are classified as held for sale. The list above is not exhaustive. Because forward-looking statements involve risks and uncertainties, the actual results and performance of KCG may materially differ from the results expressed or implied by such statements. Given these uncertainties, readers are cautioned not to place undue reliance on such forward-looking statements. Unless otherwise required by law, KCG also disclaims any obligation to update its view of any such risks or uncertainties or to announce publicly the result of any revisions to the forward-looking statements made herein. Readers should carefully review the risks and uncertainties disclosed in KCG's reports with the U.S. Securities and Exchange Commission ("SEC"), including those detailed in "Risk Factors" in Part I, Item 1A of KCG's Annual Report on Form 10-K for the year ended December 31, 2015, "Legal Proceedings" in Part I, Item 3, under "Certain Factors Affecting Results of Operations" in "Management's Discussion and Analysis of Financial Condition and Results of Operations" in Part II, Item 7, in "Quantitative and Qualitative Disclosures About Market Risk" in Part II, Item 7A, and in other reports or documents KCG files with, or furnishes to, the SEC from time to time. This information should be read in conjunction with KCG's Consolidated Financial Statements and the Notes thereto contained in its Form 10-K, and in other reports or documents KCG files with, or furnishes to, the SEC from time to time.

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