

Interactive Brokers Group, Inc.  
Form 10-Q  
May 15, 2012

---

---

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

---

FORM 10-Q

---

(Mark One)

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

For the quarterly period ended March 31, 2012.

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

For the transition period from to

Commission File Number: 001-33440

INTERACTIVE BROKERS GROUP, INC.  
(Exact name of registrant as specified in its charter)

Delaware  
(State or other jurisdiction  
of incorporation or organization)

30-0390693  
(I.R.S. Employer  
Identification No.)

One Pickwick Plaza  
Greenwich, Connecticut 06830  
(Address of principal executive office)

(203) 618-5800  
(Registrant's telephone number, including area code)

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

Edgar Filing: Interactive Brokers Group, Inc. - Form 10-Q

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer" and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):  
Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company   
(Do not check if a smaller reporting company)

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

As of May 8, 2012, there were 45,579,884 shares of the issuer's Class A common stock, par value \$0.01 per share, outstanding and 100 shares of the issuer's Class B common stock, par value \$0.01 per share, outstanding.

---

---

INTERACTIVE BROKERS GROUP, INC.  
 QUARTERLY REPORT ON FORM 10-Q FOR THE QUARTER ENDED MARCH 31, 2012  
 Table of Contents

		Page No.
<b>PART I:</b>	<b>FINANCIAL INFORMATION</b>	
Item 1:	Financial Statements (Unaudited)	3
	Condensed Consolidated Statements of Financial Condition	4
	Condensed Consolidated Statements of Comprehensive Income	5
	Condensed Consolidated Statements of Cash Flows	6
	Condensed Consolidated Statement of Changes in Equity	7
	Notes to Condensed Consolidated Financial Statements	8
Item 2:	Management’s Discussion and Analysis of Financial Condition and Results of Operations	30
Item 3:	Quantitative and Qualitative Disclosures About Market Risk	48
Item 4:	Controls and Procedures	51
<b>PART II:</b>	<b>OTHER INFORMATION</b>	
Item 1:	Legal Proceedings	52
Item 1A:	Risk Factors	52
Item 2:	Unregistered Sales of Equity Securities and Use of Proceeds	52
Item 3:	Defaults upon Senior Securities	52
Item 5:	Other Information	52
Item 6:	Exhibits	53
<b>SIGNATURES</b>		<b>54</b>



## PART I. FINANCIAL INFORMATION

### Explanatory Note

Rule 10-01(d) of Regulation S-X requires that interim financial statements included in quarterly reports on Form 10-Q be reviewed by an Independent Registered Public Accounting Firm using professional standards and procedures for conducting such reviews, as established by PCAOB Standards. The Company has been unable to obtain a review of its financial statements included in this report from its independent registered public accounting firm, Deloitte & Touche LLP, before the filing date because, as previously disclosed in the Company's Form 8-K filed on May 15, 2012, the Company will be requesting an interpretation of the Securities and Exchange Commission ("SEC") with regard to its accounting for non-controlling interests in subsidiaries pursuant to ASC 810-10-45, ASC 815-40-25 and ASC 480-10-S99-3A, which may impact the Company's presentation of non-controlling interests. The Company has historically classified non-controlling interests as a component of total equity in its consolidated statement of financial condition.

The unresolved issue is whether non-controlling interests should be classified as permanent or temporary equity in the Registrant's consolidated statement of financial condition.

The accounting treatment being examined has no effect on reported results of operations or earnings per share, or on the valuation or classification of assets or liabilities, for the current period or any previously reported periods; nor does it impact total equity, when including non-controlling interests.

The Company intends to request the SEC interpretation promptly following this filing, and to seek to resolve this issue by June 30, 2012. However, there can be no assurance that the SEC will issue any guidance on the issue by such date, or at all.

The accompanying consolidated financial statements for the quarter ended March 31, 2012 have not been reviewed by an independent registered public accountant in accordance with Statement of Auditing Standards No. 100, Interim Financial Information ("SAS 100").

Section 302 of the Sarbanes Oxley Act of 2002 ("Section 302") requires our Chief Executive Officer and our Chief Financial Officer to certify concerning the Company's disclosure controls and procedures, internal controls over financial reporting in accordance with rules of the SEC, and disclosures concerning their evaluation of those controls to the Company's auditors and Audit Committee. Furthermore, Section 906 of the Sarbanes Oxley Act ("Section 906") requires our Chief Executive Officer and Chief Financial Officer to certify that information contained in this Quarterly Report fairly presents, in all material respects, our financial condition and results of operations. Those certifications are omitted from this filing only because the Company is awaiting SEC guidance on the accounting for non-controlling interests described above.

Except as noted above, the Company believes that this report meets all of the requirements of the Securities Exchange Act of 1934 and the rules and regulations thereunder governing the preparation and filing of periodic reports as referenced in the certifications. Once we have received guidance from the SEC, we expect to complete a final version of our financial statements, which will enable our independent registered public accounting firm to complete its review under SAS 100. At such time, we will file an amendment to this report containing the certifications required under Section 302 and Section 906.

### Financial Statements Introductory Note

Interactive Brokers Group, Inc. ("IBG, Inc." or the "Company") is a holding company whose primary asset is its ownership of approximately 11.5% of the membership interests of IBG LLC (the "Group"). See Notes 1 and 4 to the

unaudited condensed consolidated financial statements for further discussion of the Company's capital and ownership structure.

We are an automated global electronic broker and market maker specializing in routing orders and executing and processing trades in securities, futures, foreign exchange instruments, bonds and mutual funds on more than 100 electronic exchanges and trading venues around the world. In the U.S., our business is conducted from our headquarters in Greenwich, Connecticut and from Chicago, Illinois and Jersey City, New Jersey. Abroad, we conduct business through offices located in Canada, England, Switzerland, Hong Kong, India, Australia, Japan and Brazil. At March 31, 2012 we had 885 employees worldwide.

Edgar Filing: Interactive Brokers Group, Inc. - Form 10-Q

Interactive Brokers Group, Inc. and Subsidiaries  
 Condensed Consolidated Statements of Financial Condition  
 (Unaudited)

(in thousands, except share data)	March 31, 2012	December 31, 2011
<b>Assets</b>		
Cash and cash equivalents	\$ 1,551,399	\$ 1,695,495
Cash and securities - segregated for regulatory purposes	11,028,544	10,069,938
Securities borrowed	3,083,729	2,661,671
Securities purchased under agreements to resell	365,229	375,366
<b>Trading assets, at fair value:</b>		
Financial instruments owned	4,412,405	5,069,271
Financial instruments owned and pledged as collateral	2,031,217	1,545,807
	6,443,622	6,615,078
<b>Other receivables:</b>		
Customers, less allowance for doubtful accounts of \$3,261 and \$3,332 at March 31, 2012 and December 31, 2011	8,457,962	7,024,792
Brokers, dealers and clearing organizations	1,192,317	1,397,772
Receivable from affiliate	593	595
Interest	22,661	20,540
	9,673,533	8,443,699
Other assets	550,342	543,118
<b>Total assets</b>	<b>\$ 32,696,398</b>	<b>\$ 30,404,365</b>
<b>Liabilities and equity</b>		
<b>Liabilities:</b>		
<b>Trading liabilities - financial instruments sold but not yet purchased, at fair value</b>		
	\$ 5,674,460	\$ 6,156,148
Securities loaned	1,768,117	1,386,059
Short-term borrowings	14,474	6,538
<b>Other payables:</b>		
Customers	19,501,916	17,300,105
Brokers, dealers and clearing organizations	334,133	247,360
Payable to affiliate	271,602	271,602
Accounts payable, accrued expenses and other liabilities	129,289	116,771
Interest	6,974	6,416
	20,243,914	17,942,254
Senior notes payable	30,238	101,411
Senior secured credit facility	-	-
	27,731,203	25,592,410
<b>Commitments, contingencies and guarantees</b>		

Edgar Filing: Interactive Brokers Group, Inc. - Form 10-Q

Equity:		
Stockholders' equity:		
Common stock, \$0.01 par value per share:		
Class A – Authorized - 1,000,000,000, Issued		
- 46,059,276 and		
46,057,268, Outstanding –		
45,579,884 and 45,576,791 shares		
at March 31, 2012 and December		
	460	460
31, 2011		
Class B – Authorized, Issued and Outstanding –		
100 shares		
at March 31, 2012 and December		
	-	-
31, 2011		
Additional paid-in capital	443,440	441,410
Retained earnings	145,228	138,701
Accumulated other comprehensive income, net of income taxes of		
\$11,938 and \$10,454 at March 31,		
	21,113	18,487
2012 and December 31, 2011		
Treasury stock, at cost, 479,392 and 480,477		
shares		
at March 31, 2012 and December		
	(13,278)	(13,310)
31, 2011		
Total stockholders' equity	596,963	585,748
Non-controlling interests	4,368,232	4,226,207
Total equity	4,965,195	4,811,955
Total liabilities and stockholders' equity	\$ 32,696,398	\$ 30,404,365

See accompanying notes to the unaudited condensed consolidated financial statements.



Interactive Brokers Group, Inc. and Subsidiaries  
Condensed Consolidated Statements of Comprehensive Income  
(Unaudited)

(in thousands, except for shares or per share amounts)	March 31,	Three months ended	
	2012	2011	
<b>Revenues:</b>			
Trading gains	\$ 137,280	\$ 200,338	
Commissions and execution fees	100,885	109,199	
Interest income	66,576	58,663	
Other income	18,324	17,435	
Total revenues	323,065	385,635	
Interest expense	19,143	17,747	
Total net revenues	303,922	367,888	
<b>Non-interest expenses:</b>			
Execution and clearing	64,624	66,237	
Employee compensation and benefits	62,725	52,359	
Occupancy, depreciation and amortization	9,934	9,246	
Communications	5,674	5,448	
General and administrative	11,288	12,626	
Total non-interest expenses	154,245	145,916	
Income before income taxes	149,677	221,972	
Income tax expense	8,734	18,732	
Net income	140,943	203,240	
Less net income attributable to non-controlling interests	129,859	186,989	
Net income available for common stockholders	\$ 11,084	\$ 16,251	
<b>Earnings per share:</b>			
Basic	\$ 0.24	\$ 0.38	
Diluted	\$ 0.24	\$ 0.38	
<b>Weighted average common shares outstanding:</b>			
Basic	45,576,925	42,231,651	
Diluted	45,951,464	42,791,822	
<b>Comprehensive income:</b>			
Net income available for common stockholders	\$ 11,084	\$ 16,251	
Other comprehensive income:			

Edgar Filing: Interactive Brokers Group, Inc. - Form 10-Q

Cumulative translation adjustment, before income taxes		4,110		2,005
Income taxes related to items of other comprehensive income		1,484		737
Other comprehensive income (loss), net of tax		2,626		1,268
Comprehensive income available for common stockholders	\$	13,710	\$	17,519
Comprehensive income attributable to non-controlling interests:				
Net income attributable to non-controlling interests	\$	129,859	\$	186,989
Other comprehensive income (loss) - cumulative translation adjustment		31,551		16,618
Comprehensive income attributable to non-controlling interests	\$	161,410	\$	203,607

See accompanying notes to the unaudited condensed consolidated financial statements.

Edgar Filing: Interactive Brokers Group, Inc. - Form 10-Q

Interactive Brokers Group, Inc. and Subsidiaries  
Condensed Consolidated Statements of Cash Flows  
(Unaudited)

(in thousands)	Three months ended March 31,	
	2012	2011
Cash flows from operating activities:		
Net income	\$ 140,943	\$ 203,240
Adjustments to reconcile net income to net cash used in operating activities:		
Translation gains	(11,111)	(15,655)
Deferred income taxes	1,791	9,514
Depreciation and amortization	5,193	4,946
Employee stock plan compensation	20,579	10,467
Losses (gains) on non-market making investments, net	1,009	(3,261)
Bad debt expense and other	17	264
Change in operating assets and liabilities:		
Increase in cash and securities - segregated for regulatory purposes	(958,810)	(368,542)
Increase in securities borrowed	(419,838)	(30,921)
Decrease in securities purchased under agreements to resell	10,125	11,291
Decrease in trading assets	184,646	1,019,213
Increase in receivables from customers	(1,436,050)	(2,313,260)
Decrease (increase) in other receivables	207,718	(5,864)
Decrease (increase) in other assets	(2,806)	7,646
Decrease in trading liabilities	(471,665)	(782,276)
Increase (decrease) in securities loaned	383,369	(139,948)
Increase in payable to customers	2,195,191	2,346,102
Increase in other payables	95,769	10,307
Net cash used in operating activities	(53,930)	(36,737)
Cash flows from investing activities:		
Purchases of non-market making investments	(64,705)	(39,737)
Sales of non-market making investments	57,828	7,916
Distribution received from equity investment	1,567	-
Purchase of property and equipment	(5,176)	(3,167)
Net cash used in investing activities	(10,486)	(34,988)
Cash flows from financing activities:		
Dividends paid to shareholders	(4,557)	-
Dividends paid to non-controlling interests	(34,993)	-
Redemption of former member interest	-	(816)
Issuance of senior notes	-	143,704
Redemptions of senior notes	(71,173)	(137,418)

Edgar Filing: Interactive Brokers Group, Inc. - Form 10-Q

Repayments of senior secured credit facility	-	(100,000)
Increase (decrease) in short-term borrowings, net	7,615	(18,777)
Net cash used in financing activities	(103,108)	(113,307)
Effect of exchange rate changes on cash and cash equivalents	23,428	6,973
Net decrease in cash and cash equivalents	(144,096)	(178,059)
Cash and cash equivalents at beginning of period	1,695,495	1,354,219
Cash and cash equivalents at end of period	\$ 1,551,399	\$ 1,176,160

Supplemental disclosures of cash flow information:

Cash paid for interest	\$ 18,585	\$ 18,029
Cash paid for taxes	\$ 6,239	\$ 32,772

Non-cash financing activities:

Adjustments to Additional Paid in Capital for changes in proportionate ownership in IBG LLC	\$ (38)	\$ -
Adjustments to Non-Controlling Interests for changes in proportionate ownership in IBG LLC	\$ 38	\$ -

See accompanying notes to the unaudited condensed consolidated financial statements.

Interactive Brokers Group, Inc. and Subsidiaries  
Condensed Consolidated Statements of Changes in Equity  
Three months ended March 31, 2012  
(Unaudited)

(in thousands, except for share amounts)

	Common Stock			Treasury Stock	Retained Earnings	Accumulated Other Comprehensive Income	Total Stockholders' Equity
	Shares	Par Value	Additional Paid-In Capital				
Balance, December 31, 2011, previously reported	45,576,891	\$ 557	\$ 596,512	\$ (183,022)	\$ 138,701	\$ 18,487	\$ 585,748
Prior period adjustment (note 16)		(97)	(155,102)	169,712	-	-	14,513
Balance, January 1, 2012	45,576,891	460	441,410	(13,310)	138,701	18,487	585,748
Common Stock distributed to employees	3,093	-	41	32			
Compensation for stock grants vesting in the future			2,027				
Dividends paid to shareholders					(4,557)		
Dividends paid by IBG LLC to non-controlling interests							
Adjustments for changes in proportionate ownership in IBG LLC			(38)				
Comprehensive income, net of tax					11,084	2,626	

Edgar Filing: Interactive Brokers Group, Inc. - Form 10-Q

Balance, March

31, 2012	45,579,984	\$	460	\$	443,440	\$	(13,278)	\$	145,228	\$	21,113	\$	5
----------	------------	----	-----	----	---------	----	----------	----	---------	----	--------	----	---

See accompanying notes to the unaudited condensed consolidated financial statements.

7

---

Interactive Brokers Group, Inc. and Subsidiaries  
Notes to Unaudited Condensed Consolidated Financial Statements  
(dollars in thousands, except shares and per share amounts, unless otherwise noted)

## 1. Organization and Nature of Business

Interactive Brokers Group, Inc. (“IBG, Inc.” or the “Company”) is a Delaware holding company whose primary asset is its ownership of approximately 11.5% of the membership interests of IBG LLC, which, in turn, owns operating subsidiaries (collectively, “IBG LLC” or the “Group”). The accompanying unaudited condensed consolidated financial statements of IBG, Inc. reflect the consolidation of IBG, Inc.’s investment in IBG LLC for all periods presented (Note 4). IBG LLC is an automated global electronic broker and market maker specializing in routing orders and processing trades in securities, futures and foreign exchange instruments.

IBG LLC is a Connecticut limited liability company that conducts its business through its operating subsidiaries (collectively called the “Operating Companies”): Timber Hill LLC (“TH LLC”), Timber Hill Europe AG (“THE”), Timber Hill Securities Hong Kong Limited (“THSHK”), Timber Hill Australia Pty Limited (“THA”), Timber Hill Canada Company (“THC”), Interactive Brokers LLC (“IB LLC”) and subsidiary, Interactive Brokers Canada Inc. (“IBC”), Interactive Brokers (U.K.) Limited (“IBUK”), Interactive Brokers (India) Private Limited (“IBI”), Interactive Brokers Financial Products S.A. (“IBFP”), Interactive Brokers Hungary KFT (“IBH”), IB Exchange Corp. (“IBEC”), Interactive Brokers Securities Japan, Inc. (“IBSJ”), IB Brasil Participações Ltda (“IBBH”), Interactive Brokers Software Services Estonia OU (“IBEST”) and Interactive Brokers Software Services Russia (“IBRUS”).

IBG, Inc. operates in two business segments, electronic brokerage and market making. IBG, Inc. conducts its electronic brokerage business through its Interactive Brokers subsidiaries, which provide electronic execution and clearing services to customers worldwide. The Company conducts its market making business principally through its Timber Hill subsidiaries on the world’s leading exchanges and market centers, primarily in exchange-traded equities, equity options and equity-index options and futures.

Certain of the Operating Companies are members of various securities and commodities exchanges in North America, Europe and the Asia/Pacific region and are subject to regulatory capital and other requirements (Note 14). IB LLC, IBUK, IBC, IBI and IBSJ carry securities accounts for customers or perform custodial functions relating to customer securities.

## 2. Significant Accounting Policies

### Unresolved Accounting Interpretation

Rule 10–01(d) of Regulation S–X requires the Company’s interim financial statements be reviewed by its independent registered public accounting firm prior to the filing of its Form 10–Q. Deloitte & Touche LLP is unable to complete their review of the Company’s interim financial statements because, as previously disclosed in the Company’s Form 8–K filed on May 15, 2012, the Company will be requesting an interpretation of the SEC with regard to the appropriate classification of its non-controlling interests in subsidiaries as permanent or temporary equity pursuant to ASC 810-10-45, ASC 815-40-25 and ASC 480-10-S99-3A. The Company’s historical financial statements have classified non-controlling interests in subsidiaries as a component of total equity in the consolidated statement of financial position.

The effects of any change in the Company’s classification of non-controlling interests would be to present the ownership of IBG LLC in two categories: permanent and temporary. The effects of such a change have not been presented in these financial statements.

The Company acknowledges that the failure to obtain the required review by its independent registered public accounting firm is a material matter and will file an amended Form 10-Q as soon as this matter is finalized and Deloitte & Touche LLP is able to complete its required review of the interim financial statements.

#### Basis of Presentation

These unaudited condensed consolidated financial statements are presented in U.S. dollars and have been prepared pursuant to the rules and regulations of the U.S. Securities and Exchange Commission (“SEC”) regarding financial reporting with respect to Form 10-Q, and accounting standards generally accepted in the United States of America (“U.S. GAAP”) promulgated in the FASB Accounting Standards Codification (“ASC” or the “Codification”). These unaudited condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto included in IBG, Inc.’s Annual Report on Form 10-K filed with the SEC on February 29, 2012.

Gains and losses from foreign currency transactions are included in trading gains and losses where related to market making activities or in interest income where related to the investment of customer funds as part of electronic brokerage activities in the unaudited condensed consolidated statements of comprehensive income. Non-U.S. subsidiaries have a functional currency (i.e., the currency in which activities are primarily conducted) that is other than the U.S. dollar. Such subsidiaries’ assets and liabilities are translated to U.S. dollars at period-end exchange rates, while revenues and expenses are translated at average exchange rates during the year. Adjustments that result from translating amounts from a subsidiary’s functional currency to the U.S. dollar are reported as a component of other comprehensive income.

#### Principles of Consolidation

The unaudited condensed consolidated financial statements include the accounts of IBG, Inc. and its majority and wholly owned subsidiaries. As sole managing member of IBG LLC, IBG, Inc. exerts control over the Group’s operations. In accordance with ASC 810, Consolidation, the Company consolidates the Group’s unaudited condensed consolidated financial statements and records as non-controlling interest the interests in the Group that IBG, Inc. does not own. The Company’s policy is to consolidate all entities of which it owns more than 50% unless it does not have control. All inter-company balances and transactions have been eliminated. IBG, Inc. would also consolidate any Variable Interest Entities (“VIEs”) pursuant to ASC 860, Transfers and Servicing and ASC 810 of which it is the primary beneficiary.



Interactive Brokers Group, Inc. and Subsidiaries  
Notes to Unaudited Condensed Consolidated Financials Statements (Continued)  
(dollars in thousands, except shares and per share amounts, unless otherwise noted)

IBG, Inc. currently is not the primary beneficiary of any such entities and therefore no VIEs are included in the unaudited condensed consolidated financial statements.

#### Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts and disclosures in the unaudited condensed consolidated financial statements and accompanying notes. Estimates, by their nature, are based on judgment and available information. Therefore, actual results could differ materially from those estimates. Such estimates include the estimated value of investments accounted for under the equity method of accounting, the estimated useful lives of property and equipment, including capitalized internally developed software, the allowance for doubtful accounts, compensation accruals, tax liabilities and estimated contingency reserves.

#### Fair Value

At March 31, 2012 and December 31, 2011, substantially all of IBG, Inc.'s assets and liabilities, including financial instruments, were carried at fair value based on published market prices and are marked to market daily, or were assets which are short-term in nature (such as U.S. government treasury bills or spot foreign exchange) and were carried at amounts that approximate fair value.

IBG, Inc. applies the fair value hierarchy of ASC 820, Fair Value Measurement, to prioritize the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets and liabilities and the lowest priority to unobservable inputs. The three levels of the fair value hierarchy are:

- Level 1 Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities;
- Level 2 Quoted prices in markets that are not considered to be active or financial instruments for which all significant inputs are observable, either directly or indirectly; and
- Level 3 Prices or valuations that require inputs that are both significant to fair value measurement and unobservable

Financial instruments owned and financial instruments sold, but not yet purchased, except forward currency contracts, over-the-counter ("OTC") currency options and certain corporate and municipal debt securities, which are classified as Level 2 financial instruments, are classified within Level 1 of the fair value hierarchy. The Company's financial instruments are valued using quoted market prices as published by exchanges and clearing houses or otherwise broadly distributed in active markets, include U.S. government and sovereign obligations, active listed securities, options, futures, options on futures and corporate and municipal debt securities. IBG, Inc. does not adjust quoted prices for Level 1 financial instruments, even in the event that the Company may hold a large position whereby a purchase or sale could reasonably impact quoted prices.

Currency forward contracts and OTC currency options are valued using broadly distributed bank and broker prices, and are classified as Level 2 financial instruments as such instruments are not exchange-traded. Corporate and municipal debt securities, including Federal Deposit Insurance Corporation insured corporate bonds held as securities

segregated for regulatory purposes, that are not actively traded are also classified in Level 2.

Investments in listed common stock and investments in other fair value non-market making securities, which investments are reported in other assets in the accompanying unaudited condensed consolidated statement of financial condition, are generally reported as Level 2 financial instruments, except for unrestricted listed equities, which are Level 1 financial instruments. Investments in other non-market making securities include corporate, municipal and asset-backed debt securities, which are Level 2 financial instruments whose fair values are determined using broker and vendor prices.

#### Earnings Per Share

Earnings per share (“EPS”) are computed in accordance with ASC 260, Earnings per Share. Shares of Class A and Class B common stock share proportionately in the earnings of IBG, Inc. Basic earnings per share are calculated utilizing net income available for common stockholders divided by the weighted average number of shares of Class A and Class B common stock outstanding for that period. Diluted earnings per share are calculated utilizing the Company’s basic net income available for common stockholders divided by diluted weighted average shares outstanding with no adjustments to net income available to common stockholders for dilutive potential common shares.

Interactive Brokers Group, Inc. and Subsidiaries  
Notes to Unaudited Condensed Consolidated Financials Statements (Continued)  
(dollars in thousands, except shares and per share amounts, unless otherwise noted)

### Stock-Based Compensation

IBG, Inc. follows ASC 718, Compensation—Stock Compensation, to account for its stock-based compensation plans. ASC 718 requires all share-based payments to employees to be recognized in the financial statements using a fair value-based method. As a result, IBG, Inc. expenses the fair value of stock granted to employees over the related vesting period.

### Cash and Cash Equivalents

IBG, Inc. defines cash equivalents as short-term, highly liquid securities and cash deposits with original maturities of three months or less, other than those used for trading purposes.

### Cash and Securities—Segregated for Regulatory Purposes

As a result of customer activities, certain Operating Companies are obligated by rules mandated by their primary regulators to segregate or set aside cash or qualified securities to satisfy such regulations, which regulations have been promulgated to protect customer assets. In addition, substantially all of the Operating Companies are members of various clearing organizations at which cash or securities are deposited as required to conduct day-to-day clearance activities. Securities segregated for regulatory purposes consisted of Federal Deposit Insurance Corporation insured corporate bonds, which are recorded as Level 2 financial assets, in the amount of \$414.7 million and \$440.4 million at March 31, 2012 and December 31, 2011, U.S. Treasury Bills of \$1,447.4 million and \$747.9 million at March 31, 2012 and December 31, 2011, which are recorded as Level 1 financial assets and securities purchased under agreements to resell in the amount of \$3.3 billion and \$3.8 billion as of March 31, 2012 and December 31, 2011, respectively, which amounts approximate fair value.

### Securities Borrowed and Securities Loaned

Securities borrowed and securities loaned are recorded at the amount of cash collateral advanced or received. Securities borrowed transactions require IBG, Inc. to provide counterparties with collateral, which may be in the form of cash, letters of credit or other securities. With respect to securities loaned, IBG, Inc. receives collateral, which may be in the form of cash or other securities in an amount generally in excess of the fair value of the securities loaned.

IBG, Inc. monitors the market value of securities borrowed and loaned on a daily basis, with additional collateral obtained or refunded as permitted contractually. Receivables and payables with the same counterparty are not offset in the unaudited condensed consolidated statements of financial condition. For these transactions, the fees received or paid by IBG, Inc. are recorded as interest income or interest expense in the unaudited condensed consolidated statements of comprehensive income.

### Securities Purchased Under Agreements to Resell

Securities purchased under agreements to resell are treated as collateralized financing transactions and are recorded at contract value, plus accrued interest, which approximates fair value. The Company's policy is to obtain possession of collateral with a fair value equal to or in excess of the principal amount loaned under resale agreements. To ensure that the fair value of the underlying collateral remains sufficient, this collateral is valued daily with additional collateral obtained or excess collateral returned, as permitted under contractual provisions.

#### Financial Instruments Owned and Sold But Not Yet Purchased

Stocks, government, corporate and municipal bonds, futures and options transactions are reported in the unaudited condensed consolidated financial statements on a trade date basis. All financial instruments owned and financial instruments sold but not yet purchased are recorded at fair value based upon quoted market prices. All firm-owned financial instruments pledged to counterparties where the counterparty has the right, by contract or custom, to sell or repledge the financial instruments are classified as financial instruments owned and pledged as collateral in the unaudited condensed consolidated statements of financial condition.

IBG, Inc. also enters into currency forward contracts. These transactions, which are also reported on a trade date basis, are agreements to exchange a fixed amount of one currency for a specified amount of a second currency at completion of the currency forward contract term. Unrealized mark-to-market gains and losses on currency forward contracts are reported as components of financial instruments owned or financial instruments sold but not yet purchased in the unaudited condensed consolidated statements of financial condition. Net earnings or losses are reported as components of interest income in the unaudited condensed consolidated statements of comprehensive income.

Interactive Brokers Group, Inc. and Subsidiaries  
Notes to Unaudited Condensed Consolidated Financials Statements (Continued)  
(dollars in thousands, except shares and per share amounts, unless otherwise noted)

### Customer Receivables and Payables

Customer securities transactions are recorded on a settlement date basis and customer commodities transactions are recorded on a trade date basis. Receivables from and payables to customers include amounts due on cash and margin transactions, including futures contracts transacted on behalf of customers. Securities owned by customers, including those that collateralize margin loans or other similar transactions, are not reported in the unaudited condensed consolidated statements of financial condition. Amounts receivable from customers that are determined by management to be uncollectible are written off to general and administrative expense.

### Receivables from and Payables to Brokers, Dealers and Clearing Organizations

Receivables from brokers, dealers and clearing organizations include amounts receivable for securities not delivered by IBG, Inc. to the purchaser by the settlement date (“fails to deliver”) and margin deposits. Payables to brokers, dealers and clearing organizations include amounts payable for securities not received by IBG, Inc. from a seller by the settlement date (“fails to receive”). Receivables and payables to brokers, dealers and clearing organizations also include amounts related to futures contracts executed on behalf of customers as well as net payables and receivables from unsettled trades.

### Investments

IBG, Inc. makes certain strategic investments in electronic exchange and investment banking platforms and accounts for these investments under the cost method of accounting or under the equity method of accounting as required under ASC 323, Investments—Equity Method and Joint Ventures. Investments are accounted for under the equity method of accounting when IBG, Inc. has significant influence over the investee. Investments accounted for under the equity method, including where the investee is a limited partnership or limited liability company, are recorded at the fair value amount of IBG, Inc.’s initial investment and adjusted each period for IBG, Inc.’s share of the investee’s income or loss. IBG, Inc.’s share of the income or losses from equity investments is reported as a component of other income in the unaudited condensed consolidated statements of comprehensive income and the recorded amounts of IBG, Inc.’s equity investments, which are included in other assets in the unaudited condensed consolidated statements of financial condition, increase or decrease accordingly. Distributions received from equity investees are recorded as reductions to the respective investment balance.

The Company makes non-market making investments in listed common stock and corporate debt securities. In addition, other non-market making investments are made to further diversify the Company’s holdings. These investments are accounted for at fair value (Note 6), with gains and losses recorded as a component of other income.

A judgmental aspect of accounting for investments is evaluating whether an other-than-temporary decline in the value of an investment has occurred. The evaluation of an other-than-temporary impairment is dependent on specific quantitative and qualitative factors and circumstances surrounding an investment, including recurring operating losses, credit defaults and subsequent rounds of financing. None of IBG, Inc.’s equity investments have readily determinable market values. All equity investments are reviewed for changes in circumstances or occurrence of events that suggest IBG, Inc.’s investment may not be recoverable. If an unrealized loss on any investment is considered to be other-than-temporary, the loss is recognized in the period the determination is made. IBG, Inc. also holds exchange memberships and investments in equity securities of certain exchanges as required to qualify as a clearing member, and strategic investments in corporate stock that do not qualify for equity method accounting. Such investments are

recorded at cost or, if an other-than-temporary impairment in value has occurred, at a value that reflects management's estimate of the impairment, and are included in other assets in the unaudited condensed consolidated statements of financial condition. Dividends are recognized as a component of other income as such dividends are received.

#### Property and Equipment

Property and equipment, which is a component of other assets, consist of purchased technology hardware and software, internally developed software, leasehold improvements and office furniture and equipment. Property and equipment are recorded at historical cost, less accumulated depreciation and amortization. Additions and improvements that extend the lives of assets are capitalized, while expenditures for repairs and maintenance are expensed as incurred. Depreciation and amortization are computed using the straight-line method. Equipment is depreciated over the estimated useful lives of the assets, while leasehold improvements are amortized over the lesser of the estimated economic useful life of the asset or the term of the lease. Computer equipment is depreciated over three to five years and office furniture and equipment are depreciated over five to seven years. Qualifying costs for internally developed software are capitalized and amortized over the expected useful life of the developed software, not to exceed three years.

Interactive Brokers Group, Inc. and Subsidiaries  
Notes to Unaudited Condensed Consolidated Financials Statements (Continued)  
(dollars in thousands, except shares and per share amounts, unless otherwise noted)

### Comprehensive Income and Foreign Currency Translation

Reported results on a comprehensive basis reflect the Company's adoption of Accounting Standards Update 2011-05, Comprehensive Income ("ASU 2011-05") issued in June 2011. This standard requires the presentation of a Statement of Comprehensive Income, replacing the former Statement of Income.

Comprehensive income consists of two components: net income and other comprehensive income ("OCI"). OCI is comprised of revenues, expenses, gains and losses that are reported in the comprehensive income section of the statement of comprehensive income, but are excluded from reported net income. IBG, Inc.'s OCI is comprised of foreign currency translation adjustments. Previously, OCI was reported as a component of changes in total equity in the statement of financial condition.

IBG, Inc.'s international Operating Companies have a functional currency (i.e., the currency in which activities are primarily conducted) that is other than the U.S. dollar. Such subsidiaries' assets and liabilities are translated into U.S. dollars at period-end exchange rates, and revenues and expenses are translated at average exchange rates prevailing during the period. Translation gains and losses from market making and electronic brokerage activities, respectively, are included in trading gains and in other income in the accompanying unaudited condensed consolidated statements of comprehensive income. Adjustments that result from translating amounts from a subsidiary's functional currency are reported as a component of accumulated other comprehensive income.

### Revenue Recognition

#### —Trading Gains

Trading gains and losses are recorded on trade date and are reported on a net basis. Trading gains are comprised of changes in the fair value of trading assets and liabilities (i.e., unrealized gains and losses) and realized gains and losses. Dividends are integral to the valuation of stocks and interest is integral to the valuation of fixed income instruments. Accordingly, both dividends and interest income and expense attributable to specific trading assets and liabilities are reported on a net basis as a component of trading gains in the accompanying unaudited condensed consolidated statements of comprehensive income.

#### —Commissions and Execution Fees

Commissions charged for executing and clearing customer transactions are accrued on a trade date basis and are reported as commissions and execution fees in the unaudited condensed consolidated statements of comprehensive income, and the related expenses are reported as execution and clearing expenses, also on a trade date basis.

#### —Interest Income and Expense

The Company earns interest income and incurs interest expense primarily in connection with its Electronic Brokerage customer business and its securities lending activities. Such interest is recorded on the accrual basis.

### Income Taxes

IBG, Inc. accounts for income taxes in accordance with ASC 740, Income Taxes. The Company's income tax expense, deferred tax assets and liabilities, and reserves for unrecognized tax benefits reflect management's best assessment of

estimated future taxes to be paid. We are subject to income taxes in both the United States and numerous foreign jurisdictions. Determining unaudited condensed consolidated income tax expense requires significant judgments and estimates.

Deferred income taxes arise from temporary differences between the tax and financial statement recognition of revenue and expense. In evaluating our ability to recover our deferred tax assets within the jurisdiction from which they arise, we consider all available positive and negative evidence, including scheduled reversals of deferred tax liabilities, projected future taxable income, tax-planning strategies, and results of recent operations. In projecting future taxable income, we begin with historical results adjusted for the results of discontinued operations and changes in accounting policies and incorporate assumptions including the amount of future state, federal and foreign pretax operating income, the reversal of temporary differences, and the implementation of feasible and prudent tax-planning strategies. These assumptions require significant judgment about the forecasts of future taxable income and are consistent with the plans and estimates we are using to manage the underlying businesses. In evaluating the objective evidence that historical results provide, we consider three years of cumulative operating income (loss).

The calculation of our tax liabilities involves dealing with uncertainties in the application of complex tax laws and regulations in a multitude of jurisdictions across our global operations. Changes in tax laws and rates could also affect recorded deferred tax assets and liabilities in the future. Management is not aware of any such changes that would have a material effect on the Company's results of operations, cash flows, or financial position.



Interactive Brokers Group, Inc. and Subsidiaries  
 Notes to Unaudited Condensed Consolidated Financials Statements (Continued)  
 (dollars in thousands, except shares and per share amounts, unless otherwise noted)

ASC 740 provides that a tax benefit from an uncertain tax position may be recognized when it is more likely than not that the position will be sustained upon examination, including resolutions of any related appeals or litigation processes, on the basis of the technical merits. ASC 740 also provides guidance on measurement, derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition.

The Company records tax liabilities in accordance with ASC 740 and adjusts these liabilities when management's judgment changes as a result of the evaluation of new information not previously available. Because of the complexity of some of these uncertainties, the ultimate resolution may result in a payment that is materially different from our current estimate of the tax liabilities. These differences will be reflected as increases or decreases to income tax expense in the period in which new information is available.

IBG, Inc. recognizes interest related to income tax matters as interest income or expense and penalties related to income tax matters as income tax expense.

Recently Issued Accounting Pronouncements

Subsequent to the adoption of the ASC, the FASB will issue Accounting Standards Updates ("ASUs") as the means to add to or delete from, or otherwise amend the ASC. In 2012, prior to the issuance of the Company's unaudited condensed consolidated financial statements, no ASUs have been issued. Following is a summary of recently issued ASUs that affected or may affect the Company's unaudited condensed consolidated financial statements:

	Affects	Status
ASU 2011-03	Transfers and Servicing (Topic 860): Reconsideration of Effective Control for Repurchase Agreements	Fiscal years, and interim periods within those fiscal years, beginning after December 15, 2011. Early application is not permitted.
ASU 2011-04	Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRS	To be applied prospectively for interim and annual periods beginning after December 15, 2011. Early adoption is not permitted for public entities.
ASU 2011-08	Intangibles - Goodwill and Other (Topic 350): Testing Goodwill for Impairment	Effective for fiscal years beginning after December 15, 2011. Early adoption is permitted.

ASU 2011-11	Balance Sheet (Topic 210): Disclosures about Offsetting Assets and Liabilities	Effective for fiscal periods beginning on or after January 1, 2013. Retrospective disclosures for comparative periods presented will be required.
-------------	--	---

Adoption of those ASUs that became effective during 2012, prior to the issuance of the Company’s unaudited condensed consolidated financial statements, did not have a material effect on those financial statements. Management is assessing the potential impact on the Company’s financial statements of adopting ASUs that will become effective in the future.

ASC/IFRS Convergence

In February 2010, the SEC issued Commission Statement in Support of Convergence and Global Accounting Standards, a formal statement updating the status of its November 2008 Roadmap for the Potential Use of Financial Statements Prepared in Accordance with International Financial Reporting Standards by U.S. Issuers (“IFRS Roadmap”). The statement supported convergence of accounting standards and the development of a single set of global accounting standards. As directed in this statement, the SEC staff issued Work Plan for the Consideration of Incorporating International Financial Reporting Standards into the Financial Reporting System for U.S. Issuers (the “Work Plan”) in May 2010, and issued a follow-up Staff Paper, subtitled

Interactive Brokers Group, Inc. and Subsidiaries  
Notes to Unaudited Condensed Consolidated Financials Statements (Continued)  
(dollars in thousands, except shares and per share amounts, unless otherwise noted)

Exploring a Possible Method of Incorporation in May 2011. The Work Plan outlines the steps to be taken to provide the SEC with information to be able to conclude whether IFRS should be adopted for U.S. registrants and the Staff Paper discusses alternative approaches (“Convergence” and “Endorsement”) to adoption that could be applied. Within the Staff Paper, the SEC Staff has issued a Request for Comment on these alternatives. The Comment period ended July 31, 2011 and the SEC Staff issued two Staff Papers, A Comparison of U.S. GAAP and IFRS and Analysis of IFRS in Practice on November 16, 2011.

The SEC and U.S. accounting standard setters continue to publicly support a uniform set of global accounting standards, the adoption of IFRS for U.S. registrants and private companies, but the extent and timing of adoption remain uncertain. The aforementioned Work Plan and other SEC published documents have not committed U.S. registrants to adoption or timing of adoption of IFRS. The initial adoption for U.S. registrants could be as early as December 31, 2015 or 2016, with a transition date of either January 1, 2013 or 2014 for the initial three year retrospective comparative reporting period. Management applies versions of IFRS for the stand alone financial statements of several of the Operating Companies, where required, and continues to assess the potential impact of adopting IFRS on the Company’s unaudited condensed consolidated financial statements.

### 3. Trading Activities and Related Risks

IBG, Inc.’s trading activities include providing securities market making and brokerage services. Trading activities expose IBG, Inc. to market and credit risks. These risks are managed in accordance with established risk management policies and procedures. To accomplish this, management has established a risk management process that includes:

- a regular review of the risk management process by executive management as part of its oversight role;
- defined risk management policies and procedures supported by a rigorous analytic framework; and

articulated risk tolerance levels as defined by executive management that are regularly reviewed to ensure that IBG, Inc.’s risk-taking is consistent with its business strategy, capital structure, and current and anticipated market conditions.

#### Market Risk

IBG, Inc. is exposed to various market risks. Exposures to market risks arise from equity price risk, foreign currency exchange rate fluctuations and changes in interest rates. IBG, Inc. seeks to mitigate market risk associated with trading inventories by employing hedging strategies that correlate rate, price and spread movements of trading inventories and related financing and hedging activities. IBG, Inc. uses a combination of cash instruments and exchange traded derivatives to hedge its market exposures. The following discussion describes the types of market risk faced:

#### Equity Price Risk

Equity price risk arises from the possibility that equity security prices will fluctuate, affecting the value of equity securities and other instruments that derive their value from a particular stock, a defined basket of stocks, or a stock index. IBG, Inc. is subject to equity price risk primarily in financial instruments owned and sold but not yet purchased. IBG, Inc. attempts to limit such risks by continuously reevaluating prices and by diversifying its portfolio across many different options, futures and underlying securities and avoiding concentrations of positions based on the

same underlying security.

#### Currency Risk

Currency risk arises from the possibility that fluctuations in foreign exchange rates will impact the value of financial instruments. Exchange rate contracts may include cross-currency swaps and currency futures contracts. Currency swaps are agreements to exchange future payments in one currency for payments in another currency. These agreements are used to effectively convert assets or liabilities denominated in different currencies. Currency futures are contracts for delayed delivery of currency at a specified future date. IBG, Inc. uses currency swaps to manage the levels of its non-U.S. dollar currency balances and currency cash and futures to hedge its global exposure.

#### Interest Rate Risk

Interest rate risk arises from the possibility that changes in interest rates will affect the value of financial instruments. IBG, Inc. is exposed to interest rate risk on cash and margin balances, positions carried in equity securities, options and futures and on its debt obligations. These risks are managed through investment policies and by entering into interest rate futures contracts.

Interactive Brokers Group, Inc. and Subsidiaries  
Notes to Unaudited Condensed Consolidated Financials Statements (Continued)  
(dollars in thousands, except shares and per share amounts, unless otherwise noted)

### Credit Risk

IBG, Inc. is exposed to risk of loss if an individual, counterparty or issuer fails to perform its obligations under contractual terms (“default risk”). Both cash instruments and derivatives expose IBG, Inc. to default risk. IBG, Inc. has established policies and procedures for mitigating credit risk on principal transactions, including reviewing and establishing limits for credit exposure, maintaining collateral, and continually assessing the creditworthiness of counterparties.

The Company’s credit risk is limited in that substantially all of the contracts entered into are settled directly at securities and commodities clearing houses and a small portion is settled through member firms and banks with substantial financial and operational resources. IBG, Inc. seeks to control the risks associated with its customer margin activities by requiring customers to maintain collateral in compliance with regulatory and internal guidelines.

In the normal course of business, IBG, Inc. executes, settles, and finances various customer securities transactions. Execution of these transactions includes the purchase and sale of securities by IBG, Inc. that exposes IBG, Inc. to default risk arising from the potential that customers or counterparties may fail to satisfy their obligations. In these situations, IBG, Inc. may be required to purchase or sell financial instruments at unfavorable market prices to satisfy obligations to customers or counterparties. Liabilities to other brokers and dealers related to unsettled transactions (i.e., securities fails to receive) are recorded at the amount for which the securities were purchased, and are paid upon receipt of the securities from other brokers or dealers. In the case of aged securities fails to receive, IBG, Inc. may purchase the underlying security in the market and seek reimbursement for any losses from the counterparty.

For cash management purposes, IBG, Inc. enters into short-term securities purchased under agreements to resell and securities sold under agreements to repurchase transactions (“repos”) in addition to securities borrowing and lending arrangements, all of which may result in credit exposure in the event the counterparty to a transaction is unable to fulfill its contractual obligations. In accordance with industry practice, repos are collateralized by securities with a market value in excess of the obligation under the contract. Similarly, securities borrowed and loaned agreements are collateralized by deposits of cash or securities. IBG, Inc. attempts to minimize credit risk associated with these activities by monitoring collateral values on a daily basis and requiring additional collateral to be deposited with or returned to IBG, Inc. as permitted under contractual provisions.

### Concentrations of Credit Risk

IBG, Inc.’s exposure to credit risk associated with its trading and other activities is measured on an individual counterparty basis, as well as by groups of counterparties that share similar attributes. Concentrations of credit risk can be affected by changes in political, industry, or economic factors. To reduce the potential for risk concentration, credit limits are established and exposure is monitored in light of changing counterparty and market conditions. As of March 31, 2012 and December 31, 2011, respectively, the Company did not have any material concentrations of credit risk.

### Off-Balance Sheet Risks

IBG, Inc. may be exposed to a risk of loss not reflected in the unaudited condensed consolidated financial statements for futures products, which represent obligations of IBG, Inc. to settle at contracted prices, which may require repurchase or sale in the market at prevailing prices. Accordingly, these transactions result in off-balance sheet risk as

IBG, Inc.'s cost to liquidate such futures contracts may exceed the amounts reported in IBG, Inc.'s unaudited condensed consolidated statements of financial condition.

#### 4. Equity and Earnings Per Share

In connection with its IPO in May 2007, IBG, Inc. purchased 10.0% of the membership interests in IBG LLC from IBG Holdings LLC, became the sole managing member of IBG LLC and began to consolidate IBG LLC's financial results into its financial statements. IBG Holdings LLC wholly owns all Class B common stock, which common stock has voting rights in proportion to its ownership interests in IBG LLC, approximately 88.5% as of March 31, 2012. The unaudited condensed consolidated financial statements reflect the results of operations and financial position of IBG, Inc., including consolidation of its investment in IBG LLC, and IBG Holdings LLC's ownership interests in IBG LLC are reported as non-controlling interests.

#### Recapitalization and Post-IPO Capital Structure

Immediately prior to and immediately following the consummation of the IPO, IBG, Inc., IBG Holdings LLC, IBG LLC and the members of IBG LLC consummated a series of transactions collectively referred to herein as the "Recapitalization." In connection with the Recapitalization, IBG, Inc., IBG Holdings LLC and the historical members of IBG LLC entered into an exchange agreement, dated as of May 3, 2007 (the "Exchange Agreement"), pursuant to which the historical members of IBG LLC received membership interests in IBG Holdings LLC in exchange for their membership interests in IBG LLC. Additionally, IBG, Inc. became the sole managing member of IBG LLC.

Interactive Brokers Group, Inc. and Subsidiaries  
 Notes to Unaudited Condensed Consolidated Financials Statements (Continued)  
 (dollars in thousands, except shares and per share amounts, unless otherwise noted)

In connection with the consummation of the IPO, IBG Holdings LLC used the net proceeds to redeem 10.0% of members' interests in IBG Holdings LLC in proportion to their interests. Immediately following the Recapitalization and IPO, IBG Holdings LLC owned approximately 90% of IBG LLC and 100% of IBG, Inc.'s Class B common stock, which has voting power in IBG, Inc. proportionate to the extent of IBG Holdings LLC's ownership of IBG LLC.

The Exchange Agreement also provides for future redemptions of member interests and for the purchase of member interests in IBG LLC by IBG, Inc. from IBG Holdings LLC, which could result in IBG, Inc. acquiring the remaining member interests in IBG LLC that it does not own. On an annual basis, holders of IBG Holdings LLC member interests are able to request redemption of such member interests over a minimum eight (8) year period following the IPO; 12.5% annually for seven (7) years and 2.5% in the eighth year.

Redemptions may be funded through two (2) methods. Material redemptions would be funded from the proceeds of sales of additional shares of Class A common stock ("Common Stock") to the public, although there have been no such additional sales of Common Stock through March 31, 2012.

In lieu of a sale of Common Stock to the public, the Exchange Agreement provides that IBG LLC, using its available liquidity, may facilitate the redemption by IBG Holdings LLC ("IBGH") of interests held by its members or the Company may elect to acquire interests to be redeemed by IBGH through the issuance of shares of Common Stock.

Redemptions from 2008 through 2010 were cash redemptions. On August 4, 2011, the Company issued 1,983,624 shares of Common Stock in exchange for an equivalent number of shares of member interests in IBG LLC. The Company expects that future redemptions will be funded through the issuance of Common Stock. Three hundred sixty (360) million shares of authorized Common Stock have been reserved for future sales and redemptions.

Subsequent to the IPO and with the consent of IBG Holdings LLC and IBG, Inc. (on its own behalf and acting as the sole managing member of IBG LLC), IBG LLC agreed to redeem membership interests from IBG Holdings LLC as follows:

	Fair Value	Price per Equivalent Class A Share	Number of Shares
2008	\$ 72,015	\$ 29.99	2,401,279
2009	14,738	14.85	992,583
2010	27,204	16.80	1,619,397
2011	29,199	14.72	1,983,624

As a consequence of these transactions, and distribution of shares to employees (Note 10), IBG, Inc.'s interest in IBG LLC has increased to approximately 11.5%, with IBG Holdings LLC owning the remaining 88.5% as of March 31, 2012. The redemptions also resulted in an increase in the IBG Holdings LLC interest held by Thomas Peterffy and his affiliates from approximately 84.6% at the IPO to approximately 86.3% at March 31, 2012.

Since consummation of the IPO and Recapitalization, IBG, Inc.'s equity capital structure has been comprised of Class A and Class B common stock. All shares of common stock have a par value of \$0.01 per share and have identical rights to earnings and dividends and in liquidation. As described previously in this Note 4, Class B common

stock has voting power in IBG, Inc. proportionate to the extent of IBG Holdings LLC's ownership of IBG LLC. At March 31, 2012 and December 31, 2011, 1,000,000,000 shares of Class A common stock were authorized, of which 46,059,276 and 46,057,268 shares have been issued; and 45,579,884 and 45,576,791 shares were outstanding, respectively. Class B common stock is comprised of 100 authorized shares, of which 100 shares were issued and outstanding as of March 31, 2012 and December 31, 2011, respectively. In addition, 10,000 shares of preferred stock have been authorized, of which no shares are issued or outstanding as of March 31, 2012 and December 31, 2011, respectively.

As a result of a federal income tax election made by IBG LLC applicable to the acquisition of IBG LLC member interests by IBG, Inc., the income tax basis of the assets of IBG LLC acquired by IBG, Inc. have been adjusted based on the amount paid for such interests. Deferred tax assets were recorded as of the IPO date and in connection with the 2011 redemption of IBG Holdings LLC member interests in exchange for Common Stock, which deferred tax assets are a component of Other Assets in the unaudited condensed consolidated statement of financial condition and are being amortized as additional deferred income tax expense over 15 years from the IPO date and from the 2011 redemption date, respectively, as allowable under current tax law. As of March 31, 2012 and December 31, 2011, the unamortized balance of these deferred tax assets was \$293,057 and, \$297,881, respectively.



Interactive Brokers Group, Inc. and Subsidiaries  
Notes to Unaudited Condensed Consolidated Financials Statements (Continued)  
(dollars in thousands, except shares and per share amounts, unless otherwise noted)

IBG, Inc. also entered into an agreement (the “Tax Receivable Agreement”) with IBG Holdings LLC to pay IBG Holdings LLC (for the benefit of the former members of IBG LLC) 85% of the tax savings that IBG, Inc. actually realizes as the result of tax basis increases. These payables, net of payments made to IBG Holdings LLC, are reported as Payable to Affiliate in the unaudited condensed consolidated statement of financial condition.

The remaining 15% is accounted for as a permanent increase to additional paid-in capital in the unaudited condensed consolidated statement of financial condition.

The deferred tax assets, payables to IBGH and credits to additional paid in capital arising from stock offerings through March 31, 2012 are:

	Deferred Tax Assets	Payable to IBGH	Additional Paid In Capital
May 3, 2007 \$ (IPO)	380,785	\$ 323,668	\$ 57,117
August 4, 2011	2,984	2,536	448
	\$ 383,769	\$ 326,204	\$ 57,565

Amounts payable under the Tax Receivable Agreement are subject to repayment to IBG Holdings LLC annually upon the filing of IBG, Inc.’s federal income tax return. The Company has paid IBG Holdings LLC a total of \$54.6 million through March 31, 2012 pursuant to the terms of the Tax Receivable Agreement.

#### Stock Repurchase Program

In September 2008, the Company’s Board of Directors approved the repurchase of up to eight (8) million shares of its Class A common stock by IBG LLC. Shares may be purchased from time to time in the open market and in private transactions if the Company deems the price appropriate. In November 2008, 65,800 shares were repurchased at a cost of \$866, and are being held as Treasury Stock.

Edgar Filing: Interactive Brokers Group, Inc. - Form 10-Q

Interactive Brokers Group, Inc. and Subsidiaries  
 Notes to Unaudited Condensed Consolidated Financials Statements (Continued)  
 (dollars in thousands, except shares and per share amounts, unless otherwise noted)

Earnings Per Share

Basic earnings per share are calculated utilizing net income available for common stockholders divided by the weighted average number of shares of Class A and Class B common stock outstanding for that period:

	2012	Three months ended March 31,	
		2011	
Basic earnings per share:			
Net income available for common stockholders	\$	11,084	\$ 16,251
Weighted average shares of common stock outstanding:			
Class A		45,576,825	42,231,551
Class B		100	100
		45,576,925	42,231,651
Basic earnings per share	\$	0.24	\$ 0.38

Diluted earnings per share are calculated utilizing the Company's basic net income available for common stockholders divided by diluted weighted average shares outstanding with no adjustments to net income available to common stockholders for potentially dilutive common shares:

	2012	Three months ended March 31,	
		2011	
Diluted earnings per share:			
Net income available for common stockholders - basic	\$	11,084	\$ 16,251
Adjustments for potentially dilutive common shares		-	-
Net income available for common stockholders	\$	11,084	\$ 16,251
Weighted average shares of common stock outstanding:			
Class A:			
Issued and outstanding		45,576,825	42,231,551
Potentially dilutive common shares:			
Issuable pursuant to 2007 ROI Unit Stock Plan		374,539	560,171
Class B		100	100
		45,951,464	42,791,822

Diluted earnings per share	\$	0.24	\$	0.38
----------------------------	----	------	----	------

Potentially dilutive common shares could include unvested shares awarded under the SIP. During the three months ended March 31, 2012 and 2011, the additional shares of Common Stock attributable to the SIP that would have been assumed to be issued, as calculated under the Treasury Stock method, were anti-dilutive and, accordingly, have been excluded from the calculation of diluted earnings per share.

#### Member and Stockholder Dividends

In March 2012, IBG LLC paid dividends to its members totaling \$39.5 million, of which IBG, Inc.'s proportionate share was \$4.6 million. Also in March 2012, the Company paid a quarterly cash dividend of \$0.10 per share of Common Stock, totaling \$4.6 million.

On April 17, 2012, the Company declared a cash dividend of \$0.10 per common share, payable on June 14, 2012 to shareholders of record as of June 1, 2012.

Interactive Brokers Group, Inc. and Subsidiaries  
Notes to Unaudited Condensed Consolidated Financials Statements (Continued)  
(dollars in thousands, except shares and per share amounts, unless otherwise noted)

## 5. Comprehensive Income

Comprehensive income is comprised of Net Income and Other Comprehensive Income (“OCI”). The Company’s OCI is comprised of foreign currency translation adjustments, which arise from changes in the U.S. dollar value of the net worth of the Company’s international Operating Companies during respective reporting periods. The following table presents Comprehensive Income, net of income taxes, and Earnings Per Share on Comprehensive Income:

	Three months ended March 31,	
	2012	2011
Net income available for common stockholders	\$ 11,084	\$ 16,251
Other comprehensive income:		
Cumulative translation adjustment, before income taxes	4,110	2,005
Income taxes related to items of other comprehensive income	1,484	737
Other comprehensive income (loss), net of tax	2,626	1,268
Comprehensive income available for common stockholders	\$ 13,710	\$ 17,519
Earnings per share on comprehensive income:		
Basic	\$ 0.30	\$ 0.41
Diluted	\$ 0.30	\$ 0.41
Weighted average common shares outstanding:		
Basic	45,576,925	42,231,651
Diluted	45,951,464	42,791,822

Interactive Brokers Group, Inc. and Subsidiaries  
Notes to Unaudited Condensed Consolidated Financials Statements (Continued)  
(dollars in thousands, except shares and per share amounts, unless otherwise noted)

## 6. Fair Value

The following tables set forth, by level within the fair value hierarchy (Note 2), financial assets and liabilities, primarily financial instruments owned and financial instruments sold, but not yet purchased at fair value as of March 31, 2012 and December 31, 2011. As required by ASC 820, assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement.

## Financial Assets At Fair Value as of March 31, 2012

	Level 1	Level 2	Level 3	Total
Securities segregated for regulatory purposes	\$ 1,447,406	\$ 414,742	\$ -	\$ 1,862,148
Financial instruments owned:				
Stocks	360,790	-	-	360,790
Options	3,728,623	-	-	3,728,623
U.S. and foreign government obligations	10,192	-	-	10,192
Warrants	122,960	-	-	122,960
Corporate and municipal bonds	51,179	60,904	-	112,083
Discount certificates	76,993	-	-	76,993
Currency forward contracts	-	764	-	764
	4,350,737	61,668	-	4,412,405
Financial instruments owned and pledged as collateral:				
Stocks	1,816,125	-	-	1,816,125
Corporate and municipal bonds	6,449	-	-	6,449
U.S. and foreign government obligations	208,643	-	-	208,643
	2,031,217	-	-	2,031,217
	6,381,954	61,668	-	6,443,622
Other assets - investments in non-market making securities				
Investments in common stock	3,504	-	-	3,504
Investments in other non-market making securities	1,295	97,462	-	98,757

\$ 7,834,159 \$ 573,872 \$ - \$ 8,408,031

Financial Liabilities At Fair Value as of March 31, 2012

	Level 1	Level 2	Level 3	Total
Financial instruments sold, not yet purchased:				
Stocks	\$ 1,636,238	\$ -	\$ -	\$ 1,636,238
Options	3,911,436	-	-	3,911,436
Warrants	583	-	-	583
Corporate bonds	65,758	58,000	-	123,758
Currency forward contracts	-	2,445	-	2,445
	\$ 5,614,015	\$ 60,445	\$ -	\$ 5,674,460

Edgar Filing: Interactive Brokers Group, Inc. - Form 10-Q

Interactive Brokers Group, Inc. and Subsidiaries  
 Notes to Unaudited Condensed Consolidated Financials Statements (Continued)  
 (dollars in thousands, except shares and per share amounts, unless otherwise noted)

Financial Assets At Fair Value as of December 31, 2011

	Level 1	Level 2	Level 3	Total
Securities segregated for regulatory purposes	\$ 747,857	\$ 440,408	\$ -	\$ 1,188,265
Financial instruments owned:				
Stocks	671,881	-	-	671,881
Options	4,113,539	-	-	4,113,539
U.S. and foreign government obligations	10,908	-	-	10,908
Warrants	113,603	-	-	113,603
Corporate and municipal bonds	36,587	60,501	-	97,088
Discount certificates	60,675	-	-	60,675
Currency forward contracts	-	1,577	-	1,577
	5,007,193	62,078	-	5,069,271
Financial instruments owned and pledged as collateral:				
Stocks	1,373,990	-	-	1,373,990
Corporate and municipal bonds	4,402	-	-	4,402
U.S. and foreign government obligations	167,415	-	-	167,415
	1,545,807	-	-	1,545,807
	6,553,000	62,078	-	6,615,078
Other assets - investments in non-market making securities				
Investments in common stock	3,782	-	-	3,782
Investments in other non-market making securities	1,260	89,472	-	90,732
	\$ 7,305,899	\$ 591,958	\$ -	\$ 7,897,857

Financial Liabilities At Fair Value as of December 31, 2011

	Level 1	Level 2	Level 3	Total
Financial instruments sold, not yet purchased:				
Stocks	\$ 1,796,160	\$ -	\$ -	\$ 1,796,160
Options	4,233,533	-	-	4,233,533
Warrants	240	-	-	240
Corporate bonds	61,166	61,511	-	122,677
Currency forward contracts	-	3,538	-	3,538

\$ 6,091,099 \$ 65,049 \$ - \$ 6,156,148

As of March 31, 2012 and December 31, 2011, the Company did not hold any sovereign obligations of Portugal, Ireland, Italy, Greece or Spain.

#### 7. Collateralized Transactions

The Company enters into securities borrowing and lending transactions and agreements to repurchase and resell securities to finance trading inventory, to obtain securities for settlement and to earn residual interest rate spreads. In addition, the Company's customers pledge their securities owned to collateralize margin loans. Under these transactions, the Company either receives or provides collateral, including equity, corporate debt and U.S. government securities. Under many agreements, the Company is permitted to sell or repledge securities received as collateral and use these securities to secure repurchase agreements, enter into securities lending transactions or deliver these securities to counterparties to cover short positions.

The Company also engages in securities financing transactions with and for customers through margin lending. Under these agreements and transactions, the Company either receives or provides collateral, including U.S. government securities, corporate debt and equity securities. Customer receivables generated from margin lending activity are collateralized by customer-owned securities



Interactive Brokers Group, Inc. and Subsidiaries  
 Notes to Unaudited Condensed Consolidated Financials Statements (Continued)  
 (dollars in thousands, except shares and per share amounts, unless otherwise noted)

held by the Company. Customers' required margin levels and established credit limits are monitored continuously by risk management staff using automated systems. Pursuant to Company policy and as enforced by such systems, customers are required to deposit additional collateral or reduce positions, when necessary to avoid automatic liquidation of positions.

Margin loans are extended on a demand basis and are not committed facilities. Factors considered in the acceptance or rejection of margin loans are the amount of the loan, the degree of leverage being employed in the account and an overall evaluation of the portfolio to ensure proper diversification or, in the case of concentrated positions, appropriate liquidity of the underlying collateral. Additionally, transactions relating to concentrated or restricted positions are limited or prohibited by raising the level of required margin collateral (to 100% in the extreme case). Underlying collateral for margin loans is evaluated with respect to the liquidity of the collateral positions, valuation of securities, volatility analysis and an evaluation of industry concentrations. Adherence to the Company's collateral policies significantly limits the Company's credit exposure to margin loans in the event of a customer's default. Under margin lending agreements, the Company may request additional margin collateral from customers and may sell securities that have not been paid for or purchase securities sold but not delivered from customers, if necessary. At March 31, 2012 and December 31, 2011, approximately \$8.5 billion and \$7.0 billion, respectively, of customer margin loans were outstanding.

Amounts relating to collateralized transactions at March 31, 2012 and December 31, 2011 are summarized as follows:

March 31, 2012		December 31, 2011	
Securities Received as Collateral	Securities Received and Repledged	Securities Received as Collateral	Securities Received and Repledged