

Interactive Brokers Group, Inc.
Form 10-Q
November 09, 2009

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2009.

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

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

(Address of principal executive office)

(203) 618-5800

(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer" and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer Non-accelerated filer SS Smaller reporting company
(Do not check if a smaller reporting company)

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

As of November 9, 2009, there were 41,214,498 shares of the issuer's Class A common stock, par value \$0.01 per share, outstanding and 100 shares of the issuer's Class B common stock, par value \$0.01 per share, outstanding

INTERACTIVE BROKERS GROUP, INC.

QUARTERLY REPORT ON FORM 10-Q FOR THE QUARTER ENDED SEPTEMBER 30, 2009

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 Income	5
Condensed Consolidated Statements of Cash Flows	6
Condensed Consolidated Statement of Changes in Equity	7
Notes to Condensed Consolidated Financial Statements	8
Item 2: Management's Discussion and Analysis of Financial Condition and Results of Operations	25
Item 3: Quantitative and Qualitative Disclosures About Market Risk	46
Item 4: Controls and Procedures	48
PART II: OTHER INFORMATION	
Item 1: Legal Proceedings	49
Item 1A: Risk Factors	49
Item 2: Unregistered Sales of Equity Securities and Use of Proceeds	49
Item 3: Defaults upon Senior Securities	49
Item 4: Submission of Matters to a Vote of Security Holders	49
Item 5: Other Information	49
Item 6: Exhibits	50
SIGNATURES	51

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 10.5% of the membership interests of IBG LLC (the “Group”).

We are an automated global electronic market maker and broker specializing in routing orders and executing and processing trades in securities, futures and foreign exchange instruments on more than 80 electronic exchanges and trading venues around the world. In the U.S., our business is conducted from our headquarters in Greenwich, Connecticut as well as from Chicago, Illinois and Lake Forest, California. Abroad, we conduct business through offices located in Canada, England, Switzerland, Hong Kong, India, Japan and Australia. At September 30, 2009 we had 794 employees worldwide.

On May 3, 2007, IBG, Inc. priced its initial public offering (the “IPO”) of shares of its Class A common stock, par value \$0.01 per share (the “Common Stock”). In connection with the IPO, IBG, Inc. purchased 10.0% of the membership interests in IBG LLC, and became the sole managing member of IBG LLC, the holding company for our businesses, and began to consolidate IBG LLC’s financial results into its financial statements. When we use the terms “we,” “us,” and “our,” we mean IBG, Inc. and its subsidiaries (including IBG LLC). Unless otherwise indicated, the term “common stock” refers to the Class A common stock of IBG, Inc. (Note 4).

In December 2007, the Financial Accounting Standards Board (“FASB”) issued Statement of Financial Accounting Standards (“SFAS”) No. 160, *Noncontrolling Interests in Consolidated Financial Statements, an amendment of ARB No. 51*, which SFAS is now a sub-topic within FASB Accounting Standards Codification (the “Codification” or “ASC”), ~~810~~ *Consolidation* (Note 2). Adoption of ASC 810 as of January 1, 2009 required the Company to report non-controlling interests in subsidiaries (formerly reported as “minority interests”) as a separate component of equity in the current period and had the retrospective effect of increasing reported equity in the unaudited condensed consolidated statement of financial position by \$3.89 billion as of December 31, 2008. ASC 810 also required changes in presentation and retrospective disclosure of non-controlling interests in the statements of income, of cash flows and of changes in equity for all periods presented. Accordingly, the accompanying unaudited condensed consolidated financial statements are presented as if ASC 810 had been applicable historically. The reclassifications made to prior periods had no effect on previously reported results of operations or cash flows.

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

(in thousands, except share data)	September 30, 2009	December 31, 2008
Assets		
Cash and cash equivalents	\$ 859,935	\$ 943,497
Cash and securities - segregated for regulatory purposes	6,334,286	4,992,121
Securities borrowed	5,206,406	5,911,881
Securities purchased under agreements to resell	731,167	715,732
Trading assets, at fair value:		
Financial instruments owned	9,344,683	10,049,481
Financial instruments owned and pledged as collateral	905,848	1,065,180
	10,250,531	11,114,661
Other receivables:		
Customers, less allowance for doubtful accounts of \$16,636 and \$17,572 at September 30, 2009 and December 31, 2008	2,942,308	1,621,162
Brokers, dealers and clearing organizations	1,998,628	2,527,981
Receivable from affiliate	1,161	641
Interest	13,228	25,185
	4,955,325	4,174,969
Other assets	507,825	503,774
Total assets	\$ 28,845,475	\$ 28,356,635
Liabilities and equity		
Liabilities:		
Trading liabilities - financial instruments sold but not yet purchased, at fair value	\$ 10,723,653	\$ 13,476,757
Securities loaned	806,946	656,625
Short-term borrowings	263,343	208,117
Other payables:		
Customers	9,971,204	6,929,617
Brokers, dealers and clearing organizations	1,498,255	1,614,810
Payable to affiliate	313,770	313,800
Accounts payable, accrued expenses and other liabilities	249,559	289,659
Interest	11,088	16,135
	12,043,876	9,164,021
Senior notes payable	185,123	143,054
Senior secured credit facility	-	300,000
	24,022,941	23,948,574
Commitments, contingencies and guarantees		
Equity:		
Stockholders' equity:		
Common stock, \$0.01 par value per share:		
Class A – Authorized - 1,000,000,000, Issued - 45,336,255		
Outstanding – 41,214,498 and 40,536,615 shares at September 30, 2009 and December 31, 2008	453	453
Class B – Authorized, Issued and Outstanding – 100 shares		
at September 30, 2009 and December 31, 2008	-	-
Additional paid-in capital	485,822	485,837
Retained earnings	175,057	141,207
Accumulated other comprehensive income, net of income taxes of \$6,076 and \$2,271 at September 30, 2009 and December 31, 2008	10,455	3,907
Treasury stock, at cost, 4,121,757 and 4,799,640 shares at September 30, 2009 and December 31, 2008	(99,643)	(117,550)

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

Total stockholders' equity	572,144	513,854
Non-controlling interests	4,250,390	3,894,207
Total equity	4,822,534	4,408,061
Total liabilities and equity	\$ 28,845,475	\$ 28,356,635

See accompanying notes to the unaudited condensed consolidated financial statements.

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

(in thousands, except for shares or per share amounts)	Three months ended		Nine months ended	
	September 30,		September 30,	
	2009	2008	2009	2008
Revenues:				
Trading gains	\$ 154,709	\$ 361,403	\$ 558,853	\$ 1,006,007
Commissions and execution fees	89,007	98,114	263,453	271,851
Interest income	29,902	101,168	89,716	373,818
Other income	13,047	7,193	42,050	55,819
Total revenues	286,665	567,878	954,072	1,707,495
Interest expense	15,173	70,819	54,141	286,502
Total net revenues	271,492	497,059	899,931	1,420,993
Non-interest expenses:				
Execution and clearing	69,422	82,912	201,333	244,044
Employee compensation and benefits	43,015	39,549	128,312	119,425
Occupancy, depreciation and amortization	10,008	10,506	29,511	27,647
Communications	6,105	4,769	16,609	13,339
General and administrative	9,675	11,869	31,844	35,660
Total non-interest expenses	138,225	149,605	407,609	440,115
Income before income taxes	133,267	347,454	492,322	980,878
Income tax expense	13,168	32,384	50,191	94,390
Net income	120,099	315,070	442,131	886,488
Less net income attributable to non-controlling interests	111,689	287,923	408,281	813,802
Net income available for common stockholders	\$ 8,410	\$ 27,147	\$ 33,850	\$ 72,686
Earnings per share:				
Basic	\$ 0.20	\$ 0.67	\$ 0.83	\$ 1.80
Diluted	\$ 0.20	\$ 0.65	\$ 0.81	\$ 1.75
Weighted average common shares outstanding:				
Basic	41,214,598	40,602,515	40,891,841	40,386,579
Diluted	41,973,518	41,550,891	41,740,729	41,439,824

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)	Nine months ended September 30,	
	2009	2008
Cash flows from operating activities:		
Net income	\$ 442,131	\$ 886,488
Adjustments to reconcile net income to net cash provided by operating activities:		
Translation losses (gains) - (2008, as adjusted)	(23,359)	(4,719)
Deferred income taxes	19,575	46,942
Depreciation and amortization	15,318	13,114
Employee stock plan compensation	23,777	20,655
Losses on non-trading investments, net	8,565	14,136
Bad debt expense and other	(1,003)	4,037
Change in operating assets and liabilities (2008, as adjusted):		
Increase in cash and securities - segregated for regulatory purposes	(1,342,080)	(44,032)
Decrease in securities borrowed	715,446	2,160,307
Increase in securities purchased under agreements to resell	(15,455)	(377,154)
Decrease in trading assets	914,259	3,142,581
Increase in receivables from customers	(1,321,759)	(3,675)
Decrease in other receivables	551,807	264,419
(Increase) decrease in other assets	(1,867)	9,283
Decrease in trading liabilities	(2,711,190)	(2,897,936)
Increase (decrease) in securities loaned	153,039	(2,736,938)
Increase (decrease) in payable to customers	3,039,265	(631,965)
Increase (decrease) in other payables	(186,321)	934,643
Net cash provided by operating activities	280,148	800,186
Cash flows from investing activities:		
(Purchase) sale of investments	(9,526)	610
Distribution received from equity investment	2,292	-
Purchase of property and equipment	(17,369)	(11,235)
Net cash used in investing activities	(24,603)	(10,625)
Cash flows from financing activities:		
Dividends paid to non-controlling interests	(124,748)	(222,776)
Redemption of member interests from IBG Holdings LLC	(14,738)	(72,015)
Redemption of former member interest	(164)	-
Reduction in non-controlling interest in subsidiary	22	-
Issuance of senior notes	362,707	382,711
Redemptions of senior notes	(320,638)	(361,448)
Borrowings under senior secured credit facility	800	550,000
Repayments of senior secured credit facility	(300,800)	(550,000)
Decrease (increase) in short-term borrowings, net	30,297	(533,560)
Net cash used in financing activities	(367,262)	(807,088)
Effect of exchange rate changes on cash and cash equivalents	28,155	(33,201)
Net decrease in cash and cash equivalents	(83,562)	(50,728)
Cash and cash equivalents at beginning of period	943,497	521,776
Cash and cash equivalents at end of period	\$ 859,935	\$ 471,048
Supplemental disclosures of cash flow information:		
Cash paid for interest	\$ 59,188	\$ 302,178
Cash paid for taxes	\$ 99,931	\$ 78,292

See accompanying notes to the unaudited condensed consolidated financial statements.

6

Interactive Brokers Group, Inc. and Subsidiaries
Condensed Consolidated Statement of Changes in Equity
Nine months ended September 30, 2009

(Unaudited)

(in thousands, except
for share amounts)

	Common Stock			Accumulated			Total Stockholders' Equity	Non- controlling Interests	Total Equity
	Shares	Par Value	Additional Paid-In Capital	Treasury Stock	Retained Earnings	Other Comprehensive Income			
Balance, January 1, 2009	40,536,715	\$ 453	\$ 485,837	(117,550)	\$ 141,207	\$ 3,907	\$ 513,854	3,894,207	\$ 4,408,061
Common Stock distributed to employees	677,883			17,907			17,907		17,907
Redemption of non-controlling interests								(14,738)	(14,738)
Redemption of former-member interests			(17)				(17)	(147)	(164)
Dividends paid by IBG LLC to non-controlling interests								-	(124,748)
Reduction in non-controlling interest in subsidiary			2				2	20	22
Comprehensive income:									
Net income					33,850		33,850	408,281	442,131
Cumulative translation adjustment, net of income taxes of \$3,805						6,548	6,548	87,515	94,063
Total comprehensive income					33,850	6,548	40,398	495,796	536,194
Balance, June 30, 2009	41,214,598	\$ 453	\$ 485,822	\$ (99,643)	\$ 175,057	\$ 10,455	\$ 572,144	4,250,390	\$ 4,822,534

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 10.5% of the membership interests of IBG LLC, which, in turn, owns all 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 market maker and electronic broker 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 subsidiaries, Interactive Brokers Canada Inc. ("IBC"), Interactive Brokers (U.K.) Limited ("IBUK"), Interactive Brokers (India) Private Limited ("IBI"), Interactive Brokers Hungary KFT ("IBH"), Interactive Brokers Corp ("IB CORP"), IB Exchange Corp. ("IBEC") and Interactive Brokers Securities Japan, Inc. ("IBSJ").

Certain of the Operating Companies are members of various securities and commodities exchanges in North America, Europe and the Asia/Pacific region. Other than IB LLC, IBUK, IBC and IBI, the Operating Companies do not 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 as of and for the three and nine month periods ended September 30, 2009 and 2008 and the unaudited condensed consolidated statement of financial condition as of December 31, 2008 reflect IBG, Inc. and its subsidiaries and 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 interim financial reporting with respect to Form 10-Q. Accordingly, they do not include all of the information and footnotes required for full financial statements by accounting standards under the FASB Accounting Standards Codification, which became effective as of July 1, 2009 and applies to all financial statements issued after September 15, 2009. The Codification replaced the previous four level Generally Accepted Accounting Principles ("GAAP") hierarchy of authoritative accounting and reporting guidance ("Levels A through D"), other than the rules and interpretive releases of the SEC, with two levels, "authoritative" and "non-authoritative". Authoritative guidance is comprised of literature issued by the FASB and its predecessor organizations, as presented in the Codification. The ASC is comprised of four (4) principal "Areas" - Presentation, Financial Statement Line Items, Broad Transactions and Industry Content. Non-authoritative guidance is comprised of all "non-grandfathered, non-SEC accounting literature" not included in the Codification. These unaudited condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto included in IBG, Inc.'s Annual Report on Form 10-K filed with the SEC on March 2, 2009.

Adoption of SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements, an amendment of ARB No. 51*, now a sub-topic within ASC 810, *Consolidation*, as of January 1, 2009 required the Company to report non-controlling interests in subsidiaries (formerly reported as "minority interests") as a separate component of equity in the current period and had the retrospective effect of increasing reported equity in the unaudited condensed consolidated statement of financial position by \$3,894,207 as of December 31, 2008. ASC 810 also required changes in presentation and retrospective disclosure of non-controlling interests in the statements of income, of cash flows and of changes in equity for all periods presented. Accordingly, the accompanying unaudited condensed consolidated financial statements are presented as if ASC 810 had been applicable historically. Non-controlling interests in subsidiaries reported in Equity in the unaudited condensed consolidated statement of financial condition includes immaterial non-controlling interests in subsidiaries of IBG LLC in addition to IBG Holdings LLC's

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

non-controlling interest in IBG LLC. Net income attributable to non-controlling interests in subsidiaries of IBG LLC, which is collectively immaterial, has been reclassified from other income to net income attributable to non-controlling interests in the unaudited condensed consolidated statements of income for all periods presented. The reclassifications made to prior periods had no effect on previously reported net income available to common stockholders or cash flows.

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

8

result from translating amounts from a subsidiary's functional currency to the U.S. dollar are reported in redeemable members' interests or stockholders' equity as a component of accumulated other comprehensive income.

Translation, reported in the unaudited condensed consolidated statement of cash flows, excludes gains and losses on settled currency trading positions. For the nine months ended September 30, 2008, such translation was \$3,751, and prior reported amounts of translation and changes in operating assets and liabilities have been adjusted for the correction of this error. This change had no effect on total cash provided by operating activities or the total change in cash for the periods presented.

The calculation of diluted earnings per share has been changed to exclude shares of Class A Common Stock potentially issuable under the Exchange Agreement (Note 4) in exchange for interests in IBG LLC that the Company does not currently own as such shares are not dilutive. This change has no effect on diluted earnings per share because it reduces diluted weighted average shares outstanding and diluted net income available for common stockholders proportionately. Diluted weighted average shares outstanding and diluted earnings per share have been calculated on this basis for all periods presented.

Principles of Consolidation

The unaudited condensed consolidated financial statements include the accounts of IBG, Inc. and its majority and wholly owned subsidiaries. As sole managing member of IBG LLC, IBG, Inc. exerts control over the Group's operations. In accordance with ASC 810 (SFAS No. 160), the Company consolidates the Group's unaudited condensed consolidated financial statements and records as non-controlling interest the interests in the Group that IBG, Inc. does not own. The Company's policy is to consolidate all entities of which it owns more than 50% unless it does not have control. All inter-company balances and transactions have been eliminated. IBG, Inc. would also consolidate any Variable Interest Entities ("VIEs") pursuant to ASC 860, *Transfers and Servicing* and ASC 810 (which incorporate provisions from former FASB Interpretation ("FIN") No. 46(R)) 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 the Codification 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 value of investments accounted for under the equity method of accounting, the estimated useful lives of property and equipment, including capitalized internally developed software, the allowance for doubtful accounts, compensation accruals, tax liabilities and estimated contingency reserves.

Fair Value

At September 30, 2009 and December 31, 2008, substantially all of IBG, Inc.'s assets and liabilities, including financial instruments, were carried at fair value based on market prices, as published by exchanges and clearinghouses, or were assets which are short-term in nature (such as U.S. government treasury bills or spot foreign exchange) and were carried at amounts that approximate fair value.

IBG, Inc. applies the fair value hierarchy of ASC 820, *Fair Value Measurements and Disclosures* (formerly SFAS No. 157), to prioritize the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets and liabilities and the lowest priority to unobservable inputs. The three levels of the fair value hierarchy are:

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

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

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, which are classified as Level 2 financial instruments, are classified within Level 1 of the fair value hierarchy. Level 1 financial instruments, which are valued using quoted market prices as published by exchanges and clearing houses or otherwise broadly distributed in active markets, include U.S. government and sovereign obligations, active listed securities, options, futures, options on futures and corporate debt securities. IBG, Inc. does not adjust quoted prices for Level 1 financial instruments, even in the event that the Company may hold a

9

Interactive Brokers Group, Inc. and Subsidiaries

Notes to Unaudited Condensed Consolidated Financial Statements (Continued)

(dollars in thousands, except shares and per share amounts, unless otherwise noted)

large position whereby a purchase or sale could reasonably impact quoted prices. Currency forward contracts are classified as Level 2 financial instruments as such instruments are not exchange-traded.

Earnings Per Share

Earnings per share ("EPS") is computed in accordance with ASC 260, *Earnings per Share* (formerly SFAS No. 128). 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.

Stock-Based Compensation

IBG, Inc. follows ASC 718, *Compensation – Stock Compensation* (formerly SFAS No. 123(R)), to account for its stock-based compensation plans. ASC 718 requires all share-based payments to employees to be recognized in the financial statements using a fair value-based method. As a result, IBG, Inc. expenses the fair value of stock granted to employees over the related vesting period.

Cash and Cash Equivalents

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

Cash and Securities — Segregated for Regulatory Purposes

As a result of customer activities, certain Operating Companies are obligated by rules mandated by their primary regulators to segregate or set aside cash or qualified securities to satisfy such regulations, which regulations have been promulgated to protect customer assets. In addition, substantially all of the Operating Companies are members of various clearing organizations at which cash or securities are deposited as required to conduct day-to-day clearance activities.

Securities Borrowed and Securities Loaned

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

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

Securities Purchased Under Agreements to Resell and Securities Sold Under Agreements to Repurchase

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

Securities purchased under agreements to resell and securities sold under agreements to repurchase are treated as collateralized financing transactions and are recorded at contract value, plus accrued interest, which approximates fair value. IBG, Inc.'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. At September 30, 2009, all securities purchased under agreements to resell were pledged as collateral to exchanges and clearing houses.

Financial Instruments Owned and Sold But Not Yet Purchased

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

IBG, Inc. also enters into currency forward contracts. These transactions, which are also reported on a trade date basis, are agreements to exchange a fixed amount of one currency for a specified amount of a second currency at the outset and at completion of

Interactive Brokers Group, Inc. and Subsidiaries

Notes to Unaudited Condensed Consolidated Financial Statements (Continued)

(dollars in thousands, except shares and per share amounts, unless otherwise noted)

the currency forward contract term. Unrealized mark-to-market gains and losses on currency forward contracts are reported as components of financial instruments owned or financial instruments sold but not yet purchased in the unaudited condensed consolidated statements of financial condition. Net earnings or losses are reported as components of interest income in the unaudited condensed consolidated statements of income.

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 collateral for margin loans or other similar transactions, are not reported in the unaudited condensed consolidated statements of financial condition. Amounts receivable from customers that are determined by management to be uncollectible are written off to general and administrative expense.

Receivables from and Payables to Brokers, Dealers and Clearing Organizations

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

Investments

IBG, Inc. makes certain strategic investments 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* (formerly APB Opinion No. 18). 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 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 income and the recorded amounts of IBG, Inc.'s equity investments, which are included in other assets in the unaudited condensed consolidated statements of financial condition, increase or decrease accordingly. Distributions received from equity investees are recorded as reductions to the respective investment balance.

Investments accounted for under the cost method are recorded at the fair value of IBG, Inc.'s investment at inception. IBG, Inc. records investment income to the extent of dividends received on such investments. In February 2009, the Company invested \$7,500 in Quadriserv Inc., an electronic securities lending platform provider, which investment is being accounted for under the cost method.

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

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

management's estimate of the impairment, and are included in other assets in the unaudited condensed consolidated statements of financial condition. Dividends are recognized as a component of other income as such dividends are received.

As a result of a recapitalization transaction and a sale by W. R. Hambrecht + Co. Inc. of its remaining assets, the Company recorded a permanent impairment loss of \$6,397 for the nine month period ended September 30, 2009 on its loans to and warrants to purchase approximately 25.86% of W.R. Hambrecht + Co. Inc., reducing the book value of these investments to \$-0-.

Property and Equipment

Property and equipment, which is a component of other assets, consist of purchased technology hardware and software, internally developed software, leasehold improvements and office furniture and equipment. Property and equipment are recorded at historical cost, less accumulated depreciation and amortization. Additions and improvements that extend the lives of assets are capitalized, while expenditures for repairs and maintenance are expensed as incurred. Depreciation and amortization are computed

11

Interactive Brokers Group, Inc. and Subsidiaries

Notes to Unaudited Condensed Consolidated Financial Statements (Continued)

(dollars in thousands, except shares and per share amounts, unless otherwise noted)

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

Comprehensive income consists of two components: net income and other comprehensive income. Other comprehensive income refers to revenues, expenses, gains and losses that are included in stockholders' equity but are excluded from net income. IBG, Inc.'s other comprehensive income is comprised of foreign currency translation adjustments.

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

Revenue Recognition

— Trading Gains

Trading gains and losses are recorded on trade date, and are reported on a net basis. Trading gains are comprised of changes in the fair value of trading assets and liabilities (i.e., unrealized gains and losses) and realized gains and losses. Dividends are integral to the valuation of stocks bought and sold and, accordingly, are reported on a net basis as a component of trading gains in the accompanying unaudited condensed consolidated statements of income.

— Commissions and Execution Fees

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

Income Taxes

IBG, Inc. accounts for income taxes in accordance with ASC 740, *Income Taxes* (which incorporates formerly SFAS No. 109 and FIN No. 48), "Income Taxes," which requires the recognition of tax benefits or expenses on the temporary differences between the financial reporting and tax bases of assets and liabilities, including the accounting for uncertainty of income tax positions recognized in financial statements, prescribing a "more likely than not" threshold and measurement attribute for recognition in the financial statements of an asset or liability resulting from a tax position taken or expected to be taken in an income tax return.

The Company's provision for income taxes is comprised of two (2) principal components: (1) the Group's consolidated income tax expense, and (2) the Company's U.S. Federal and state income taxes on its proportionate share of the Group's income that is subject to tax.

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

The Group has historically operated in the United States as a limited liability company that was treated as a partnership for U.S. federal income tax purposes. Accordingly, the Group's income, which is allocated proportionately to the Group's members, the Company and IBG Holdings LLC, is not subject to U.S. federal income taxes at the Group level. Taxes related to income earned by partnerships represent obligations of the individual partners. Therefore, income taxes attributable to the Group and included in income tax expense in the Company's unaudited condensed consolidated statements of income are primarily incurred in non-U.S. subsidiaries. Outside the United States, the Group principally operates through subsidiary corporations and is subject to local income taxes. In addition, state and local income taxes include taxes assessed on the Group by jurisdictions that do not recognize the Group's limited liability company status. Foreign income taxes paid by the Group on dividends received are also reported as income taxes.

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

Interactive Brokers Group, Inc. and Subsidiaries**Notes to Unaudited Condensed Consolidated Financial Statements (Continued)**

(dollars in thousands, except shares and per share amounts, unless otherwise noted)

Recently Issued Accounting Pronouncements

Subsequent to the adoption of the ASC, the FASB will issue Accounting Standards Updates (“ASU’s”) as the means to add to or delete from, or to amend the ASC. During the quarter ended September 30, 2009, ASU 2009-05 through ASU 2009-12 were issued. Following is a summary of recently issued ASU’s that may affect the Company’s unaudited condensed consolidated financial statements:

	<u>Affects</u>	<u>Status</u>
ASU 2009-05	<i>Measuring Liabilities at Fair Value</i> – provides guidance on the measurement of the fair value of liabilities under ASC 820.	Effective for interim and annual periods beginning after August 28, 2009
ASU 2009-07	<i>Accounting for Various Topics</i> – Technical corrections to SEC references in the ASC.	Upon issuance
ASU 2009-08	<i>Earnings per Share</i> - amendment to ASC 260-10-S99 (SEC Update)	Upon issuance
ASU 2009-09	<i>Accounting for Investments – Equity Method and Joint Ventures and Accounting for Equity-Based Payments to Non-Employees</i> – amendments to ASC 323-10-S99 and ASC 505-50-S99 (SEC Update)	Upon issuance
ASU 2009-10	<i>Financial Services – Brokers and Dealers: Investments – Other</i> – amendment to ASC 940-325 (SEC Update)	Upon issuance

Adoption of these ASU’s during the quarter ended September 30, 2009 did not have a material effect on the Company’s unaudited condensed consolidated financial statements.

In December 2007, the FASB issued SFAS No. 141(R), *Business Combinations*, which SFAS is now a sub-topic within ASC 805, *Business Combinations*. ASC 805-10 replaced SFAS No. 141, mandating changes in the accounting for business combinations most notably that changes in purchase price allocations, if made, are required to be applied retrospectively, whereas under SFAS No. 141, such changes were applied prospectively. ASC 805-10 was effective for an entity’s fiscal year beginning after December 15, 2008, and early adoption was not permitted. The Company cannot anticipate whether ASC 805-10 will have a material effect on its unaudited condensed consolidated financial statements as such effect would be solely dependent on whether or when the Company enters into business combinations in the future and the terms of such transactions.

In March 2008, the FASB issued SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities – an amendment of FASB Statement No. 133*, which SFAS is now a sub-topic within ASC 815, *Derivatives and Hedging*. ASC 815-10 requires enhanced disclosures about an entity’s derivative and hedging activities, and is effective for financial statements issued for fiscal years beginning after November 2008. Adoption of ASC 815-10 did not have a material effect on our unaudited condensed consolidated financial statements.

In November 2008, the SEC issued its “Roadmap for the Potential Use of Financial Statements Prepared in Accordance with International Financial Reporting Standards by U.S. Issuers” (“IFRS Roadmap”). The IFRS Roadmap would require SEC registrants to prepare their financial statements in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board in 2014. IFRS is increasingly being applied by financial statement preparers in countries outside the U.S. One of the stated purposes of the IFRS Roadmap is that adopting IFRS will provide a global set of high-quality accounting standards so that U.S. investors would have an enhanced ability to compare financial information of U.S. companies with that of non-U.S. Companies. In issuing the IFRS Roadmap, the SEC stated that, in 2011, it will determine whether to proceed with rulemaking to require the use of IFRS by U.S. registrants beginning in 2014. The comment period on the IFRS Roadmap ended in April 2009. Further definitive guidance from the SEC regarding the IFRS Roadmap is pending. Management is assessing the potential impact of adopting IFRS on the Company’s unaudited condensed consolidated financial statements.

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

ASC 855, *Subsequent Events* (formerly SFAS No. 165), was issued in May 2009, effective for interim and annual periods ending after June 15, 2009 and extends disclosure requirements of subsequent events to include the date through which subsequent events have been evaluated for adjustment to or disclosure in financial statements and the basis for that date. The date to be used will represent either the date the financial statements were “issued” or the date such financial statements were “available to be issued”. ASC 855 defines “issued” as the date when financial statements are widely distributed to shareholders and other financial statement users for general use and reliance in a form and format that complies with the Codification and defines “available to be issued” as financial statements that are complete in a form and format that complies with the Codification and all approvals necessary for issuance have been obtained. As an SEC registrant, the Company is required to evaluate subsequent events through the date its

Interactive Brokers Group, Inc. and Subsidiaries

Notes to Unaudited Condensed Consolidated Financial Statements (Continued)

(dollars in thousands, except shares and per share amounts, unless otherwise noted)

financial statements are issued. Adoption of ASC 855 did not have a material effect on the Company's unaudited condensed consolidated financial statements.

ASC 860, *Transfers and Servicing*, incorporates former SFAS No. 166, *Accounting for Transfers of Financial Assets, an amendment of FASB No. 140*, which was issued in June 2009 and will be effective for interim and annual periods beginning after January 1, 2010. These pending provisions of ASC 860 will require more information about transfers of financial assets, including securitization transactions, and where entities have continuing exposure to the risks related to transferred financial assets. The concept of a "qualifying special-purpose entity" ("SPE") is eliminated under these pending provisions of ASC 860, which also changes the requirements for derecognizing financial assets and requires additional disclosures. Management is assessing the potential impact of adopting these pending provisions of ASC 860 on the Company's unaudited condensed consolidated financial statements.

ASC 810, *Consolidations*, incorporates former SFAS No. 167, *Amendments to FASB Interpretation No. 46(R)*. These pending provisions of ASC 810 revise former FASB Interpretation No. 46 (Revised December 2003), *Consolidation of Variable Interest Entities*, and changes how a reporting entity determines when an entity that is insufficiently capitalized or is not controlled through voting (or similar rights) and therefore should be consolidated. Consolidation of Variable Interest Entities ("VIE's") would be based on the target entity's purpose and design as well as the reporting entity's ability to direct the target's activities, among other criteria. SFAS No. 167 was issued in June 2009 and will be effective for interim and annual periods beginning after January 1, 2010. Management is assessing the potential impact of adopting these pending provisions of ASC 810 on the Company's unaudited condensed consolidated financial statements.

3. Trading Activities and Related Risks

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

- a regular review of the risk management process by executive management as part of its oversight role;
- defined risk management policies and procedures supported by a rigorous analytic framework; and
- articulated risk tolerance levels as defined by executive management that are regularly reviewed to ensure that IBG, Inc.'s risk-taking is consistent with its business strategy, capital structure, and current and anticipated market conditions.

Market Risk

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

Equity Price Risk

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

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 securities owned and securities sold but not yet purchased. IBG, Inc. attempts to limit such risks by continuously reevaluating prices and by diversifying its portfolio across many different options, futures and underlying securities and avoiding concentrations of positions based on the same underlying security.

Currency Risk

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

Interactive Brokers Group, Inc. and Subsidiaries

Notes to Unaudited Condensed Consolidated Financial Statements (Continued)

(dollars in thousands, except shares and per share amounts, unless otherwise noted)

Interest Rate Risk

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

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. 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. 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.

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. 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.

Liabilities to other brokers and dealers related to unsettled transactions (i.e., securities failed-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 failed-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 September 30, 2009, the Company did not have any concentrations of credit risk.

Off-Balance Sheet Risks

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

4. Equity and Earnings Per Share

In connection with its IPO in May 2007, IBG, Inc. purchased 10.0% of the membership interests in IBG LLC from IBG Holdings LLC, became the sole managing member of IBG LLC and began to consolidate IBG LLC's financial results into its financial statements. IBG Holdings LLC wholly owns all Class B common stock, which common stock has voting rights in proportion to its ownership interests in IBG LLC, approximately 89.5% as of September 30, 2009. The unaudited condensed consolidated financial statements reflect the results of operations and financial position of IBG, Inc., including consolidation of its investment in IBG LLC, and IBG Holdings LLC's ownership interests in IBG LLC are reported as non-controlling interests.

Interactive Brokers Group, Inc. and Subsidiaries

Notes to Unaudited Condensed Consolidated Financial Statements (Continued)

(dollars in thousands, except shares and per share amounts, unless otherwise noted)

Adoption of ASC 810 as of January 1, 2009 (Note 2) required the Company to report non-controlling interests in subsidiaries (formerly reported as “minority interests”) as a separate component of equity in the current period and had the retrospective effect of increasing reported equity in the unaudited condensed consolidated statement of financial position by \$3,894,207 as of December 31, 2008.

Recapitalization and Post-IPO Capital Structure

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

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

The Exchange Agreement also provides for future redemptions of member interests and for the purchase of member interests in IBG LLC by IBG, Inc. from IBG Holdings LLC, which is expected to result in IBG, Inc. acquiring the remaining member interests in IBG LLC that it does not own. On an annual basis, holders of IBG Holdings LLC member interests will be able to request redemption of such member interests over an eight (8) year period following the IPO; 12.5% annually for seven (7) years and 2.5% in the eighth year. The primary manner in which redemptions are expected to be funded is from the proceeds from sales of additional shares of Common Stock, although there have been no such additional sales of Common Stock through September 30, 2009. Three hundred sixty (360) million shares of authorized Common Stock were reserved for such future sales.

As an alternative to the sale of Common Stock by the Company, the Exchange Agreement provides that IBG LLC, using its available liquidity, may facilitate the redemption by IBG Holdings LLC of interests held by its members. In lieu of public offerings, and with the consent of IBG Holdings LLC and IBG, Inc. (on its own behalf and acting as the sole managing member of IBG LLC), in May 2008 and 2009, IBG LLC agreed to redeem membership interests from IBG Holdings LLC as follows:

	Fair Value	Price per Equivalent Class A Share
2008	\$ 72,015	\$ 29.99
2009	14,738	14.85

As a consequence of these transactions, and distribution of shares to employees (Note 6), IBG, Inc.’s interest in IBG LLC has increased to approximately 10.5%, with IBG Holdings LLC owning the remaining 89.5% as of September 30, 2009. The redemptions also resulted in an increase in the IBG Holdings LLC interest held by Thomas Peterffy and his affiliates from approximately 84.6% at the IPO to approximately 85.4%.

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

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. A deferred tax asset of \$380,785 was recorded as of the IPO date, which deferred tax asset is being amortized as additional deferred income tax expense over 15 years, as allowable under current tax law. As of September 30, 2009 and December 31, 2008, the unamortized balance of the deferred tax asset was \$337,886 and \$351,632, respectively. IBG, Inc. also entered into an agreement (the "Tax Receivable Agreement") with IBG Holdings LLC to pay IBG Holdings LLC (for the benefit of the former members of IBG LLC) 85% of the tax savings that IBG, Inc. actually realizes as the result of the tax basis increase. As of the IPO date, a payable to IBG Holdings LLC of \$323,668 was recorded by IBG, Inc. Amounts payable under the Tax Receivable Agreement are subject to repayment to IBG Holdings LLC annually upon the filing of IBG, Inc.'s federal income tax return. The remaining 15%, \$57,117, was accounted for as a permanent increase to additional paid-in capital in the unaudited condensed consolidated statement of financial condition. In December 2008, the Company paid IBG Holdings LLC \$9,898 pursuant to the terms of the Tax Receivable Agreement.

Interactive Brokers Group, Inc. and Subsidiaries

Notes to Unaudited Condensed Consolidated Financial Statements (Continued)

(dollars in thousands, except shares and per share amounts, unless otherwise noted)

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 Note 2 and in this Note 4, Class B common stock has voting power in IBG, Inc. proportionate to the extent of IBG Holdings LLC's ownership of IBG LLC. At September 30, 2009, 1,000,000,000 shares of Class A common stock are authorized, of which 45,336,255 shares have been issued as of September 30, 2009 and December 31, 2008. 41,214,498 and 40,536,615 shares were outstanding as of September 30, 2009 and December 31, 2008, respectively. Class B common stock is comprised of 100 authorized shares, of which 100 shares were issued and outstanding as of September 30, 2009 and December 31, 2008. In addition, 10,000 shares of preferred stock have been authorized, of which no shares are issued or outstanding as of September 30, 2009 and December 31, 2008.

Stock Repurchase Program

On September 26, 2008, the Company announced that the Board of Directors had approved the repurchase by IBG LLC of up to eight (8) million shares of its Class A common stock. Shares may be purchased from time to time in the open market and in private transactions if the Company deems the price appropriate. In November 2008, 65,800 shares were repurchased at a cost of \$866, and are being held as Treasury Stock.

Earnings per Share

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

	Three months ended September 30,		Nine months ended September 30,	
	2009	2008	2009	2008
Basic earnings per share:				
Net income available for common stockholders	\$ 8,410	\$ 27,147	\$ 33,850	\$ 72,686
Weighted average shares of common stock outstanding:				
Class A	41,214,498	40,602,415	40,891,741	40,386,479
Class B	100	100	100	100
	41,214,598	40,602,515	40,891,841	40,386,579
Basic earnings per share	\$0.20	\$ 0.67	\$ 0.83	\$ 1.80

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 (2008 as adjusted):

	Three months ended September 30,	Nine months ended September 30,
--	-------------------------------------	------------------------------------

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

	2009	2008	2009	2008
Diluted earnings per share:				
Net income available for common stockholders - basic	\$ 8,410	\$ 27,147	\$ 33,850	\$ 72,686
Adjustments for potentially dilutive common shares	-	-	-	-
Net income available for common stockholders	\$ 8,410	\$ 27,147	\$ 33,850	\$ 72,686
Weighted average shares of common stock outstanding:				
Class A:				
Issued and outstanding	41,214,498	40,602,415	40,891,741	40,386,479
Potentially dilutive common shares:				
Issuable pursuant to 2007 ROI Unit Stock Plan	758,920	948,376	848,888	1,053,245
Class B	100	100	100	100
	41,973,518	41,550,891	41,740,729	41,439,824
Diluted earnings per share	\$ 0.20	\$ 0.65	\$ 0.81	\$ 1.75

Interactive Brokers Group, Inc. and Subsidiaries

Notes to Unaudited Condensed Consolidated Financial Statements (Continued)

(dollars in thousands, except shares and per share amounts, unless otherwise noted)

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

Financial instruments owned, including those pledged as collateral, and financial instruments sold, but not yet purchased consisted of the following, at fair value, at September 30, 2009 and December 31, 2008:

	September 30, 2009		December 31, 2008	
	Owned	Sold, But Not Yet Purchased	Owned	Sold, But Not Yet Purchased
Stocks	\$ 3,502,318	\$ 4,861,634	\$ 2,841,974	\$ 5,365,694
Options	6,458,034	5,799,156	7,893,668	8,110,754
U.S. and foreign government obligations	108,333	-	286,563	-
Warrants	73,602	-	78,382	-
Corporate bonds	60,734	59,871	4,671	52
Discount certificates	47,510	-	8,171	-
Currency forward contracts	-	2,992	1,232	257
	\$ 10,250,531	\$ 10,723,653	\$ 11,114,661	\$ 13,476,757

The following tables set forth, by level within the fair value hierarchy (Note 2), financial instruments owned and financial instruments sold, but not yet purchased, which consisted of the following, at fair value as of September 30, 2009 and December 31, 2008. As required by ASC 820, assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement.

Financial Assets At Fair Value as of September 30, 2009

	Level 1	Level 2	Level 3	Total
Securities owned:				
Stocks	\$ 3,502,318	\$ -	\$ -	\$ 3,502,318
Options	6,458,034			6,458,034
U.S. and foreign government obligations	108,333			108,333
Warrants	73,602			73,602
Corporate bonds	60,734			60,734
Discount certificates	47,510			47,510
	\$ 10,250,531	\$ -	\$ -	\$ 10,250,531

Financial Liabilities At Fair Value as of September 30, 2009

	Level 1	Level 2	Level 3	Total
Securities sold, not yet purchased:				
Stocks	\$ 4,861,634	\$ -	\$ -	\$ 4,861,634
Options	5,799,156			5,799,156

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

Financial Assets At Fair Value as of September 30, 2009

Corporate bonds	59,871			59,871
Currency forward contracts	-	2,992		2,992
	\$ 10,720,661	\$ 2,992	\$ -	\$ 10,723,653

Interactive Brokers Group, Inc. and Subsidiaries**Notes to Unaudited Condensed Consolidated Financial Statements (Continued)**

(dollars in thousands, except shares and per share amounts, unless otherwise noted)

Financial Assets At Fair Value as of December 31, 2008

	Level 1	Level 2	Level 3	Total
Securities owned:				
Stocks	\$ 2,841,974	\$ -	\$ -	\$ 2,841,974
Options	7,893,668			7,893,668
U.S. and foreign government obligations	286,563			286,563
Warrants	78,382			78,382
Corporate bonds	4,671			4,671
Discount certificates	8,171			8,171
Currency forward contracts	-	1,232		1,232
	\$ 11,113,429	\$ 1,232	\$ -	\$ 11,114,661

Financial Liabilities At Fair Value as of December 31, 2008

	Level 1	Level 2	Level 3	Total
Securities sold, not yet purchased:				
Stocks	\$ 5,365,694	\$ -	\$ -	\$ 5,365,694
Options	8,110,754			8,110,754
Corporate bonds	52			52
Currency forward contracts	-	257		257
	\$ 13,476,500	\$ 257	\$ -	\$ 13,476,757

6. 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 September 30, 2009 and December 31, 2008, payables to employees for ROI Dollar Units were \$21,971 and \$24,158, respectively. Of these payable amounts, \$6,633 and \$3,769 were vested as of September 30, 2009 and December 31, 2008, respectively. 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 statement of income was \$3,628 and \$5,713 for the nine month periods ended September 30, 2009 and 2008, respectively.

2007 ROI Unit Stock Plan

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

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 \$38,143, were issued to IBG LLC, to be held as Treasury stock, to be distributed to employees in accordance with the following schedule, 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

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

- 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, \$17,806 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 Group 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 statement of income for the nine month periods ended September 30, 2009 and 2008 was \$2,791 and \$3,737, respectively. Estimated future compensation costs for unvested awards at September 30, 2009 were \$13 million.

2007 Stock Incentive Plan

Under the Interactive Brokers Group, Inc. 2007 Stock Incentive Plan (the "Stock Incentive Plan"), up to 9.2 million shares of Common Stock may be granted and issued to directors, officers, employees, contractors and consultants of 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 unissued shares of Common Stock awarded under the Stock Incentive Plan, or provide that any such granted but unissued shares of Common Stock 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 of Common Stock 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 granted are issued to IBG LLC, to be held as Treasury Stock, and are distributable to employees in accordance with the following schedule:

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

Shares granted to directors vest, and are distributed, over a five-year period (20% per year) commencing one year after the date of grant. 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 (\$000's)
In connection with IPO	927,943	\$ 27,847
July 31, 2007	16,665	404
December 31, 2007	1,055,206	32,876
December 31, 2008	2,065,432	35,600

4,065,246

\$ 96,727

20

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

Of the fair value of shares granted in connection with the IPO, at the date of grant, \$14,674 represented compensation accrued as of December 31, 2006 to former members of IBG LLC, with the remainder to be ratably accrued as compensation expense by the Group from the date of the IPO over the requisite service period represented by the aforementioned distribution schedule.

Estimated future grants under the Stock Incentive Plan are being accrued ratably each year under the ASC 718 "Graded Vesting" method. Compensation expense recognized in the unaudited condensed consolidated statement of income for the nine month periods ended September 30, 2009 and 2008 was \$20,987 and \$16,918, respectively. Estimated future compensation costs for unvested awards at September 30, 2009 were \$35.4 million.

The following is a summary of Stock Plan activity for the period from January 1 through September 30, 2009:

	Shares	
	2007 Stock Incentive Plan	2007 ROI Unit Stock Plan
Balance, December 31, 2008	3,715,073	926,813
Granted	-	-
Forfeited	(24,467)	(1,049)
Distributed	(490,029)	(187,854)
Balance, September, 2009	3,200,577	737,910

On May 11, 2009, 677,883 shares of Common Stock, with a total grant date fair value of \$17.9 million were distributed to employees and directors pursuant to the 2007 ROI Unit Stock Plan and the Stock Incentive Plan. As provided for under the terms of the plans, certain employees elected to sell, and the Company facilitated the sale of, 175,362 of the distributed shares to meet the employees' personal income tax withholding obligations arising from this share distribution.

Shares granted under the 2007 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 shares unless the employee is over the age of 59, in which case the employee would be eligible to receive 100% of unvested shares previously granted. Distributions of remaining shares to former employees will occur annually following the discontinuation of employment over a five (5) year vesting schedule, 12.5% in each of the first four years and 50% in the fifth year. As of September 30, 2009, no shares have been distributed under these post-employment provisions.

7. Senior Secured Revolving Credit Facility

On May 19, 2009, IBG LLC entered into a \$100 million one-year senior secured revolving credit facility with Bank of America, N.A. as administrative agent and Citibank, N.A., as syndication agent. IBG LLC is the sole borrower under this credit facility, which is required to be guaranteed by IBG LLC's domestic non-regulated subsidiaries (currently there are no such entities). The facility's interest rate is indexed to the overnight federal funds rate or to the 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 covenants contained in this credit facility are as follows:

- minimum consolidated shareholders' equity, as defined, of \$3.3 billion, with quarterly increases equal to 25% of positive unaudited condensed consolidated income;
- 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%.

Interactive Brokers Group, Inc. and Subsidiaries

Notes to Unaudited Condensed Consolidated Financial Statements (Continued)

(dollars in thousands, except shares and per share amounts, unless otherwise noted)

As of September 30, 2009, no borrowings were outstanding under this credit facility and IBG LLC was in compliance with all of the covenants. This credit facility replaced a \$300 million senior secured revolving credit facility that matured on May 19, 2009. Since we maintain a highly liquid balance sheet, the change in the maximum borrowing amount under this new credit facility will not have a material impact on our future sources of cash.

8. Commitments, Contingencies and Guarantees

Litigation

IBG, Inc. 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. cannot predict with certainty 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. Consequently, IBG, Inc. cannot estimate losses or ranges of losses related to such legal matters, even in instances where it is reasonably possible that a future loss will be incurred.

IBG, Inc. accounts for potential losses related to litigation in accordance with ASC 450, *Contingencies* (formerly SFAS No. 5). As of September 30, 2009 and December 31, 2008, 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* (formerly FIN No. 45). Under the standard membership agreement, members are required to guarantee collectively the performance of other members. Under the agreements, if another member becomes unable to satisfy its obligations to the clearinghouse, 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 on the unaudited condensed consolidated statements of financial condition for these arrangements.

In connection with its retail brokerage business, IB LLC performs securities and commodities execution, clearance and settlement on behalf of its customers for whom it commits to settle trades submitted by such customers with the respective clearing houses. If a customer fails to fulfill its obligation, IB LLC must fulfill the customer's obligation with the trade counterparty. No contingent liability is carried on the unaudited condensed consolidated statements of financial condition for such customer obligations.

IB LLC is fully secured by assets in customers' accounts and any proceeds received from securities and commodities transactions entered into by IB LLC on behalf of customers. No contingent liability is carried on the unaudited condensed consolidated statements of financial condition for these fully collateralized transactions.

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.

9. Segment and Geographic Information

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

IBG, Inc. operates in two business segments, market making and electronic brokerage. IBG, Inc. 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.

There are significant transactions and balances between the Operating Companies, 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. Intra-segment and intra-region income and expenses and related balances have been eliminated in this segment and geographic information in order to accurately reflect the external business conducted in each segment or geographical region. Rates on transactions between segments are designed to approximate full costs. Corporate items include non-allocated corporate income and expenses that are not attributed to segments for performance measurement, corporate assets and eliminations.

Interactive Brokers Group, Inc. and Subsidiaries**Notes to Unaudited Condensed Consolidated Financial Statements (Continued)**

(dollars in thousands, except shares and per share amounts, unless otherwise noted)

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 nine month periods ended September 30, 2009 and 2008, and to total assets as of September 30, 2009 and December 31, 2008:

	Three months ended September 30,		Nine months ended September 30,	
	2009	2008	2009	2008
Net revenues:				
Market making	\$ 150,182	\$ 359,572	\$ 551,117	\$ 1,034,646
Electronic brokerage	121,486	134,479	349,267	386,997
Corporate and eliminations	(176)	3,008	(453)	(650)
Total net revenues	\$ 271,492	\$ 497,059	\$ 899,931	\$ 1,420,993
Income before income taxes:				
Market making	\$74,605	\$283,003	\$334,329	\$805,979
Electronic brokerage	62,090	63,787	169,623	180,906
Corporate and eliminations	(3,428)	664	(11,630)	(6,007)
Total income before income taxes	\$ 133,267	\$ 347,454	\$ 492,322	\$ 980,878

	September 30, 2009	December 31, 2008
Segment assets:		
Market making	\$ 18,551,165	\$ 21,227,371
Electronic brokerage	11,399,266	8,152,375
Corporate and eliminations	(1,104,956)	(1,023,111)
Total assets	\$ 28,845,475	\$ 28,356,635

IBG, Inc. operates its automated global business in U.S. and international markets on more than 80 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 market making and electronic brokerage activities in 27 countries in Europe, Asia and North America (outside the United States). The following table presents total net revenues and income before income taxes by geographic area for the three and nine month periods ended September 30, 2009 and 2008:

	Three months ended September 30,		Nine months ended September 30,	
	2009	2008	2009	2008
Net revenues:				
United States	\$ 209,104	\$ 244,157	\$ 612,925	\$ 820,646
International	62,458	255,943	287,408	606,982
Corporate and eliminations	(70)	(3,041)	(402)	(6,635)
Total net revenues	\$ 271,492	\$ 497,059	\$ 899,931	\$ 1,420,993

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

Income before income taxes:				
United States	\$ 124,446	\$ 150,719	\$ 362,293	\$ 537,119
International	12,208	202,047	141,649	455,684
Corporate and eliminations	(3,387)	(5,312)	(11,620)	(11,925)
Total income before income taxes	\$ 133,267	\$ 347,454	\$ 492,322	\$ 980,878

23

Interactive Brokers Group, Inc. and Subsidiaries

Notes to Unaudited Condensed Consolidated Financial Statements (Continued)

(dollars in thousands, except shares and per share amounts, unless otherwise noted)

10. Regulatory Requirements

At September 30, 2009, aggregate excess regulatory capital for all of the Operating Companies was \$3,070,109.

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). At September 30, 2009, TH LLC had net capital of \$1,039,658, which was \$1,017,534 in excess of required net capital of \$22,124, and IB LLC had net capital of \$753,009, which was \$678,891 in excess of required net capital of \$74,118.

THE is subject to the Swiss National Bank eligible equity requirement. At September 30, 2009, THE had eligible equity of \$1,431,406, which was \$1,059,135 in excess of the minimum requirement of \$372,271.

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 Services Authority 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.

At September 30, 2009, all of the Operating Companies were in compliance with their respective regulatory capital requirements.

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.

11. Related Party Transactions

Receivable from affiliate represents amounts advanced to IBG Holdings LLC. Included in receivable from and payable to customers in the accompanying unaudited condensed consolidated statement of financial condition as of September 30, 2009 and December 31, 2008 were account receivables of directors, officers and their affiliates of \$25,612 and \$71,823 and payables of \$158,602 and \$55,113, respectively. Included in senior notes payable at September 30, 2009 and December 31, 2008 were senior notes purchased by directors and their affiliates of \$13,946 and \$9,492, respectively.

12. Subsequent Events

As required by ASC 855-10-50 (formerly paragraph 12 of SFAS No. 165), the Company has evaluated subsequent events for adjustment to or disclosure in its unaudited condensed consolidated financial statements through November 9, 2009, the date the unaudited condensed consolidated financial statements were issued. No recordable or disclosable events occurred through this date.

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 SEC on March 2, 2009 and elsewhere in this report.

Introduction

IBG, Inc. is a holding company whose primary asset is ownership of approximately 10.5% of the membership interests of the Group.

We are an automated global electronic market maker and broker specializing in routing orders and executing and processing trades in securities, futures and foreign exchange instruments on more than 80 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 19 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, market making and electronic brokerage. These segments are analyzed separately as we derive our revenues from these two principal business activities as well as allocate resources and assess performance.

- *Market Making.* We conduct our market making business through our TH 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 approximately 573,000 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, thus 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.
- *Electronic Brokerage.* We conduct our electronic brokerage business through our 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 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 and forex, traded on more than 80 exchanges and market centers and in 19 countries around the world seamlessly.

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

Executive Overview

Third Quarter Results: Diluted earnings per share were \$0.20 for the three months ended September 30, 2009, 69% lower than the \$0.65 for the three months ended September 30, 2008, which was one of our most profitable quarters.

Consolidated: For the three months ended September 30, 2009, our net revenues were \$271.5 million and income before income taxes was \$133.1 million, compared to net revenues of \$497.1 million and income before income taxes of \$347.5 million for the same period in 2008. Trading gains decreased 57% in the three months ended September 30, 2009, compared to the same period last year and commissions and execution fees decreased by 9% for the same time period. Net interest income decreased 51% in the three months ended September 30, 2009, compared to the same period last year due to the low interest rate environment. Our pre-tax margin for the three months ended September 30, 2009 was 49%, compared to 70% for the same period in 2008.

Market Making: During the three months ended September 30, 2009, income before income taxes in our market making segment decreased 74%, compared with the same period in 2008, reflecting lower trading gains. During the third quarter of 2009, options bid/offer spreads continued to contract, though less dramatically than in the first two quarters of 2009, which adversely affected trading gains. Lower volatility levels during the quarter allowed us to maintain our long volatility strategy, though an unusually low ratio of

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

actual to implied volatility during the quarter negatively affected our earnings. Pre-tax margin decreased to 50% in the third quarter of 2009 compared to 79% in the same period of 2008.

Brokerage: During the three months ended September 30, 2009, income before income taxes in our electronic brokerage segment decreased 3% compared to the same period in 2008, reflecting lower commission revenues which were offset by lower execution and clearing expenses, as well as, a reduction in net interest income from the same period last year, which was attributable to a lower interest rate environment. Pre-tax margin increased from 47% to 51% in the same time periods. Total Daily Average Revenue Trades (“DARTs”) for cleared and execution-only customers decreased 10% to approximately 340,000 during the three months ended September 30, 2009, compared to approximately 377,000 during the three months ended September 30, 2008. The number of customer accounts grew 5% from the second quarter of 2009.

Nine months results: Diluted earnings per share were \$0.81 for the nine months ended September 30, 2009, 54% lower than the \$1.75 for the nine months ended September 30, 2008, which was one of our most profitable periods.

Consolidated: For the nine months ended September 30, 2009, our net revenues were \$899.9 million and income before income taxes was \$492.3 million, compared to net revenues of \$1,421.0 million and income before income taxes of \$980.9 million for the same period in 2008. Trading gains decreased 44% in the nine months ended September 30, 2009, compared to the same period last year and commissions and execution fees decreased 3% compared to the year-ago period, while net interest income decreased 59%. Our pre-tax margin for the nine months ended September 30, 2009 was 55%, compared to 69% for the same period in 2008.

Market Making: During the nine months ended September 30, 2009, income before income taxes in our market making segment decreased 59%, compared with the same period in 2008. This was driven by tighter bid/offer spreads which began early in the year and a lower ratio of actual to implied volatility levels. Pre-tax margin decreased to 61% in the first nine months of 2009 compared to 78% in the same period of 2008.

Brokerage: During the nine months ended September 30, 2009, income before income taxes in our electronic brokerage segment fell 6% compared to the same period in 2008, driven by a significant reduction in net interest income due to a lower interest rate environment. As a result of lower execution and clearing expenses, pre-tax margin increased from 47% to 49% between the two comparative time periods. Customer equity grew by 43% to \$13.4 billion at September 30, 2009, compared to \$9.4 billion at September 30, 2008. The number of customer accounts grew 20% from the year ago quarter.

Market making, by its nature, does not produce predictable earnings. Our results in any given period may be materially affected by volumes in the global financial markets, the level of competition and other factors. Electronic brokerage is more predictable, but it is dependent on customer activity, growth in customer accounts and assets, interest rates and other factors. For a further discussion of the factors, that may affect our future operating results, please see the description of risk factors in our Annual Report on Form 10-K filed with the SEC on March 2, 2009.

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

TRADE VOLUMES:

(in 000's, except %)

<u>Period</u>	<u>Market Making Trades</u>	<u>% Change</u>	<u>Brokerage Cleared Trades</u>		<u>Brokerage Non Cleared Trades</u>		<u>Total Trades</u>	<u>% Change</u>	<u>Avg. Trades per U.S. Trading Day</u>
			<u>% Change</u>	<u>% Change</u>	<u>% Change</u>	<u>% Change</u>			
2003	32,772		22,748		2,367		57,887		230
2004	41,506	27%	28,876	27%	2,932	24%	73,314	27%	290
2005	54,044	30%	34,800	21%	7,380	152%	96,224	31%	382
2006	66,043	22%	51,238	47%	12,828	74%	130,109	35%	518
2007	99,086	50%	72,931	42%	16,638	30%	188,655	45%	752
2008	101,672	3%	120,195	65%	16,966	2%	238,833	27%	944
3Q2008	25,045		32,840		4,336		62,221		972
3Q2009	22,692	-9%	32,231	-2%	3,246	-25%	58,169	-7%	909

CONTRACT AND SHARE VOLUMES:

(in 000's, except %)

TOTAL

<u>Period</u>	<u>Options (contracts)</u>	<u>% Change</u>	<u>Futures* (contracts)</u>	<u>% Change</u>	<u>Stocks (shares)</u>	<u>% Change</u>
2003	194,358		31,034		17,038,250	
2004	269,715	39%	37,748	22%	17,487,528	3%
2005	409,794	52%	44,560	18%	21,925,120	25%
2006	563,623	38%	62,419	40%	34,493,410	57%
2007	673,144	19%	83,134	33%	47,324,798	37%
2008	757,732	13%	108,984	31%	55,845,428	18%
3Q2008	204,552		28,928		14,489,937	
3Q2009	156,352	-24%	19,480	-33%	20,787,693	43%

MARKET MAKING

<u>Period</u>	<u>Options (contracts)</u>	<u>% Change</u>	<u>Futures* (contracts)</u>	<u>% Change</u>	<u>Stocks (shares)</u>	<u>% Change</u>
2003	177,459		6,638		12,578,584	
2004	236,569	33%	10,511	58%	12,600,280	0%
2005	308,613	30%	11,551	10%	15,625,801	24%
2006	371,929	21%	14,818	28%	21,180,377	36%
2007	447,905	20%	14,520	-2%	24,558,314	16%
2008**	514,629	15%	21,544	48%	26,008,433	6%
3Q2008	137,376		5,581		6,145,983	
3Q2009	100,624	-27%	3,673	-34%	6,373,930	4%

BROKERAGE TOTAL

<u>Period</u>	<u>Options (contracts)</u>	<u>% Change</u>	<u>Futures* (contracts)</u>	<u>% Change</u>	<u>Stocks (shares)</u>	<u>% Change</u>
2003	16,898		24,396		4,459,667	
2004	33,146	96%	27,237	12%	4,887,247	10%
2005	101,181	205%	33,009	21%	6,299,319	29%
2006	191,694	89%	47,601	44%	13,313,033	111%
2007	225,239	17%	68,614	44%	22,766,484	71%
2008	243,103	8%	87,440	27%	29,836,995	31%
3Q2008	67,176		23,347		8,343,954	
3Q2009	55,728	-17%	15,807	-32%	14,413,763	73%

* Includes options on futures

** In Brazil, an equity option contract typically represents 1 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.

27

CONTRACT AND SHARE VOLUMES, continued:*(in 000's, except %)***BROKERAGE CLEARED**

<u>Period</u>	<u>Options (contracts)</u>	<u>% Change</u>	<u>Futures* (contracts)</u>	<u>% Change</u>	<u>Stocks (shares)</u>	<u>% Change</u>
2003	11,351		19,086		3,612,503	
2004	16,438	45%	24,118	26%	4,339,462	20%
2005	23,456	43%	30,646	27%	5,690,308	31%
2006	32,384	38%	45,351	48%	12,492,870	120%
2007	51,586	59%	66,278	46%	20,353,584	63%
2008	77,207	50%	85,599	29%	26,334,752	29%
3Q2008	22,790		22,892		7,421,039	
3Q2009	25,433	12%	15,520	-32%	13,791,485	86%

* Includes options on futures

BROKERAGE STATISTICS:*(in 000's, except % and where noted)*

	<u>3Q2009</u>	<u>3Q2008</u>	<u>% Change</u>
Total Accounts	128	107	20
Customer Equity (in billions) *	\$13.4	\$9.4	43
Cleared DARTs	307	338	-9%
Total Customer DARTs	340	377	-10%
<i>(in \$'s, except DART per account)</i>			
Commission per DART	\$4.36	\$4.21	4
DART per Avg. Account (Annualized)	624	814	-23%
Net Revenue per Avg. Account (Annualized)	\$3,591	\$4,483	-20%

* Excluding non-customers

Business Environment

Our profitability as market makers is a function of trading volume, our share of that volume and the bid/offer spread in the market, the last of which is determined by competition among market participants. These factors, together with other random elements - such as rising or falling volatilities; implied vs. actual volatilities in the market; currency fluctuations; and sudden, large price moves in certain securities that may be correctly foreseen by some traders - will determine our profitability for any period.

Throughout 2009, the level of competition in the listed options market has been increasing, and as a result, bid/offer spreads have narrowed substantially, particularly in the U.S. This effect was more pronounced earlier in the year and has appeared to level off in the third quarter. We believe this heightened competition comes from trading operations that began shifting their profit seeking activities away from financial instruments that contributed to the financial turmoil of 2008, and towards the listed option markets. In addition, there is also an ever growing presence of high frequency traders (HFT's) in the listed options market. These traders compete with market makers, but receive certain customer preferences on exchanges. In the third quarter, one large U.S. options exchange has implemented new rules to identify and properly classify these traders as professional, thus removing certain advantages. While we are not yet able to gauge the impact of these rules, we anticipate a positive impact on our market share if the rules are effectively enforced.

Market volatilities have continued their descent from the extreme levels witnessed in 2008, though they remain at levels that are favorable for our trading strategies. Generally we maintain an overall long volatility position, which enables us to provide liquidity to buyers in up markets and sellers in down markets. When volatility rose to unusually high levels, as a protective measure we chose to curtail our long volatility position, which resulted in fewer trading opportunities for us. However, we have more recently been able to re-establish our long volatility strategy. When we are long volatility, the ratio of actual to implied volatility is more meaningful to our results. A higher ratio is generally favorable, while a lower ratio generally has a negative effect on our trading gains. In the third quarter, this ratio fell to approximately 67%, which is unusually low.

The electronic brokerage segment performance is less volatile than market making performance and is primarily driven by growth in customer trading volumes, which are impacted by trends in volatility levels and global trade volumes, and to a lesser extent by market prices. Market prices, as measured by the S&P 500 Index, declined about 20% on average from the year ago quarter, but increased about 12% during the third quarter of 2009. The majority of our customer base is comprised of experienced, professional traders who have shown greater resilience to severe market swings than average retail investors. Our customer accounts continue to grow and activity levels of cleared customers, which generate direct revenues for the brokerage segment, remain healthy.

According to data received from exchanges worldwide, volumes in exchange-listed equity-based options decreased by approximately 9.7% in the U.S. and 7.0% globally during the quarter ended September 30, 2009, compared to the same period in 2008. While investors are more cautious than they were a year ago, we believe the growth of the "equity culture" will continue and have a long-term positive effect on trading volumes.

According to data received from exchanges worldwide, during the third quarter of 2009 we accounted for approximately 10.5% of the exchange-listed equity based options (including options on ETF's and stock index products) volume traded worldwide and approximately 13.4% of exchange-listed equity based options volume traded in the U.S. This compares to approximately 12.9% of the exchange-listed equity based options volume traded worldwide and approximately 16.0% of the exchange-listed equity based options volume traded in the U.S. in the third quarter of 2008. The decrease in our market share can be attributed to our reduced participation in low priced / high volatility stocks, which are not ideal for our option pricing model, an increase in trading by HFT's, which have been taking an increasing share of the listed option volume, and the fact that many high volume options are now quoted so tightly, often a penny wide, that we are no longer on both the best bid and offer in every option. See the tables on pages 26-28 of this Quarterly report on Form 10-Q for additional details regarding our trade volumes, contract

and share volumes and brokerage statistics.

In September 2009, the SEC approved the expansion of the Penny Pilot program. The program was first introduced in February 2007 to cover 13 classes of options and has since been extended to cover 63 options classes that account for over 50% of U.S. options volume. Options in the pilot program trade in minimum increments of one cent, rather than the five and ten cent increments quoted in other option classes. This most recent approval will extend the proposed pilot through December 31, 2010 and add an additional 300 issues, for a total of 363 issues representing 85% of U.S. options volume. The expansion will be phased in on a quarterly basis, with the first 75 additional classes scheduled to begin being quoted in pennies in October 2009. The effect of this expansion on our results is difficult to estimate at this time as it will depend on the increase in trading volumes due to tighter bid/offer spreads relative to the increase in our market maker share as a result of new exchange rules to classify HFT's as professional customers.

Certain other potential regulatory changes are currently being reviewed and publicly debated, such as permanent adoption of regulations to curb abusive short selling of stocks and measures to increase transparency of the securities lending markets. If passed, these changes may impact our business.

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 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.
- 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.
- There has been increased scrutiny of equity and option market makers, hedge funds and soft dollar practices by the regulatory and legislative authorities. New legislation or modifications to existing regulations and rules could occur in the future.
- There has been consolidation among market centers over the past few years, which 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, generally, our profitability is increased when actual volatility runs above implied volatility and it is decreased when actual volatility falls below implied volatility. During periods of very high volatility this relationship may have less or no impact if we reduce our long volatility position. In addition, 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 2, 2009 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 calculation of diluted earnings per share has been changed to exclude shares of Class A Common Stock potentially issuable under the Exchange Agreement in exchange for interests in IBG LLC that the Company does not currently own as such shares are not dilutive. This change has no material effect on diluted earnings per share because it reduces diluted weighted average shares outstanding and diluted net income available for common stockholders proportionately. Diluted weighted average shares outstanding and diluted earnings per share have been calculated on this basis for all periods presented. See the notes to the unaudited condensed consolidated financial statements in Part 1 Item 1 of this Quarterly Report on Form 10-Q for more information regarding the calculation of earnings per share.

The following table sets forth our consolidated results of operations for the indicated periods:

	Three Months		Nine Months	
	Ended September 30, 2009	2008	Ended September 30, 2009	2008
	(in millions, except share and per share data)			
Revenues:				
Trading gains	\$ 154.7	\$ 361.4	\$ 558.8	\$ 1,006.0
Commissions and execution fees	89.0	98.2	263.5	271.9
Interest income	29.9	101.1	89.7	373.8
Other income	13.0	7.2	42.0	55.8
Total revenues	286.6	567.9	954.0	1,707.5
Interest expense	15.1	70.8	54.1	286.5
Total net revenues	271.5	497.1	899.9	1,421.0
Non-interest expenses:				
Execution and clearing	69.5	82.9	201.4	244.0
Employee compensation and benefits	43.0	39.5	128.3	119.4
Occupancy, depreciation and amortization	10.0	10.5	29.5	27.6
Communications	6.1	4.8	16.6	13.4
General and administrative	9.8	11.9	31.8	35.7
Total non-interest expenses	138.4	149.6	407.6	440.1
Income before income taxes	133.1	347.5	492.3	980.9
Income tax expense	12.9	32.4	50.1	94.4
Net income	120.2	315.1	442.2	886.5
Net income attributable to non-controlling interests	111.7	287.9	408.3	813.8
Net income available for common shareholders	\$ 8.5	\$ 27.2	\$ 33.9	\$ 72.7
Earnings per share:				
Basic	\$ 0.20	\$ 0.67	\$ 0.83	\$ 1.80
Diluted	\$ 0.20	\$ 0.65	\$ 0.81	\$ 1.75

Weighted average common shares outstanding:

Basic	41,214,598	40,602,515	40,891,841	40,386,579
Diluted	41,973,518	41,550,891	41,740,729	41,439,824

Three Months Ended September 30, 2009 Compared to the Three Months Ended September 30, 2008

Net Revenues

Total net revenues for the three months ended September 30, 2009 decreased \$225.6 million or 45%, to \$271.5 million from \$497.1 million, during the three months ended September 30, 2008. Trading volume is one of the most important drivers of revenues and costs for both our market making and electronic brokerage segments. Based on data published by options exchanges worldwide, equity options volume during the three months ended September 30, 2009 in the U.S. decreased approximately 9.7%, compared to the same period in 2008 and global volumes decreased approximately 7.0% for the same periods. For the quarter ended September 30, 2009, options

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

contracts executed by our subsidiaries decreased by 48.2 million, or 24%, to 156.4 million contracts from 204.6 million contracts for the quarter ended September 30, 2008. This decrease came primarily from our market making activities.

Trading Gains. Trading gains for the three months ended September 30, 2009 decreased \$206.7 million, or 57%, to \$154.7 million from \$361.4 million for the three months ended September 30, 2008. As market makers, we provide liquidity by buying from sellers and selling to buyers. During the three months ended September 30, 2009, our market making operations executed 22.7 million trades, a decrease of 9% compared to the number of trades executed in the three months ended September 30, 2008. The decrease in volume took place in options and futures contracts. Market making stock volume in the quarter ended September 30, 2009 was slightly higher than in the comparable period in 2008. The decrease in trading gains was primarily due to tighter bid/offer spreads on exchange listed options versus the year ago quarter.

Included in trading gains are net dividends and currency translation gains and losses from market making activities. Dividend income and expense arise from holding market making positions over dates on which dividends are paid to shareholders of record. When a stock pays a dividend, its market price is generally adjusted downward to reflect the value paid to the shareholders of record, which will not be received by those who purchase stock after the ex-dividend date. Hence, the apparent gains and losses due to these price changes, reflecting the value of dividends paid to shareholders, must be taken together with the dividends paid and received, respectively, in order to accurately reflect the results of our market making operations. As part of managing our overall exposure to foreign currency fluctuations, we maintain a portion of our capital in foreign currencies. Translation gains of \$8.4 million were recognized in the three months ended September 30, 2009, on foreign currency balances held by our subsidiaries, compared to translation gains of \$5.5 million for the three months ended September 30, 2008. A discussion of our approach to managing foreign currency exposure is contained in Part I, Item 3 of this Quarterly Report on Form 10-Q entitled "Quantitative and Qualitative Disclosures about Market Risk."

Commissions and Execution Fees. Commissions and execution fees for the three months ended September 30, 2009 decreased \$9.2 million, or 9%, to \$89.0 million, as compared to the three months ended September 30, 2008. The decrease was due to lower overall futures volume and options volume from our execution-only customers. This was offset by increased options and stock volume from our cleared customers. Total DARTs for cleared and execution-only customers for the three months ended September 30, 2009 decreased 10% to approximately 340,000, compared to approximately 377,000 during the three months ended September 30, 2008. DARTs for cleared customers, i.e., customers for whom we execute trades as well as clear and carry positions, decreased 9% to approximately 307,000, for the three months ended September 30, 2009, compared to approximately 338,000 for the three months ended September 30, 2008. The number of customer accounts grew by 20% to approximately 128,000 at September 30, 2009, compared to approximately 107,000 at September 30, 2008. Average commission per DART for cleared customers, for the quarter ended September 30, 2009, increased by 4% to \$4.36, as compared to \$4.21 for the quarter ended September 30, 2008.

Interest Income and Interest Expense. Net interest income (interest income less interest expense) for the quarter ended September 30, 2009 decreased \$15.5 million, or 51%, to \$14.8 million, as compared to the quarter ended September 30, 2008. Net interest income was derived almost entirely from the electronic brokerage segment during the three months ended September 30, 2009. For market making, net interest declined \$8.0 million from the same period last year to \$1.3 million. As a result of the way we have integrated our market making and securities lending systems, our trading income and our net interest income are interchangeable and depend on the mix of market making positions in our portfolio. When implied interest rates in the equity and equity options and futures markets exceed the actual interest rates available to us, our market making systems tend to buy stock and sell it forward, which produces higher trading gains and lower net interest income. When these rates are inverted, our market making systems tend to sell stock and buy it forward, which produces lower trading gains and higher net interest income. The relative interest rates during the third quarter of 2009 resulted in a mix of positions that produced more trading income and less interest income. Lower net interest income also resulted from lower interest rates despite a somewhat larger short position. Average securities borrowed increased by 2%, to \$5.18 billion and average securities loaned decreased by 66%, to \$852 million, for the quarter ended September 30, 2009, as market making short stock positions expanded and our strong liquidity position reduced our financing needs in the securities lending markets. Customer cash balances increased by 42%, to \$9.97 billion, end-of-period, and customer fully secured margin borrowings increased 58%, to \$2.90 billion, end-of-period, at September 30, 2009, as compared to \$7.00 billion and \$1.83 billion, end-of-period, respectively, at September 30, 2008. Lower interest rates had a negative effect on the net interest income we earned on customer cash balances. The average Fed Funds effective rate dropped approximately 179 basis points to 0.15% for the quarter ended September 30, 2009 as compared to 1.94% for the quarter ended September 30, 2008. Net interest earned in electronic brokerage decreased \$5.4 million, or 27%, to \$14.6 million, as compared to the quarter ended September 30, 2008.

Other Income. Other income, for the three months ended September 30, 2009, increased \$5.8 million, or 81%, to \$13 million, as compared to the three months ended September 30, 2008. This increase was primarily attributable to non-recurrence of a \$10.0 million write down of our investment in W.R. Hambrecht + Co. Inc. during the third quarter of 2008. This was partially offset by a \$3.2 million decrease in payment for order flow income received by our brokerage unit, primarily due to increased options volume executed on exchanges using the make-or-take model where we are paid for providing liquidity and charged for taking liquidity instead of collecting payment for order flow.

Non-Interest Expenses

Non-interest expenses, for the three months ended September 30, 2009, decreased by \$11.2 million, or 7%, to \$138.4 million from \$149.6 million, during the three months ended September 30, 2008. The decrease was primarily due to lower execution and clearing fees partially offset by increased employee compensation and benefits. As a percentage of total net revenues, non-interest expenses increased to 51% for the three months ended September 30, 2009 from 30% during the same period in 2008.

Execution and Clearing. Execution and clearing expenses, for the three months ended September 30, 2009, decreased \$13.4 million, or 16%, to \$69.5 million, as compared to the three months ended September 30, 2008 primarily due to a shift in trade volume to products with lower costs or liquidity rebates; overall futures contracts decreased 33% while overall stock volume increased by 43% over the same period in 2008.

Employee Compensation and Benefits. Employee compensation and benefits expenses, for the three months ended September 30, 2009, increased by \$3.5 million, or 9%, to \$43.0 million, as compared to the three months ended September 30, 2008. This increase reflected the 9% growth in the average number of employees to 784 for the quarter ended September 30, 2009, as compared to 722 for the same period in 2008. As we continue to grow, our focus on automation has allowed us to maintain a relatively small staff. As a percentage of total net revenues, employee compensation and benefits expenses were 16% and 8%, for the three month periods ended September 30, 2009 and 2008, respectively.

General and Administrative. General and administrative expenses, for the three months ended September 30, 2009, decreased \$2.1 million, or 18%, to \$9.8 million, as compared to the three months ended September 30, 2008, primarily attributable to a reduction in customer bad debt reserves.

Nine months Ended September 30, 2009 Compared to the Nine months Ended September 30, 2008

Net Revenues

Total net revenues for the nine months ended September 30, 2009 decreased \$521.1 million, or 37%, to \$899.9 million from \$1,421.0 million, during the nine months ended September 30, 2008. Trading volume is one of the most important drivers of revenues and costs for both our market making and electronic brokerage segments. Based on data published by options exchanges worldwide, global equity options volume remained relatively flat during the first nine months of 2009 compared to the same period in 2008. U.S. equity options volume decreased approximately 0.6% between the same periods. For the nine months ended September 30, 2009, options contracts executed by our subsidiaries decreased by 91.4 million, or 16%, to 487.3 million contracts from 578.7 million contracts for the nine months ended September 30, 2008. The decrease came primarily from market making and brokerage for non-cleared customers.

Trading Gains. Trading gains for the nine months ended September 30, 2009 decreased \$447.2 million, or 44%, to \$558.8 million from \$1,006.0 million for the nine months ended September 30, 2008. As market makers, we provide liquidity by buying from sellers and selling to buyers. During the nine months ended September 30, 2009, our market making operations executed 73.9 million trades, an increase of 3% compared to the number of trades executed in the nine months ended September 30, 2008. However, market making options contract volume in the nine months ended September 30, 2009 decreased by 14% from the same period in 2008. Trading gains were negatively impacted by tighter bid offer spreads during the first nine months of 2009 versus the same period in 2008, as well as a lower actual to implied volatility ratio.

Included in trading gains are net dividends and currency translation gains and losses from market making activities. Dividend income and expense arise from holding market making positions over dates on which dividends are paid to shareholders of record. When a stock pays a dividend, its market price is generally adjusted downward to reflect the value paid to the shareholders of record, which will not be received by those who purchase stock after the ex-dividend date. Hence, the apparent gains and losses due to these price changes, reflecting the value of dividends paid to shareholders, must be taken together with the dividends paid and received, respectively, in order to accurately reflect the results of our market making operations. As part of managing our overall exposure to foreign currency fluctuations, we maintain a portion of our capital in foreign currencies. Translation gains of \$24.8 million were recognized in the nine months ended September 30, 2009, on foreign currency balances held by our subsidiaries, compared to translation gains of \$6.7 million for the nine months ended September 30, 2008. A discussion of our approach to managing foreign currency exposure is contained in Part I, Item 3 of this Quarterly Report on Form 10-Q entitled "Quantitative and Qualitative Disclosures about Market Risk."

Commissions and Execution Fees. Commissions and execution fees for the nine months ended September 30, 2009 decreased \$8.4 million, or 3%, to \$263.5 million, as compared to the nine months ended September 30, 2008. This was due to a decrease in futures volume from our cleared customers and a decrease in options volume from our execution-only customers. Total DARTs for cleared and execution-only customers for the nine months ended September 30, 2009 decreased 1% to approximately 347,000, compared to approximately 352,000 during the nine

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

months ended September 30, 2008. DARTs for cleared customers, i.e., customers for whom we execute trades as well as clear and carry positions, increased 3% to approximately 318,000, for the nine months ended September 30, 2009, compared to approximately 309,000 for the nine months ended September 30, 2008. The number of customer accounts grew by

33

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

20% to approximately 128,000 at September 30, 2009, compared to approximately 107,000 at September 30, 2008. Average commission per DART for cleared customers, for the nine months ended September 30, 2009, decreased by 1%, to \$4.21, as compared to \$4.27 for the nine months ended September 30, 2008, primarily due to shifts in the mix of products our customers traded.

Interest Income and Interest Expense. Net interest income (interest income less interest expense) for the nine months ended September 30, 2009 decreased \$51.7 million, or 59%, to \$35.6 million, as compared to the nine months ended September 30, 2008. Net interest income was derived entirely from the electronic brokerage segment during the nine months ended September 30, 2009. For market making, net interest declined \$30.2 million from the same period last year to a net expense of \$3.4 million. As a result of the way we have integrated our market making and securities lending systems, our trading income and our net interest income are interchangeable and depend on the mix of market making positions in our portfolio. When implied interest rates in the equity and equity options and futures markets exceed the actual interest rates available to us, our market making systems tend to buy stock and sell it forward, which produces higher trading gains and lower net interest income. When these rates are inverted, our market making systems tend to sell stock and buy it forward, which produces lower trading gains and higher net interest income. The relative interest rates during the first nine months of 2009 resulted in a mix of positions that produced more trading income and less interest income. In addition, average securities borrowed decreased by 17%, to \$4.95 billion and average securities loaned decreased by 71%, to \$774.0 million, for the nine months ended September 30, 2009, as market making positions contracted and our strong liquidity position reduced our financing needs in the securities lending markets. Customer cash balances increased by 42%, to \$9.97 billion, end-of-period, and customer fully secured margin borrowings increased 58%, to \$2.90 billion, end-of-period, at September 30, 2009, as compared to \$7.00 billion and \$1.83 billion, end-of-period, respectively, at September 30, 2008. Lower interest rates had a negative effect on the net interest income we earned on customer cash balances. The average Fed Funds effective rate dropped 223 basis points to 0.17% for the first nine months of 2009 as compared to 2.40% for the nine months of 2008. Net interest earned in electronic brokerage decreased \$24.5 million, or 39%, to \$38.5 million, as compared to the nine months ended September 30, 2008.

Other Income. Other income, for the nine months ended September 30, 2009, decreased \$13.8 million, or 25%, to \$42.0 million, as compared to the nine months ended September 30, 2008. This decrease was primarily attributable to a \$12.7 million decrease in payment for order flow income received by our brokerage unit, resulting from increased options volume executed on exchanges using the make-or-take model, where we do not receive payments for order flow, and the expansion of the options penny pricing program in the U.S., which was introduced in February 2007 and extended to 63 options classes in March 2008 under which payments for order flow are smaller on a per contract basis. Also contributing to other income was a \$2.3 million mark-to-market loss on non-trading securities recognized during the nine months ended September 30, 2009 compared to \$8.9 million in mark-to-market gains on non-trading securities recognized over the same period in 2008. This was partially offset by a \$10.0 million write down of our investment in W.R. Hambrecht + Co. Inc. during the third quarter of 2008.

Non-Interest Expenses

Non-interest expenses, for the nine months ended September 30, 2009, decreased by \$32.5 million, or 7%, to \$407.6 million from \$440.1 million, during the nine months ended September 30, 2008. The decrease was due to lower execution and clearing expenses, partially offset primarily by an increase in employee compensation and benefits. As a percentage of total net revenues, non-interest expenses increased to 45% for the nine months ended September 30, 2009 from 31% during the same period in 2008.

Execution and Clearing. Execution and clearing expenses, for the nine months ended September 30, 2009, decreased \$42.6 million, or 17%, to \$201.4 million, as compared to the nine months ended September 30, 2008 primarily due to a shift in trade volume to products with lower costs or liquidity rebates; futures and options volume decreased 24% and 16% respectively, while stock volume increased by 40% over the same period in 2008.

Employee Compensation and Benefits. Employee compensation and benefits expenses, for the nine months ended September 30, 2009, increased by \$8.9 million, or 7%, to \$128.3 million, as compared to the nine months ended September 30, 2008. This increase reflected the 10% growth in the average number of employees to 772 for the nine months ended September 30, 2009, as compared to 702 for the same period in 2008. As we continue to grow, our focus on automation has allowed us to maintain a relatively small staff. As a percentage of total net revenues, employee compensation and benefits expenses were 14% and 8%, for the nine month periods ended September 30, 2009 and 2008, respectively.

General and Administrative. General and administrative expenses, for the nine months ended September 30, 2009, decreased \$3.9 million, or 11%, to \$31.8 million, as compared to the nine months ended September 30, 2008, primarily attributable to decreases in our reserves for legal contingencies and customer bad debts, partially offset by increased local value added and other "non-income" tax expenses incurred by our foreign operating companies.

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

Business Segments

The following table sets forth the net revenues and non-interest expenses and income before income taxes of our business segments:

		Three Months		Nine Months	
		Ended September 30,		Ended September 30,	
		200	2008	2009	2008
(in millions)					
Market Making	Net revenues	\$ 150.3	\$ 359.7	\$ 551.2	\$ 1,034.7
	Non-interest expenses	75.7	76.6	216.9	228.7
	Income before income taxes	\$ 74.6	\$ 283.1	\$ 334.3	\$ 806.0
	Pre-tax profit margin	50%	79%	61%	78%
Electronic Brokerage	Net revenues	\$ 121.5	\$ 134.6	\$ 349.3	\$ 387.1
	Non-interest expenses	59.4	70.7	179.7	206.1
	Income before income taxes	\$ 62.1	\$ 63.9	\$ 169.6	\$ 181.0
	Pre-tax profit margin	51%	47%	49%	47%
Corporate*	Net revenues	\$ (0.3)	\$ 2.8	\$ (0.6)	\$ (0.8)
	Non-interest expenses	3.3	2.3	11.0	5.3
	Income before income taxes	\$ (3.6)	\$ 0.5	\$ (11.6)	\$ (6.1)
	Pre-tax profit margin				
Total	Net revenues	\$ 271.5	\$ 497.1	\$ 899.9	\$ 1,421.0
	Non-interest expenses	138.4	149.6	407.6	440.1
	Income before income taxes	\$ 133.1	\$ 347.5	\$ 492.3	\$ 980.9
	Pre-tax profit margin	49%	70%	55%	69%

* Corporate includes corporate related activities as well as inter-segment eliminations.

The following sections discuss results of our operations by business segment, excluding a discussion of corporate income and expense. In the following tables, revenues and expenses directly associated with each segment are included in determining income before income taxes. Due to the integrated nature of the business segments, estimates and judgments have been made in allocating certain revenue and expense items. Transactions between segments generally result from one subsidiary facilitating the business of another subsidiary through the use of its existing trading memberships and clearing arrangements. In such cases, certain revenue and expense items are eliminated in order to accurately reflect the external business conducted in each segment. Rates on transactions between segments are designed to approximate full costs. In addition to execution and clearing expenses, which are the main cost driver for both the market making segment and the electronic brokerage segment, each segment's operating expenses include (i) employee compensation and benefits expenses that are incurred directly in support of the businesses,

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

(ii) general and administrative expenses, which include directly incurred expenses for property leases, professional fees, travel and entertainment, communications and information services, equipment, and (iii) indirect support costs (including compensation and other related operating expenses) for administrative services provided by IBG LLC. Such administrative services include, but are not limited to, computer software development and support, accounting, tax, legal and facilities management.

35

Market Making

The following table sets forth the results of our market making operations for the indicated periods:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
	(in millions)			
Revenues:				
Trading gains	\$ 147.9	\$ 348.9	\$ 547.6	\$ 988.4
Interest income	14.4	49.4	49.8	200.4
Other income	1.1	1.5	7.0	19.5
Total revenues	163.4	399.8	604.4	1,208.3
Interest expense	13.1	40.1	53.2	173.6
Total net revenues	150.3	359.7	551.2	1,034.7
Non-interest expenses:				
Execution and clearing	43.3	48.0	121.9	140.6
Employee compensation and benefits	16.1	14.6	48.0	44.6
Occupancy, depreciation and amortization	2.6	0.8	7.7	6.7
Communications	3.5	2.8	9.1	7.7
General and administrative	10.2	10.4	30.2	29.1
Total non-interest expenses	75.7	76.6	216.9	228.7
Income before income taxes	\$ 74.6	\$ 283.1	\$ 334.3	\$ 806.0

Three Months Ended September 30, 2009 Compared to the Three Months Ended September 30, 2008

Market making total net revenues for the three months ended September 30, 2009 decreased \$209.4 million, or 58%, to \$150.3 million, from \$359.7 million during the three months ended September 30, 2008. Trading gains for the three months ended September 30, 2009 decreased \$201.0 million, or 58%, primarily due to tighter spreads on exchange-traded options and an unusually low ratio of actual to implied volatility during this quarter. Market making futures and options contract volume in the three months ended September 30, 2009 decreased 34% and 27%, respectively, as compared to the same period in 2008. Trading gains also include translation gains and losses. Translation gains, for the three months ended September 30, 2009, were \$7.5 million, as compared to translation losses of \$4.0 million, for the three months ended September 30, 2008. Net interest income, for the three months ended September 30, 2009, decreased by \$8.0 million, to \$1.3 million. As described above, our trading income and our net interest income are interchangeable and depend on the mix of market making positions in our portfolio and on the relative interest rates in the stock and options markets. In the third quarter of 2009, these factors produced more trading income and less interest income.

Market making non-interest expenses for the three months ended September 30, 2009 decreased \$0.9 million, or 1%, as compared to the three months ended September 30, 2008. This change primarily resulted from a \$4.7 million decrease in execution and clearing costs, which reflects decreased options and futures contract volume partially offset by a \$1.5 million increase in employee compensation and benefits. As a percentage of total net revenues, market making non-interest expenses increased to 50% from 21% for the three month periods ended September 30, 2009 and 2008, respectively.

Nine months Ended September 30, 2009 Compared to the Nine months Ended September 30, 2008

Market making total net revenues for the nine months ended September 30, 2009 decreased \$483.5 million, or 47%, to \$551.2 million, from \$1,034.7 million during the nine months ended September 30, 2008. Trading gains for the nine months ended September 30, 2009 decreased \$440.8 million, or 45%, primarily due to tighter bid/offer spreads on exchange-traded options and other factors described in the "Business Environment" section above. Market making options contract volume in the nine months ended September 30, 2009 decreased by 14% from the same period in 2008, driven by these less favorable market conditions. Trading gains also include translation gains and losses. Translation gains, for the nine months ended September 30, 2009, were \$24.1 million, as compared to translation losses of \$5.8 million, for the nine months ended September 30, 2008. Net interest income, for the nine months ended September 30, 2009, decreased by \$30.2 million to a net expense of \$3.4 million. As described above, our trading income and our net interest income are interchangeable and depend on the mix of market making positions in our portfolio and on the relative interest rates in the stock and options markets. In the first nine months of 2009, these factors produced more trading income and less interest income.

Market making non-interest expenses for the nine months ended September 30, 2009 decreased \$11.8 million, or 5%, as compared to the nine months ended September 30, 2008. This change primarily resulted from an \$18.7 million decrease in execution and clearing costs, which reflects lower options and futures volume. For the nine months ended September 30, 2009 futures and options contract volume decreased by 26% and 14%, respectively, as compared to the same period in 2008. As a percentage of total net revenues, market making non-interest expenses increased to 39% from 22% for the nine month periods ended September 30, 2009 and 2008, respectively.

Electronic Brokerage

The following table sets forth the results of our electronic brokerage operations for the indicated periods:

	Three Months		Nine Months	
	Ended September 30, 2009	2008	Ended September 30, 2009	2008
(in millions)				
Revenues:				
Commissions and execution fees	\$ 89.0	\$ 98.2	\$ 263.5	\$ 271.9
Interest income	16.7	52.9	46.4	181.9
Other income	17.9	16.4	47.3	52.2
Total revenues	123.6	167.5	357.2	506.0
Interest expense	2.1	32.9	7.9	118.9
Total net revenues	121.5	134.6	349.3	387.1
Non-interest expenses:				
Execution and clearing	26.5	36.1	80.7	104.7
Employee compensation and benefits	12.8	11.8	38.1	36.3
Occupancy, depreciation and amortization	4.4	5.8	12.8	12.4
Communications	2.6	2.0	7.4	5.7
General and administrative	13.1	15.0	40.7	47.0
Total non-interest expenses	59.4	70.7	179.7	206.1
Income before income taxes	\$ 62.1	\$ 63.9	\$ 169.6	\$ 181.0

Three months ended September 30, 2009 Compared to the Three months ended September 30, 2008

Electronic brokerage total net revenues for the three months ended September 30, 2009 decreased \$13.1 million, or 10%, to \$121.5 million, from \$134.6 million during the three months ended September 30, 2008, primarily due to lower commission and execution fees, which decreased \$9.2 million or 9% for the three months ended September 30, 2009 compared to the same period in 2008. Futures volume decreased 32% and options volume for our execution only customers decreased 32% compared to the same period in 2008. Cleared customer trade volume, which generates the majority of direct revenues for electronic brokerage, exhibited stronger increases, in stock volume, up 86%, and options volume, up 12%, from the same period in 2008. Total DARTs from cleared and execution-only customers for the three months ended September 30, 2009 decreased 10% to approximately 340,000, compared to approximately 377,000 during the three months ended September 30, 2008. DARTs from cleared customers for the three months ended September 30, 2009 decreased 9% to approximately 307,000, compared to approximately 338,000 during the three months ended September 30, 2008. Despite broad market value declines, total customer equity grew by 43% to \$13.4 billion at September 30, 2009, from \$9.4 billion at September 30, 2008. The number of customer accounts grew 20% from September 30, 2008 to approximately 128,000. Net interest income decreased \$5.4 million, or 27%, to \$14.6 million for the third quarter of 2009. This reflects the lower interest rate environment, which reduced the spreads we earned on customer cash balances. The average Fed Funds effective rate dropped 179 basis points to 0.15% for the quarter ended September 30, 2009 as compared to 1.94% for the quarter ended September 30, 2008.

Electronic brokerage non-interest expenses for the three months ended September 30, 2009 decreased \$11.3 million, or 16%, as compared to the three months ended September 30, 2008. Within non-interest expenses, execution and clearing expenses decreased by \$9.6 million, which resulted from decreased futures volume in the third quarter of 2009, as compared to the same period in 2008. General and administrative expenses decreased by \$1.9 million, or 13%. As a percentage of total net revenues, non-interest expenses decreased to 49% from 53% for the three month periods ended September 30, 2009 and 2008, respectively.

Nine months ended September 30, 2009 Compared to the Nine months ended September 30, 2008

Electronic brokerage total net revenues for the nine months ended September 30, 2009 decreased \$37.8 million, or 10%, to \$349.3 million, from \$387.1 million during the nine months ended September 30, 2008, primarily due to lower net interest income. This decrease reflects lower interest rates which reduced the spreads we earned on customer cash balances. The average Fed Funds effective rate dropped approximately 223 basis points to 0.17% for the first nine months of 2009 as compared to 2.40% for the first nine months of 2008. Commission and execution fees decreased \$8.4 million, or 3%, for the nine months ended September 30, 2009 compared to the same period in the prior year due to a decrease in futures volume, which generates higher per unit revenues but lower gross profit margins for cleared customers over this time period. Total DARTs from cleared and execution-only customers for the nine months ended September 30, 2009 decreased 1% to approximately 347,000, compared to approximately 352,000 during the nine months ended September 30, 2008. DARTs from cleared customers for the nine months ended September 30, 2009 increased 3% to approximately 318,000, compared to approximately 309,000 during the nine months ended September 30, 2008. Despite broad market value declines, total customer equity grew by 43% to \$13.4 billion at September 30, 2009, from \$9.4 billion at September 30, 2008. The number of customer accounts grew 20% from September 30, 2008 to approximately 128,000. The primary component of other income, payment for order flow received through programs administered by U.S. options exchanges, decreased \$12.7 million, or 33%, primarily due to the expansion of the penny pricing program to 63 classes on March 28, 2008 and to increased options volume executed on exchanges using the make-or-take model where we do not receive payments for order flow.

Electronic brokerage non-interest expenses for the nine months ended September 30, 2009 decreased \$26.4 million, or 13%, as compared to the nine months ended September 30, 2008. Within that, execution and clearing expenses decreased by \$24 million, which reflects a shift in trade volume to products with lower costs or liquidity rebates; and general and administrative expenses decreased by \$6.3 million, or 13%, primarily due to a decrease in expenses for legal contingencies reserves and bad debt provisions. As a percentage of total net revenues, non-interest expenses decreased to 51% from 53% for the nine month periods ended September 30, 2009 and 2008, respectively.

Liquidity and Capital Resources

We maintain a highly liquid balance sheet. The majority of our assets consist of exchange-listed marketable securities, which are marked-to-market daily, and collateralized receivables arising from customer-related and proprietary securities transactions. Collateralized receivables consist primarily of securities borrowed, receivables from clearing houses for settlement of securities transactions and, to a lesser extent, customer margin loans and securities purchased under agreements to resell. At September 30, 2009, total assets were \$28.85 billion of which approximately \$28.36 billion, or 98% were considered liquid and consisted predominantly of marketable securities, customers' cash and collateralized receivables.

Daily monitoring of liquidity needs and available collateral levels is undertaken to help ensure that an appropriate liquidity cushion, in the form of unpledged collateral, is maintained at all times. Our ability to quickly reduce funding needs by balance sheet contraction without adversely affecting our core businesses and to pledge additional collateral in support of secured borrowings is continuously evaluated to ascertain the adequacy of our capital base.

We actively manage our excess liquidity and we maintain significant borrowing facilities through the securities lending markets and with banks. In response to changes in the credit market environment during late 2008 and into the first quarter of 2009, we have increased cash on hand to provide us with a buffer should we need immediately available funds for any reason.

In order to provide additional liquidity and to further increase our regulatory capital reserves, we issue senior notes and we maintain a committed senior secured revolving credit facility from a syndicate of banks (see "Principal Indebtedness" below). As of September 30, 2009, borrowings under these facilities totaled \$185.1 million, which represented 3.7% of our total capitalization. Based on our current level of operations, we believe our cash flows from operations, available cash and available borrowings under our senior secured revolving credit facility will be adequate to meet our future liquidity needs for more than the next twelve months.

Historically, our consolidated equity has consisted primarily of accumulated retained earnings, which to date have been sufficient to fund our operations and growth. Our consolidated equity grew from \$4.14 billion at September 30, 2008 to \$4.82 billion at September 30, 2009, representing an increase of 16%. The amounts presented at September 30, 2008 and 2009 include non-controlling interests as prescribed by ASC 810.

Cash Flows

The following table sets forth our cash flows from operating activities, investing activities and financing activities for the periods indicated:

	Nine Months Ended September 30,	
	2009	2008
	(in millions)	
Cash provided by operating activities	\$ 280.1	\$ 800.2
Cash used in investing activities	(24.6)	(10.6)
Cash used in financing activities	(367.3)	(807.1)
Effect of exchange rate changes on cash and cash equivalents	28.2	(33.2)
Decrease in cash and cash equivalents	\$ (83.6)	\$ (50.7)

Our cash flows from operating activities are largely a reflection of the size and composition of trading positions held by our market making subsidiaries, and of the changes in customer cash and margin debit balances in our electronic brokerage business. Our cash flows from investing activities are primarily related to the purchase of interests in IBG LLC from existing members, capitalized internal software development, purchases and sales of memberships at exchanges where we trade and strategic investments in exchanges where such investments will enable us to offer better execution alternatives to our current and prospective customers, or create new opportunities for ourselves as market makers or where we can influence exchanges to provide competing products at better prices using sophisticated technology. Our cash flows from financing activities are comprised of short-term borrowings, long-term borrowings and capital transactions. Short-term borrowings from banks are part of our daily cash management in support of operating activities. Other borrowings provide us with flexible sources of excess liquidity and regulatory capital. These borrowings include senior notes issued in private placements to certain qualified customers of IB LLC and a committed one-year \$100.0 million senior secured revolving credit facility, from a syndicate of banks. This facility was entered into in May 2009 and replaced a three-year \$300.0 million facility that expired at the same time.

Nine Months Ended September 30, 2009: Our cash and cash equivalents decreased by \$83.6 million to \$859.9 million for the nine months ended September 30, 2009. We raised \$280.1 million in net cash from operating activities. We used net cash of \$391.9 million in our investing and financing activities primarily due to repayments on our senior secured revolving credit facility and dividends paid to and redemption of member interests from IBG Holdings LLC.

Nine Months Ended September 30, 2008: Our cash and cash equivalents decreased by \$50.7 million to \$471.0 million for the nine months ended September 30, 2008. We raised \$800.2 million in net cash from operating activities primarily from increased net income and decreased trading positions. We used net cash of \$817.7 million in our investing and financing activities primarily due to a decrease in short term borrowings and repayments on our senior secured revolving credit facility.

Regulatory Capital Requirements

Our principal operating subsidiaries are subject to separate regulation and capital requirements in the United States and other jurisdictions. Timber Hill LLC and Interactive Brokers LLC are registered U.S. broker-dealers and futures commission merchants, and their primary regulators include the SEC, the Commodity Futures Trading Commission, the Chicago Board Options Exchange, the Chicago Mercantile Exchange, the Financial Industry Regulatory Authority and the National Futures Association. Timber Hill Europe AG is registered to do business in Switzerland as a securities dealer and is regulated by the Swiss Federal Banking Commission. Interactive Brokers (U.K.) Limited is subject to regulation by the U.K. Financial Services Authority and our various other operating subsidiaries are similarly regulated. See Note 10 to the unaudited condensed consolidated financial statements in Part I, Item 1 of this Quarterly Report on Form 10-Q for further information regarding our regulatory capital requirements.

At September 30, 2009, aggregate excess regulatory capital for all of the Operating Companies was \$3.07 billion.

Principal Indebtedness

IBG LLC is the borrower under a \$100.0 million senior secured revolving credit facility, which had no balance outstanding as of September 30, 2009, and is the issuer of senior notes, of which \$185.1 million were outstanding as of September 30, 2009.

Senior Secured Revolving Credit Facility

On May 19, 2009, IBG LLC entered into a new \$100 million one-year senior secured revolving credit facility with a syndicate of banks, which replaced an expiring \$300 million three-year senior secured revolving credit facility. IBG LLC is the sole borrower under this credit facility, which is required to be guaranteed by IBG LLC's domestic non-regulated subsidiaries (currently there are no such entities). The facility's interest rate is indexed to the overnight federal funds rate or to the 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 covenants contained in this credit facility are as follows:

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

- minimum consolidated shareholders' equity, as defined, of \$3.3 billion, with quarterly increases equal to 25% of positive consolidated income;
- 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%.

As of September 30, 2009, no borrowings were outstanding under this credit facility and IBG LLC was in compliance with all of the covenants.

Senior Notes

IBG LLC periodically issues senior notes in private placements to certain qualified customers of IB LLC. IBG LLC uses the proceeds from sales of the senior notes to provide capital to IBG LLC's broker-dealer subsidiaries in the form of subordinated loans and for other general purposes. The outstanding senior notes have a 7% per annum interest rate, and either a 15-month or an 18-month maturity. IBG LLC may, solely at its option, redeem the senior notes at any time on or after a specified date in the third month or the sixth month, respectively, after the date on which the senior notes are issued and sold, at a redemption price equal to 100% of the principal amount of the senior notes to be redeemed plus accrued interest.

IBG LLC had \$185.1 million and \$143.1 million of senior notes outstanding at September 30, 2009 and December 31, 2008, respectively. During the period from January 1 through September 30, 2009, total senior notes issued were \$362.7 million, and senior notes redeemed totaled \$320.7 million.

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

The senior notes are secured, as is the senior secured revolving credit facility, 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 senior notes contain covenants that may limit IBG LLC's ability to:

- incur, or permit its subsidiaries to incur, additional indebtedness;
- create, or permit its subsidiaries to create, liens on any capital stock or equity interests of its subsidiaries;
- declare and pay dividends or make other equity distributions; and
- consolidate, merge or sell all or substantially all of its assets.

Capital Expenditures

Our capital expenditures are comprised of compensation costs of our software engineering staff for development of software for internal use and expenditures for computer, networking and communications hardware. These expenditure items are reported as property and equipment. Capital expenditures for property and equipment were approximately \$17.4 million and \$11.2 million for the nine month periods ending September 30, 2009 and 2008, respectively. We anticipate that our 2009 gross capital expenditures will decrease over the rest of the year from their current level as we complete projects related to expansion of our data center and backup facilities. We expect our future capital expenditures to rise as we continue our focus on technology infrastructure initiatives in order to further enhance our competitive position. We anticipate that we will fund capital expenditures with cash from operations and cash on hand. In response to changing economic conditions, we believe we have the flexibility to modify our capital expenditures by adjusting them (either upward or downward) to match our actual performance. If we pursue any strategic acquisitions, we may incur additional capital expenditures.

Seasonality

Our businesses are subject to seasonal fluctuations, reflecting varying numbers of market participants at times during the year and varying numbers of trading days from quarter-to-quarter, including declines in trading activity due to holidays. Typical seasonal trends may be superseded by market or world events, which can have a significant impact on prices and trading volume.

Inflation

Although we cannot accurately anticipate the effect of inflation on our operations, we believe that inflation has not had for the three most recent years, and is not likely in the foreseeable future to have, a material impact on our results of operations.

Strategic Investments and Acquisitions

We periodically engage in evaluations of potential strategic investments and acquisitions. The Company has made strategic investments in electronic trading exchanges including: Boston Options Exchange, LLC; OneChicago LLC; CBOE Stock Exchange, LLC; and Quadriserv Inc., an electronic securities lending platform provider in which the Company invested \$7.5 million during February 2009. As a result of a recapitalization transaction and the sale of assets, the Company recorded a permanent impairment loss of \$6.4 million for the nine month period ended September 30, 2009 on its loans to and warrants to purchase approximately 25.86% of W.R. Hambrecht + Co. Inc., reducing the book value of these investments to \$-0-.

We intend to continue making acquisitions on an opportunistic basis, generally only when the acquisition candidate will, in our opinion, enable us to acquire either technology or customers faster than we could develop them on our own. At September 30, 2009, there were no definitive agreements with respect to any material acquisition.

Certain Information Concerning Off-Balance-Sheet Arrangements

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

Critical Accounting Policies

Valuation of Financial Instruments

Due to the nature of our operations, substantially all of our financial instrument assets, comprised of securities owned, securities purchased under agreements to resell, securities borrowed and receivables from brokers, dealers and clearing organizations are carried at fair value based on market prices, as published by exchanges and clearing houses, and are marked to market daily, or are assets which are short-term in nature (such as U. S. government treasury bills or spot foreign exchange) and are reflected at amounts approximating fair value. Similarly, all of our financial instrument liabilities that arise from securities sold but not yet purchased, securities sold under agreements to repurchase, securities loaned and payables to brokers, dealers and clearing organizations are short-term in nature and are reported at quoted market prices or at amounts approximating fair value. Our long and short positions are valued at either the last consolidated trade price or the last consolidated bid/offer mid-point (where applicable) at the close of regular trading hours, in the respective markets. Given that we manage a globally integrated market making portfolio, we have large and substantially offsetting positions in securities and commodities that trade on different exchanges that close at different times of the trading day. As a result, there may be large and anomalous swings in the value of our positions daily and, accordingly, in our earnings in any period. This is especially true on the last business day of each calendar quarter, although such swings tend to come back into equilibrium on the first business day of the succeeding calendar quarter.

Contingencies

Our policy is to estimate and accrue for potential losses that may arise out of litigation and regulatory proceedings, to the extent that such losses are probable and can be estimated, in accordance with ASC 450, *Contingencies* (formerly SFAS No. 5). Potential losses that might arise out of tax audits, to the extent that such losses are "more likely than not," would be estimated and accrued in accordance with ASC 740-10 (which incorporates former FIN No. 48). Significant judgment is required in making these estimates and our final liabilities may ultimately be materially different. Our total liability accrued with respect to litigation and regulatory proceedings is determined on a case-by-case basis and represents an estimate of probable losses based on, among other factors, the progress of each case, our experience with and industry experience with similar cases and the opinions and views of internal and external legal counsel. Given the inherent difficulty of predicting the outcome of our litigation and regulatory matters, particularly in cases or proceedings in which substantial or indeterminate damages or fines are sought, or where cases or proceedings are in the early stages, we cannot estimate losses or ranges of losses for cases or proceedings where there is only a reasonable possibility that a loss may be incurred.

We have been from time to time subject to litigation and other legal proceedings. As of June 30, 2009, we, along with certain of our subsidiaries, have been named parties to legal actions, which we and/or such subsidiaries intend to defend vigorously. Although the results of legal actions cannot be predicted with certainty, it is the opinion of management that the resolution of these actions is not expected to have a material adverse effect, if any, on our business or financial condition, but may have a material impact on the results of operations for a given period. As of June 30, 2009 and 2008, reserves provided for potential losses related to litigation matters were not material.

Use of Estimates

The consolidated financial statements are prepared in conformity with United States accounting standards. In applying these standards, management is required to use certain assumptions and make estimates that could materially affect the reported amounts of assets, liabilities, revenues and expenses in the consolidated financial statements. We base our estimates and judgments on historical experience and other assumptions that we believe are reasonable under the circumstances. These assumptions, estimates and/or judgments, however, are often subjective and our actual results may change based on changing circumstances or changes in our analyses. If actual amounts are ultimately different from our estimates, the revisions are included in our results of operations for the period in which the actual amounts become known. These estimates are periodically reevaluated by management. We believe the following critical accounting policies could potentially produce materially different results if we were to change underlying assumptions, estimates and/or judgments.

Recent Accounting Pronouncements

Subsequent to the adoption of the ASC, the FASB will issue Accounting Standards Updates (“ASU’s”) as the means to add to or delete from, or to amend the ASC. During the quarter ended September 30, 2009, ASU 2009-05 through ASU 2009-12 were

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

issued. Following is a summary of recently issued ASU's that may affect the Company's unaudited condensed consolidated financial statements:

	<u>Affects</u>	<u>Status</u>
ASU 2009-05	<i>Measuring Liabilities at Fair Value</i> – provides guidance on the measurement of the fair value of liabilities under ASC 820.	Effective for interim and annual periods beginning after August 28, 2009
ASU 2009-07	<i>Accounting for Various Topics</i> – Technical corrections to SEC references in the ASC.	Upon issuance
ASU 2009-08	<i>Earnings per Share</i> - amendment to ASC 260-10-S99 (SEC Update)	Upon issuance
ASU 2009-09	<i>Accounting for Investments – Equity Method and Joint Ventures and Accounting for Equity-Based Payments to Non-Employees</i> – amendments to ASC 323-10-S99 and ASC 505-50-S99 (SEC Update)	Upon issuance
ASU 2009-10	<i>Financial Services – Brokers and Dealers: Investments – Other</i> – amendment to ASC 940-325 (SEC Update)	Upon issuance

Adoption of these ASU's during the quarter ended September 30, 2009 did not have a material effect on the Company's unaudited condensed consolidated financial statements.

In December 2007, the FASB issued SFAS No. 141(R), *Business Combinations*, which SFAS is now a sub-topic within ASC 805, *Business Combinations*. ASC 805-10 replaced SFAS No. 141, mandating changes in the accounting for business combinations most notably that changes in purchase price allocations, if made, are required to be applied retrospectively, whereas under SFAS No. 141, such changes were applied prospectively. ASC 805-10 was effective for an entity's fiscal year beginning after December 15, 2008, and early adoption was not permitted. The Company cannot anticipate whether ASC 805-10 will have a material effect on its unaudited condensed consolidated financial statements as such effect would be solely dependent on whether or when the Company enters into business combinations in the future and the terms of such transactions.

In March 2008, the FASB issued SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities – an amendment of FASB Statement No. 133*, which SFAS is now a sub-topic within ASC 815, *Derivatives and Hedging*. ASC 815-10 requires enhanced disclosures about an entity's derivative and hedging activities, and is effective for financial statements issued for fiscal years beginning after November 2008. Adoption of ASC 815-10 did not have a material effect on our unaudited condensed consolidated financial statements.

In November 2008, the SEC issued its "Roadmap for the Potential Use of Financial Statements Prepared in Accordance with International Financial Reporting Standards by U.S. Issuers" ("IFRS Roadmap"). The IFRS Roadmap would require SEC registrants to prepare their financial statements in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board in 2014. IFRS is increasingly being applied by financial statement preparers in countries outside the U.S. One of the stated purposes of the IFRS Roadmap is that adopting IFRS will provide a global set of high-quality accounting standards so that U.S. investors would have an enhanced ability to compare financial information of U.S. companies with that of non-U.S. Companies. In issuing the IFRS Roadmap, the SEC stated that, in 2011, it will determine whether to proceed with rulemaking to require the use of IFRS by U.S. registrants beginning in 2014. The comment period on the IFRS Roadmap ended in April 2009. Further definitive guidance from the SEC regarding the IFRS Roadmap is pending. Management is assessing the potential impact of adopting IFRS on the Company's unaudited condensed consolidated financial statements.

ASC 855, *Subsequent Events* (formerly SFAS No. 165), was issued in May 2009, effective for interim and annual periods ending after June 15, 2009 and extends disclosure requirements of subsequent events to include the date through which subsequent events have been evaluated for adjustment to or disclosure in financial statements and the basis for that date. The date to be used will represent either the date the financial statements were "issued" or the date such financial statements were "available to be issued". ASC 855 defines "issued" as the date when financial statements are widely distributed to shareholders and other financial statement users for general use and reliance in a form and format that complies with the Codification and defines "available to be issued" as financial statements that are complete in a form and format that complies with the Codification and all approvals necessary for issuance have been obtained. As an SEC registrant, the Company is required to evaluate subsequent events through the date its financial statements are issued. Adoption of ASC 855 for the period ended June 30, 2009 did not have a material effect on the Company's unaudited condensed consolidated financial statements.

ASC 860, *Transfers and Servicing*, incorporates former SFAS No. 166, *Accounting for Transfers of Financial Assets*, an amendment of FASB No. 140, which was issued in June 2009 and will be effective for interim and annual periods beginning after January 1, 2010. These pending

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

provisions of ASC 860 will require more information about transfers of financial assets, including securitization transactions, and where entities have continuing exposure to the risks related to transferred financial assets. The concept of a “qualifying special-purpose entity” (“SPE”) is eliminated under these pending provisions of ASC 860, which also changes the

44

requirements for derecognizing financial assets and requires additional disclosures. Management is assessing the potential impact of adopting these pending provisions of ASC 860 on the Company's unaudited condensed consolidated financial statements.

ASC 810, *Consolidations*, incorporates former SFAS No. 167, *Amendments to FASB Interpretation No. 46(R)*. These pending provisions of ASC 810 revise former FASB Interpretation No. 46 (Revised December 2003), *Consolidation of Variable Interest Entities*, and changes how a reporting entity determines when an entity that is insufficiently capitalized or is not controlled through voting (or similar rights) and therefore should be consolidated. Consolidation of Variable Interest Entities ("VIE's") would be based on the target entity's purpose and design as well as the reporting entity's ability to direct the target's activities, among other criteria. SFAS No. 167 was issued in June 2009 and will be effective for interim and annual periods beginning after January 1, 2010. Management is assessing the potential impact of adopting these pending provisions of ASC 810 on the Company's unaudited condensed consolidated financial statements.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are exposed to various market risks. Our exposures to market risks arise from assumptions built into our pricing models, equity price risk, foreign currency exchange rate fluctuations related to our international operations, changes in interest rates which impact our variable-rate debt obligations, and risks relating to the extension of margin credit to our customers.

Pricing Model Exposure

Our strategy as a market maker is to calculate quotes a few seconds ahead of the market and execute small trades at tiny but favorable differentials as a result. This is made possible by our proprietary pricing model, which continuously evaluates and monitors the risks inherent in our portfolio, assimilates market data and reevaluates the outstanding quotes in our entire portfolio each second. Certain aspects of the model rely on historical prices of securities. If the behavior of price movements of individual securities diverges substantially from what their historical behavior would predict, we might incur trading losses. We attempt to limit such risks by diversifying our portfolio across many different options, futures and underlying securities and avoiding concentrations of positions based on the same underlying security. Historically, our losses from these events have been immaterial in comparison to our annual trading profits.

Foreign Currency Exposure

As a result of our international market making activities and accumulated earnings in our foreign subsidiaries, our income and net worth is exposed to fluctuations in foreign exchange rates. Our European operations and some of our Asian operations are conducted by our Swiss subsidiary, THE. THE is regulated by the Swiss Federal Banking Commission as a securities dealer and its financial statements are presented in Swiss francs. Accordingly, THE is exposed to certain foreign exchange risks as described below:

- THE buys and sells futures contracts and securities denominated in various currencies and carries bank balances and borrows and lends such currencies in its regular course of business. At the end of each accounting period THE's assets and liabilities are translated into Swiss francs for presentation in its financial statements. The resulting gains or losses are reported as translation gain or loss in THE's income statement. When we prepare our consolidated financial statements, THE's Swiss franc balances are translated into U.S. dollars for U.S. GAAP purposes. THE's translation gains or losses appear as such on IBG, Inc.'s income statement, included in trading gains.
- THE's net worth is carried on THE's books in Swiss francs in accordance with Swiss accounting standards. At the end of each accounting period, THE's net worth is translated at the then prevailing exchange rate into U.S. dollars and the resulting gain or loss is reported in our consolidated statement of financial condition as "other comprehensive income," which is neither an income nor an expense item in our statement of income, in accordance with U.S. GAAP.

Historically, we have taken the approach of not hedging the above exposures, based on the notion that the cost of constantly hedging over the years would amount to more than the random impact of rate changes on our non-U.S. dollar balances. For instance, an increase in the value of the Swiss franc would be unfavorable to the earnings of THE but would be counterbalanced to some extent by the fact that the yearly translation gain or loss into U.S. dollars is likely to move in the opposite direction.

In late 2005, we began to expand our market making systems to incorporate cash forex and forex options in order to hedge our currency exposure at little or no cost. In September 2006, we began hedging our currency exposure throughout the day on a continuous basis. In connection with the development of our currency hedging strategy, we have determined to base our net worth in GLOBALs. We define GLOBAL as consisting of a basket of major currencies that currently includes U.S. dollar, euro, Japanese yen, British pound, Canadian dollar and Australian dollar. With the growth of our international operations, we foresee including other currencies in our definition of the GLOBAL. As our forex market making systems continue to develop, and as more exchanges trade more forex-based products electronically, we expect more trading volume to flow through this system and, accordingly, we expect to be able to manage the risks in forex in the same low cost manner as we currently manage the risks of our market making in equity-based products.

Interest Rate Risk

Under our senior secured revolving credit facility, we have the ability to choose borrowing tenors from overnight to twelve months, which permits us to minimize the risk of interest rate fluctuations. We have no borrowings outstanding under this facility as of September 30, 2009.

We pay our electronic brokerage customers interest based on benchmark overnight interest rates in various currencies. In a normal rate environment, we typically invest a portion of these funds in U.S. government treasury securities with maturities of up to three months. Under these circumstances, if interest rates were to increase rapidly and substantially, in increments that were not reflected in the yields on these treasury securities, our net interest income from customer deposits would decrease. Based upon investments outstanding at September 30, 2009, we had no exposure of this nature.

We also face the potential for reduced net interest income from customer deposits due to interest rate spread compression in a low rate environment. Due to a currently low rate environment, a decrease of the US benchmark interest rates to zero, or roughly 0.2%, would reduce our net interest income by approximately \$1.8 million on an annualized basis.

We also face substantial interest rate risk due to positions carried in our market making business to the extent that long or short stock positions may have been established for future or forward dates on options or futures contracts and the value of such positions are impacted by interest rates. We hedge such risks by entering into interest rate futures contracts. To the extent that these futures positions do not perfectly hedge this interest rate risk, our trading gains may be adversely affected. The amount of such risk cannot be quantified.

Dividend Risk

We face dividend risk in our market making business as we derive significant revenues and incur significant expenses in the form of dividend income and expense, respectively, from our substantial inventory of equity securities, and must make significant payments in lieu of dividends on short positions in securities in our portfolio. Projected future dividends are an important component of pricing equity options and other derivatives, and incorrect projections may lead to trading losses. The amount of these risks cannot be quantified.

Margin Credit

We extend margin credit to our customers, which is subject to various regulatory requirements. Margin credit is collateralized by cash and securities in the customers' accounts. The risks associated with margin credit increase during periods of fast market movements or in cases where collateral is concentrated and market movements occur. During such times, customers who utilize margin credit and who have collateralized their obligations with securities may find that the securities have a rapidly depreciating value and may not be sufficient to cover their obligations in the event of a liquidation. We are also exposed to credit risk when our customers execute transactions, such as short sales of options and equities, that can expose them to risk beyond their invested capital.

We expect this kind of exposure to increase with growth in our overall business. Because we indemnify and hold harmless our clearing firms from certain liabilities or claims, the use of margin credit and short sales may expose us to significant off-balance-sheet risk in the event that collateral requirements are not sufficient to fully cover losses that customers may incur and those customers fail to satisfy their obligations. As of September 30, 2009, we had \$2.90 billion in margin credit extended to our customers. The amount of risk to which we are exposed from the margin credit we extend to our customers and from short sale transactions by our customers is unlimited and not quantifiable as the risk is dependent upon analysis of a potential significant and undeterminable rise or fall in stock prices. Our account level margin credit requirements meet or exceed those required by Regulation T of the Board of Governors of the Federal Reserve. As a matter of practice, we enforce real-time margin compliance monitoring and liquidate customers' positions if their equity falls below required margin requirements.

We have a comprehensive policy implemented in accordance with regulatory standards to assess and monitor the suitability of investors to engage in various trading activities. To mitigate our risk, we also continuously monitor customer accounts to detect excessive concentration, large orders or positions, patterns of day trading and other activities that indicate increased risk to us.

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

Our credit exposure is to a great extent mitigated by our policy of automatically evaluating each account throughout the trading day and closing out positions automatically for accounts that are found to be under-margined. While this methodology is effective in most situations, it may not be effective in situations where no liquid market exists for the relevant securities or commodities or where, for any reason, automatic liquidation for certain accounts has been disabled.

47

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures.

Our management, including our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures pursuant to Rule 13a-15 under the Exchange Act as of the end of the period covered by this report. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that, as of the end of the period covered by this quarterly report, our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Exchange Act) are effective, in all material respects, to ensure that information we are required to disclose in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

In addition, no change in our internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act) occurred during the period covered by this report quarter that has materially affected, or is likely to materially affect, our internal control over financial reporting.

PART II OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

There have been no material changes to the legal proceedings disclosed under Part 1, Item 3 of our Annual Report on Form 10-K filed with the SEC on March 2, 2009. During our normal course of business, the Company's regulated operating companies are in discussions with regulators about matters raised during regulatory examinations or otherwise subject to their inquiry. These matters could result in censures, fines or other sanctions. Management believes the outcome of any resulting actions will not be material to the Company's financial condition, results of operations or cash flows. However, the Company is unable to predict the outcome of these matters.

The Company believes, based on current knowledge and after consultation with counsel, that the outcome of the pending matters will not have a material adverse effect on the consolidated financial condition of the Company. Legal reserves have been established in accordance with ASC 450, *Contingencies* (formerly SFAS No. 5). The ultimate resolution may differ from the amounts reserved.

ITEM 1A. RISK FACTORS

There have been no material changes to the risk factors disclosed in under Part 1, Item 1A of our Annual Report on Form 10-K filed with the SEC on March 2, 2009.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

None

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None

ITEM 5. OTHER INFORMATION

None

ITEM 6. EXHIBITS

Exhibit Number	Description
10.1	Amended and Restated Operating Agreement of IBG LLC (filed as Exhibit 10.1 to the Quarterly Report on Form 10-Q for the Quarterly Period Ended March 31, 2007 filed by the Company on June 15, 2007).**
10.2	Form of Limited Liability Company Operating Agreement of IBG Holdings LLC (filed as Exhibit 10.5 to Amendment No. 1 to the Registration Statement on Form S-1 filed by the Company on February 12, 2007).**
10.3	Exchange Agreement by and among Interactive Brokers Group, Inc., IBG Holdings LLC, IBG LLC and the Members of IBG LLC (together with all exhibits thereto including Exhibits B and C).
10.4	Tax Receivable Agreement by and between Interactive Brokers Group, Inc. and IBG Holdings LLC (filed as Exhibit 10.3 to the Quarterly Report on Form 10-Q for the Quarterly Period Ended March 31, 2007 filed by the Company on June 15, 2007).**
10.5	Interactive Brokers Group, Inc. 2007 Stock Incentive Plan (filed as Exhibit 10.8 to Amendment No. 2 to the Registration Statement on Form S-1 filed by the Company on April 4, 2007).**+
10.6	Interactive Brokers Group, Inc. 2007 ROI Unit Stock Plan. (filed as Exhibit 10.9 to Amendment No. 2 to the Registration Statement on Form S-1 filed by the Company on April 4, 2007).**+
31.1	Certification of Chief Executive Officer, pursuant to Section 302 of the Sarbanes-Oxley Act.
31.2	Certification of Chief Financial Officer, pursuant to Section 302 of the Sarbanes-Oxley Act.
32.1	Certification of Chief Executive Officer, pursuant to Section 906 of the Sarbanes-Oxley Act.
32.2	Certification of Chief Financial Officer, pursuant to Section 906 of the Sarbanes-Oxley Act.

** Previously filed; incorporated herein by reference.

+ These exhibits relate to management contracts or compensatory plans or arrangements.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

INTERACTIVE BROKERS GROUP, INC.

/s/ Paul J. Brody

Name: Paul J. Brody

Title: Chief Financial Officer, Treasurer and Secretary

(Signing both in his capacity as a duly authorized officer and as principal financial officer of the registrant)

Date: November 9, 2009