

Interactive Brokers Group, Inc.  
Form 10-Q  
August 09, 2013

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

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FORM 10-Q

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(Mark One)

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

For the quarterly period ended June 30, 2013

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 .

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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 <input checked="" type="checkbox"/>	Accelerated filer <input type="checkbox"/>	Non-accelerated filer <input type="checkbox"/> (Do not check if a smaller reporting company)	SS Smaller reporting company <input type="checkbox"/>
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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 August 9, 2013, there were 49,965,451 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 JUNE 30, 2013  
 Table of Contents

		Page No.
PART I:	FINANCIAL INFORMATION	
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 Statements 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	32
Item 3:	Quantitative and Qualitative Disclosures About Market Risk	55
Item 4:	Controls and Procedures	58
PART II:	OTHER INFORMATION	
Item 1:	Legal Proceedings	59
Item 1A:	Risk Factors	59
Item 2:	Unregistered Sales of Equity Securities and Use of Proceeds	59
Item 3:	Defaults upon Senior Securities	59
Item 5:	Other Information	59
Item 6:	Exhibits	60
	SIGNATURES	61



PART I. FINANCIAL INFORMATION

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 12.4% 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 from Jersey City, New Jersey. Abroad, we conduct business through offices located in Canada, England, Switzerland, China (Hong Kong and Shanghai), India, Australia and Japan. At June 30, 2013, we had 892 employees worldwide.

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

(in thousands, except share data)	June 30, 2013	December 31, 2012
<b>Assets</b>		
Cash and cash equivalents	\$ 1,414,849	\$ 1,614,592
Cash and securities - segregated for regulatory purposes	12,535,253	12,482,388
Securities borrowed	3,267,014	2,833,145
Securities purchased under agreements to resell	587,569	428,904
<b>Financial instruments owned, at fair value:</b>		
Financial instruments owned	3,558,469	3,617,879
Financial instruments owned and pledged as collateral	854,203	926,857
Total financial instruments owned	4,412,672	4,544,736
<b>Receivables:</b>		
Customers, less allowance for doubtful accounts of \$2,529 and \$1,416 at June 30, 2013 and December 31, 2012	11,311,806	9,851,018
Brokers, dealers and clearing organizations	949,835	844,584
Receivable from affiliate	639	620
Interest	23,398	22,829
Total receivables	12,285,678	10,719,051
Other assets	553,519	576,741
Total assets	\$ 35,056,554	\$ 33,199,557
<b>Liabilities and equity</b>		
<b>Liabilities:</b>		
Financial instruments sold but not yet purchased, at fair value	\$ 4,041,150	\$ 4,286,260
Securities loaned	2,468,303	1,839,274
Short-term borrowings	12,826	110,420
<b>Payables:</b>		
Customers	22,954,891	21,421,978
Brokers, dealers and clearing organizations	324,568	361,834
Payable to affiliate	259,714	259,441
Accounts payable, accrued expenses and other liabilities	97,837	102,695
Interest	2,137	4,508
Total payables	23,639,147	22,150,456

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Total liabilities	30,161,426	28,386,410
Commitments, contingencies and guarantees		
Equity		
Stockholders' equity		
Common stock, \$0.01 par value per share:		
Class A – Authorized - 1,000,000,000, Issued - 50,090,836 and 47,797,844 shares, Outstanding – 49,965,451 and 47,499,739 shares at June 30, 2013 and December 31, 2012	500	478
Class B – Authorized, Issued and Outstanding – 100 shares at June 30, 2013 and December 31, 2012	-	-
Additional paid-in capital	516,680	493,912
Retained earnings	89,262	82,072
Accumulated other comprehensive income, net of income taxes of \$1,023 and \$1,417 at June 30, 2013 and December 31, 2012	22,408	29,754
Treasury stock, at cost, 125,385 and 298,105 shares at June 30, 2013 and December 31, 2012	(2,534)	(7,718)
Total stockholders' equity	626,316	598,498
Noncontrolling interests	4,268,812	4,214,649
Total equity	4,895,128	4,813,147
Total liabilities and stockholders' equity	\$ 35,056,554	\$ 33,199,557

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)	Three months ended June 30,		Six months ended June 30,	
	2013	2012	2013	2012
<b>Revenues:</b>				
Trading gains	\$ 59,106	\$ 85,007	\$ 78,100	\$ 143,107
Commissions and execution fees	138,092	108,071	257,630	206,142
Interest income	76,070	68,621	146,572	135,853
Other income	24,262	15,322	44,173	30,853
<b>Total revenues</b>	<b>297,530</b>	<b>277,021</b>	<b>526,475</b>	<b>516,055</b>
<b>Interest expense</b>	<b>13,574</b>	<b>16,133</b>	<b>26,445</b>	<b>26,445</b>
<b>Total net revenues</b>	<b>283,956</b>	<b>260,888</b>	<b>500,030</b>	<b>489,610</b>
<b>Non-interest expenses:</b>				
Execution and clearing	64,727	66,171	124,267	124,267
Employee compensation and benefits	58,018	59,801	104,336	104,336
Occupancy, depreciation and amortization	9,249	9,957	19,318	19,318
Communications	5,703	5,486	11,156	11,156
General and administrative	12,333	10,966	24,804	24,804
<b>Total non-interest expenses</b>	<b>150,030</b>	<b>152,381</b>	<b>283,881</b>	<b>283,881</b>
<b>Income before income taxes</b>	<b>133,926</b>	<b>108,507</b>	<b>216,149</b>	<b>205,729</b>
<b>Income tax expense</b>	<b>13,890</b>	<b>10,977</b>	<b>20,825</b>	<b>20,825</b>
<b>Net income</b>	<b>120,036</b>	<b>97,530</b>	<b>195,324</b>	<b>184,904</b>
<b>Less net income attributable to noncontrolling interests</b>	<b>109,658</b>	<b>89,546</b>	<b>178,389</b>	<b>178,389</b>
<b>Net income attributable to common stockholders</b>	<b>\$ 10,378</b>	<b>\$ 7,984</b>	<b>\$ 16,935</b>	<b>\$ 6,515</b>
<b>Earnings per share:</b>				
Basic	\$ 0.21	\$ 0.17	\$ 0.35	\$ 0.35
Diluted	\$ 0.21	\$ 0.17	\$ 0.35	\$ 0.35
<b>Weighted average common shares outstanding:</b>				
Basic	48,929,348	46,686,269	48,218,572	48,218,572
Diluted	49,012,567	46,957,081	48,354,098	48,354,098
<b>Comprehensive income:</b>				
<b>Net income attributable to common stockholders</b>	<b>\$ 10,378</b>	<b>\$ 7,984</b>	<b>\$ 16,935</b>	<b>\$ 16,935</b>
<b>Other comprehensive income:</b>	<b>(4,007)</b>	<b>(5,801)</b>	<b>(7,742)</b>	<b>(7,742)</b>



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Cumulative translation adjustment, before income taxes					
Income taxes related to items of other comprehensive income		(403)		(2,095)	(396)
Other comprehensive income (loss), net of tax		(3,604)		(3,706)	(7,346)
Comprehensive income attributable to common stockholders	\$	6,774	\$	4,278	\$ 9,589
Comprehensive income attributable to noncontrolling interests:					
Net income attributable to noncontrolling interests	\$	109,658	\$	89,546	\$ 178,389
Other comprehensive income (loss) - cumulative translation adjustment		(27,994)		(43,609)	(55,615)
Comprehensive income attributable to noncontrolling interests	\$	81,664	\$	45,937	\$ 122,774

See accompanying notes to the unaudited condensed consolidated financial statements.

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

(in thousands)	Six Months Ended June 30,	
	2013	2012
<b>Cash flows from operating activities:</b>		
Net income	\$ 195,324	\$ 238,473
Adjustments to reconcile net income to net cash (used in) provided by operating activities:		
Translation losses	5,343	8,333
Deferred income taxes	9,350	9,924
Depreciation and amortization	9,439	9,750
Employee stock plan compensation	24,181	37,048
(Gains) losses on other investments, net	(636)	2,098
Bad debt expense and other	1,343	441
Change in operating assets and liabilities:		
Increase in cash and securities - segregated for regulatory purposes	(53,149)	(961,824)
(Increase) decrease in securities borrowed	(436,282)	22,762
Increase in securities purchased under agreements to resell	(158,659)	(2,459)
Decrease in financial instruments owned	121,334	445,317
Increase in receivables from customers	(1,460,781)	(1,478,510)
(Increase) decrease in other receivables	(111,558)	315,804
Increase in other assets	(20,152)	(5,372)
Decrease in financial instruments sold but not yet purchased	(250,633)	(799,339)
Increase in securities loaned	628,112	472,843
Increase in payable to customers	1,532,928	1,937,261
(Decrease) increase in other payables	(49,457)	267,008
Net cash (used in) provided by operating activities	(13,953)	519,558
<b>Cash flows from investing activities:</b>		
Purchases of other investments	(126,870)	(166,315)
Proceeds from sales of other investments	156,534	144,269
Distributions received from and redemptions of equity investments	11,054	1,567
Purchase of property and equipment	(7,946)	(9,729)
Net cash provided by (used in) investing activities	32,772	(30,208)
<b>Cash flows from financing activities:</b>		
Dividends paid to shareholders	(9,745)	(9,306)
Dividends paid to noncontrolling interests	(70,406)	(70,129)
Redemptions of senior notes	-	(101,411)
(Decrease) increase in short-term borrowings, net	(96,540)	6,587
Net cash used in financing activities	(176,691)	(174,259)
	(41,871)	(7,081)

Effect of exchange rate changes on cash and cash equivalents			
Net (decrease) increase in cash and cash equivalents		(199,743)	308,010
Cash and cash equivalents at beginning of period		1,614,592	1,695,495
Cash and cash equivalents at end of period	\$	1,414,849	\$ 2,003,505
Supplemental disclosures of cash flow information:			
Cash paid for interest	\$	28,816	\$ 36,166
Cash paid for taxes	\$	36,973	\$ 18,462
Non-cash financing activities:			
Adjustments to additional paid-in capital for changes in proportionate ownership in IBG LLC	\$	19,826	\$ 13,763
Adjustments to noncontrolling interests for changes in proportionate ownership in IBG LLC	\$	(19,826)	\$ (13,763)
Changes in redemption value of redeemable noncontrolling interests	\$	-	\$ (5,269,619)
Changes to total equity (deficit) for the change in the redemption value of redeemable noncontrolling interests	\$	-	\$ 5,269,619

See accompanying notes to the unaudited condensed consolidated financial statements.

Interactive Brokers Group, Inc. and Subsidiaries  
 Condensed Consolidated Statements of Changes in Equity  
 Six months ended June 30, 2013 and June 30, 2012  
 (Unaudited)

(in thousands, except for share amounts)

Common Stock							Accumulated		Total
	Issued	Par	Additional	Treasury	Retained		Other		Stockholder
	Shares	Value	Paid-In	Stock	Earnings		Comprehensive		Equity
			Capital				Income		
Balance, January 1, 2013	47,797,844	\$ 478	\$ 493,912	\$ (7,718)	\$ 82,072	\$	29,754	\$	598,
Common Stock distributed pursuant to stock plans	2,292,992	22	(22)	5,184					5,
Compensation for stock grants vesting in the future			2,964						2,
Dividends paid to shareholders					(9,745)				(9,
Dividends paid by IBG LLC to noncontrolling interests									
Adjustments for changes in proportionate ownership in IBG LLC			19,826						19,
Comprehensive income, net of tax					16,935		(7,346)		9,
Balance, June 30, 2013	50,090,836	\$ 500	\$ 516,680	\$ (2,534)	\$ 89,262	\$	22,408	\$	626,

Common Stock

	Issued	Par	Additional	Treasury	Retained	Accumulated	Total
	Shares	Value	Paid-In	Stock	Earnings	Other	Stockholder
			Capital		(Accumulated	Comprehensive	Equity
					Deficit)	Income	(Deficit)

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Balance, January 1, 2012	46,061,256	\$	460	\$	-	\$	(13,310)	\$	(465,138)	\$	18,487	\$	(459,
Adjustment of redeemable noncontrolling interests to redemption value					472,409				572,840				1,045,
Common Stock distributed pursuant to stock plans	1,727,403		17		(17)		5,526						5,
Compensation for stock grants vesting in the future					3,870								3,
Dividends paid to shareholders									(9,306)				(9,
Dividends paid by IBG LLC to other noncontrolling interests													
Adjustments for changes in proportionate ownership in IBG LLC					13,763								13,
Comprehensive income, net of tax									19,068		(1,080)		17,
Balance, June 30, 2012	47,788,659	\$	477	\$	490,025	\$	(7,784)	\$	117,464	\$	17,407	\$	617,

See accompanying notes to the unaudited condensed consolidated financial statements

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 12.4% 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 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 (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

### 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 Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC” or the “Codification”). These unaudited condensed consolidated financial statements include the accounts of the Company and its subsidiaries and include all adjustments of a normal, recurring nature necessary to present fairly the financial condition as of June 30, 2013 and December 31, 2012, the results of operations and comprehensive income for the three and six months ended June 30, 2013 and 2012 and cash flows for the three and six months ended June 30, 2013 and 2012. 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 2012 Annual Report on Form 10-K filed with the SEC on March 8, 2013. The condensed consolidated financial statement information as of December 31, 2012 has been derived from the 2012 audited consolidated financial statements. The results of operations for interim

periods are not necessarily indicative of results for the entire year.

Principles of Consolidation, including Noncontrolling Interests

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 consolidated financial statements and records the interests in the Group that IBG, Inc. does not own as noncontrolling interests.

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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)

Prior to the June 6, 2012 amendment (the "Amendment") to the Exchange Agreement (Note 4), the Company was required to report IBG Holdings LLC's ("Holdings") ownership as redeemable noncontrolling interests (i.e., temporary equity) pursuant to ASC 810-10-45, ASC 815-40-25 and ASC 480-10-S99-3A (formerly FASB Emerging Issues Task Force Topic D-98), outside of total equity. Redemption value of these redeemable noncontrolling interests was measured as the number of equivalent shares of member interests in IBG LLC owned by Holdings multiplied by the then current market price per share of the Company's common stock. The excess of the redemption value over the book value of these interests, which did not affect net income attributable to common stockholders or cash flows, was required to be accounted for as a reduction of the Company's stockholders' equity.

The Company elected to recognize changes in redemption value in each reporting period immediately as they occurred as if the end of each reporting period was also the redemption date for the entire redeemable noncontrolling interest under paragraph 15(b) of ASC 480-10-S99-3A, notwithstanding that the redeemable noncontrolling interests are redeemable over a period of time pursuant to a redemption schedule (Note 4).

For periods after the above referenced amendment, the noncontrolling interests in IBG LLC attributable to Holdings are reported as a component of equity.

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. 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 fair values of IBG LLC and the Company in connection with accounting for redeemable noncontrolling interests, 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, current and deferred income taxes and estimated contingency reserves.

#### Fair Value

At June 30, 2013 and December 31, 2012, substantially all of IBG, Inc.'s assets and liabilities, including financial instruments, were carried at fair value based on published market prices and were marked to market, or were assets which are short-term in nature 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:



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- 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, which 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.

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)

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.

Other fair value investments, reported in other assets in the accompanying unaudited condensed consolidated statement of financial condition and in Note 6 - Financial Assets and Financial Liabilities, are comprised of securities that the Company does not carry in its market making business, and include listed common stocks, corporate and municipal debt and other asset backed securities. These investments are generally reported as Level 2 financial instruments, except for unrestricted listed equities, which are classified as Level 1 financial instruments. The fair values of other fair value investments are determined using broker and vendor prices that have been independently validated by the Company. Validation methods applied by the Company include comparisons of the broker and vendor prices to other independent pricing services and reviews of the underlying assumptions and other inputs (such as estimated cash flows, underlying default rates and variable interest rate sensitivity analysis) used by brokers or vendors to calculate these investments' fair values.

#### 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.

For periods prior to June 6, 2012 (Note 4), the Company has determined to reflect Topic D-98 measurement adjustments for non-fair value redemption rights through application of the two-class method of calculating earnings per share in lieu of recognizing the impact through the determination of net income attributable to common shareholders. Furthermore, in accordance with footnote 17 of ASC 480-10-S99-3A, the Company has elected to treat only the portion of the periodic measurement adjustments that reflect a redemption in excess of fair value as being akin to a dividend, reducing net income attributable to common stockholders for purposes of applying the two-class method. Decreases in the carrying amount of redeemable noncontrolling interests through Topic D-98 measurement adjustments are reflected in the application of the two-class method only to the extent they represent recoveries of amounts previously accounted for by applying the two-class method.

#### 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 awards granted to employees, generally 50% in the year of grant in recognition of plan forfeiture provisions (described below) and the remaining 50% over the related vesting period utilizing the "graded vesting" method permitted under ASC 718-10. In the case of "retirement eligible" employees (those employees older than 59), 100% of awards are expensed when granted.

Awards granted under the 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

IBG, Inc. defines cash equivalents as short-term, highly liquid securities and cash deposits, other than those used to support margin and clearing requirements or assets held in segregated accounts for regulatory 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

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)

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 U.S. Treasury Bills of \$2.50 billion and \$2.30 billion at June 30, 2013 and December 31, 2012, respectively, which are recorded as Level 1 financial assets and securities purchased under agreements to resell in the amount of \$6.44 billion and \$6.37 billion as of June 30, 2013 and December 31, 2012, respectively, which amounts approximate fair value.

#### Securities Borrowed and Securities Loaned

Securities borrowed and securities loaned are recorded at the amount of 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, 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, which are reported as collateralized financing transactions, 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. The Company does not net securities purchased under agreements to resell transactions with securities sold under agreements to repurchase transactions entered into with the same counterparty.

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

Financial instrument transactions are accounted for on a trade date basis. 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 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 reported as components of financial instruments owned or financial instruments sold but not yet purchased in the unaudited 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 unaudited condensed consolidated statements of financial condition. Amounts receivable from customers that are determined by management to be uncollectible are expensed as a component of general and administrative expense.

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 IBG, Inc. 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 IBG, Inc. from a seller by the settlement date (“fails to receive”).

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)

## Investments

IBG, Inc. makes certain strategic investments related to financial services 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. The recorded amounts of IBG, Inc.'s equity method investments, \$27.1 million at June 30, 2013 (\$34.7 million at December 31, 2012), which are reported as a component of other assets in the unaudited condensed consolidated statements of financial condition, increase or decrease accordingly. Contributions paid to and distributions received from equity investees are recorded as additions or reductions, respectively, to the respective investment balance.

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. IBG, Inc.'s equity investments do not have readily determinable market values. All equity method 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, \$27.2 million at June 30, 2013 (\$36.2 million at December 31, 2012), 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 components of other assets in the unaudited condensed consolidated statements of financial condition. Dividends received from cost basis investments are recognized as a component of other income as such dividends are received.

The Company also makes other fair value investments (which are not considered core business activities) that are accounted for at fair value (Note 6), with gains and losses recorded as a component of other income.

## Property and Equipment

Property and equipment, which is a component of other assets, 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 unaudited condensed consolidated statement of comprehensive income pursuant to 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 statement of comprehensive income, but are excluded from reported net income. IBG, Inc.'s OCI is comprised of foreign currency translation adjustments, net of related income taxes, where applicable.

IBG, Inc.'s international Operating Companies 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 are reported as a component of accumulated OCI. In general, the practice and intention of the Company is to reinvest the earnings of its non-U.S. subsidiaries in those operations. Deferred income taxes have not been provided for U.S. tax liabilities or for additional foreign taxes on unremitted earnings that have been indefinitely reinvested.

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)

## 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 financial instruments owned and financial instruments sold but not yet purchased (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 financial instruments owned and financial instruments sold but not yet purchased 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 recorded 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.

### —Foreign Currency Transaction Gains and Losses

Foreign currency transaction gains and losses from market making and electronic brokerage activities are included in trading gains and in interest or other income, respectively, in the accompanying unaudited condensed consolidated statements of comprehensive income.

## 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 are based on enacted tax laws (Note 11) and 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 income tax expense requires significant judgments and estimates.

Deferred income tax assets and liabilities arise from temporary differences between the tax and financial statement recognition of the underlying assets and liabilities. 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 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). 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 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.

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.

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)

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 payments that are different from our 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 is 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 2013, prior to the issuance of the Company's unaudited condensed consolidated financial statements, ASUs 2013-01 through 2013-11 have been issued. Following is a summary of recently issued ASUs that have affected or may affect the Company's unaudited condensed consolidated financial statements:

	Affects	Status
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.
ASU 2013-01	Balance Sheet (Topic 210): Clarifying the Scope of Disclosures about Offsetting Assets and Liabilities	Effective for fiscal periods beginning on or after January 1, 2013 (the same as the effective date of ASU 2011-11).
ASU 2013-02	Comprehensive Income (Topic 220): Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income	Effective for fiscal periods beginning on or after December 15, 2012.
ASU 2013-04	Liabilities (Topic 405): Obligations Resulting from Joint and Several Liability Arrangements for Which the Total Amount of the Obligation Is Fixed at the	Effective prospectively for fiscal periods beginning on or after December 15, 2013. Early adoption is

Reporting Date	permitted.
ASU 2013-05 (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. Early adoption is permitted.

Adoption of those ASUs that became effective during 2013, 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 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.

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)

In June 2012 the FASB and IASB issued a joint statement on their continuing deliberations regarding changes to lease accounting. When issued, new lease accounting standards under the ASC and IFRS will require the reporting of lease assets and related liabilities on issuers' statements of financial condition under a mutually agreed upon two-method approach. Exposure Drafts detailing applicability and implementation considerations are expected to be issued in 2013, and final standards are expected to be issued in the future. Management will be assessing the potential effects of this change in lease accounting as the standard setting process moves forward. Based on the scope of existing lease commitments (approximately 0.1% of total assets as of June 30, 2013), the effect on the Company's financial statements is not expected to be material.

On July 13, 2012, the SEC's Office of the Chief Accountant issued its Final Staff Report on the Work Plan. This report considered possible means of aligning IFRS with U.S. GAAP, and raised numerous concerns about the possible effects of adoption on registrants and investors. The Staff Report did not reject some form of convergence between U.S. GAAP and IFRS, but also did not endorse adoption and did not commit to the extent or timing of adoption. While a formal commitment regarding possible incorporation of IFRS into U.S. GAAP has not been determined, based on continuing joint efforts between the FASB and IASB, it is likely that convergence to some extent will occur in the future. The Company 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.

### SEC Derivatives Regulation Roadmap

In June 2012, the SEC issued for comment a policy statement on its proposed plan that would sequence the phasing in of final rules to be adopted by the Commission regulating security-based swaps in order to comply with the requirements of the 2010 Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank" Act). The policy statement provides a proposed "roadmap" for adoption of final rules, but does not mandate specific registrant compliance deadlines. Management is monitoring this and other accounting and regulatory rulemaking developments for their potential effect on the Company's financial statements and internal controls over financial reporting.

### 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

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)

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, futures and on its debt obligations. These risks are managed through investment policies and by entering into interest rate futures contracts.

#### 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 June 30, 2013, 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 future 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 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 initial public offering of Class A common stock ("IPO") in May 2007, IBG, Inc. purchased 10.0% of the membership interests in IBG LLC from Holdings, became the sole managing member of IBG LLC and began to consolidate

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)

IBG LLC's financial results into its financial statements. Holdings wholly owns all Class B common stock, which common stock has voting rights in proportion to its ownership interests in IBG LLC, approximately 87.6% as of June 30, 2013. The consolidated financial statements reflect the results of operations and financial position of IBG, Inc., including consolidation of its investment in IBG LLC. Prior to the June 6, 2012 amendment to the Exchange Agreement (described below), Holdings' ownership interests in IBG LLC were accounted for and reported in these consolidated financial statements as "redeemable noncontrolling interests" (temporary equity) pursuant to ASC 810-10-45, ASC 815-40-25 and ASC 480-10-S99-3A. For periods after the Amendment, beginning with the quarter ended June 30, 2012, the noncontrolling interests in IBG LLC attributable to Holdings are reported as a component of total equity, 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 June 30, 2013 and December 31, 2012, 1,000,000,000 shares of Class A common stock were authorized, of which 50,090,836 and 47,797,844 shares have been issued; and 49,965,451 and 47,499,739 shares were outstanding, respectively. Class B common stock is comprised of 100 authorized shares, of which 100 shares were issued and outstanding as of June 30, 2013 and December 31, 2012, respectively. In addition, 10,000 shares of preferred stock have been authorized, of which no shares are issued or outstanding as of June 30, 2013 and December 31, 2012, 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 Holdings 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 June 30, 2013 and December 31, 2012, the unamortized balance of these deferred tax assets was \$271.6 million and \$281.6 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 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 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 June 30, 2013 were \$387.1 million, \$329.0 million and \$58.1 million, respectively. Amounts payable under the Tax Receivable Agreement are payable to Holdings annually upon the filing of IBG, Inc.'s federal income tax return. The Company has paid Holdings a total of \$70.4 million through June 30, 2013 pursuant to the terms of the Tax Receivable Agreement.

The Exchange Agreement 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

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)

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 Company'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 for a total 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, the Company issued 1,983,624 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 (Note 10), IBG, Inc.'s interest in IBG LLC has increased to approximately 12.4%, with Holdings owning the remaining 87.6% as of June 30, 2013. 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 86.3% at June 30, 2013.

The Exchange Agreement, as amended June 6, 2012, provides that the Company may facilitate the redemption by Holdings of interests held by its members through the issuance of shares of common stock through a public offering in exchange for the interests in IBG LLC being redeemed by Holdings. The Amendment eliminated from the Exchange Agreement an alternative funding method, which provided that upon approval by the board of directors and by agreement of the Company, IBG LLC and Holdings, redemptions could be made in cash.

Subsequent to the amendment to the Exchange Agreement on June 6, 2012, the Company recorded adjustments to report Holdings' noncontrolling interests in IBG LLC as component of total equity, reducing redeemable noncontrolling interests to zero and reversing the cumulative effect of adjustments through June 6, 2012 to redemption value previously recorded to additional paid-in capital. The effect of these adjustments was:

(in thousands)	Adjustments as of June 6, 2012
Redeemable noncontrolling interests	\$(5,367,553)
Additional Paid in Capital	\$472,409
Retained earnings	\$572,840
Noncontrolling interests	\$4,322,304

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)

## Earnings per Share

For periods prior to June 6, 2012, the Company reflected measurement adjustments for non-fair value redemption rights through application of the two-class method of calculating earnings per share in lieu of recognizing the impact through the determination of net income attributable to common stockholders.

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:

	Three months ended June 30,		Six months ended June 30,	
	2013	2012	2013	2012
Basic earnings per share:				
Net income attributable to common stockholders	\$ 10,378	\$ 7,984	\$ 16,935	\$ 19,068
Add (deduct) net income attributable to non-fair value redemption rights	-	(132)	-	1,108
Net income available for common stockholders	\$ 10,378	\$ 7,852	\$ 16,935	\$ 20,176
Weighted average shares of common stock outstanding:				
Class A	48,929,248	46,686,169	48,218,472	46,131,713
Class B	100	100	100	100
	48,929,348	46,686,269	48,218,572	46,131,813
Basic earnings per share	\$ 0.21	\$ 0.17	\$ 0.35	\$ 0.44

Diluted earnings (loss) 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:

	Three months ended June 30,		Six months ended June 30,	
	2013	2012	2013	2012
Diluted earnings per share:				
Net income available for common	\$ 10,378	\$ 7,852	\$ 16,935	\$ 20,176

## stockholders

Weighted average shares of common stock  
outstanding:

## Class A:

Issued and outstanding	48,929,248	46,686,169	48,218,472	46,131,713
------------------------	------------	------------	------------	------------

Potentially dilutive  
common shares:

Issuable pursuant to 2007 ROI Unit Stock Plan	83,219	270,812	135,526	321,128
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## Class B

	100	100	100	100
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	49,012,567	46,957,081	48,354,098	46,452,941
--	------------	------------	------------	------------

Diluted earnings per share	\$	0.21	\$	0.17	\$	0.35	\$	0.43
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During the six months ended June 30, 2013 and June 30, 2012, there were no other adjustments required to potentially dilutive shares.

## Member and Stockholder Dividends

Through June 30, 2013, IBG LLC paid dividends totaling \$80.1 million to its members, of which IBG, Inc.'s proportionate share was \$9.7 million. In March and June 2013, the Company paid cash dividends of \$0.10 per share of Common Stock, totaling \$4.7 million and \$5.0 million, respectively.

On July 16, 2013, the Company declared a cash dividend of \$0.10 per common share, payable on September 13, 2013 to shareholders of record as of August 30, 2013.

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)

## 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 and earnings per share (calculated using the two-class method for periods prior to June 6, 2012) on comprehensive income:

	Three months ended June 30,		Six months ended June 30,	
	2013	2012	2013	2012
Net income attributable to \$ common stockholders	10,378	\$ 7,984	\$ 16,935	\$ 19,068
Add (deduct) net income attributable to non-fair value redemption rights	-	(132 )	-	1,108
Net income available for common stockholders	10,378	7,852	16,935	20,176
Other comprehensive income:				
Cumulative translation adjustment, before income taxes	(4,007)	(5,801)	(7,742)	(1,691)
Income taxes related to items of other comprehensive income	(403)	(2,095)	(396)	(611)
Other comprehensive income (loss), net of tax	(3,604)	(3,706)	(7,346)	(1,080)
Comprehensive income available for common stockholders	\$ 6,774	\$ 4,146	\$ 9,589	\$ 19,096
Earnings per share on comprehensive income:				
Basic	\$ 0.14	\$ 0.09	\$ 0.20	\$ 0.41
Diluted	\$ 0.14	\$ 0.09	\$ 0.20	\$ 0.41
Weighted average common shares outstanding:				
Basic	48,929,348	46,686,269	48,218,572	46,131,813
Diluted	49,012,567	46,957,081	48,354,098	46,452,941



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)

## 6. Financial Assets and Financial Liabilities

## 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 June 30, 2013 and December 31, 2012. As required by ASC 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 June 30, 2013

	Level 1	Level 2	Level 3	Total
Securities segregated for regulatory purposes	\$ 2,497,398	\$ -	\$ -	\$ 2,497,398
Financial instruments owned:				
Stocks	908,224	-	-	908,224
Options	2,442,703	-	-	2,442,703
Warrants and discount certificates	61,206	-	-	61,206
U.S. and foreign government obligations	34,929	2,818	-	37,747
Corporate and municipal bonds	76,487	32,102	-	108,589
Total financial instruments owned	3,523,549	34,920	-	3,558,469
Financial instruments owned and pledged as collateral:				
Stocks	737,464	-	-	737,464
Warrants	439	-	-	439
U.S. and foreign government obligations	114,166	-	-	114,166
Corporate and municipal bonds	2,134	-	-	2,134
Total financial instruments owned and pledged as collateral	854,203	-	-	854,203
Subtotal	4,377,752	34,920	-	4,412,672
Other fair value investments				

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Investments in common stock	9,806	387	-	10,193
Other investments	1,676	83,423	-	85,099
Total Financial Assets at Fair Value	\$ 6,886,632	\$ 118,730	\$ -	\$ 7,005,362

Financial Liabilities At Fair Value as of June 30, 2013

	Level 1	Level 2	Level 3	Total
Financial instruments sold, not yet purchased:				
Stocks	\$ 1,589,327	\$ -	\$ -	\$ 1,589,327
Options	2,346,262	-	-	2,346,262
Warrants and discount certificates	691	-	-	691
U.S. and foreign government obligations	-	1,163	-	1,163
Corporate bonds	88,410	8,746	-	97,156
Currency forward contracts	-	6,551	-	6,551
Total financial instruments sold, not yet purchased	\$ 4,024,690	\$ 16,460	\$ -	\$ 4,041,150



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)

Financial Assets At Fair Value as of December 31, 2012

	Level 1	Level 2	Level 3	Total
Securities segregated for regulatory purposes	\$ 2,297,024	\$ -	\$ -	\$ 2,297,024
Financial instruments owned:				
Stocks	887,031	-	-	887,031
Options	2,388,173	-	-	2,388,173
Warrants and discount certificates	147,317	-	-	147,317
U.S. and foreign government obligations	30,087	-	-	30,087
Corporate and municipal bonds	104,387	59,533	-	163,920
Currency forward contracts	-	1,351	-	1,351
Total financial instruments owned	3,556,995	60,884	-	3,617,879
Financial instruments owned and pledged as collateral:				
Stocks	775,222	-	-	775,222
Warrants	350	-	-	350
U.S. and foreign government obligations	146,953	-	-	146,953
Corporate and municipal bonds	4,332	-	-	4,332
Total financial instruments owned and pledged as collateral	926,857	-	-	926,857
Subtotal	4,483,852	60,884	-	4,544,736
Other fair value investments				
Investments in common stock	17,707	3,549	-	21,256
Other investments	2,249	92,727	-	94,976
	\$ 6,800,832	\$ 157,160	\$ -	\$ 6,957,992

Total Financial Assets  
at Fair Value

## Financial Liabilities At Fair Value as of December 31, 2012

	Level 1	Level 2	Level 3	Total
Financial instruments sold, not yet purchased:				
Stocks	\$ 1,787,741	\$ -	\$ -	\$ 1,787,741
Options	2,389,871	-	-	2,389,871
Warrants and discount certificates	2,104	-	-	2,104
U.S. and foreign government obligations	451	-	-	451
Corporate bonds	90,710	11,833	-	102,543
Currency forward contracts	-	3,550	-	3,550
Total financial instruments sold, not yet purchased	\$ 4,270,877	\$ 15,383	\$ -	\$ 4,286,260

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)

Transfers Between Level 1 and Level 2 During the six months ended June 30, 2013

Transfers of financial instruments owned and sold, not yet purchased 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 six months ended June 30, 2013, the Company reclassified approximately \$1.9 million of financial instruments owned from Level 1 to Level 2 and reclassified approximately \$1.6 million from Level 2 to Level 1. Financial instruments sold, but not yet purchased of approximately \$0.8 million were reclassified from Level 1 to Level 2 and approximately \$0.9 million were reclassified from Level 2 to Level 1.

The Company has no Level 3 financial assets or financial liabilities.

Netting of Financial Assets and Financial Liabilities

The following table sets forth the netting of financial assets and of financial liabilities as of June 30, 2013 and December 31, 2012, pursuant to the requirements of ASU 2011-11 and ASU 2013-01. These ASUs became effective, including retrospective disclosure requirements, for the Company as of January 1, 2013 (millions).

		June 30, 2013		Gross Amounts Not Offset in the Condensed Consolidated Statement 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 Statement of Financial Condition	Financial Instruments	Cash Coll Received
Offsetting of Financial Assets:					
Securities borrowed	\$ 3,267.0	\$ -	\$ 3,267.0		\$ -
Securities purchased under agreements to resell	587.6	-	587.6	(587.6)	
Financial Instruments owned					
Options	2,442.7	-	2,442.7	(2,442.7)	
Warrants and discount certificates	61.2	-	61.2	(61.2)	
Total	\$ 6,358.5	\$ -	\$ 6,358.5	(3,091.5)	\$

				Gross Amounts Not Offset in the Condensed Consolidated Statement 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 Coll Pledged
Offsetting of Financial Liabilities:					
Securities loaned	\$ 2,468.3	\$	- \$	2,468.3 \$	- \$
Financial Instruments sold, not yet purchased:					
Options	2,346.3		-	2,346.3	(2,346.3)
Warrants and discount certificates	0.7		-	0.7	(0.7)
Currency forward contracts	6.6		-	6.6	(6.6)
Total	\$ 4,821.9	\$	- \$	4,821.9 \$	(2,353.6) \$

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)

December 31, 2012

	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 Received
Offsetting of Financial Assets:						
Securities \$	2,833.1 \$	- \$	2,833.1 \$	- \$		(2,833.1)
borrowed						
Securities	428.9	-	428.9	(428.9)		
purchased						
under						
agreements						
to resell						
Financial Instruments owned						
Options	2,388.2	-	2,388.2	(2,388.2)		
Warrants	147.3	-	147.3	(147.3)		
and						
discount						
certificates						
Currency	1.4	-	1.4	(1.4)		
forward						
contracts						
Total \$	5,798.9 \$	- \$	5,798.9 \$	(2,965.8) \$		(2,833.1)

	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	Gross Amounts Not Offset in the Condensed Consolidated Statement of Financial Condition	Financial Instruments	Cash Collateral Pledged
Offsetting of Financial Liabilities:						
Securities \$	1,839.3 \$	- \$	1,839.3 \$	- \$		(1,839.3)
loaned						
Financial						
Instruments						
sold, not						

yet purchased:						
Options	2,389.9	-	2,389.9	(2,389.9)		
Warrants	2.1	-	2.1	(2.1)		
and discount certificates						
Currency forward contracts	3.6	-	3.6	(3.6)		
Total	\$ 4,234.9	\$ -	\$ 4,234.9	\$ (2,395.6)		(1,8

## 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. Customer receivables generated from margin lending activity are collateralized by customer-owned securities 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 their 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 June 30, 2013 and December 31, 2012, approximately \$11.31 billion and \$9.85 billion of customer margin loans were outstanding.

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)

Amounts relating to collateralized transactions at June 30, 2013 and December 31, 2012 are summarized as follows (millions):

	June 30, 2013		December 31, 2012 (2)	
	Permitted to Repledge	Sold or Repledged	Permitted to Repledge	Sold or Repledged
Securities lending transactions	\$ 8,365.0	\$ 2,850.2	\$ 5,323.7	\$ 2,699.2
Agreements to resell (1)	7,009.7	7,009.7	6,778.8	6,778.8
Customer margin securities	8,989.1	3,354.2	13,603.7	3,016.3
	\$ 24,363.8	\$ 13,214.1	\$ 25,706.2	\$ 12,494.3

- (1) At June 30, 2013, \$6.44 billion or 92% (at December 31, 2012, \$6.37 billion, or 94%), of securities acquired through agreements to resell that are shown as repledged have been deposited in a separate bank account for the exclusive benefit of customers in accordance with SEC Rule 15c3-3.
- (2) The Company has revised its reporting of collateral permitted to be repledged and collateral sold or repledged, primarily with respect to securities available for repledging under securities lending transactions in connection with the Company's Stock Yield Enhancement Program. Disclosures for December 31, 2012 have been conformed to the new presentation for comparability purposes.

In the normal course of business, the Company pledges qualified securities with clearing organizations to satisfy daily margin and clearing fund requirements. At June 30, 2013 and December 31, 2012, the majority of the Company's government obligations owned were pledged to clearing organizations.

Financial instruments owned and pledged, including amounts pledged to affiliates, where the counterparty has the right to repledge, at June 30, 2013 and December 31, 2012 consisted of the following (millions):

	June 30, 2013	December 31, 2012
Stocks	\$ 737.5	\$ 775.2
Warrants	0.4	0.4
U.S. and foreign government obligations	114.2	147.0
Corporate and municipal bonds	2.1	4.3
	\$ 854.2	\$ 926.9

#### 8. Senior Notes Payable

In January 2012, the Company discontinued its Senior Notes Program. All previously issued Senior Notes, \$101,411 outstanding as of December 31, 2011, were redeemed prior to June 30, 2012.

## 9. Senior Secured Revolving Credit Facility

On May 17, 2012, IBG LLC entered into a \$100 million three-year senior secured revolving credit facility with Bank of America, N.A. as administrative agent and Citibank, N.A., as syndication agent. This credit facility replaced a similar two-year facility that expired on May 18, 2012.

IBG LLC is the sole borrower under this credit facility. The facility's interest rate is indexed to the overnight federal funds rate or to the British Bankers Association LIBOR rate for the relevant term, at the borrower's option, and is secured by a first priority interest in all of the capital stock of each entity owned directly by IBG LLC (subject to customary limitations with respect to foreign subsidiaries). The facility may be used to finance working capital needs and general corporate purposes, including downstreaming funds to IBG LLC's regulated broker-dealer subsidiaries as regulatory capital. This allows IBG LLC to take advantage of market opportunities when they arise, while maintaining substantial excess regulatory capital. The financial condition covenants contained in this credit facility include the following:

- minimum consolidated shareholders' equity, as defined, of \$3.6 billion, with quarterly increases equal to 25% of positive consolidated net income;



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)

- maximum total debt to capitalization ratio of 30%;
- minimum liquidity ratio of 1.0 to 1.0; and
- maximum total debt to net regulatory capital ratio of 35%.

At June 30, 2013 and December 31, 2012, no borrowings were outstanding under this credit facility and IBG LLC was in compliance with all of the covenants. At maturity, subject to meeting certain terms of the facility, the Company will have an option to convert the facility to a one-year term loan.

#### 10. Employee Incentive Plans

##### Return on Investment Dollar Units (“ROI Dollar Units”)

From 1998 through January 1, 2006, IBG LLC granted all non-member employees ROI Dollar Units, which are redeemable under the amended provisions of the plan, and in accordance with regulations issued by the Internal Revenue Service (Section 409A of the Internal Revenue Code). Upon redemption, the grantee is entitled to accumulated earnings on the face value of the certificate, but not the actual face value. For grants made in 1998 and 1999, grantees may redeem the ROI Dollar Units after vesting on the fifth anniversary of the date of their grant and prior to the tenth anniversary of the date of their grant. For grants made between January 1, 2000 and January 1, 2005, grantees must elect to redeem the ROI Dollar Units upon the fifth, seventh or tenth anniversary date. These ROI Dollar Units will vest upon the fifth anniversary of the date of their grant and will continue to accumulate earnings until the elected redemption date. For grants made on or after January 1, 2006, all ROI Dollar Units shall vest on the fifth anniversary date of their grant and will be automatically redeemed. Subsequent to the IPO, no additional ROI Dollar Units have been or will be granted, and non-cash compensation to employees will consist primarily of grants of shares of Common Stock as described below under “2007 Stock Incentive Plan.”

As of June 30, 2013 and December 31, 2012, payables to employees for ROI Dollar Units were \$5.2 million and \$7.6 million, respectively, all of which were vested. These amounts are included in accounts payable, accrued expenses and other liabilities in the unaudited condensed consolidated statements of financial condition. Compensation expense for the ROI Dollar Unit plan, included in the unaudited condensed consolidated statements of comprehensive income was \$0.2 million and \$0.3 million for the six months ended June 30, 2013 and June 30, 2012, respectively.

##### 2007 ROI Unit Stock Plan

In connection with the IPO, IBG, Inc. adopted the Interactive Brokers Group, Inc. 2007 ROI Unit Stock Plan (the “ROI Unit Stock Plan”). Under this plan, certain employees of the Group who held ROI Dollar Units, at the employee’s option, elected to invest their ROI Dollar Unit accumulated earnings as of December 31, 2006 in shares of Common Stock. An aggregate of 1,271,009 shares of Common Stock (consisting of 1,250,000 shares issued under the ROI Unit Stock Plan and 21,009 shares under the 2007 Stock Incentive Plan, as described below), with a fair value at the date of grant of \$38.1 million were issued to IBG LLC and held as treasury stock, to be distributed to employees in accordance with the following schedule and subject to the conditions below:

- 10% on the date of the IPO (or on the first anniversary of the IPO, in the case of U.S. ROI Unit holders who made the above-referenced elections after December 31, 2006); and

an additional 15% on each of the first six anniversaries of the date of the IPO, assuming continued employment with IBG, Inc. and compliance with other applicable covenants.

Of the fair value at the date of grant, \$17.8 million represented the accumulated ROI Dollar Unit value elected to be invested by employees in Common Stock and such amount was accrued for as of December 31, 2006. The remainder is being ratably accrued as compensation expense by the Company from the date of the IPO over the requisite service period represented by the aforementioned distribution schedule. Compensation expense for the 2007 ROI Unit Stock Plan and related grants under the 2007 Stock Incentive Plan, net of the effect of forfeitures, included in the unaudited condensed consolidated statements of comprehensive income for the six months ended June 30, 2012 was \$1.8 million. As of December 31, 2012, compensation costs for the ROI Unit Stock Plan had been fully accrued.

#### 2007 Stock Incentive Plan

Under the Interactive Brokers Group, Inc. 2007 Stock Incentive Plan (the “Stock Incentive Plan” or “SIP”), up to 20.0 million shares of common stock may be granted and issued to directors, officers, employees, contractors and consultants of

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)

IBG, Inc. and its subsidiaries. The purpose of the Stock Incentive Plan is to promote IBG, Inc.'s long-term financial success by attracting, retaining and rewarding eligible participants.

The Stock Incentive Plan is administered by the Compensation Committee of IBG, Inc.'s Board of Directors. The Compensation Committee has discretionary authority to determine which employees are eligible to participate in the Stock Incentive Plan and establishes the terms and conditions of the awards, including the number of awards granted to each employee and all other terms and conditions applicable to such awards in individual grant agreements. Awards are expected to be made primarily through grants of Common Stock. Stock Incentive Plan awards are subject to issuance over time and may be forfeited upon an employee's termination of employment or violation of certain applicable covenants prior to issuance, unless determined otherwise by the Compensation Committee.

The Stock Incentive Plan provides that, upon a change in control, the Compensation Committee may, at its discretion, fully vest any granted but not yet earned awards under the Stock Incentive Plan, or provide that any such granted but not yet earned awards will be honored or assumed, or new rights substituted therefore by the new employer on a substantially similar basis and on terms and conditions substantially comparable to those of the Stock Incentive Plan.

IBG, Inc. granted awards under the Stock Incentive Plan in connection with the IPO and is expected to continue to grant awards on or about December 31 of each year following the IPO, to eligible employees as part of an overall plan of equity compensation. Shares of common stock vest, and become distributable to employees in accordance with the following schedule:

- 10% on the first vesting date, which approximates the anniversary of the IPO; and
- an additional 15% on each of the following six anniversaries of the first vesting, assuming continued employment with IBG, Inc. and compliance with non-competition and other applicable covenants.

Awards granted to external directors vest, and are distributed, over a five-year period (20% per year) commencing one year after the date of grant. 20,423 awards have been granted to the external directors cumulatively since the IPO.

Stock Incentive Plan share grants (excluding 21,009 shares issued pursuant to the 2007 ROI Unit Stock Plan above) and the related fair values at the date of grant were:

	Shares	Fair Value at Date of Grant (\$ Millions)
In connection with IPO	927,943	\$ 27.8
July 31, 2007	16,665	0.4
December 31, 2007	1,055,206	32.9
December 31, 2008	2,065,432	35.6
December 31, 2009	2,448,031	42.8
December 31, 2010	2,513,738	43.2
December 31, 2011	3,411,613	50.8
January 6, 2012	1,215,866	18.4
December 31, 2012	3,629,960	50.5

17,284,454      \$      302.4

Estimated future grants under the Stock Incentive Plan are accrued for ratably during each year under the ASC 718 “Graded Vesting” method. Compensation expense recognized in the unaudited condensed consolidated statements of comprehensive income for the six months ended June 30, 2013 and 2012 were \$24.1 million and \$35.2 million, respectively. Estimated future compensation costs for unvested awards at June 30, 2013 are \$34.6 million.

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)

The following is a summary of Stock Plan activity for the period from January 1, 2013 through June 30, 2013:

	Shares	
	2007 Stock Incentive Plan	2007 ROI Unit Stock Plan
Balance, December 31, 2012	12,402,482	169,289
Granted	-	-
Forfeited	(92,335)	(6,423)
Distributed (1)	(2,302,846)	(162,866)
Balance, June 30, 2013	10,007,301	-

(1) Shares distributed under the 2007 Stock Incentive Plan include 9,854 shares from Treasury representing shares acquired at the IPO to satisfy obligations under the 2007 ROI Unit Stock Plan.

Awards granted under the ROI Unit Stock Plan and the Stock Incentive Plan 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. Distributions of remaining awards granted on or before January 1, 2009 to former employees will occur within 90 days of the anniversary of the termination of employment date over a five (5) year vesting schedule, 12.5% in each of the first four years and 50% in the fifth year. Distributions of remaining awards granted on or after January 1, 2010 to former employees will occur over the remaining vesting schedule applicable to each grant. Through June 30, 2013, a total of 78,312 shares have been distributed under these post-employment provisions. These distributions are included in the Stock Plans activity tables above.

## 11. Income Taxes

Income tax expense for the three and six months ended June 30, 2013 and 2012 differs from the U.S. federal statutory rate due to the differing effective tax rates in foreign, state and local jurisdictions where certain of the Company's subsidiaries are subject to corporate taxation. Deferred income taxes arise primarily due to the amortization of the deferred tax assets recognized in connection with the Common Stock offerings (Note 4), differences in the valuation of financial assets and liabilities, and for other temporary differences arising from the deductibility of compensation and depreciation expenses in different time periods for book and tax return purposes.

At June 30, 2013, accumulated earnings held by non-U.S. subsidiaries totaled \$1.04 billion (December 31, 2012 - \$969.8 million). Of this amount, approximately \$412.8 million (December 31, 2012 - \$380.6 million) is attributable to earnings of our foreign subsidiaries that are considered "pass-through" entities for U.S. income tax purposes. Since the Company accounts for U.S. income taxes on these earnings on a current basis, no additional U.S. tax consequences would result from the repatriation of these earnings other than that which would be due arising from currency fluctuations between the time the earnings are reported for U.S. tax purposes and when they are remitted. With respect to certain of these subsidiaries' accumulated earnings (approximately \$313.8 million and \$297.5 million as of June 30, 2013 and December 31, 2012, respectively), repatriation would result in additional foreign taxes in the form of dividend withholding tax imposed on the recipient of the distribution or dividend distribution tax imposed on the

payor of the distribution. The Company has not provided for its proportionate share of these additional foreign taxes as it does not intend to repatriate these earnings in the foreseeable future. For the same reason, the Company has not provided deferred U.S. tax on cumulative translation adjustments associated with these earnings.

The remainder of the accumulated earnings are attributable to non-U.S. subsidiaries that are not considered “pass-through” entities for U.S. tax purposes. The Company’s U.S. tax basis in the stock of most of these entities exceeds its book basis. Establishing a deferred tax asset pursuant to ASC 740 is not permitted as this difference will not reverse in the foreseeable future. In the instances in which the Company’s book basis exceeds its U.S. tax basis, no deferred tax liability has been established as the Company considers the earnings of those entities to be indefinitely reinvested.

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)

## 12. Commitments, Contingencies and Guarantees

### Litigation

The Company is subject to certain pending and threatened legal actions which arise out of the normal course of business. Litigation is inherently unpredictable, particularly in proceedings where claimants seek substantial or indeterminate damages, or which are in their early stages. IBG, Inc. has not been able to quantify the actual loss or range of loss related to such legal proceedings, the manner in which they will be resolved, the timing of final resolution or the ultimate settlement. Management believes that the resolution of these actions will not have a material effect, if any, on our business or financial condition, but may have a material impact on the results of operations for a given period.

On February 3, 2010, Trading Technologies International, Inc. (“Trading Technologies”) filed a complaint in the United States District Court for the Northern District of Illinois, Eastern Division, against Interactive Brokers Group, Inc., IBG LLC, Holdings, and Interactive Brokers LLC. Thereafter, Trading Technologies dismissed Interactive Brokers Group, Inc. and Holdings from the case, leaving only IBG LLC and Interactive Brokers LLC as defendants (“Defendants”). The operative complaint, as amended, alleges that the Defendants have infringed and continue to infringe twelve U.S. patents held by Trading Technologies. Trading Technologies is seeking, among other things, unspecified damages and injunctive relief. The case is in the early stages and discovery has yet to begin. While it is too early to predict the outcome of the matter, we believe we have meritorious defenses to the allegations made in the complaint and intend to defend ourselves vigorously against them. However, litigation is inherently uncertain and there can be no guarantee that the Company will prevail or that the litigation can be settled on favorable terms.

IBG, Inc. accounts for potential losses related to litigation in accordance with ASC 450, Contingencies. As of June 30, 2013 and December 31, 2012, reserves provided for potential losses related to litigation matters were not material.

### Guarantees

Certain of the Operating Companies provide guarantees to securities clearing houses and exchanges which meet the accounting definition of a guarantee under ASC 460, Guarantees. Under standard membership agreements, clearing house and exchange members are required to guarantee collectively the performance of other members. Under the agreements, if a member becomes unable to satisfy its obligations, other members would be required to meet shortfalls. In the opinion of management, the Operating Companies’ liability under these arrangements is not quantifiable and could exceed the cash and securities they have posted as collateral. However, the potential for these Operating Companies to be required to make payments under these arrangements is remote. Accordingly, no contingent liability is carried in the unaudited condensed consolidated statements of financial condition for these arrangements.

In connection with its retail brokerage business, IB LLC or other electronic brokerage Operating Companies perform securities and commodities execution, clearance and settlement on behalf of their customers for whom they commit to settle trades submitted by such customers with the respective clearing houses. If a customer fails to fulfill its settlement obligations, the respective Operating Company must fulfill those settlement obligations. No contingent liability is carried on the unaudited condensed consolidated statements of financial condition for such customer obligations.

## Other Commitments

Certain clearing houses and clearing banks and firms used by certain Operating Companies are given a security interest in certain assets of those Operating Companies held by those clearing organizations. These assets may be applied to satisfy the obligations of those Operating Companies to the respective clearing organizations.

## 13. Segment and Geographic Information

IBG, Inc. operates in two business segments: electronic brokerage and market making. 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. IBG, Inc. conducts its electronic brokerage business through its Interactive Brokers subsidiaries, which provide electronic execution and clearing services to customers worldwide.

Significant transactions and balances between the Operating Companies occur, primarily as a result of certain Operating Companies holding exchange or clearing organization memberships, which are utilized to provide execution and clearing services to affiliates. Charges for transactions between segments are designed to approximate full costs. Intra-segment and intra-region income and expenses and related balances have been eliminated in this segment and geographic information to reflect the external business



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)

conducted in each segment or geographical region. Corporate items include non-allocated corporate income and expenses that are not attributed to segments for performance measurement, corporate assets and eliminations.

Management believes that the following information by business segment provides a reasonable representation of each segment's contribution to total net revenues and income before income taxes for the three and six months ended June 30, 2013 and 2012, and to total assets as of June 30, 2013 and December 31, 2012 (millions):

	Three months ended		Six months ended	
	2013	2012	2013	2012
	June 30,		June 30,	
Net revenues:				
Electronic brokerage	\$ 212.5	\$ 171.4	\$ 407.8	\$ 330.7
Market making	67.4	91.3	91.0	233.7
Corporate and eliminations	4.0	(1.8)	1.2	0.4
Total net revenues	\$ 283.9	\$ 260.9	\$ 500.0	\$ 564.8
Income before income taxes:				
Electronic brokerage	123.3	90.2	234.3	173.6
Market making	7.6	24.0	(21.4)	90.0
Corporate and eliminations	3.0	(5.7)	3.2	(5.4)
Total income before income taxes	\$ 133.9	\$ 108.5	\$ 216.1	\$ 258.2
	June 30,	December 31,		
	2013	2012		
Assets:				
Electronic brokerage	\$ 27,642.9	\$ 25,741.5		
Market making	12,729.2	12,730.8		
Corporate and eliminations	(5,315.6)	(5,272.7)		
Total assets	\$ 35,056.5	\$ 33,199.6		

The Company operates its automated global business in U.S. and international markets on more than 100 exchanges and market centers. A significant portion of IBG, Inc.'s net revenues are generated by subsidiaries operating outside the United States. International operations are comprised of electronic brokerage and market making activities in 23 countries in Europe, Asia and the Americas (outside the United States). The following table presents total net revenues and income before income taxes by geographic area for the three and six months ended June 30, 2013 and 2012 (millions):

	Three months ended		Six months ended	
	2013	2012	2013	2012
	June 30,		June 30,	
Net revenues:				
United States	\$ 193.4	\$ 175.9	\$ 331.9	\$ 408.3

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International	87.4	86.8	167.7	157.4
Corporate and eliminations	3.1	(1.8)	0.4	(0.9)
Total net revenues	\$ 283.9	\$ 260.9	\$ 500.0	\$ 564.8
Income before income taxes:				
United States	\$ 99.0	\$ 79.3	\$ 151.0	\$ 213.9
International	32.7	34.9	62.6	50.8
Corporate and eliminations	2.2	(5.7)	2.5	(6.5)
Total income before income taxes	\$ 133.9	\$ 108.5	\$ 216.1	\$ 258.2

#### 14. Regulatory Requirements

At June 30, 2013, aggregate excess regulatory capital for all of the Operating Companies was \$2.94 billion.

TH LLC and IB LLC are subject to the Uniform Net Capital Rule (Rule 15c3-1) under the Exchange Act and the CFTC's minimum financial requirements (Regulation 1.17), and THE is subject to the Swiss Financial Market Supervisory Authority eligible

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)

equity requirement. Additionally, THSHK is subject to the Hong Kong Securities Futures Commission liquid capital requirement, THA is subject to the Australian Stock Exchange liquid capital requirement, THC and IBC are subject to the Investment Industry Regulatory Organization of Canada risk adjusted capital requirement, IBUK is subject to the U.K. Financial Conduct Authority (formerly known as the U.K. Financial Services Authority) Capital Requirements Directive (formerly the financial resources requirement), IBI is subject to the National Stock Exchange of India net capital requirements and IBSJ is subject to the Japanese Financial Supervisory Agency capital requirements. The following table summarizes capital, capital requirements and excess regulatory capital (millions):

	Net Capital/ Eligible Equity	Requirement	Excess
IB LLC	\$ 1,909.6	\$ 251.9	\$ 1,657.7
TH LLC	511.2	43.7	467.5
THE	626.5	162.1	464.4
Other regulated Operating Companies	380.7	32.1	348.6
	\$ 3,428.0	\$ 489.8	\$ 2,938.2

Regulatory capital requirements could restrict the Operating Companies from expanding their business and declaring dividends if their net capital does not meet regulatory requirements. Also, certain entities within IBG, Inc. are subject to other regulatory restrictions and requirements.

At June 30, 2013, all of the regulated Operating Companies were in compliance with their respective regulatory capital requirements.

#### 15. Related Party Transactions

Receivable from affiliate represents amounts advanced to Holdings and payable to affiliate represents amounts payable to Holdings under the Tax Receivable Agreement (Note 4).

Included in receivables from and payables to customers in the accompanying unaudited condensed consolidated statements of financial condition as of June 30, 2013 and December 31, 2012 were accounts receivable from directors, officers and their affiliates of \$38.9 million and \$1.1 million and payables of \$264.2 million and \$745.0 million, respectively.

#### 16. Subsequent Events

As required by ASC 855-10-50, the Company has evaluated subsequent events for adjustment to or disclosure in its unaudited condensed consolidated financial statements through the date the unaudited condensed consolidated financial statements were issued.

No recordable or disclosable events, not otherwise reported in these financial statements or the notes thereto, occurred.

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

The following discussion should be read in conjunction with the unaudited condensed consolidated financial statements and the related notes in Item 1, included elsewhere in this report. In addition to historical information, the following discussion also contains forward-looking statements that include risks and uncertainties. Our actual results may differ materially from those anticipated in these forward-looking statements as a result of certain factors, including those set forth under the heading "Risk Factors" in our Annual Report on Form 10-K filed with the Securities Exchange Commission ("SEC") on March 8, 2013 and elsewhere in this report.

### Introduction

IBG, Inc. is a holding company whose primary asset is ownership of approximately 12.4% of the membership interests of the Group.

We are an automated global electronic broker and market maker specializing in routing orders and executing and processing trades in securities, futures and foreign exchange instruments on more than 100 electronic exchanges and trading venues around the world. Since our inception in 1977, we have focused on developing proprietary software to automate broker-dealer functions. The advent of electronic exchanges in the last 23 years has provided us with the opportunity to integrate our software with an increasing number of exchanges and trading venues into one automatically functioning, computerized platform that requires minimal human intervention.

### Business Segments

The Company reports its results in two business segments, electronic brokerage and market making. These segments are analyzed separately as we derive our revenues from these two principal business activities as well as allocate resources and assess performance.

- **Electronic Brokerage.** We conduct our electronic brokerage business through our Interactive Brokers ("IB") subsidiaries. As an electronic broker, we execute, clear and settle trades globally for both institutional and individual customers. Capitalizing on the technology originally developed for our market making business, IB's award-winning systems provide our customers with the capability to monitor multiple markets around the world simultaneously and to execute trades electronically in these markets at a low cost, in multiple products and currencies from a single trading account. We offer our customers access to all classes of tradable, exchange-listed products, including stocks, bonds, options, futures, forex and mutual funds traded on more than 100 exchanges and market centers and in 20 countries around the world seamlessly.

Our customer base is diverse, with respect to geography and segments. Currently, more than half of our customers are located outside the U.S., residing in over 180 countries. More than 40% of our customers are institutional accounts, including hedge funds, financial advisors, proprietary trading desks and introducing brokers. We have developed specialized products and services that have been successful in attracting these accounts. For example, we offer prime brokerage services including capital introduction and securities lending to hedge funds; and our model portfolio technology, automated share allocation and rebalancing tools are particularly attractive to financial advisors. The IB Money Manager Marketplace allows wealth advisors to search for money managers and assign them to client accounts based on their investment strategy. In addition, IBEmployeeTrackSM is widely used by compliance officers of financial institutions to streamline the process of tracking their employees' brokerage activities.

We also provide information services through the Interactive Brokers Information System ("IBIS"). IBIS offers subscribers and our brokerage customers a robust suite of informational tools at a fraction of the cost of traditional research platforms. It includes live quotes, newswire feeds, calendars of economic and earnings events, fundamental

research data, charts and more in an interface that can be configured to customers' needs. IBIS is available to our cleared customers free of charge.

- **Market Making.** We conduct our market making business through our Timber Hill subsidiaries. As one of the largest market makers on many of the world's leading exchanges, we provide liquidity by offering competitively tight bid/offer spreads over a broad base of over 964,000 tradable, exchange-listed products. As principal, we commit our own capital and derive revenues or incur losses from the difference between the price paid when securities are bought and the price received when those securities are sold. Because we provide continuous bid and offer quotations and we are continuously both buying and selling quoted securities, we may have either a long or a short position in a particular product at a given point in time. Our entire portfolio is evaluated each second and continuously rebalanced throughout the trading day, minimizing the risk of our portfolio at all times. This real-time rebalancing of our portfolio, together with our real-time proprietary risk management system, enables us to curtail risk and to be profitable in both up-market and down-market scenarios.

When we use the terms "we," "us," and "our," we mean IBG, Inc. and its subsidiaries for the periods presented.

## Executive Overview

**Second Quarter Results:** Diluted earnings per share on a comprehensive basis were \$0.14 for the quarter ended June 30, 2013 as compared to comprehensive diluted earnings per share of \$0.09 for the same period in 2012.

Reported results on a comprehensive basis reflect the GAAP convention that requires the reporting of currency translation results contained in other comprehensive income (“OCI”) as part of reportable earnings.

Currency translation effects are largely a result of our currency strategy. We have determined to base our net worth in GLOBALs, a self-defined basket of currencies in which we maintain our equity. As a result, approximately 61% of our equity is denominated in currencies other than U.S. dollars<sup>1</sup>. The effects of our currency strategy appear in two places in the financial statements: (1) as a component of trading gains in the unaudited condensed consolidated statement of comprehensive income and (2) as OCI in the unaudited condensed consolidated statement of financial condition. As described above, the full effect of the GLOBAL is captured in comprehensive income.

On a non-comprehensive basis, which excludes the effect of changes in the U.S. dollar value of the Company’s non-U.S. subsidiaries, diluted earnings per share were \$0.21 for the three months ended June 30, 2013, as compared to \$0.17 for the three months ended June 30, 2012.

In light of the strengthening of the U.S. dollar against a number of other currencies, adding OCI to net income decreased diluted comprehensive earnings per share by \$0.07 for the current quarter.

**Consolidated:** For the three months ended June 30, 2013, our net revenues were \$283.9 million and income before income taxes was \$133.9 million, as compared to net revenues of \$260.9 million and income before income taxes of \$108.5 million for the corresponding period in 2012. This increase was driven by higher commissions and execution fees and higher net interest income, partially offset by a decrease in trading gains. Commissions and execution fees increased from the year-ago quarter, reflecting growth in customer accounts and higher average trading activity per customer. The decrease in trading gains was a result of a continued lackluster market making environment with a majority of the quarter marked by low volatility, one-directional market movement and tight bid/offer spreads. As a result of the strengthening of the U.S. dollar, currency translation decreased trading gains by \$42.9 million this quarter compared to a loss of \$41.2 million in the year-ago quarter. Our pre-tax margin for the three months ended June 30, 2013 was 47%, as compared to 42% for the corresponding period in 2012.

**Brokerage:** A number of measures reached new highs in our brokerage segment. During the three months ended June 30, 2013, income before income taxes in our electronic brokerage segment increased 37%, to \$123.3 million from \$90.2 million, in the three months ended June 30, 2012. The drivers were increased commissions and execution fees and increased net interest income, partially offset by an increase in execution and clearing fees and general and administrative expenses. Commissions increased by 28% from the year-ago quarter on higher customer volume in options, futures and stocks. Total customer Daily Average Revenue Trades (“DARTs”) increased by 19% from the same period last year. Execution and clearing expenses were 13% higher on increased customer volume. The increase in net interest income was attributable to an increase in net interest earned on larger customer cash and margin balances compared to the year-ago period as well as an increase in net fees earned from securities borrowed and loaned transactions. Customer equity grew by 31%, to \$37.4 billion, from the year-ago quarter<sup>2</sup>. Pre-tax margin increased from 53% to 58% for the three months ended June 30, 2012 and 2013, respectively.

**Market Making:** During the three months ended June 30, 2013, income before income taxes in our market making segment decreased 68%, to \$7.6 million from \$24.0 million, in the three months ended June 30, 2012. This reflects a \$25.9 million decrease in trading gains from the year-ago quarter. Removing the effects of currency translation, the Market Making segment produced \$50.5 million pretax income in this quarter, compared to \$65.2 million for the same period last year. Trading gains were negatively impacted by a lackluster market making environment with low

volatility, one-directional market movement, and tight bid/offer spreads.

Execution and clearing expenses were 20% lower during the three months ended June 30, 2013 than in the year-ago quarter due to a 7% decrease in options volume. Pre-tax margin decreased to 11% in the second quarter of 2013 from 26% in the corresponding period of 2012. Excluding currency translation effects, pretax margin was 46%, as compared to 49% in the prior year quarter.

Six Months Results: Diluted earnings per share on a comprehensive basis were \$0.20 for the six months ended June 30, 2013 as compared to comprehensive diluted earnings per share of \$0.41 for the same period in 2012.

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1 For a full description of our currency strategy, please see pages 55 - 56, Foreign Currency Exposure.

2 Approximately 10% of the \$8.8 billion increase in customer equity was due to the reclassification of certain related accounts from “non-customer” to “customer”, which are regulatory distinctions.



On a non-comprehensive basis, which excludes the effect of changes in the U.S. dollar value of the Company's non-U.S. subsidiaries, diluted earnings per share were \$0.35 for the six months ended June 30, 2013, as compared to \$0.43 for the six months ended June 30, 2012.

In light of the strengthening of the U.S. dollar against a number of other currencies, adding OCI to net income decreased diluted comprehensive earnings per share by \$0.15 for the six months ended June 30, 2013.

Consolidated: For the six months ended June 30, 2013, our net revenues were \$500.0 million and income before income taxes was \$216.1 million, as compared to net revenues of \$564.8 million and income before income taxes of \$258.2 million for the corresponding period in 2012. This decrease was driven by lower trading gains, partially offset by an increase in commissions and execution fees and an increase in net interest income, along with a decrease in employee compensation and benefits expense. The decrease in trading gains was a result of a subdued market making environment and negative currency translation effects as compared to the six months ended June 30, 2012. As a result of the strengthening of the U.S. dollar, currency translation decreased trading gains by \$103.7 million for the first six months of the year compared to a negative impact of \$42.1 million in the year-ago period. Commissions and execution fees increased from the same period last year due to higher customer volume. Expenses were reduced on lower execution and clearing fees and lower employee compensation and benefits, as compared to the year-ago period. Our pre-tax margin for the six months ended June 30, 2013 was 43%, as compared to 46% for the corresponding period in 2012.

Brokerage: During the six months ended June 30, 2013, income before income taxes in our electronic brokerage segment increased 35%, to \$234.3 million from \$173.6 million, in the six months ended June 30, 2012. The drivers were increased commissions and execution fees and increased net interest income, partially offset by an increase in execution and clearing fee expenses. Commissions increased by 23% from the year-ago period on higher customer volume in options, futures and stocks. Total DARTs from cleared and execution only customers increased by 14% from the same period last year. Execution and clearing expenses were 16% higher on increased customer volume. The increase in net interest income was attributable to larger customer cash and margin balances compared to the year-ago period as well as an increase in net fees earned from securities borrowed and loaned transactions. Pre-tax margin increased from 52% to 57% for the six months ended June 30, 2012 and 2013, respectively.

Market Making: During the six months ended June 30, 2013, income before income taxes in our market making segment decreased 124%, to a loss of \$21.4 million from \$90.0 million, in the six months ended June 30, 2012. This reflects a \$144.2 million decrease in trading gains from the year-ago quarter. Removing the effects of currency translation, the Market Making segment produced \$82.3 million pretax income in this quarter, as compared to \$132.1 million for the same period last year. Trading gains were negatively impacted by an unfavorable market making environment with low volatility and tight bid/offer spreads.

Currency translation effects decreased trading gains by \$61.6 million more than in the corresponding period in 2012, reflecting a \$103.7 million loss compared to a \$42.1 million loss in the first six months of 2012. Execution and clearing expenses were 27% lower during the six months ended June 30, 2013 than in the year-ago quarter due to an 8% decrease in options volume. Pre-tax margin swung to a 24% loss for the first six months of 2013, as compared to 39% in the corresponding period of 2012. Excluding currency translation effects, pretax margin was 42%, as compared to 48% in the prior year period.

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The following tables present historical trading volumes for our business. Volumes are among several drivers in our business.

TRADE VOLUMES:

Period	Market Making		Brokerage		Brokerage Non		Total Trades	Avg. Trades per U.S. Trading Day	
	Trades	% Change	Trades	% Change	Trades	% Change		% Change	per U.S. Trading Day
2009	93,550		127,338		13,636		234,524		934
2010	75,169	-20%	133,658	5%	18,732	37%	227,559	-3%	905
2011	63,602	-15%	160,567	20%	19,187	2%	243,356	7%	968
2012	60,421	-5%	150,000	-7%	16,118	-16%	226,540	-7%	904
2Q2012	16,495		38,934		4,326		59,755		948
2Q2013	18,794	14%	46,509	19%	4,968	15%	70,271	18%	1,098

CONTRACT AND SHARE VOLUMES:

(in 000's, except %)

TOTAL

Period	Options	%	Futures	%	Stocks	%
	(contracts)	Change	(contracts)	Change	(shares)	Change
2009	643,380		82,345		75,449,891	
2010	678,856	6%	96,193	17%	84,469,874	12%
2011	789,370	16%	106,640	11%	77,730,974	-8%
2012	698,140	-12%	98,801	-7%	65,872,960	-15%
2Q2012	188,561		27,501		15,367,826	
2Q2013	184,215	-2%	34,824	27%	23,792,808	55%

MARKET MAKING

Period	Options	%	Futures	%	Stocks	%
	(contracts)	Change	(contracts)	Change	(shares)	Change
2009	428,810		15,122		26,205,229	
2010	435,184	1%	15,371	2%	19,165,000	-27%
2011	503,053	16%	15,519	1%	11,788,769	-38%
2012	457,384	-9%	12,660	-18%	9,339,465	-21%
2Q2012	125,694		3,622		2,491,670	
2Q2013	116,898	-7%	5,325	47%	3,912,368	57%

Notes:

1. Futures contract volume includes options on futures

2. In Brazil, an equity option contract typically represents one share of the underlying stock; however, the typical minimum trading quantity is 100 contracts. To make a fair comparison to volume at other exchanges, we have adopted a policy of reporting Brazilian equity options contracts divided by their trading quantity of 100.



CONTRACT AND SHARE VOLUMES, continued:

(in 000's, except %)

BROKERAGE TOTAL

Period	Options (contracts)	% Change	Futures (contracts)	% Change	Stocks (shares)	% Change
2009	214,570		67,223		49,244,662	
2010	243,672	14%	80,822	20%	65,304,874	33%
2011	286,317	18%	91,121	13%	65,942,205	1%
2012	240,756	-16%	86,141	-5%	56,533,495	-14%
2Q2012	62,867		23,879		12,876,156	
2Q2013	67,317	7%	29,499	24%	19,880,440	54%

BROKERAGE CLEARED

Period	Options (contracts)	% Change	Futures (contracts)	% Change	Stocks (shares)	% Change
2009	93,868		66,241		46,627,344	
2010	103,054	10%	79,144	19%	62,077,741	33%
2011	145,993	42%	89,610	13%	63,098,072	2%
2012	144,539	-1%	84,794	-5%	54,371,351	-14%
2Q2012	37,385		23,510		12,312,747	
2Q2013	46,962	26%	28,938	23%	18,932,615	54%

Notes:

1. Futures contract volume includes options on futures

BROKERAGE STATISTICS:

(in 000's, except % and where noted)

	2Q2013	2Q2012	% Change
Total Accounts	224	200	12%
Customer Equity (in billions) *	\$37.4	\$28.6	31%
Cleared DARTs	463	399	16%
Total Customer DARTs	506	427	19%

Cleared Customers (in \$'s, except DART per account)

Commission per DART	\$4.50	\$4.18	8%
DART per Avg. Account (Annualized)	526	507	4%
Net Revenue per Avg. Account (Annualized)	\$3,659	\$3,356	9%

\* Excludes non-customers. Approximately 10% of the \$8.8 billion increase in customer equity was due to the reclassification of certain related accounts from "non-customer" to "customer", which are regulatory distinctions.



## Business Environment

During the second quarter, we witnessed a continuation of positive trends in the financial markets that boosted exchange-traded volumes. U.S. stock indexes continued to climb, adding to their strong gains from the first quarter. Volatility, which reached extreme lows in the first quarter, increased following comments made by the Chairman of the Federal Reserve regarding a possible decrease in monetary stimulus measures. Higher volatility and trading volumes were beneficial to both our brokerage and market making businesses. Our customers' trading activity reached record levels and growth in customer accounts and customer equity was strong. Customer accounts grew by 12% while customer equity grew by 31%<sup>1</sup>, year over year, which compared favorably to the 18% rise in the S&P 500 Index, over the same period.

Global trading volumes climbed above levels seen in the year-ago quarter. According to data received from exchanges worldwide, volumes in exchange-listed equity-based options increased by approximately 8% globally and 9% in the U.S., as compared to the corresponding quarter in 2012. Our customer trading volumes outpaced those of other large electronic brokers, with total DARTs increasing 19% year-over-year. As a result, we maintained our position as the largest U.S. electronic broker as measured by number of revenue trades.

The sequential rise in volatility was positive for the market making segment as well, though average volatility remained below that of the year-ago quarter. Our market making profits are generally correlated with market volatility since we typically maintain an overall long volatility position, which protects us against a severe market dislocation in either direction. Based on the CBOE Volatility Index, or VIX®, the average volatility during the second quarter was approximately 26% lower than it was in the second quarter of 2012. The ratio of actual to implied volatility is also meaningful to our results. Because the cost of hedging our positions is based on implied volatility, while our trading profits are, in part, based on actual market volatility, a higher ratio is generally favorable and a lower ratio generally has a negative effect on our trading gains. This ratio averaged approximately 95% during the second quarter, as compared to 76% in the first quarter of 2013 and 81% in the year-ago quarter.

Currency movements negatively impacted our performance as the U.S. dollar strengthened against a number of the currencies in the GLOBAL, our self-defined currency basket in which we base our equity. 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 by maintaining our net worth in GLOBALs. Because we report our financial results in U.S. dollars, the change in the value of the GLOBAL to the U.S. dollar affects our earnings. As of June 30, 2013, 61% of the GLOBAL was comprised of foreign currencies. During the second quarter of 2013, the value of the GLOBAL as expressed in U.S. dollars decreased 1.5% from the previous quarter-end, which negatively affected our comprehensive earnings and added to the negative impact of lower year-over-year volatilities this quarter.

During the second quarter of 2013 we accounted for approximately 9.3% of the exchange-listed equity-based options (including options on ETFs and stock index products) volume traded worldwide and approximately 11.8% of exchange-listed equity-based options volume traded in the U.S. This compares to approximately 10.2% of the exchange-listed equity-based options volume traded worldwide and approximately 14.1% of the exchange-listed equity-based options volume traded in the U.S. in the second quarter of 2012. Note that market share is not directly correlated with our profits.

See the tables on pages 35-36 of this Quarterly Report on Form 10-Q for additional details regarding our trade volumes, contract and share volumes and brokerage statistics.

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<sup>1</sup>Approximately 10% of the \$8.8 billion increase in customer equity was due to the reclassification of certain related accounts from "non-customer" to "customer", which are regulatory distinctions.



## Certain Trends and Uncertainties

We believe that our continuing operations may be favorably or unfavorably impacted by the following trends that may affect our financial condition and results of operations.

- Over the past several years, the effects of market structure changes, competition (in particular, from HFTs) and market conditions have, during certain periods, exerted downward pressure on bid/offer spreads realized by market makers.
- Retail broker-dealer participation in the equity markets has fluctuated over the past few years due to investor sentiment, market conditions and a variety of other factors. Retail transaction volumes may not be sustainable and are not predictable.
- The practice of internalization of order flow by brokers and the expanded use of so-called "dark pools", which may exclude certain market participants from interacting with marketable orders, may reduce liquidity and transparency in the securities markets.
- In recent years, in an effort to improve the quality of their executions as well as increase efficiencies, market makers have increased the level of automation within their operations, which may allow them to compete more effectively with us.
- Regulatory and legislative authorities have increased their scrutiny of equity and option market makers, hedge funds and soft dollar practices. New legislation or modifications to existing regulations and rules could occur in the future.
  - Consolidation among market centers may adversely affect the value of our smart routing software.
- A driver of our market making profits is the relationship between actual and implied volatility in the equities markets. The cost of maintaining our conservative risk profile is based on implied volatility, while our profitability, in part, is based on actual volatility. Hence, our profitability is increased when actual volatility runs above implied volatility and it is decreased when actual volatility falls below implied volatility. Implied volatility tends to lag actual volatility.

See "Risk Factors" in Part I, Item 1A of the Company's Annual Report on Form 10-K filed with the SEC on March 8, 2013 and elsewhere in this report for a discussion of other risks that may affect our financial condition and results of operations.



## Results of Operations

The tables in the period comparisons below provide summaries of our revenues and expenses. The period-to-period comparisons below of financial results are not necessarily indicative of future results. The following table sets forth our unaudited condensed consolidated results of operations for the indicated periods:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
	(in millions except share and per share data)			
<b>Revenues:</b>				
Trading gains	\$59.1	\$85.0	\$78.1	\$222.3
Commissions and execution fees	138.0	108.1	257.6	209.0
Interest income	76.1	68.6	146.6	135.2
Other income	24.3	15.3	44.2	33.6
<b>Total revenues</b>	<b>297.5</b>	<b>277.0</b>	<b>526.5</b>	<b>600.1</b>
Interest expense	13.6	16.1	26.5	35.3
<b>Total net revenues</b>	<b>283.9</b>	<b>260.9</b>	<b>500.0</b>	<b>564.8</b>
<b>Non-interest expenses:</b>				
Execution and clearing	64.8	66.2	124.3	130.8
Employee compensation and benefits	58.0	59.8	104.3	122.5
Occupancy, depreciation and amortization	9.2	10.0	19.3	19.9
Communications	5.7	5.5	11.2	11.2
General and administrative	12.3	10.9	24.8	22.2
<b>Total non-interest expenses</b>	<b>150.0</b>	<b>152.4</b>	<b>283.9</b>	<b>306.6</b>
<b>Income before income taxes</b>	<b>133.9</b>	<b>108.5</b>	<b>216.1</b>	<b>258.2</b>
<b>Income tax expense</b>				