

Interactive Brokers Group, Inc.
Form S-1/A
April 26, 2007

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As filed with the Securities and Exchange Commission on April 26, 2007.

Registration No. 333-138955

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

AMENDMENT NO. 3
TO

FORM S-1

REGISTRATION STATEMENT
UNDER
THE SECURITIES ACT OF 1933

INTERACTIVE BROKERS GROUP, INC.

(Exact name of registrant as specified in its charter)

DELAWARE

(State or Other Jurisdiction
of Incorporation or Organization)

6211

(Primary Standard Industrial
Classification Code Number)

30-0390693

(I.R.S. Employer Identification No.)

**ONE PICKWICK PLAZA
GREENWICH, CONNECTICUT 06830
(203) 618-5800**

(Address, including zip code, and telephone number, including
area code, of registrant's principal executive offices)

**THOMAS PETERFFY
CHAIRMAN, CHIEF EXECUTIVE OFFICER AND PRESIDENT
ONE PICKWICK PLAZA
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Approximate date of commencement of proposed sale to the public: As soon as practicable after the effective date of this registration statement.

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If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, check the following box.

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

CALCULATION OF REGISTRATION FEE

Title of Each Class of Securities to be Registered	Proposed Maximum Aggregate Offering Price(1)	Amount of Registration Fee(1)
Class A Common Stock, \$0.01 par value per share	\$500,000,000(2)	\$53,500(3)

- (1) Estimated pursuant to Rule 457(o) under the Securities Act of 1933, as amended, solely for purposes of calculating the registration fee, which was previously paid in connection with the initial filing of this Registration Statement.
- (2) An additional indeterminate amount of securities are being registered hereby to be offered solely for market making purposes by an affiliate of the registrant. Pursuant to Rule 457(q) under the Securities Act, no additional filing fee is required.
- (3) Previously paid.

The registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the registrant shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act or until the Registration Statement shall become effective on such date as the Securities and Exchange Commission, acting pursuant to such Section 8(a), may determine.

EXPLANATORY NOTE

This Registration Statement contains a prospectus relating to the initial public offering of shares of Class A common stock, par value \$0.01 per share ("common stock"), of Interactive Brokers Group, Inc. (the "Company"). This Registration Statement also contains a prospectus relating to sales of common stock by W.R. Hambrecht + Co., LLC in connection with market making transactions. The complete prospectus relating to the initial public offering of common stock (the "IPO Prospectus") follows immediately after this Explanatory Note. Following the IPO Prospectus are certain pages of the prospectus relating solely to such market making transactions (together with the remainder of the prospectus as modified as indicated below, the "Market Making Prospectus"), including an alternate front and back cover page and alternate sections entitled "Use of Proceeds" and "Plan of Distribution." Each of such alternate pages has been marked "Alternate Page for Market Making Prospectus." The Market Making Prospectus will not include the information in the IPO Prospectus Summary under the heading "The Offering," or the sections of the IPO Prospectus entitled "Risk Factors Risks Related to the Auction Process of This Offering," "Risk Factors Other Risks Related to This Offering You Will Experience Immediate and Substantial Dilution," "Dilution," "Use of Proceeds" and "Plan of Distribution." All other sections of the IPO Prospectus are to be used in the Market Making Prospectus. A complete version of each of the IPO Prospectus and the Market Making Prospectus will be filed with the Securities and Exchange Commission in accordance with Rule 424 under the Securities Act.

SUBJECT TO COMPLETION, DATED APRIL 26, 2007

20,000,000 Shares of Class A Common Stock

The information in this prospectus is not complete and may be changed. We may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities and it is not soliciting an offer to buy these securities in any state where the offer or sale is not permitted.

Interactive Brokers Group, Inc.

This is our initial public offering of Class A common stock, which we refer to as common stock, and no public market currently exists for our shares. We are offering 20,000,000 shares of common stock. We expect that the public offering price will be between \$23.00 and \$27.00 per share.

THE OFFERING	PER SHARE	TOTAL
Public Offering Price	\$	\$
Placement Agency Fee	\$	\$
Proceeds to Interactive Brokers Group, Inc.	\$	\$

OpenIPO® and Best Efforts Offering: The method of distribution being used by the placement agents in this offering differs somewhat from that traditionally employed in firm commitment underwritten public offerings. In particular, the public offering price and allocation of shares will be determined primarily by an auction process conducted by the placement agents and other securities dealers participating in this offering. In addition, the placement agents are not required to sell any specific number or dollar amount of shares of common stock but have agreed to use their best efforts to procure potential purchasers for the shares of common stock offered pursuant to this prospectus. A more detailed description of the OpenIPO process and the best efforts offering is included in the "Plan of Distribution" section of this prospectus beginning on page 155.

The placement agents expect to deliver shares of common stock to purchasers on _____, 2007.
Proposed NASDAQ Global Select Market Symbol: IBKR

This offering involves substantial risk. You should purchase shares only if you can afford a complete loss of your investment. See "Risk Factors" beginning on page 18.

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Neither the Securities Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

A Participating Dealer:

The date of this prospectus is _____, 2007

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You should rely only on the information contained in this document or to which we have referred you. We have not authorized anyone to provide you with information that is different. This document may only be used where it is legal to sell these securities. The information in this document may only be accurate as of the date of this document.

INFORMATION ABOUT THIS PROSPECTUS

This is the initial public offering of Class A common stock of Interactive Brokers Group, Inc., which will be the holding company for the public's ownership in IBG LLC, as defined below. Unless the context otherwise requires, the terms:

"We," "us," "our" and similar terms, as well as references to "IBG" and the "Company," refer to Interactive Brokers Group, Inc., a newly formed Delaware corporation and, as applicable, our consolidated subsidiaries (including IBG LLC) after giving effect to the recapitalization transactions to be completed prior to the consummation of this offering as described in this summary under the heading "Recapitalization and Organizational Structure" and as described elsewhere in this prospectus in the section entitled "The Recapitalization Transactions and Our Organizational Structure."

"IBG LLC" refers to IBG LLC (formerly known as Interactive Brokers Group LLC), a Connecticut limited liability company that is the current holding company for our businesses and in which IBG will acquire a controlling interest upon completion of this offering by becoming managing member.

"Common stock" refers to the Class A common stock of Interactive Brokers Group, Inc.

Unless we state otherwise, the information in this prospectus gives effect to the recapitalization transactions described elsewhere in this prospectus in the section entitled "The Recapitalization Transactions and Our Organizational Structure." Some of the statements in this summary are forward-looking statements. For more information, see the section entitled "Forward-Looking Statements."

Industry and market data used throughout this prospectus were obtained through our research, surveys and studies conducted by third parties and industry and general publications. Data used throughout this prospectus regarding global equity options volume excludes volume of the Kospi 200 Index Option Contract, which is an index of 200 stocks on the Korea Exchange.

PROSPECTUS SUMMARY

The following summary highlights information contained elsewhere in this prospectus and is qualified in its entirety by more detailed information and consolidated financial statements included elsewhere in this prospectus. Because it is a summary, it does not contain all of the information that you should consider before investing in our common stock. You should read this prospectus carefully, including the section entitled "Risk Factors" and the consolidated financial statements and the related notes to those statements included elsewhere in this prospectus.

Our Business

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 as a member of more than 60 electronic exchanges and trading venues around the world. We are a holding company and, after completion of this offering, our primary assets will be our ownership of approximately 5.1% of the membership interests of IBG LLC, the current holding company for our businesses, and our controlling interest and related contractual rights as the sole managing member of IBG LLC. The remaining approximately 94.9% of IBG LLC membership interests after completion of this offering will be held by IBG Holdings LLC, a holding company that will be owned by the current members of IBG LLC, including our founder, chairman and chief executive officer, Thomas Peterffy, and his affiliates.

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 16 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. Our high degree of automation enabled us to process on average 518,000 trades per day with an average of 505 employees in 2006. During 2005 and 2006, we generated pretax income in each period at an annual rate of more than \$1 million per employee. Publicly available data regarding other companies in the securities and commodities industry indicate that this level of productivity is unparalleled for our industry. Automation has allowed us to become one of the lowest cost providers of broker-dealer services and to increase significantly the volume of trades we handle.

According to data compiled by the Futures Industry Association (FIA) based on data received from exchanges worldwide, in 2006, we accounted for approximately 15.9% of exchange-listed equity options volume traded worldwide and approximately 18.7% of exchange-listed equity options volume traded on those markets in which we actively trade. We were the number one liquidity provider on each of the three largest U.S. options exchanges (the Chicago Board Options Exchange, the International Securities Exchange and the Philadelphia Stock Exchange) during 2006, according to rankings provided by these exchanges. We serve sophisticated and active customers worldwide, including institutional investors, financial advisors, brokers and individuals. Our business includes two subsidiaries registered as broker-dealers under Section 15 of the Securities Exchange Act of 1934, namely Timber Hill LLC, our U.S. market making subsidiary, and Interactive Brokers LLC, our U.S. electronic brokerage subsidiary.

As a market maker, we provide continuous bid and offer quotations on approximately 357,000 securities and futures products listed on electronic exchanges around the world. Our quotes are driven by proprietary mathematical models that assimilate market data and reevaluate our outstanding quotes each second. Unlike firms that trade over-the-counter (OTC) derivative products, it is our business to create liquidity and transparency on electronic exchanges. Our profits have been principally a function of transaction volume on electronic exchanges rather than volatility or the direction of price movements.

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As a direct market access broker, we serve the customers of both traditional brokers and prime brokers. We provide our customers with an advanced order management, trade execution and portfolio management platform at a very low cost. Our customers can simultaneously access different financial markets worldwide and trade across multiple asset classes (stocks, options, futures, foreign exchange (forex) and bonds) denominated in ten different currencies, on one screen, from a single account based in any major currency. Our large bank and broker-dealer customers may "white label" our trading interface (i.e., make our trading interface available to their customers without referencing our name), or can select from among our modular functionalities, such as order routing, trade reporting or clearing, on specific products or exchanges where they may not have up-to-date technology, in order to offer to their customers a complete global range of services and products. Our most successful module is the dynamic IB SmartRoutingSM process, which manages orders among several stock and the six U.S. options exchanges by providing efficient executions for customers and enables brokers to meet their best execution regulatory requirements.

During 2006, our customers transacted an average of approximately 196,000 daily average revenue trades, which is a measurement of revenue-generating trades and referred to as DARTs.

Our proprietary technology is the key to our success. We built our business on the belief that a fully computerized market making system that could integrate pricing and risk exposure information quickly and continuously would enable us to make markets profitably in many different financial instruments simultaneously. We believe that integrating our system with electronic exchanges and market centers results in transparency, liquidity and efficiencies of scale. Together with the IB SmartRoutingSM system and our low commissions, this reduces overall transaction costs to our customers and, in turn, increases our transaction volume and profits. Over the past 29 years, we have developed an integrated trading system and communications network and have positioned our company as an efficient conduit for the global flow of risk capital across asset and product classes on electronic exchanges around the world, permitting us to have one of the lowest cost structures in the industry. We believe that developing, maintaining and continuing to enhance our proprietary technology provides us and our customers with the competitive advantage of being able to adapt quickly to the changing environment of our industry and to take advantage of opportunities presented by new exchanges, products or regulatory changes before our competitors.

Our electronic market making and brokerage businesses are complementary. Both benefit from our combined scale and volume, as well as from our proprietary technology. Our brokerage customers benefit from the technology and market structure expertise developed in our market making business. The expense of developing and maintaining our unique technology, clearing, settlement, banking and regulatory structure required by any specific exchange or market center is shared by both of our businesses. This, in turn, enables us to provide lower transaction costs to our customers than our competitors, whether they use our services as market maker, broker or both. In addition, we believe we gain a competitive advantage by applying the software features we have developed for a specific product or market to newly-introduced products and markets over others who may have less automated facilities in one or both of our businesses or who operate only in a subset of the exchanges and market centers on which we operate.

For the year ended December 31, 2006, our total revenues were approximately \$1.7 billion, as compared to approximately \$1.1 billion for the year ended December 31, 2005. Our income before income taxes was approximately \$761.6 million for the year ended December 31, 2006 and approximately \$569.3 million for the year ended December 31, 2005. Our market making activities represented 77% of total revenues for the year ended December 31, 2006 and 79% of total revenues for the year ended December 31, 2005. The foregoing financial information may not be representative of our

results of operations as an independent public company or indicative of our results of operations for any future period.

Our Competitive Strengths

Proprietary technology. We view ourselves primarily as a technology company. Since our inception in 1977, we have focused on developing proprietary software to automate broker-dealer functions. We believe that our early and continuous investment in technology, as well as our overall technological capabilities, provide us with a significant advantage over our competition by enabling us to make markets profitably in financial instruments (e.g., equity options, futures, index options and equities) worldwide with low spreads between bid and offer prices, while at the same time providing our customers with the ability to effect trades at execution and commission costs that are among the lowest in the industry.

Experienced management team. Our key employees have significant experience and expertise in the application of technology to the financial services industry and, as significant equity owners of IBG LLC, are heavily committed to our success. Our senior management team has an average of 17 years tenure with us.

Low cost structure. Our focus on automation and expense management practices enables us to operate with a low cost structure. Our technology allows us to be one of the lowest cost providers of liquidity to the global, exchange-listed equity and derivatives markets and global execution and clearing services for professional traders and institutions.

Complementary lines of business. We leverage the combined volume from our market making and brokerage operations and our proprietary technology in each of these operations to route orders effectively and to process trades on exchanges around the world, resulting in consistently best executions and one of the lowest unit costs in the industry. Our combined market making and brokerage systems offer access to exchanges and market centers that are typically not cost feasible for brokerage-only businesses.

Diversified revenue base. We earn trading gains from our market making business as well as commissions and fee income from our electronic brokerage business. We generate revenues from millions of relatively small and diversified individual trades. In 2006, we executed approximately 130 million trades. These trades are broadly distributed among approximately 357,000 tradable, exchange-listed products on more than 60 exchanges and market centers in 23 countries.

Established business franchise. We have been in operation for nearly three decades. In 2005, Institutional Investor ranked us the 16th largest U.S. securities firm, as measured by consolidated capital. We are members of more than 60 major exchanges and market centers around the world. Many of these memberships are franchises that are difficult to obtain. As of December 31, 2006, we held market maker licenses on 31 exchanges in 15 countries, and have preferential rights and obligations as designated specialists or market makers in approximately 1,100 classes of options in the United States.

Real-time risk management. We operate as a market maker, not an investor. Therefore, our ability to generate profits is generally a function of transaction volume on electronic exchanges rather than volatility or the direction of price movements. We seek to calculate quotes a few seconds ahead of the market and execute small trades at a tiny but favorable

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differential as a result. Our proprietary pricing model continuously evaluates and monitors the risks inherent in our portfolio, assimilates market data and reevaluates the outstanding quotes in our entire portfolio each second. In our electronic brokerage business, our entire credit management process is automated, including real-time margin calls and automatic liquidation. This automated system enables us to maximize profits while minimizing losses typically associated with manual risk management.

Strong financial position. We maintain a conservative capital structure with a large equity capital base, highly liquid assets and low financial leverage. As of December 31, 2006, we had equity capital of approximately \$2.8 billion and our capital base grew organically at a CAGR of approximately 25% from December 2001 to December 2006. As of December 31, 2006, we held \$32.1 billion in total assets, approximately 99% of which were highly liquid and readily convertible to cash, and our long-term debt-to-equity ratio was 11%.

Our Strategies

Capitalize on industry growth trends. We are well positioned in the financial markets as an automated global electronic market maker and broker. Electronic trading volume in equities, listed options, futures and forex has been growing rapidly. We expect this trend to continue due to the lower cost, the ability to execute quickly without errors, the anonymity associated with electronic trading and the increased knowledge of investors of the advantages of various forms of exchange-listed derivative products. Our market share in these products has also been growing. For example, our global market share in exchange-listed options has grown from 10.6% in 2004 to 13.8% in 2005 to 15.9% in 2006. We intend to continue to use automation to drive trading volume and increase our market share and revenues in these growing industries.

Drive increased trading volume through our low cost structure. We intend to increase our trading volume by building on our leading position as a low cost provider of market making and brokerage services. Our scale, technology and operational efficiencies provide an advantage in delivering services at a low cost. Due to our high degree of automation, our net profit margins are generally higher than those of our competitors. We intend to maintain or increase our market share by decreasing bid/offer spreads in the market for our customers and to capture more order flow as we compete for market making and customer trades. We will continue to seek to refine our systems and processes to enhance our ability to deliver our services at a low cost.

Expand into new markets. We intend to enter electronic markets where we are not currently operating as a market maker or broker, including markets in new geographic locations. We will also continue to expand our market making and brokerage services for new security types as they become available. We seek to enter new markets or product classes in which the execution of transactions can be automated using our technology. Our entry into new markets starts as a software development project. Once we have built the appropriate technology interface for that business and have satisfactorily integrated it with our automated platform, we then provide access to these new markets for our customers. We believe that our technology development skills enable us to enter new markets and add new products more rapidly and efficiently than can our competitors.

Market our customer offerings to new classes of customers. We market ourselves to our customers based on our position as a low cost provider as well as our superior execution,

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trading and account management tools. We intend to focus on obtaining new classes of customers such as broker-dealers, hedge funds and conventional money managers, whom we believe will find our "plug and play" systems much more efficient than maintaining their own systems. We intend to add new products, new analytical tools, new order types and new trading features that are in demand by our customers and potential customers. For example, new Securities and Exchange Commission (SEC) regulations that allow brokers to calculate customer margin requirements based on a portfolio risk-based model are expected to give us an opportunity to attract large trading accounts from hedge funds and other professional traders who currently use the services of prime brokers. We believe that these new portfolio margining rules will decrease the importance of providing leverage to hedge funds beyond those permitted by current U.S. rules (which we do not do) and will allow us to compete on the basis of price, where we are a low price provider of services. We will also continue our efforts to popularize OneChicago, an all-electronic securities futures exchange, and single stock futures (SSF) products as a vehicle to reduce financing costs for hedge funds, thus providing another growth opportunity.

Our Challenges and Risks

Our business is subject to challenges and risks, including those summarized below and those more fully described in "Risk Factors" beginning on page 18. You should carefully consider the information contained in "Risk Factors" before you decide to invest in our common stock.

Dependence on proprietary technology. Our success is highly dependent on our sophisticated proprietary technology that has taken many years to develop and has been available only to us. If our technology were to become available to our competitors, or if our competitors adopt or develop similar or more advanced technologies, our operating results may be adversely affected. Further, we may not be able to keep up with rapid changes in technology, evolving industry standards and changing trading systems, practices and techniques to remain competitive in our industry.

Dependence on market conditions. Changes in the global financial markets, global economic conditions and political events affect levels of trading volumes in ways that we may not be able to predict. A slowdown and subsequent stagnation in trading volume in the global financial markets, or a systemic problem affecting any financial market, could have a material adverse effect on our revenues and profitability.

Risks associated with computer system failures. The success of our business depends on the efficient and uninterrupted operations of our computer and communications hardware and software systems. Our service has occasionally experienced system interruptions in the past due to various reasons, some of which were beyond our control. We expect to experience occasional system interruptions from time to time in the future, which may have an adverse effect on our business.

Industry regulation and litigation. Our industry is heavily regulated, and noncompliance with applicable laws or regulations could adversely affect our business due to resulting fines and censures, suspension or expulsion from a certain jurisdiction or market or the revocation of licenses. Further, our industry faces substantial litigation risks, and we may face legal liability and damage to our professional reputation if our services are not regarded as satisfactory.

Industry expansion or consolidation. The introduction of new markets or products, including quoting options in penny pricing, or new market structures or the elimination of existing markets by merger or otherwise may adversely affect our margins, profitability and business.

Fluctuations of revenues and profitability. Our revenues and operating results have been subject to fluctuation based primarily on the willingness of competitors to trade more aggressively by decreasing their bid/offer spreads and thereby assuming more risk in order to acquire market share. Variations in trading levels caused by unpredictable market trends may cause our revenues and operating results to vary significantly from period to period, and period to period comparisons of our revenues and operating results may not be meaningful.

Control by a principal stockholder. Upon completion of this offering, Thomas Peterffy, our founder, chairman and chief executive officer, will have approximately 94.9% of the voting power of our company and accordingly will be able to control the outcome of substantially all matters submitted to our stockholders for approval. This concentration in ownership may prevent transactions such as a change of control and a business combination that could otherwise be beneficial to those who purchase the shares in this offering or result in actions that such individuals may oppose.

Dependence on key employees. Our key executives have substantial experience and have made significant contributions to our business, and our continued success is dependent upon the retention of our key management executives, as well as the services provided by our staff of trading system, technology and programming specialists and a number of other key managerial, marketing, planning, financial, technical and operations personnel. The loss of such key personnel could have a material adverse effect on our business.

Recapitalization and Organizational Structure

Overview

We have historically conducted our business through a limited liability company structure. In order to have a Delaware corporation as the issuer for our initial public offering, immediately prior to and immediately following the consummation of this offering, IBG LLC and its members will consummate a series of transactions, which we collectively refer to as the "Recapitalization." We are a holding company and, after completion of this offering, our primary assets will be our ownership of approximately 5.1% of the membership interests of IBG LLC, the current holding company for our businesses, and our controlling interest and related contractual rights as the sole managing member of IBG LLC. The remaining approximately 94.9% of IBG LLC membership interests after completion of this offering will be held by IBG Holdings LLC, a holding company that will be owned by the current members of IBG LLC. All IBG LLC membership interests will be identical and have the same rights. Thus, after completion of this offering, there will be two holding companies owning interests in IBG LLC (namely, IBG and IBG Holdings LLC, owning approximately 5.1% and 94.9%, respectively, of the IBG LLC membership interests), thereby allowing both public stockholders (through IBG) and existing members (through IBG Holdings LLC) to have economic interests in our businesses.

IBG Holdings LLC will own all of our Class B common stock, which will have voting power of our company proportionate to the extent of IBG Holdings LLC's ownership of IBG LLC-initially approximately 94.9%. Through his ownership of the voting membership interests in IBG Holdings LLC, Thomas Peterffy will initially be able to exercise such voting power in his sole discretion.

Our only business following this offering will be to act as the sole managing member of IBG LLC, and, as such, we will operate and control all of the business and affairs of IBG LLC and will be able to consolidate IBG LLC's financial results into our financial statements. IBG Holdings LLC's ownership interests in IBG LLC will be accounted for as a minority interest in our consolidated financial results after this offering. Net profits, net losses and distributions of IBG LLC, including with respect to all management fees, incentive income and investment income earned by IBG LLC, will be allocated and made to its members pro rata in accordance with the respective percentages of their membership interests in IBG LLC. Accordingly, net profits and net losses of IBG LLC will initially be allocated, and distributions by IBG LLC will initially be made, approximately 5.1% to us and approximately 94.9% to IBG Holdings LLC. Subject to the availability of net cash flow at the IBG LLC level, IBG LLC shall distribute to us and to IBG Holdings LLC tax distributions using a tax rate no less than the actual combined federal, state and local income tax rates applicable to our allocable shares of taxable income and net capital gain. Assuming IBG LLC makes distributions to its members in any given year, the determination to pay dividends, if any, to our Class A stockholders will be made by our board of directors, and distributions to the IBG Holdings LLC members will be made in accordance with the IBG Holdings LLC Operating Agreement, a copy of which is filed as an exhibit to the registration statement of which this prospectus forms a part. Because our board of directors may or may not determine to pay dividends at the IBG level, our Class A stockholders may not necessarily receive dividend distributions relating to our pro rata share of the management fees, incentive income, investment income and other income earned by IBG LLC, even if IBG LLC makes such distributions to us.

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The graphic below illustrates our anticipated ownership structure immediately following completion of this offering. The graphic below does not display the subsidiaries of IBG LLC. For more information, please read the section entitled "The Recapitalization Transactions and Our Organizational Structure" located elsewhere in this prospectus.

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Use of Proceeds

We intend to use the net proceeds from our sale of shares of common stock in this offering to purchase membership interests in IBG LLC from IBG Holdings LLC. IBG Holdings LLC will, in turn, use such sale proceeds to redeem, on a pro rata basis, IBG Holdings LLC membership interests held by its members, who include 66 of our employees (including the executive officers set forth in the table below). See "Use of Proceeds." The following is a listing of our directors and executive officers expected to receive net proceeds from this offering, together with the percentage and dollar amount of net proceeds to be received from this offering and the amount of cash distributions received from IBG LLC in 2006 and 2007 to date.

Name	Title	% of Net Proceeds to be Received	Dollar Amount of Net Proceeds Received From This Offering	2006 Distributions	2007 Distributions
(in millions)					
Thomas Peterffy	Chairman of the Board of Directors, Chief Executive Officer and President	84.5784%	\$ 415.0	\$ 139.3	\$ 20.7
Earl H. Nemser	Vice Chairman and Director	1.1895%	\$ 5.8	\$ 1.9	\$ 0.3
Paul J. Brody	Chief Financial Officer, Treasurer, Secretary and Director	1.2509%	\$ 6.1	\$ 2.1	\$ 0.3
Thomas A.J. Frank	Executive Vice President and Chief Information Officer	3.1498%	\$ 15.5	\$ 5.2	\$ 0.8
Milan Galik	Senior Vice President, Software Development and Director	1.3687%	\$ 6.7	\$ 2.2	\$ 0.3
Directors and executive officers as a group		91.5373%	\$ 449.1	\$ 150.7	\$ 22.4

The aggregate consideration for the purchase of membership interests in IBG LLC from IBG Holdings LLC also includes an amount equal to 85% of the tax savings realized by us by reason of the increase in the tax basis of the assets of IBG LLC arising out of this transaction, as described under "Exchange and Redemption of Membership Interests" below.

No additional IBG LLC or IBG Holdings LLC membership interests will be granted to directors or executive officers in connection with this offering.

Voting of Common Stock and Class B Common Stock

Each share of our common stock will entitle its holder to one vote per share. Immediately after this offering, our Class B common stock will have approximately 94.9% of the voting power of our company, which percentage will decrease proportionately over time to the extent that IBG Holdings LLC owns a smaller percentage of IBG LLC. While our Class B common stock will be owned by IBG Holdings LLC, will initially be able to exercise control over all matters requiring the approval of our stockholders, including the election of our director and the approval of significant corporate transactions.

Exchange and Redemption of Membership Interests

In connection with the Recapitalization, the current members of IBG LLC will receive membership interests in IBG Holdings LLC. The membership interests in IBG Holdings LLC will not be directly exchangeable for shares of our common stock. Instead, the membership interests will become redeemable at various times over the next eight years following this offering at the option of the holder. The redemption price for the membership interests will depend on the manner in which the payment is made to IBG Holdings LLC.

The primary manner in which the redemption price will be paid is by selling shares of our common stock to the public and using the gross proceeds from such sales, less underwriting discounts or

commissions, to acquire an identical number of IBG LLC membership interests from IBG Holdings LLC. We have reserved for issuance 380 million shares of common stock, which is the aggregate number of shares of common stock expected to be issuable over time through such sales, assuming no anti-dilution adjustments based on combinations or divisions of our common stock. We would then expect IBG Holdings LLC to use the proceeds it receives from such sales to redeem an identical number of IBG Holdings LLC membership interest from the requesting holders. The annual registration and sale of shares of our common stock to satisfy redemption requests is described in greater detail under "Transactions with Related Persons, Promoters and Certain Control Persons Exchange Agreement" and in our exchange agreement, a copy of which is filed as an exhibit to the registration statement of which this prospectus forms a part. The sales of our common stock and the application of the proceeds to acquire IBG LLC membership interests are expected to have a negligible effect on the existing holders of our common stock, as the holders of our common stock would then own a larger portion of IBG LLC. Such transactions will have the effect of diluting your percentage ownership in us. However, because we will acquire an increased percentage ownership in IBG LLC over time as a result of such transactions, such transactions should not impact your effective percentage ownership of the economics of the underlying IBG LLC business.

In some cases, IBG LLC may redeem IBG LLC membership interests from IBG Holdings LLC using cash on hand. The primary circumstance under which IBG LLC would use cash on hand would be if IBG LLC had, at a given point in time, a relative surplus of cash on hand and our board of directors were to determine that using cash on hand to effect redemptions of IBG LLC membership interests would be an optimal use of such funds in relation to alternative uses. The redemption price per membership interest would be equal to the 30-day average closing price of our common stock. The use of IBG LLC's cash to acquire IBG LLC membership interests is expected to have a dilutive effect on the existing holders of our common stock, as the price paid per membership interest is likely to be higher than IBG LLC's tangible book value per membership interest. See "The Recapitalization Transactions and Our Organizational Structure Exchange and Redemption of Membership Interests."

Certain of the IBG Holdings LLC membership interests are subject to forfeiture in the event that the holder terminates employment with IBG LLC or its subsidiaries, other than as a result of death, permanent disability, approved retirement or termination without cause.

As the result of our acquisition from IBG Holdings LLC of an IBG LLC membership interest using the proceeds of a sale of our common stock into the public markets, we will receive not only an additional interest in IBG LLC but also, for federal income tax purposes, an adjustment to the federal income tax basis of the assets of IBG LLC underlying such additional interest. We intend to enter into a tax receivable agreement with IBG Holdings LLC that will provide for the payment by us to IBG Holdings LLC of 85% of the cash savings, if any, in U.S. federal, state and local income tax or franchise tax that we actually realize as a result of these increases in tax basis and of certain other tax benefits related to entering into the tax receivable agreement, including tax benefits attributable to payments under the tax receivable agreement. We will retain the remaining 15% of the tax benefits actually realized. See "Transactions with Related Persons, Promoters and Certain Control Persons Tax Receivable Agreement."

IBG Holdings LLC, with the consent of Thomas Peterffy and our board of directors, has the right to cause the holders of IBG Holdings LLC membership interests to have all or a portion of their interests redeemed at any time following the first anniversary of this offering. Such redemptions would be financed in the same manner as the scheduled redemptions described above.

Recent Developments

We are currently in the process of finalizing our combined financial results for the quarter ended March 31, 2007, and therefore final results are not yet available. We have provided below our preliminary expectations as to certain operating results for the quarter ended March 31, 2007. These

preliminary expectations are presented on a combined basis after giving pro forma effect to the Recapitalization, the consummation of our initial public offering of shares of common stock and the application of the net proceeds from such offering to purchase IBG LLC membership interests from IBG Holdings LLC. These preliminary expectations are based upon management estimates and are subject to quarterly review procedures and final recommendations and adjustments. Our operating results for the quarter ended March 31, 2007 have not been reviewed or audited by our independent registered public accounting firm. Our independent public accounting firm will be reviewing our financial statements for the quarter ended March 31, 2007, and such review could result in changes to the preliminary expectations indicated below.

We expect total net revenues to be between \$318 million and \$338 million for the quarter ended March 31, 2007, compared to total net revenues of \$1.25 billion for the year ended December 31, 2006. We expect income before income tax to be between \$181 million and \$192 million for the quarter ended March 31, 2007, compared to income before income tax of \$761.6 million for the year ended December 31, 2006. We expect pro forma basic and diluted earnings per share both to be between \$0.29 and \$0.31, respectively, for the quarter ended March 31, 2007, compared to pro forma basic and diluted earnings per share of \$1.22 and \$1.21, respectively, for the year ended December 31, 2006. Unexpectedly heavy options activity in advance of certain corporate announcements adversely impacted our market making operations during the quarter ended March 31, 2007.

Operating results for the quarter ended March 31, 2007 are not necessarily indicative of the results to be expected in future periods.

Company Information

IBG was incorporated in November 2006 as a Delaware corporation. Our principal executive offices are located at One Pickwick Plaza, Greenwich, Connecticut 06830 and our telephone number at that location is (203) 618-5800. Our corporate website address is <http://www.interactivebrokers.com>. The information contained on this website should not be considered part of this prospectus.

The Offering

Common stock offered	20,000,000 shares of Class A common stock
Common stock outstanding after this offering	20,000,000 shares of Class A common stock 100 shares of Class B common stock
Voting	<p>Each share of our common stock will entitle its holder to one vote per share.</p> <p>Immediately after this offering, our Class B common stock will have approximately 94.9% of the voting power of our company, which percentage will decrease proportionately to the extent that IBG Holdings LLC owns a smaller percentage of IBG LLC.</p> <p>While our Class B common stock will be owned by IBG Holdings LLC, Thomas Peterffy, through his ownership of the voting membership interests in IBG Holdings LLC, will be able to exercise control over all matters requiring the approval of our stockholders, including the election of our directors, and the approval of significant corporate transactions. See "The Recapitalization Transactions and Our Organizational Structure Voting."</p>
Use of proceeds	<p>We estimate that we will receive net proceeds from the sale of shares of our common stock in this offering of \$490.6 million, assuming the shares are offered at \$25.00 per share, which is the midpoint of the range set forth on the cover page of this prospectus, after deducting the placement agency fee and commissions payable by us. We intend to use the net proceeds to purchase membership interests in IBG LLC from IBG Holdings LLC. See "Use of Proceeds."</p>
Exchange and Redemption of Membership Interests	<p>In connection with the Recapitalization, the current members of IBG LLC will receive membership interests in IBG Holdings LLC. These membership interests will become redeemable at various times over the next eight years following this offering at the option of the holder. See "The Recapitalization Transactions and Our Organizational Structure Exchange and Redemption of Membership Interests."</p>
Proposed NASDAQ Global Select Market symbol	IBKR

Dividends

As a holding company for our equity interest in IBG LLC, we will be dependent upon the ability of IBG LLC to generate earnings and cash flows and distribute them to us so that we may pay any dividends to our stockholders. To the extent that we have excess cash, any future determination relating to our dividend policy will be made at the discretion of our board of directors. See "Dividend Policy."

Risk Factors

Investment in our common stock involves substantial risks. You should read this prospectus carefully, including the section entitled "Risk Factors" and the financial statements and the related notes to those statements included in this prospectus before investing in our common stock.

OpenIPO Process

This offering will be made through the OpenIPO process, in which the allocation of shares and the public offering price are primarily based on an auction in which prospective purchasers are required to bid for the shares. The OpenIPO process allows all qualified investors, whether individuals or institutions, to bid for shares. All successful bidders in the auction will pay the same price per share.

Bidders may submit bids through the placement agents or participating dealers.

Potential investors may bid any price for the shares, including a price above or below the projected price range on the cover of this prospectus.

Once the auction closes, the placement agents will determine the highest price that will sell all of the shares offered. This is the clearing price and is the maximum price at which the shares will be sold. The clearing price, and therefore the actual offering price, could be higher or lower than the projected price range on the cover of this prospectus.

We may choose to sell shares at the auction-set clearing price or we may choose to sell the shares at a lower offering price, taking into account additional factors.

Bidders that submit valid bids at or above the offering price will receive, at a minimum, a pro-rated amount of shares for which they bid.

The OpenIPO process is described in full under "Plan of Distribution" beginning on page 155.

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Unless we specifically state otherwise, all information in this prospectus:

assumes that our common stock will be sold at \$25.00 per share, which is the mid-point of the range set forth on the cover of this prospectus;

gives effect to the Recapitalization described more fully elsewhere in this prospectus in the section entitled "The Recapitalization Transactions and Our Organizational Structure;"

assumes that we have made no purchases of IBG LLC membership interests; and

assumes that none of the approximately 216,037 shares of common stock issuable on the date of this offering upon investment of accumulated earnings on IBG LLC's Return on Investment Dollar Units and pursuant to our employee incentive plan have been issued. See "Management Return on Investment Dollar Units" and " Employee Incentive Plan."

SUMMARY HISTORICAL AND PRO FORMA CONSOLIDATED FINANCIAL DATA

The following table sets forth the historical summary consolidated statement of income data for IBG LLC for all periods presented. The table also presents certain pro forma consolidated financial data for IBG LLC.

The summary historical consolidated financial data as of and for the years ended December 31, 2002, 2003, 2004, 2005 and 2006 have been derived from IBG LLC's audited consolidated financial statements. The audited consolidated statements of financial condition as of December 31, 2005 and 2006 and the audited consolidated statements of income for the years ended December 31, 2004, 2005, 2006 are included elsewhere in this prospectus. The audited consolidated statements of financial condition as of December 31, 2002, 2003 and 2004 and the audited consolidated statements of income for the years ended December 31, 2002 and 2003 are not included in this prospectus. The historical consolidated financial position and results of operations are not necessarily indicative of the financial position or results of operations as of any future date or for any future period.

The historical statements of financial condition and certain other statements of financial condition data reflect members' capital as redeemable members' interests, which is required under certain accounting guidance for public company reporting. Such guidance did not apply historically to IBG LLC as a private company.

The historical financial statements do not reflect what our results of operations and financial position would have been had we been a stand-alone, public company for the periods presented. Specifically, our historical results of operations do not give effect to:

The Recapitalization, which is described in more detail elsewhere in this prospectus in the sections entitled "The Recapitalization Transactions and our Organizational Structure" and "Management's Discussion and Analysis of Financial Condition and Results of Operations."

U.S. corporate federal income taxes, since for all periods presented IBG LLC has operated in the United States as a limited liability company that was treated as a partnership for U.S. federal income tax purposes. As a result, IBG LLC has not been subject to U.S. federal income taxes on its income. Taxes related to income earned by partnerships represent obligations of the individual partners. Outside the United States, IBG LLC historically has operated principally through subsidiaries and has been subject to local income taxes. Income taxes shown on IBG LLC's historical consolidated statements of income are attributable to taxes incurred by these non-U.S. subsidiaries.

Minority interest expense reflecting IBG Holdings LLC's ownership of approximately 94.9% of the IBG LLC membership interests outstanding immediately after this offering.

The unaudited pro forma consolidated financial data set forth below as of and for the year ended December 31, 2006 are derived from IBG LLC's historical consolidated financial statements and the unaudited pro forma consolidated financial statements included elsewhere in this prospectus and give pro forma effect to (1) the Recapitalization and (2) the consummation of this offering and our application of the net proceeds from this offering to purchase membership interests in IBG LLC from IBG Holdings LLC as though such transactions had occurred on January 1, 2006. The unaudited pro forma financial data are presented for informational purposes only and should not be considered indicative of actual results of operations that would have been achieved had the Recapitalization and this offering been consummated on the dates indicated and do not purport to be indicative of balance sheet data or results of operations as of any future date or for any future period.

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You should read the following summary historical and pro forma consolidated financial data in conjunction with the sections entitled "Management's Discussion and Analysis of Financial Condition and Results of Operations," "Selected Historical Consolidated Financial Data," "Unaudited Pro Forma Consolidated Financial Data" and IBG LLC's historical consolidated financial statements and related notes included elsewhere in this prospectus. See also the section entitled "The Recapitalization Transactions and our Organizational Structure" included elsewhere in this prospectus.

Consolidated Statement of Income Data:	Historical Data of IBG LLC for the Year Ended December 31,					IBG 2006 Pro Forma Data
	2002	2003	2004	2005	2006	
(in millions except share and per share data)						
Revenues:						
Trading gains	\$ 472.2	\$ 488.4	\$ 423.2	\$ 640.4	\$ 805.1	\$ 805.1
Commissions and execution fees	64.0	93.0	112.0	132.1	174.4	174.4
Interest revenues	55.2	59.3	79.5	273.2	672.1	672.1
Other income	7.5	10.4	7.0	53.4	85.2	85.2
Total revenues	598.9	651.1	621.7	1,099.1	1,736.8	1,736.8
Interest expense	41.6	46.1	57.7	170.0	484.4	484.4
Total net revenues	557.3	605.0	564.0	929.1	1,252.4	1,252.4
Non-interest expenses:						
Execution and clearing	96.5	127.3	152.5	215.0	313.3	313.3
Employee compensation and benefits	64.7	73.5	79.1	90.2	110.1	110.1
Occupancy, depreciation and amortization	12.6	13.7	16.4	20.4	22.7	22.7
Communications	7.8	7.5	9.0	10.4	12.6	12.6
General and administrative	29.1	18.2	17.0	23.8	32.1	32.2
Total non-interest expenses	210.7	240.2	274.0	359.8	490.8	490.9
Income before income tax	346.6	364.8	290.0	569.3	761.6	761.5
Income tax expense	21.3	19.9	19.6	33.8	27.4	39.7
Less Minority interest						(697.5)
Net income	\$ 325.3	\$ 344.9	\$ 270.4	\$ 535.5	\$ 734.2	\$ 24.3
Basic earnings per share					\$	1.22
Diluted earnings per share					\$	1.21
Weighted average common shares outstanding:						
Basic						20,000,100
Diluted						401,244,371

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December 31, 2006

Consolidated Statement of Financial
Condition Data:

	December 31, 2006	
	Actual	Pro Forma
	(in millions)	
Cash, cash equivalents and short-term investments ⁽¹⁾	\$ 3,878.8	\$ 3,878.8
Total assets ⁽²⁾	\$ 32,080.5	\$ 32,178.9
Total liabilities, excluding redeemable members' interests	\$ 29,278.6	\$ 32,024.4
Redeemable members' interests ⁽³⁾ /stockholders' equity	\$ 2,801.9	\$ 154.5

(1) Cash, cash equivalents and short-term investments represent cash and cash equivalents, cash and securities segregated under federal and other regulations, U.S. and foreign government obligations and securities purchased under agreements to resell.

(2) At December 31, 2006, approximately \$32.0 billion, or 99.7%, of total assets were considered to be liquid and consisted primarily of marketable securities.

(3) Redeemable members' interests represent member interests in IBG LLC that are entitled to share in the consolidated profits and losses of IBG LLC. IBG LLC is a private entity owned by the members holding such member interests. As a private company, such amounts were classified historically as members' capital. For presentation purposes, IBG LLC has applied guidance within Emerging Issues Task Force (EITF) Topic D-98, *Classification and Measurement of Redeemable Securities* (EITF D-98) which requires securities or equity interests of a company whose redemption is outside the control of the company to be classified outside of permanent capital in the statement of financial condition. The member interests in IBG LLC can be redeemed by the members at book value at their option. Because this redemption right is deemed to be outside the control of the company, IBG LLC has reclassified all members' capital outside of permanent capital to redeemable members' interests in the consolidated statement of financial condition. Such reclassification was made to comply with EITF D-98 and the requirements of Regulation S-X of the Securities Exchange Act of 1934, as amended (Exchange Act). Redeemable members' interests include accumulated other comprehensive income.

RISK FACTORS

Investing in our common stock involves a substantial risk. You should consider carefully the following risks and other information in this prospectus, including our consolidated financial statements and related notes, before you decide to purchase our common stock. If any of the following risks actually materializes, our business, financial condition and operating results could be adversely affected. As a result, the trading price of our common stock could decline and you could lose part or all of your investment.

Risks Related to Our Company Structure

Control by Thomas Peterffy of a majority of the combined voting power of our common stock may give rise to conflicts of interests and could discourage a change of control that other stockholders may favor, which could negatively affect our stock price, and adversely affect stockholders in other ways.

Upon consummation of this offering, Thomas Peterffy, our founder, chairman and chief executive officer, and his affiliates will beneficially own approximately 85% of the economic interests and all of the voting interests in IBG Holdings LLC, which owns all of our Class B common stock, representing approximately 94.9% of the combined voting power of all classes of our voting stock. As a result, Mr. Peterffy will have the ability to elect all of the members of our board of directors and thereby to control our management and affairs, including determinations with respect to acquisitions, dispositions, material expansions or contractions of our business, entry into new lines of business, borrowings, issuances of common stock or other securities, and the declaration and payment of dividends on our common stock. In addition, Mr. Peterffy will be able to determine the outcome of all matters requiring stockholder approval and will be able to cause or prevent a change of control of our company or a change in the composition of our board of directors and could preclude any unsolicited acquisition of our company. The concentration of ownership could discourage potential takeover attempts that other stockholders may favor and could deprive stockholders of an opportunity to receive a premium for their common stock as part of a sale of our company and this may adversely affect the market price of our common stock.

Moreover, because of Mr. Peterffy's substantial ownership, we are eligible and intend initially to be treated as a "controlled company" for purposes of the NASDAQ Marketplace Rules. As a result, we will not be required by NASDAQ to have a majority of independent directors or to maintain compensation and nominating and corporate governance committees composed entirely of independent directors to continue to list the shares of our common stock on The NASDAQ Global Select Market. We expect that our compensation committee will be comprised of Messrs. Thomas Peterffy (who will be the chairman of the compensation committee), Earl H. Nemser (our vice chairman) and Philip D. DeFeo (who is expected to join our board of directors as an independent director in connection with the closing of this offering). Mr. Peterffy's membership on the compensation committee may give rise to conflicts of interests in that Mr. Peterffy will be able to influence all matters relating to executive compensation, including his own compensation.

The historical financial information of IBG LLC contained in this prospectus may not be representative of our results as an independent public company.

Because IBG LLC has operated as a limited liability company that is treated as a partnership for U.S. federal income tax purposes, it historically has paid little or no taxes on profits in the United States. As a result, IBG LLC's provision for income taxes has not reflected U.S. corporate federal income taxes. Accordingly, IBG LLC's historical results of operations and financial position are not necessarily indicative of the consolidated results of our operations and financial position after completion of the recapitalization transactions as described in the section entitled "The Recapitalization Transactions and Our Organizational Structure." For additional information about past financial performance and the basis of

presentation of IBG LLC's historical financial statements, see "Selected Historical Consolidated Financial Data," "Management's Discussion and Analysis of Financial Condition and Results of Operations," "Unaudited Pro Forma Consolidated Financial Data" and the IBG LLC historical financial statements and related notes included elsewhere in this prospectus.

The pro forma financial information in this prospectus may not permit you to predict our costs of operations, and the estimates and assumptions used in preparing our pro forma financial information may be materially different from our actual experience as a public company.

In preparing the pro forma financial information in this prospectus, we have made adjustments to the historical financial information of IBG LLC based upon currently available information and upon assumptions that our management believes are reasonable in order to reflect, on a pro forma basis, the impact of the Recapitalization. Some of these adjustments include, among other items, a deduction and charge to earnings of estimated income taxes based on an estimated tax rate. These and other estimates and assumptions used in the calculation of the pro forma financial information in this prospectus may be materially different from our actual experience as a public company. The pro forma financial information in this prospectus does not purport to represent what our results of operations would actually have been had we operated as a public company during the periods presented, nor do the pro forma data give effect to any events other than those discussed in the unaudited pro forma financial information and related notes. See "Unaudited Pro Forma Consolidated Financial Data."

Upon consummation of this offering, we will be dependent on IBG LLC to distribute cash to us in amounts sufficient to pay our tax liabilities and other expenses.

We will be a holding company and, immediately after the consummation of the Recapitalization, our primary assets will be our approximately 5.1% equity interest in IBG LLC and our controlling interest and related rights as the sole managing member of IBG LLC and, as such, we will operate and control all of the business and affairs of IBG LLC and will be able to consolidate IBG LLC's financial results into our financial statements. We will have no independent means of generating revenues. IBG LLC will be treated as a partnership for U.S. federal income tax purposes and, as such, will not itself be subject to U.S. federal income tax. Instead, its taxable income will be allocated on a pro rata basis to IBG Holdings LLC and us. Accordingly, we will incur income taxes on our proportionate share of any net taxable income of IBG LLC, and also will incur expenses related to our operations. We intend to cause IBG LLC to distribute cash to its members in amounts at least equal to that necessary to cover their tax liabilities, if any, with respect to the earnings of IBG LLC. To the extent we need funds to pay such taxes, or for any other purpose, and IBG LLC is unable to provide such funds, it could have a material adverse effect on our business, financial condition or results of operations.

We will be required to pay IBG Holdings LLC for the benefit relating to any additional tax depreciation or amortization deductions we may claim as a result of the tax basis step-up our subsidiaries receive in connection with this offering and related transactions.

In connection with this offering, we will purchase interests in IBG LLC from IBG Holdings LLC for cash. In addition, IBG LLC membership interests held by IBG Holdings LLC may be sold in the future to us and financed by our issuances of shares of our common stock. The initial purchase will, and the subsequent purchases may, result in increases in the tax basis of the tangible and intangible assets of IBG LLC and its subsidiaries that otherwise would not have been available. Such increase will be approximately equal to the amount by which our stock price at the time of the purchase exceeds the income tax basis of the assets of IBG LLC underlying the IBG LLC interests acquired by us. These increases in tax basis will result in increased deductions in computing our taxable income and resulting tax savings for us generally over the 15 year period commencing with the initial purchase. We have agreed to pay 85% of these tax savings, if any, to IBG Holdings LLC as they are realized as additional

consideration for the IBG LLC interests that we acquire. See "Transactions with Related Persons, Promoters and Certain Control Persons Tax Receivable Agreement."

At the time of the closing of this offering, the increase in the tax basis attributable to our interest in IBG LLC, assuming an initial offering price of \$25.00 per share of common stock (the midpoint of the range of initial public offering prices set forth on the cover of this prospectus) and our purchase of 5.0% of the outstanding interests of IBG LLC, is expected to be approximately \$350.5 million. The tax savings that we would actually realize as a result of this increase in tax basis likely would be significantly less than this amount multiplied by our effective tax rate due to a number of factors, including the allocation of a portion of the increase in tax basis to foreign or non-depreciable fixed assets, the impact of the increase in the tax basis on our ability to use foreign tax credits and the rules relating to the amortization of intangible assets, for example. Based on current facts and assumptions, including that subsequent purchases of IBG LLC interests will occur in fully taxable transactions, the potential tax basis increase resulting from the purchase of the IBG LLC interests held by IBG Holdings LLC following the closing of the offering could be as much as \$7.2 billion. The tax receivable agreement will require 85% of such tax savings, if any, to be paid to IBG Holdings LLC, with the balance to be retained by us. The actual increase in tax basis will depend, among other factors, upon the price of shares of our common stock at the time of the purchase and the extent to which such purchases are taxable and, as a result, could differ materially from this amount. Our ability to achieve benefits from any such increase, and the amount of the payments to be made under the tax receivable agreement, will depend upon a number of factors, as discussed above, including the timing and amount of our future income.

If either immediately before or immediately after any purchase or the related issuance of our stock, the IBG Holdings LLC members own or are deemed to own, in the aggregate, more than 20% of our outstanding stock, then all or part of any increase in the tax basis of goodwill may not be amortizable and, thus, our ability to realize the annual tax savings that otherwise would have resulted if such tax basis were amortizable may be significantly reduced. Although the IBG Holdings LLC members are prohibited under the exchange agreement from purchasing shares of Class A common stock, grants of our stock to employees and directors who are also members or related to members of IBG Holdings LLC and the application of certain tax attribution rules, such as among family members and partners in a partnership, could result in IBG Holdings LLC members being deemed for tax purposes to own shares of Class A common stock.

If the IRS successfully challenges the tax basis increase, under certain circumstances, we could be required to make payments to IBG Holdings LLC under the tax receivable agreement in excess of our cash tax savings.

Our senior secured revolving credit facility and our senior notes impose certain restrictions. A failure to comply with these restrictions could lead to an event of default, resulting in an acceleration of indebtedness, which may affect our ability to finance future operations or capital needs, or to engage in other business activities.

As of December 31, 2006, our total indebtedness (consisting of the aggregate amounts outstanding under senior notes, senior secured revolving credit facility and short-term borrowings) was approximately \$1.6 billion. On May 19, 2006, IBG LLC entered into a \$300.0 million three-year senior secured revolving credit facility with JPMorgan Chase Bank, N.A. as administrative agent, Harris N.A. as syndication agent, and Citibank, N.A. and HSBC Bank USA National Association as co-syndication agents. In addition, subject to restrictions in our senior secured revolving credit facility and our senior notes, we may incur additional first-priority secured borrowings under the senior secured revolving credit facility.

The operating and financial restrictions and covenants in our debt agreements, including the senior secured revolving credit facility and our senior notes, may adversely affect our ability to finance future operations or capital needs or to engage in other business activities. Our senior secured revolving credit facility requires us to maintain specified financial ratios and tests, including interest coverage and total leverage ratios and maximum capital expenditures, which may require that we take action to reduce debt or to act in a manner contrary to our business objectives. In addition, the senior secured revolving credit facility and the senior notes restrict our ability to, among other things:

incur additional indebtedness;

dispose of assets;

guarantee debt obligations;

repay indebtedness or amend debt instruments;

pay dividends;

create liens on assets;

make investments;

make acquisitions;

engage in mergers or consolidations; or

engage in certain transactions with subsidiaries and affiliates and otherwise restrict corporate activities.

A more detailed discussion of the restrictions contained in our senior secured revolving credit facility can be found on page 144 of this prospectus. A failure to comply with the restrictions contained in the senior secured revolving credit facility could lead to an event of default, which could result in an acceleration of our indebtedness. Such an acceleration would constitute an event of default under our senior notes. A failure to comply with the restrictions in our senior notes could result in an event of default under our senior notes. Our future operating results may not be sufficient to enable compliance with the covenants in the senior secured revolving credit facility, our senior notes or other indebtedness or to remedy any such default. In addition, in the event of an acceleration, we may not have or be able to obtain sufficient funds to refinance our indebtedness or make any accelerated payments, including those under the senior notes. In addition, we may not be able to obtain new financing. Even if we were able to obtain new financing, we would not be able to guarantee that the new financing would be on commercially reasonable terms or terms that would be acceptable to us. If we default on our indebtedness, our business financial condition and results of operation could be materially and adversely affected.

Risks Related to Our Business

Our business may be harmed by global events beyond our control, including overall slowdowns in securities trading.

Like other brokerage and financial services firms, our business and profitability are directly affected by elements that are beyond our control, such as economic and political conditions, broad trends in business and finance, changes in volume of securities and futures transactions, changes in the markets

in which such transactions occur and changes in how such transactions are processed. A weakness in equity markets, such as a slowdown causing reduction in trading volume in U.S. or foreign securities and derivatives, has historically resulted in reduced transaction revenues and would have a material adverse effect on our business, financial condition and results of operations.

Because our revenues and profitability depend on trading volume, they are prone to significant fluctuations and are difficult to predict.

Our revenues are dependent on the level of trading activity on securities and derivatives exchanges in the United States and abroad. In the past, our revenues and operating results have varied significantly from period to period due primarily to the willingness of competitors to trade more aggressively by decreasing their bid/offer spreads and thereby assuming more risk in order to acquire market share, to movements and trends in the underlying markets, and to fluctuations in trading levels. As a result, period to period comparisons of our revenues and operating results may not be meaningful, and future revenues and profitability may be subject to significant fluctuations or declines.

Our reliance on our computer software could cause us great financial harm in the event of any disruption or corruption of our computer software. We may experience technology failures while developing our software.

We rely on our computer software to receive and properly process internal and external data. Any disruption for any reason in the proper functioning or any corruption of our software or erroneous or corrupted data may cause us to make erroneous trades or suspend our services and could cause us great financial harm. In order to maintain our competitive advantage, our software is under continuous development. As we identify and enhance our software, there is risk that software failures may occur and result in service interruptions and have other unintended consequences.

Our business could be harmed by a systemic market event.

Some market participants could be overleveraged. In case of sudden, large price movements, such market participants may not be able to meet their obligations to brokers who, in turn, may not be able to meet their obligations to their counterparties. As a result, the financial system or a portion thereof could collapse, and the impact of such an event could be catastrophic to our business.

We may incur material trading losses from our market making activities.

A substantial portion of our revenues and operating profits is derived from our trading as principal in our role as a market maker and specialist. We may incur trading losses relating to these activities since each primarily involves the purchase or sale of securities for our own account. In any period, we may incur trading losses in a significant number of securities for a variety of reasons including:

price changes in securities;

lack of liquidity in securities in which we have positions; and

the required performance of our market making and specialist obligations.

These risks may limit or restrict our ability to either resell securities we purchased or to repurchase securities we sold. In addition, we may experience difficulty borrowing securities to make delivery to purchasers to whom we sold short, or lenders from whom we have borrowed. From time to time, we have large position concentrations in securities of a single issuer or issuers engaged in a specific industry or traded in a particular market. Such a concentration could result in higher trading losses than would occur if our positions and activities were less concentrated.

In our role as a market maker, we attempt to derive a profit from the difference between the prices at which we buy and sell, or sell and buy, securities. However, competitive forces often require us to match the quotes other market makers display and to hold varying amounts of securities in inventory. By having to maintain inventory positions, we are subjected to a high degree of risk. We cannot assure you that we will be able to manage such risk successfully or that we will not experience significant losses from such activities, which could have a material adverse effect on our business, financial condition and operating results.

Reduced spreads in securities pricing, levels of trading activity and trading through market makers and/or specialists could harm our business.

Computer-generated buy/sell programs and other technological advances and regulatory changes in the marketplace may continue to tighten spreads on securities transactions. Tighter spreads and increased competition could make the execution of trades and market making activities less profitable. In addition, new and enhanced alternative trading systems such as ECNs have emerged as an alternative for individual and institutional investors, as well as broker-dealers, to avoid directing their trades through market makers, and could result in reduced revenues derived from our market making business.

We may incur losses in our market making activities in the event of failures of our proprietary pricing model.

The success of our market making business is substantially dependent on the accuracy of our proprietary pricing mathematical model, which continuously evaluates and monitors the risks inherent in our portfolio, assimilates market data and reevaluates our outstanding quotes each second. Our model is designed to automatically rebalance our positions throughout the trading day to manage risk exposures on our positions in options, futures and the underlying securities. In the event of a flaw in our pricing model and/or a failure in the related software, our pricing model may lead to unexpected and/or unprofitable trades, which may result in material trading losses.

The valuation of the financial instruments we hold may result in large and occasionally anomalous swings in the value of our positions and in our earnings in any period.

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

We are exposed to losses due to lack of perfect information.

As market makers, we provide liquidity by buying from sellers and selling to buyers. Quite often, we trade with others who have better information than we do, and as a result, we may accumulate unfavorable positions preceding large price movements in stocks about to undergo corporate action. Should the frequency or magnitude of these events increase, our losses will likely increase correspondingly.

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

Specialists and designated market makers are granted certain rights and have certain obligations to "make a market" in a particular security. They agree to specific obligations to maintain a fair and

orderly market. In acting as a specialist or designated market maker, we are subjected to a high degree of risk by having to support an orderly market. In this role, we may at times be required to make trades that adversely affect our profitability. In addition, we may at times be unable to trade for our own account in circumstances in which it may be to our advantage to trade, and we may be obligated to act as a principal when buyers or sellers outnumber each other. In those instances, we may take a position counter to the market, buying or selling securities to support an orderly market. Additionally, the rules of the markets which govern our activities as a specialist or designated market maker are subject to change. If these rules are made more stringent, our trading revenues and profits as specialist or designated market maker could be adversely affected.

Regulatory and legal uncertainties could harm our business.

The securities and derivatives businesses are heavily regulated. Firms in financial service industries have been subject to an increasingly regulated environment over recent years, and penalties and fines sought by regulatory authorities have increased accordingly. This regulatory and enforcement environment has created uncertainty with respect to various types of transactions that historically had been entered into by financial service firms and that were generally believed to be permissible and appropriate. Our broker-dealer subsidiaries are subject to regulations in the United States and abroad covering all aspects of their business. Regulatory bodies include, in the United States, the SEC, the National Association of Securities Dealers (NASD), the Board of Governors of the Federal Reserve System, the Chicago Board Options Exchange (CBOE), the Commodity Futures Trading Commission (CFTC), National Futures Association (NFA) and the NYSE, in Switzerland, the Federal Banking Commission, in the United Kingdom, the Financial Services Authority (FSA), in Hong Kong, the Securities and Futures Commission (SFC), in Australia, the Australian Securities and Investment Commission (ASIC), and in Canada, the Investment Dealers Association of Canada (IDA) and various Canadian securities commissions. Our mode of operation and profitability may be directly affected by additional legislation; changes in rules promulgated by various domestic and foreign government agencies and self-regulatory organizations that oversee our business; and changes in the interpretation or enforcement of existing laws and rules. Noncompliance with applicable laws or regulations could result in sanctions being levied against us, including fines and censures, suspension or expulsion from a certain jurisdiction or market or the revocation or limitation of licenses. Noncompliance with applicable laws or regulations could adversely affect our reputation, prospects, revenues and earnings. In addition, changes in current laws or regulations or in governmental policies could adversely affect our operations, revenues and earnings.

Domestic and foreign stock exchanges, other self-regulatory organizations and state and foreign securities commissions can censure, fine, issue cease-and-desist orders, suspend or expel a broker-dealer or any of its officers or employees. Our ability to comply with all applicable laws and rules is largely dependent on our internal system to ensure compliance, as well as our ability to attract and retain qualified compliance personnel. We could be subject to disciplinary or other actions in the future due to claimed noncompliance, which could have a material adverse effect on our business, financial condition and results of operations. To continue to operate and to expand our services internationally, we may have to comply with the regulatory controls of each country in which we conduct, or intend to conduct business, the requirements of which may not be clearly defined. The varying compliance requirements of these different regulatory jurisdictions, which are often unclear, may limit our ability to continue existing international operations and further expand internationally.

Our future efforts to sell shares or raise additional capital may be delayed or prohibited by regulations.

As certain of our subsidiaries are members of the NASD, we are subject to certain regulations regarding changes in control of our ownership. NASD Rule 1017 generally provides that NASD approval must be obtained in connection with any transaction resulting in a change in control of a member firm. The NASD defines control as ownership of 25% or more of the firm's equity by a single entity or person

and would include a change in control of a parent company. Interactive Brokers (U.K.) Limited is subject to similar change in control regulations promulgated by the FSA in the United Kingdom. As a result of these regulations, our future efforts to sell shares or raise additional capital may be delayed or prohibited. We may be subject to similar restrictions in other jurisdictions in which we operate.

We depend on our proprietary technology, and our future results may be impacted if we cannot maintain technological superiority in our industry.

Our success in the past has largely been attributable to our sophisticated proprietary technology that has taken many years to develop. We have benefited from the fact that the type of proprietary technology equivalent to that which we employ has not been widely available to our competitors. If our technology becomes more widely available to our current or future competitors for any reason, our operating results may be adversely affected. Additionally, adoption or development of similar or more advanced technologies by our competitors may require that we devote substantial resources to the development of more advanced technology to remain competitive. The markets in which we compete are characterized by rapidly changing technology, evolving industry standards and changing trading systems, practices and techniques. Although we have been at the forefront of many of these developments in the past, we may not be able to keep up with these rapid changes in the future, develop new technology, realize a return on amounts invested in developing new technologies or remain competitive in the future.

We are subject to potential losses as a result of our clearing and execution activities.

As a clearing member firm providing financing services to certain of our brokerage customers, we are ultimately responsible for their financial performance in connection with various stock, options and futures transactions. Our clearing operations require a commitment of our capital and, despite safeguards implemented by our software, involve risks of losses due to the potential failure of our customers to perform their obligations under these transactions. If our customers default on their obligations, we remain financially liable for such obligations, and although these obligations are collateralized, we are subject to market risk in the liquidation of customer collateral to satisfy those obligations. There can be no assurance that our risk management procedures will be adequate. Any liability arising from clearing operations could have a material adverse effect on our business, financial condition and/or operating results.

As a clearing member firm of securities and commodities clearing houses in the United States and abroad, we are also exposed to clearing member credit risk. Securities and commodities clearing houses require member firms to deposit cash and/or government securities to a clearing fund. If a clearing member defaults in its obligations to the clearing house in an amount larger than its own margin and clearing fund deposits, the shortfall is absorbed pro rata from the deposits of the other clearing members. Many clearing houses of which we are members also have the authority to assess their members for additional funds if the clearing fund is depleted. A large clearing member default could result in a substantial cost to us if we are required to pay such assessments.

The loss of our key employees would materially adversely affect our business.

Our key executives have substantial experience and have made significant contributions to our business, and our continued success is dependent upon the retention of our key management executives, as well as the services provided by our staff of trading system, technology and programming specialists and a number of other key managerial, marketing, planning, financial, technical and operations personnel. The loss of such key personnel could have a material adverse effect on our business. Growth in our business is dependent, to a large degree, on our ability to retain and attract such employees.

We are exposed to risks associated with our international operations.

During 2005 and 2006, approximately 33% and 21%, respectively, of our net revenues were generated outside the United States. We are exposed to risks and uncertainties inherent in doing business in international markets, particularly in the heavily regulated brokerage industry. Such risks and uncertainties include political, economic and financial instability; unexpected changes in regulatory requirements, tariffs and other trade barriers; exchange rate fluctuations; applicable currency controls; and difficulties in staffing, including reliance on newly hired local experts, and managing foreign operations. These risks could cause a material adverse effect on our business, financial condition or results of operations.

We do not have fully redundant systems. System failures could harm our business.

If our systems fail to perform, we could experience unanticipated disruptions in operations, slower response times or decreased customer service and customer satisfaction. Our ability to facilitate transactions successfully and provide high quality customer service also depends on the efficient and uninterrupted operation of our computer and communications hardware and software systems. Our service has experienced periodic system interruptions, which we believe will continue to occur from time to time. Our systems and operations also are vulnerable to damage or interruption from human error, natural disasters, power loss, telecommunication failures, break-ins, sabotage, computer viruses, intentional acts of vandalism and similar events. While we currently maintain redundant servers to provide limited service during system disruptions, we do not have fully redundant systems, and our formal disaster recovery plan does not include restoration of all services. For example, we have backup facilities to our disaster recovery site that enable us, in the case of complete failure of our main North America data center, to recover and complete all pending transactions, provide customers with access to their accounts to deposit or withdraw money, transfer positions to other brokers and manage their risk by continuing trading through the use of marketable orders. These backup services are currently limited to U.S. markets. We do not currently have separate backup facilities dedicated to our non-U.S. operations. It is our intention to provide for and progressively deploy backup facilities for our global facilities over time. In addition, we do not carry business interruption insurance to compensate for losses that could occur to the extent not required. Any system failure that causes an interruption in our service or decreases the responsiveness of our service could impair our reputation, damage our brand name and materially adversely affect our business, financial condition and results of operations.

Failure of third-party systems on which we rely could adversely affect our business.

We rely on certain third-party computer systems or third-party service providers, including clearing systems, exchange systems, Internet service, communications facilities and other facilities. Any interruption in these third-party services, or deterioration in their performance, could be disruptive to our business. If our arrangement with any third party is terminated, we may not be able to find an alternative source of systems support on a timely basis or on commercially reasonable terms. This could have a material adverse effect on our business, financial condition and results of operations.

We face competition in our market making activities.

In our market making activities, we compete with other firms who act as market makers based on our ability to provide liquidity at competitive prices and to attract order flow. Market makers range from sole proprietors with very limited resources, of which there are still a few hundred left, to a few highly sophisticated groups which have substantially greater financial and other resources, including research and development personnel, than we do. These larger and better capitalized competitors may be better able to respond to changes in the market making industry, to compete for skilled professionals, to finance acquisitions, to fund internal growth and to compete for market share generally. We may not be able to compete effectively against these firms, particularly those with greater financial resources, and our failure to do so could materially and adversely affect our business, financial condition and results of

operations. As in the past, we may in the future face enhanced competition, resulting in narrowing bid/offer spreads in the marketplace that may adversely impact our financial performance. This is especially likely if others can acquire systems that enable them to predict markets or process trades more efficiently than we can.

Our direct market access clearing and non-clearing brokerage operations face intense competition.

With respect to our direct market access brokerage business, the market for electronic and interactive bidding, offering and trading services in connection with equities, options and futures is relatively new, rapidly evolving and intensely competitive. We expect competition to continue and intensify in the future. Our current and potential future competition principally comes from five categories of competitors:

prime brokers who, in an effort to satisfy the demands of their customers for hands-on electronic trading facilities, universal access to markets, smart routing, better trading tools, lower commissions and financing rates, have embarked upon building such facilities and product enhancements;

direct market access and online options and futures firms;

direct market access and online equity brokers;

software development firms and vendors who create global trading networks and analytical tools and make them available to brokers; and

traditional brokers.

In addition, we compete with financial institutions, mutual fund sponsors and other organizations, many of which provide online, direct market access or other investing services. A number of brokers provide our technology and execution services to their customers, and these brokers will become our competitors if they develop their own technology. Some of our competitors in this area have greater name recognition, longer operating histories and significantly greater financial, technical, marketing and other resources than we have and offer a wider range of services and financial products than we do. Some of our competitors may also have an ability to charge lower commissions. We cannot assure you that we will be able to compete effectively or efficiently with current or future competitors. These increasing levels of competition in the online trading industry could significantly harm this aspect of our business.

We are subject to risks relating to litigation and potential securities laws liability.

We are exposed to substantial risks of liability under federal and state securities laws, other federal and state laws and court decisions, as well as rules and regulations promulgated by the SEC, the CFTC, the Federal Reserve, state securities regulators, the self-regulatory organizations (SROs) and foreign regulatory agencies. We are also subject to the risk of litigation and claims that may be without merit. We could incur significant legal expenses in defending ourselves against and resolving lawsuits or claims. An adverse resolution of any future lawsuits or claims against us could result in a negative perception of our company and cause the market price of our common stock to decline or otherwise have an adverse effect on our business, financial condition and/or operating results.

Any future acquisitions may result in significant transaction expenses, integration and consolidation risks and risks associated with entering new markets, and we may be unable to profitably operate our consolidated company.

Although our growth strategy has not focused historically on acquisitions, we may in the future engage in evaluations of potential acquisitions and new businesses. We may not have the financial resources necessary to consummate any acquisitions in the future or the ability to obtain the necessary

funds on satisfactory terms. Any future acquisitions may result in significant transaction expenses and risks associated with entering new markets in addition to integration and consolidation risks. Because acquisitions historically have not been a core part of our growth strategy, we have no material experience in successfully utilizing acquisitions. We may not have sufficient management, financial and other resources to integrate any such future acquisitions or to successfully operate new businesses and we may be unable to profitably operate our expanded company.

Internet-related issues may reduce or slow the growth in the use of our services in the future.

Critical issues concerning the commercial use of the Internet, such as ease of access, security, privacy, reliability, cost, and quality of service, remain unresolved and may adversely impact the growth of Internet use. If Internet usage continues to increase rapidly, the Internet infrastructure may not be able to support the demands placed on it by this growth, and its performance and reliability may decline. The recent growth in Internet traffic has caused frequent periods of decreased performance, outages and delays. Although our larger institutional customers use leased data lines to communicate with us, our ability to increase the speed with which we provide services to consumers and to increase the scope and quality of such services is limited by and dependent upon the speed and reliability of our customers' access to the Internet, which is beyond our control. If periods of decreased performance, outages or delays on the Internet occur frequently or other critical issues concerning the Internet are not resolved, overall Internet usage or usage of our web based products could increase more slowly or decline, which would cause our business, results of operations and financial condition to be materially and adversely affected.

Our computer infrastructure may be vulnerable to security breaches. Any such problems could jeopardize confidential information transmitted over the Internet, cause interruptions in our operations or cause us to have liability to third persons.

Our computer infrastructure is potentially vulnerable to physical or electronic computer break-ins, viruses and similar disruptive problems and security breaches. Any such problems or security breaches could cause us to have liability to one or more third parties and disrupt our operations. A party able to circumvent our security measures could misappropriate proprietary information or customer information, jeopardize the confidential nature of information transmitted over the Internet or cause interruptions in our operations. Concerns over the security of Internet transactions and the privacy of users could also inhibit the growth of the Internet in general, particularly as a means of conducting commercial transactions. To the extent that our activities involve the storage and transmission of proprietary information such as personal financial information, security breaches could expose us to a risk of financial loss, litigation and other liabilities. Our current insurance program may protect us against some, but not all, of such losses. Any of these events could have a material adverse effect on our business, results of operations and financial condition.

We may not be able to protect our intellectual property rights or may be prevented from using intellectual property necessary for our business.

We rely primarily on trade secret, contract, copyright, patent and trademark laws to protect our proprietary technology. It is possible that third parties may copy or otherwise obtain and use our proprietary technology without authorization or otherwise infringe on our rights. We may also face claims of infringement that could interfere with our ability to use technology that is material to our business operations.

In the future, we may have to rely on litigation to enforce our intellectual property rights, protect our trade secrets, determine the validity and scope of the proprietary rights of others or defend against claims of infringement or invalidity. Any such litigation, whether successful or unsuccessful, could result in substantial costs and the diversion of resources and the attention of management, any of which could negatively affect our business.

Our future success will depend on our response to the demand for new services, products and technologies.

The demand for market making services, particularly services that rely on electronic communications gateways, is characterized by:

rapid technological change;

changing customer demands;

the need to enhance existing services and products or introduce new services and products; and

evolving industry standards.

New services, products and technologies may render our existing services, products and technologies less competitive. Our future success will depend, in part, on our ability to respond to the demand for new services, products and technologies on a timely and cost-effective basis and adapt to technological advancements and changing standards to address the increasingly sophisticated requirements and varied needs of our customers and prospective customers. We cannot assure you that we will be successful in developing, introducing or marketing new services, products and technologies. In addition, we may experience difficulties that could delay or prevent the successful development, introduction or marketing of these services and products, and our new service and product enhancements may not achieve market acceptance. Any failure on our part to anticipate or respond adequately to technological advancements, customer requirements or changing industry standards, or any significant delays in the development, introduction or availability of new services, products or enhancements could have a material adverse effect on our business, financial condition and operating results.

The expansion of our market making activities into forex-based products entails significant risk, and unforeseen events in such business could have an adverse effect on our business, financial condition and results of operation.

We are in the process of entering into market making for forex-based products. This includes the trading of cash in foreign currencies with banks and exchange-listed futures, options on futures, options on cash deposits and currency-based ETFs. All of the risks that pertain to our market making activities in equity-based products also apply to our forex-based market making. In addition, we have very little experience in the forex markets and even though we are easing into this activity very slowly, any kind of unexpected event can occur that can result in great financial loss.

We are subject to counterparty risk whereby defaults by parties with whom we do business can have an adverse effect on our business, financial condition and/or operating results.

In our electronic brokerage business, our customer margin 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 in which no liquid market exists for the relevant securities or commodities or in which, for any reason, automatic liquidation for certain accounts has been disabled. If no liquid market exists or automatic liquidation has been disabled, we are subject to risks inherent in extending credit, especially during periods of rapidly declining markets. Any loss or expense incurred due to defaults by our customers in failing to repay margin loans or to maintain adequate collateral for these loans would cause harm to our business.

Risks Related to the Auction Process for This Offering

Potential investors should not expect to sell our shares for a profit shortly after our common stock begins trading.

We will determine the initial public offering price for the shares sold in this offering through an auction conducted by the placement agents. We believe that the auction process will reveal a clearing price for the shares of our common stock offered in this offering. The clearing price is the highest price at which all of the shares offered may be sold to potential investors. Although the placement agents and we may elect to set the initial public offering price below the auction clearing price, the public offering price may be at or near the clearing price. If there is little to no demand for our shares at or above the initial public offering price once trading begins, the price of our shares would decline following the initial public offering. If your objective is to make a short-term profit by selling the shares you purchase in the offering shortly after trading begins, you should not submit a bid in the auction.

Some bids made at or above the initial public offering price may not receive an allocation of shares.

The placement agents may require that bidders confirm their bids before the auction for the initial public offering closes. If a bidder is requested to confirm a bid and fails to do so within a required time frame, that bid may be rejected and may not receive an allocation of shares even if the bid is at or above the initial public offering price. Further, if the auction process leads to a pro rata reduction in allocated shares and a rounding down of share allocations pursuant to the rules of the auction, a bidder may not receive any shares in the offering despite having bid at or above the initial public offering price. In addition, we, in consultation with the placement agents, may determine, in our sole discretion, that some bids that are at or above the initial public offering price are manipulative of or disruptive to the bidding process, not creditworthy, or otherwise not in our best interest, in which case such bids may be rejected or reduced. For example, in previous transactions for other issuers in which the auction process was used, WR Hambrecht + Co has rejected or reduced bids when WR Hambrecht + Co, in its sole discretion, deemed the bids not creditworthy or had reason to question the bidder's intent or means to fund its bid. In the absence of other information, the placement agents or a participating dealer may assess a bidder's creditworthiness based solely on the bidder's history with the placement agents or a participating dealer. WR Hambrecht + Co has also rejected or reduced bids that it deemed, in its sole discretion, to be potentially manipulative or disruptive or because the bidder had a history of alleged securities law violations. Other conditions for valid bids, including eligibility and account funding requirements of participating dealers, may vary. As a result of these varying requirements, a bidder may have its bid rejected by the placement agents or a participating dealer while another bidder's identical bid is accepted.

Potential investors may receive a full allocation of the shares they bid for if their bids are successful and should not bid for more shares than they are prepared to purchase.

If the initial public offering price is at or near the clearing price for the shares offered in this offering, the number of shares represented by successful bids will equal or nearly equal the number of shares offered by this prospectus. Successful bidders may therefore be allocated all or nearly all of the shares that they bid for in the auction. Therefore, we caution investors against submitting a bid that does not accurately represent the number of shares of our common stock that they are willing and prepared to purchase.

Other Risks Related To The Offering

The disparity in the voting rights among the classes of shares may exert downward pressure on the price of our common stock.

Shares of our common stock and Class B common stock entitle the respective holders to identical rights, except that each share of our common stock will entitle its holder to one vote on all matters to be voted on by stockholders generally while each share of Class B common stock will entitle

its holder to a greater number of votes. Initially, the holders of Class B common stock, in the aggregate, will be entitled to approximately 380.0 million votes. The difference in voting rights could exert downward pressure on the price of our common stock to the extent that investors view, or any potential future purchaser of our company views, the superior voting rights of the Class B common stock to have value.

Future sales of our common stock in the public market could lower our stock price, and any additional capital raised by us through the sale of equity or convertible securities may dilute your ownership in us.

The members of IBG Holdings LLC have the right to cause the redemption of their IBG Holdings LLC membership interests over time in connection with offerings of shares of our common stock as further described in the section entitled "The Recapitalization Transactions and Our Organizational Structure." We intend to sell additional shares of common stock in subsequent public offerings on a regular basis, including annual offerings of our common stock to finance future purchases of IBG LLC membership interests which, in turn, will finance corresponding redemptions of IBG Holdings LLC membership interests. These annual offerings and related transactions are anticipated to occur on or about each of the first eight years following this offering and, depending on the timing of redemptions, possibly extend into the future in accordance with an exchange agreement among us, IBG LLC, IBG Holdings LLC and the historical members of IBG LLC described in greater detail under "Transactions with Related Persons, Promoters and Certain Control Persons Exchange Agreement." We may also issue additional shares of common stock or convertible debt securities to finance future acquisitions or business combinations. After the consummation of this offering, we will have approximately 20.2 million outstanding shares of common stock. This number includes all the shares of our common stock we are selling in this offering, which may be resold immediately in the public market. Assuming no anti-dilution adjustments based on combinations or divisions of our common stock, the annual offerings referred to above could result in the issuance by us of up to an additional approximately 380.0 million shares of common stock. It is possible, however, that such shares could be issued in one or a few large transactions.

We cannot predict the size of future issuances of our common stock or the effect, if any, that future issuances and sales of shares of our common stock may have on the market price of our common stock. Sales of substantial amounts of our common stock (including shares issued in connection with an acquisition), or the perception that such sales could occur, may cause the market price of our common stock to decline.

All net proceeds of this offering will go to the current members of IBG LLC, including all of our executive officers and employee directors, rather than be used for corporate business purposes.

We intend to use all net proceeds of this offering to purchase IBG LLC membership interests from IBG Holdings LLC, which will, in turn, use such proceeds to redeem a portion of the IBG Holdings LLC membership interests to be held by the current members of IBG LLC. Such redemptions will result in all net proceeds of this offering going to the current members of IBG LLC on a pro rata basis. Of this amount, more than 91.5% will go to our employee directors and executive officers. We do not anticipate using any net proceeds for corporate business purposes. See "Use of Proceeds."

Our internal controls over financial reporting may not be effective and our independent auditors may not be able to certify as to their effectiveness, which could have a significant and adverse effect on our business and reputation.

We are evaluating our internal controls over financial reporting in order to allow management to report on, and our independent auditors to attest to, our internal controls over financial reporting, as required by Section 404 of the Sarbanes-Oxley Act of 2002, as amended, and rules and regulations of the SEC thereunder, which we refer to as Section 404. We are in the process of documenting and testing our internal control procedures in order to satisfy the requirements of Section 404, which requires annual

management assessments of the effectiveness of our internal controls over financial reporting and a report by our independent registered public accountants addressing these assessments.

During the course of our initial evaluation of internal controls over financial reporting, we identified a material weakness, as such term is defined by Section 404, relating to the interpretation and application of generally accepted accounting principles. Specifically, subsequent to the filing of our Registration Statement on Form S-1 on November 27, 2006, our management determined that there was an error in the classification of certain securities loaned fee income, securities borrowed fee expense and foreign currency translation. These items have since been reclassified, as reflected in the consolidated financial statements included in this prospectus. These changes did not have any impact on our net income, our consolidated statements of financial condition or our cash and cash equivalents. The foregoing material weakness has been remediated.

As we continue our evaluation, we may identify additional material weaknesses that we may not be able to remediate in time to meet the deadline imposed by the Sarbanes-Oxley Act of 2002, as amended, for compliance with the requirements of Section 404. We will be required to comply with the requirements of Section 404 for our year ending December 31, 2008. In addition, if we fail to achieve and maintain the adequacy of our internal controls, as such standards are modified, supplemented or amended from time to time, we may not be able to ensure that we can conclude on an ongoing basis that we have effective internal controls over financial reporting in accordance with Section 404. We cannot be certain as to the timing of completion of our evaluation, testing and any remediation actions or the impact of the same on our operations. If we are not able to implement the requirements of Section 404 in a timely manner or with adequate compliance, our independent auditors may not be able to certify as to the effectiveness of our internal control over financial reporting and we may be subject to sanctions or investigation by regulatory authorities, such as the SEC. As a result, there could be a negative reaction in the financial markets due to a loss of confidence in the reliability of our financial statements. In addition, we may be required to incur costs in improving our internal control system and the hiring of additional personnel. Any such action could negatively affect our results of operations.

You will experience immediate and substantial dilution.

The price you pay for shares of our common stock sold in this offering is substantially higher than the per share value of our net assets, after giving effect to this offering. Assuming an initial public offering price for our common shares of \$25.00 per share (the midpoint of the initial public offering price range indicated on the cover of this prospectus), you will incur immediate dilution in net tangible book value per share of \$18.01. Dilution is the difference between the offering price per share and the net tangible book value per share of our common stock immediately after the offering. See "Dilution."

In addition, certain employees of IBG LLC currently hold Return on Investment Dollar Units (ROI Units) that entitle each holder thereof to accumulated earnings on the face value of the certificate representing his or her ROI Units. In connection with this offering, ROI Units may, at the employee's option, be cancelled and the accumulated earnings thereon invested in restricted shares of common stock in connection with this offering, which restricted shares would then vest over time assuming continued employment with IBG LLC and compliance with applicable covenants, thereby diluting the percentage ownership of IBG by unaffiliated public stockholders. Subsequent to this offering, non-cash compensation of employees will consist primarily of grants of restricted shares of our common stock. Such future grants of restricted shares would further dilute the percentage ownership of IBG LLC by unaffiliated public stockholders. See "Dilution," "Management Return on Investment Dollar Units" and "Management Employee Incentive Plan."

In addition, in the event IBG LLC uses cash on hand to acquire IBG LLC membership interests in the future, such use of cash is expected to have a dilutive effect on the existing holders of our common stock, as the price paid per membership interest is likely to be higher than IBG LLC's tangible book value

per membership interest. See "The Recapitalization Transactions and Our Organizational Structure Exchange and Redemption of Membership Interests."

Our common stock price may fluctuate after this offering. As a result, you may not be able to resell your shares at or above the price you paid for them.

Prior to this offering, there has been no public market for our common stock. An active market may not develop following completion of this offering or, if developed, may not be maintained. The initial public offering price may not be indicative of the price at which our common stock will trade following completion of this offering. The market price of our common stock may be subject to sharp declines and volatility in market price. The market price of our common stock may also be influenced by many factors, some of which are beyond our control, including:

the failure of securities analysts to cover our common stock after this offering or changes in financial estimates or recommendations by analysts;

future announcements concerning us or our competitors, including the announcement of acquisitions;

changes in government regulations or in the status of our regulatory approvals or licensure;

public perceptions of risks associated with our services or operations; and

general market conditions and other factors that may be unrelated to our operating performance or the operating performance of our competitors.

As a result, you may not be able to sell shares of our common stock at prices equal to or greater than the price you paid in this offering.

There is no existing market for our common stock and we do not know if one will develop to provide you with adequate liquidity.

There has not been a public market for our common stock. We cannot predict the extent to which investor interest in our company will lead to the development of an active trading market on The NASDAQ Global Select Market or otherwise or how liquid that market might become. If an active trading market does not develop, you may have difficulty selling any of our common stock that you buy.

Certain provisions in our amended and restated certificate of incorporation may prevent efforts by our stockholders to change our direction or management.

Provisions contained in our amended and restated certificate of incorporation could make it more difficult for a third party to acquire us, even if doing so might be beneficial to our stockholders. For example, our amended and restated certificate of incorporation authorizes our board of directors to determine the rights, preferences, privileges and restrictions of unissued series of preferred stock, without any vote or action by our stockholders. We could issue a series of preferred stock that could impede the completion of a merger, tender offer or other takeover attempt. These provisions may discourage potential acquisition proposals and may delay, deter or prevent a change of control of us, including through transactions, and, in particular, unsolicited transactions, that some or all of our stockholders might consider to be desirable. As a result, efforts by our stockholders to change our direction or management may be unsuccessful. See "Description of Capital Stock Section 203 of the General Corporation Law of the State of Delaware."

We may not pay dividends on our common stock at any time in the foreseeable future.

As a holding company for our interest in IBG LLC, we will be dependent upon the ability of IBG LLC to generate earnings and cash flows and distribute them to us so that we may pay any dividends to our stockholders. To the extent (if any) that we have excess cash, any decision to declare and pay

dividends in the future will be made at the discretion of our board of directors and will depend on, among other things, our results of operations, financial conditions, cash requirement, contractual restrictions and other factors that our board of directors may deem relevant. We have made no determination as to whether to pay dividends on our common stock at any time in the foreseeable future.

We will incur increased costs as a result of having publicly traded common stock.

We will incur significant legal, accounting, reporting and other expenses as a result of having publicly traded common stock that we do not currently incur. We also anticipate that we will incur costs associated with recently adopted corporate governance requirements, including requirements under the Sarbanes-Oxley Act of 2002, as amended, as well as rules implemented by the SEC and The NASDAQ Global Select Market. We expect these rules and regulations to increase our legal and financial compliance costs and to make some activities more time-consuming and costly. We also expect these rules and regulations may make it more difficult and more expensive for us to obtain director and officer liability insurance (if we choose in the future to obtain such insurance) and we may be required to accept reduced policy limits and coverage or incur substantially higher costs to obtain the same or similar coverage. As a result, we may experience more difficulty attracting and retaining qualified individuals to serve on our board of directors or as executive officers. We cannot predict or estimate the amount of additional costs we may incur as a result of these requirements or the timing of such costs. IBG LLC will pay all the expenses we may incur in connection with being a public company.

FORWARD-LOOKING STATEMENTS

This prospectus contains forward-looking statements within the meaning of the federal securities laws. Statements that are not historical facts, including statements about our beliefs and expectations, are forward-looking statements. Forward-looking statements include statements preceded by, followed by or that include the words "may," "could," "would," "should," "believe," "expect," "anticipate," "plan," "estimate," "target," "project," "intend" and similar expressions. These statements include, among others, statements regarding our expected business outlook, anticipated financial and operating results, our business strategy and means to implement the strategy, our objectives, the amount and timing of capital expenditures, the likelihood of our success in expanding our business, financing plans, budgets, working capital needs and sources of liquidity.

Forward-looking statements are only predictions and are not guarantees of performance. These statements are based on our management's beliefs and assumptions, which in turn are based on currently available information. Important assumptions relating to the forward-looking statements include, among others, assumptions regarding demand for our products, the expansion of product offerings geographically or through new applications, the timing and cost of planned capital expenditures, competitive conditions and general economic conditions. These assumptions could prove inaccurate. Forward-looking statements also involve known and unknown risks and uncertainties, which could cause actual results that differ materially from those contained in any forward-looking statement. Many of these factors are beyond our ability to control or predict. Such factors include, but are not limited to, the following:

- general economic conditions in the markets where we operate;
- increased industry competition and downward pressures on bid/offer spreads and electronic brokerage commissions;
- risks inherent to the electronic market making and brokerage businesses;
- failure to protect or enforce our intellectual property rights in our proprietary technology;
- our ability to keep up with rapid technological change;
- system failures and disruptions;
- non-performance of third-party vendors;
- conflicts of interest and other risks due to our ownership and holding company structure;
- the loss of key executives and failure to recruit and retain qualified personnel;
- the risks associated with the expansion of our business;
- our possible inability to integrate any businesses we acquire;
- competitive pressures;
- compliance with laws and regulations, including those relating to the securities industry; and
- other factors discussed under "Risk Factors" or elsewhere in this prospectus.

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Except as required by applicable law, including the securities laws of the United States and the rules and regulations of the SEC, we are under no obligation to publicly update or revise any forward-looking statements after we distribute this prospectus. Potential investors should not place undue reliance on our forward-looking statements. Before you invest in our common stock, you should be aware that the occurrence of the events described in the "Risk Factors" section and elsewhere in this prospectus could harm our business, prospects, operating results, and financial condition. Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results or performance.

THE RECAPITALIZATION TRANSACTIONS AND OUR ORGANIZATIONAL STRUCTURE

Overview

We have historically conducted our business through a limited liability company structure. In order to have a Delaware corporation as the issuer for our initial public offering, immediately prior to and immediately following the consummation of this offering, IBG LLC and its members will consummate a series of transactions, which we collectively refer to as the "Recapitalization." We are a holding company and, after completion of this offering, our primary assets will be our ownership of approximately 5.1% of the membership interests of IBG LLC, the current holding company for our businesses, and our controlling interest and related contractual rights as the sole managing member of IBG LLC. The remaining approximately 94.9% of IBG LLC membership interests after completion of this offering will be held by IBG Holdings LLC, a holding company that will be owned by the current members of IBG LLC. All IBG LLC membership interests will be identical and have the same rights. Thus, after completion of this offering, there will be two holding companies owning interests in IBG LLC (namely, IBG and IBG Holdings LLC, owning approximately 5.1% and 94.9%, respectively, of the IBG LLC membership interests), thereby allowing both public stockholders (through IBG) and existing members (through IBG Holdings LLC) to have economic interest in our businesses.

IBG Holdings LLC will own all of our Class B common stock, which will have voting power of our company proportionate to the extent of IBG Holdings LLC's ownership of IBG LLC initially approximately 95%. Through his ownership of the voting membership interests in IBG Holdings LLC, Thomas Peterffy will initially be able to exercise such voting power in his sole discretion.

Our only business following this offering will be to act as the sole managing member of IBG LLC, and, as such, we will operate and control all of the business and affairs of IBG LLC and will be able to consolidate IBG LLC's financial results into our financial statements. IBG Holdings LLC's ownership interests in IBG LLC will be accounted for as a minority interest in our consolidated financial results after this offering. Net profits, net losses and distributions of IBG LLC, including with respect to all management fees, incentive income and investment income earned by IBG LLC, will be allocated and made to its members pro rata in accordance with the respective percentages of their membership interests in IBG LLC. Accordingly, net profits and net losses of IBG LLC will initially be allocated, and distributions by IBG LLC will initially be made, approximately 5.1% to us and approximately 94.9% to IBG Holdings LLC. Subject to the availability of net cash flow at the IBG LLC level, IBG LLC shall distribute to us and to IBG Holdings LLC tax distributions using a tax rate no less than the actual combined federal, state and local income tax rates applicable to our allocable shares of taxable income and net capital gain. Assuming IBG LLC makes distributions to its members in any given year, the determination to pay dividends, if any, to our Class A stockholders will be made by our board of directors, and distributions to the IBG Holdings LLC members will be made in accordance with the IBG Holdings LLC Operating Agreement, a copy of which is filed as an exhibit to the registration statement of which this prospectus forms a part. Because our board of directors may or may not determine to pay dividends at the IBG level, our Class A stockholders may not necessarily receive dividend distributions relating to our pro rata share of the management fees, incentive income, investment income and other income earned by IBG LLC, even if IBG LLC makes such distributions to us.

Recapitalization

Our business is presently conducted by subsidiaries of IBG LLC, which currently is approximately 85% owned by Thomas Peterffy and his affiliates. In November 2006, we were incorporated as a Delaware corporation. We have not engaged in any business or other activities except in connection with its formation. The Recapitalization will result in the current members of IBG LLC becoming the sole members of IBG Holdings LLC, and will establish us as the sole managing member of IBG LLC. The completion of the Recapitalization is a condition to this offering.

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As a result of the Recapitalization, immediately following this offering and the application of net proceeds from this offering:

IBG will be the sole managing member of IBG LLC;

we and IBG Holdings LLC will own approximately 5.1% and 94.9%, respectively, of the membership interests in IBG LLC;

Thomas Peterffy and his affiliates will own approximately 85% of the membership interests in IBG Holdings LLC, and management and other employees of IBG LLC will own substantially all of the remaining membership interests;

outstanding shares of our Class A common stock, all of which will have been sold pursuant to this offering, will represent more than 99.999% of our outstanding capital stock based on economic value (which, as used herein, refers to the right to share in dividend distributions and distributions upon liquidation, dissolution or winding up);

outstanding shares of our Class B common stock, all of which will be owned by IBG Holdings LLC, will represent less than 0.001% of our outstanding capital stock based on economic value;

outstanding shares of our Class B common stock will represent approximately 94.9% of the combined voting power of all shares of our capital stock, which percentage will decrease proportionately to the extent that IBG Holdings LLC owns a smaller percentage of IBG LLC; and

Thomas Peterffy will own all of the voting membership interests, and Mr. Peterffy and his affiliates will own a majority of the overall membership interests, in IBG Holdings LLC and, accordingly, will beneficially own all of the outstanding shares of our Class B common stock. As a result, Mr. Peterffy will be able to exercise control over all matters requiring the approval of our stockholders.

If at any time in the future Thomas Peterffy and his affiliates own less than a majority of the membership interests in IBG Holdings LLC, then at such time all membership interests in IBG Holdings LLC will become voting membership interests. Accordingly, all members of IBG Holdings LLC, instead of Mr. Peterffy alone, would together direct the voting of our Class B common stock, and all such members would together exercise control over all matters requiring the approval of our stockholders.

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The graphic below illustrates our anticipated ownership structure immediately following completion of this offering, including the subsidiaries of IBG LLC all of which are 100% owned, except for Timber Hill LLC, which is 99.99% owned by IBG LLC and 0.01% owned by Thomas Peterffy, our founder, chairman and chief executive officer, and Interactive Brokers LLC, which is 99.9% owned by IBG LLC and 0.1% owned by Mr. Peterffy.

Holding Company Structure

We will be a holding company and, immediately after the consummation of the Recapitalization, our primary assets will be our approximately 5.1% equity interest in IBG LLC, and our controlling interest and related rights as the sole managing member of IBG LLC. Our only business following this offering will be to act as the sole managing member of IBG LLC, and, as such, we will operate and control all of the business and affairs of IBG LLC and will be able to consolidate IBG LLC's financial results into our financial statements. IBG Holdings LLC's ownership interests in IBG LLC will be accounted for as a minority interest in our consolidated financial results after this offering. Net profits, net losses and distributions of IBG LLC will be allocated and made to its members pro rata in accordance with the respective percentages of their equity interests in IBG LLC. Accordingly, net profits and net losses of IBG LLC will initially be allocated, and distributions by IBG LLC will initially be made, approximately 5.1% to us and approximately 94.9% to IBG Holdings LLC.

As the result of a federal income tax election made by IBG LLC applicable to our acquisition of IBG LLC interests, the income tax basis of the assets of IBG LLC underlying the interests we acquire will be adjusted based upon the amount that we have paid for our IBG LLC interests. This increase in tax basis will result in increased depreciation and other tax deductions that will be allocated solely for our benefit and will be taken into account in reporting our taxable income. We have entered into an agreement with IBG Holdings LLC to pay IBG Holdings LLC (for the benefit of the current members of IBG LLC) 85% of the tax savings that we actually realize as the result of this basis increase. We will retain the remaining 15% of such tax savings. See "Transactions with Related Persons, Promoters and Certain Control Persons Tax Receivable Agreement."

As a member of IBG LLC, we will incur U.S. federal, state and local income taxes on our allocable share of any net taxable income of IBG LLC. As authorized by the amended and restated limited liability company agreement pursuant to which IBG LLC will be governed, we intend to cause IBG LLC to continue to distribute cash on a pro rata basis to its members at least to the extent necessary to provide funds to pay the members' tax liabilities, if any, with respect to the earnings of IBG LLC.

Voting

Each share of our common stock will entitle its holder to one vote per share. Immediately after this offering, our Class B common stock will have approximately 94.9% of the voting power of our company, which percentage will decrease proportionately over time to the extent that IBG Holdings LLC owns a smaller percentage of IBG LLC. Initially, Thomas Peterffy will own all of the voting membership interests in IBG Holdings LLC upon consummation of this offering. Accordingly, Mr. Peterffy will beneficially own all of the outstanding shares of our Class B common stock and will be able to exercise control over all matters requiring the approval of our stockholders, including the election of our directors and the approval of significant corporate transactions.

If at any time in the future Thomas Peterffy and his affiliates own less than a majority of the membership interests in IBG Holdings LLC, then at such time all membership interests in IBG Holdings LLC will become voting membership interests. Accordingly, all members of IBG Holdings LLC, instead of Mr. Peterffy alone, would together direct the voting of the shares of our Class B common stock, and all such members would together exercise control over all matters requiring the approval of our stockholders. However, even if Mr. Peterffy and his affiliates cease to own a majority of the membership interests in IBG Holdings LLC, Mr. Peterffy could, depending on his level of percentage ownership, continue to effectively control or significantly influence matters requiring the approval of our stockholders.

Exchange and Redemption of Membership Interests

In connection with the Recapitalization, the current members of IBG LLC will receive membership interests in IBG Holdings LLC. The membership interests in IBG Holdings LLC will not be directly exchangeable for shares of our common stock. Instead, the membership interests will become redeemable at various times over the next eight years following this offering at the option of the holder. The redemption price for the membership interests will depend on the manner in which the payment is made to IBG Holdings LLC.

On an annual basis, each holder of a membership interest may request that the liquefiable portion (determined in accordance with the schedule set forth below) of its interest be redeemed by IBG Holdings LLC. The primary manner in which the redemption price will be paid is by selling a similar number of shares of our common stock to the public and using the gross proceeds from such sales, less underwriting discounts or placement agency fees, to acquire IBG LLC membership interests from IBG Holdings LLC. We have reserved for issuance 380 million shares of common stock, which is the aggregate number of shares of common stock expected to be issuable over time through such sales, assuming no anti-dilution adjustments based on combinations or divisions of our common stock. We would then expect IBG Holdings LLC to use the net proceeds it receives from such sales to redeem an identical number of IBG Holdings LLC membership interests from the requesting holders. The annual registration and sale of shares of our common stock to satisfy redemption requests is described in greater detail under "Transactions with Related Persons, Promoters and Certain Control Persons Exchange Agreement" and in our exchange agreement, a copy of which is set forth as an exhibit to the registration statement of which this prospectus forms a part. The sales of our common stock and the application of the net proceeds to acquire IBG LLC membership interests are expected to have a negligible effect on the existing holders of our common stock, as the holders of our common stock would then own a larger portion of IBG LLC. Such transactions will have the effect of diluting your percentage ownership in us. However, because we will acquire an increased percentage ownership in IBG LLC over time as a result of such transactions, such transactions will not impact your effective percentage ownership of the economics of the underlying IBG LLC business.

In some cases, IBG LLC may redeem IBG LLC membership interests from IBG Holdings LLC using cash on hand. The primary circumstance under which IBG LLC would use cash on hand would be if IBG LLC had, at a given point in time, a relative surplus of cash on hand and our board of directors were to determine that using cash on hand to effect redemptions of IBG LLC membership interests would be an optimal use of such funds in relation to alternative uses. The redemption price per membership interest would be equal to the 30-day average closing price of our common stock. The use of IBG LLC's cash to acquire IBG LLC membership interests is expected to have a dilutive effect on the existing holders of our common stock, as the price paid per membership interest is likely to be higher than IBG LLC's tangible book value per membership interest.

In connection with this offering, the holders of the membership interests have agreed to a schedule for redemptions which would allow the holders to liquefy their investment in IBG Holdings LLC, which is as follows (all dates are approximate and subject to the prior or concurrent registration of the corresponding shares of common stock and sale of such shares into the public markets in order to pay the redemption price of the membership interests, if this financing alternative is utilized):

5% of the membership interests on the date of this offering;

an additional 12.5% of the membership interests on each of the first seven anniversaries of this offering; and

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the remaining 7.5% of the membership interests on the eighth anniversary of this offering.

Certain of the IBG Holdings LLC membership interests are subject to forfeiture in the event that the holder terminates employment with IBG LLC or its subsidiaries, other than as a result of death, permanent disability, approved retirement or termination without cause.

As the result of our acquisition from IBG Holdings LLC of an IBG LLC membership interest using the proceeds of a sale of our common stock into the public markets, we will receive not only an additional interest in IBG LLC but also, for federal income tax purposes, an adjustment to the federal income tax basis of the assets of IBG LLC underlying such additional interest. We intend to enter into a tax receivable agreement with IBG Holdings LLC that will provide for the payment by us to IBG Holdings LLC of 85% of the cash savings, if any, in U.S. federal, state and local income tax or franchise tax that we actually realize as a result of these increases in tax basis and of certain other tax benefits related to entering into the tax receivable agreement, including tax benefits attributable to payments under the tax receivable agreement. While the actual amount and timing of any payments under this agreement will vary depending upon a number of factors, including the amount and timing of our income, we expect that, as a result of the size of the increases in the tax basis of the tangible and intangible assets of IBG LLC and its subsidiaries, the payments that we may make to IBG Holdings LLC could be substantial. If all IBG LLC membership interests had been acquired in a taxable transaction using the proceeds of a sale of our common stock into the public markets at the time of the closing of this offering, the increase in the tax basis attributable to our interest in IBG LLC would have been approximately \$7.2 billion, including the increase in tax basis associated with our purchase of IBG LLC membership interests and the Recapitalization. Subject to the limitations discussed below, this increased tax basis is expected to result in tax benefits as a result of increased depreciation or amortization deductions. We will retain 15% of the tax benefits actually realized. As set forth in the tax receivable agreement, we will pay the remaining 85% of the realized tax benefits relating to any applicable tax year to IBG Holdings LLC within 13 calendar days of the delivery of a tax benefit calculation by us to IBG Holdings LLC, which delivery will take place within ten calendar days after the filing of our U.S. federal income tax return for the applicable tax year. IBG Holdings LLC shall distribute, pursuant to its operating agreement, any tax benefit payments received by it from us within 90 days following receipt thereof. A cash amount equal to the remainder of the tax benefits actually realized for a particular year will be paid to IBG Holdings LLC upon the realization of the tax benefits for such year. The actual amount of tax benefits that we realize (measured by a reduction in taxes otherwise payable by us) will depend upon multiple factors, including the tax rate applicable to us at the time. See "Transactions with Related Persons, Promoters and Certain Control Persons Tax Receivable Agreement."

Mandatory Redemption

IBG Holdings LLC, with the consent of Thomas Peterffy and our board of directors, has the right to cause the holders of IBG Holdings LLC membership interests to have all or a portion of their interests redeemed at any time following the first anniversary of this offering. Such redemptions would be financed in the same manner as the scheduled redemptions described above.

USE OF PROCEEDS

The net proceeds from the sale of the 20,000,000 shares of common stock offered by us will be approximately \$490.6 million, after deducting the placement agency fee.

The primary purposes of this offering are to:

- diversify the ownership of IBG LLC's business;
- raise IBG LLC's profile for competitive reasons;
- create a public market for our common stock; and
- facilitate future access to public markets.

We intend to use the net proceeds of this offering to purchase membership interests in IBG LLC from IBG Holdings LLC representing approximately 5% of the outstanding membership interests in IBG LLC. IBG Holdings LLC will, in turn, use such sale proceeds to redeem, on a pro rata basis, IBG Holdings LLC membership interests held by its members, who include 66 of our employees (including the directors and executive officers set forth in the second table below). The following table illustrates the expected application of the gross proceeds from this offering as described above. An additional \$4.0 million in estimated offering expenses will be borne by IBG LLC.

	(in millions)
Gross proceeds from offering	\$ 500.0
Placement agency fee	\$ 9.4
Net proceeds	\$ 490.6
Acquisition of membership interests in IBG LLC from IBG Holdings LLC	\$ 490.6

The following is a listing of our directors and executive officers expected to receive net proceeds from this offering, together with the percentage and dollar amount net proceeds to be received from this offering:

Name	Title	% of Net Proceeds to be Received	Amount
			(in millions)
Thomas Peterffy	Chairman of the Board of Directors, Chief Executive Officer and President	84.5784%	\$ 415.0
Earl H. Nemser	Vice Chairman and Director	1.1895%	\$ 5.8
Paul J. Brody	Chief Financial Officer, Treasurer, Secretary and Director	1.2509%	\$ 6.1
Thomas A.J. Frank	Executive Vice President and Chief Information Officer	3.1498%	\$ 15.5
Milan Galik	Senior Vice President, Software Development and Director	1.3687%	\$ 6.7
Directors and executive officers as a group		91.5373%	\$ 449.1

No additional IBG LLC or IBG Holdings LLC membership interests will be granted to employees or executive officers in connection with this offering.

DIVIDEND POLICY

We have made no determination as to whether to pay any dividends on our common stock in the foreseeable future. Because we may not pay any dividends, you may need to sell your shares of common stock to realize your return on your investment, and you may not be able to sell your shares at or above the price you paid for them.

As a holding company for our interest in IBG LLC, our ability to pay dividends is subject to the ability of IBG LLC to provide cash to us through distributions of amounts in excess of our expenses of operations. In accordance with the amended and restated limited liability company agreement pursuant to which IBG LLC will be governed, we, as the managing member of IBG LLC, expect to cause IBG LLC to make distributions to its members, including us, to the extent necessary to enable such members to pay taxes incurred with respect to their allocable shares of taxable income of IBG LLC. Any distributions by IBG LLC in excess of such tax distributions, and the declaration and payment of any future dividends by us, will be at the discretion of our board of directors and will depend on IBG LLC's strategic plans, financial results and condition, contractual, legal, financial and regulatory restrictions on distributions (including the ability of IBG LLC to make distributions under the covenants in its senior secured revolving credit facility and senior notes as described below), capital requirements, business prospects and such other factors as our board of directors, in exercising our authority as managing member of IBG LLC, considers to be relevant to such determination.

IBG LLC's secured revolving credit facility restricts IBG LLC's ability to make dividend payments or similar distributions to the members of IBG LLC in any given fiscal year unless IBG LLC, prior to, as well as subsequent to, making such dividend payments or distributions, is in compliance with the financial covenants described under "Management's Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources Principal Indebtedness Senior Secured Revolving Credit Facility" on page 79.

IBG LLC's senior notes contain covenants that prohibit IBG LLC from making dividend payments or similar distributions to its members in any given fiscal year that exceed the greatest of:

50% of IBG LLC's consolidated income before income taxes for such fiscal year, as determined in accordance with generally accepted accounting principles;

50% of IBG LLC's consolidated income before income taxes for the prior fiscal year, as determined in accordance with generally accepted accounting principles;

\$50 million; and

the sum of (a) amounts distributable in accordance with the limited liability company agreement of IBG LLC to members of IBG to cover their tax liabilities, if any, with respect to the earnings of IBG LLC and (b) amounts, not exceeding \$50 million in any calendar year, that are distributable pursuant to the limited liability company agreement of IBG LLC upon the death, withdrawal, or termination of employment of a member.

IBG LLC is taxable as a partnership and we are taxable as a corporation for U.S. federal income tax purposes. Therefore, as a member and owner of an interest in IBG LLC, we are subject to tax on our allocable share of taxable income of IBG LLC, whether or not such income is distributed to us. Holders of our common stock will not be taxed directly on the earnings of IBG LLC. In general, any distributions of cash or other property that we pay to our stockholders will constitute dividends for U.S. federal income tax purposes. For more information regarding risk factors that could materially adversely affect our actual results of operations and our ability to pay any dividends, see "Risk Factors," including "Risk Factors

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We may not pay dividends on our common stock at any time in the foreseeable future." During 2005 and 2006, IBG LLC made aggregate cash distributions to its members in the amounts of \$88.5 million and \$164.5 million, respectively. As set forth in the table below, such distributions were made in five separate installments in each of 2005 and 2006. IBG LLC has historically used only its earnings to make these distributions.

	Distributions from IBG LLC	
	2005	2006
	(in millions)	
Month		
January	\$ 7.0	\$ 18.0
March/April	\$ 31.0	\$ 68.0
June	\$ 25.0	\$ 33.0
September	\$ 15.0	\$ 33.0
December	\$ 10.5	\$ 12.5
Total	\$ 88.5	\$ 164.5

In April 2007, IBG LLC made a cash distribution to its current members in the approximate amount of \$134 million. The distribution was intended to provide the members with funds to pay income taxes on their proportionate share of IBG LLC's income.

CAPITALIZATION

The following table sets forth:

the capitalization of IBG LLC on an actual basis as of December 31, 2006; and

the capitalization of IBG on a pro forma as adjusted basis, giving effect to (1) the Recapitalization as if it had occurred on December 31, 2006, (2) the sale of 20,000,000 shares of our common stock in this offering and (3) our receipt of the estimated \$490.6 million in net proceeds from this offering, assuming the shares are offered at \$25.00 per share, which is the midpoint of the range set forth on the cover page of this prospectus, after deducting the placement agency fee, and the application of those net proceeds to acquire membership interests in IBG LLC, as described under "Use of Proceeds."

You should read the unaudited financial information in this table together with the "Use of Proceeds," "Management's Discussion and Analysis of Financial Condition and Results of Operations," "Description of Capital Stock" and our historical consolidated financial statements and our unaudited pro forma consolidated financial statements, along with the notes thereto, included elsewhere in this prospectus.

	As of December 31, 2006	
	Actual	Pro Forma
	(in millions)	
Long-term debt:		
Senior secured revolving credit facility ⁽¹⁾	\$150.0	\$ 150.0
Senior notes	150.6	150.6
	<hr/>	<hr/>
Total long-term debt	300.6	300.6
Minority interest		2,657.1
Redeemable members' interest ⁽²⁾	2,801.9	
Stockholders' equity⁽³⁾		
Common stock Class A, \$0.01 par value: no shares authorized, issued or outstanding, actual; 1,000,000,000 shares authorized and 20,000,000 issued and outstanding pro forma as adjusted		0.2
Common stock Class B, \$0.01 par value: no shares authorized, issued or outstanding, actual; 100 shares issued and outstanding, pro forma as adjusted authorized		
Paid-in capital ⁽⁴⁾		149.4
Accumulated other comprehensive income		4.9
	<hr/>	<hr/>
Total stockholders' equity		154.5
	<hr/>	<hr/>
Total capitalization⁽⁴⁾	\$3,102.5	\$ 3,112.2
	<hr/>	<hr/>

(1) On May 19, 2006, IBG LLC entered into a \$300.0 million senior secured revolving credit facility, on which facility \$150.0 million has been drawn and was outstanding as of December 31, 2006.

(2) Redeemable members' interests represent member interests in IBG LLC that are entitled to share in the consolidated profits and losses of IBG LLC. IBG LLC is a private entity owned by the members holding such member interests. As a private company, such amounts were classified historically as members' capital. For presentation purposes, IBG LLC has applied guidance within EITF D-98 which requires securities or equity interests of a company whose redemption is outside the control of the company to be classified outside of permanent capital in the statement of financial condition. The member interests in IBG LLC can be redeemed by the members at book value at their option. Because this redemption right is deemed to be outside the control of the company, IBG LLC has reclassified all

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members' capital outside of permanent capital to redeemable members' interests in the consolidated statement of financial condition. Such reclassification was made to comply with

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EITF D-98 and the requirements of Regulation S-X of the Exchange Act. Redeemable members' interests include accumulated other comprehensive income of \$98.6 million.

(3) Excludes (i) approximately 1,244,271 shares of our common stock that are to be issued over time resulting from investment of accumulated earnings on Return on Investment Dollar Units in connection with the Recapitalization, and (ii) approximately 916,100 shares of our common stock that are to be issued over time in connection with our equity incentive plan. See "The Recapitalization Transactions and Our Organizational Structure" and "Management Return on Investment Dollar Units" and " Employee Incentive Plan."

(4) A \$1.00 increase (decrease) in the assumed initial public offering price of \$25.00 per share, which is the midpoint of the range set forth on the cover page of this prospectus, would increase (decrease) each of paid-in capital and total capitalization by \$19.6 million, assuming the number of shares offered by us, as set forth on the cover page of this prospectus, remains the same and after deducting the estimated placement agency fee payable by us.

DILUTION

Purchasers of shares of common stock in this offering will experience immediate and substantial dilution to the extent of the difference between the pro forma net tangible book value of the common stock and the initial public offering price. Net tangible book value per share represents the amount of our total tangible assets less our total liabilities, divided by the number of shares of our common stock outstanding. Dilution in net tangible book value per share represents the difference between the amount per share that you pay in this offering and the net tangible book value per share immediately after this offering. Dilution results from the fact that the initial public offering price is substantially in excess of the net tangible book value per share effectively attributable to existing equityholders. Our net tangible book value at December 31, 2006 was approximately \$2.802 billion. Our pro forma net tangible book value at December 31, 2006, after giving effect to the Recapitalization, was \$2.802 billion, or \$7.00 per share of our common stock, assuming we purchased all IBG LLC membership interests held by IBG Holdings LLC and issued 400,000,000 shares of common stock to public stockholders, as of the date of this offering.

After giving effect to the sale of 20,000,000 shares of our common stock in this offering at an assumed initial public offering price of \$25.00 per share, the midpoint of the range set forth on the front cover of this prospectus, and after deducting the placement agency fee and estimated offering expenses, our pro forma net tangible book value would have been \$2.798 billion, or \$6.99 per share, assuming we purchased all IBG LLC membership interests held by IBG Holdings LLC and issued 400,000,000 shares of common stock to public stockholders, as of the date of this offering. This represents an immediate decrease in pro forma net tangible book value of \$0.01 per share to existing stockholders and an immediate dilution of \$18.01 per share to investors purchasing our common stock in this offering. The following table illustrates this per share dilution:

		Per Share
Initial public offering price per share		\$ 25.00
Pro forma net tangible book value per share at December 31, 2006	\$ 7.00	
Change in pro forma net tangible book value per share attributable to this offering	\$ (0.01)	
Pro forma net tangible book value per share after this offering		\$ 6.99
Dilution per share to new investors		\$ 18.01

The following table summarizes on a pro forma basis as of December 31, 2006, after giving effect to this offering, the total number of shares of common stock purchased from us and the total consideration and the average price per share paid by existing equityholders and by investors participating in this offering, assuming we purchased all IBG LLC membership interests held by IBG Holdings LLC and issued a corresponding number of shares of our common stock to public stockholders, as of the date of this offering:

	Shares Purchased		Total Consideration		Average Price Per Share
	Number	Percent	Amount	Percent	
Existing equityholders	380,000,000	95%	\$	%	
New investors	20,000,000	5%	\$ 500,000,000	100%	25.00
Total	400,000,000	100%	\$ 500,000,000	100%	

The number of shares of our common stock outstanding after the offering as shown above is based on the number of shares outstanding as of December 31, 2006, and excludes (i) approximately 1,244,271 restricted shares of our common stock that are to be issued upon investment of accumulated

earnings on ROI Units in connection with the Recapitalization, and (ii) up to 9,200,000 restricted shares of our common stock that are issuable in the future pursuant to post offering equity incentive grants. See "The Recapitalization Transactions and Our Organizational Structure" and "Management Return on Investment Dollar Units" and " Employee Incentive Plan."

A \$1.00 increase (decrease) in the assumed offering price of \$25.00 per share, which is the midpoint of the range set forth on the cover page of this prospectus, would increase (decrease) total consideration paid by new investors by \$19.6 million, assuming the number of shares offered by us, as set forth on the cover page of this prospectus and after deducting the estimated placement agency fee payable by us.

UNAUDITED PRO FORMA CONSOLIDATED FINANCIAL DATA

The following unaudited pro forma consolidated financial data for the year ended December 31, 2006 are derived from IBG LLC's historical consolidated financial statements included elsewhere in this prospectus. The unaudited pro forma financial statements should be read in conjunction with our consolidated financial statements and related notes included elsewhere in this prospectus, "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the other financial information appearing elsewhere in this prospectus.

The unaudited pro forma consolidated financial data as of and for the year ended December 31, 2006, give pro forma effect to (1) the Recapitalization and (2) the consummation of this offering and our application of the net proceeds from this offering to purchase membership interests in IBG LLC from IBG Holdings LLC as though such transactions had occurred on January 1, 2006.

As a result of the Recapitalization, we will become the sole managing member of IBG LLC and, as such, will continue to operate and control all of the business and affairs of IBG LLC and its subsidiaries and will be able to consolidate IBG LLC's financial results into our financial statements. We will reflect IBG Holdings LLC's ownership interest as a minority interest in our statement of financial condition and statement of income. Our historical results will be those of IBG LLC. As a result, our net income, after excluding IBG Holdings LLC's minority interest, will represent approximately 5.1% of IBG LLC's net income, and similarly, outstanding shares of our common stock will represent approximately 5.1% of the outstanding membership units of IBG LLC.

The unaudited pro forma consolidated financial statements reflect pro forma adjustments that are described in the accompanying notes and are based on available information and certain assumptions we believe are reasonable, but are subject to change. We have made, in our opinion, all adjustments that are necessary to present fairly the pro forma financial data. The unaudited pro forma financial data is presented for informational purposes only and should not be considered indicative of actual results of operations that would have been achieved had the Recapitalization and this offering been consummated on the dates indicated and do not purport to be indicative of balance sheet data or results of operations as of any future date or for any future period.

Unaudited Pro Forma Consolidated Statement of Income

Year Ended December 31, 2006

	Historical	Adjustments	Pro Forma ⁽¹⁾
Statement of Income Data:			
(in millions, except per share data)			
Revenues:			
Trading gains	\$805.1	\$	\$805.1
Commissions and execution fees	174.4		174.4
Interest income	672.1		672.1
Other income	85.2		85.2
Total revenues	1,736.8		1,736.8
Interest expense	484.4		484.4
Total net revenues	1,252.4		1,252.4
Non-interest expenses:			
Execution and clearing	313.3		313.3
Employee compensation and benefits	110.1		110.1
Occupancy, depreciation and amortization	22.7		22.7
Communications	12.6		12.6
General and administrative ⁽²⁾	32.1	0.1	32.2
Total non-interest expenses	490.8	0.1	490.9
Income before income tax	761.6	(0.1)	761.5
Income tax expense ⁽³⁾⁽⁴⁾	27.4	12.3	39.7
Less Minority interest ⁽⁵⁾		(697.5)	(697.5)
Net income	\$734.2	\$ (709.9)	\$24.3
Earnings per share⁽⁶⁾:			
Basic			\$1.22
Diluted			\$1.21
Weighted average common shares outstanding:			
Basic			20,000,100
Diluted			401,244,371

See accompanying notes to unaudited pro forma consolidated statement of income.

Notes to the Unaudited Pro Forma Consolidated Statements of Income

Represents

adjustments to reflect the following:

- (1) Pro forma earnings per share calculations includes (i) the restricted shares of common stock that are to be issued upon investment of accumulated earnings on Return on Investment Dollar Units in connection with the Recapitalization, but excludes (ii) our shares of our common stock that are issuable in the future pursuant to post offering equity incentive plan. See "The Recapitalization Transactions and Our Organizational Structure" and "Management Return on Investment Dollar Units" and " Employee Incentive Plan."
- (2) Gives effect to Delaware franchise taxes that will be payable, estimated at \$0.123 million annually.
- (3) The \$12.3 million income tax expense adjustments for the year ended December 31, 2006 represent the sum of the current income tax expense adjustment for this period (referenced in this footnote 3) and the deferred income tax expense adjustment for this period (referenced in footnote 4 below). Additional current income tax expense on our 5% investment in IBG LLC would be \$5.7 million for the year ended December 31, 2006. In addition to increased currently payable income taxes, we will incur increased deferred income tax expense (see footnote 4).
- (4) Additional deferred income tax expense of \$6.6 million is the result of the straight-line amortization of the deferred tax asset of \$98.4 million arising from the acquisition of the 5% member interest in IBG LLC (see footnote 3 above), and will be amortized over 15 years.
- (5) Gives effect to the 95% interest in IBG LLC that IBG Holdings LLC will have after the Recapitalization and this offering. The adjustments are equal to 95% of total net income for the year ended December 31, 2006.
- (6) Basic pro forma earnings per share are calculated based on the estimated 20 million shares of Class A common stock and 100 shares of Class B common stock being outstanding. Diluted earnings per share are calculated based on an assumed purchase by us of all remaining IBG LLC membership interests held by IBG Holdings LLC and the issuance by us of a corresponding number of shares of Class A common stock, resulting in a total of 400 million shares deemed outstanding as of the beginning of each period, as described in the caption entitled "The Recapitalization Transactions and Our Organizational Structure." There is no impact on earnings per share for such purchase and issuance because 100% of net income before minority interest would be available to common stockholders as IBG Holdings LLC would no longer hold a minority interest, and the full difference between the book and tax basis of IBG LLC's assets would also be available for reducing income tax expense. Therefore, the net income utilized to calculate diluted earnings per share would be \$486.0 million.

In addition, diluted weighted average common shares outstanding includes 1.2 million restricted shares to be issued upon investment of accumulated earnings on Return on Investment Dollar Units in connection with the Recapitalization. Restricted shares to be issued in connection with the employee incentive plan have been excluded from diluted weighted average common shares outstanding because such shares are non-dilutive.

Unaudited Pro Forma Consolidated Statement of Financial Condition

As of December 31, 2006

	<u>Historical</u>	<u>Adjustments⁽¹⁾</u>	<u>Pro Forma</u>
(in millions, except per share data)			
Assets			
Cash and cash equivalents	\$ 669.3	\$	\$ 669.3
Cash and securities segregated for regulatory purposes or deposited with clearing organizations	3,111.8		3,111.8
Securities borrowed	10,479.2		10,479.2
Securities purchased under agreements to resell	97.7		97.7
Trading assets, at market:			
Securities owned	7,485.9		7,485.9
Securities owned and pledged as collateral	8,331.9		8,331.9
	<u>15,817.8</u>		<u>15,817.8</u>
Other receivables:			
Customers	848.4		848.4
Brokers, dealers and clearing organizations	857.0		857.0
Interest	62.8		62.8
	<u>1,768.2</u>		<u>1,768.2</u>
Other assets ⁽¹⁾	136.5	98.4	234.9
	<u>32,080.5</u>	<u>98.4</u>	<u>32,178.9</u>
Total assets	\$	\$	\$
Liabilities and Members' Capital			
Liabilities			
Trading liabilities securities sold but not yet purchased, at market	\$ 14,785.6	\$	\$ 14,785.6
Securities loaned	8,026.5		8,026.5
Short-term borrowings	1,296.9		1,296.9
Other payables:			
Customers	3,914.0		3,914.0
Brokers, dealers and clearing organizations	743.4		743.4
Accounts payable, accrued expenses and other liabilities ⁽²⁾	161.8	88.7	250.5
Interest	49.8		49.8
	<u>4,869.0</u>	<u>88.7</u>	<u>4,957.7</u>
Senior secured credit facility	150.0		150.0
Senior notes payable	150.6		150.6
Minority interest ⁽³⁾⁽⁴⁾		2,657.1	2,657.1
Redeemable members' interests:			
Accumulated other comprehensive income ⁽⁵⁾	98.6	(98.6)	
Redeemable members' interests	2,703.3	(2,703.3)	
	<u>2,801.9</u>	<u>(2,801.9)</u>	
Total redeemable members' interests	2,801.9	(2,801.9)	
	<u>32,080.5</u>	<u>(56.1)</u>	<u>32,024.4</u>

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	Historical	Adjustments⁽¹⁾	Pro Forma
	<u> </u>	<u> </u>	<u> </u>
	<u> </u>	<u> </u>	<u> </u>
Stockholders' equity			
Accumulated other comprehensive income ⁽⁴⁾		4.9	4.9
Common stock ⁽⁶⁾		0.2	0.2
Additional paid-in capital ⁽⁶⁾		149.4	149.4
	<u> </u>	<u> </u>	<u> </u>
Total stockholders' equity		154.5	154.5
	<u> </u>	<u> </u>	<u> </u>
Total liabilities and stockholders' equity	\$ 32,080.5	\$ 98.4	\$ 32,178.9
	<u> </u>	<u> </u>	<u> </u>

See accompanying notes to unaudited pro forma consolidated statement of financial condition.

Notes to the Unaudited Pro Forma Consolidated Statement of Financial Condition

Represents

adjustments to reflect the following:

- (1) Gives effect to a deferred tax asset of \$98.4 million arising from the acquisition of the 5% member interest in IBG LLC (see footnote 2 below). The deferred tax asset is to be amortized over 15 years. \$83.7 million (85%) of the tax savings realized by us will be paid to IBG Holdings LLC and is included in accounts payable, accrued expenses and other liabilities in our pro forma consolidated statement of financial condition, with the remaining \$14.7 million recorded as a permanent increase to additional paid-in capital.
- (2) The \$88.7 million adjustment to accounts payable, accrued expenses and other liabilities represents the \$83.7 million of tax savings (referenced in footnote 1 above) minus existing minority interest of \$0.5 million plus the \$5.5 million of estimated offering expenses (referenced in footnote 6 below). Existing minority interest of \$0.5 million at December 31, 2006 was reported in other liabilities in our historical financial statements and has been reclassified to minority interest in our pro forma consolidated statement of financial condition.

- (3) Minority interests are comprised of:

95% of redeemable members' interests of \$2,801.9	\$ 2,661.8
Add: existing minority interests	0.5
Less: 95% of direct offering costs of \$5.5 million to be reimbursed by IBG LLC (footnote 6)	(5.2)
	<hr/>
	\$ 2,657.1
	<hr/>

- (4) Represents 5% of the \$98.6 million in accumulated other comprehensive income included in redeemable members' interests in the historical financial statements.
- (5) Gives effect to the elimination of redeemable members' interest of IBG LLC.

Redeemable members' interests represent member interests in IBG LLC that are entitled to share in the consolidated profits and losses of IBG LLC. IBG LLC is a private entity owned by the members holding such member interests. As a private company, such amounts were classified historically as members' capital. For presentation purposes, IBG LLC has applied guidance within EITF D-98 which requires securities or equity interests of a company whose redemption is outside the control of the company to be classified outside of permanent capital in the statement of financial condition. The member interests in IBG LLC can be redeemed by the members at book value at their option. Because this redemption right is deemed to be outside the control of the company, IBG LLC has reclassified all members' capital outside of permanent capital to redeemable members' interests in the consolidated statement of financial condition. Such reclassification was made to comply with EITF D-98 and the requirements of Regulation S-X of the Exchange Act.

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(6)

The \$149.4 million adjustment to additional paid-in capital is comprised of:

5% of redeemable members' interests of \$2,801.9 million, which is net of accumulated other comprehensive income of \$98.6 million (footnote 4)	\$ 135.2
Add: additional paid in capital arising from recording of deferred tax asset (footnote 1)	14.7
Less:	
Par value of 20,000,000 shares of \$0.01 per share Class A common stock	(0.2)
5% of direct offering costs of \$5.5 million to be reimbursed by IBG LLC	(0.3)
	<u>\$ 149.4</u>

The adjustment gives effect to our issuance of 20,000,000 shares of Class A common stock, par value \$0.01 per share, in connection with the Recapitalization and this offering. All net proceeds of this offering, which would be approximately \$490.6 million, assuming an initial offering price of \$25.00 per share of common stock (the midpoint of the range set forth on the cover page of this prospectus), will be paid to existing members of IBG LLC and accordingly such net proceeds have been accounted for as a deemed dividend applied against additional paid in capital in our unaudited pro forma consolidated statement of financial position. An additional \$4.0 million in estimated offering expenses (separate from the placement agency fee reflected in the table below) will be borne by IBG LLC. The following is a sensitivity analysis of the range of proceeds for different hypothetical issuance amounts of shares of our Class A common stock in this offering, assuming an initial offering price of \$25.00 per share. A range of +/-15% has been utilized. Dollar amounts except for per share price are in millions:

Number of shares issued	17,000,000	20,000,000	23,000,000
Class A common stock, \$0.01 par value	\$ 0.2	\$ 0.2	\$ 0.2
Additional paid in capital	424.8	499.8	574.8
Gross proceeds	425.0	500.0	575.0
Less: placement agency fee	(8.0)	(9.4)	(10.8)
Net proceeds	417.0	490.6	564.2
Less: paid to existing members	(417.0)	(490.6)	(564.2)
Net effect of proceeds on additional paid in capital	\$ 0.0	\$ 0.0	\$ 0.0

SELECTED HISTORICAL CONSOLIDATED FINANCIAL DATA

The following tables set forth selected historical consolidated financial and other data of IBG LLC as of the dates and for the periods indicated. The selected historical consolidated financial data as of and for the years ended December 31, 2002, 2003, 2004, 2005 and 2006 have been derived from IBG LLC's audited consolidated statements of financial condition as of December 31, 2005 and 2006 and the audited consolidated statements of income for the years ended December 31, 2004, 2005 and 2006 which are included elsewhere in this prospectus. The historical audited consolidated statements of financial condition as of December 31, 2002, 2003 and 2004 and the audited consolidated statements of income for the years ended December 31, 2002 and 2003 are not included in this prospectus.

For all periods presented, IBG LLC has operated in the United States as a limited liability company that was treated as a partnership for U.S. federal income tax purposes. As a result, IBG LLC has not been subject to U.S. federal income taxes on its income. Upon the consummation of this offering, we will be subject to U.S. federal and certain state and local income taxes applicable to a corporation.

You should read the following selected historical consolidated financial and other data in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations," "Unaudited Pro Forma Consolidated Financial Data" and the IBG LLC historical consolidated financial statements and related notes included elsewhere in this prospectus.

	Year Ended December 31,				
	2002	2003	2004	2005	2006
	(in millions)				
Consolidated Statement of Income Data:					
Revenues:					
Trading gains	\$ 472.2	\$ 488.4	\$ 423.2	\$ 640.4	\$ 805.1
Commissions and execution fees	64.0	93.0	112.0	132.1	174.4
Interest revenues	55.2	59.3	79.5	273.2	672.1
Other income	7.5	10.4	7.0	53.4	85.2
Total revenues	598.9	651.1	621.7	1,099.1	1,736.8
Interest expense	41.6	46.1	57.7	170.0	484.4
Total net revenues	557.3	605.0	564.0	929.1	1,252.4
Non-interest expenses:					
Execution and clearing	96.5	127.3	152.5	215.0	313.3
Employee compensation and benefits	64.7	73.5	79.1	90.2	110.1
Occupancy, depreciation and amortization	12.6	13.7	16.4	20.4	22.7
Communications	7.8	7.5	9.0	10.4	12.6
General and administrative	29.1	18.2	17.0	23.8	32.1
Total non-interest expenses	210.7	240.2	274.0	359.8	490.8
Income before income tax	346.6	364.8	290.0	569.3	761.6
Income tax expense	21.3	19.9	19.6	33.8	27.4
Net income	\$ 325.3	\$ 344.9	\$ 270.4	\$ 535.5	\$ 734.2

As of December 31,

	2002	2003	2004	2005	2006
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(in millions)

**Consolidated Statement of Financial
Condition Data:**

Cash, cash equivalents and short-term investments ⁽¹⁾	\$ 966.7	\$ 1,390.8	\$ 1,844.5	\$ 2,741.9	\$ 3,878.8
Total assets ⁽²⁾	7,735.9	10,811.6	15,060.4	24,292.2	32,080.5
Total liabilities, excluding redeemable members' interests	6,476.6	9,255.1	13,261.9	22,118.0	29,278.6
Redeemable members' interests ⁽³⁾	1,259.3	1,556.5	1,798.5	2,174.2	2,801.9

- (1) Cash, cash equivalents and short-term investments represent cash and cash equivalents, cash and securities segregated under federal and other regulations, short-term investments, U.S. and foreign government obligations and securities purchased under agreements to resell.
- (2) At December 31, 2006, approximately \$32.0 billion, or 99.7%, of total assets were considered to be liquid and consisted primarily of marketable securities.
- (3) Redeemable members' interests represent member interests in IBG LLC that are entitled to share in the consolidated profits and losses of IBG LLC. IBG LLC is a private entity owned by the members holding such member interests. As a private company, such amounts were classified historically as members' capital. For presentation purposes, IBG LLC has applied guidance within EITF D-98 which requires securities or equity interests of a company whose redemption is outside the control of the company to be classified outside of permanent capital in the statement of financial condition. The member interests in IBG LLC can be redeemed by the members at book value at their option. Because this redemption right is deemed to be outside the control of the company, IBG LLC has reclassified all members' capital outside of permanent capital to redeemable members' interests in the consolidated statement of financial condition. Such reclassification was made to comply with EITF D-98 and the requirements of Regulation S-X of the Exchange Act. Redeemable members' interests include accumulated other comprehensive income.

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL
CONDITION AND RESULTS OF OPERATIONS**

The following discussion should be read in conjunction with the "Selected Historical Consolidated Financial Data," and our consolidated financial statements and the related notes included elsewhere in this prospectus. The following discussion contains, in addition to historical information, 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" and elsewhere in this prospectus.

Overview

Background

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 as a member of more than 60 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 16 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.

Overview of Recapitalization Transactions and Our Organizational Structure

We have historically conducted our business through a limited liability company structure. In order to have a Delaware corporation as the issuer for our initial public offering, immediately prior to and immediately following the consummation of this offering, IBG LLC and its members will consummate a series of transactions described below, which we collectively refer to as the "Recapitalization." After completion of the Recapitalization, our primary assets will be our ownership of approximately 5.1% of the membership interests of IBG LLC, the current holding company for our businesses, and our controlling interest and related contractual rights as the sole managing member of IBG LLC. The remaining approximately 94.9% of IBG LLC membership interests after completion of this offering will be held by IBG Holdings LLC, a holding company that will be owned by the current members of IBG LLC. The IBG LLC membership interests held by IBG Holdings LLC will be subject to purchase by us over time in connection with offerings by us of shares of our common stock, as described elsewhere in this prospectus in the section entitled "The Recapitalization Transactions and Our Organizational Structure."

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 Timber Hill subsidiaries. As one of the largest market makers on many of the world's leading exchanges, we provide liquidity by offering competitively tight bid/offer spreads over a broad base of approximately 357,000 tradable, exchange-listed products. In particular, we are a market leader in exchange-traded equity options, equity-index options and futures. As principal, we commit our own capital and derive revenues or incur losses from the difference between the price paid when securities are bought (or sold) and the price received when those securities are sold (or bought). 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. Historically, our profits have been

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principally a function of transaction volume on electronic exchanges rather than volatility or the direction of price movements. Our strategy is to calculate quotes at which supply and demand for a particular security are likely to be in balance a few seconds ahead of the market and execute small trades at tiny but favorable differentials. Our quotes are based on our proprietary model rather than customer order flow, and we believe that this approach provides us with a competitive advantage. As a matter of practice, we will generally not take portfolio positions in either the broad market or the financial instruments of specific issuers in anticipation that prices will either rise or fall. 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 Interactive Brokers (IB) subsidiaries. As an electronic broker, we execute, clear and settle trades globally for both institutional and individual customers. Capitalizing on the technology originally developed for our market making business, IB's 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. Since launching this business in 1993, we have grown to approximately 80,000 institutional and individual brokerage customers. We offer our customers access to all classes of tradable, exchange-listed products and market centers, including stocks, bonds, options, futures and forex, traded on more than 50 exchanges and market centers and in 16 countries around the world seamlessly. We offer our customers state-of-the-art tools, which include a customizable trading platform, advanced analytical tools and sophisticated order types such as guaranteed combination trades. Our customers also benefit from advanced "smart-routing" of orders for optimal execution and among the lowest execution and commission costs in the industry.

The following two tables present net revenues and income before income taxes for each of our business segments for the periods indicated.

Net revenues of each of our business segments and our total net revenues are summarized below:

	Year Ended December 31,		
	2004	2005	2006
	(in millions)		
Market making	\$ 428.5	\$ 738.5	\$ 954.7
Electronic brokerage	133.2	185.3	298.4
Corporate ⁽¹⁾	2.3	5.3	(0.7)
Total	\$ 564.0	\$ 929.1	\$ 1,252.4

(1) Corporate includes corporate related activities as well as inter-segment eliminations.

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Income before income taxes of each of our business segments and our total income before income taxes are summarized below:

	Year Ended December 31,		
	2004	2005	2006
	(in millions)		
Market making	\$ 241.1	\$ 505.2	\$ 662.8
Electronic brokerage	45.6	59.3	98.6
Corporate ⁽¹⁾	3.3	4.8	0.2
Total	\$ 290.0	\$ 569.3	\$ 761.6

(1) Corporate includes corporate related activities as well as inter-segment eliminations.

You can read more about our segments under the sections entitled "Business Market Making Timber Hill" and "Business Electronic Brokerage Interactive Brokers," and in Note 17 of the IBG LLC audited consolidated financial statements included elsewhere in this prospectus.

Revenue

Trading Gains

Our revenue base is comprised largely of trading gains generated in the normal course of market making. Trading revenues are, in general, proportional to the trading activity in the markets. Our revenue base is highly diversified and comprised of millions of relatively small individual trades of various financial products traded on electronic exchanges, primarily stocks, options and futures. Trading gains accounted for approximately 68%, 58% and 46% of our total revenues for the years ended December 31, 2004, 2005 and 2006, respectively. Trading gains also include translation gains and losses on cash and positions in foreign currency held primarily by our foreign market making subsidiaries as well as revenues from net dividends. Market making activities require us to hold a substantial inventory of equity securities. We derive significant revenues in the form of dividend income from these equity securities. This dividend income is largely offset by dividend expense incurred when we make significant payments in lieu of dividends on short positions in securities in our portfolio. 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 the stock after the dividend date. Hence, the apparent gains and losses due to these price changes must be taken together with the dividends paid and received, respectively, in order to accurately reflect the results of our market making operations.

Our trading gains are geographically diversified. In 2004, 2005 and 2006, we generated 29%, 40% and 25%, respectively, of our trading gains from operations conducted internationally. The increase in U.S. trading gains, as a proportion of total trading gains, during the year ended December 31, 2006, as compared to the prior year period, was primarily due to a 58% increase in U.S. trading gains, accompanied by level trading gains and foreign currency translation losses of our European market making subsidiary.

Commissions and Execution Fees

We earn commissions and execution fees from our cleared customers for whom we act as executing and clearing brokers and from our institutional customers for whom we act as an executing

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broker only. During 2005, we introduced a new commission structure that allows customers to choose between an all-inclusive "bundled" rate or an "unbundled" rate that has lower commissions for high volume customers. For "unbundled" commissions, we charge regulatory and exchange fees, at our cost, separately from our commissions, adding transparency to our fee structure. Commissions and execution fees accounted for 18%, 12% and 10% of our total revenues for the years ended December 31, 2004, 2005 and 2006, respectively.

Interest Income and Interest Expense

We earn interest on customer funds segregated in safekeeping accounts; on customer borrowings on margin, secured by marketable securities these customers hold with us from our investment in government treasury securities; from borrowing securities in the general course of our market making and brokerage activities, and on bank balances. Interest income accounted for 13%, 25% and 39% of total revenues for the years ended December 31, 2004, 2005 and 2006, respectively. Interest income is partially offset by interest expense.

We pay interest on cash balances customers hold with us; for cash received from lending securities in the general course of our market making activities; and on our borrowings. Interest expense accounted for 9%, 16% and 28% of total revenues for the years ended December 31, 2004, 2005 and 2006, respectively.

In 2005, we began to automate and integrate our securities lending system with our trading system. As a result, we have been able to increase significantly our securities lending activity and our net interest income. Our net interest income accounted for approximately 4%, 11% and 15% of our total net revenues for the years ended December 31, 2004, 2005 and 2006, respectively.

Other Income

Other income consists primarily of payment for order flow income, mark-to-market gains on non-traded securities (primarily investments in exchanges) and market data fee income. Our other income accounted for approximately 1% of our total revenues for the year ended December 31, 2004, and 5% for each of the years ended December 31, 2005 and 2006.

Costs and Expenses

Execution and Clearing Expenses

Our largest single expense category is execution and clearing expenses, which includes the costs of executing and clearing our market making and electronic brokerage trades, as well as other direct expenses, including payment for order flow, regulatory fees and market data fees. Execution fees are paid primarily to electronic exchanges and market centers on which we trade. Clearing fees are paid to clearing houses and clearing agents. Payments for order flow are made as part of exchange-mandated programs and to otherwise attract order volume to our system. When we execute a customer order against another customer order, no payment for order flow is received. Market data fees are fees that we must pay to third parties to receive streaming quotes and related information.

Employee Compensation and Benefits

Employee compensation and benefits includes salaries, bonuses, group insurance, contributions to benefit programs and other related employee costs.

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Occupancy, Depreciation and Amortization

Occupancy expense consists primarily of rental payments on office leases and related occupancy costs, such as utilities. Depreciation and amortization expense results from the depreciation of fixed assets such as computing and communications hardware as well as amortization of leasehold improvements and capitalized in-house software development.

Communications

Communications expense consists primarily of the cost of voice and data telecommunications lines supporting our business including connectivity to exchanges around the world.

General and Administrative

Expenses in this category are primarily incurred for professional services, such as legal and audit work, and other operating expenses such as exchange membership lease expenses.

As a public company, we will be subject to the requirements of the Sarbanes-Oxley Act of 2002, which we expect will require us to incur significant expenditures in the near term to develop systems and hire and train personnel to comply with these requirements. In addition, as a public company, we expect to incur additional costs for external services such as legal, accounting and auditing.

Income Tax Expense

Historically, our income tax expense consisted primarily of corporate subsidiary taxes, and our net income did not reflect cash distributions to IBG LLC's members to pay their taxes related to their proportionate shares of our net income. Those distributions reduced IBG LLC's members' capital. As a corporation, we will be required to pay U.S. federal, state and local income taxes on its taxable income. Our subsidiaries will continue to be subject to income tax in the respective jurisdictions in which they operate.

Critical Accounting Policies

The consolidated financial statements are prepared in conformity with accounting principles generally accepted in the United States. In applying these principles, 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. See Note 2 to the consolidated financial statements included elsewhere in this prospectus for a summary of our significant 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 quoted market prices or are assets which are short-term in nature and are reflected at amounts approximating fair value. Similarly, all of our financial instrument liabilities that arise from securities sold but not yet

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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. In our case, 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 on securities 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.

Member Interests

Selected employees are granted non-transferable fully vested member interests in IBG LLC. Such grants are accounted for pursuant to Accounting Principles Board (APB) Opinion No. 25, *Accounting for Stock Issued to Employees* and EITF Issue No. 00-23, *Issues Related to the Accounting for Stock Compensation under APB Opinion No. 25 and FASB Interpretation No. 44*. IBG LLC records a fixed dollar amount of expense for member interest grants at the date of grant based on management's estimate of fair value, which is book value (as defined in IBG LLC's Agreement as to Member Interest Purchase Rights). Member interests confer ownership rights in IBG LLC and entitle the holder to proportionate rights to future allocable profits and losses of IBG LLC. Member-employees may sell their interests back to IBG LLC at any time at book value. Member interest grants are initially accounted for as liabilities until six months elapses from the date of grant, at which time such liabilities are reclassified to members' capital as members' contributions.

Contingencies

Our policy is to estimate and accrue for potential losses that may arise out of litigation, regulatory proceedings and tax audits to the extent that such losses are probable and can be estimated in accordance with Statement of Financial Accounting Standards (SFAS) No. 5, *Accounting for Contingencies*. 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. For more information on our legal and regulatory matters, see "Business Legal Proceedings and Regulatory Matters."

IBG LLC has been, and we likely will be, from time to time subject to litigation and other legal proceedings. As of December 31, 2006, certain subsidiaries of IBG LLC have been named parties to legal actions, which IBG LLC or such subsidiaries intend to defend vigorously. See "Business Legal Proceedings and Regulatory Matters." 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 IBG LLC's business or financial condition, but may have a material impact on the results of operations for a given period. As of December 31, 2006, reserves provided for potential losses related to litigation matters were not material. No such reserves were deemed necessary as of December 31, 2005.

Minority Interest

Upon consummation of the Recapitalization, we will become the sole managing member of IBG LLC and, as such, will continue to operate and control all of the business and affairs of IBG LLC and its subsidiaries and will be able to consolidate IBG LLC's financial results into our financial statements. In light of IBG Holdings LLC's expected approximately 94.9% ownership interest in IBG LLC, we will reflect its ownership as a minority interest in our statement of financial condition and statement of income. Our historical results will be those of IBG LLC, as our predecessor company. As a result, our net income, after excluding IBG Holdings LLC's minority interest, will represent approximately 5.1% of IBG LLC's net income immediately after the offering, and similarly, outstanding shares of our common stock will represent approximately 5.1% of the outstanding membership interests of IBG LLC immediately after the offering. For more information on the pro forma impact of the Recapitalization, see "Unaudited Pro Forma Consolidated Financial Data."

Income Taxes

Our business was historically operated through a limited liability company that was not subject to U.S. federal and certain state income taxes. Prior to the completion of this offering, as a result of the Recapitalization, our business will become subject to taxes applicable to "C" corporations. For more information on pro forma income taxes applicable to our business under "C" corporation status, see "The Recapitalization Transactions and Our Organizational Structure."

Dilutive Effect of Issuance of New Shares of Common Stock

When we issue new shares of common stock after this offering, including upon the issuance of common stock to finance purchases of IBG LLC membership interests from IBG Holdings LLC, our existing common stockholders will experience dilution at the IBG level, although we will own an increased percentage of the equity of IBG LLC upon giving effect to such common stock issuances.

Immediately following this offering, approximately 20.2 million shares of our common stock will be outstanding, representing more than 99.999% of our outstanding capital stock, and we will own membership interests in IBG LLC representing approximately 5.1% of the total equity interest in IBG LLC. In accordance with our amended and restated certificate of incorporation and the amended and restated limited liability company agreement pursuant to which IBG LLC will be governed, the net cash proceeds received by us from any future issuance of shares of common stock will either be used to purchase IBG LLC membership interests from IBG Holdings LLC or be transferred to IBG LLC in exchange for newly issued membership interests equal in number to such number of shares of common stock issued by us. The number of outstanding IBG LLC membership interests owned by us will, therefore, equal the number of outstanding shares of our common stock at all times. As a result, common stockholders will experience no material dilution with regard to their economic interest in IBG LLC as a result of the issuance of additional shares of our common stock.

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.

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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.

Broker-dealer clients continue to focus on statistics measuring the quality of equity executions (including speed of executions and price improvement). 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.

Due to regulatory scrutiny over the past several years relating to equity sell-side research and the continued focus by investors on execution quality and overall transaction costs, more institutional clients allocate commissions to broker-dealers based on the quality of executions. In the past, institutional equity commissions were primarily allocated to broker-dealers in exchange for either research or soft dollar and commission recapture programs.

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 year, and several regional exchanges have entered into joint ventures with broker-dealers to create their own alternative trading systems, such as ECNs, and compete within the OTC and listed trading venues.

There has been a proliferation of alternative investment entities, which has had the effect of materially increasing competition for new investor assets.

See "Risk Factors" on page 18 for a discussion of other risks that may affect our financial condition and results of operations.

Public Company Costs

Following this offering, we expect that we will incur additional expenses as a result of becoming a public company for, among other things, costs associated with self-insuring potential liabilities of our directors and officers, director fees, SEC reporting and compliance, transfer agent fees, professional fees and similar expenses. These additional expenses will reduce our net income. These costs will be borne by IBG LLC on behalf of IBG.

Consolidated 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.

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

	Year Ended December 31,		
	2004	2005	2006
	(in millions)		
Consolidated Statement of Income Data:			
Revenues:			
Trading gains	\$ 423.2	\$ 640.4	\$ 805.1
Commissions and execution fees	112.0	132.1	174.4
Interest income	79.5	273.2	672.1
Other income	7.0	53.4	85.2
Total revenues	621.7	1,099.1	1,736.8
Interest expense	57.7	170.0	484.4
Total net revenues	564.0	929.1	1,252.4
Non-interest expenses:			
Execution and clearing	152.5	215.0	313.3
Employee compensation and benefits	79.1	90.2	110.1
Occupancy, depreciation and amortization	16.4	20.4	22.7
Communications	9.0	10.4	12.6
General and administrative	17.0	23.8	32.1
Total non-interest expenses	274.0	359.8	490.8
Income before income tax	290.0	569.3	761.6
Income tax expense	19.6	33.8	27.4
Net income	\$ 270.4	\$ 535.5	\$ 734.2

The following table sets forth our consolidated results of operations as a percent of our total revenues for the indicated periods:

	Year Ended December 31,		
	2004	2005	2006
Consolidated Statement of Income Data:			
Revenues:			
Trading gains	68.1%	58.3%	46.4%
Commissions and execution fees	18.0%	12.0%	10.0%
Interest income	12.8%	24.9%	38.7%
Other income	1.1%	4.8%	4.9%
Total revenues	100.0%	100.0%	100.0%
Interest expense	9.3%	15.5%	27.9%
Total net revenues	90.7%	84.5%	72.1%

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Year Ended December 31,

Non-interest expenses:			
Execution and clearing	24.5%	19.5%	18.0%
Employee compensation and benefits	12.7%	8.2%	6.3%
Occupancy, depreciation and amortization	2.6%	1.9%	1.3%
Communications	1.4%	0.9%	0.8%
General and administrative	2.9%	2.2%	1.9%
	<u> </u>	<u> </u>	<u> </u>
Total non-interest expenses	44.1%	32.7%	28.3%
	<u> </u>	<u> </u>	<u> </u>
Income before income tax	46.6%	51.8%	43.8%
Income tax expense	3.1%	3.1%	1.6%
	<u> </u>	<u> </u>	<u> </u>
Net income	43.5%	48.7%	42.2%
	<u> </u>	<u> </u>	<u> </u>

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Year Ended December 31, 2006 Compared to the Year Ended December 31, 2005

Net Revenues

Total net revenues increased \$323.3 million, or 35%, to \$1,252.4 million for the year ended December 31, 2006 from \$929.1 million for the year ended December 31, 2005. Trading volume is the most important driver of revenues and costs for both market making and electronic brokerage. To some extent, our trading volume is a function of the general level of activity in the securities and futures markets worldwide. This is especially true in products such as equity options where we hold a large market share. Based on data published by the Futures Industry Association (FIA), global equity options volume increased 35% in 2006 from 2005. For the year ended December 31, 2006, total trades executed by our subsidiaries increased by 34.0 million, or 35%, to 130.5 million trades from 96.5 million trades for the year ended December 31, 2005.

Trading Gains. Trading gains increased \$164.7 million, or 26%, to \$805.1 million for the year ended December 31, 2006 from \$640.4 million for the year ended December 31, 2005. The increase was primarily due to expansion in the number of securities products traded and increased trading volumes across the markets and exchanges on which our market making units traded. During the year ended December 31, 2006, our market making operations executed 66.1 million trades compared to 54.1 million trades during the year ended December 31, 2005, an increase of 22%. Included in trading gains are net dividends from market making activities and currency translation gains and losses. Our net dividends for the year ended December 31, 2006 were \$(39.5) million compared to \$42.9 million for the year ended December 31, 2005, a 192% decrease. For the year ended December 31, 2006, we incurred translation losses of \$47.1 million on foreign currency balances held primarily by our European subsidiaries, as compared to translation gains of \$43.9 million for the year ended December 31, 2005.

Commissions and Execution Fees. Commissions and execution fees increased \$42.3 million, or 32%, to \$174.4 million for the year ended December 31, 2006 from \$132.1 million for the year ended December 31, 2005. This increase was primarily due to higher customer trading volume on an expanded customer base, partially offset by a reduction in customer commission rates implemented in November 2005. Total DARTs for cleared and execution-only customers increased 47% to 196,000 during the year ended December 31, 2006, compared to 133,000 during the year ended December 31, 2005. DARTs for cleared customers, a subset that refers to those customers for whom we execute trades and also clear and carry positions, increased 41% to 157,000 during the year ended December 31, 2006 compared to 111,000 during the year ended December 31, 2005. The number of customer accounts grew by 27% to approximately 80,000 in the year ended December 31, 2006. Average commission per trade for cleared customers decreased by \$.29, or 6%, to \$4.25 for the year ended December 31, 2006 from \$4.54 for the year ended December 31, 2005, due to lower commission rates we instituted in November 2005 in order to continue to provide cost-efficient executions to our customers. Based on 2006 volume, the reduction in commission rates would have resulted in a decrease in revenues of approximately \$11.6 million; however, we experienced a 22.3% increase in DARTs for cleared customers in the quarter following the introduction of lower commission rates and a 41% increase in DARTs for cleared customers in the year ended December 31, 2006 from 2005. Our execution-only customers generated \$7.5 million in execution fees in the year ended December 31, 2006. In addition to the execution fees we collect from certain execution-only customers, we receive payment for customer orders from U.S. options exchanges (see below under "Other Income") and our U.S. market making unit is able to execute a portion of these customer orders when it is providing the best available price, i.e., the national best bid or offer (NBBO).

Interest Income and Interest Expense. Net interest income (interest income less interest expense) increased \$84.5 million, or 82%, to \$187.7 million for the year ended December 31, 2006

from \$103.2 million for the year ended December 31, 2005. Growth in net interest income was primarily attributable to higher interest rates, increases in net customer cash and margin balances and higher net interest from securities lending, resulting from the integration of our securities lending and trading systems, which commenced during 2005. As an example, the U.S. dollar average overnight LIBOR (the London Interbank Offered Rates, which serve as benchmark interest rates for most major currencies) for the year ended December 31, 2006 increased 52% to 5.0%, from 3.3% for the year ended December 31, 2005. Customer cash balances increased by 62%, to \$3.9 billion, and customer fully secured margin borrowings increased 94%, to \$846.7 million, at December 31, 2006 from \$2.4 billion and \$436.0 million, respectively, at December 31, 2005. During this period we also adopted new investment policy guidelines that enabled us to match more accurately the average maturities on investments of customer funds to the short-term rates paid to customers. As a result, net interest earned from customers' cash balances and fully secured margin balances increased \$20.6 million, or 227%, to \$29.7 million for the year ended December 31, 2006 from \$9.1 million for the year ended December 31, 2005. Securities borrowed increased by 18%, to \$10.5 billion, and securities loaned increased by 31%, to \$8.0 billion, at December 31, 2006 from December 31, 2005. These increases reflect the growth in stock positions held by our market making units and the growth in short stock positions carried in customer accounts. Net interest earned from stock borrowing and lending activities increased \$70.2 million, or 82%, to \$155.3 million for the year ended December 31, 2006 from \$85.1 million for the year ended December 31, 2005. During the same period, the growth in IBG LLC's capital to \$2.8 billion at December 31, 2006 from \$2.2 billion at December 31, 2005, combined with higher interest rates, also contributed to the increase in interest income.

Other Income. Other income increased \$31.8 million, or 60%, to \$85.2 million for the year ended December 31, 2006 from \$53.4 million for the year ended December 31, 2005. This increase was primarily attributable to an increase of \$40.2 million, to \$60.2 million in payment for order flow income, which was partially offset by a decrease of \$9.2 million, to \$6.5 million, in mark-to-market gains on non-trading securities, primarily investments in exchanges. The higher payment for order flow income was driven by increased trading volume by customers in U.S. options contracts and increased payment per contract from U.S. options exchanges that administered payment for order flow programs. The number of options contracts executed by our customers increased by 89% in the year ended December 31, 2006 as compared to the year ended December 31, 2005. Beginning in October 2005, the largest U.S. options exchanges by volume (the Chicago Board Options Exchange, the International Securities Exchange and the Philadelphia Stock Exchange) began to implement new, SEC-approved payment for order flow programs that pay \$0.65 to \$0.75 per qualified contract, generally into a pool that is available to pay the brokers providing the order flow. This has resulted in increased payment for order flow income at our U.S. electronic brokerage unit. This income was partially offset by payment for order flow expense to our customers, as described below under " Non-Interest Expenses Execution and Clearing." Net income from payment for order flow was \$6.0 million for the year ended December 31, 2006, versus a net loss of \$13.6 million for the year ended December 31, 2005. We believe that payment for order flow will decline with the introduction of penny pricing for options over the next year.

Non-Interest Expenses

Non-interest expenses increased by \$131.0 million, or 36%, to \$490.8 million for the year ended December 31, 2006 from \$359.8 million for the year ended December 31, 2005. As a percentage of total net revenues, non-interest expenses were 39% for each of the years ended December 31, 2006 and 2005.

Execution and Clearing. Execution and clearing expenses increased \$98.3 million, or 46%, to \$313.3 million for the year ended December 31, 2006 from \$215.0 million for the year ended December 31, 2005, primarily due to increased trading volume. These variable costs are our largest

expense category, representing 64% and 60% of total non-interest expenses for the year ended December 31, 2006 and 2005, respectively. Payments for order flow, a component of execution and clearing costs, increased \$20.6 million, or 61%, to \$54.2 million for the year ended December 31, 2006 from \$33.6 million for the year ended December 31, 2005. The growth of payment for order flow expense in our electronic brokerage unit was primarily a result of our aggressive marketing of the IB SmartRoutingSM system to new institutional customers, combined with incentive payments to these customers for options orders routed through IB. This expense was offset by payment for order flow revenue received from U.S. options exchanges, as described above under "Net Revenues - Other Income." As a percentage of total net revenues, execution and clearing expenses were 25% and 23% for the years ended December 31, 2006 and 2005, respectively.

Employee Compensation and Benefits. Employee compensation and benefits expenses increased by \$19.9 million, or 22%, to \$110.1 million for the year ended December 31, 2006 from \$90.2 million for the year ended December 31, 2005. This increase is primarily due to an 11% increase in the number of employees to 532 as of December 31, 2006 from 478 as of December 31, 2005, increased expenses for bonuses and ROI Units granted to employees due to higher IBG LLC earnings. As we continue to grow, our focus on automation has allowed us to maintain a relatively small staff of highly compensated professionals. As a percentage of total net revenues, employee compensation and benefits expenses were 9% and 10% for the years ended December 31, 2006 and 2005, respectively.

Occupancy, Depreciation and Amortization. Occupancy, depreciation and amortization expenses increased \$2.3 million, or 11%, to \$22.7 million for the year ended December 31, 2006 from \$20.4 million for the year ended December 31, 2005 primarily due to increased office rent expenses for additional office space. As a percentage of total net revenues, occupancy, depreciation and amortization expenses were 2% for each of the years ended December 31, 2006 and 2005.

Communications. Communications expenses increased \$2.2 million, or 21%, to \$12.6 million for the year ended December 31, 2006 from \$10.4 million for the year ended December 31, 2005. This increase was driven by additional telecommunications bandwidth required to support increased trading volume at electronic exchanges and the expansion in the number of markets in which IBG LLC operates. As a percentage of total net revenues, communications expenses were 1% for each of the years ended December 31, 2006 and 2005.

General and Administrative. General and administrative expenses increased \$8.3 million, or 35%, to \$32.1 million for the year ended December 31, 2006 from \$23.8 million for the year ended December 31, 2005, primarily attributable to increased legal and auditing professional fees and increased marketing and advertising costs. As a percentage of total net revenues, general and administrative expenses were 3% for each of the years ended December 31, 2006 and 2005.

Income Tax Expense. As a limited liability company, historically, most of our income has not been subject to corporate tax but, instead, our members have been taxed on their proportionate share of the net income. Our income tax expense reflects taxes payable by certain of our non-U.S. companies. Income tax expense decreased \$6.4 million, or 19%, to \$27.4 million for the year ended December 31, 2006 from \$33.8 million for the year ended December 31, 2005 primarily due to lower pre-tax earnings at one of our non-U.S. operating companies.

Net Income. Net income increased \$198.7 million, or 37%, to \$734.2 million for the year ended December 31, 2006 from \$535.5 million for the year ended December 31, 2005. Net income as a percentage of net revenues was 59% for the year ended December 31, 2006 compared to 58% for the year ended December 31, 2005.

Year Ended December 31, 2005 Compared to Year Ended December 31, 2004

Net Revenues

Total net revenues increased \$365.1 million, or 65%, to \$929.1 million for the year ended December 31, 2005 from \$564.0 million for the year ended December 31, 2004. Total trades executed by our subsidiaries increased by 23.1 million, or 31%, to 96.5 million trades for the year ended December 31, 2005 from 73.4 million trades for the year ended December 31, 2004. While we increased our market share, we also benefited from the general increase in trading volume globally. Based on data published by the FIA, global equity options volume increased 19% for the year ended December 31, 2005 over the prior year.

Trading Gains. Trading gains increased \$217.2 million, or 51%, to \$640.4 million for the year ended December 31, 2005 from \$423.2 million for the year ended December 31, 2004. The increase was primarily attributable to increased trading activity and withdrawal of competitors from the business. Intense competition resulting from new market makers and other professionals entering the market and a corresponding compression of bid/offer spreads that marked 2004 subsided in 2005. During the year ended December 31, 2005, our market making operations executed 54.1 million trades compared to 41.5 million trades during the year ended December 31, 2004. Included in trading gains are net dividends from market making activities and currency translation gains and losses. Our net dividends for the year ended December 31, 2005 were \$42.9 million, compared to \$36.2 million for the year ended December 31, 2004, a 19% increase. During the year ended December 31, 2005, we had translation gains of \$43.9 million on foreign currency balances held primarily by our European market making subsidiary, as compared to translation losses of \$18.2 million during the year ended December 31, 2004.

Commissions and Execution Fees. Commissions and execution fees increased \$20.1 million, or 18%, to \$132.1 million for the year ended December 31, 2005 from \$112.0 million for the year ended December 31, 2004. This increase was primarily due to higher customer trading volume on an expanded customer base. Total DARTs for cleared and execution-only customers increased 28% to 133,000 during the year ended December 31, 2005 from 104,000 during the year ended December 31, 2004. DARTs for cleared customers, a subset that refers to those customers for whom we execute trades and also clear and carry positions, increased 16% to 111,000 during the year ended December 31, 2005 from 95,000 during the year ended December 31, 2004. The number of customer accounts grew by 30% to approximately 63,000 in the year ended December 31, 2005.

Interest Income and Interest Expense. Net interest income increased \$81.4 million, or 373%, to \$103.2 million for the year ended December 31, 2005 from \$21.8 million for the year ended December 31, 2004. Growth in net interest income was primarily attributable to higher net interest from securities lending, resulting from the integration of our securities lending and trading systems, which commenced during 2005, and higher interest rates. Approximately \$75.7 million of the total increase was attributable to increased securities lending activities. Securities borrowed increased by 117%, to \$8.9 billion and securities loaned increased by 85%, to \$6.1 billion at December 31, 2005 from December 31, 2004. These increases reflect the growth in stock positions held by our market making units and the growth in short stock positions carried in customer accounts. As an example of the interest rate increases, LIBOR rates for the year ended December 31, 2005 increased 136% to 3.3%, from 1.4% for the year ended December 31, 2004. IBG LLC's capital grew from \$1.8 billion to \$2.2 billion during 2005, further contributing to increased interest income. Customer cash balances increased by 60%, to \$2.4 billion, and customer fully secured margin borrowings increased 62%, to \$436.0 million, at December 31, 2005 from \$1.5 billion and \$269.2 million, respectively, at December 31, 2004. However, net interest earned from customer cash balances and fully secured margin balances decreased

\$1.6 million, or 15%, to \$9.1 million for the year ended December 31, 2005 from \$10.7 million for prior year. This was due in part to a flattening of the interest rate yield curve during the period and in part to higher interest rates offered to our brokerage customers.

Other Income. Other income increased \$46.4 million, or 666%, to \$53.4 million for the year ended December 31, 2005 from \$7.0 million for the year ended December 31, 2004. This increase was primarily due to a \$22.4 million increase in mark-to-market gains on non-trading securities, primarily investments in exchanges, a \$15.8 million increase in payment for order flow income and growth in market data income from customers, which was partially offset by market data expenses to exchanges. The higher payment for order flow income was driven by increased trading volume by customers in U.S. options contracts and increased payment per contract from U.S. options exchanges that administered payment for order flow programs. The number of options contracts executed by our customers increased by 212% in the year ended December 31, 2005 as compared to the year ended December 31, 2004. In October 2005, the largest U.S. options exchanges began to implement new, SEC-approved, payment for order flow programs that pay \$0.65 to \$0.75 per qualified contract, generally into a pool that is available to pay the brokers providing the order flow, which resulted in increased payment for order flow income at our U.S. electronic brokerage unit. This income was partially offset by payment for order flow expense to our customers, as described below under " Non-Interest Expenses Execution and Clearing." In our electronic brokerage unit net losses from payment for order flow were \$6.3 million and \$0.4 million for the years ended December 31, 2005 and 2004, respectively.

Non-interest Expenses

Non-interest expenses increased by \$85.8 million, or 31%, to \$359.8 million for the year ended December 31, 2005 from \$274.0 million for the year ended December 31, 2004. As a percentage of total net revenues, non-interest expenses were 39% and 49% for the years ended December 31, 2005 and 2004, respectively. Non-interest expenses decreased as a percentage of total net revenues primarily due to the 65% increase in net revenues from the prior year, more than offsetting the increases in expenses.

Execution and Clearing. Execution and clearing expenses increased \$62.5 million, or 41%, to \$215.0 million for the year ended December 31, 2005 from \$152.5 million for the year ended December 31, 2004, primarily due to increases in the number of securities products traded and increased trading volumes across the markets and exchanges in which IBG LLC and its customers traded. Payments for order flow increased \$22.4 million, or 200%, to \$33.6 million for the year ended December 31, 2005 as increasing trade volumes were directed to our U.S. electronic brokerage unit from other brokers. As a percentage of total net revenues, execution and clearing expenses were 23% and 27% for the years ended December 31, 2005 and 2004, respectively, and payments for order flow were 4% and 2%, respectively, for such periods. The decrease in execution and clearing expenses as a percentage of 2005 total net revenues was primarily due to the 65% increase in net revenues, which more than offset the increases in these expenses.

Employee Compensation and Benefits. Employee compensation and benefits expenses increased by \$11.1 million, or 14%, to \$90.2 million for the year ended December 31, 2005 from \$79.1 million for the year ended December 31, 2004. This increase was due to a 5% increase in employees to 478 as of December 31, 2005 from 455 as of December 31, 2004 and increased expenses for bonuses and ROI Units due to higher company earnings. As a percentage of total net revenues, employee compensation and benefits expenses were 10% and 14% for the years ended December 31, 2005 and 2004, respectively.

Occupancy, Depreciation and Amortization. Occupancy, depreciation and amortization expenses increased \$4.0 million, or 24%, to \$20.4 million for the year ended December 31, 2005 from \$16.4 million for the year ended December 31, 2004 primarily due to increased costs related to computer equipment and office rent. As a percentage of total net revenues, occupancy, depreciation and amortization expenses were 2% and 3% for each of the years ended December 31, 2005 and 2004, respectively.

Communications. Communications expenses increased \$1.4 million, or 16%, to \$10.4 million for the year ended December 31, 2005 from \$9.0 million for the year ended December 31, 2004, primarily due to an increase in data line costs. As a percentage of total net revenues, communications expenses were 1% and 2% for the years ended December 31, 2005 and 2004, respectively.

General and Administrative. General and administrative expenses increased by \$6.8 million, or 40%, to \$23.8 million for the year ended December 31, 2005 from \$17.0 million for the year ended December 31, 2004 primarily due to increased advertising expenses for the electronic brokerage business to generate greater awareness of the brand and its offerings. As a percentage of total net revenues, general and administrative expenses were 3% for each of the years ended December 31, 2005 and 2004.

Income Tax Expense. As a limited liability company, historically, most of our income has not been subject to corporate tax but, instead, our members have been taxed on their proportionate share of the net income. Our income tax expense reflects taxes payable by certain of our non-U.S. companies. Income tax expense increased \$14.2 million, or 73%, to \$33.8 million for the year ended December 31, 2005 from \$19.6 million for the year ended December 31, 2004 due to increased earnings derived from certain of our non-U.S. operating companies. Income tax expense increased from 3% to 4% of total net revenues for the year ended December 31, 2005 compared to the prior year.

Net Income. Net income increased \$265.1 million, or 98%, to \$535.5 million for the year ended December 31, 2005 from \$270.4 million for the year ended December 31, 2004. Net income as a percentage of total net revenues was 58% for the year ended December 31, 2005 compared to 48% for the year ended December 31, 2004.

Business Segments

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 pretax earnings. Due to the integrated nature of the business segments, estimates and judgments have been made in allocating certain revenues and expense items. Transactions between segments generally results 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, (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.

Market Making

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

	Year Ended December 31,		
	2004	2005	2006
	(in millions)		
Consolidated Statement of Income Data:			
Revenues:			
Trading gains	\$ 421.1	\$ 637.9	\$ 807.7
Interest income	52.3	211.1	508.2
Other income	6.3	22.6	18.6
	479.7	871.6	1,334.5
Interest expense	51.2	133.1	379.8
	428.5	738.5	954.7
Non-interest expenses:			
Execution and clearing	113.2	151.4	198.1
Employee compensation and benefits	40.6	41.4	47.3
Occupancy, depreciation and amortization	9.3	11.0	10.6
Communications	6.1	6.0	6.6
General and administrative	18.2	23.5	29.3
	187.4	233.3	291.9
Income before income tax	241.1	505.2	662.8
Income tax expense	18.4	32.1	24.9
	\$ 222.7	\$ 473.1	\$ 637.9

Year Ended December 31, 2006 Compared to Year Ended December 31, 2005

Net Revenues. Market making net revenues increased \$216.2 million, or 29%, to \$954.7 million for the year ended December 31, 2006 from \$738.5 million for the year ended December 31, 2005. Trading gains increased \$169.8 million, or 27%, from the year ended December 31, 2005, primarily attributable to increased transaction volume in the markets in which we participate and to improvements in our market making systems. During the year ended December 31, 2006, we executed 66.1 million trades compared to 54.1 million trades during the year ended December 31, 2005. Trading gains also include translation gains and losses, which are incurred primarily in our European market making operations where our trading assets and liabilities are denominated in multiple currencies. Translation gains and losses fluctuate with exchange rates and with changes in the composition of our trading assets and liabilities. During the year ended December 31, 2006, market making translation losses of \$45.5 million were incurred as compared to translation gains of \$42.1 million for the comparable prior period. Net interest income increased \$50.4 million, or 65%, primarily attributable to increased securities lending activity resulting from the continuing integration of our securities lending system with our trading system and to higher interest rates.

Non-interest Expenses. Market making non-interest expenses increased \$58.6 million, or 25%, to \$291.9 million for the year ended December 31, 2006 from \$233.3 million for the year ended December 31, 2005. Of this increase, \$46.7 million consisted of higher execution and clearing expenses, an increase of 31% over the year ended December 31, 2005, reflecting greater trading volume in the period. Employee compensation and benefits expenses increased \$5.9 million, or 14%, over the year ended December 31, 2005 and other non-interest expenses were relatively stable. As a percentage of total net revenues for the market making segment, non-interest expenses were 31% and 32% for the years ended December 31, 2006 and 2005, respectively.

Income Before Income Taxes. Market making income before income taxes increased \$157.6 million, or 31%, to \$662.8 million for the year ended December 31, 2006 from \$505.2 million for the year ended December 31, 2005. As a percentage of total net revenues for the market making segment, income before income taxes were 69% and 68% for the years ended December 31, 2006 and December 31, 2005, respectively.

Year Ended December 31, 2005 Compared to Year Ended December 31, 2004

Net Revenues. Market making net revenues increased \$310 million, or 72%, to 738.5 million for the year ended December 31, 2005 from \$428.5 million for the year ended December 31, 2004. Trading gains increased \$216.8 million, or 51%, over 2004, primarily attributable to increased trading activity and withdrawal of competitors from the business. Intense competition resulting from new market makers and other professionals entering the market and a corresponding compression of bid/offer spreads that marked 2004 subsided in 2005. During the year ended December 31, 2005, we executed 54.1 million trades compared to 41.5 million trades during the year ended December 31, 2004. Trading gains also include translation gains and losses, which are incurred primarily in our European market making operations where our trading assets and liabilities are denominated in multiple currencies. Translation gains and losses fluctuate with exchange rates and with changes in the composition of our trading assets and liabilities. For the year ended December 31, 2005, foreign currency translation gains were \$42.1 million as compared to translation losses of \$20.3 million for the year ended December 31, 2004. Net interest income increased \$76.9 million, or 6991%, attributable to increased securities lending activity resulting from the integration of our securities lending system with our trading system and to higher interest rates.

Non-interest Expenses. Market making non-interest expenses increased \$45.9 million, or 24%, to \$233.3 million for the year ended December 31, 2005 from \$187.4 million for the year ended December 31, 2004. Of this increase, \$38.2 million was due to higher execution and clearing expenses, an increase of 34% from 2004. The increase in execution and clearing expenses is consistent with the 30% increase in trading volumes. Other non-interest expenses had relatively minor increases. As a percentage of total net revenues for the market making segment, non-interest expenses were 32% and 44% for the years ended December 31, 2005 and 2004, respectively, a decrease that is attributable to the relatively greater increase in trading gains over these expenses.

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Income Before Income Taxes. Market making income before income taxes increased \$264.1 million, or 110%, to \$505.2 million for the year ended December 31, 2005 from \$241.1 million for the year ended December 31, 2004. As a percentage of total net revenues for the market making segment, income before income taxes were 68% and 56% for the years ended December 31, 2005 and 2004, respectively.

Electronic Brokerage

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

	Year Ended December 31,		
	2004	2005	2006
	(in millions)		
Consolidated Statement of Income Data:			
Revenues:			
Commissions and execution fees	\$ 112.0	\$ 132.2	\$ 174.5
Interest income	28.8	65.0	167.3
Other income	4.1	31.5	70.0
	144.9	228.7	411.8
Total revenues			
Interest expense	11.7	43.4	113.4
	133.2	185.3	298.4
Total net revenues			
Non-interest expenses:			
Execution and clearing	39.3	63.6	115.4
Employee compensation and benefits	18.1	22.1	28.8
Occupancy, depreciation and amortization	3.1	4.4	5.8
Communications	2.9	4.5	6.0
General and administrative	24.2	31.4	43.8
	87.6	126.0	199.8
Total non-interest expenses			
Income before income tax	45.6	59.3	98.6
Income tax expense	0.8	1.2	1.7
	44.8	58.1	96.9
Net income	\$ 44.8	\$ 58.1	\$ 96.9

Year Ended December 31, 2006 Compared to Year Ended December 31, 2005

Net Revenues. Electronic brokerage net revenues increased \$113.1 million, or 61%, to \$298.4 million for the year ended December 31, 2006 from \$185.3 million for the year ended December 31, 2005 primarily due to higher commissions and execution fees and net interest income, which increased \$42.3 million, or 32%, and \$32.3 million, or 150%, respectively. These increases reflect strong growth in the number of new customer accounts and significantly higher customer trading activity combined with commensurate increases in cash and margin debit balances. Total DARTs from cleared and execution-only customers increased 47% to 196,000 during the year ended December 31, 2006 compared to 133,000 during the year ended December 31, 2005. DARTs from cleared customers increased 41% to 157,000 during the year ended December 31, 2006 compared to 111,000 during the year ended December 31, 2005. Total customer account equity grew by 61% to \$6.1 billion at December 31, 2006 from \$3.8 billion at December 31, 2005. Commissions' growth due to volume was partially offset by the lower U.S. stock trade commissions that we introduced in November 2005, which resulted in a 10% decrease in average commissions. The primary component of other income was payment for order flow received through programs administered by U.S. options exchanges and it was largely offset by payment for order flow expense.

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Non-interest Expenses. Electronic brokerage non-interest expenses increased \$73.8 million, or 59%, to \$199.8 million for the year ended December 31, 2006 from \$126.0 million for the year ended December 31, 2005. Of this increase, \$51.8 million reflected an 81% increase in execution and clearing expenses from the year ended December 31, 2005. This increase was driven by higher customer trading volume and greater payment for order flow expense incurred in order to attract volume to our system. As a percentage of total net revenues for the electronic brokerage segment, non-interest expenses were 67% and 68% for the year ended December 31, 2006 and 2005, respectively. Electronic brokerage non-interest expenses decreased as a percentage of total net revenues primarily due to higher growth rates of commissions and execution fees and net interest income over expense levels required to support the increase in business activities.

Income Before Income Taxes. Electronic brokerage income before income taxes increased \$39.3 million, or 66%, to \$98.6 million for the year ended December 31, 2006 from \$59.3 million for the year ended December 31, 2005. As a percentage of total net revenues for the electronic brokerage segment, income before income taxes were 33% and 32% for the years ended December 31, 2006 and 2005, respectively.

Year Ended December 31, 2005 Compared to Year Ended December 31, 2004

Net Revenues. Electronic brokerage net revenues increased \$52.1 million, or 39%, to \$185.3 million for the year ended December 31, 2005 from \$133.2 million for the year ended December 31, 2004. Commissions and execution fees increased \$20.2 million, or 18%, over the prior year. The primary factor driving this increase was higher trading volume associated with new account openings that resulted from our improved system offerings and our marketing efforts. Total DARTs from cleared and execution-only customers increased 28% to 133,000 during the year ended December 31, 2005 compared to 104,000 during the year ended December 31, 2004. DARTs from cleared customers increased 17% to 111,000 during the year ended December 31, 2005 compared to 95,000 during the year ended December 31, 2004. In addition, other income increased due to higher payment for order flow received through programs administered by U.S. options exchanges, which is largely offset by payment for order flow expense.

Non-interest Expenses. Electronic brokerage non-interest expenses increased \$38.4 million, or 44%, for the year ended December 31, 2005 to \$126.0 million from \$87.6 million for the year ended December 31, 2004. Of this increase, execution and clearing expenses increased \$24.3 million or 62% from 2004, which was directly attributable to higher customer trading volume. The remaining \$14.1 million increase in other non-interest expenses was comprised of general increases in expense levels, most notably employee compensation and benefits, which increased \$4.0 million or 22% as employees were added to support continued growth. As a percentage of total net revenues for the electronic brokerage segment, non-interest expenses were 68% and 66% for the years ended December 31, 2005 and 2004, respectively.

Income Before Income Taxes. Electronic brokerage income before income taxes increased \$13.7 million, or 30%, to \$59.3 million for the year ended December 31, 2005 from \$45.6 million for the year ended December 31, 2004. As a percentage of total net revenues for the electronic brokerage segment, income before income taxes were 32% and 34% for the years ended December 31, 2005 and 2004, respectively.

Liquidity and Capital Resources

We maintain a highly liquid balance sheet. The majority of our assets consist of marketable securities inventories, 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.

Total assets increased \$7.8 billion to \$32.1 billion at December 31, 2006 from \$24.3 billion at December 31, 2005, primarily due to increases of \$3.8 billion in trading assets and \$1.6 billion in securities borrowed. These increases were driven by a controlled expansion of securities positions held by our market making subsidiaries to facilitate increased securities lending balances and corresponding net interest income. The \$1.6 billion increase in cash and cash equivalents and cash and securities segregated for regulatory purposes or deposited with clearing organizations was partially offset by an \$1.5 billion increase in payables to customers, resulting from strong growth in our electronic brokerage business. Funding was provided by a \$2.4 billion increase in securities sold but not yet purchased and a \$1.9 billion increase in securities loaned. At December 31, 2006, total assets were \$32.1 billion of which approximately \$32.0 billion, or 99.7%, were considered liquid and consisted predominantly of marketable securities.

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.

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 December 31, 2006, borrowings under these facilities totaled \$300.6 million, which represented 10% of our total capitalization. Based on our current level of operations, we believe our cash flow from operations, available cash and available borrowings under our senior secured revolving credit facility will be adequate to meet our future liquidity needs for at least 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. Consolidated equity increased from \$927.6 million at December 31, 2001 to \$2.8 billion at December 31, 2006, representing a CAGR of 25% over this five-year period.

Regulatory Capital Requirements

The regulatory capital computations at our market making broker-dealer subsidiaries are largely driven by "haircut" charges levied on market making securities and futures positions. Timber Hill LLC (TH LLC), our SEC-registered broker-dealer subsidiary that conducts our U.S. market making activities, is subject to the Uniform Net Capital Rule (Rule 15c3-1) (Net Capital Rule) under the Exchange Act, which requires the maintenance of minimum net capital. At December 31, 2006, TH LLC had net capital of \$996.2 million, which was \$982.7 million in excess of required net capital.

Interactive Brokers LLC, our SEC-registered broker-dealer subsidiary that conducts our U.S. brokerage activities, is also subject to the Net Capital Rule. At December 31, 2006, IB had net capital of \$268.9 million, which was \$245.6 million in excess of required net capital.

TH LLC and IB are also registered futures commissions merchants and are subject to, and at December 31, 2006 were in compliance with the CFTC's minimum financial requirements.

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Our non-U.S. market making and brokerage subsidiaries are also subject to various foreign net capital and minimum financial requirements and were in full compliance with such regulatory capital requirements as of December 31, 2006. Our most significant international market making subsidiary, Timber Hill Europe AG (THE), is registered to do business in Switzerland as a securities dealer and is subject to the Swiss National Bank eligible equity requirement. At December 31, 2006, THE had eligible equity of \$643.2 million, which was \$437.6 million in excess of the minimum requirement.

Our most significant international brokerage subsidiary, Interactive Brokers (U.K.) Limited (IBUK), is subject to the U.K. FSA's financial resources requirement. At December 31, 2006, IBUK had financial resources, as defined, of \$35.8 million, which was \$33.0 million in excess of the minimum requirement.

Cash Flows

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

	Year Ended December 31,		
	2004	2005	2006
	(in millions)		
Cash provided by (used in) operating activities	\$(179.8)	\$(110.5)	\$(219.3)
Cash provided by (used in) investing activities	(18.4)	(9.7)	(50.4)
Cash provided by (used in) financing activities	79.9	374.1	504.0
Effect of exchange rate changes on cash and cash equivalents	4.4	(14.5)	26.7
	\$(113.9)	\$239.4	\$261.0

Cash flow from operating activities. 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. For example, larger long stock positions give rise to increases in securities loaned as we finance these holdings and larger short stock positions give rise to increases in securities borrowed to enable delivery of shares sold short. Through our automated pricing and risk management software, we are able to control the asset and liability mix of our positions by setting interest rates (for stocks) and discount rates (for options) accordingly, which, in turn, influence the amount of cash that we borrow and lend. In our electronic brokerage business, as brokerage customers deposit or borrow cash, our investments of these funds increase or decrease accordingly.

Net cash used in operating activities for the year ended December 31, 2006 was \$219.3 million. The primary components of cash used in operating activities were an increase of \$1.3 billion in cash and securities segregated under federal and other obligations, reflecting growth in customer cash balances, and an increase of \$1.4 billion in trading assets, net of trading liabilities, reflecting normal changes in the makeup of market making positions. Uses of cash were offset by sources of cash, which were made up primarily of an increase of \$1.1 billion in payables to customers, net of receivables from customers, reflecting growth in customer cash balances; an increase of \$409.4 million in other payables, net of other receivables, primarily to clearing organizations; and net income of \$734.2 million. Net cash used in operating activities for the year ended December 31, 2005 was \$110.5 million. The primary components of cash used in operating activities were an increase of \$1.9 billion in securities borrowed, net of securities loaned, reflecting a relative increase in short stock positions held for market making; and an increase of \$704.8 million in cash and securities segregated under federal and other obligations, reflecting investment of new customer funds. These uses of cash were partially offset by an increase of \$1.3 billion in trading liabilities, net of trading assets, which is the

driver for increased securities borrowing activity; an increase of \$720.8 million in payables to customers, net of receivables from customers, reflecting growth in the electronic brokerage business; and net income of \$535.5 million. Net cash used in operating activities for the year ended December 31, 2004 was \$179.8 million. The primary components of cash used in operating activities were an increase of \$823.0 million in trading assets, net of trading liabilities, reflecting normal changes in the makeup of market marking positions; and an increase of \$362.1 million in cash and securities segregated under federal and other obligations, reflecting large customer cash balances. These uses of cash were partially offset by an increase of \$329.6 million in payables to customers, net of receivables from customers, and net income of \$270.4 million.

Cash flow from investing activities. Our investing activities are primarily comprised of capitalizable in-house software development; purchases and sales of memberships at exchanges where we trade; and, more recently, 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.

Net cash used for investing activities for the year ended December 31, 2006 was \$50.4 million. Investments in One Chicago, LLC (\$20.0 million), W.R. Hambrecht (\$10.0 million), ISE Stock Exchange, LLC (\$4.25 million) and CBOE Stock Exchange, LLC (\$5.0 million) and additions to property and equipment of \$12.3 million were the primary investing activities undertaken. Net cash used in investing activities for the year ended December 31, 2005 was \$9.7 million, comprised of \$12.8 million in additions to property and equipment, which is partially offset by proceeds of \$3.1 million from sales of exchange investments and trading rights. Net cash used in investing activities for the year ended December 31, 2004 was \$18.4 million, comprised of additions to property and equipment of \$11.4 million, purchases of exchange seats and trading rights of \$5.3 million and \$1.7 million for investments made in exchanges.

Cash flow from financing activities. 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. Long-term borrowings provide us with flexible sources of excess liquidity and regulatory capital and they include a committed senior secured revolving credit facility from a syndicate of banks that was initiated in May 2006 and senior notes issued in private placements to certain qualified customers of IBG LLC. IBG LLC uses the proceeds from the credit facility and from sales of the senior notes to provide capital to IBG LLC's broker-dealer subsidiaries, primarily in the form of subordinated loans. Historically, our capital transactions have been comprised primarily of distributions paid to provide members with funds to meet their income tax obligations arising from their respective percentages of IBG LLC's income. New member interest contributions and redemptions of member interests have made up a smaller part of our capital transactions.

Net cash provided by financing activities for the year ended December 31, 2006 was \$504.0 million, comprised of \$512.5 million from the issuance of senior notes, offset by \$526.5 million in senior note redemptions; a \$525.9 million increase in short-term borrowings; \$150.0 million in borrowings under our senior secured revolving credit facility, which facility was initiated in May 2006. Because the senior notes and the revolving credit facility are both sources of regulatory capital in our broker-dealer subsidiaries, we manage the amounts borrowed to maintain a comfortable excess of regulatory capital. During the year ended December 31, 2006 we targeted a reduction in the senior notes as the revolving credit facility became available. These increases were offset by \$164.5 million in distributions paid to members to meet income tax obligations on IBG LLC's income and net member contributions of \$6.7 million. Net cash provided by financing activities for the year ended December 31,

2005 was \$374.1 million and included \$549.0 million from the issuance of senior notes, partially offset by \$493.2 million in senior notes redemptions, and increased short-term borrowings of \$403.3 million. These increases were offset by \$88.5 million in distributions paid to members during the year ended December 31, 2005 and net member contributions of \$3.5 million. Net cash provided by financing activities for the year ended December 31, 2004 was \$79.9 million, comprised primarily of \$335.4 million from the issuance of senior notes, partially offset by \$270.3 million in senior note redemptions, accompanied by a \$87.9 million increase in short-term borrowings and net member contributions of \$7.7 million. These increases were offset by \$80.8 million in distributions paid to members.

Principal Indebtedness

IBG LLC is the borrower under a \$300.0 million senior secured revolving credit facility and is the issuer of senior notes of which \$150.0 million and \$150.6 million were outstanding, respectively, as of December 31, 2006.

Senior Secured Revolving Credit Facility

On May 19, 2006, IBG LLC entered into a \$300.0 million three-year senior secured revolving credit facility with JPMorgan Chase Bank, N.A. as administrative agent, Harris N.A., as syndication agent, and Citibank, N.A. and HSBC Bank USA National Association, as co-syndication agents. 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 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 net worth of \$1.5 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%.

Senior Notes

IBG LLC periodically issues senior notes in private placements to certain qualified customers of IBG 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 either have a 7% or 8% interest rate and either a 15-month or an 18-month maturity, respectively. 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 \$164.7 million and \$150.6 million of senior notes outstanding at December 31, 2005 and 2006, respectively. In 2006, IBG LLC redeemed \$526.5 million of senior notes, which included \$164.7 million of senior notes issued in 2005 and issued \$512.5 million in new senior notes.

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The senior notes are secured, along with 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 in-house use and expenditures for computer, networking and communications hardware. Both of these are reported in the property and equipment category. Capital expenditures for property and equipment were \$12.3 million and \$12.8 million for the years ended December 31, 2006 and 2005, respectively. We anticipate that our 2007 gross capital expenditures will approximate \$20.0 million, including planned construction of a data center in Chicago, Illinois that will complement and back up our primary U.S. data center in Greenwich, Connecticut. 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.

Certain Information Concerning Off-Balance Sheet Arrangements

Our subsidiaries derive revenues from buying and selling a variety of financial instruments. Certain of these instruments, including equity options and futures products, give rise to off-balance-sheet risk. Risk arises from changes in the value of these contracts (market risk) and also from the potential inability of counterparties to perform under the terms of the contracts (credit risk). Our market making subsidiaries rely upon proprietary computer systems that reevaluate our prices each second in order to minimize market risk inherent in their portfolios at any moment. Credit risk is limited in that substantially all of the contracts entered into are settled directly at securities and commodities clearing houses or through member firms and banks with substantial financial and operational resources. Such clearing firms and banks are subject to the rules and regulations of the various contract markets in which they operate. Our subsidiaries' exposure is also limited in most locations by the segregation of assets, which protects our subsidiaries in the event of a bankruptcy or other disruption of business at the clearing firm or bank. Our subsidiaries also seek to control credit risk by following an established credit approval process prior to beginning business with a new counterparty.

Certain of our subsidiaries enter into securities purchased under agreements to resell transactions 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 and receipts of cash. Our subsidiaries attempt 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 our subsidiaries when deemed necessary.

Securities sold but not yet purchased represent obligations of our subsidiaries to deliver the specified securities at the contracted price and, thereby, may create a liability to repurchase them in the market at prevailing prices. Accordingly, these transactions result in off-balance-sheet risk as our subsidiaries' repurchase of such securities may exceed the amount reported in our consolidated statement of financial condition. Our continuous pricing and risk management systems are designed to minimize such risk on an overall portfolio basis.

Contractual Obligations Summary

Our contractual obligations principally include obligations associated with our outstanding indebtedness and interest payments as of December 31, 2006.

	Payments Due by Year			
	Total	2007-2008	2009-2010	Thereafter
	(in millions)			
Senior notes	\$ 150.6	\$ 150.6	\$	\$
Interest payments on senior notes ⁽¹⁾	12.9	12.9		
Senior secured credit facility	150.0		150.0	
Interest payments on senior secured credit facility ⁽¹⁾	30.3	17.9	12.4	
Operating leases	44.6	13.1	11.7	19.8
Total contractual cash obligations	\$ 388.4	\$ 194.5	\$ 174.1	\$ 19.8

(1) Future principal and interest payments are calculated based on the assumption that all debt is outstanding until maturity.

Additionally, as of December 31, 2006, we provide standby letters of credit to clearing houses totaling \$8.4 million, which expire at various dates through March 2007.

Seasonality

Our business is 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. In February and March 2007, IB Exchange Corp., one of our subsidiaries, completed the purchase of a total of \$19.2 million of three year senior secured promissory notes issued by W.R. Hambrecht + Co., Inc., the parent of WR Hambrecht + Co, LLC, one of the placement agents for this offering. See "Transactions with Related Persons, Promoters and Certain Control Persons Investment in W.R. Hambrecht + Co., Inc." In March 2006, IBG LLC invested \$20.0 million in OneChicago LLC and \$4.25 million in the newly-created ISE Stock Exchange, LLC. As of December 31, 2006, IBG LLC has invested \$5.0 million in the newly-created CBOE Stock Exchange, LLC. OneChicago LLC operates an electronic futures trading

platform that currently trades SSF contracts. ISE Stock Exchange, LLC operates an electronic equities trading platform that was launched in September 2006. CBOE Stock Exchange, LLC plans to operate an electronic trading platform and as of December 31, 2006 was in a developmental stage. 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. Currently, there are no definitive agreements with respect to any material acquisition.

Recent Accounting Pronouncements

In May 2005, the Financial Accounting Standards Board (FASB) issued SFAS No. 154, *Accounting Changes and Error Corrections*, which replaces APB Opinion No. 20 and SFAS No. 3, and changes the requirements for reporting of a change in accounting principle. SFAS No. 154 is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005, although early adoption is permitted for accounting changes and corrections of errors made in fiscal years beginning after the date that SFAS No. 154 was issued. Adoption of SFAS No. 154 in the first quarter of 2006 did not have a material effect on our consolidated financial statements.

In June 2005, the EITF reached a consensus on Issue 04-5, *Determining Whether a General Partner, or the General Partners as a Group, Controls a Limited Partnership or Similar Entity When the Limited Partners Have Certain Rights*. EITF Issue 04-5 presumes that a general partner (or managing member in the case of a limited liability company) controls a limited partnership, and should therefore consolidate a limited partnership, unless the limited partners have the substantive ability to remove the general partner without cause based on a simple majority vote or can otherwise dissolve the limited partnership, or unless the limited partners have substantive participating rights over decision making. The guidance in EITF Issue 04-5 was effective immediately for all new limited partnership agreements and any limited partnership agreements that are modified. The guidance is effective for existing partnership agreements for financial reporting periods beginning after December 15, 2005 and may be reported as either a cumulative effect of a change in accounting principle or via retroactive restatement. Adoption of EITF Issue 04-5 in the first quarter of 2006 did not have a material effect on our consolidated financial statements.

On December 16, 2004, the FASB issued SFAS No. 123 (revised 2004), *Share-Based Payment*, a revision of SFAS No. 123, *Accounting for Stock-Based Compensation* (SFAS No. 123R). In April 2005, the SEC delayed the effective date for SFAS No. 123R until the first fiscal year beginning after June 15, 2005. As a result of the SEC ruling, we were required to adopt the provisions of SFAS No. 123R in the first quarter of 2006. SFAS No. 123R clarifies and amends the guidance of SFAS No. 123 in several areas, including measuring fair value, classifying an award as equity or as a liability, attributing compensation cost to service periods and accounting for forfeitures of awards. We adopted SFAS No. 123R using the prospective method and accordingly the adoption did not have a material impact on our consolidated financial statements.

In February 2006, the FASB issued SFAS No. 155, "Accounting for Certain Hybrid Financial Instruments an amendment of FASB Statements No. 133 and 140." SFAS No. 155 permits companies to elect, on a transaction-by-transaction basis, to apply a fair value measurement to hybrid financial instruments that contain an embedded derivative that would otherwise require bifurcation under SFAS No. 133. SFAS No. 155 is effective for financial statements issued for fiscal years beginning after September 15, 2006. Adoption of SFAS No. 155 is not expected to have a material effect on the Group's consolidated statements of financial condition, income or cash flows.

In June 2006, the FASB issued FASB Interpretation (FIN) No. 48, *Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109* (FIN No. 48), which is effective for fiscal years beginning after December 15, 2006. FIN No. 48 requires enterprises to assess and account for the effect of uncertainty of tax positions taken or to be taken on tax returns in their financial statements.

Adoption of FIN No. 48 is not expected to have a material effect on our consolidated financial statements.

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements*. SFAS No. 157 defines fair value, establishes a framework for measuring fair value and requires enhanced disclosures about fair value measurements. SFAS No. 157 requires companies to disclose the fair value of its financial instruments according to a fair value hierarchy (i.e., levels 1, 2, and 3, as defined). Additionally, companies are required to provide enhanced disclosure regarding instruments in the level 3 category, including a reconciliation of the beginning and ending balances separately for each major category of assets and liabilities. SFAS No. 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007 and for interim periods within those fiscal years. Adoption of SFAS No. 157 is not expected to have a material effect on our results of operations or financial position.

In September 2006, the SEC issued Staff Accounting Bulletin No. 108, *Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements* (SAB No. 108). SAB No. 108 is effective for annual financial statements for fiscal years ending after November 15, 2006, and requires registrants to assess the effects of correcting prior years' misstatements on the current year's statement of income. The cumulative effect, if any, of initial application is to be reported as of the beginning of such fiscal year. Adoption of SAB No. 108 for 2006 did not have a material effect on our consolidated financial statements.

In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities, Including an Amendment of FASB Statement No. 115." SFAS No. 159 permits entities to choose, at specified election dates, to measure many financial instruments and certain other items at fair value that are not currently required to be measured at fair value. SFAS No. 159 is effective for financial statements issued for an entity's first fiscal year beginning after November 15, 2007. Management is currently evaluating the impact that adoption of SFAS No. 159 may have on our consolidated financial statements.

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

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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 GAAP purposes. THE's translation gains or losses appear as such on IBG LLC'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 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 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, where a GLOBAL is defined as consisting of $66\frac{2}{3}$ U.S. cents and $33\frac{1}{3}$ Euro cents. 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

We had \$150.0 million in variable-rate debt outstanding at December 31, 2006. These debt obligations are subject to fluctuations in interest rates at the end of each borrowing term, which impact the amount of interest we must pay. If variable interest rates were to increase by 1.0% per annum, the annual impact to our net income from debt obligations of this amount would be a reduction of \$1.5 million. 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 pay our electronic brokerage customers interest based on benchmark overnight interest rates in various currencies. We typically invest a portion of these funds in U.S. government treasury securities with maturities of up to three months. 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. An unexpected increase of 0.25% would reduce our net annual interest income by approximately \$1.0 million.

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 in the form of dividend income 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 December 31, 2006, we had \$846.7 million 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 SRO 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.

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.

BUSINESS

Overview

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 as a member of more than 60 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 16 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. Our high degree of automation enabled us to process on average 518,000 trades per day with an average of 505 employees in 2006. During 2005 and 2006, we generated pretax income in each period at a rate of more than \$1 million per employee. Publicly available data regarding other companies in the securities and commodities industry indicate that this level of productivity is unparalleled for our industry. Automation has allowed us to become one of the lowest cost providers of broker-dealer services and to increase significantly the volume of trades we handle.

According to data compiled by the Futures Industry Association (FIA) based on data received from exchanges worldwide, in 2006, we accounted for approximately 15.9% of exchange-listed equity options volume traded worldwide and approximately 18.7% of exchange-listed equity options volume traded on those markets in which we actively trade. We were the number one liquidity provider on each of the three largest U.S. options exchanges (the Chicago Board Options Exchange, the International Securities Exchange and the Philadelphia Stock Exchange) during 2006, according to rankings provided by these exchanges. We serve sophisticated and active customers worldwide, including institutional investors, financial advisors, brokers and individuals.

As a market maker, we provide continuous bid and offer quotations on approximately 357,000 securities and futures products listed on electronic exchanges around the world. Our quotes are driven by proprietary mathematical models that assimilate market data and reevaluate our outstanding quotes each second. Unlike firms that trade over-the-counter (OTC) derivative products, it is our business to create liquidity and transparency on electronic exchanges. Our profits have been principally a function of transaction volume on electronic exchanges rather than volatility or the direction of price movements.

As a direct market access broker, we serve the customers of both traditional brokers and prime brokers. We provide our customers with an advanced order management, trade execution and portfolio management platform at a very low cost. Our customers can simultaneously access different financial markets worldwide and trade across multiple asset classes (stocks, options, futures, foreign exchange (forex) and bonds) denominated in ten different currencies, on one screen, from a single account based in any major currency. Our large bank and broker-dealer customers may "white label" our trading interface (i.e., make our trading interface available to their customers without referencing our name), or can select from among our modular functionalities, such as order routing, trade reporting or clearing, on specific products or exchanges where they may not have up-to-date technology, in order to offer to their customers a complete global range of services and products. Our most successful module is the dynamic IB SmartRoutingSM process, which manages orders among several stock and the six U.S. options exchanges by providing efficient executions for customers and enables brokers to meet their best execution regulatory requirements.

During 2006, our customers transacted an average of approximately 196,000 daily average revenue trades, which is a measurement of revenue-generating trades and referred to as DARTs.

Our proprietary technology is the key to our success. We built our business on the belief that a fully computerized market making system that could integrate pricing and risk exposure information quickly and continuously would enable us to make markets profitably in many different financial instruments simultaneously. We believe that integrating our system with electronic exchanges and market centers results in transparency, liquidity and efficiencies of scale. Together with the IB SmartRoutingSM system and our low commissions, this reduces overall transaction costs to our customers and, in turn, increases our transaction volume and profits. Over the past 29 years, we have developed an integrated trading system and communications network and have positioned our company as an efficient conduit for the global flow of risk capital across asset and product classes on electronic exchanges around the world, permitting us to have one of the lowest cost structures in the industry. We believe that developing, maintaining and continuing to enhance our proprietary technology provides us and our customers with the competitive advantage of being able to adapt quickly to the changing environment of our industry and to take advantage of opportunities presented by new exchanges, products or regulatory changes before our competitors.

Our electronic market making and brokerage businesses are complementary. Both benefit from our combined scale and volume, as well as from our proprietary technology. Our brokerage customers benefit from the technology and market structure expertise developed in our market making business. The expense of developing and maintaining our unique technology, clearing, settlement, banking and regulatory structure required by any specific exchange or market center is shared by both of our businesses. This, in turn, enables us to provide lower transaction costs to our customers than our competitors, whether they use our services as market maker, broker or both. In addition, we believe we gain a competitive advantage by applying the software features we have developed for a specific product or market to newly-introduced products and markets over others who may have less automated facilities in one or both of our businesses or who operate only in a subset of the exchanges and market centers on which we operate.

Our History

Our founder, chairman and chief executive officer, Thomas Peterffy, began the business in 1977 as an individual market maker on the American Stock Exchange. This enterprise was succeeded by our market making business, Timber Hill, which was formed in 1982, and our brokerage business, Interactive Brokers, which was formed in 1993. Throughout our history, we have continued to create and refine innovative technology to provide liquidity on better terms for our customers and to remain a leader in electronic market making for electronically-traded products as illustrated by the following highlights:

In 1983, Timber Hill created the first handheld computers used for trading. The ability to track positions and continually re-price options on one stock quickly gave Timber Hill market makers an advantage over their counterparts on the AMEX, who continued to use fair value pricing sheets that were updated only once or twice a day.

In 1984, Timber Hill created an integrated, computerized pricing and risk management system that allowed the firm to centrally price and manage risk on a portfolio of equity derivatives traded in multiple locations around the United States. Timber Hill implemented this system using touch-screen computers at the exchange floors.

In 1990, Timber Hill joined the first fully electronic options exchange, the Deutsche Terminbörse (DTB). By directly connecting its market making system to the DTB's matching engine, price and trade reporting facilities, Timber Hill demonstrated the viability of a fully automated market making system.

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In 1993, Timber Hill market makers began using commercially available handheld computers on U.S. exchange floors, communicating by radio with the firm's central pricing systems.

In 1995, Interactive Brokers created a customer workstation, through which professional customers gained access to exchanges around the world, and executed its first public customer trade.

In 1999, Interactive Brokers provided a "smart routing" linkage for multiple listed equity options and began to clear online trades for customers trading stocks and equity derivatives through our system.

In 2000, Timber Hill became a primary market maker on the International Securities Exchange (ISE), the first fully electronic U.S. options exchange. By connecting our system to the ISE, just as we have done with many European and Asian exchanges, we maintained continuous quotes for products listed on the ISE, making electronic option trading a viable alternative to open outcry option trading in the United States.

In 2002, Interactive Brokers, the Bourse de Montreal and the Boston Stock Exchange together formed the Boston Options Exchange (BOX). Interactive Brokers also launched the IB Universal AccountSM, which allowed trading of stocks, options and futures across multiple currencies from a single account.

In 2004, Interactive Brokers created account structures for the financial advisors and introducing broker-dealers, thereby allowing professionals to service their customers on the IB platform.

In 2005, Interactive Brokers began offering forex trading by building two internal exchanges that aggregated electronic bids and offers from major money center banks on one platform, enabling our customers and our market making system to execute efficient forex trades, and introduced the IB Daily Options Commentary and options scanner statistics, furnishing professional traders with important derivatives market indicators.

In 2006, Interactive Brokers implemented a fully automated platform for trading of U.S. equity and index options in penny increments. We also made an equity investment in, and began contributing our technology to, OneChicago, LLC, the all-electronic security futures exchange offering single stock futures, and we began to prepare our software for portfolio margining.

Trading Volume Growth

The following table sets forth IBG LLC's growth in customer trades and market making trades since 2003:

Period	Customer Trades	% Growth Over Same Period Last Year	Market Making Trades	% Growth Over Same Period Last Year	Total Trades	% Growth Over Same Period Last Year	Average Trades per U.S. Trading Day
(In thousands, except percentages)							
2003	25,115		32,772		57,887		230
2004	31,808	27%	41,506	27%	73,314	27%	290
2005	42,180	33%	54,044	30%	96,224	31%	382
2006	64,066	52%	66,043	22%	130,108	35%	518

Our Industry and Market Opportunity

On most business days, trillions of dollars in securities, commodities, currencies and derivative instruments are traded around the world. These products range from standardized financial instruments, such as common equity securities and futures contracts typically traded on exchanges, to more complex, less standardized instruments, such as over-the-counter derivatives, that are typically traded between institutional dealers. Buyers and sellers of exchange-traded financial instruments benefit from:

the price transparency, anonymity and enhanced liquidity, in the form of continuous bids and offers, provided by liquidity facilitators, such as market makers and specialists, who participate in those markets; and

the financial stability of the securities and commodities clearing houses associated with these exchanges.

The financial markets in which we function as an automated market maker and broker are large and are experiencing substantial growth. We are focused on developing technology and applying it as a financial intermediary to increase liquidity and transparency in the financial markets in which we operate. The graphs below illustrate the growth of global financial markets over the past six years by product class.

(1) Data for global equity option volume excludes volume of the Kospi 200 Index Option Contract, which is an index of 200 stocks on the Korea Stock Exchange.

(1)

Data for global equity volume was based on annual volume of shares traded on the ten largest exchanges worldwide ranked by total value of shares traded. The ten exchanges are: BME Spanish Exchanges, Börsä Italiana SPA, The Deutsche Börse AG, The Euronext Exchanges, Korea Exchange, London Stock Exchange, The NASDAQ Stock Exchange, NYSE Group, SWX Swiss Exchange and Tokyo Stock Exchange.

Markets in Which We Participate

We participate primarily in the following financial markets:

Derivatives: Financial instruments that derive their value based on the value of an underlying asset, such as a stock, a commodity, an interest rate, an index or a currency. Common types of derivatives include options and futures.

Equity options: Contracts giving the holder the right to buy or sell an underlying stock or equity index, at a specified price, by a specific date.

Futures and options on futures: Contracts to buy or sell a particular commodity or financial instrument at a specified price, on a specified date in the future and options thereon.

Exchange Traded Funds (ETFs) and options on ETFs: Shares that may be redeemed for a defined basket of securities and that trade on exchanges throughout the day at prices determined by the market and options therein.

Foreign exchange: Exchange of various currencies, which facilitate currency conversion and fluid markets.

Equities: Securities representing equity ownership interests in publicly traded companies.

Derivatives

Derivatives are increasingly being used by financial institutions, hedge funds and large corporations to manage risk or take advantage of the anticipated direction of a market, by allowing holders to manage exposure to gains or declines in the price of underlying assets without having to buy or sell such underlying assets.

Furthermore, the number of different derivative instruments is growing, as exchanges and other financial institutions develop new and innovative derivative instruments to meet industry demands for sophisticated risk management and complex financial arbitrage. Novel derivative instruments often have distinct terms and little or no trading history with which to estimate a price. Markets for new derivative instruments therefore require market intelligence, the services of highly-skilled and well-informed market makers and reliable market data and pricing tools.

Within the derivatives markets, our focus is on exchange-listed equity options and futures, each of which is described in greater detail below.

Equity Options

Equity options are traded on approximately 35 exchanges around the world. In the United States, equity options are currently traded on the American Stock Exchange, the Chicago Board Options Exchange, the International Securities Exchange, NYSE Arca, the Boston Options Exchange and the Philadelphia Stock Exchange. U.S. annual equity option volume increased from 781 million contracts traded in 2001 to 2.0 billion contracts traded in 2006 according to the FIA, representing a CAGR of 21.0%. Similarly, global annual equity options trading volume has increased from 1.5 billion contracts in 2001 to 3.4 billion contracts in 2006, according to the FIA, representing a CAGR of 18.0%.

We believe growth in the options market has increased dramatically over the last three decades largely due to the:

emergence of electronic trading and resulting access to real-time market data and cost effective executions;

substantial diminution in the cost of trading as a result of lower commissions and best execution and routing;

widespread use of multiple listings for each option contract;

proliferation of the type of options contracts including index options on equity indices;

growing use of sophisticated hedging techniques and the increased acceptance of derivatives as an asset class to enable hedging; and

greater understanding on the part of institutions and individual investors of the uses and benefits of options.

Futures and Options on Futures

Futures and options on futures are traded on approximately 60 exchanges around the world. In the United States, the four largest futures exchanges are the Chicago Mercantile Exchange, the Chicago Board of Trade, the New York Mercantile Exchange and the New York Board of Trade. Over the past six years, the U.S. and global futures and options on futures markets have grown substantially. Total U.S. volume for futures and options on futures increased from 797 million contracts in 2001 to 2.5 billion

contracts traded annually in 2006, according to the FIA, representing a CAGR of 26.1%. Total gl