

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

---

---

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

---

FORM 10-Q

---

(Mark One)

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

For the quarterly period ended March 31, 2012.

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

For the transition period from            to

Commission File Number: 001-33440

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

Delaware  
(State or other jurisdiction  
of incorporation or organization)

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

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

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

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

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

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

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

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

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

---

---

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

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



## PART I. FINANCIAL INFORMATION

### Explanatory Note

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

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

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

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

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

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

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

### Financial Statements Introductory Note

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

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

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

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

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

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

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

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

See accompanying notes to the unaudited condensed consolidated financial statements.



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

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

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

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

See accompanying notes to the unaudited condensed consolidated financial statements.

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

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

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

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

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

Supplemental disclosures of cash flow information:

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

Non-cash financing activities:

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

See accompanying notes to the unaudited condensed consolidated financial statements.

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

(in thousands, except for share amounts)

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

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

Balance, March

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

See accompanying notes to the unaudited condensed consolidated financial statements.

7

---

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

## 1. Organization and Nature of Business

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

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

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

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

## 2. Significant Accounting Policies

### Unresolved Accounting Interpretation

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

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

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

#### Basis of Presentation

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

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

#### Principles of Consolidation

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



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

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

#### Use of Estimates

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

#### Fair Value

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

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

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

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

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

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

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

#### Earnings Per Share

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

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

### Stock-Based Compensation

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

### Cash and Cash Equivalents

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

### Cash and Securities—Segregated for Regulatory Purposes

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

### Securities Borrowed and Securities Loaned

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

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

### Securities Purchased Under Agreements to Resell

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

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

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

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

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

### Customer Receivables and Payables

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

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

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

### Investments

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

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

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

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

#### Property and Equipment

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

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

### Comprehensive Income and Foreign Currency Translation

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

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

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

### Revenue Recognition

#### —Trading Gains

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

#### —Commissions and Execution Fees

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

#### —Interest Income and Expense

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

### Income Taxes

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

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

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

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



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

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

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

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

Recently Issued Accounting Pronouncements

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

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

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

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

ASC/IFRS Convergence

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

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

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

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

### 3. Trading Activities and Related Risks

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

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

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

#### Market Risk

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

#### Equity Price Risk

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

same underlying security.

#### Currency Risk

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

#### Interest Rate Risk

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

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

### Credit Risk

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

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

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

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

### Concentrations of Credit Risk

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

### Off-Balance Sheet Risks

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

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

#### 4. Equity and Earnings Per Share

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

#### Recapitalization and Post-IPO Capital Structure

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

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

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

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

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

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

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

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

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

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

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

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

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



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

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

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

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

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

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

#### Stock Repurchase Program

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

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

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

Earnings Per Share

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

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

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

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

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

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

#### Member and Stockholder Dividends

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

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

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

## 5. Comprehensive Income

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

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

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

## 6. Fair Value

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

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

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

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

Financial Liabilities At Fair Value as of March 31, 2012

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

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

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

Financial Assets At Fair Value as of December 31, 2011

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

Financial Liabilities At Fair Value as of December 31, 2011

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

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

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

#### 7. Collateralized Transactions

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

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



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

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

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

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

	March 31, 2012		December 31, 2011	
	Securities Received as Collateral	Securities Received and Repledged	Securities Received as Collateral	Securities Received and Repledged
Securities lending transactions	\$ 3,077,123	\$ 3,054,092	\$ 2,670,232	\$ 2,656,879
Agreements to resell (1)	3,612,318	3,612,318	4,173,502	4,173,502
Customer margin securities	11,816,235	972,343	9,797,275	852,739
	\$ 18,505,676	\$ 7,638,753	\$ 16,641,009	\$ 7,683,120

(1) At March 31, 2012, \$3.3 Billion or 90% (at December 31, 2011, \$3.8 Billion or 91%) of securities acquired through agreements to resell have been deposited in a separate bank account for the exclusive benefit of customers in accordance with SEC Rule 15c3-3.

In the normal course of business, the Company pledges qualified securities with clearing organizations to satisfy daily margin and clearing fund requirements. At March 31, 2012, substantially all government obligations owned were pledged to clearing organizations.

Financial instruments owned and pledged, where the counterparty has the right to repledge, at March 31, 2012 and December 31, 2011 consisted of the following:

	March 31, 2012	December 31, 2011
Stocks	\$ 1,816,125	\$ 1,373,990
Corporate and municipal bonds	6,449	4,402
U.S. and foreign government obligations	208,643	167,415
	\$ 2,031,217	\$ 1,545,807

#### 8. Senior Notes Payable

At March 31, 2012 and December 31, 2011, IBG LLC had \$30,238 and \$101,411, respectively, of senior notes outstanding. Senior notes have a 3% per annum interest rate. All outstanding senior notes have an 18-month maturity. IBG LLC may, solely at its option, redeem the senior notes at any time on or after a specified date in the third month or the sixth month, respectively, after the date on which the senior notes are issued and sold (the "Optional Redemption Date"), at a redemption price equal to 100% of the principal amount of the senior notes to be redeemed plus accrued interest.

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

In January 2012, the Company decided to discontinue the Senior Notes Program. It is the Company's intention that no new Senior Notes will be issued and all Senior Notes outstanding as of March 31, 2012 will be redeemed by June 2012.

#### 9. Senior Secured Revolving Credit Facility

On May 18, 2010, IBG LLC entered into a \$100 million two-year senior secured revolving credit facility with Bank of America, N.A. as administrative agent and Citibank, N.A., as syndication agent. IBG LLC is the sole borrower under this credit facility. The facility's interest rate is indexed to the overnight federal funds rate or to the LIBOR rate for the relevant term, at the borrower's option, and is secured by a first priority interest in all of the capital stock of each entity owned directly by IBG LLC (subject to customary limitations with respect to foreign subsidiaries). The facility may be used to finance working capital needs and general corporate purposes, including downstreaming funds to IBG LLC's regulated broker-dealer subsidiaries as regulatory capital. This allows IBG LLC to take advantage of market opportunities when they arise, while maintaining substantial excess regulatory capital. The financial covenants contained in this credit facility are as follows:

• minimum consolidated shareholders' equity, as defined, of \$3.625 billion, with quarterly increases equal to 25% of positive consolidated net 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%.

At March 31, 2012 and December 31, 2011, no borrowings were outstanding under this credit facility and IBG LLC was in compliance with all of the covenants. At maturity, subject to meeting certain terms of the facility, the Company will have an option to convert the facility to a one-year term loan.

#### 10. Employee Incentive Plans

##### Return on Investment Dollar Units ("ROI Dollar Units")

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

As of March 31, 2012 and December 31, 2011, payables to employees for ROI Dollar Units were \$9,296 and \$10,088, respectively, all of which were vested. These amounts are included in accounts payable, accrued expenses and other liabilities in the unaudited condensed consolidated statements of financial condition. Compensation expense for the ROI Dollar Unit plan, included in the unaudited condensed consolidated statements of comprehensive income was \$115 and \$1,008 for the three months ended March 31, 2012 and 2011 respectively.

#### 2007 ROI Unit Stock Plan

In connection with the IPO, IBG, Inc. adopted the Interactive Brokers Group, Inc. 2007 ROI Unit Stock Plan (the "ROI Unit Stock Plan"). Under this plan, certain employees of the Group who held ROI Dollar Units, at the employee's option, elected to invest their ROI Dollar Unit accumulated earnings as of December 31, 2006 in shares of Common Stock. An aggregate of 1,271,009 shares of Common Stock (consisting of 1,250,000 shares issued under the ROI Unit Stock Plan and 21,009 shares under the 2007 Stock Incentive Plan, as described below), with a fair value at the date of grant of \$38,143, were issued to IBG LLC, to be held as Treasury stock, to be distributed to employees in accordance with the following schedule, subject to the conditions below:

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

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

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

Of the fair value at the date of grant, \$17,806 represented the accumulated ROI Dollar Unit value elected to be invested by employees in Common Stock and such amount was accrued for as of December 31, 2006. The remainder is being ratably accrued as compensation expense by the Company from the date of the IPO over the requisite service period represented by the aforementioned distribution schedule. Compensation expense for the 2007 ROI Unit Stock Plan and related grants under the 2007 Stock Incentive Plan, net of the effect of forfeitures, included in the unaudited condensed consolidated statements of comprehensive income for the three months ended March 31, 2012 and 2011 was \$880 and \$893 respectively. Estimated future compensation costs for unvested awards at March 31, 2012 are \$5.3 million.

#### 2007 Stock Incentive Plan

Under the Interactive Brokers Group, Inc. 2007 Stock Incentive Plan (the "Stock Incentive Plan" or "SIP"), up to 20.0 million shares of Common Stock may be granted and issued to directors, officers, employees, contractors and consultants of IBG, Inc. and its subsidiaries. The purpose of the Stock Incentive Plan is to promote IBG, Inc.'s long-term financial success by attracting, retaining and rewarding eligible participants.

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

The Stock Incentive Plan provides that, upon a change in control, the Compensation Committee may, at its discretion, fully vest any granted but unissued shares of Common Stock awarded under the Stock Incentive Plan, or provide that any such granted but unissued shares of Common Stock will be honored or assumed, or new rights substituted therefore by the new employer on a substantially similar basis and on terms and conditions substantially comparable to those of the Stock Incentive Plan.

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

- 10% on the first vesting date, which approximates the anniversary of the IPO; and

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

Shares granted to external directors vest, and are distributed, over a five-year period (20% per year) commencing one year after the date of grant. 14,940 shares have been granted to the external directors cumulatively since the IPO.



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

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

	Shares	Fair Value at Date of Grant (\$000's)
In connection with IPO	927,943	\$ 27,847
July 31, 2007	16,665	404
December 31, 2007	1,055,206	32,876
December 31, 2008	2,065,432	35,600
December 31, 2009	2,448,031	42,796
December 31, 2010	2,513,738	43,255
December 31, 2011	3,411,613	50,753
January 6, 2012	1,215,866	18,411
	13,654,494	\$ 251,942

On January 6, 2012, an additional one-time grant was awarded to employees. This additional grant, which is reported in the table above, is subject to the same terms and conditions as other employee SIP grants.

The following is a summary of Stock Plan activity for the period from January 1 through March 31, 2012:

	2007 Stock Incentive Plan	Shares	2007 ROI Unit Stock Plan
Balance, December 31, 2011	9,408,994		356,149
Granted	1,215,866		-
Forfeited	(51,666)		(327)
Distributed	(2,662)		(431)
Balance, March 31, 2012	10,570,532		355,391

Estimated future grants under the Stock Incentive Plan are being accrued for ratably during each year under the ASC 718 "Graded Vesting" method. Based upon the forfeiture provisions of the Stock Incentive Plan, ASC 718 requires the Company to expense 50% of the grant date value of SIP awards in the year of grant, in addition to expensing the remainder of the grant value over the seven-year service period attributable to each grant. Compensation expense recognized in the unaudited condensed consolidated statements of comprehensive income for the three months ended March 31, 2012 and 2011 were \$19,625 and \$9,574, respectively. Estimated future compensation costs for unvested awards at March 31, 2012 are \$48.2 million.

Shares granted under the ROI Unit Stock Plan and the Stock Incentive Plan are subject to forfeiture in the event an employee ceases employment with the Company. The plans provide that employees who discontinue employment

with the Company without cause and continue to meet the terms of the plans' post-employment provisions will forfeit 50% of unvested previously granted shares unless the employee is over the age of 59, in which case the employee would be eligible to receive 100% of unvested shares previously granted. Distributions of remaining shares granted on or before January 1, 2009 to former employees will occur within 90 days of the anniversary of the termination of employment date over a five (5) year vesting schedule, 12.5% in each of the first four years and 50% in the fifth year. Distributions of remaining shares granted on or after January 1, 2010 to former employees will occur over the remaining vesting schedule applicable to each grant. Through March 31, 2012, a total of 22,462 shares have been distributed under these post-employment provisions. These distributions are included in the Stock Plans activity tables above.

#### 11. Income Taxes

Income tax expense for the three months ended March 31, 2012 and 2011 differs from the U.S. federal statutory rate due to the differing effective tax rates in foreign, state and local jurisdictions where certain operating companies are subject to corporate



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

taxation. Deferred income taxes arise due to the amortization of the deferred tax assets recognized in connection with the Common Stock offerings (Note 4), valuation of THE's financial assets and liabilities and temporary differences arising from the deductibility of compensation and depreciation expenses in different time periods for book and tax return purposes. The retained earnings of certain foreign subsidiaries of IBG, Inc., which are considered permanently reinvested, may be subject to additional U.S. income taxes if such earnings were to be distributed. The Company has not provided deferred U.S. income taxes since the tax bases of such subsidiaries exceed their book bases.

## 12. Commitments, Contingencies and Guarantees

### Litigation

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

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

IBG, Inc. accounts for potential losses related to litigation in accordance with ASC 450, Contingencies. As of March 31, 2012 and December 31, 2011, reserves provided for potential losses related to litigation matters were not material.

### Guarantees

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

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

#### Other Commitments

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

#### 13. Segment and Geographic Information

IBG, Inc. operates in two business segments, market making and electronic brokerage. The Company conducts its market making business principally through its Timber Hill subsidiaries on the world's leading exchanges and market centers, primarily in

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

exchange-traded equities, equity options and equity-index options and futures. IBG, Inc. conducts its electronic brokerage business through its Interactive Brokers subsidiaries, which provide electronic execution and clearing services to customers worldwide.

There are significant transactions and balances between the Operating Companies, primarily as a result of certain Operating Companies holding exchange or clearing organization memberships, which are utilized to provide execution and clearing services to affiliates. Charges for transactions between segments are designed to approximate full costs. Intra-segment and intra-region income and expenses and related balances have been eliminated in this segment and geographic information to accurately reflect the external business conducted in each segment or geographical region. Corporate items include non-allocated corporate income and expenses that are not attributed to segments for performance measurement, corporate assets and eliminations.

Management believes that the following information by business segment provides a reasonable representation of each segment's contribution to total net revenues and income before income taxes for the three months ended March 31, 2012 and 2011, and to total assets as of March 31, 2012 and December 31, 2011:

	Three months ended March 31,	
	2012	2011
Net revenues:		
Electronic brokerage	\$ 159,326	\$ 163,660
Market making	142,411	202,338
Corporate and eliminations	2,185	1,890
Total net revenues	\$ 303,922	\$ 367,888
Income before income taxes:		
Electronic brokerage	\$ 83,390	\$ 90,086
Market making	65,968	134,666
Corporate and eliminations	319	(2,780)
Total income before income taxes	\$ 149,677	\$ 221,972
	March 31, 2012	December 31, 2011
Segment assets:		
Electronic brokerage	\$ 23,468,167	\$ 20,707,771
Market making	14,373,453	14,389,427
Corporate and eliminations	(5,145,222)	(4,692,833)
Total assets	\$ 32,696,398	\$ 30,404,365

In connection with its ongoing review and analysis of the costs of operating its businesses, commencing in the second quarter of 2011, IBG LLC increased its allocation of corporate expenses to the operating segments in the form of

intercompany administrative fees to include non-cash compensation, primarily SIP costs. Increased intercompany administrative fees, which are eliminated in consolidation, will affect the operating segments' income before income taxes. The effect for the three months ended March 31, 2012 was an increase in net costs charged to the Electronic Brokerage segment of \$2.1 million, and to the Market Making segment of \$1.6 million, respectively, offset by increases in intercompany fee revenue recognized in the Corporate segment.

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

The Company operates its automated global business in U.S. and international markets on more than 100 exchanges and market centers. A significant portion of IBG, Inc.'s net revenues are generated by subsidiaries operating outside the United States. International operations are comprised of market making and electronic brokerage activities in 24 countries in Europe, Asia and North America (outside the United States). The following table presents total net revenues and income before income taxes by geographic area for the three months ended March 31, 2012 and 2011:

	Three months ended March 31,	
	2012	2011
Net revenues:		
United States	\$ 232,416	\$ 257,608
International	70,571	108,370
Corporate and eliminations	935	1,910
Total net revenues	\$ 303,922	\$ 367,888
Income before income taxes:		
United States	\$ 134,635	\$ 176,448
International	15,915	48,170
Corporate and eliminations	(873)	(2,646)
Total income before income taxes	\$ 149,677	\$ 221,972

#### 14. Regulatory Requirements

At March 31, 2012, aggregate excess regulatory capital for all of the Operating Companies was \$2.7 billion.

TH LLC and IB LLC are subject to the Uniform Net Capital Rule (Rule 15c3-1) under the Exchange Act and the CFTC's minimum financial requirements (Regulation 1.17), and THE is subject to the Swiss National Bank eligible equity requirement. Additionally, THSHK is subject to the Hong Kong Securities Futures Commission liquid capital requirement, THA is subject to the Australian Stock Exchange liquid capital requirement, THC and IBC are subject to the Investment Industry Regulatory Organization of Canada risk adjusted capital requirement, IBUK is subject to the U.K. Financial Services Authority financial resources requirement, IBI is subject to the National Stock Exchange of India net capital requirements and IBSJ is subject to the Japanese Financial Supervisory Agency capital requirements. The following table summarizes capital, capital requirements and excess regulatory capital (millions):

	Net Capital/ Eligible Equity	Requirement	Excess
IB LLC	\$ 1,420	\$ 197	\$ 1,223
TH LLC	737	41	696
THE	622	224	398
Other regulated Operating Companies	418	21	397

\$	3,197	\$	483	\$	2,714
----	-------	----	-----	----	-------

At March 31, 2012, all of the regulated Operating Companies were in compliance with their respective regulatory capital requirements.

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

#### 15. Related Party Transactions

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

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

Included in receivable from and payable to customers in the accompanying unaudited condensed consolidated statements of financial condition as of March 31, 2012 and December 31, 2011 were account receivables of directors, officers and their affiliates of \$1,345 and \$1,291 and payables of \$438,637 and \$510,623, respectively, arising from the normal course of business as brokerage customers of the Company.

#### 16. Immaterial Restatement

In preparing its Quarterly report on Form 10-Q for the three month period ended March 31, 2012, the Company identified an error in its accounting for shares of Common Stock to be issued to SIP participants. The Company has changed its method of recording share issuances to classify shares as issued when they are distributed to SIP participants. The method reflected in previous reporting was to classify the shares as issued but not outstanding at grant date, and to record such undistributed shares as treasury stock until distributed. In addition, SIP-related compensation expense was recorded against a liability (payable to employees) until shares were distributed. The revised method records the compensation expense against equity (additional paid-in capital and non-controlling interests). The change results in a decrease in liabilities, offset by an increase in equity, as compared to the prior method. This change has no effect on stock compensation expense or any other component of the consolidated statement of comprehensive income. The effects of correcting this error on the consolidated statement of financial condition and the consolidated statement of changes in equity as of December 31, 2011 are:

(in thousands)	Previously reported	Adjustments	As restated
Effect on Statements of Financial Condition and of Changes in Equity:			
December 31, 2011			
Accounts payable, accrued expenses and other liabilities	\$ 242,685	\$ (125,914)	\$ 116,771
Equity:			
Stockholders' equity			
Par Value, Class A common stock	\$ 557	\$ (97)	\$ 460
Additional paid-in capital	\$ 596,512	\$ (155,102)	\$ 441,410
Treasury stock	\$ (183,022)	\$ 169,712	\$ (13,310)
Total stockholders' equity	\$ 571,235	\$ 14,513	\$ 585,748
Non-controlling interests	\$ 4,114,806	\$ 111,401	\$ 4,226,207
Total equity	\$ 4,686,041	\$ 125,914	\$ 4,811,955

#### 17. Subsequent Events

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

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

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

\*\*\*\*\*



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

The following discussion should be read in conjunction with the unaudited condensed consolidated financial statements and the related notes in Item 1, included elsewhere in this report. In addition to historical information, the following discussion also contains forward-looking statements that include risks and uncertainties. Our actual results may differ materially from those anticipated in these forward-looking statements as a result of certain factors, including those set forth under the heading "Risk Factors" in our Annual Report on Form 10-K filed with the Securities Exchange Commission ("SEC") on February 29, 2012 and elsewhere in this report.

### Introduction

IBG, Inc. is a holding company whose primary asset is ownership of approximately 11.5% of the membership interests of the Group.

We are an automated global electronic broker and market maker specializing in routing orders and executing and processing trades in securities, futures and foreign exchange instruments on more than 100 electronic exchanges and trading venues around the world. Since our inception in 1977, we have focused on developing proprietary software to automate broker-dealer functions. The advent of electronic exchanges in the last 22 years has provided us with the opportunity to integrate our software with an increasing number of exchanges and trading venues into one automatically functioning, computerized platform that requires minimal human intervention.

### Business Segments

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

- **Electronic Brokerage.** We conduct our electronic brokerage business through our Interactive Brokers ("IB") subsidiaries. As an electronic broker, we execute, clear and settle trades globally for both institutional and individual customers. Capitalizing on the technology originally developed for our market making business, IB's systems provide our customers with the capability to monitor multiple markets around the world simultaneously and to execute trades electronically in these markets at a low cost, in multiple products and currencies from a single trading account. We offer our customers access to all classes of tradable, exchange-listed products, including stocks, bonds, options, futures, forex and mutual funds traded on more than 100 exchanges and market centers and in 19 countries around the world seamlessly.

During the fourth quarter of 2011, we introduced the Interactive Brokers Information System ("IBIS"), which offers customers a robust suite of informational tools at a fraction of the cost of traditional research platforms. IBIS includes live quotes, newswire feeds, calendars of economic and earnings events, fundamental research data, charts and more in an interface that can be configured to customers' needs. The response from customers has been positive and we continue to devote resources to the further development of this tool with additional content and functions.

- **Market Making.** We conduct our market making business through our Timber Hill subsidiaries. As one of the largest market makers on many of the world's leading exchanges, we provide liquidity by offering competitively tight bid/offer spreads over a broad base of over 877,000 tradable, exchange-listed products. As principal, we commit our own capital and derive revenues or incur losses from the difference between the price paid when securities are bought and the price received when those securities are sold. Because we provide continuous bid and offer quotations and we are continuously both buying and selling quoted securities, we may have either a long or a

short position in a particular product at a given point in time. Our entire portfolio is evaluated each second and continuously rebalanced throughout the trading day, minimizing the risk of our portfolio at all times. This real-time rebalancing of our portfolio, together with our real-time proprietary risk management system, enables us to curtail risk and to be profitable in both up-market and down-market scenarios.

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

#### Executive Overview

**First Quarter Results:** Diluted earnings per share on a comprehensive basis were \$0.30 for the quarter ended March 31, 2012 as compared to diluted earnings per share of \$0.41 for the same period in 2011.

Reported results on a comprehensive basis reflect the GAAP convention adopted in 2011 that requires the reporting of currency translation results contained in other comprehensive income as part of reportable earnings. Previously, currency translation results were reported only as a component of changes in total equity in the statement of financial condition.

Currency translation effects are largely a result of our currency strategy. We have determined to base our net worth in GLOBALs, a basket of major currencies in which we hold our equity. Approximately 63% of our equity is denominated in currencies other than U.S. dollars<sup>1</sup>. The effects of our currency strategy appear in two places in the financial statements: (1) as a component of trading gains in the unaudited condensed consolidated statement of comprehensive income and (2) as other comprehensive income (“OCI”) in the unaudited condensed consolidated statement of financial condition. As described above, the full effect of the GLOBAL is captured in comprehensive income.

On a non-comprehensive basis, which excludes the effect of changes in the U.S. dollar value of the Company’s non-U.S. subsidiaries, diluted earnings per share were \$0.24 for the three months ended March 31, 2012, as compared to \$0.38 for the three months ended March 31, 2011.

In light of the weakening of the U.S. dollar against a number of other currencies, adding OCI to net income increased diluted comprehensive earnings per share by \$0.06 for the current quarter.

Consolidated: For the three months ended March 31, 2012, our net revenues were \$303.9 million and income before income taxes was \$149.7 million, as compared to net revenues of \$367.9 million and income before income taxes of \$222.0 million for the corresponding period in 2011. This decrease was driven by a swing in currency translation gains, which accounted for 76% of the decrease in income before income taxes. Currency translation effects are reported as part of Trading Gains in the Market Making segment. Higher employee compensation and benefits accounted for an additional 14% of this decline. The increase in employee compensation and benefits expense was largely a result of a special discretionary grant of restricted stock units awarded on January 6, 2012, as well as a revision in our method for recognizing expenses related to our 2007 Stock Incentive Plan (“SIP”). The special award was made to provide our employees with greater equity participation in the Company and was designed to give lower compensated employees a proportionally higher award. Although the revised accounting treatment accelerates the recognition of SIP-related compensation expense to earlier years and decreases expense recognition in subsequent years, total expense over the life cycle of the SIP grants is unchanged.<sup>2</sup> Net interest income increased 16% in the three months ended March 31, 2012, as compared to the corresponding period last year driven by increases in cash balances, net fees from securities borrowed and loaned transactions and a reduction in interest paid on our senior notes. Trading gains decreased 31% in the three months ended March 31, 2012, as compared to the corresponding period last year due to an unfavorable swing in currency translation and a less favorable trading environment that featured lower actual-to-implied volatility and lower average volatility, as measured by the Chicago Board Options Exchange Volatility Index (“VIX”). Commissions and execution fees were 8% lower than those of the year-ago quarter as a result of lower customer volume. Our pre-tax margin for the three months ended March 31, 2012 was 49%, as compared to 60% for the corresponding period in 2011.

Brokerage: During the three months ended March 31, 2012, income before income taxes in our electronic brokerage segment decreased 7% as compared to the corresponding period in 2011. This reflects declines in commissions and execution fees, partially offset by an increase in net interest income and a decrease in execution and clearing fee expenses. Commissions decreased by 8% from the year-ago quarter as a result of lower customer volume, primarily in stocks, on a stable number of Daily Average Revenue Trades (“DARTs”). The smaller average trade size is consistent with our implementation, during the second quarter of 2011, of higher risk margin requirements for low value securities. Total DARTs for cleared and execution-only customers increased 1% to approximately 428,000 during the three months ended March 31, 2012, as compared to approximately 423,000 during the three months ended March 31, 2011, while commissions per cleared DART decreased 8% to \$4.01, as compared to \$4.38 for the quarter ended March 31, 2011. Execution and clearing expenses were 13% lower on decreased customer volume. The increase in net interest income was attributable to net fees and interest from securities borrowed and loaned transactions and increased customer cash balances. Pre-tax margin decreased from 55% to 52% for the three months ended March 31, 2011 and 2012, respectively. Customer equity grew by 17%, to \$28.9 billion, from the year-ago

quarter.

Market Making: During the three months ended March 31, 2012, income before income taxes in our market making segment decreased 51%, from \$134.6 million to \$66.0 million. This decrease was driven by a swing in currency translation gains, which contributed 80% of the decline, reflecting a \$0.9 million loss in this quarter, compared to a \$54.0 million gain in the year-ago quarter. Currency translation effects are reported as part of Trading Gains in the Market Making segment. Trading gains were also impacted by lower actual-to-implied volatility and a decrease in average volatility, as measured by the VIX. Execution and clearing expenses were 9% higher during the three months ended March 31, 2012 than the year-ago quarter due to a 21% increase in options trading volumes. Pre-tax margin decreased to 46% in the first quarter of 2012 as compared to 67% in the corresponding period of 2011.

---

1 For a full description of our currency strategy, please see pages 48-49, Foreign Currency Exposure.

2 The revised accounting method is explained in Note 20 to our audited consolidated financial statements in our Annual Report on Form 10-K, filed with the SEC on February 29, 2012.

31

---

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

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

TRADE VOLUMES:

(in 000's, except %)

Period	Market Making		Brokerage Cleared		Brokerage Non Cleared		Total		Avg. Trades per U.S. Trading Day
	Trades	% Change	Trades	% Change	Trades	% Change	Trades	% Change	
2007	99,086		72,931		16,638		188,655		752
2008	101,672	3%	120,195	65%	16,966	2%	238,833	27%	944
2009	93,550	-8%	127,338	6%	13,636	-20%	234,524	-2%	934
2010	75,169	-20%	133,658	5%	18,732	37%	227,559	-3%	905
2011	63,602	-15%	160,567	20%	19,187	2%	243,356	7%	968
1Q2011	14,488		38,023		4,458		56,969		919
1Q2012	15,045	4%	37,521	-1%	4,826	8%	57,392	1%	926

CONTRACT AND SHARE

VOLUMES:

(in 000's, except %)

Period	Options (contracts)		Futures (contracts)		Stocks (shares)	
		% Change		% Change		% Change
2007	673,144		83,134		47,324,798	
2008	757,732	13%	108,984	31%	55,845,428	18%
2009	643,380	-15%	82,345	-24%	75,449,891	35%
2010	678,856	6%	96,193	17%	84,469,874	12%
2011	789,370	16%	106,640	11%	77,730,974	-8%
1Q2011	168,164		24,138		22,028,447	
1Q2012	180,786	8%	21,690	-10%	17,862,025	-19%

Period	Options (contracts)		Futures (contracts)		Stocks (shares)	
		% Change		% Change		% Change
2007	447,905		14,520		24,558,314	
2008	514,629	15%	21,544	48%	26,008,433	6%
2009	428,810	-17%	15,122	-30%	26,205,229	1%
2010	435,184	1%	15,371	2%	19,165,000	-27%
2011	503,053	16%	15,519	1%	11,788,769	-38%
1Q2011	97,595		3,428		2,633,325	
1Q2012	118,438	21%	2,828	-18%	2,138,451	-19%

Notes:

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

CONTRACT AND SHARE VOLUMES, continued:

(in 000's, except %)

BROKERAGE TOTAL	Options	%	Futures	%	Stocks	%
Period	(contracts)	Change	(contracts)	Change	(shares)	Change
2007	225,239		68,614		22,766,484	
2008	243,103	8%	87,440	27%	29,836,995	31%
2009	214,570	-12%	67,223	-23%	49,244,662	65%
2010	243,672	14%	80,822	20%	65,304,874	33%
2011	286,317	18%	91,121	13%	65,942,205	1%
1Q2011	70,569		20,710		19,395,122	
1Q2012	62,348	-12%	18,862	-9%	15,723,574	-19%

BROKERAGE CLEARED	Options	%	Futures	%	Stocks	%
Period	(contracts)	Change	(contracts)	Change	(shares)	Change
2007	51,586		66,278		20,353,584	
2008	77,207	50%	85,599	29%	26,334,752	29%
2009	93,868	22%	66,241	-23%	46,627,344	77%
2010	103,054	10%	79,144	19%	62,077,741	33%
2011	145,993	42%	89,610	13%	63,098,072	2%
1Q2011	33,762		20,332		18,722,839	
1Q2012	33,377	-1%	18,646	-8%	15,115,753	-19%

Notes:

1. Futures contract volume includes options on futures

BROKERAGE  
STATISTICS

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

	1Q2012	1Q2011	% Change
Total Accounts	195	168	16%
Customer Equity (in billions) *	\$28.9	\$24.8	17%
Cleared DARTs	391	387	1%

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

Total Customer DARTs	428	423	1%
Cleared Customers (in \$'s, except DART per account)			
Commission per DART	\$4.01	\$4.38	-8%
DART per Avg. Account (Annualized)	511	597	-14%
Net Revenue per Avg. Account (Annualized)	\$3,240	\$3,891	-17%

---

\* Excluding non-customers (e.g. Directors and Officers)



## Business Environment

Market conditions were less favorable during the first quarter of 2012 as compared to the same period in 2011. Lighter trading volumes in exchange-traded products and lower volatility levels dampened profits for both our brokerage and market making businesses. Although customer trading activity was lighter, we continued to see steady growth in the number of customer brokerage accounts and customer equity, which increased 16% and 17%, respectively, over the first quarter of 2011.

A summary of market conditions that affected our business this quarter follows:

**Global trading volumes.** According to data received from exchanges worldwide, volumes in exchange-listed equity-based options decreased by approximately 4% globally and 8% in the U.S., as compared to the corresponding quarter in 2011. During the first quarter of 2012 we accounted for approximately 9.5% of the exchange-listed equity-based options (including options on ETFs and stock index products) volume traded worldwide and approximately 13.3% of exchange-listed equity-based options volume traded in the U.S. This compares to approximately 8.4% of the exchange-listed equity-based options volume traded worldwide and approximately 11.4% of the exchange-listed equity-based options volume traded in the U.S. in the first quarter of 2011. It is important to note that market share is not directly correlated with our profits.

See the tables on pages 32 – 33 of this Quarterly Report on Form 10-Q for additional details regarding our trade volumes, contract and share volumes and brokerage statistics.

**Bid/Offer Spreads.** After reaching a historic low in the third quarter of 2010, bid/offer spreads on U.S. exchange-traded options have been gradually widening over the intervening quarters. As reported by the NASDAQ OMX PHLX market, bid/offer spreads in the first quarter were approximately 12% wider than the corresponding period in 2011. We believe this increase can be partly attributed to the heightened scrutiny over high frequency trading firms that began after the May 2010 Flash Crash. Regulators and exchanges began enacting new rules that year that eliminated some of the advantages high frequency traders (“HFTs”) had over registered market makers. Some of these changes did not come into effect until last year, leading to the gradual rise in spreads. The Dodd-Frank Wall Street Reform and Consumer Protection Act, which was signed into law in July 2010, is expected to impose additional regulations on HFTs. The final rules are not yet clear, as regulators continue to work on major provisions of the Act.

**Volatility.** Our market making profits are generally correlated with market volatility since we typically maintain an overall long volatility position, which protects us against a severe market dislocation in either direction. Based on the VIX, the average volatility during the first quarter was approximately 2% lower than it was in the first quarter of 2011.

The ratio of actual to implied volatility is also meaningful to our results. Because the cost of hedging our positions is based on implied volatility, while our trading profits are, in part, based on actual market volatility, a higher ratio is generally favorable and a lower ratio generally has a negative effect on our trading gains. This ratio averaged approximately 51% during the first quarter, as compared to 87% in the fourth quarter of 2011 and 70% in the year-ago quarter.

**Currency fluctuations.** As a global market maker trading on exchanges around the world in multiple currencies, we are exposed to foreign currency risk. We actively manage this exposure by keeping our net worth in proportion to a defined basket of major currencies (the “GLOBAL”). Because we report our financial results in U.S. dollars, the change in the value of the GLOBAL to the U.S. dollar affects our earnings. During the first quarter of 2012, the value of the GLOBAL as expressed in U.S. dollars increased 0.7% compared to the previous quarter which positively affected our

comprehensive earnings.

#### Certain Trends and Uncertainties

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

- Over the past several years, the effects of market structure changes, competition (in particular, from HFTs) and market conditions have, during certain periods, exerted downward pressure on bid/offer spreads realized by market makers.
- Retail broker-dealer participation in the equity markets has fluctuated over the past few years due to investor sentiment, market conditions and a variety of other factors. Retail transaction volumes may not be sustainable and are not predictable.
- In recent years, in an effort to improve the quality of their executions as well as increase efficiencies, market makers have increased the level of automation within their operations, which may allow them to compete more effectively with us.
- Regulatory and legislative authorities have increased their scrutiny of equity and option market makers, hedge funds and soft dollar practices. New legislation or modifications to existing regulations and rules could occur in the future.
- Further consolidation among market centers this may adversely affect the value of our smart routing software.

- A driver of our market making profits is the relationship between actual and implied volatility in the equities markets. The cost of maintaining our conservative risk profile is based on implied volatility, while our profitability, in part, is based on actual volatility. Hence, our profitability is increased when actual volatility runs above implied volatility and it is decreased when actual volatility falls below implied volatility. Implied volatility tends to lag actual volatility.

See “Risk Factors” in Part I, Item 1A of the Company’s Annual Report on Form 10-K filed with the SEC on February 29, 2012 and elsewhere in this report for a discussion of other risks that may affect our financial condition and results of operations.

## Results of Operations

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

	Three Months Ended March 31,	
	2012	2011
	(in millions except share and per share data)	
Revenues:		
Trading gains	\$137.3	\$200.3
Commissions and execution fees	100.9	109.2
Interest income	66.6	58.7
Other income	18.3	17.4
Total revenues	323.1	385.6
Interest expense	19.2	17.7
Total net revenues	303.9	367.9
Non-interest expenses:		
Execution and clearing	64.6	66.2
Employee compensation and benefits	62.7	52.4
Occupancy, depreciation and amortization	9.9	9.2
Communications	5.7	5.5
General and administrative	11.3	12.6
Total non-interest expenses	154.2	145.9
Income before income taxes	149.7	222.0
Income tax expense	8.7	18.7
Net income	141.0	203.3
Less net income attributable to non-controlling interests	129.9	187.0
Net income available for common shareholders	\$11.1	\$16.3
Earnings per share:		
Basic	\$0.24	\$0.38
Diluted	\$0.24	\$0.38

## Weighted average common shares outstanding:

Basic	45,576,925	42,231,651
Diluted	45,951,464	42,791,822

## Three Months Ended March 31, 2012 Compared to the Three Months Ended March 31, 2011

## Net Revenues

Total net revenues for the quarter ended March 31, 2012 decreased \$64.0 million or 17%, to \$303.9 million from \$367.9 million during the quarter ended March 31, 2011. The decrease in net revenues was primarily due to decreases in trading gains and commissions and execution fees, partially offset by an increase in net interest income compared to the year-ago quarter. Increased cash balances and a reduction in interest paid on our senior notes contributed to an increase in net interest income. A decrease in trading gains was driven by an unfavorable swing in currency translation, a decrease in the ratio of actual to implied volatility and a decrease in average volatility, as measured by the VIX, as compared to the year-ago quarter. Trading volume is an important driver of revenues and costs for both our electronic brokerage segments and market making segments. During the first quarter of 2012, options contracts executed by our subsidiaries increased by 8% while futures contracts and stock shares volume decreased by 10% and 19% respectively.

**Trading Gains.** Trading gains for the quarter ended March 31, 2012 decreased \$63.0 million, or 31%, to \$137.3 million from \$200.3 million for the quarter ended March 31, 2011. As market makers, we provide liquidity by buying from sellers and selling to buyers. During the quarter ended March 31, 2012, our market making operations executed 15.0 million trades, an increase of 4% as compared to the number of trades executed in the quarter ended March 31, 2011. Options contracts increased 21% as a result of a tightening of our bid-offer spreads, which may have increased volume while reducing per contract gains, while futures contracts and stock shares decreased by 18% and 19%, respectively, for the quarter ended March 31, 2012 as compared to the year-ago quarter. The decrease in trading gains was driven by an unfavorable swing in currency translation, which contributed 88% of the decrease, reflecting a \$0.9 million loss in the first quarter of 2012 as compared to a \$54.0 million gain in same period of 2011. As part of managing our overall exposure to foreign currency fluctuations, we maintain a portion of our capital in a basket of currencies we call the GLOBAL. A discussion of our approach to managing foreign currency exposure is contained in Part I, Item 3 of this Quarterly Report on Form 10-Q entitled “Quantitative and Qualitative Disclosures about Market Risk.”

Trading gains were also negatively impacted by a 2% decrease in average volatility, as measured by the VIX, which decreased to 18, for the three months ended March 31, 2012 as compared to the year-ago quarter. In addition, the ratio of actual to implied volatility decreased 28% to 51% for the three months ended March 31, 2012 as compared to the same period last year. Acting to offset those factors, bid-offer spreads on U.S. exchange-traded options, as reported by the NASDAQ OMX PHLX market, were approximately 12% wider during the first quarter of 2012 than during the corresponding period in 2011.

Included in trading gains are net dividends. Dividend income and expense arise from holding market making positions over dates on which dividends are paid to shareholders of record. When a stock pays a dividend, its market price is generally adjusted downward to reflect the value paid to the shareholders of record, which will not be received by those who purchase stock after the ex-dividend date. Hence, the apparent gains and losses due to these price changes, reflecting the value of dividends paid to shareholders, must be taken together with the dividends paid and received, respectively, to accurately reflect the results of our market making operations.

**Commissions and Execution Fees.** Commissions and execution fees for the quarter ended March 31, 2012 decreased \$8.3 million, or 8%, to \$100.9 million, as compared to the quarter ended March 31, 2011. The decrease was driven by lower customer stock, options and futures volume on a stable number of DARTs. This indicates smaller average trade size, which is consistent with our implementation during the second quarter of 2011 of higher risk margin requirements for low value securities, mostly on non-U.S. exchanges. While this may somewhat curtail stock commissions, we believe this to be a prudent risk management measure. Customer volume in options and futures contracts and stock shares decreased by 12%, 9% and 19%, respectively, for the quarter ended March 31, 2012 from the corresponding period in 2011. Total DARTs for cleared and execution-only customers for the quarter ended March 31, 2012 increased 1% to approximately 428,000, as compared to approximately 423,000 during the quarter ended March 31, 2011. Average commission per DART for cleared customers, for the quarter ended March 31, 2012, decreased by 8% to \$4.01, as compared to \$4.38 for the quarter ended March 31, 2011. DARTs for cleared customers, i.e., customers for whom we execute trades as well as clear and carry positions, increased 1% to approximately 391,000, for the quarter ended March 31, 2012, as compared to approximately 387,000 for the quarter ended March 31, 2011. The number of customer accounts grew by 16% to approximately 195,000 at March 31, 2012, as compared to approximately 168,000 at March 31, 2011.

**Interest Income and Interest Expense.** Net interest income (interest income less interest expense) for the quarter ended March 31, 2012 increased \$6.4 million, or 16%, to \$47.4 million, as compared to the quarter ended March 31, 2011. Net interest income was derived primarily from the electronic brokerage segment during the quarter ended March 31, 2012. Net interest earned by electronic brokerage increased \$5.2 million, or 14%, to \$42.3 million, as compared to the quarter ended March 31, 2011. Net fees and interest earned from securities borrowed and loaned transactions increased \$4.3 million for the quarter ended March 31, 2012 as compared to the year-ago quarter. During

the third quarter of 2011 we introduced to customers our Stock Yield Enhancement Program, which provides an opportunity for customers with fully-paid stock to allow IB to lend it out. In exchange for lending out their stock, our customers receive 50% of the stock loan fees. IB places cash collateral securing the loans in the customers' accounts. Average customer cash balances increased by 16%, to \$18.79 billion, while average customer fully secured margin borrowings were relatively unchanged, at \$7.87 billion, for the quarter ended March 31, 2012, as compared to \$16.20 billion and \$7.84 billion, respectively, for the quarter ended March 31, 2011.

The average Fed Funds effective rate decreased 5 basis points to 0.10% for the quarter ended March 31, 2012 as compared to the quarter ended March 31, 2011.

For market making, net interest income increased \$2.3 million from the corresponding period last year to \$4.5 million. As a result of the way we have integrated our market making and securities lending systems, our trading income and our net interest income are interchangeable and depend on the mix of market making positions in our portfolio. When implied interest rates in the equity and equity options and futures markets exceed the actual interest rates available to us, our market making systems tend to buy stock and sell it forward, which produces higher trading gains and lower net interest income. When these rates are inverted, our market making systems tend to sell stock and buy it forward, which produces lower trading gains and higher net interest income. Net interest income from firm accounts increased \$3.2 million. This increase was offset by a decrease in net interest earned from securities borrowed and loaned.

**Other Income.** Other income, for the quarter ended March 31, 2012, increased \$0.9 million, or 5%, to \$18.3 million, as compared to the quarter ended March 31, 2011. The increase was due to higher brokerage segment revenue from market data fees and minimum activity fees.

#### Non-Interest Expenses

Non-interest expenses, for the quarter ended March 31, 2012, increased by \$8.3 million, or 6%, to \$154.2 million from \$145.9 million, during the quarter ended March 31, 2011. The increase was primarily due to higher employee compensation and benefits expenses partially offset by lower execution and clearing fees and lower general and administrative fees. As a percentage of total net revenues, non-interest expenses increased to 51% for the quarter ended March 31, 2012 from 40% during the corresponding period in 2011.

**Execution and Clearing.** Execution and clearing expenses for the quarter ended March 31, 2012, decreased \$1.6 million, or 2%, to \$64.6 million, as compared to the quarter ended March 31, 2011. The decrease resulted from a 10% decrease in futures contract volume and a 19% decrease in stock shares volume offset by an 8% increase in options contract volume traded during the quarter ended March 31, 2012.

**Employee Compensation and Benefits.** Employee compensation and benefits expenses, for the quarter ended March 31, 2012, increased by \$10.3 million, or 20%, to \$62.7 million, as compared to the quarter ended March 31, 2011. The increase in employee compensation and benefits expense was largely a result of a special discretionary stock grant of restricted stock units awarded on January 6, 2012, as well as a revision in our method for recognizing expenses related to SIP, which increased SIP-related expenses by \$3.1 million and \$3.5 million, respectively, compared to the year -ago quarter. The special stock award was made to provide our employees with greater equity participation in the Company and was designed to give lower compensated employees a proportionally higher award. Although the revised accounting treatment accelerates the recognition of SIP-related compensation expense to earlier years and decreases expense recognition in subsequent years, total expense over the life cycle of the SIP grants is unchanged.<sup>2</sup> The average number of employees increased to 880 for the quarter ended March 31, 2012, as compared to 859 for the corresponding period in 2011. As we continue to grow, our focus on automation has allowed us to maintain a relatively small staff. As a percentage of total net revenues, employee compensation and benefits expenses were 21% and 14%, for the quarters ended March 31, 2012 and 2011, respectively.

**General and Administrative.** General and administrative expenses, for the quarter ended March 31, 2012, decreased \$1.3 million, or 10% to \$11.3 million, as compared to the quarter ended March 31, 2011. The decrease in general and administrative expenses was primarily due to lower other administrative fees and non-income related taxes.

---

<sup>2</sup> The revised accounting method is explained in Note 20 to our audited consolidated financials statements in our Annual Report on Form 10-K, filed with the SEC on February 29, 2012.



## Business Segments

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

		2012	Three Months Ended March 31, (in millions)	2011
Electronic Brokerage	Net revenues	\$159.3		\$163.7
	Non-interest expenses	75.9		73.6
	Income before income taxes	\$83.4		\$90.1
	Pre-tax profit margin	52%		55%
Market Making	Net revenues	\$142.4		\$202.3
	Non-interest expenses	76.4		67.7
	Income before income taxes	\$66.0		\$134.6
	Pre-tax profit margin	46%		67%
Corporate*	Net revenues	\$2.2		\$1.9
	Non-interest expenses	1.9		4.6
	Income before income taxes	\$0.3		(\$2.7)
Total	Net revenues	\$303.9		\$367.9
	Non-interest expenses	154.2		145.9
	Income before income taxes	\$149.7		\$222.0
	Pre-tax profit margin	49%		60%

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

The following sections discuss results of our operations by business segment, excluding a discussion of corporate income and expense. In the following tables, revenues and expenses directly associated with each segment are included in determining income before income taxes. Due to the integrated nature of the business segments, estimates and judgments have been made in allocating certain revenue and expense items. Transactions between segments generally result from one subsidiary facilitating the business of another subsidiary through the use of its existing trading memberships and clearing arrangements. In such cases, certain revenue and expense items are eliminated 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.

## Electronic Brokerage

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

	Three Months Ended March 31,	
	2012	2011
	(in millions)	
<b>Revenues:</b>		
Commissions and execution fees	\$100.9	\$109.2
Interest income	51.5	45.2
Other income	16.1	17.4
<b>Total revenues</b>	<b>168.5</b>	<b>171.8</b>
Interest expense	9.2	8.1
<b>Total net revenues</b>	<b>159.3</b>	<b>163.7</b>
<b>Non-interest expenses:</b>		
Execution and clearing	30.5	35.1
Employee compensation and benefits	20.7	14.4
Occupancy, depreciation and amortization	2.9	3.1
Communications	2.2	2.8
General and administrative	19.6	18.2
<b>Total non-interest expenses</b>	<b>75.9</b>	<b>73.6</b>
<b>Income before income taxes</b>	<b>\$83.4</b>	<b>\$90.1</b>

### Three Months Ended March 31, 2012 Compared to the Three Months Ended March 31, 2011

Electronic brokerage total net revenues for the quarter ended March 31, 2012 decreased \$4.4 million, or 3%, to \$159.3 million, from \$163.7 million during the quarter ended March 31, 2011, primarily due to a decrease in commissions and execution fees which was partially offset by an increase in net interest income. Commissions and execution fees decreased \$8.3 million, or 8%, and net interest income increased \$5.2 million, or 14%, for the quarter ended March 31, 2012 as compared to the corresponding period in 2011. This is consistent with our implementation during the second quarter of 2011 of higher risk margin requirements for low value securities, mostly on non-U.S. exchanges. The increase in net interest income was attributable to an increase of \$4.3 million on net fees and interest earned from securities borrowed and loaned transactions and an increase of \$1.1 million in net interest from customer cash balances. The decrease in commissions and execution fees is directly attributable to lower customer trading volume. Volume in options and futures contracts and stock shares decreased by 12%, 9% and 19%, respectively, for the quarter ended March 31, 2012 from the corresponding period in 2011. Total DARTs from cleared and execution-only customers for the quarter ended March 31, 2012 increased 1% to approximately 428,000, as compared

to approximately 423,000 during the quarter ended March 31, 2011. DARTs from cleared customers for the quarter ended March 31, 2012 increased 1% to approximately 391,000, as compared to approximately 387,000 during the quarter ended March 31, 2011. Total customer equity grew by 17% to \$28.9 billion at March 31, 2012, from \$24.8 billion at March 31, 2011. The number of customer accounts grew 16% from March 31, 2011 to approximately 195,000 at March 31, 2012.

Electronic brokerage non-interest expenses for the quarter ended March 31, 2012 increased \$2.3 million, or 3%, as compared to the quarter ended March 31, 2011. Within non-interest expenses, execution and clearing expenses decreased by \$4.6 million, driven by a decrease in customer trading volume. Employee compensation and benefits expenses increased by \$6.3 million, or 44% during the quarter ended March 31, 2012 as compared to 2011. The increase in employee compensation and benefits expense was largely a result of a special discretionary grant of restricted stock units awarded on January 6, 2012, as well as a revision in our method for recognizing SIP expenses, as discussed above. General and administrative expenses increased \$1.4 million as administrative and consulting fees increased during the quarter ended March 31, 2012 as compared to 2011. As a percentage of total net revenues, non-interest expenses increased to 48% from 45% for the quarter ended March 31, 2012 as compared to 2011.

## Market Making

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

	Three Months Ended March 31,	
	2012	2011
	(in millions)	
<b>Revenues:</b>		
Trading gains	\$137.3	\$199.4
Interest income	15.3	13.1
Other income	0.6	0.7
<b>Total revenues</b>	<b>153.2</b>	<b>213.2</b>
<b>Interest expense</b>	<b>10.8</b>	<b>10.9</b>
<b>Total net revenues</b>	<b>142.4</b>	<b>202.3</b>
<b>Non-interest expenses:</b>		
Execution and clearing	34.7	31.8
Employee compensation and benefits	20.1	16.4
Occupancy, depreciation and amortization	2.0	2.5
Communications	2.5	2.6
General and administrative	17.1	14.4
<b>Total non-interest expenses</b>	<b>76.4</b>	<b>67.7</b>
<b>Income before income taxes</b>	<b>\$66.0</b>	<b>\$134.6</b>

## Three Months Ended March 31, 2012 Compared to the Three Months Ended March 31, 2011

Market making total net revenues for the quarter ended March 31, 2012 decreased \$59.9 million, or 30%, to \$142.4 million, from \$202.3 million during the quarter ended March 31, 2011. Trading gains for the quarter ended March 31, 2012 decreased \$62.1 million, or 31%. As part of managing our overall exposure to foreign currency fluctuations, we maintain our capital in proportion to a basket of currencies we call the GLOBAL. The decrease in trading gains was driven by an unfavorable swing in currency translation, which contributed 88% of the decrease, reflecting a \$0.9 million loss in the first quarter of 2012 as compared to a \$54.0 million gain in the corresponding period in 2011. On a comprehensive basis, our foreign currency strategy yielded a \$34.8 million gain this quarter compared to a \$72.6 million gain in the corresponding period in 2011. A discussion of our approach to managing foreign currency exposure is contained in Part I, Item 3 of this Quarterly Report on Form 10-Q entitled "Quantitative and Qualitative Disclosures about Market Risk."

Trading gains were also negatively impacted by a 2% decrease in average volatility, as measured by the VIX, which decreased to 18.2, for the three months ended March 31, 2012 as compared to the year-ago quarter as well as a 28% decrease in the ratio of actual to implied volatility to 51% for the three months ended March 31, 2012 as compared to the same period last year. Acting to offset these factors, bid-offer spreads on U.S. exchange-traded options, as reported by the NASDAQ OMX PHLX market, were approximately 12% wider in the first quarter of 2012 than in the

corresponding period in 2011. Market making options contracts volume increased 21% while futures contracts and stock shares volume decreased 18% and 19%, respectively, in the quarter ended March 31, 2012 as compared to the corresponding period in 2011. The higher options volume was driven by our decision to tighten our bid-offer spreads, which may have increased volume while reducing per contract gains. The decrease in stock volume in part reflects our actions over the past year to selectively pare down trading in less profitable products.

Net interest income for the quarter ended March 31, 2012 increased by \$2.3 million to \$4.5 million. As described above, our trading gains and our net interest income are interchangeable and depend on the mix of market making positions in our portfolio and on relative interest rates in the stock and options markets. In the quarter ended March 31, 2012, these factors, together with securities lending activity, produced more interest income than in the first quarter of 2011.

Market making non-interest expenses for the quarter ended March 31, 2012 increased \$8.7 million, or 13%, as compared to the quarter ended March 31, 2011. The increase primarily resulted from a \$2.9 million increase in execution and clearing fees and a \$3.7 million increase in employee compensation and benefits during the quarter ended March 31, 2012 as compared to 2011. The increase in execution and clearing fees was primarily due to an increase in options volume. The increase in employee compensation and benefits expense was largely a result of a special discretionary grant of restricted stock units awarded on January 6, 2012, as well as a revision in

our method for recognizing SIP expenses, as discussed above. While total expense over the life cycle of the SIP grants is unchanged, the revised accounting treatment accelerates the recognition of SIP-related compensation expense to earlier years and decreases expense recognition in subsequent years. As a percentage of total net revenues, market making non-interest expenses increased to 54% from 33% for the quarters ended March 31, 2012 and 2011, respectively.

### Liquidity and Capital Resources

We maintain a highly liquid balance sheet. The majority of our assets consist of exchange-listed marketable securities, which are marked-to-market daily, cash and securities segregated for customers, and collateralized receivables arising from customer-related and proprietary securities transactions. Collateralized receivables consist primarily of securities borrowed, and, to a lesser extent, customer margin loans, receivables from clearing houses for settlement of securities transactions and securities purchased under agreements to resell. At March 31, 2012, total assets were \$32.70 billion of which approximately \$32.26 billion, or 98.7%, were considered liquid and consisted predominantly of marketable securities, customers' cash and collateralized receivables.

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

We actively manage our excess liquidity and we maintain significant borrowing facilities through the securities lending markets and with banks. As a general practice, we continue to maintain sufficient levels of cash on hand to provide us with a buffer should we need immediately available funds for any reason.

For purposes of providing additional liquidity and further increasing our regulatory capital reserves, we maintain a committed senior secured revolving credit facility from a syndicate of banks and previously issued senior notes (see "Principal Indebtedness" below). As of March 31, 2012, borrowings under these facilities totaled \$30.2 million, which represented less than 1% of our total capitalization. Liability balances in connection with our short-term borrowings and senior notes payable as of March 31, 2012 were less than their respective average balances during the quarter. Liability balances in connection with our payables to customers and securities loaned as of March 31, 2012 were higher than their respective average balances during the quarter.

Based on our current level of operations, we believe our cash flows from operations, available cash and available borrowings under our senior secured revolving credit facility will be adequate to meet our future liquidity needs for more than the next twelve months.

Cash and cash equivalents held by the Company's non-U.S. operating companies at March 31, 2012 were \$699 million (\$683 million at December 31, 2011). These funds are primarily intended to finance each individual operating company's local operations, and thus would not be available to fund U.S. domestic operations unless repatriated through payment of dividends to IBG LLC. It is not currently the Company's intention to repatriate further amounts from non-U.S. operating companies. In the event dividends were to be paid to the Company in the future by a non-U.S. operating company, as occurred in connection with the special dividend in December 2010, the Company would be required to accrue and pay income taxes on such dividends to the extent that U.S. income taxes had not been paid previously on the income of the paying company.

Historically, our consolidated equity has consisted primarily of accumulated retained earnings, which to date have been sufficient to fund our operations and growth. Our consolidated equity increased 10% to \$4.97 billion at March 31, 2012 from \$4.52 billion at March 31, 2011 as a result of twelve months of comprehensive earnings, partially offset by dividends paid during the last four quarters.

## Cash Flows

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

	Three Months Ended March 31,	
	2012	2011
	(in millions)	
Cash used in operating activities	\$ (53.9)	\$ (36.7)
Cash used in investing activities	(10.5)	(35.0)
Cash used in financing activities	(103.1)	(113.3)
Effect of exchange rate changes on cash and cash equivalents	23.4	6.9
Decrease in cash and cash equivalents	\$ (144.1)	\$ (178.1)



Our cash flows from operating activities are largely a reflection of the size and composition of trading positions held by our market making subsidiaries and of the changes in customer cash and margin debit balances in our electronic brokerage business. Our cash flows from investing activities are primarily related to capitalized internal software development, purchases and sales of memberships at exchanges where we trade and strategic investments in exchanges where such investments will enable us to offer better execution alternatives to our current and prospective customers, or create new opportunities for ourselves as market makers or where we can influence exchanges to provide competing products at better prices using sophisticated technology. Our cash flows from financing activities are comprised of short-term borrowings, long-term borrowings and capital transactions. Short-term borrowings from banks are part of our daily cash management in support of operating activities. Other borrowings provide us with flexible sources of excess liquidity and regulatory capital, including a committed two-year \$100.0 million senior secured revolving credit facility from a syndicate of banks. This facility, which expires in May 2012 and for which a replacing facility is being negotiated, was entered into in May 2010. Capital transactions consist primarily of quarterly cash dividends paid to stockholders, which commenced during the second quarter of 2011 and cash distributions paid to IBGH.

Three Months Ended March 31, 2012: Our cash and cash equivalents decreased by \$144.1 million to \$1,551.4 million for the three months ended March 31, 2012. We used \$53.9 million from net cash in operating activities. We used net cash of \$113.6 million in our investing and financing activities primarily due to a decrease in senior notes outstanding and dividends paid to IBG Holdings LLC and to common stockholders.

Three Months Ended March 31, 2011: Our cash and cash equivalents decreased by \$178.1 million to \$1,176.2 million for the three months ended March 31, 2011. We used \$36.7 million in net cash in operating activities. We used net cash of \$148.3 million in our investing and financing activities primarily due to the repayment of borrowings under our senior secured revolving credit facility.

#### Regulatory Capital Requirements

Our principal operating subsidiaries are subject to separate regulation and capital requirements in the United States and other jurisdictions. Timber Hill LLC and Interactive Brokers LLC are registered U.S. broker-dealers and futures commission merchants, and their primary regulators include the SEC, the Commodity Futures Trading Commission, the Chicago Board Options Exchange, the Chicago Mercantile Exchange, the Financial Industry Regulatory Authority and the National Futures Association. Timber Hill Europe AG is registered to do business in Switzerland as a securities dealer and is regulated by the Swiss Financial Market Supervisory Authority. Interactive Brokers (U.K.) Limited is subject to regulation by the U.K. Financial Services Authority. Our various other operating subsidiaries are similarly regulated.

At March 31, 2012, aggregate excess regulatory capital for all of the Operating Companies was \$2.71 billion. The following table summarizes capital, capital requirements and excess regulatory capital (millions):

	Net Capital/ Eligible Equity	Requirement	Excess
IB LLC	\$ 1,420	\$ 197	\$ 1,223
TH LLC	737	41	696
THE	622	224	398
Other regulated Operating Companies	418	21	397
	\$ 3,197	\$ 483	\$ 2,714

At March 31, 2012, all of the operating companies were in compliance with their respective regulatory capital requirements.

For additional information regarding our net capital requirements see note 14 to the unaudited condensed consolidated financial statements in Part I , Item 1 of this Quarterly Report on Form 10-Q.

#### Principal Indebtedness

IBG LLC is the borrower under a \$100.0 million senior secured revolving credit facility, which had no balance outstanding as of March 31, 2012, and is the issuer of senior notes, of which \$30.2 million were outstanding as of March 31, 2012.

#### Senior Secured Revolving Credit Facility

On May 18, 2010, IBG LLC entered into a \$100 million two-year senior secured revolving credit facility with a syndicate of banks. IBG LLC is the sole borrower under this credit facility, which is required to be guaranteed by IBG LLC's domestic non-regulated subsidiaries (currently there are no such entities). The facility's interest rate is indexed to the LIBOR rate for the relevant term, at the borrower's option, and is secured by a first priority interest in all of the capital stock of each entity owned directly by IBG

LLC (subject to customary limitations with respect to foreign subsidiaries). The facility may be used to finance working capital needs and general corporate purposes. The financial covenants contained in this credit facility are as follows:

- minimum consolidated shareholders' equity, as defined, of \$3.6 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%.

At March 31, 2012, IBG LLC was in compliance with all of the covenants of this credit facility. At maturity, subject to meeting certain terms of the facility, the Company will have an option to convert the facility to a one-year term loan.

#### Senior Notes

Based on a review of its available liquidity resources, which resulted in a determination of a strong liquidity position, in January 2012, the Company decided to discontinue the Senior Notes Program. It is the Company's intention that no new Senior Notes will be issued and all Senior Notes outstanding as of March 31, 2012 will be redeemed by June 2012.

Prior to January 2012, IBG LLC periodically issued senior notes in private placements to certain qualified customers of IB LLC. IBG LLC used the proceeds from sales of the senior notes to provide capital to IBG LLC's broker-dealer subsidiaries in the form of subordinated loans and for other general purposes. The outstanding senior notes have a 3% per annum interest rate, and an 18-month maturity. IBG LLC may, solely at its option, redeem the senior notes at any time on or after a specified date in the third month or the sixth month, respectively, after the date on which the senior notes are issued and sold, at a redemption price equal to 100% of the principal amount of the senior notes to be redeemed plus accrued interest.

Total senior notes outstanding at March 31, 2012 were \$30.2 million and senior notes outstanding at December 31, 2011 were \$101.4 million, all being 3% notes. During the period from January 1 through March 31, 2012, no senior notes were issued, and \$71.2 million senior notes were redeemed.

The senior notes are secured, as is the senior secured revolving credit facility, by a first priority interest in all of the capital stock of each entity owned directly by IBG LLC (subject to customary limitations with respect to foreign subsidiaries). The senior notes contain covenants that may limit IBG LLC's ability to:

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

#### Capital Expenditures

Our capital expenditures are comprised of compensation costs of our software engineering staff for development of software for internal use and expenditures for computer, networking and communications hardware. These expenditure items are reported as property and equipment. Capital expenditures for property and equipment were approximately \$5.2 million and \$3.2 million for the three months ended March 31, 2012 and 2011, respectively. We anticipate that our 2012 gross capital expenditures will be level to prior years, including ongoing costs related to the expanding and upgrading our data centers and backup facilities. We expect our future capital expenditures to rise as we continue our focus on technology infrastructure initiatives to further enhance our competitive position. We anticipate that we will fund capital expenditures with cash from operations and cash on hand. In response to changing economic conditions, we believe we have the flexibility to modify our capital expenditures by adjusting them (either upward or downward) to match our actual performance. If we pursue any strategic acquisitions, we may incur additional capital expenditures.

#### Seasonality

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

## Inflation

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

## Strategic Investments and Acquisitions

We periodically engage in evaluations of potential strategic investments and acquisitions. The Company holds strategic investments in electronic trading exchanges including: Boston Options Exchange, LLC; OneChicago LLC and CBOE Stock Exchange, LLC. The Company has also made investments in Quadriserv Inc., an electronic securities lending platform provider and Factor Advisors, LLC, an Exchange Traded Funds (“ETF”) issuer.

We intend to continue making acquisitions on an opportunistic basis, generally only when the acquisition candidate will, in our opinion, enable us to acquire either technology or customers faster than we could develop them on our own. At March 31, 2012, there were no definitive agreements with respect to any material acquisition.

## Certain Information Concerning Off-Balance-Sheet Arrangements

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

## Critical Accounting Policies

### Valuation of Financial Instruments

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

## Contingencies

Our policy is to estimate and accrue for potential losses that may arise out of litigation and regulatory proceedings, to the extent that such losses are probable and can be estimated, in accordance with ASC 450, Contingencies. Potential losses that might arise out of tax audits, to the extent that such losses are “more likely than not,” would be estimated and

accrued in accordance with ASC 740-10. Significant judgment is required in making these estimates and our final liabilities may ultimately be materially different. Our total liability accrued with respect to litigation and regulatory proceedings is determined on a case-by-case basis and represents an estimate of probable losses based on, among other factors, the progress of each case, our experience with and industry experience with similar cases and the opinions and views of internal and external legal counsel. Given the inherent difficulty of predicting the outcome of our litigation and regulatory matters, particularly in cases or proceedings in which substantial or indeterminate damages or fines are sought, or where cases or proceedings are in the early stages, we cannot estimate losses or ranges of losses for cases or proceedings where there is only a reasonable possibility that a loss may be incurred.

We have been from time to time subject to certain pending and legal actions which arise out of the normal course of business. Litigation is inherently unpredictable, particularly in proceedings where claimants seek substantial or indeterminate damages, or which are in their early stages. We cannot predict with certainty the actual loss or range of loss related to such legal proceedings, the manner in which they will be resolved, the timing of final resolution or the ultimate settlement. Consequently, we cannot estimate losses or ranges of losses related to such legal matters, even in instances where it is reasonably possible that a future loss will be incurred. As of March 31, 2012, we, along with certain of our subsidiaries, have been named parties to legal actions, which we and/or such subsidiaries intend to defend vigorously. Although the results of legal actions cannot be predicted with certainty, it is the opinion of management that the resolution of these actions is not expected to have a material adverse effect, if any, on our business or financial condition, but may have a

material impact on the results of operations for a given period. As of March 31, 2012 and December 31, 2011, reserves provided for potential losses related to litigation matters were not material.

#### Use of Estimates

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

#### Income Taxes

IBG, Inc. accounts for income taxes in accordance with ASC 740, Income Taxes. The Company's income tax expense, deferred tax assets and liabilities, and reserves for unrecognized tax benefits reflect management's best assessment of estimated future taxes to be paid. We are subject to income taxes in both the United States and numerous foreign jurisdictions. Determining unaudited condensed consolidated income tax expense requires significant judgments and estimates.

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

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

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

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

#### Recent Accounting Pronouncements

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



	Affects	Status
ASU 2011-03	Transfers and Servicing (Topic 860): Reconsideration of Effective Control for Repurchase Agreements	Fiscal years, and interim periods within those fiscal years, beginning after December 15, 2011. Early application is not permitted.
ASU 2011-04	Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRS	To be applied prospectively for interim and annual periods beginning after December 15, 2011. Early adoption is not permitted for public entities.
ASU 2011-08	Intangibles - Goodwill and Other (Topic 350): Testing Goodwill for Impairment	Effective for fiscal years beginning after December 15, 2011. Early adoption is permitted.
ASU 2011-11	Balance Sheet (Topic 210): Disclosures about Offsetting Assets and Liabilities	Effective for fiscal periods beginning on or after January 1, 2013. Retrospective disclosures for comparative periods presented will be required.

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

#### ASC/IFRS Convergence

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

Incorporating International Financial Reporting Standards into the Financial Reporting System for U.S. Issuers (the “Work Plan”) in May 2010, and issued a follow-up Staff Paper, subtitled Exploring a Possible Method of Incorporation in May 2011. The Work Plan outlines the steps to be taken to provide the SEC with information to be able to conclude whether IFRS should be adopted for U.S. registrants and the Staff Paper discusses alternative approaches (“Convergence” and “Endorsement”) to adoption that could be applied. Within the Staff Paper, the SEC Staff has issued a Request for Comment on these alternatives. The Comment period ended July 31, 2011 and the SEC Staff issued two Staff Papers, A Comparison of U.S. GAAP and IFRS and Analysis of IFRS in Practice on November 16, 2011.

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

### ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

#### Pricing Model Exposure

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

#### Foreign Currency Exposure

As a result of our international market making activities and accumulated earnings in our foreign subsidiaries, our income and net worth is exposed to fluctuations in foreign exchange rates. Our European operations and some of our Asian operations are conducted by our Swiss subsidiary, THE. THE is regulated by the Swiss Financial Market Supervisory Authority 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 unaudited condensed consolidated financial statements, THE's Swiss franc balances are translated into U.S. dollars for U.S. GAAP purposes. THE's translation gains or losses appear as such on IBG, Inc.'s unaudited condensed consolidated statement of comprehensive income, 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 as Other Comprehensive Income, ("OCI") in our unaudited condensed consolidated statement of financial condition and unaudited condensed consolidated statement of comprehensive income. To a smaller extent, OCI is also produced by our other non-U.S. subsidiaries.

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.

Since 2005, we have expanded our market making systems to incorporate cash forex and forex options to hedge our currency exposure at little or no cost and to hedge our currency exposure throughout the day on a continuous basis. In connection with the development of our currency hedging strategy, we determined to base our net worth in

GLOBALs, a basket of currencies. On October 3, 2011 we announced that we expanded the composition of the GLOBAL from six to 16 currencies. The table below displays the component changes in detail. U.S. dollar (“USD”) amounts are calculated using exchange rates at September 30, 2011, the effective date for the change.

GLOBAL							
	9/30/2011	GLOBAL	GLOBAL	% of	NEW	GLOBAL	% of
Currency	FX Rates	Composition	in	Comp.	Composition	in	Comp.
			USD			USD	
			Equiv.			Equiv.	
							CHANGE
							% of
							Comp.
USD	1.0000	0.550	550	49.3%	0.410	410	-12.5%
EUR	1.3400	0.240	322	28.8%	0.170	228	-8.4%
GBP	1.5594	0.030	047	4.2%	0.030	047	0.0%
JPY	0.0130	10.000	130	11.6%	10.000	130	0.0%
AUD	0.9674	0.030	029	2.6%	0.030	029	0.0%
CAD	0.9545	0.040	038	3.4%	0.040	038	0.0%
CHF	1.1034				0.030	033	3.0%
HKD	0.1284				0.260	033	3.0%
SEK	0.1457				0.090	013	1.2%
MXN	0.0721				0.300	022	1.9%
DKK	0.1801				0.040	007	0.6%
NOK	0.1704				0.060	010	0.9%
KRW	0.0008				28.000	024	2.1%
BRL	0.5317				0.080	043	3.8%
INR	0.0204				2.000	041	3.7%
SGD	0.7646				0.010	008	0.7%
Total GLOBALS, as measured in USD		\$ 1.115		100.0%	\$ 1.115		100.0%
							0.0%

Because we actively manage our global currency exposure by maintaining our equity in GLOBALS, we consider ourselves a global enterprise based in a diversified basket of currencies rather than a U.S. dollar based company. At March 31, 2012 approximately 63% of our equity was denominated in currencies other than U.S. dollars.

The effects of our currency strategy appear in two places in the financial statements: (1) as a component of Trading Gains in the unaudited condensed consolidated statement of comprehensive income and (2) as Other Comprehensive Income in the unaudited condensed consolidated statement of financial condition. The full effect of the GLOBAL is captured in Comprehensive Income.

Reported results on a comprehensive basis reflect the GAAP convention adopted in 2011 that requires the reporting of currency translation results contained in Other Comprehensive Income as part of reportable earnings. Previously, currency translation results were reported only as a component of changes in Total Equity in the unaudited condensed consolidated statement of financial condition.

#### Interest Rate Risk

Under our senior secured revolving credit facility, we have the ability to choose borrowing tenors from overnight to twelve months, which permits us to minimize the risk of interest rate fluctuations. We have no borrowings outstanding under this facility as of March 31, 2012.

We pay our electronic brokerage customers interest based on benchmark overnight interest rates in various currencies. In a higher interest rate environment, exhibiting a positive yield curve, we typically invest a portion of

these funds in U.S. government treasury securities with maturities of up to three months. Under these circumstances, if interest rates were to increase rapidly and substantially, in increments that were not reflected in the yields on these treasury securities, our net interest income from customer deposits would decrease. Based upon investments outstanding at March 31, 2012, we had minimal exposure of this nature.

We also face the potential for reduced net interest income from customer deposits due to interest rate spread compression in a low rate environment. Due to a currently low rate environment, a decrease of the U.S. benchmark interest rates to zero, or roughly 0.09%, would reduce our net interest income by approximately \$1.5 million on an annualized basis.

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

#### Dividend Risk

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

## Margin Credit

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

We expect this kind of exposure to increase with growth in our overall business. Because we indemnify and hold harmless our clearing firms from certain liabilities or claims, the use of margin credit and short sales may expose us to significant off-balance-sheet risk in the event that collateral requirements are not sufficient to fully cover losses that customers may incur and those customers fail to satisfy their obligations. As of March 31, 2012, we had \$8.46 billion in margin credit extended to our customers. The amount of risk to which we are exposed from the margin credit we extend to our customers and from short sale transactions by our customers is unlimited and not quantifiable as the risk is dependent upon analysis of a potential significant and undeterminable rise or fall in stock prices. Our account level margin credit requirements meet or exceed those required by Regulation T of the Board of Governors of the Federal Reserve or the SEC portfolio margining regulations, as appropriate. As a matter of practice, we enforce real-time margin compliance monitoring and liquidate customers' positions if their equity falls below required margin requirements.

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

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.

#### ITEM 4. CONTROLS AND PROCEDURES

##### Evaluation of Disclosure Controls and Procedures.

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

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



## PART II OTHER INFORMATION

### ITEM 1. LEGAL PROCEEDINGS

There have been no material changes to the legal proceedings disclosed under Part 1, Item 3 of our Annual Report on Form 10-K filed with the SEC on February 29, 2012. During our normal course of business, the Company's regulated operating companies are in discussions with regulators about matters raised during regulatory examinations or otherwise subject to their inquiry. These matters could result in censures, fines or other sanctions. Management believes the outcome of any resulting actions will not be material to the Company's financial condition, results of operations or cash flows. However, the Company is unable to predict the outcome of these matters.

The Company believes, based on current knowledge and after consultation with counsel, that the outcome of the pending matters will not have a material adverse effect on the unaudited condensed consolidated financial condition of the Company. Legal reserves have been established in accordance with ASC 450, Contingencies. The ultimate resolution may differ from the amounts reserved.

### ITEM 1A. RISK FACTORS

There have been no material changes to the risk factors disclosed in under Part 1, Item 1A of our Annual Report on Form 10-K filed with the SEC on February 29, 2012, except as listed below.

#### Risks Related to our Unreviewed Financial Statements:

Our failure to obtain the review of our interim unaudited financial statements required by Regulation S-X may result in changes to the financial statements when reviewed by an independent registered public accounting firm.

Because the 2012 unaudited interim financial statements and notes thereto for the quarterly period ended March 31, 2012 included in our Form 10-Q for the quarter ended March 31, 2012 have not been reviewed in accordance with SAS 100, as required by Rule 10-01(d) of Regulation S-X promulgated under the Securities Act of 1934, the Form 10-Q is deemed to be deficient and not timely filed. The Company will be requesting an interpretation from the SEC regarding the accounting for its non-controlling interests. Upon receipt of such interpretation from the SEC, on the non-controlling interests accounting issue described below, we intend to request that our independent registered public accounting firm complete its review of the financial statements and to file as promptly as practicable any necessary amendment to the Form 10-Q for the quarterly period ended March 31, 2012 that will include unaudited interim financial statements reviewed in accordance with SAS 100 as required by Rule 10-01(d). The review could result in changes to the unreviewed financial statements, whether as a result of modifications that may result from guidance we receive in response to our letter to be filed with the SEC concerning the appropriate GAAP interpretation of ASC 810-10-45, ASC 815-40-25 and ASC 480-10-S99-3A, or otherwise.

Interpretation from the SEC may have a material impact on previously filed financial statements.

As previously disclosed on the Company's Form 8-K filed on May 15, 2012, the Company has historically classified non-controlling interests as a component of permanent equity capital. The Company intends to request the SEC interpretation promptly following this filing, and to seek to resolve this issue by June 30, 2012. However, there can be no assurance that the SEC will issue guidance on this issue by such date, or at any time.

If the ultimate resolution of any of the above matters results in an accounting treatment other than as currently reported, there may be a material impact on the previously filed consolidated statement of financial condition that may require that such financial statement be restated.

Our failure to obtain the review required by Regulation S-X and the resulting status of our Form 10-Q for the quarter ended March 31, 2012 as not having been filed on a timely basis, will render us ineligible to file registration statements on Form S-3, to use our existing shelf registration statement on Form S-3 or our registration statement on Form S-8, and may have other adverse consequences, such as potential material impacts on covenants contained in our contractual commitments, our obligations under NASDAQ Stock Market listing standards, and compliance with applicable securities laws.

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

None

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None

ITEM 5. OTHER INFORMATION

None

## ITEM 6. EXHIBITS

Exhibit Number	Description
10.1	Amended and Restated Operating Agreement of IBG LLC (filed as Exhibit 10.1 to the Quarterly Report on Form 10-Q for the Quarterly Period Ended March 31, 2007 filed by the Company on June 15, 2007).**
10.2	Form of Limited Liability Company Operating Agreement of IBG Holdings LLC (filed as Exhibit 10.5 to Amendment No. 1 to the Registration Statement on Form S-1 filed by the Company on February 12, 2007).**
10.3	Exchange Agreement by and among Interactive Brokers Group, Inc., IBG Holdings LLC, IBG LLC and the Members of IBG LLC (filed as Exhibit 10.3 to the Quarterly Report on Form 10-Q for the Quarterly Period Ended September 30, 2009 filed by the Company on November 11, 2009).**
10.4	Tax Receivable Agreement by and between Interactive Brokers Group, Inc. and IBG Holdings LLC (filed as Exhibit 10.3 to the Quarterly Report on Form 10-Q for the Quarterly Period Ended March 31, 2007 filed by the Company on June 15, 2007).**
10.5	Interactive Brokers Group, Inc. 2007 Stock Incentive Plan (filed as Exhibit 10.8 to Amendment No. 2 to the Registration Statement on Form S-1 filed by the Company on April 4, 2007).**+
10.6	Interactive Brokers Group, Inc. 2007 ROI Unit Stock Plan. (filed as Exhibit 10.9 to Amendment No. 2 to the Registration Statement on Form S-1 filed by the Company on April 4, 2007).**+
101.INS	XBRL Instance Document*
101.SCH	XBRL Taxonomy Extension Schema*
101.CAL	XBRL Taxonomy Extension Calculation*
101.DEF	XBRL Extension Definition*
101.LAB	XBRL Taxonomy Extension Label*

101.PRE

XBRL Taxonomy Extension Presentation\*

\*\*

Previously filed; incorporated herein by reference.

+

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

\*

Attached as Exhibit 101 to this Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2012, are the following materials formatted in XBRL (Extensible Business Reporting Language) (i) the Unaudited Condensed Consolidated Statements of Financial Condition, (ii) the Unaudited Condensed Consolidated Statements Comprehensive of Income, (iii) the Unaudited Condensed Consolidated Statements of Cash Flows, (iv) the Unaudited Condensed Consolidated Statement of Changes in Stockholders' Equity and (v) Notes to the Unaudited Condensed Consolidated Financial Statements, tagged in detail levels 1-4.

SIGNATURES

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

INTERACTIVE BROKERS GROUP, INC.

/s/ Paul J. Brody

Name: Paul J. Brody

Title: Chief Financial Officer, Treasurer and  
Secretary

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

Date: May 15, 2012