Interactive Brokers Group, Inc.
Form 10-Q
November 10, 2014

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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2014

OR

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

For the transition period from to

Commission File Number: 001-33440

INTERACTIVE BROKERS GROUP, INC.

(Exact name of registrant as specified in its charter)

Delaware	30-0390693

(State or other jurisdiction of incorporation or organization)	(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 .

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 November 10, 2014, there were 58,463,160 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.

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INTERACTIVE BROKERS GROUP, INC.

QUARTERLY REPORT ON FORM 10-Q FOR THE QUARTER ENDED SEPTEMBER 30, 2014

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PART I. FINANCIAL INFORMATION

ITEM 1. Financial Statements (Unaudited)

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Interactive Brokers Group, Inc. and Subsidiaries

Condensed Consolidated Statements of Financial Condition

(Unaudited)

(in thousands, except share amounts)	September 30, 2014	December 31, 2013
Assets		
Cash and cash equivalents	$ 1,010,759	$ 1,213,241
Cash and securities - segregated for regulatory purposes	15,291,298	13,991,711
Securities borrowed	2,955,064	2,751,501
Securities purchased under agreements to resell	273,536	386,316
Financial instruments owned, at fair value:		
Financial instruments owned	2,236,853	3,285,313
Financial instruments owned and pledged as collateral	1,159,323	1,163,531
Total financial instruments owned, at fair value	3,396,176	4,448,844
Receivables:		
Customers, less allowance for doubtful accounts of $8,153 and $67,999 at September 30, 2014 and December 31, 2013	17,261,440	13,596,650
Brokers, dealers and clearing organizations	885,333	858,189
Receivable from affiliate	8	55
Interest	46,325	26,489
Total receivables	18,193,106	14,481,383
Other assets	488,267	597,704
Total assets	$ 41,608,206	$ 37,870,700
Liabilities and equity		
Liabilities:		
Financial instruments sold, but not yet purchased, at fair value	$ 2,649,664	$ 3,153,673
Securities loaned	3,116,395	2,563,653
Short-term borrowings	59,362	24,635
Payables:		
Customers	29,966,079	26,319,420
Brokers, dealers and clearing organizations	238,670	330,956
Payable to affiliate	271,467	287,242
Accounts payable, accrued expenses and other liabilities	108,267	96,026
Interest	5,676	2,969
Total payables	30,590,159	27,036,613
Total liabilities	36,415,580	32,778,574
Commitments, contingencies and guarantees		
Equity		
Stockholders' equity		

Common stock, $0.01 par value per share:		
Class A – Authorized - 1,000,000,000, Issued - 57,247,149 and 54,788,049 shares, Outstanding – 57,104,682 and 54,664,095 shares at September 30, 2014 and December 31, 2013	572	548
Class B – Authorized, Issued and Outstanding – 100 shares at September 30, 2014 and December 31, 2013	-	-
Additional paid-in capital	615,943	583,312
Retained earnings	119,423	98,868
Accumulated other comprehensive income, net of income taxes of $868 and $936 at September 30, 2014 and December 31, 2013	18,089	27,028
Treasury stock, at cost, 142,467 and 123,954 shares at September 30, 2014 and December 31, 2013	(3,167)	(2,492)
Total stockholders' equity	750,860	707,264
Noncontrolling interests	4,441,766	4,384,862
Total equity	5,192,626	5,092,126
Total liabilities and equity	$ 41,608,206	$ 37,870,700

See accompanying notes to the condensed consolidated financial statements.

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Interactive Brokers Group, Inc. and Subsidiaries

Condensed Consolidated Statements of Comprehensive Income

(Unaudited)

	Three Months Ended September 30,		Nine months Ended September 30,	
(in thousands, except for shares or per share amounts)	2014	2013	2014	2013
Revenues:				
Trading gains (losses)	$ (75,693)	$ 123,286	$ 135,839	$ 201,386
Commissions and execution fees	132,539	120,331	393,531	377,961
Interest income	122,371	74,000	303,281	220,572
Other income	15,887	20,826	52,888	64,999
Total revenues	195,104	338,443	885,539	864,918
Interest expense	24,130	12,191	50,358	38,636
Total net revenues	170,974	326,252	835,181	826,282
Non-interest expenses:				
Execution and clearing	52,152	56,016	157,996	180,283
Employee compensation and benefits	49,408	44,242	156,483	148,578
Occupancy, depreciation and amortization	9,393	9,387	28,905	28,705
Communications	5,975	6,125	18,162	17,281
General and administrative	14,665	14,100	41,901	38,904
Total non-interest expenses	131,593	129,870	403,447	413,751
Income before income taxes	39,381	196,382	431,734	412,531
Income tax expense	7,691	10,414	38,092	31,239
Net income	31,690	185,968	393,642	381,292
Less net income attributable to noncontrolling interests	28,499	169,521	356,201	347,910
Net income available for common stockholders	$ 3,191	$ 16,447	$ 37,441	$ 33,382
Earnings per share:				
Basic	$ 0.06	$ 0.33	$ 0.67	$ 0.68
Diluted	$ 0.05	$ 0.32	$ 0.65	$ 0.67
Weighted average common shares outstanding:				
Basic	57,099,052	49,966,050	55,956,615	48,807,321
Diluted	58,220,070	50,988,214	57,196,113	49,981,664

Comprehensive income:				
Net income available for common stockholders	$ 3,191	$ 16,447	$ 37,441	$ 33,382
Other comprehensive income:				
Cumulative translation adjustment, before income taxes	(11,037)	3,691	(9,007)	(4,051)
Income taxes related to items of other comprehensive income	(252)	61	(68)	(335)
Other comprehensive income (loss), net of tax	(10,785)	3,630	(8,939)	(3,716)
Comprehensive income (loss) available for common stockholders	$ (7,594)	$ 20,077	$ 28,502	$ 29,666
Comprehensive income attributable to noncontrolling interests:				
Net income attributable to noncontrolling interests	$ 28,499	$ 169,521	$ 356,201	$ 347,910
Other comprehensive income (loss) - cumulative translation adjustment	(67,154)	26,013	(54,483)	(29,602)
Comprehensive income (loss) attributable to noncontrolling interests	$ (38,655)	$ 195,534	$ 301,718	$ 318,308

See accompanying notes to the condensed consolidated financial statements.

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Interactive Brokers Group, Inc. and Subsidiaries

Condensed Consolidated Statements of Cash Flows

(Unaudited)

	Nine months Ended September 30,	
(in thousands)	2014	2013
Cash flows from operating activities:		
Net income	$ 393,642	$ 381,292
Adjustments to reconcile net income to net cash provided by (used in)		
Deferred income taxes	14,844	11,164
Depreciation and amortization	14,075	13,914
Employee stock plan compensation	31,467	28,086
Losses (gains) on other investments, net	8,908	(2,728)
Bad debt expense	2,504	2,472
Change in operating assets and liabilities:		
Increase in cash and securities - segregated for regulatory purposes	(1,301,260)	(512,361)
Increase in securities borrowed	(203,563)	(530,097)
Decrease (increase) in securities purchased under agreements to resell	112,780	(58,870)
Decrease in financial instruments owned, at fair value	1,052,608	119,463
Increase in receivables from customers	(3,667,294)	(2,876,534)
(Increase) decrease in other receivables	(46,933)	352,287
Decrease in other assets	6,095	23,857
Decrease in financial instruments sold, but not yet purchased, at fair value	(504,009)	(692,968)
Increase in securities loaned	552,742	353,734
Increase in payable to customers	3,646,659	3,387,371
Decrease in other payables	(74,050)	(127,594)
Net cash provided by (used in) operating activities	39,215	(127,512)
Cash flows from investing activities:		
Purchases of other investments	(420,928)	(189,934)
Proceeds from sales of other investments	497,610	202,245
Distributions received from and redemptions of equity investments	1,074	11,054
Purchase of property and equipment	(13,961)	(12,006)
Net cash provided by investing activities	63,795	11,359
Cash flows from financing activities:		
Dividends paid to stockholders	(16,886)	(14,742)
Distributions to noncontrolling interests	(244,159)	(107,698)
Payments made under the Tax Receivable Agreement	(15,752)	-
Increase (decrease) in short-term borrowings, net	34,727	(107,841)
Net cash used in financing activities	(242,070)	(230,281)
Effect of exchange rate changes on cash and cash equivalents	(63,422)	(33,317)

Net decrease in cash and cash equivalents	(202,482)	(379,751)
Cash and cash equivalents at beginning of period	1,213,241	1,380,599
Cash and cash equivalents at end of period	$ 1,010,759	$ 1,000,848
Supplemental disclosures of cash flow information:		
Cash paid for interest	$ 47,651	$ 40,661
Cash paid for taxes	$ 26,503	$ 45,243
Non-cash financing activities:		
Adjustments to additional paid-in capital for changes in proportionate ownership in IBG LLC	$ 28,221	$ 20,463
Adjustments to noncontrolling interests for changes in proportionate ownership in IBG LLC	$ (28,221)	$ (20,463)

See accompanying notes to the condensed consolidated financial statements.

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Interactive Brokers Group, Inc. and Subsidiaries

Condensed Consolidated Statements of Changes in Equity

Nine Months Ended September 30, 2014 and September 30, 2013

(Unaudited)

(in thousands, except for share amounts)	Common Stock Issued Shares	Par Value	Additional Paid-In Capital	Treasury Stock	Retained Earnings	Accumulated Other Comprehensive Income	Total Stockholders' Equity	Non-controlling Interests	Total Equity
Balance, January 1, 2014	54,788,049	$ 548	$ 583,312	$ (2,492)	$ 98,868	$ 27,028	$ 707,264	$ 4,384,862	$ 5,092,126
Common stock distributed pursuant to stock plans	2,438,091	24	(24)	75			75	-	75
Compensation for stock grants vesting in the future			4,359				4,359	27,108	31,467
Stock incentive plan adjustment	21,109		75	(750)			(675)	458	(217)
Dividends paid to stockholders					(16,886)		(16,886)	-	(16,886)
Distributions from IBG LLC to noncontrolling interests							-	(244,159)	(244,159)
Adjustments for changes in			28,221				28,221	(28,221)	-

proportionate ownership in IBG LLC									
Comprehensive income					37,441	(8,939)	28,502	301,718	330,220
Balance, September 30, 2014	57,247,249	$ 572	$ 615,943	$ (3,167)	$ 119,423	$ 18,089	$ 750,860	$ 4,441,766	$ 5,192,626

	Common Stock								
	Issued Shares	Par Value	Additional Paid-In Capital	Treasury Stock	Retained Earnings	Accumulated Other Comprehensive Income	Total Stockholders' Equity	Non-controlling Interests	Total Equity
Balance, January 1, 2013	47,797,844	$ 478	$ 493,912	$ (7,718)	$ 82,072	$ 29,754	$ 598,498	$ 4,214,649	$ 4,813,147
Common stock distributed pursuant to stock plans	2,298,718	23	(23)	5,200			5,200		5,200
Compensation for stock grants vesting in the future			3,513				3,513	25,488	29,001
Dividends paid to stockholders					(14,742)		(14,742)		(14,742)
Distributions from IBG LLC to noncontrolling interests							-	(107,698)	(107,698)
Adjustments for changes in proportionate ownership in IBG LLC			20,463				20,463	(20,463)	-
Comprehensive income					33,382	(3,716)	29,666	318,308	347,974
Balance, September 30, 2013	50,096,562	$ 501	$ 517,865	$ (2,518)	$ 100,712	$ 26,038	$ 642,598	$ 4,430,284	$ 5,072,882

See accompanying notes to the condensed consolidated financial statements.

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Interactive Brokers Group, Inc. and Subsidiaries

Notes to Unaudited Condensed Consolidated Financial Statements

1. Organization and Nature of Business

Interactive Brokers Group, Inc. ("IBG, Inc.") is a Delaware holding company whose primary asset is its ownership of approximately 14.1% of the membership interests of IBG LLC, which, in turn, owns operating subsidiaries (collectively "IBG LLC"). IBG, Inc. together with IBG LLC and its consolidated subsidiaries (collectively, "the Company"), is an automated global electronic broker and market maker specializing in executing and clearing trades in securities, futures, foreign exchange instruments, bonds and mutual funds on more than 100 electronic exchanges and trading venues around the world and offering custody, prime brokerage, securities and margin lending services to customers. In the United States of America ("U.S."), the Company's business is conducted from its headquarters in Greenwich, Connecticut, from Chicago, Illinois and from Jersey City, New Jersey. Abroad, business is conducted through offices located in Canada, England, Switzerland, Liechtenstein, China (Hong Kong and Shanghai), Japan, India, and Australia. At September 30, 2014, the Company had 937 employees worldwide.

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

The Company operates in two business segments: electronic brokerage and market making. The Company conducts its electronic brokerage business through certain 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 (see Note 13). IB LLC, IBUK, IBC, IBI and IBSJ carry securities accounts for customers or perform custodial functions relating to customer securities.

2. Significant Accounting Policies

Basis of Presentation

These condensed consolidated financial statements are presented in U.S. dollars and have been prepared in accordance with accounting principles generally accepted in the U.S. (“U.S. GAAP”) and pursuant to the rules and regulations of the U.S. Securities and Exchange Commission (“SEC”) regarding financial reporting with respect to Form 10-Q.

These condensed consolidated financial statements are unaudited and should be read in conjunction with the audited consolidated financial statements and notes thereto included in the Company’s 2013 Annual Report on Form 10-K for the year ended December 31, 2013, which was filed with the SEC on March 3, 2014. The condensed consolidated financial information as of December 31, 2013 has been derived from the audited consolidated financial statements not included herein.

These unaudited condensed consolidated financial statements include the accounts of the Company and its consolidated subsidiaries and reflect all adjustments of a normal and recurring nature that are, in the opinion of management, necessary for the fair presentation of the results for the interim periods presented. The operating results for interim periods are not necessarily indicative of the operating results for the entire year.

Principles of Consolidation, including Noncontrolling Interests

These 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 IBG LLC’s operations. In accordance with Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) Topic 810, “Consolidation”, the Company consolidates IBG LLC’s financial statements and records the interests in IBG LLC that it does not own as noncontrolling interests.

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Interactive Brokers Group, Inc. and Subsidiaries

Notes to Unaudited Condensed Consolidated Financial Statements

The Company's policy is to consolidate all other entities in which it owns more than 50% unless it does not have control. All inter company balances and transactions have been eliminated.

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 these condensed consolidated financial statements and accompanying notes. These estimates and assumptions are based on judgment and the best available information at the time. Therefore, actual results could differ materially from those estimates. Such estimates include the allowance for doubtful accounts, valuation of certain investments, compensation accruals, current and deferred income taxes, and estimated contingency reserves.

Fair Value

Substantially all of the Company's assets and liabilities, including financial instruments are carried at fair value based on published market prices and are marked to market, or are assets and liabilities which are short term in nature and are carried at amounts that approximate fair value.

The Company applies the fair value hierarchy in accordance with FASB ASC Topic 820, "Fair Value Measurement" ("ASC Topic 820"), 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.

Level 3 Prices or valuations that require inputs that are both significant to fair value measurement and unobservable.
Financial instruments owned, at fair value and financial instruments sold, but not yet purchased, at fair value are generally classified as Level 1 of the fair value hierarchy. The Company's Level 1 financial instruments, which are valued using quoted market prices as published by exchanges and clearing houses or otherwise broadly distributed in active markets, include active listed stocks, options, warrants and discount certificates, U.S. and foreign government securities and corporate and municipal bonds. The Company 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 are valued using broadly distributed bank and broker prices, and are classified as Level 2 of the fair value hierarchy as such instruments are not exchange traded. Other securities that are not traded in active markets are also classified in Level 2 of the fair value hierarchy. Level 3 financial instruments are comprised of securities that have been delisted or otherwise are no longer tradable and have been valued by the Company based on internal estimates.

Other fair value investments, included in other assets in the condensed consolidated statements of financial condition, are comprised of listed stocks, options, and corporate and municipal bonds that the Company does not carry in its market making business. These investments are generally reported as Level 2 of the fair value hierarchy, except for unrestricted listed securities, which are classified as Level 1 of the fair value hierarchy, and delisted securities which are classified as Level 3 of the fair value hierarchy. Other fair value liabilities, included in accounts payable, accrued expenses and other liabilities in the condensed consolidated statements of financial condition, are comprised of unrestricted listed securities which are classified as Level 1 of the fair value hierarchy.

Earnings Per Share

Earnings per share ("EPS") are computed in accordance with FASB ASC Topic 260, "Earnings per Share." Basic EPS is computed by dividing the net income available for common stockholders by the weighted average number of shares outstanding for that period. Diluted EPS is calculated by dividing the net income available for common stockholders by the diluted weighted average shares outstanding for that period. Diluted EPS includes the determinants of the basic EPS and, in addition, reflects the dilutive effect of shares of common stock estimated to be distributed in the future under the Company's stock-based compensation plans, with no adjustments to net income available for common stockholders for dilutive potential common shares.

Stock Based Compensation

The Company follows FASB ASC Topic 718, "Compensation - Stock Compensation" ("ASC Topic 718"), to account for its stock based compensation plans. ASC Topic 718 requires all share based payments to employees to be recognized in the condensed consolidated financial statements using a fair value based method. Grants, which are denominated in U.S. dollars, are communicated to employees in the year of grant, thereby establishing the fair value of each grant. The fair value of awards granted to employees are generally expensed as follows: 50% in the year of grant in recognition of plan forfeiture provisions (as described below) and the remaining 50% over the related vesting period utilizing the "graded vesting" method permitted under ASC Topic 718. In the case of "retirement eligible" employees (those employees older than 59), 100% of awards are expensed when granted.

Awards granted under stock based compensation plans are subject to forfeiture in the event an employee ceases employment with the Company. The plans provide that employees who discontinue employment with the Company without cause and continue to meet the terms of the plans' post employment provisions will forfeit 50% of unvested previously granted awards unless the employee is over the age of 59, in which case the employee would be eligible to receive 100% of unvested awards previously granted.

Cash and Cash Equivalents

The Company considers all highly liquid investments, with maturities of three months or less, that are not segregated and deposited for regulatory purposes or to meet margin requirements at clearing houses to be cash equivalents.

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. Securities segregated for regulatory purposes consisted of U.S. Treasury Bills of $4.58 billion and $1.30 billion at September 30, 2014 and December 31, 2013, respectively, and securities purchased under agreements to resell in the amount of $5.25 billion and $6.73 billion as of September 30, 2014 and December 31, 2013, respectively, which amounts approximate fair value.

Securities Borrowed and Securities Loaned

Securities borrowed and securities loaned are recorded at the amount of the cash collateral advanced or received. Securities borrowed transactions require the Company to provide counterparties with collateral, which may be in the form of cash, letters of credit or other securities. With respect to securities loaned, the Company 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. The Company monitors the market value of securities borrowed and loaned on a daily basis, with additional collateral obtained or refunded as permitted contractually. The Company does not net, in the condensed consolidated statements of financial condition, securities borrowed and securities loaned entered into with the same counterparty.

Securities lending fees received and paid by the Company are included in interest income or interest expense, respectively, in the condensed consolidated statements of comprehensive income.

Securities Purchased Under Agreements to Resell

Securities purchased under agreements to resell, which are reported as collateralized financing transactions, are recorded at contract value, plus accrued interest, which approximates fair value. To ensure that the fair value of the underlying collateral remains sufficient, the collateral is valued daily with additional collateral obtained or excess collateral returned, as permitted under contractual provisions. The Company does not net, in the condensed consolidated statements of financial condition, securities purchased under agreements to resell transactions and securities sold under agreements to repurchase transactions entered into with the same counterparty.

Financial Instruments Owned and Financial Instruments Sold, But Not Yet Purchased, at Fair Value

Financial instrument transactions are accounted for on a trade date basis. Financial instruments owned and financial instruments sold, but not yet purchased are stated 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 reported as financial instruments owned and pledged as collateral in the condensed consolidated statements of financial condition.

Interactive Brokers Group, Inc. and Subsidiaries

Notes to Unaudited Condensed Consolidated Financial Statements

The Company also enters into currency forward contracts. These transactions, which are also accounted for 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 included in financial instruments owned, at fair value or financial instruments sold, but not yet purchased, at fair value in the condensed consolidated statements of financial condition.

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 condensed consolidated statements of financial condition. Amounts receivable from customers that are determined by management to be uncollectible are expensed and included in general and administrative expense in the condensed consolidated statements of comprehensive income.

Receivables from and Payables to Brokers, Dealers and Clearing Organizations

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

Investments

The Company makes certain strategic investments related to its business and accounts for these investments under the cost method of accounting or under the equity method of accounting as required under FASB ASC Topic 323, “Investments—Equity Method and Joint Ventures.” 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 the Company’s initial investment and are adjusted each period for the Company’s share of the investee’s income or loss. The Company’s share of the income or losses from equity method investments is included in other income in the condensed consolidated statements of comprehensive income. The recorded amounts of the Company’s equity method investments, $34.7 million at September 30, 2014 ($27.5 million at December 31, 2013), which are included in other assets in the condensed consolidated statements of financial condition, increase or decrease accordingly. Contributions paid to and distributions received from equity method investees are recorded as additions or reductions, respectively, to the respective investment balance.

The Company 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, $30.1 million at September 30, 2014 ($27.6 million at December 31, 2013), 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 also included in other assets in the condensed consolidated statements of financial condition. Dividends received from cost basis investments are included in other income in the condensed consolidated statements of comprehensive income when such dividends are received.

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. The Company's equity investments do not have readily determinable market values. All investments are reviewed for changes in circumstances or occurrence of events that suggest the Company'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

The Company also has certain investments (which are not considered core business activities) that are accounted for at fair value (see Note 6) and included in other assets in the condensed consolidated statements of financial condition. Gains and losses related to these investments are included in other income in the condensed consolidated statements of comprehensive income.

Interactive Brokers Group, Inc. and Subsidiaries

Notes to Unaudited Condensed Consolidated Financial Statements

Property and Equipment

Property and equipment, which is included in other assets in the condensed consolidated statements of financial condition, consists 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.

Comprehensive Income and Foreign Currency Translation

The Company's operating results are reported in the condensed consolidated statements of comprehensive income pursuant to FASB Accounting Standards Update 2011 05, "Comprehensive 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 statements of comprehensive income, but are excluded from reported net income. The Company's OCI is comprised of foreign currency translation adjustments, net of related income taxes, where applicable. In general, the practice and intention of the Company is to reinvest the earnings of its non U.S. subsidiaries in those operations.

The Company's non U.S. domiciled subsidiaries have a functional currency 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. Adjustments that result from translating amounts from a subsidiary's functional currency to the U.S. dollar are reported net of tax, where applicable, in accumulated OCI in the condensed consolidated statements of financial condition.

Revenue Recognition

—Trading Gains (Losses)

Trading gains and losses are recorded on trade date and are reported on a net basis. Trading gains and losses are comprised of changes in the fair value of financial instruments owned, at fair value and financial instruments sold, but not yet purchased, at fair value (i.e., unrealized gains and losses) and realized gains and losses. Included in trading gains (losses) are net gains and losses on stocks, U.S. and foreign government securities, corporate and municipal bonds, options, futures, foreign exchange and other derivative instruments. 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 financial instruments owned, at fair value and financial instruments sold, but not yet purchased, at fair value are reported on a net basis included in trading gains (losses) in the condensed consolidated statements of comprehensive income.

—Commissions and Execution Fees

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

—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, which are recorded on the accrual basis and are included in interest income and interest expense, respectively, in the condensed consolidated statements of comprehensive income.

—Foreign Currency Transaction Gains and Losses

Foreign currency transaction gains and losses from market making are included in trading gains (losses) in the condensed consolidated statements of comprehensive income. Electronic brokerage foreign currency transaction gains and losses are included in interest income (if arising from currency swap transactions) or other income in the condensed consolidated statements of comprehensive income.

Income Taxes

The Company accounts for income taxes in accordance with FASB ASC Topic740, “Income Taxes” (“ASC Topic 740”). The Company’s income tax expense, deferred tax assets and liabilities, and reserves for unrecognized tax benefits are based on enacted tax laws (see Note 10) and reflect management’s best assessment of estimated future taxes to be paid. The Company is subject to income taxes in both the U.S. and numerous foreign jurisdictions. Determining income tax expense requires significant judgments and estimates.

The Company recognizes interest related to income tax matters as interest income or expense and penalties related to income tax matters as income tax expense.

Deferred income tax assets and liabilities arise from temporary differences between the tax and financial statements recognition of the underlying assets and liabilities. In evaluating the ability to recover deferred tax assets within the jurisdictions from which they arise, the Company considers 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, historical results are adjusted for 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 the Company is using to manage the underlying businesses. In evaluating the objective evidence that historical results provide, three years of cumulative operating income (loss) are considered. Deferred income taxes have not been provided for U.S. tax liabilities or for additional foreign taxes on the unremitted earnings of foreign subsidiaries that have been indefinitely reinvested.

The calculation of the Company’s tax liabilities involves dealing with uncertainties in the application of complex tax laws and regulations in a multitude of jurisdictions across the Company’s global operations. Changes in tax laws and rates could also affect recorded deferred tax assets and liabilities in the future. The Company 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.

ASC Topic 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 Topic 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 Topic 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 payments that are different from the current estimates of these tax liabilities. These differences will be reflected as increases or decreases to income tax expense in the period in which new information becomes available.

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 2014, prior to the issuance of the Company's condensed consolidated financial statements, ASUs 2013-05 through 2014-15 have been issued. Following is a summary of recently issued ASUs that have affected or may affect the Company's condensed consolidated financial statements:

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	Affects	Status
ASU 2013-05	Foreign Currency Matters (Topic 830): Parent's Accounting for the Cumulative Translation Adjustment upon Derecognition of Certain Subsidiaries or Groups of Assets within a Foreign Entity or of an Investment in a Foreign Entity	Effective for fiscal periods beginning on or after December 15, 2013.
ASU 2014-06	Technical Corrections and Improvements Related to Glossary Terms	Effective on issuance in March 2014.
ASU 2014-09	Revenue from Contracts with Customers (Topic 606)	Effective for fiscal periods beginning on or after December 15, 2016
ASU 2014-11	Transfers and Servicing (Topic 860): Repurchase-to-Maturity Transactions, Repurchase Financings, and Disclosures.	Effective for the first interim or annual period beginning after December 15, 2014
ASU 2014-12	Compensation - Stock Compensation (Topic 718): Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period.	Effective for annual periods and interim periods within those annual periods beginning after December 15, 2015.
ASU 2014-15	Going Concern (Subtopic 205-40): Disclosure of Uncertainties about an Entity’s Ability to Continue as a Going Concern	Effective for the first interim or annual period ending after December 15, 2016

Adoption of those ASUs that became effective during 2014, prior to the issuance of the Company’s condensed consolidated financial statements, did not have a material effect on those financial statements.

3. Trading Activities and Related Risks

The Company’s trading activities include providing securities market making and brokerage services. Trading activities expose the Company 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 the Company's risk taking is consistent with its business strategy, capital structure, and current and anticipated market conditions.

Market Risk

The Company 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. The Company 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. The Company 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. The

Company is subject to equity price risk primarily in financial instruments held. The Company 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. The Company manages this risk using spot (i.e., cash) currency transactions, currency futures contracts and currency forward contracts. As a global market maker trading on exchanges around the world in multiple currencies, we are exposed to foreign currency risk. We actively manage this exposure using hedging strategies that are based on a defined basket of 16 currencies we call the "GLOBAL". These strategies minimize the fluctuation of our net worth as expressed in GLOBALs, thereby diversifying our risk in alignment with these global currencies, weighted by our view of their importance. Because we report our financial results in U.S. dollars, the change in the value of the GLOBAL as expressed in U.S. dollars affects our earnings.

Interest Rate Risk

Interest rate risk arises from the possibility that changes in interest rates will affect the value of financial instruments. The Company 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.

Credit Risk

The Company 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 the Company to default risk. The Company 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. The Company 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 the Company that exposes the Company to default risk arising from the potential that customers or counterparties may fail to satisfy their obligations. In these situations, the Company 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, the Company may purchase the underlying security in the market and seek reimbursement for any losses from the counterparty.

For cash management purposes, the Company 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. Repos are collateralized by securities with a market value in excess of the obligation under the contract. Similarly, securities lending agreements are collateralized by deposits of cash or securities. The Company 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 the Company as permitted under contractual provisions.

Concentrations of Credit Risk

The Company'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 September 30, 2014, the Company did not have any material concentrations of credit risk.

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Off Balance Sheet Risks

The Company may be exposed to a risk of loss not reflected in the condensed consolidated financial statements to settle futures and certain over the counter contracts at contracted prices, which may require repurchase or sale of the underlying products in the market at prevailing prices. Accordingly, these transactions result in off balance sheet risk as the Company's cost to liquidate such contracts may exceed the amounts reported in the Company's condensed consolidated statements of financial condition.

4. Equity and Earnings Per Share

In connection with IBG, Inc.'s initial public offering of Class A common stock ("IPO") in May 2007, it purchased 10.0% of the membership interests in IBG LLC from IBG Holdings LLC ("Holdings"), became the sole managing member of IBG LLC and began to consolidate IBG LLC's financial results into its financial statements. Holdings owns all of IBG, Inc.'s Class B common stock, which has voting rights in proportion to its ownership interests in IBG LLC, approximately 85.9% as of September 30, 2014. The condensed consolidated financial statements reflect the results of operations and financial position of IBG, Inc., including consolidation of its investment in IBG LLC and its subsidiaries. The noncontrolling interests in IBG LLC attributable to Holdings are reported as a component of total equity in the condensed consolidated statements of financial condition, as described below.

Recapitalization and Post IPO Capital Structure

Immediately prior to and immediately following the consummation of the IPO, IBG, Inc., Holdings, 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., Holdings 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 Holdings in exchange for their membership interests in IBG LLC. Additionally, IBG, Inc. became the sole managing member of IBG LLC.

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

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 Holdings' and IBG, Inc.'s respective ownership of IBG LLC. At September 30, 2014 and December 31, 2013, 1,000,000,000 shares of Class A common stock were authorized, of which 57,247,149 and 54,788,049 shares have been issued; and 57,104,682 and 54,664,095 shares were outstanding, respectively. Class B common stock is comprised of 100 authorized shares, of which 100 shares were issued and outstanding as of September 30, 2014 and December 31, 2013, respectively. In addition, 10,000 shares of preferred stock have been authorized, of which no shares are issued or outstanding as of September 30, 2014 and December 31, 2013.

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 and 2013 redemptions of Holdings member interests in exchange for common stock, which deferred tax assets are included in other assets in the Company's condensed consolidated statements of financial condition and are being amortized as additional deferred income tax expense over 15 years from the IPO date and from the 2011 and 2013 redemption dates, respectively, as allowable under current tax law. As of September 30, 2014 and December 31, 2013, the unamortized balance of these deferred tax assets was $277.9 million and $294.7 million, respectively.

IBG, Inc. also entered into an agreement (the "Tax Receivable Agreement") with Holdings to pay Holdings (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 Holdings, are reported as payable to affiliate in the Company's condensed consolidated statements of financial condition. The remaining 15% is accounted for as a permanent increase to additional paid in capital in the Company's condensed consolidated statements of financial condition.

The cumulative amounts of deferred tax assets, payables to Holdings and credits to additional paid in capital arising from stock offerings from the date of the IPO through September 30, 2014 were $420.4 million, $357.4 million and $63.1 million, respectively. Amounts payable under the Tax Receivable Agreement are payable to Holdings annually following the filing of

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IBG, Inc.'s federal income tax return. The Company has paid Holdings a cumulative total of $86.2 million of which $15.7 million was paid in the nine months ended September 30, 2014, pursuant to the terms of the Tax Receivable Agreement.

The Exchange Agreement, as amended June 6, 2012, provides for future redemptions of member interests and for the purchase of member interests in IBG LLC by IBG, Inc. from Holdings, 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 Holdings 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.

At the time of the IBG, Inc.'s IPO in 2007, three hundred sixty (360) million shares of authorized Common Stock were reserved for future sales and redemptions. From 2008 through 2010, Holdings redeemed 5,013,259 IBG LLC shares with a total value of $114.0 million, which redemptions were funded using cash on hand at IBG LLC. Upon cash redemption these IBG LLC shares were retired. In 2011 and 2013, respectively, IBG, Inc. issued 1,983,624 shares and 4,683,415 shares of Common Stock directly to Holdings in exchange for an equivalent number of shares of member interests in IBG LLC.

As a consequence of these redemption transactions, and distribution of shares to employees (see Note 9), IBG, Inc.'s interest in IBG LLC has increased to approximately 14.1%, with Holdings owning the remaining 85.9% as of September 30, 2014. The redemptions also resulted in an increase in the Holdings interest held by Thomas Peterffy and his affiliates from approximately 84.6% at the IPO to approximately 87.6% at September 30, 2014.

On October 24, 2014, the Company issued 1,358,478 shares of Class A Common stock (with a fair value of $35.2 million) to Holdings in exchange for membership interests in IBG LLC equal in number to such number of shares of Common Stock issued by IBG, Inc. As a consequence of this transaction, IBG, Inc.'s interest in IBG LLC increased to approximately 14.5%, with Holdings owning the remaining 85.5%. The redemptions also resulted in an increase in the Holdings interest held by Thomas Peterffy and his affiliates from approximately 87.6% to approximately 88.0%.

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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, presented in thousands, except shares and per share amounts:

	Three Months Ended September 30,		Nine months Ended September 30,	
	2014	2013	2014	2013
Basic earnings per share:				
Net income available for common stockholders	$ 3,191	$ 16,447	$ 37,441	$ 33,382
Weighted average shares of common stock outstanding:				
Class A	57,098,952	49,965,950	55,956,515	48,807,221
Class B	100	100	100	100
	57,099,052	49,966,050	55,956,615	48,807,321
Basic earnings per share	$ 0.06	$ 0.33	$ 0.67	$ 0.68

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, presented in thousands, except shares and per share amounts:

	Three Months Ended September 30,		Nine months Ended September 30,	
	2014	2013	2014	2013
Diluted earnings per share:				
Net income available for common stockholders	$ 3,191	$ 16,447	$ 37,441	$ 33,382

Weighted average shares of common stock outstanding:				
Class A:				
Issued and outstanding	57,098,952	49,965,950	55,956,515	48,807,221
Potentially dilutive common shares issuable pursuant to employee incentive plans	1,121,018	1,022,164	1,239,498	1,174,343
Class B	100	100	100	100
	58,220,070	50,988,214	57,196,113	49,981,664
Diluted earnings per share	$ 0.05	$ 0.32	$ 0.65	$ 0.67

Member Distributions and Stockholder Dividends

For the nine months ended September 30, 2014, IBG LLC made distributions totaling $283.1 million to its members, of which IBG, Inc.'s proportionate share was $39.0 million. In March, June and September 2014, the Company paid cash dividends of $0.10 per share of Common Stock, totaling $5.5 million, $5.7 million and $5.7 million, respectively.

On October 21, 2014, the Company declared a cash dividend of $0.10 per common share, payable on December 12, 2014 to shareholders of record as of December 1, 2014.

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5. Comprehensive Income

The following table presents comprehensive income and earnings per share on comprehensive income, presented in thousands, except shares and per share amounts:

	Three months ended September 30,		Nine months Ended September 30,	
	2014	2013	2014	2013
Comprehensive income (loss) available for common stockholders, net of tax	$ (7,594)	$ 20,077	$ 28,502	$ 29,666
Earnings per share on comprehensive income:				
Basic	$ (0.13)	$ 0.40	$ 0.51	$ 0.61
Diluted	$ (0.13)	$ 0.39	$ 0.50	$ 0.59
Weighted average common shares outstanding:				
Basic	57,099,052	49,966,050	55,956,615	48,807,321
Diluted	58,220,070	50,988,214	57,196,113	49,981,664

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6. Financial Assets and Financial Liabilities

Fair Value

The following tables set forth, by level within the fair value hierarchy (see Note 2), financial assets and liabilities, primarily financial instruments owned, at fair value, financial instruments sold, but not yet purchased, at fair value, and other assets and liabilities measured at fair value on a recurring basis as of September 30, 2014 and December 31, 2013, presented in thousands. As required by ASC Topic 820, financial assets and financial liabilities are classified in their entirety based on the lowest level of input that is significant to the respective fair value measurement.

	Financial Assets At Fair Value as of September 30, 2014			
	Level 1	Level 2	Level 3	Total
Securities segregated for regulatory purposes	$ 4,577,342	$ -	$ -	$ 4,577,342
Financial instruments owned:				
Stocks	836,551	-	106	836,657
Options	1,255,124	-	-	1,255,124
Warrants and discount certificates	44,099	-	-	44,099
U.S. and foreign government securities	14,686	1,386	-	16,072
Corporate and municipal bonds	68,735	11,565	-	80,300
Currency forward contracts	-	4,601	-	4,601
Total financial instruments owned	2,219,195	17,552	106	2,236,853
Financial instruments owned and pledged as collateral:				
Stocks	1,070,314	-	-	1,070,314
Warrants	307	-	-	307
U.S. and foreign government securities	87,727	-	-	87,727
Corporate and municipal bonds	975	-	-	975
Total financial instruments owned and pledged as collateral	1,159,323	-	-	1,159,323
Total financial instruments owned, at fair value	3,378,518	17,552	106	3,396,176
Other fair value investments, included in other assets:				
Stocks and options	34,441	-	162	34,603
Corporate and municipal bonds	-	1,567	-	1,567
Total other fair value investments, included in other assets	34,441	1,567	162	36,170
Total Financial Assets at Fair Value	$ 7,990,301	$ 19,119	$ 268	$ 8,009,688

	Financial Liabilities At Fair Value as of September 30, 2014			
	Level 1	Level 2	Level 3	Total
Financial instruments sold, but not yet purchased, at fair value:				
Stocks	$ 1,242,103	$ -	$ 76	$ 1,242,179
Options	1,317,944	-	-	1,317,944
Warrants and discount certificates	760	-	-	760
U.S. and foreign government securities	-	1,648	-	1,648
Corporate bonds	78,206	8,452	-	86,658
Currency forward contracts	-	475	-	475
Total financial instruments sold, but not yet purchased, at fair value	2,639,013	10,575	76	2,649,664
Other fair value liabilities, included in accounts payable, accrued expenses and other liabilities				
Stocks and options	64	-	-	64
Total other fair value liabilities, included in accounts payable, accrued expenses and other liabilities	64	-	-	64
Total Financial Liabilities at Fair Value	$ 2,639,077	$ 10,575	$ 76	$ 2,649,728

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	Financial Assets At Fair Value as of December 31, 2013			
	Level 1	Level 2	Level 3	Total
Securities segregated for regulatory purposes	$ 1,300,016	$ -	$ -	$ 1,300,016
Financial instruments owned:				
Stocks	1,243,914	-	57	1,243,971
Options	1,880,481	-	-	1,880,481
Warrants and discount certificates	57,144	-	-	57,144
U.S. and foreign government securities	4,641	2,102	-	6,743
Corporate and municipal bonds	72,750	18,476	-	91,226
Currency forward contracts	-	5,748	-	5,748
Total financial instruments owned	3,258,930	26,326	57	3,285,313
Financial instruments owned and pledged as collateral:				
Stocks	1,097,734	-	-	1,097,734
Warrants	233	-	-	233
	64,439	-	-	64,439

U.S. and foreign government securities				
Corporate and municipal bonds	1,125	-	-	1,125
Total financial instruments owned and pledged as collateral	1,163,531	-	-	1,163,531
Total financial instruments owned, at fair value	4,422,461	26,326	57	4,448,844
Other fair value investments, included in other assets:				
Stocks	25,604	419	101	26,124
Corporate and municipal bonds	1,776	47,896	-	49,672
Mortgage backed securities	-	26,892	-	26,892
Other asset backed securities	-	22,734	-	22,734
Other	-	5,328	-	5,328
Total other fair value investments, included in other assets	27,380	103,269	101	130,750
Total Financial Assets at Fair Value	$ 5,749,857	$ 129,595	$ 158	$ 5,879,610

	Financial Liabilities At Fair Value as of December 31, 2013			
	Level 1	Level 2	Level 3	Total
Financial instruments sold, but not yet purchased, at fair value:				
Stocks	$ 1,266,429	$ -	$ 3	$ 1,266,432
Options	1,793,248	-	-	1,793,248
Warrants and discount certificates	1,215	-	-	1,215
U.S. and foreign government securities	-	4,412	-	4,412
Corporate bonds	77,936	9,628	-	87,564
Currency forward contracts	-	802	-	802
Total financial instruments sold, but not yet purchased, at fair value	$ 3,138,828	$ 14,842	$ 3	$ 3,153,673

Transfers between Level 1 and Level 2

Transfers of financial instruments owned and sold, but not yet purchased, at fair value to or from Levels 1 and 2 arise where the market for a specific security has become active or inactive during the period. The fair values transferred are ascribed as if the financial assets or financial liabilities had been transferred as of the end of the period.

During the nine months ended September 30, 2014, the Company reclassified approximately $1.7 million of financial instruments owned, at fair value from Level 1 to Level 2 and reclassified approximately $4.7 million from Level 2 to Level 1. Financial instruments sold, but not yet purchased, at fair value of approximately $1.1 million were reclassified from Level 1 to Level 2 and approximately $1.3 million were reclassified from Level 2 to Level 1. The Company reclassified approximately $1.5 million of other fair value investments, included in other assets, from Level 1 to Level 2.

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During the nine months ended September 30, 2013, the Company reclassified approximately $1.7 million of financial instruments owned, at fair value from Level 1 to Level 2 and reclassified approximately $1.4 million from Level 2 to Level 1. Financial instruments sold, but not yet purchased, at fair value of approximately $1.3 million were reclassified from Level 1 to Level 2 and approximately $1.5 million were reclassified from Level 2 to Level 1.

Level 3 Financial Assets and Financial Liabilities

The Company's Level 3 financial assets and financial liabilities are comprised of delisted securities reported within financial instruments owned, at fair value and financial instruments sold, but not yet purchased, at fair value in the condensed consolidated statements of financial condition. The following tables report Level 3 activities for the nine months ended September 30, 2014 and September 30, 2013, presented in thousands:

Financial assets and liabilities—Level 3 activities:

	Financial Assets	Financial Liabilities
Balance, January 1, 2014	$ 158	$ 3
Total gains or losses (realized/unrealized) - Included in earnings	99	-
Purchases, issuances and settlements	(44)	-
Transfers in and/or out of Level 3	55	73
Balance, September 30, 2014	$ 268	$ 76

	Financial Assets	Financial Liabilities
Balance, January 1, 2013	$ -	$ -
Total gains or losses (realized/unrealized) - Included in earnings	(184)	77
Purchases, issuances and settlements	-	-
Transfers in and/or out of Level 3	365	(13)
Balance, September 30, 2013	$ 181	$ 64

Trading Gains (Losses) from Market Making Transactions

Trading gains and losses from market making transactions reported in the statements of comprehensive income, by major product type, are presented in thousands and comprised of:

	Three Months Ended September 30,		Nine months Ended September 30,	
	2014	2013	2014	2013
Equities	$ 44,731	$ 65,562	$ 196,440	$ 227,078
Fixed Income	5,706	4,449	17,797	18,920
Foreign Exchange	(126,130)	53,275	(78,398)	(44,727)
Commodities	-	-	-	115
Total Trading gains (losses)	$ (75,693)	$ 123,286	$ 135,839	$ 201,386

These transactions are related to the Company's financial instruments owned and financial instruments sold, but not yet purchased, at fair value and include both derivative and non derivative financial instruments, including exchange traded options and futures. These gains and losses also include market making related dividend and fixed income trading related interest income and expense.

The gains (losses) in the above table are not representative of the integrated trading strategies applied by the Company, which utilizes financial instruments across various product types. Gains and losses in one product type frequently offset gains and losses in other product types.

Netting of Financial Assets and Financial Liabilities

The Company adopted the guidance in ASU 2011 11, Balance Sheet (Topic 210): Disclosures about Offsetting Assets and Liabilities ("ASU 2011-11") and ASU 2013 01, Balance Sheet (Topic 210): Clarifying the Scope of Disclosures about Offsetting

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Interactive Brokers Group, Inc. and Subsidiaries

Notes to Unaudited Condensed Consolidated Financial Statements

Assets and Liabilities (“ASU 2013-01”) for periods beginning after January 1, 2013. This authoritative guidance requires companies to report disclosures of offsetting assets and liabilities.

The Company does not net securities segregated for regulatory purposes, In addition, securities borrowed and securities loaned, and securities purchased under agreements to resell and securities sold under agreements to repurchase, are presented on a gross basis in the condensed consolidated statements of financial condition. In the tables below, the amounts of derivative financial instruments owned that are not offset in the condensed consolidated statements of financial condition, but could be netted against financial liabilities with specific counterparties under master netting agreements, including clearing houses (exchange traded options, warrants and discount certificates) or over the counter currency forward contract counterparties, are presented to provide financial statement readers with the Company’s estimate of its net exposure to counterparties for these derivative financial instruments.

The following tables, presented in millions, sets forth the netting of financial assets and of financial liabilities as of September 30, 2014 and December 31, 2013, pursuant to the requirements of ASU 2011 11 and ASU 2013 01.

	September 30, 2014					
				Gross Amounts Not Offset in the Condensed Consolidated Statement of Financial Condition		
	Gross Amounts of Recognized Assets	Gross Amounts Offset in the Condensed Consolidated Statement of Financial Condition	Net Amounts of Assets Presented in the Condensed Consolidated Statement of Financial Condition	Financial Instruments	Cash Collateral Pledged	Net Amount
Offsetting of Financial Assets:						
Securities segregated for regulatory purposes -purchased under agreements to resell	$ 5,253.2 1	$ -	$ 5,253.2	$ (5,253.2)	$ -	$ -
Securities borrowed	2,955.1	-	2,955.1	(2,868.1)	-	87.0
	273.5	-	273.5	(273.5)	-	-

Securities purchased under agreements to resell						
Financial Instruments owned, at fair value:	-			-		
Options	1,255.1	-	1,255.1	(1,206.3)	-	48.8
Warrants and discount certificates	44.4	-	44.4	(0.8)	-	43.6
Currency forward contracts	4.6	-	4.6	-	-	4.6
Total	$ 9,785.9	$ -	$ 9,785.9	$ (9,601.9)	$ -	$ 184.0

				Gross Amounts Not Offset in the Condensed Consolidated Statement of Financial Condition		
	Gross Amounts of Recognized Liabilities	Gross Amounts Offset in the Condensed Consolidated Statement of Financial Condition	Net Amounts of Liabilities Presented in the Condensed Consolidated Statement of Financial Condition	Financial Instruments	Cash Collateral Received	Net Amount
Offsetting of Financial Liabilities:						
Securities loaned	$ 3,116.4	$ -	$ 3,116.4	$ (3,114.5)	$ -	$ 1.9
Financial instruments sold, but not yet purchased, at fair value:						
Options	1,318.0	-	1,318.0	(1,206.3)	-	111.7
Warrants and discount certificates	0.8	-	0.8	(0.8)	-	-
Currency forward contracts	0.5	-	0.5	-	-	0.5
Total	$ 4,435.7	$ -	$ 4,435.7	$ (4,321.6)	$ -	$ 114.1

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Interactive Brokers Group, Inc. and Subsidiaries

Notes to Unaudited Condensed Consolidated Financial Statements

	December 31, 2013					
	Gross Amounts of Recognized Assets	Gross Amounts Offset in the Condensed Consolidated Statement of Financial Condition	Net Amounts of Assets Presented in the Condensed Consolidated Statement of Financial Condition	Gross Amounts Not Offset in the Condensed Consolidated Statement of Financial Condition		
				Financial Instruments	Cash Collateral Pledged	Net Amount
Offsetting of Financial Assets:						
Securities segregated for regulatory purposes - purchased under agreements to resell	$ 6,734.2 1	$ -	$ 6,734.2	$ (6,734.2)	$ -	$ -
Securities borrowed	2,751.5	-	2,751.5	(2,694.6)	-	56.9
Securities purchased under agreements to resell	386.3	-	386.3	(386.3)	-	-
Financial Instruments owned, at fair value:						
Options	1,880.5	-	1,880.5	(1,652.8)	-	227.7
Warrants and discount certificates	57.4	-	57.4	(1.2)	-	56.2
Currency forward contracts	5.7	-	5.7	-	-	5.7
Total	$ 11,815.6	$ -	$ 11,815.6	$ (11,469.1)	$ -	$ 346.5

	Gross Amounts Offset in the	Net Amounts of Liabilities	Gross Amounts Not Offset in the Condensed Consolidated Statement

	Gross Amounts of Recognized Liabilities	Condensed Consolidated Statement of Financial Condition	Presented in the Condensed Consolidated Statement of Financial Condition	of Financial Condition Financial Instruments	Cash Collateral Received	Net Amount
Offsetting of Financial Liabilities:						
Securities loaned	$ 2,563.7	$ -	$ 2,563.7	$ (2,544.6)		