

Interactive Brokers Group, Inc.  
Form 10-Q  
November 09, 2010

---

---

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

---

FORM 10-Q

---

(Mark One)

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

For the quarterly period ended September 30, 2010.

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

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

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

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       <sup>SS</sup> Smaller reporting company   
(Do not check if a smaller reporting company)

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

As of November 8, 2010, there were 42,222,349 shares of the issuer's Class A common stock, par value \$0.01 per share, outstanding and 100 shares of the issuer's Class B common stock, par value \$0.01 per share, outstanding.

---

---

---

INTERACTIVE BROKERS GROUP, INC.  
 QUARTERLY REPORT ON FORM 10-Q FOR THE QUARTER ENDED SEPTEMBER 30, 2010  
 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 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	27
Item 3:	Quantitative and Qualitative Disclosures About Market Risk	49
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

Financial Statements Introductory Note

Interactive Brokers Group, Inc. (“IBG, Inc.” or the “Company”) is a holding company whose primary asset is its ownership of approximately 10.8% 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 market maker and broker specializing in routing orders and executing and processing trades in securities, futures, foreign exchange instruments, bonds and mutual funds on more than 80 electronic exchanges and trading venues around the world. In the U.S., our business is conducted from our headquarters in Greenwich, Connecticut and from Chicago, Illinois and Jersey City, New Jersey. Abroad, we conduct business through offices located in Canada, England, Switzerland, Hong Kong, India, Australia and Japan. At September 30, 2010 we had 855 employees worldwide.

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

(in thousands, except share data)	September 30, 2010	December 31, 2009
<b>Assets</b>		
Cash and cash equivalents	\$ 1,291,717	\$ 806,560
Cash and securities - segregated for regulatory purposes	7,623,281	6,910,657
Securities borrowed	4,667,660	5,063,026
Securities purchased under agreements to resell	397,170	231,284
Trading assets, at fair value:		
Financial instruments owned	7,088,739	7,809,944
Financial instruments owned and pledged as collateral	2,124,464	1,534,038
	9,213,203	9,343,982
Other receivables:		
Customers, less allowance for doubtful accounts of \$18,212 and \$16,637 at September 30, 2010 and December 31, 2009	5,421,237	3,239,625
Brokers, dealers and clearing organizations	537,438	493,063
Receivable from affiliate	1,188	1,160
Interest	14,774	14,720
	5,974,637	3,748,568
Other assets	492,759	501,474
<b>Total assets</b>	<b>\$ 29,660,427</b>	<b>\$ 26,605,551</b>
<b>Liabilities and equity</b>		
<b>Liabilities:</b>		
Trading liabilities - financial instruments sold but not yet purchased, at fair value		
	\$ 8,340,378	\$ 8,763,201
Securities loaned	1,610,546	1,133,658
Short-term borrowings	148,087	320,803
Other payables:		
Customers	13,413,166	10,587,701
Brokers, dealers and clearing organizations	278,766	164,523
Payable to affiliate	298,982	298,982
Accounts payable, accrued expenses and other liabilities	227,960	244,715
Interest	8,013	9,060
	14,226,887	11,304,981
Senior notes payable	219,632	205,777
Senior secured credit facility	-	-

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

24,545,530 21,728,420

Commitments, contingencies and guarantees

Equity:

Stockholders' equity:

Common stock, \$0.01 par value per share:

Class A – Authorized - 1,000,000,000,  
Issued - 47,784,286

Outstanding – 42,222,349 and  
41,216,779 at September 30,  
2010

and December 31, 2009 478 478

Class B – Authorized, Issued and  
Outstanding – 100 shares

at September 30, 2010 and  
December 31, 2009 - -

Additional paid-in capital 528,586 528,586

Retained earnings 196,176 177,409

Accumulated other comprehensive  
income, net of income taxes of

\$9,816 and \$6,343 at  
September 30, 2010 and  
December 31, 2009 16,891 10,914

Treasury stock, at cost, 5,561,937 and  
6,567,507 shares

at September 30, 2010 and  
December 31, 2009 (118,940) (142,441)

Total stockholders' equity 623,191 574,946

Non-controlling interests 4,491,706 4,302,185

Total equity 5,114,897 4,877,131

Total liabilities and equity \$ 29,660,427 \$ 26,605,551

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 Income  
 (Unaudited)

	Three months ended September 30, 2010		Nine months ended September 30, 2009	
(in thousands, except for shares or per share amounts)				
<b>Revenues:</b>				
Trading gains	\$	168,675	\$	154,709
Commissions and execution fees		90,144		89,007
Interest income		42,350		29,902
Other income		13,928		13,047
Total revenues		315,097		286,665
Interest expense		15,959		15,173
Total net revenues		299,138		271,492
<b>Non-interest expenses:</b>				
Execution and clearing		61,905		69,422
Employee compensation and benefits		49,613		43,015
Occupancy, depreciation and amortization		9,197		10,008
Communications		5,834		6,105
General and administrative		10,669		9,675
Total non-interest expenses		137,218		138,225
Income before income taxes		161,920		133,267
Income tax expense		13,201		13,168
Net income		148,719		120,099
Less net income attributable to non-controlling interests		137,683		111,689
Net income available for common stockholders	\$	11,036	\$	8,410
<b>Earnings per share:</b>				

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

Basic	\$	0.26	\$	0.20	\$	0.45	\$	0.83
Diluted	\$	0.26	\$	0.20	\$	0.44	\$	0.81

Weighted average  
common shares  
outstanding:

Basic	42,222,449	41,214,598	41,750,973	40,891,841
Diluted	42,784,799	41,973,518	42,401,307	41,740,729

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)	Nine months ended September 30,	
	2010	2009
<b>Cash flows from operating activities:</b>		
Net income	\$ 273,174	\$ 442,131
Adjustments to reconcile net income to net cash provided by operating activities:		
Translation losses (gains)	169,454	(23,359)
Deferred income taxes	6,409	19,575
Depreciation and amortization	13,535	15,318
Employee stock plan compensation	30,184	23,777
Losses on non-trading investments, net	2,756	8,565
Bad debt expense and other	2,491	(1,003)
Change in operating assets and liabilities:		
Increase in cash and securities - segregated for regulatory purposes	(712,908)	(1,455,553)
Decrease in securities borrowed	385,707	715,446
(Increase) decrease in securities purchased under agreements to resell	(165,902 )	98,018
Decrease in trading assets	89,774	914,259
Increase in receivables from customers	(2,184,861 )	(1,321,759)
(Increase) decrease in other receivables	(51,618 )	551,807
Decrease (increase) in other assets	3,668	(1,867)
Decrease in trading liabilities	(451,974 )	(2,711,190)
Increase in securities loaned	472,580	153,039
Increase in payable to customers	2,816,952	3,039,265
Increase (decrease) in other payables	73,909	(186,321)
Net cash provided by operating activities	773,330	280,148
<b>Cash flows from investing activities:</b>		
Purchase of investments	(1 )	(9,526)
Distribution received from equity investment	-	2,292
Purchase of property and equipment	(14,510 )	(17,369)
Net cash used in investing activities	(14,511 )	(24,603)
<b>Cash flows from financing activities:</b>		
Dividends paid to non-controlling interests	(114,210 )	(124,748)
Redemption of member interests from IBG Holdings LLC	(27,204 )	(14,738)
Redemption of former member interest	-	(164)
	-	22

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

Reduction in non-controlling interest in subsidiary			
Issuance of senior notes	471,596		362,707
Redemptions of senior notes	(457,741 )		(320,638)
Borrowings under senior secured credit facility	-		800
Repayments of senior secured credit facility	-		(300,800)
(Decrease) increase in short-term borrowings, net	(181,652 )		30,297
Net cash used in financing activities	(309,211 )		(367,262)
Effect of exchange rate changes on cash and cash equivalents	35,549		28,155
Net increase (decrease) in cash and cash equivalents	485,157		(83,562)
Cash and cash equivalents at beginning of period	806,560		943,497
Cash and cash equivalents at end of period	\$ 1,291,717	\$	859,935
<b>Supplemental disclosures of cash flow information:</b>			
Cash paid for interest	\$ 49,880	\$	59,188
Cash paid for taxes	\$ 64,257	\$	99,931

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 Changes in Equity

Nine months ended September 30, 2010

(Unaudited)  
(in  
thousands,  
except  
for share  
amounts)

	Common Stock					Accumulated	Total	Non-
	Shares	Par Value	Additional Paid-In Capital	Treasury Stock	Retained Earnings	Other Comprehensive Income	Stockholders' Equity	controlling Interest
Balance, January 1, 2010	41,216,879	\$	478 \$	528,586 \$	(142,441) \$	\$	10,914 \$	574,946 \$
Common Stock distributed to employees	1,005,570			23,501				23,501
Redemption of non-controlling interests								
Dividends paid by IBG LLC to non-controlling interests							-	
Comprehensive income:								
Net income					18,767			18,767
Cumulative translation adjustment, net of income taxes of \$3,473						5,977		5,977
Total comprehensive income					18,767	5,977		24,744

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

Balance, September 30, 2010	42,222,449 \$	478 \$	528,586 \$	(118,940) \$	\$	16,891 \$	623,191 \$
					196,176		

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 10.8% 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 market maker and electronic broker specializing in routing orders and processing trades in securities, futures and foreign exchange instruments.

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

Certain of the Operating Companies are members of various securities and commodities exchanges in North America, Europe and the Asia/Pacific region. Other than IB LLC, IBUK, IBC and IBI, the Operating Companies do not carry securities accounts for customers or perform custodial functions relating to customer securities.

2. Significant Accounting Policies

Basis of Presentation

These unaudited condensed consolidated financial statements as of and for the three and nine month periods ended September 30, 2010 and 2009 and the unaudited condensed consolidated statement of financial condition as of December 31, 2009 reflect IBG, Inc. and its subsidiaries and are presented in U.S. dollars and have been prepared pursuant to the rules and regulations of the U.S. Securities and Exchange Commission ("SEC") regarding financial reporting with respect to Form 10-Q. Accordingly, they do not include all of the information and footnotes required for full financial statements by accounting standards under the Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("Codification" or "ASC"). 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 26, 2010.

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

The Company has reclassified \$181,721 of securities purchased under agreements to resell as of December 31, 2009 to cash and securities - segregated for regulatory purposes in the unaudited condensed consolidated statement of financial condition.

#### Principles of Consolidation

The unaudited condensed consolidated financial statements include the accounts of IBG, Inc. and its majority and wholly owned subsidiaries. The Company's policy is to consolidate all entities of which it owns more than 50% unless it does not have control. As sole managing member of IBG LLC, IBG, Inc. exerts control over the Group's operations. In accordance with ASC 810, 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. 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 Consolidation of which it is the primary beneficiary. IBG, Inc. currently is not the primary beneficiary of any such entities and therefore no VIEs are included in the unaudited condensed consolidated financial statements.

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)

### Use of Estimates

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

### Fair Value

At September 30, 2010 and December 31, 2009, substantially all of IBG, Inc.'s assets and liabilities, including financial instruments, were carried at fair value based on published market prices and 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 Measurements and Disclosures, 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 Unadjusted quoted prices in active markets that are

- 1 accessible at the measurement date for identical, unrestricted assets or liabilities;

Level Quoted prices in markets that are not considered to be

- 2 active or financial instruments for which all significant inputs are observable, either directly or indirectly; and

Level Prices or valuations that require inputs that are both

- 3 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. Level 1 financial instruments, which are valued using quoted market prices as published by exchanges and clearing houses or otherwise broadly distributed in active markets, include U.S. government and sovereign obligations, active listed securities, options, futures, options on futures and corporate 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 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, as are investments in restricted common stock, which investments are reported in other assets in the accompanying unaudited condensed consolidated statement of

financial condition.

#### Earnings Per Share

Earnings per share (“EPS”) is 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 Borrowed and Securities Loaned

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

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

#### Securities Purchased Under Agreements to Resell

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 income.

#### Customer Receivables and Payables

Customer securities transactions are recorded on a settlement date basis and customer commodities transactions are recorded on a trade date basis. Receivables from and payables to customers include amounts due on cash and margin transactions, including

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)

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 and accounts for these investments under the equity method of accounting or the cost 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 investment and adjusted each period for IBG, Inc.’s share of the investee’s income or loss. IBG, Inc.’s share of the income or losses from equity investments is reported as a component of other income in the unaudited condensed consolidated statements of income and the recorded amounts of IBG, Inc.’s equity investments, which are included in other assets in the unaudited condensed consolidated statements of financial condition, increase or decrease accordingly. Distributions received from equity investees are recorded as reductions to the respective investment balance.

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

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

### Comprehensive Income and Foreign Currency Translation

Comprehensive income consists of two components: net income and other comprehensive income. Other comprehensive income refers to revenues, expenses, gains and losses that are included in stockholders' equity but are excluded from net income.

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.'s other comprehensive income is comprised of foreign currency translation adjustments.

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 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 income.

##### — Commissions and Execution Fees

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

#### Income Taxes

IBG, Inc. accounts for income taxes in accordance with ASC 740, Income Taxes, which requires the recognition of tax benefits or expenses on the temporary differences between the financial reporting and tax bases of assets and liabilities, including the accounting for uncertainty of income tax positions recognized in financial statements, prescribing a "more likely than not" threshold and measurement attribute for recognition in the financial statements of an asset or liability resulting from a tax position taken or expected to be taken in an income tax return.

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

The Group has historically operated in the United States as a limited liability company that was treated as a partnership for U.S. federal income tax purposes. Accordingly, the Group's income, which is allocated proportionately to the Group's members, the Company and IBG Holdings LLC, is not subject to U.S. federal income taxes at the Group level. Taxes related to income earned by partnerships represent obligations of the individual partners. Therefore, income taxes attributable to the Group and included in income tax expense in the Company's unaudited condensed consolidated statements of income are primarily incurred in non-U.S. subsidiaries. Outside the

United States, the Group principally operates through subsidiary corporations and is subject to local income taxes. In addition, state and local income taxes include taxes assessed on the Group by jurisdictions that do not recognize the Group's limited liability company status. Foreign income taxes paid by the Group on dividends received are also reported as income taxes.

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

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

## Recently Issued Accounting Pronouncements

Subsequent to the adoption of the ASC, the FASB will issue Accounting Standards Updates (“ASU’s”) as the means to add to or delete from, or otherwise amend the ASC. In 2010, prior to the issuance of the Company’s unaudited condensed consolidated financial statements, ASU’s 2010-1 through ASU 2010-26 were issued. Following is a summary of recently issued ASU’s that may affect the Company’s unaudited condensed consolidated financial statements:

	Affects	Status
ASU 2009-12	Investments in Certain Entities That Calculate Net Asset Value per Share (or its equivalent) – Amends ASC 820 to offer investors a practical expedient for measuring the fair value of investments in certain entities that calculate net asset value per share	Periods ending after December 15, 2009
ASU 2009-13	Multiple Deliverable Revenue Arrangements – Amends ASC 605-25	Fiscal years beginning on or after June 15, 2010, early adoption permitted
ASU 2009-14	Certain Revenue Arrangements That Include Software Elements – Amends ASC 985-605 and 985-605-13 to exclude from their scope tangible products that contain software and non-software components that function together to deliver the products essential functionality	Fiscal years beginning on or after June 15, 2010, early adoption permitted
ASU 2009-15	Accounting for Own-Share Lending Arrangements in Contemplation of Convertible Debt Issuance or Other Financing	Periods beginning on or after December 15, 2009
ASU 2009-16	Transfers and Servicing: Accounting or Transfers of Financial Assets – Amends ASC 860 – eliminates exceptions for qualifying special purpose entities and for certain mortgage securitizations	Periods beginning after November 15, 2009
ASU 2009-17	Improvements to Financial Reporting by Enterprises Involved with Variable Interest Enterprises – Amends ASC 810 for the issuance of SFAS No. 167	Periods beginning on or after December 15, 2009
ASU 2010-09	Subsequent Events (Topic 855) – Amendments to Certain Recognition and Disclosure Requirements	Effective on issuance
ASU 2010-11	Derivatives and Hedging (Topic 815) - Scope Exception related to Embedded Credit Derivatives	First fiscal quarter beginning after June 15, 2010, early adoption permitted at the beginning of the first fiscal quarter after issuance.

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

ASU 2010-12	Income Taxes (Topic 740) - Accounting for Certain Tax Effects of the 2010 Health Care Reform Acts	Effective on issuance.
ASU 2010-13	Compensation - Stock Compensation (Topic 718) - Effect of Denominating the Exercise Price of a Share-Based Payment Award in the Currency of the Market in Which the Underlying Equity Security Trades	Fiscal years, and interim periods within those fiscal years, beginning after December 15, 2010. Early application is permitted.



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

Adoption of those ASU's that became effective during 2009 and in 2010, 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 ASU's 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. The Work Plan is expected to provide the SEC with information to be able to conclude whether IFRS should be adopted for U.S. registrants. While neither the February statement nor the Work Plan define a certain date for adoption of IFRS, both documents stated an expectation that a decision on whether the SEC would mandate adoption of IFRS is expected to be made in 2011. If a decision to adopt IFRS is made at that point in time, initial adoption for U.S. registrants would be approximately 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 continues to assess the potential impact of adopting IFRS on the Company's unaudited condensed consolidated financial statements.

#### Other

ASC 860, Transfers and Servicing, incorporates former SFAS No. 166, Accounting for Transfers of Financial Assets, an amendment of FASB No. 140, was issued in June 2009 and became effective for interim and annual periods beginning after January 1, 2010. These provisions of ASC 860 require more information about transfers of financial assets, including securitization transactions, and where entities have continuing exposure to the risks related to transferred financial assets. The concept of a "qualifying special-purpose entity" ("SPE") was eliminated under these provisions of ASC 860, which also changed the requirements for derecognizing financial assets and requires additional disclosures. Adoption of these provisions did not have a material effect on the Company's unaudited condensed consolidated financial statements.

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

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)

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

#### Currency Risk

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

#### 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.

In the normal course of business, IBG, Inc. executes, settles and finances various customer securities transactions. Execution of these transactions includes the purchase and sale of securities by IBG, Inc. that exposes IBG, Inc. to default risk arising from the potential that customers or counterparties may fail to satisfy their

obligations. In these situations, IBG, Inc. may be required to purchase or sell financial instruments at unfavorable market prices to satisfy obligations to customers or counterparties. IBG, Inc. seeks to control the risks associated with its customer margin activities by requiring customers to maintain collateral in compliance with regulatory and internal guidelines.

Liabilities to other brokers and dealers related to unsettled transactions (i.e., securities failed-to-receive) are recorded at the amount for which the securities were purchased, and are paid upon receipt of the securities from other brokers or dealers. In the case of aged securities failed-to-receive, IBG, Inc. may purchase the underlying security in the market and seek reimbursement for any losses from the counterparty.

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

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)

collateral to be deposited with or returned to IBG, Inc. as permitted under contractual provisions.

#### Concentrations of Credit Risk

IBG, Inc.'s exposure to credit risk associated with its trading and other activities is measured on an individual counterparty basis, as well as by groups of counterparties that share similar attributes. Concentrations of credit risk can be affected by changes in political, industry, or economic factors. To reduce the potential for risk concentration, credit limits are established and exposure is monitored in light of changing counterparty and market conditions. As of September 30, 2010, 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 initial public offering ("IPO") in May 2007, IBG, Inc. purchased 10.0% of the membership interests in IBG LLC from IBG Holdings LLC, became the sole managing member of IBG LLC and began to consolidate IBG LLC's financial results into its financial statements. IBG Holdings LLC wholly owns all Class B common stock, which common stock has voting rights in proportion to its ownership interests in IBG LLC, approximately 89.2% as of September 30, 2010. The unaudited condensed consolidated financial statements report the financial position, results of operations and cash flows of IBG, Inc., including consolidation of its investment in IBG LLC from May 4, 2007, and IBG Holdings LLC's ownership interests in IBG LLC, which interests 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.

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 Common Stock, although there have been no such additional sales of Common Stock through September 30, 2010. Three hundred sixty (360) million shares of authorized Common Stock were reserved for such future sales.

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 lieu of a sale of Common Stock, the Exchange Agreement provides that IBG LLC, using its available liquidity, may facilitate the redemption by IBG Holdings LLC of interests held by its members. 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
2008	\$	72,015	\$ 29.99
2009		14,738	14.85
2010		27,204	16.80

As a consequence of these transactions, and distribution of shares to employees (Note 8), IBG, Inc.'s interest in IBG LLC has increased to approximately 10.8%, with IBG Holdings LLC owning the remaining 89.2% as of September 30, 2010. The redemptions also resulted in an increase in the IBG Holdings LLC interest held by Thomas Peterffy and his affiliates from approximately 84.6% at the IPO to approximately 85.8% at September 30, 2010.

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 September 30, 2010 and December 31, 2009, 1,000,000,000 shares of Class A common stock were authorized, of which 47,784,286 shares have been issued; and 42,222,349 and 41,216,779 shares were outstanding, respectively. Class B common stock is comprised of 100 authorized shares, of which 100 shares were issued and outstanding as of September 30, 2010 and December 31, 2009, respectively. In addition, 10,000 shares of preferred stock have been authorized, of which no shares are issued or outstanding as of September 30, 2010 and December 31, 2009, 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. A deferred tax asset of \$380,785 was recorded as of the IPO date, which deferred tax asset is a component of Other Assets in the unaudited condensed consolidated statement of financial condition and is being amortized as additional deferred income tax expense over 15 years, as allowable under current tax law. As of September 30, 2010 and December 31, 2009, the unamortized balance of the deferred tax asset was \$318,497 and \$333,304, respectively. IBG, Inc. also entered into an agreement (the "Tax Receivable Agreement") with IBG Holdings LLC to pay IBG Holdings LLC (for the benefit of the former members of IBG LLC) 85% of the tax savings that IBG, Inc. actually realizes as the result of the tax basis increase. As of the IPO date, a payable to IBG Holdings LLC of \$323,668 was recorded by IBG, Inc. and is reported as Payable to Affiliate in the unaudited condensed consolidated statement of financial condition. Amounts payable under the Tax Receivable Agreement are subject to repayment to IBG Holdings LLC annually upon the filing of IBG, Inc.'s federal income tax return. The remaining 15%, \$57,117, was accounted for as a permanent increase to additional paid-in capital in the unaudited condensed consolidated statement of financial condition. The Company paid IBG Holdings LLC \$14,788 and \$9,898 in December 2009 and 2008, respectively, pursuant to the terms of the Tax Receivable Agreement.





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:

	Three months ended September 30,		Nine months ended September 30,	
	2010	2009	2010	2009
Basic earnings per share:				
Net income available for common stockholders	\$ 11,036	\$ 8,410	\$ 18,767	\$ 33,850
Weighted average shares of common stock outstanding:				
Class A	42,222,349	41,214,498	41,750,873	40,891,741
Class B	100	100	100	100
	42,222,449	41,214,598	41,750,973	40,891,841
Basic earnings per share	\$ 0.26	\$ 0.20	\$ 0.45	\$ 0.83

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:

	Three months ended September 30,		Nine months ended September 30,	
	2010	2009	2010	2009
Diluted earnings per share:				
Net income available for common stockholders - basic	\$ 11,036	\$ 8,410	\$ 18,767	\$ 33,850
Adjustments for potentially dilutive common shares	-	-	-	-
Net income available for common stockholders	\$ 11,036	\$ 8,410	\$ 18,767	\$ 33,850
Weighted average shares of common stock				

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

outstanding:

Class A:				
Issued and outstanding	42,222,349	41,214,498	41,750,873	40,891,741
Potentially dilutive common shares:				
Issuable pursuant to 2007 ROI Unit Stock Plan	562,350	758,920	650,334	848,888
Class B				
	100	100	100	100
	42,784,799	41,973,518	42,401,307	41,740,729
Diluted earnings per share	\$ 0.26	\$ 0.20	\$ 0.44	\$ 0.81

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. 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 September 30, 2010 and December 31, 2009. As required by ASC 820, assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement.

## Financial Assets At Fair Value as of September 30, 2010

	Level 1	Level 2	Level 3	Total
Securities segregated for regulatory purposes	\$ -	\$ 441,054	\$ -	\$ 441,054
Financial instruments owned:				
Stocks	3,980,366	-	-	3,980,366
Options	4,441,182	143	-	4,441,325
U.S. and foreign government obligations	531,293	-	-	531,293
Warrants	114,537	-	-	114,537
Corporate and municipal bonds	54,593	49,835	-	104,428
Discount certificates	41,254	-	-	41,254
	9,163,225	49,978	-	9,213,203
Other assets - investments in common stock	-	6,644	-	6,644
	\$ 9,163,225	\$ 497,676	\$ -	\$ 9,660,901

## Financial Liabilities At Fair Value as of September 30, 2010

	Level 1	Level 2	Level 3	Total
Financial instruments sold, not yet purchased:				
Stocks	\$ 3,805,466	\$ -	\$ -	\$ 3,805,466
Options	4,426,819	-	-	4,426,819

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

Corporate bonds	51,715	47,351	-	99,066
Currency forward contracts	-	9,027	-	9,027
	\$ 8,284,000	\$ 56,378	\$ -	\$ 8,340,378

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, 2009

	Level 1	Level 2	Level 3	Total
Securities segregated for regulatory purposes	\$ -	\$ 441,391	\$ -	\$ 441,391
Financial instruments owned:				
Stocks	4,052,636	-	-	4,052,636
Options	4,717,693	-	-	4,717,693
U.S. and foreign government obligations	358,489	-	-	358,489
Warrants	88,093	-	-	88,093
Corporate bonds	54,157	26,393	-	80,550
Discount certificates	46,521	-	-	46,521
	9,317,589	26,393	-	9,343,982
	\$ 9,317,589	\$ 467,784	\$ -	\$ 9,785,373

Financial Liabilities At Fair Value as of December 31, 2009

	Level 1	Level 2	Level 3	Total
Financial instruments sold, not yet purchased:				
Stocks	\$ 4,349,918	\$ -	\$ -	\$ 4,349,918
Options	4,336,625	-	-	4,336,625
Corporate bonds	41,010	35,022	-	76,032
Currency forward contracts	-	626	-	626
	\$ 8,727,553	\$ 35,648	\$ -	\$ 8,763,201

## 6. 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 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. At September 30, 2010, no borrowings were outstanding under this credit facility and IBG LLC was in compliance with all of the covenants. This credit facility replaced a \$100 million senior secured revolving credit facility that matured on May 19, 2010.

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)

7. Senior Notes Payable

At September 30, 2010 and December 31, 2009, IBG LLC had \$219,632 and \$205,777, respectively, of senior notes outstanding. All senior notes outstanding at December 31, 2009 carried a 7% per annum interest rate. Senior notes issued during and subsequent to September 2010 have a 5% per annum interest rate. \$174,226 of the senior notes outstanding at September 30, 2010 were 7% notes and \$45,406 were 5% notes. All senior notes have either a 15-month or an 18-month maturity. IBG LLC may, solely at its option, redeem the senior notes at any time on or after a specified date in the third month or the sixth month, respectively, after the date on which the senior notes are issued and sold, at a redemption price equal to 100% of the principal amount of the senior notes to be redeemed plus accrued interest.

8. Employee Incentive Plans

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

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

As of September 30, 2010 and December 31, 2009, payables to employees for ROI Dollar Units were \$16,404 and \$22,276, respectively. Of these payable amounts, \$4,613 and \$6,633 were vested as of September 30, 2010 and December 31, 2009, respectively. These amounts are included in accounts payable, accrued expenses and other liabilities in the unaudited condensed consolidated statements of financial condition. Compensation expense for the ROI Dollar Unit plan, included in the unaudited condensed consolidated statements of income was \$1,103, and \$3,628 for the nine months ended September 30, 2010 and 2009, 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
- an additional 15% on each of the first six anniversaries of the date of the IPO, assuming continued employment with IBG, Inc. and compliance with other applicable covenants.

Of the fair value at the date of grant, \$17,806 represented the accumulated ROI Dollar Unit value elected to be invested by employees in Common Stock and such amount was accrued for as of December 31, 2006. The remainder is being ratably accrued as compensation expense by the Group from the date of the IPO over the requisite service period represented by the aforementioned distribution schedule. Compensation expense for the 2007 ROI Unit Stock Plan and related grants under the 2007 Stock Incentive Plan, net of the effect of forfeitures, included in the unaudited condensed consolidated statements of income for the nine months ended September 30, 2010 and 2009 was \$2,564 and \$2,791, respectively. Estimated future compensation costs for granted awards at September 30, 2010 were \$9.9 million.



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)

2007 Stock Incentive Plan

Under the Interactive Brokers Group, Inc. 2007 Stock Incentive Plan (the "Stock Incentive Plan"), up to 9.2 million shares of Common Stock may be granted and issued to directors, officers, employees, contractors and consultants of IBG, Inc. and its subsidiaries. The purpose of the Stock Incentive Plan is to promote IBG, Inc.'s long-term financial success by attracting, retaining and rewarding eligible participants.

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

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

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

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

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

Shares granted to directors vest, and are distributed, over a five-year period (20% per year) commencing one year after the date of grant.

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

Fair Value at  
Date of Grant

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

	Shares		(\$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
	6,513,277	\$	139,523

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)

Total share distributions under the SIP and ROI Unit Stock Plan have been as follows:

	Total Shares	Fair Value at Date of Grant (\$000's)	Shares sold by employees to meet withholding obligations
In connection with IPO	189,617	\$ 5,681	45,857
May 9, 2008	458,655	13,881	121,852
May 11, 2009	680,164	17,898	175,362
May 9, 2010	1,005,570	23,501	265,971

During the third quarter of 2007, the 45,857 shares sold by employees, at their election, in order to meet their personal income tax obligations incurred as a result IPO share distributions were purchased by IBG, Inc. and were recorded as Treasury Stock. Subsequent elective open market employee sales upon share distributions have been facilitated by the Company.

The following is a summary of Stock Plan activity for the period from January 1, 2010 through September 30, 2010:

	2007 Stock Incentive Plan	Shares 2007 ROI Unit Stock Plan
Balance, December 31, 2009	5,641,054	733,562
Granted	-	-
Forfeited	(44,273)	(2,179)
Distributed	(820,923)	(184,647)
Balance, September 30, 2010	4,775,858	546,736

Estimated future grants under the Stock Incentive Plan are being accrued for ratably during each year under the ASC 718 "Graded Vesting" method. Compensation expense recognized in the unaudited condensed consolidated statements of income for the nine months ended September 30, 2010 and 2009 was \$27,621 and \$20,987, respectively. Estimated future compensation costs for granted awards at September 30, 2010 were \$43.4 million.

Shares granted under the 2007 ROI Unit Stock Plan and the Stock Incentive Plan are subject to forfeiture in the event an employee ceases employment with the Company. The plans provide that employees who discontinue employment with the Company without cause and continue to meet the terms of the plans' post-employment provisions will forfeit

50% of unvested previously granted shares unless the employee is over the age of 59, in which case the employee would be eligible to receive 100% of unvested shares previously granted.

## 9. Commitments, Contingencies and Guarantees

### Litigation

IBG, Inc. is subject to certain pending and threatened legal actions which arise out of the normal course of business. Litigation is inherently unpredictable, particularly in proceedings where claimants seek substantial or indeterminate damages, or which are in their early stages. IBG, Inc. cannot predict with certainty the actual loss or range of loss related to such legal proceedings, the manner in which they will be resolved, the timing of final resolution or the ultimate settlement. Consequently, IBG, Inc. cannot estimate losses or ranges of losses related to such legal matters, even in instances where it is reasonably possible that a future loss will be incurred. 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.

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. accounts for potential losses related to litigation in accordance with ASC 450, Contingencies. As of September 30, 2010 and December 31, 2009, 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 on the unaudited condensed consolidated statements of financial condition for these arrangements.

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

#### 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.

### 10. Segment and Geographic Information

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

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

Management believes that the following information by business segment provides a reasonable representation of each segment's contribution to total net revenues and income before income taxes for the three and nine months ended September 30, 2010 and 2009 and to total assets as of September 30, 2010 and December 31, 2009:

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)

	Three months ended September 30,		Nine months ended September 30,	
	2010	2009	2010	2009
<b>Net revenues:</b>				
Market making	\$ 170,739	\$ 150,182	\$ 335,164	\$ 551,117
Electronic brokerage	129,368	121,486	401,141	349,267
Corporate and eliminations	(969)	(176)	(461)	(453)
<b>Total net revenues</b>	<b>\$ 299,138</b>	<b>\$ 271,492</b>	<b>\$ 735,844</b>	<b>\$ 899,931</b>

<b>Income before income taxes:</b>				
Market making	\$ 103,987	\$ 74,605	\$ 113,332	\$ 334,329
Electronic brokerage	63,484	62,090	200,180	169,623
Corporate and eliminations	(5,551)	(3,428)	(14,603)	(11,630)
<b>Total income before income taxes</b>	<b>\$ 161,920</b>	<b>\$ 133,267</b>	<b>\$ 298,909</b>	<b>\$ 492,322</b>

	September 30, 2010	December 31, 2009
<b>Segment assets:</b>		
Market making	\$ 17,564,273	\$ 17,708,334
Electronic brokerage	15,502,289	12,289,387
Corporate and eliminations	(3,406,135)	(3,392,170)
<b>Total assets</b>	<b>\$ 29,660,427</b>	<b>\$ 26,605,551</b>

IBG, Inc. operates its automated global business in U.S. and international markets on more than 80 exchanges and market centers. A significant portion of IBG, Inc.'s net revenues are generated by subsidiaries operating outside the United States. International operations are comprised of market making and electronic brokerage activities in 26 countries in Europe, Asia and North America (outside the United States). The following table presents total net revenues and income before income taxes by geographic area for the three and nine months ended September 30, 2010 and 2009:

	Three months ended September 30,		Nine months ended September 30,	
	2010	2009	2010	2009
Net revenues:				
United States	\$ 229,496	\$ 209,104	\$ 573,428	\$ 612,925
International	73,423	62,458	166,054	287,408
Corporate and eliminations	(3,781)	(70)	(3,638)	(402)
Total net revenues	\$ 299,138	\$ 271,492	\$ 735,844	\$ 899,931
Income before income taxes:				
United States	\$ 147,317	\$ 124,446	\$ 311,445	\$ 362,293
International	22,779	12,208	5,072	141,649
Corporate and eliminations	(8,176)	(3,387)	(17,608)	(11,620)
Total income before income taxes	\$ 161,920	\$ 133,267	\$ 298,909	\$ 492,322



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)

## 11. Regulatory Requirements

At September 30, 2010, aggregate excess regulatory capital for all of the Operating Companies was \$3,394,488.

TH LLC and IB LLC are subject to the Uniform Net Capital Rule (Rule 15c3-1) under the Exchange Act and the CFTC's minimum financial requirements (Regulation 1.17). At September 30, 2010, TH LLC had net capital of \$901,342, which was \$858,519 in excess of required net capital of \$42,823, and IB LLC had net capital of \$1,077,689, which was \$944,509 in excess of required net capital of \$133,180.

THE is subject to the Swiss Financial Market Supervisory Authority eligible equity requirement. At September 30, 2010, THE had eligible equity of \$1,588,334, which was \$1,233,960 in excess of the minimum requirement of \$354,374.

THSHK is subject to the Hong Kong Securities Futures Commission liquid capital requirement, THA is subject to the Australian Stock Exchange liquid capital requirement, THC and IBC are subject to the Investment Industry Regulatory Organization of Canada risk adjusted capital requirement, IBUK is subject to the U.K. Financial Services Authority financial resources requirement, IBI is subject to the National Stock Exchange of India net capital requirements and IBSJ is subject to the Japanese Financial Supervisory Agency capital requirements.

At September 30, 2010, all of the Operating Companies were in compliance with their respective regulatory capital requirements.

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

## 12. 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).

Included in receivable from customers in the accompanying unaudited condensed consolidated statement of financial condition as of September 30, 2010 and December 31, 2009 were account receivables from directors, officers and their affiliates of \$53 and \$7,136, respectively. Included in payable to customers in the accompanying unaudited condensed consolidated statements of financial condition as of September 30, 2010 and December 31, 2009 were payables to directors, officers and their affiliates of \$227,079 and \$123,689, respectively. Included in senior notes payable at September 30, 2010 and December 31, 2009 were senior notes purchased by directors and their affiliates of \$13,507 and \$15,210, respectively.

## 13. Subsequent Events

As required by ASC 855-10-50, the Company has evaluated subsequent events for adjustment to or disclosure in its unaudited condensed consolidated financial statements through November 8, 2010, the date the unaudited condensed

consolidated financial statements were issued. No recordable or disclosable events occurred through this date.

\*\*\*\*\*

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

The following discussion should be read in conjunction with the unaudited condensed consolidated financial statements and the related notes in Item 1, included elsewhere in this report. In addition to historical information, the following discussion also contains forward-looking statements that include risks and uncertainties. Our actual results may differ materially from those anticipated in these forward-looking statements as a result of certain factors, including those set forth under the heading "Risk Factors" in our Annual Report on Form 10-K filed with the SEC on February 26, 2010 and elsewhere in this report.

### Introduction

IBG, Inc. is a holding company whose primary asset is ownership of approximately 10.8% of the membership interests of the Group.

We are an automated global electronic market maker and broker specializing in routing orders and executing and processing trades in securities, futures and foreign exchange instruments on more than 80 electronic exchanges and trading venues around the world. Since our inception in 1977, we have focused on developing proprietary software to automate broker-dealer functions. The advent of electronic exchanges in the last 20 years has provided us with the opportunity to integrate our software with an increasing number of exchanges and trading venues into one automatically functioning, computerized platform that requires minimal human intervention.

### Business Segments

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

- **Market Making.** We conduct our market making business through our 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 610,000 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.
- **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 80 exchanges and market centers and in 19 countries around the world seamlessly.

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

## Executive Overview

**Third Quarter Results:** Diluted earnings per share were \$0.26 for the three months ended September 30, 2010, 30% higher than the \$0.20 earned for the three months ended September 30, 2009.

**Consolidated:** For the three months ended September 30, 2010, our net revenues were \$299.1 million and income before income taxes was \$161.9 million, compared to net revenues of \$271.5 million and income before income taxes of \$133.1 million for the same period in 2009. Trading gains increased 9% in the three months ended September 30, 2010, compared to the same period last year due, in part, to currency translation gains resulting from our policy of maintaining our equity in proportion to a basket of major currencies we call the GLOBAL. Commissions and execution fees increased by 1% on increased customer trading activity for the same time period. Net interest income increased 78% in the three months ended September 30, 2010, compared to the same period last year driven by increases in customer cash balances and fully secured margin borrowings. Our pre-tax margin for the three months ended September 30, 2010 was 54%, compared to 49% for the same period in 2009.

**Market Making:** During the three months ended September 30, 2010, income before income taxes in our market making segment increased 39%, compared with the same period in 2009. This was driven by currency fluctuations, which had a positive impact on our trading gains. However, during the third quarter of 2010, bid/offer spreads contracted and the ratio of actual to implied volatility

decreased as compared to the second quarter of 2010, resulting in a difficult trading environment. Execution and clearing expenses were lower, due to the expansion of the maker-taker pricing model on U.S. options exchanges. As a market maker under the maker-taker pricing model we are paid for providing liquidity instead of being charged payment for order flow (“PFOF”) fees. Pre-tax margin increased to 61% in the third quarter of 2010 compared to 50% in the same period of 2009.

We actively manage our global currency exposure by maintaining our equity in proportion to a defined basket of major currencies. Roughly half of our equity is denominated in currencies other than U.S. dollars. The U.S. dollar’s weakening relative to other key currencies during this quarter had an estimated \$44 million positive effect on our market making earnings, as reported in U.S. dollars. Further discussion of our approach to managing foreign currency risk is contained in Part I, Item 3 of this Quarterly Report on Form 10-Q entitled “Quantitative and Qualitative Disclosures about Market Risk.”

**Brokerage:** During the three months ended September 30, 2010, income before income taxes in our electronic brokerage segment increased 2% compared to the same period in 2009. This reflects an increase in net interest income, and slightly higher commission revenues, partially offset by higher execution and clearing expenses compared to the same period last year. The increase in net interest income was attributable to increases in interest earned on higher customer cash balances and fully secured margin borrowings. Pre-tax margin decreased slightly from 51% to 49% for the three months ended September 30, 2009 and 2010, respectively. In the second quarter of 2010 we had lowered our commissions for U.S. futures by about 10%, on an average order. This reduced our gross margin slightly, but contributed to a 26% increase in futures trading volume from the third quarter of 2009. Total Daily Average Revenue Trades (“DARTs”) for cleared and execution-only customers increased 4% to approximately 355,000 during the three months ended September 30, 2010, compared to approximately 340,000 during the three months ended September 30, 2009. The number of customer accounts grew 18% from the year-ago quarter.

**Nine months results:** Diluted earnings per share were \$0.44 for the nine months ended September 30, 2010, 46% lower than the \$0.81 earned for the nine months ended September 30, 2009.

**Consolidated:** For the nine months ended September 30, 2010, our net revenues were \$735.8 million and income before income taxes was \$298.9 million, compared to net revenues of \$899.9 million and income before income taxes of \$492.3 million for the same period in 2009. Trading gains decreased 41% in the nine months ended September 30, 2010, compared to the same period last year while commissions and execution fees increased 10% compared to the year-ago period and net interest income increased 100%. Our pre-tax margin for the nine months ended September 30, 2010 was 41%, compared to 55% for the same period in 2009.

**Market Making:** During the nine months ended September 30, 2010, income before income taxes in our market making segment decreased 66%, compared with the same period in 2009. This was driven by more difficult market conditions, with tighter bid/offer spreads during the first three quarters of 2010 and by currency fluctuations, which had a negative impact on our trading gains. Pre-tax margin decreased to 34% in the first nine months of 2010 compared to 61% in the same period of 2009.

**Brokerage:** During the nine months ended September 30, 2010, income before income taxes in our electronic brokerage segment increased 18% compared to the same period in 2009, driven by higher commissions and execution fees and net interest income, partially offset by increased execution and clearing expenses. Pre-tax margin increased from 49% to 50% between the two comparative time periods. Customer equity grew by 41% to \$18.9 billion at September 30, 2010, compared to \$13.4 billion at September 30, 2009; and total DARTs for our cleared and execution-only customers grew by 10%.

Market making, by its nature, does not produce predictable earnings. Our results in any given period may be materially affected by volumes in the global financial markets, the level of competition and other factors. Electronic brokerage is more predictable, but it is dependent on customer activity, growth in customer accounts and assets, interest rates and other factors. For a further discussion of the factors, that may affect our future operating results, please see the description of risk factors in our Annual Report on Form 10-K filed with the SEC on February 26, 2010.

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	
2005	54,044		34,800		7,380		96,224		382
2006	66,043	22%	51,238	47%	12,828	74%	130,109	35%	518
2007	99,086	50%	72,931	42%	16,638	30%	188,655	45%	752
2008	101,672	3%	120,195	65%	16,966	2%	238,833	27%	944
2009	93,550	-8%	127,338	6%	13,636	-20%	234,524	-2%	934
3Q2009	22,692		32,231		3,246		58,169		909
3Q2010	17,796	-22%	31,894	-1%	4,746	46%	54,436	-6%	851

CONTRACT AND SHARE VOLUMES:

(in 000's, except %)

TOTAL

Period	Options (contracts)		Futures* (contracts)		Stocks (shares)	
		% Change		% Change		% Change
2005	409,794		44,560		21,925,120	
2006	563,623	38%	62,419	40%	34,493,410	57%
2007	673,144	19%	83,134	33%	47,324,798	37%
2008	757,732	13%	108,984	31%	55,845,428	18%
2009	643,380	-15%	82,345	-24%	75,449,891	35%
3Q2009	156,352		19,480		20,787,693	
3Q2010	163,298	4%	24,094	24%	18,665,413	-10%

MARKET MAKING

Period	Options (contracts)		Futures* (contracts)		Stocks (shares)	
		% Change		% Change		% Change
2005	308,613		11,551		15,625,801	
2006	371,929	21%	14,818	28%	21,180,377	36%
2007	447,905	20%	14,520	-2%	24,558,314	16%
2008 **	514,629	15%	21,544	48%	26,008,433	6%
2009 **	428,810	-17%	15,122	-30%	26,205,229	1%
3Q2009 **	100,624		3,673		6,373,930	
3Q2010 **	107,602	7%	4,225	15%	4,411,226	-31%

\* Includes options on futures

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



CONTRACT AND SHARE VOLUMES, continued:

(in 000's, except %)

BROKERAGE TOTAL

Period	Options (contracts)	% Change	Futures* (contracts)	% Change	Stocks (shares)	% Change
2005	101,181		33,009		6,299,319	
2006	191,694	89%	47,601	44%	13,313,033	111%
2007	225,239	17%	68,614	44%	22,766,484	71%
2008	243,103	8%	87,440	27%	29,836,995	31%
2009	214,570	-12%	67,223	-23%	49,244,662	65%
3Q2009	55,728		15,807		14,413,763	
3Q2010	55,696	0%	19,869	26%	14,254,187	-1%

BROKERAGE CLEARED

Period	Options (contracts)	% Change	Futures* (contracts)	% Change	Stocks (shares)	% Change
2005	23,456		30,646		5,690,308	
2006	32,384	38%	45,351	48%	12,492,870	120%
2007	51,586	59%	66,278	46%	20,353,584	63%
2008	77,207	50%	85,599	29%	26,334,752	29%
2009	93,868	22%	66,241	-23%	46,627,344	77%
3Q2009	25,433		15,520		13,791,485	
3Q2010	22,930	-10%	19,399	25%	13,455,306	-2%

\* Includes options on futures

BROKERAGE STATISTICS:

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

	3Q2010	3Q2009	% Change
Total Accounts	151	128	18%
Customer Equity (in billions) *	\$18.9	\$13.4	41%
Cleared DARTs	320	307	4%
Total Customer DARTs	355	340	4%

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

	3Q2010	3Q2009	% Change
Commission per DART	\$4.18	\$4.36	-4%
DART per Avg. Account (Annualized)	544	624	-13%
Net Revenue per Avg. Account (Annualized)	\$3,251	\$3,591	-9%

\* Excluding non-customers

30

---

## Business Environment

During the third quarter, we observed lighter trading volumes in global exchange traded derivatives and calmer markets compared to a turbulent second quarter, which was jolted by the May 6th “flash crash”, an event that fueled trading volumes and spiked volatility. We continued to face headwinds as market makers, including intense competition from high frequency traders, historically tight bid/offer spreads and low volatility levels. These factors were offset by currency movements that positively impacted our results.

Since we typically maintain an overall long volatility position, which protects us against a severe market dislocation in either direction, our market making profits are generally correlated with market volatility. Based on the Chicago Board Options Exchange Volatility Index (“VIX”), the average volatility level fell approximately 5% compared to the third quarter of 2009. 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. During the third quarter of 2010, this ratio averaged approximately 75% compared to approximately 68% in the third quarter of 2009.

Lower volatility levels also contributed to the trend of contracting bid/offer spreads that began in late 2008. During the third quarter of 2010 spreads, as reported by the NASDAQ OMX PHLX market, were approximately 33% narrower than during the third quarter of 2009.

Currency fluctuations positively impacted our overall results during the third quarter. As a global market maker trading on exchanges around the world, in multiple currencies we are exposed to foreign currency risk. We actively hedge this exposure by keeping our net worth in proportion to a defined basket of major currencies. The Euro, which currently makes up about 30% of this basket, appreciated approximately 11% against the U.S. dollar during the third quarter. Other major currencies also strengthened against the U.S. dollar. Because we report our financial results in U.S. dollars, this created translation gains which positively impacted our trading gains.

Our electronic brokerage business continued to exhibit strong growth during the third quarter. The number of customer accounts grew 18% year over year, while the equity held in these accounts increased by 41%. During the same time period, the S&P 500® index gained 8%. Customer trading activity is the primary profit driver for the brokerage segment. Cleared DARTs were 4% higher in third quarter versus the year-ago quarter and 8% higher year to date compared to the first three quarters of 2009.

According to data received from exchanges worldwide, volumes in exchange-listed equity-based options increased in the third quarter of 2010 by approximately 3% globally and fell 5% in the U.S., compared to the same period in 2009. During the third quarter of 2010 we accounted for approximately 10.7% of the exchange-listed equity based options (including options on ETFs and stock index products) volume traded worldwide and approximately 14.0% of exchange-listed equity based options volume traded in the U.S. This compares to approximately 10.5% of the exchange-listed equity based options volume traded worldwide and approximately 13.3% of the exchange-listed equity based options volume traded in the U.S. in the third quarter of 2009. We believe the increase in our market share can partly be attributed to new rules enacted by certain U.S. option exchanges earlier this year that curtailed certain advantages high frequency trading firms had over market makers, which had allowed them to take a larger share of the listed options volume. See the tables on pages 29 – 30 of this Quarterly Report on Form 10-Q for additional details regarding our trade volumes, contract and share volumes and brokerage statistics.

The Dodd-Frank Wall Street Reform and Consumer Protection Act, which was signed into law in July 2010, includes new rules that govern the financial services industry, imposes increased regulation of the derivatives markets and introduces stricter capital requirements. Certain parts of this new legislation are currently being reviewed and publicly

debated, including the potential implementation of proposed fee caps at options exchanges and a ban on naked sponsored access (i.e., direct access by customers without pre-trade credit controls) to exchanges. We generally take the view that through our emphasis on building technology, we can provide better service to our customers in a more efficient and more transparent market. Accordingly, we see these developments as, on balance, positive.

#### Certain Trends and Uncertainties

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

- Over the past several years, the effects of market structure changes, competition and market conditions have, during certain periods, exerted downward pressure on bid/offer spreads realized by market makers.
- Retail broker-dealer participation in the equity markets has fluctuated over the past few years due to investor sentiment, market conditions and a variety of other factors. Retail transaction volumes may not be sustainable and are not predictable.

- In recent years, in an effort to improve the quality of their executions as well as increase efficiencies, market makers have increased the level of automation within their operations, which may allow them to compete more effectively with us.
- With the increased scrutiny of equity and options market makers, hedge funds and soft dollar practices by the regulatory and legislative authorities, new legislation or modifications to existing regulations and rules could occur in the future.
  - Consolidation among market centers may adversely affect the value of our smart routing software.
- The addition of new market centers increases our costs of building and maintaining our exchange linkage software which is needed to continually provide best execution.
- A driver of our market making profits is the relationship between actual and implied volatility in the equities markets. The cost of maintaining our conservative risk profile is based on implied volatility, while our profitability, in part, is based on actual volatility. Hence, generally, our profitability is increased when actual volatility runs above implied volatility and it is decreased when actual volatility falls below implied volatility. During periods of very high volatility this relationship may have less or no impact if we reduce our long volatility position. In addition, implied volatility tends to lag actual volatility.

See “Risk Factors” in Part I, Item 1A of the Company’s Annual Report on Form 10-K filed with the SEC on February 26, 2010 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 consolidated results of operations for the indicated periods:

	Three Months		Nine Months	
	2010	2009	2010	2009
	Ended September 30,			
	(in millions, except share and per share data)			
<b>Revenues:</b>				
Trading gains	\$ 168.7	\$ 154.7	\$ 326.9	\$ 558.8
Commissions and execution fees	90.1	89.0	289.4	263.5
Interest income	42.4	29.9	120.0	89.7
Other income	13.9	13.0	48.4	42.0
<b>Total revenues</b>	<b>315.1</b>	<b>286.6</b>	<b>784.7</b>	<b>954.0</b>
<b>Interest expense</b>	<b>16.0</b>	<b>15.1</b>	<b>48.9</b>	<b>54.1</b>
<b>Total net revenues</b>	<b>299.1</b>	<b>271.5</b>	<b>735.8</b>	<b>899.9</b>
<b>Non-interest expenses:</b>				
Execution and clearing	61.9	69.5	207.1	201.4
Employee compensation and benefits	49.6	43.0	149.6	128.3
Occupancy, depreciation and amortization	9.1	10.0	27.5	29.5
Communications	5.9	6.1	17.6	16.6
General and administrative	10.7	9.8	35.1	31.8
<b>Total non-interest expenses</b>	<b>137.2</b>	<b>138.4</b>	<b>436.9</b>	<b>407.6</b>
<b>Income before income taxes</b>	<b>161.9</b>	<b>133.1</b>	<b>298.9</b>	<b>492.3</b>
<b>Income tax expense</b>	<b>13.1</b>	<b>12.9</b>	<b>25.7</b>	<b>50.1</b>
<b>Net income</b>	<b>148.8</b>	<b>120.2</b>	<b>273.2</b>	<b>442.2</b>
<b>Net income attributable to non-controlling interests</b>	<b>137.7</b>	<b>111.7</b>	<b>254.4</b>	<b>408.3</b>
<b>Net income available for common shareholders</b>	<b>\$ 11.1</b>	<b>\$ 8.5</b>	<b>\$ 18.8</b>	<b>\$ 33.9</b>

## Earnings per share:

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

Basic	\$	0.26	\$	0.20	\$	0.45	\$	0.83
Diluted	\$	0.26	\$	0.20	\$	0.44	\$	0.81

Weighted average common shares  
outstanding:

Basic	42,222,449	41,214,598	41,750,973	40,891,841
Diluted	42,784,799	41,973,518	42,401,307	41,740,729

Three Months Ended September 30, 2010 Compared to the Three Months Ended September 30, 2009

#### Net Revenues

Total net revenues for the three months ended September 30, 2010 increased \$27.6 million or 10%, to \$299.1 million from \$271.5 million, during the three months ended September 30, 2009. This increase was driven by across-the-board strengthening of foreign currencies against the U.S. dollar and an increase in net interest primarily due to higher customer cash balances and margin borrowings. Trading volume is an important driver of revenues and costs for both our market making and electronic brokerage segments. Based on data published by options exchanges worldwide, U.S. equity options volume during the three months ended September 30, 2010 decreased approximately 5%, compared to the same period in 2009 and global equity options volumes increased approximately 3% for the same periods. For the quarter ended September 30, 2010, options contracts executed by our subsidiaries increased by 6.9 million, or 4%, to 163.3 million from 156.4 million for the quarter ended September 30, 2009.

**Trading Gains.** Trading gains for the three months ended September 30, 2010 increased \$14.0 million, or 9%, to \$168.7 million from \$154.7 million for the three months ended September 30, 2009. As market makers, we provide liquidity by buying from sellers and selling to buyers. During the three months ended September 30, 2010, our market making operations executed 17.8 million trades, a decrease of 22% compared to the number of trades executed in the three months ended September 30, 2009. Options and futures contract volumes increased by 7% and 15%, respectively, while stock shares volume decreased by 31%, for the three months ended September 30, 2010 compared to the year-ago quarter. The increase in trading gains was primarily due to currency fluctuations which positively impacted our earnings. Core trading profits continued to be hampered by tighter bid/offer spreads on exchange-listed options versus the year-ago quarter, as well as lower levels of volatility, as explained in the Business Environment section above.

Included in trading gains are net dividends and net bond trading interest from market making activities and currency translation gains and losses. Dividend income and expense arise from holding market making positions over dates on which dividends are paid to shareholders of record. When a stock pays a dividend, its market price is generally adjusted downward to reflect the value paid to the shareholders of record, which will not be received by those who purchase stock after the ex-dividend date. Hence, the apparent gains and losses due to these price changes, reflecting the value of dividends paid to shareholders, must be taken together with the dividends paid and received, respectively, in order to accurately reflect the results of our market making operations. As part of managing our overall exposure to foreign currency fluctuations, we maintain a portion of our capital in foreign currencies. Translation losses of \$6.9 million were recognized in the three months ended September 30, 2010, primarily from foreign currency balances held by our subsidiaries, compared to translation gains of \$8.4 million for the three months ended September 30, 2009. Translation gain or loss is reported in accordance with the FASB Codification and does not contain the full translation effects of our policy of maintaining our equity in proportion to the basket of currencies we refer to as the GLOBAL, part of which may be reported as trading gains. A discussion of our approach to managing foreign currency exposure is contained in Part I, Item 3 of this Quarterly Report on Form 10-Q entitled "Quantitative and Qualitative Disclosures about Market Risk."

**Commissions and Execution Fees.** Commissions and execution fees for the three months ended September 30, 2010 increased \$1.1 million, or 1%, to \$90.1 million, as compared to the three months ended September 30, 2009. The increase was due to higher futures contract volume from our customers, which grew by 26% during the third quarter of 2010 from the same period in 2009. In the second quarter we had lowered our commissions for U.S. futures by approximately 10%, on an average order. This reduced our gross margin slightly, but contributed to the increase in futures trading volume. Total DARTs for cleared and execution-only customers for the three months ended September 30, 2010 increased 4% to approximately 355,000, compared to approximately 340,000 during the three months ended September 30, 2009. DARTs for cleared customers, i.e., customers for whom we execute trades as well



as clear and carry positions, increased to approximately 320,000, for the three months ended September 30, 2010, compared to approximately 307,000 for the three months ended September 30, 2009. The number of customer accounts grew by 18% to approximately 151,000 at September 30, 2010, compared to approximately 128,000 at September 30, 2009. Average commission per DART for cleared customers, for the quarter ended September 30, 2010, decreased by 4% to \$4.18, as compared to \$4.36 for the quarter ended September 30, 2009.

**Interest Income and Interest Expense.** Net interest income (interest income less interest expense) for the quarter ended September 30, 2010 increased \$11.6 million, or 78%, to \$26.4 million, as compared to the quarter ended September 30, 2009. Net interest income was derived almost entirely from the electronic brokerage segment during the three months ended September 30, 2010. Net interest earned by electronic brokerage increased \$10.3 million, or 71%, to \$24.9 million, as compared to the quarter ended September 30, 2009. Average customer cash balances increased by 39%, to \$12.65 billion, and average customer fully secured margin borrowings increased 86%, to \$4.88 billion, for the quarter ended September 30, 2010, as compared to \$9.09 billion and \$2.62 billion, on average, respectively, for the quarter ended September 30, 2009. The average Fed Funds effective rate increased to 0.19% for the quarter ended September 30, 2010 from 0.15% for the quarter ended September 30, 2009. For market making, net interest income was \$1.3 million, unchanged from the same period last year. As a result of the way we have integrated our market making and securities lending systems, our trading income and our net interest income are interchangeable and depend on the mix of market making positions in our portfolio. When implied interest rates in the equity and equity options and futures markets exceed the actual interest rates available to us, our market making systems tend to buy stock and sell it forward, which produces higher trading gains and lower net interest income. When these rates are inverted, our market making systems tend to sell stock and buy it forward, which produces lower trading gains and higher net interest income. The relative interest rates during the third quarter of 2010 resulted in a mix of positions that produced less

interest income and more trading income, as it did in the year-ago quarter. Average securities borrowed decreased by 18%, to \$4.37 billion and average securities loaned increased by 77%, to \$1.49 billion, for the quarter ended September 30, 2010 compared to the year-ago quarter.

**Other Income.** Other income, for the three months ended September 30, 2010, increased \$0.9 million, or 7%, to \$13.9 million, as compared to the three months ended September 30, 2009. This increase was primarily attributable to a \$5.5 million increase in mark-to-market gains on non-trading securities, mainly from our investments in exchanges and an increase of \$1.3 million in market data fees as compared to the same period of 2009. These gains were largely offset by a \$4.9 million decrease in payment for order flow income, primarily due to the continued expansion of the penny pricing pilot and increased options volume executed on exchanges using the maker-taker model, where we are paid for providing liquidity and charged for taking liquidity instead of collecting payment for order flow.

#### Non-Interest Expenses

Non-interest expenses, for the three months ended September 30, 2010, decreased by \$1.2 million, or 1%, to \$137.2 million from \$138.4 million, during the three months ended September 30, 2009. The decrease was primarily due to lower execution and clearing expenses, partially offset by higher employee compensation and benefits costs. As a percentage of total net revenues, non-interest expenses decreased to 46% for the three months ended September 30, 2010 from 51% during the same period in 2009.

**Execution and Clearing.** Execution and clearing expenses, for the three months ended September 30, 2010, decreased \$7.6 million, or 11%, to \$61.9 million, as compared to the three months ended September 30, 2009. In the beginning of 2010, two additional U.S. options exchanges launched a maker-taker pricing model for a portion of their option classes. The exchanges do not collect order flow fees from market makers on their maker-taker option classes. As a result, exchange order flow expenses decreased \$6.4 million for the quarter ended September 30, 2010 compared to the same period of 2009.

**Employee Compensation and Benefits.** Employee compensation and benefits expenses, for the three months ended September 30, 2010, increased by \$6.6 million, or 15%, to \$49.6 million, as compared to the three months ended September 30, 2009. This increase reflected the 9% growth in the average number of employees to 853 for the quarter ended September 30, 2010, as compared to 784 for the same period in 2009. As we continue to grow, our focus on automation has allowed us to maintain a relatively small staff. The continued recognition of costs associated with our stock incentive plan also increased employee compensation and benefits expense. As a percentage of total net revenues, employee compensation and benefits expenses were 17% and 16%, for the three month periods ended September 30, 2010 and 2009, respectively.

**General and Administrative.** General and administrative expenses, for the three months ended September 30, 2010, increased \$0.9 million or 9%, as compared to the three months ended September 30, 2009. The increase in general and administrative expenses was primarily due to non-recurring reductions in expenses related to contingent liabilities and “non-income” tax expenses incurred by our foreign operating companies in the three months ended September 30, 2009.

#### Nine Months Ended September 30, 2010 Compared to the Nine Months Ended September 30, 2009

##### Net Revenues

Total net revenues for the nine months ended September 30, 2010 decreased \$164.1 million or 18%, to \$735.8 million from \$899.9 million, during the nine months ended September 30, 2009. Trading volume is an important driver of revenues and costs for both our market making and electronic brokerage segments. During this time, options and

futures contracts and stock shares volume executed by our subsidiaries increased by 6%, 17% and 10% respectively. The increase in contract and share volumes was driven by our brokerage segment which saw increases in options and futures contracts and stock shares volume of 16%, 21% and 32% respectively. This increased volume contributed to an increase of \$25.9 million in commissions and execution fees while increased customer cash and margin balances contributed to an increase of \$35.5 million in net interest income. In our market making segment, contracted bid/offer spreads and losses from foreign currency translation contributed to a decrease of \$231.9 million in trading gains.

**Trading Gains.** Trading gains for the nine months ended September 30, 2010 decreased \$231.9 million, or 41%, to \$326.9 million from \$558.8 million for the nine months ended September 30, 2009. As market makers, we provide liquidity by buying from sellers and selling to buyers. During the nine months ended September 30, 2010, our market making operations executed 57.8 million trades, a decrease of 22% compared to the number of trades executed in the nine months ended September 30, 2009. Options and futures contracts were roughly unchanged and stock shares volume decreased by 28% for the nine months ended September 30, 2010 compared to the same period in 2009. The decrease in trading gains was primarily due to tighter bid/offer spreads on exchange listed options versus the first nine months of 2009, foreign currency fluctuations and increased competition from high frequency traders, as explained in the Business Environment section above.

Included in trading gains are net dividends, net bond trading interest and currency translation gains and losses from market making activities. Dividend income and expense arise from holding market making positions over dates on which dividends are paid to

shareholders of record. When a stock pays a dividend, its market price is generally adjusted downward to reflect the value paid to the shareholders of record, which will not be received by those who purchase stock after the ex-dividend date. Hence, the apparent gains and losses due to these price changes, reflecting the value of dividends paid to shareholders, must be taken together with the dividends paid and received, respectively, in order to accurately reflect the results of our market making operations. As part of managing our overall exposure to foreign currency fluctuations, we maintain a portion of our capital in foreign currencies. Translation losses of \$164.8 million were recognized in the nine months ended September 30, 2010, primarily from foreign currency balances held by our subsidiaries, compared to translation gains of \$24.8 million for the nine months ended September 30, 2009. Translation gain or loss is reported in accordance with the FASB Codification and does not contain the full translation effects of our policy of maintaining our equity in proportion to the basket of currencies we refer to as the GLOBAL, part of which may be reported as trading gains. A discussion of our approach to managing foreign currency exposure is contained in Part I, Item 3 of this Quarterly Report on Form 10-Q entitled "Quantitative and Qualitative Disclosures about Market Risk."

**Commissions and Execution Fees.** Commissions and execution fees for the nine months ended September 30, 2010 increased \$25.9 million, or 10%, to \$289.4 million, as compared to the nine months ended September 30, 2009. The increase was driven by higher overall trade volume from our customers. Volume in options and futures contracts and stock shares increased by 16%, 21% and 32%, respectively, for the first nine months of 2010 from the same period in 2009. A substantial portion of the stock volume increase was driven by trades in low-priced stocks in the U.S. and abroad. In the second quarter we lowered our commissions for U.S. futures by approximately 10% on an average order, which further helped the growth of our U.S. futures customer business. Total DARTs for cleared and execution-only customers for the nine months ended September 30, 2010 increased 10% to approximately 380,000, compared to approximately 347,000 during the nine months ended September 30, 2009. DARTs for cleared customers, i.e., customers for whom we execute trades as well as clear and carry positions, increased 8% to approximately 344,000, for the nine months ended September 30, 2010, compared to approximately 318,000 for the nine months ended September 30, 2009. The number of customer accounts grew by 18% to approximately 151,000 at September 30, 2010, compared to approximately 128,000 at September 30, 2009. Average commission per DART for cleared customers, for the nine months ended September 30, 2010, increased by 2% to \$4.28, as compared to \$4.21 for the nine months ended September 30, 2009.

**Interest Income and Interest Expense.** Net interest income (interest income less interest expense) for the nine months ended September 30, 2010 increased \$35.5 million, or 100%, to \$71.1 million, as compared to the nine months ended September 30, 2009. Net interest income was derived primarily from the electronic brokerage segment during the nine months ended September 30, 2010. Net interest earned by electronic brokerage increased \$28.3 million, or 74%, to \$66.8 million, as compared to the nine months ended September 30, 2009. Average customer cash balances increased by 43%, to \$11.86 billion, and average customer fully secured margin borrowings increased 101%, to \$4.40 billion, for the nine months ended September 30, 2010, as compared to \$8.27 billion and \$2.19 billion, on average, respectively, for the nine months ended September 30, 2009. The average Fed Funds effective rate remained unchanged at 0.17% for the nine months ended September 30, 2010 compared to the nine months ended September 30, 2009. For market making, net interest income increased \$7.2 million from the same period last year to \$3.8 million. As a result of the way we have integrated our market making and securities lending systems, our trading income and our net interest income are interchangeable and depend on the mix of market making positions in our portfolio. When implied interest rates in the equity and equity options and futures markets exceed the actual interest rates available to us, our market making systems tend to buy stock and sell it forward, which produces higher trading gains and lower net interest income. When these rates are inverted, our market making systems tend to sell stock and buy it forward, which produces lower trading gains and higher net interest income. The relative interest rates during the first nine months of 2010 resulted in a mix of positions that produced more interest income and less trading income than in the first nine months of 2009. Average securities borrowed increased by 6%, to \$5.20 billion and average securities loaned increased by 87%, to \$1.40 billion, for the nine months ended September 30, 2010.

**Other Income.** Other income, for the nine months ended September 30, 2010, increased \$6.4 million, or 15%, to \$48.4 million, as compared to the nine months ended September 30, 2009. This increase was primarily attributable to a \$7.5 million increase in the value of our non-trading marketable securities, mainly from our investments in exchanges, as well as an increase of \$4.8 million in market data fees as compared to the same period of 2009. These increases were partially offset by a decrease of \$6.9 million in payment for order flow income primarily due to the continued expansion of the penny pricing pilot and increased options volume executed on exchanges using the maker-taker model, where we are paid for providing liquidity and charged for taking liquidity instead of collecting payment for order flow.

#### Non-Interest Expenses

Non-interest expenses, for the nine months ended September 30, 2010, increased by \$29.3 million, or 7%, to \$436.9 million from \$407.6 million, during the nine months ended September 30, 2009. The increase was primarily due to higher employee compensation and benefits costs as well as higher execution and clearing expenses. As a percentage of total net revenues, non-interest expenses increased to 59% for the nine months ended September 30, 2010 from 45% during the same period in 2009.

**Execution and Clearing.** Execution and clearing expenses, for the nine months ended September 30, 2010, increased \$5.7 million, or 3%, to \$207.1 million, as compared to the nine months ended September 30, 2009. The increase was primarily due to higher exchange fees at certain U.S. options exchanges as well as an increase in exchange and clearing fees resulting from a 17% rise in

futures contract volume traded during the nine months ended September 30, 2010. The increase in exchange fees at certain U.S. option exchanges was partially offset by a decrease in order flow expenses as certain U.S. option exchanges have moved to a maker-taker pricing model.

**Employee Compensation and Benefits.** Employee compensation and benefits expenses, for the nine months ended September 30, 2010, increased by \$21.3 million, or 17%, to \$149.6 million, as compared to the nine months ended September 30, 2009. This increase reflected the 8% growth in the average number of employees to 830 for the nine months ended September 30, 2010, as compared to 771 for the same period in 2009. As we continue to grow, our focus on automation has allowed us to maintain a relatively small staff. The continued recognition of costs associated with our stock incentive plan also increased employee compensation and benefits expense. As a percentage of total net revenues, employee compensation and benefits expenses were 20% and 14%, for the nine months ended September 30, 2010 and 2009, respectively.

**General and Administrative.** General and administrative expenses, for the nine months ended September 30, 2010, increased \$3.3 million, or 10% to \$35.1 million, as compared to the nine months ended September 30, 2009. The increase in general and administrative expenses was due to an increase of \$3.5 million in bad debt expense during the nine months ended September 30, 2010 compared to the same period in 2009. The increase in bad debt expense was primarily a result of unusual market volatility during the “flash crash” on May 6, 2010.

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

Business Segments

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

		Three Months Ended September 30,		Nine Months Ended September 30,	
		2010	2009	2010	2009
		(in millions)			
Market Making	Net revenues	\$170.7	\$150.3	\$335.2	\$551.2
	Non-interest expenses	66.8	75.7	221.9	216.9
	Income before income taxes	\$103.9	\$74.6	\$113.3	\$334.3
	Pre-tax profit margin	61%	50 %	34%	61 %
Electronic Brokerage	Net revenues	\$129.3	\$121.5	\$401.1	\$349.3
	Non-interest expenses	65.9	59.4	201.0	179.7
	Income before income taxes	\$63.4	\$62.1	\$200.1	\$169.6
	Pre-tax profit margin	49%	51 %	50%	49 %
Corporate*	Net revenues	(\$0.9)	(\$0.3 )	(\$0.5)	(\$0.6 )
	Non-interest expenses	4.5	3.3	14.0	11.0
	Income before income taxes	(\$5.4)	(\$3.6 )	(\$14.5)	(\$11.6 )
Total	Net revenues	\$299.1	\$271.5	\$735.8	\$899.9
	Non-interest expenses	137.2	138.4	436.9	407.6
	Income before income taxes	\$161.9	\$133.1	\$298.9	\$492.3
	Pre-tax profit margin	54%	49 %	41%	55 %

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

The following sections discuss results of our operations by business segment, excluding a discussion of corporate income and expense. In the following tables, revenues and expenses directly associated with each segment are included in determining income before income taxes. Due to the integrated nature of the business segments, estimates and judgments have been made in allocating certain revenue and expense items. Transactions between segments generally result from one subsidiary facilitating the business of another subsidiary through the use of its existing trading memberships and clearing arrangements. In such cases, certain revenue and expense items are eliminated in order to accurately reflect the external business conducted in each segment. Rates on transactions between segments are designed to approximate full costs. In addition to execution and clearing expenses, which are the main cost driver for both the market making segment and the electronic brokerage segment, each segment's operating expenses include (i) employee compensation and benefits expenses that are incurred directly in support of the businesses, (ii) general and administrative expenses, which include directly incurred expenses for property leases, professional fees, travel and entertainment, communications and information services, equipment, and (iii) indirect support costs (including compensation and other related operating expenses) for administrative services provided by IBG LLC. Such administrative services include, but are not limited to, computer software development and support, accounting, tax, legal and facilities management.



## Market Making

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

	Three Months		Nine Months	
	Ended September 30, 2010	2009	Ended September 30, 2010	2009
(in millions)				
Revenues:				
Trading gains	\$162.9	\$147.9	\$321.1	\$547.6
Interest income	13.0	14.4	42.8	49.8
Other income	6.5	1.1	10.3	7.0
<b>Total revenues</b>	<b>182.4</b>	<b>163.4</b>	<b>374.2</b>	<b>604.4</b>
Interest expense	11.7	13.1	39.0	53.2
<b>Total net revenues</b>	<b>170.7</b>	<b>150.3</b>	<b>335.2</b>	<b>551.2</b>
Non-interest expenses:				
Execution and clearing	30.6	43.3	112.2	121.9
Employee compensation and benefits	17.9	16.1	54.8	48.0
Occupancy, depreciation and amortization	2.6	2.6	7.6	7.7
Communications	3.0	3.5	9.7	9.1
General and administrative	12.7	10.2	37.6	30.2
<b>Total non-interest expenses</b>	<b>66.8</b>	<b>75.7</b>	<b>221.9</b>	<b>216.9</b>
Income before income taxes	\$103.9	\$74.6	\$113.3	\$334.3

## Three Months Ended September 30, 2010 Compared to the Three Months Ended September 30, 2009

Market making total net revenues for the three months ended September 30, 2010 increased \$20.4 million, or 14%, to \$170.7 million, from \$150.3 million during the three months ended September 30, 2009. Trading gains for the three months ended September 30, 2010 increased \$15 million, or 10%, primarily due to foreign currency fluctuations during this quarter. Market making futures and options contract volume in the three months ended September 30, 2010 increased 15% and 7% respectively, while stock share volume decreased 31% as compared to the same period in 2009. Trading gains also include translation gains and losses. Translation losses, for the three months ended September 30, 2010 were \$6.8 million as compared to translation gains of \$7.5 million, for the three months ended September 30, 2009. Translation gain or loss is reported in accordance with the FASB Codification and does not contain the full translation effects of our policy of maintaining our equity in proportion to the basket of currencies we refer to as the GLOBAL, part of which may be reported as trading gains. Net interest income for the three months ended September 30, 2010 remained unchanged at \$1.3 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 third quarter of 2010, these factors produced less interest income and more trading gains, as they did in the year-ago quarter.

Market making non-interest expenses for the three months ended September 30, 2010 decreased \$8.9 million, or 12%, as compared to the three months ended September 30, 2009. The decrease primarily resulted from a \$12.7 million decrease in execution and clearing fees. This reduction stemmed from decreases in exchange fees for market makers as a result of the expansion of the maker-taker pricing model on certain U.S. option exchanges. These cost reductions were offset by a \$2.5 million increase in general and administrative expenses related to increased administrative and consulting fees during the three months ended September 30, 2010 compared to the same period in 2009. Employee compensation expenses increased \$1.8 million as a result of a \$0.7 million increase in expenses related to our employee stock incentive plan. As a percentage of total net revenues, market making non-interest expenses decreased to 39% from 50% for the three month periods ended September 30, 2010 and 2009, respectively.

Nine Months Ended September 30, 2010 Compared to the Nine Months Ended September 30, 2009

Market making total net revenues for the nine months ended September 30, 2010 decreased \$216.0 million, or 39%, to \$335.2 million, from \$551.2 million during the nine months ended September 30, 2009. Trading gains for the nine months ended September 30, 2010 decreased \$226.5 million, or 41%, primarily due to tighter bid/offer spreads on exchange-traded options and low levels of volatility during the first nine months of the year. Market making futures and options contract volume were roughly unchanged and stock share volume decreased 28%, in the nine months ended September 30, 2010 as compared to the same period in 2009. Trading gains also include translation gains and losses. Translation losses, for the nine months ended September 30, 2010 were \$164.8 million as compared to translation gains of \$24.1 million, for the nine months ended September 30, 2009. Net interest income for the nine months ended September 30, 2010 increased by \$7.2 million to \$3.8 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 first nine months of 2010, these factors produced more interest income and less trading gains than in the first nine months of 2009.

Market making non-interest expenses for the nine months ended September 30, 2010 increased \$5.0 million, or 2%, as compared to the nine months ended September 30, 2009. The increase primarily resulted from a \$6.8 million increase in employee compensation and benefits and a \$7.4 million increase in general and administrative expenses during the nine months ended September 30, 2010 compared to the same period during 2009. Employee compensation expenses increased as a result of a \$2.8 million increase in expenses related to our employee stock incentive plan and a \$5.3 million increase in expenses related to salaries and bonuses. The increase in general and administrative fees was largely a result of a \$6.9 million increase in administrative and consulting fees during the nine months ended September 30, 2010 compared to the same period in 2009. Execution and clearing fees decreased due to lower order flow expenses as more U.S. option volume moved to exchanges utilizing a maker-taker pricing model. Exchange order flow expenses decreased \$10.0 million during the nine months ended September 30, 2010 compared to the same period in 2009. The decrease was also driven by larger rebates for providing liquidity on certain other U.S. options exchanges, where, as a market maker, we are paid for providing liquidity instead of paying exchange fees. However, this was largely counterbalanced by the non-recurrence of exchange fee refunds received in the prior year and increased fee rates on certain U.S. option exchanges. As a percentage of total net revenues, market making non-interest expenses increased to 66% from 39% for the nine month periods ended September 30, 2010 and 2009, respectively.

## Electronic Brokerage

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
	(in millions)			
<b>Revenues:</b>				
Commissions and execution fees	\$90.2	\$89.0	\$289.4	\$263.5
Interest income	30.4	16.7	80.2	46.4
Other income	14.2	17.9	44.9	47.3
<b>Total revenues</b>	<b>134.8</b>	<b>123.6</b>	<b>414.5</b>	<b>357.2</b>
Interest expense	5.5	2.1	13.4	7.9
<b>Total net revenues</b>	<b>129.3</b>	<b>121.5</b>	<b>401.1</b>	<b>349.3</b>
<b>Non-interest expenses:</b>				
Execution and clearing	31.1	26.5	95.0	80.7
Employee compensation and benefits	13.7	12.8	41.8	38.1
Occupancy, depreciation and amortization	3.4	4.4	10.2	12.8
Communications	2.7	2.6	7.7	7.4
General and administrative	15.0	13.1	46.3	40.7
<b>Total non-interest expenses</b>	<b>65.9</b>	<b>59.4</b>	<b>201.0</b>	<b>179.7</b>
Income before income taxes	\$63.4	\$62.1	\$200.1	\$169.6

### Three Months Ended September 30, 2010 Compared to the Three Months Ended September 30, 2009

Electronic brokerage total net revenues for the three months ended September 30, 2010 increased \$7.8 million, or 6%, to \$129.3 million, from \$121.5 million during the three months ended September 30, 2009, primarily due to higher commission and execution fees and an increase in net interest income. Commission and execution fees increased \$1.2 million, or 1%, and net interest income increased \$10.3 million, or 71%, for the three months ended September 30, 2010 compared to the same period in 2009. The increase in net interest income was attributable to an increase of \$3.57 billion in average customer cash balances and an increase of \$2.26 billion in average fully secured margin borrowings. The increase in commission and execution fees is mainly due to increased customer trading volume. Volume in futures contracts increased 26% while volume in options contracts and stock shares remained roughly unchanged for the third quarter of 2010 from the same period in 2009. In the second quarter we had lowered our commissions for U.S. futures by approximately 10% on an average order. This lowered our gross margin slightly, but contributed to the increase in futures trading volume from the same period in 2009. Total DARTs from cleared and execution-only customers for the three months ended September 30, 2010 increased 4% to approximately 355,000, compared to approximately 340,000 during the three months ended September 30, 2009. DARTs from

cleared customers for the three months ended September 30, 2010 increased 4% to approximately 320,000, compared to approximately 307,000 during the three months ended September 30, 2009. Total customer equity grew by 41% to \$18.9 billion at September 30, 2010, from \$13.4 billion at September 30, 2009. The number of customer accounts grew 18% from September 30, 2009 to approximately 151,000.

Electronic brokerage non-interest expenses for the three months ended September 30, 2010 increased \$6.5 million, or 11%, as compared to the three months ended September 30, 2009. Within non-interest expenses, execution and clearing expenses increased by \$4.6 million, driven by higher customer futures trading volume, as well as increases in fees charged by certain U.S. options exchanges. U.S. options exchange fees were higher due to a greater proportion of maker-taker volume, where we are charged for taking liquidity, as opposed to the traditional U.S. options pricing model, where customer executions are free. General and administrative fees increased \$1.9 million, or 15% due to a \$1.5 million increase in administrative and consulting fees. As a percentage of total net revenues, non-interest expenses increased to 51% from 49% for the three month periods ended September 30, 2010 and 2009, respectively.

#### Nine Months Ended September 30, 2010 Compared to the Nine Months Ended September 30, 2009

Electronic brokerage total net revenues for the nine months ended September 30, 2010 increased \$51.8 million, or 15%, to \$401.1 million, from \$349.3 million during the nine months ended September 30, 2009, primarily due to higher commission and execution fees and an increase in net interest income. Commission and execution fees increased \$25.9 million, or 10%, and net interest income increased \$28.3 million, or 74%, for the nine months ended September 30, 2010 compared to the same period in 2009. The increase in net interest income was attributable to an increase of \$3.59 billion in average customer cash balances and an increase of \$2.21 billion in average fully secured margin borrowings. The increase in commission and execution fees is mainly due to increased customer trading volume. Volume in options and futures contracts and stock shares increased by 16%, 21% and 32%, respectively, for the nine

months of 2010 from the same period in 2009. Total DARTs from cleared and execution-only customers for the nine months ended September 30, 2010 increased 10% to approximately 380,000, compared to approximately 347,000 during the nine months ended September 30, 2009. DARTs from cleared customers for the nine months ended September 30, 2010 increased 8% to approximately 344,000, compared to approximately 318,000 during the nine months ended September 30, 2009. Total customer equity grew by 41% to \$18.9 billion at September 30, 2010, from \$13.4 billion at September 30, 2009. The number of customer accounts grew 18% from September 30, 2009 to approximately 151,000.

Electronic brokerage non-interest expenses for the nine months ended September 30, 2010 increased \$21.3 million, or 12%, as compared to the nine months ended September 30, 2009. Within non-interest expenses, execution and clearing expenses increased by \$14.3 million, driven by a 21% increase in customer futures trading volume, as well as increases in fees charged by certain U.S. options exchanges, resulting from a greater proportion of maker-taker volume, where we are charged for taking liquidity. Employee compensation and benefits expenses increased by \$3.7 million, or 10% during the nine months ended September 30, 2010 compared to the same period in 2009. General and administrative expenses increased \$5.6 million as bad debt expense increased \$3.5 million during the nine months ended September 30, 2010 compared to the same period in 2009. As a percentage of total net revenues, non-interest expenses decreased to 50% from 51% for the nine month periods ended September 30, 2010 and 2009, 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 September 30, 2010, total assets were \$29.66 billion of which approximately \$29.18 billion, or 98%, were considered liquid and consisted predominantly of marketable securities, customers' cash and collateralized receivables.

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

We actively manage our excess liquidity and we maintain significant borrowing facilities through the securities lending markets and with banks. In response to changes in the credit market environment that began during late 2008, 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.

In order to provide additional liquidity and to further increase our regulatory capital reserves, we issue senior notes and we maintain a committed senior secured revolving credit facility from a syndicate of banks (see "Principal Indebtedness" below). As of September 30, 2010, borrowings under these facilities totaled \$219.6 million, which represented 4.1% of our total capitalization. Based on our current level of operations, we believe our cash flows from operations, available cash and available borrowings under our senior secured revolving credit facility will be adequate to meet our future liquidity needs for more than the next twelve months.

Historically, our consolidated equity has consisted primarily of accumulated retained earnings, which to date have been sufficient to fund our operations and growth. Our consolidated equity grew from \$4.82 billion at September 30, 2009 to \$5.11 billion at September 30, 2010, representing an increase of 6%.

## Cash Flows

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

	Nine Months Ended September 30,	
	2010	2009
	(in millions)	
Cash provided by operating activities	\$ 773.3	\$ 280.1
Cash used in investing activities	(14.5)	(24.6)
Cash used in financing activities	(309.2)	(367.3)
Effect of exchange rate changes on cash and cash equivalents	35.6	28.2
Increase (decrease) in cash and cash equivalents	\$ 485.2	\$ (83.6)

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. These borrowings include senior notes issued in private placements to certain qualified customers of IB LLC and a committed two-year \$100.0 million senior secured revolving credit facility, from a syndicate of banks.

Nine Months Ended September 30, 2010: Our cash and cash equivalents increased by \$485.2 million to \$1,291.7 million for the nine months ended September 30, 2010. We raised \$773.3 million in net cash in operating activities. We used net cash of \$323.7 million in our investing and financing activities primarily due to a decrease in short-term borrowings and dividends paid to and redemption of member interests from IBG Holdings LLC.

Nine Months Ended September 30, 2009: Our cash and cash equivalents decreased by \$83.6 million to \$859.9 million for the nine months ended September 30, 2009. We raised \$280.1 million in net cash from operating activities. We used net cash of \$391.9 million in



our investing and financing activities primarily due to repayments on our senior secured revolving credit facility, dividends paid to and redemption of member interests from IBG Holdings LLC.

### 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. See Note 11 to the unaudited condensed consolidated financial statements in Part I, Item 1 of this Quarterly Report on Form 10-Q for further information regarding our regulatory capital requirements.

At September 30, 2010, aggregate excess regulatory capital for all of the Operating Companies was \$3.39 billion.

### Principal Indebtedness

IBG LLC is the borrower under a \$100.0 million senior secured revolving credit facility, which had no balance outstanding as of September 30, 2010, and is the issuer of senior notes, of which \$219.6 million were outstanding as of September 30, 2010.

### 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 maturity, subject to meeting certain terms of the facility, IBG LLC will have an option to convert the facility to a one-year term loan. As of September 30, 2010, no borrowings were outstanding under this credit facility and IBG LLC was in compliance with all of the covenants. This credit facility replaced a \$100 million senior secured revolving credit facility that expired on May 19, 2010.

### Senior Notes

IBG LLC periodically issues senior notes in private placements to certain qualified customers of IB LLC. IBG LLC uses the proceeds from sales of the senior notes to provide capital to IBG LLC's broker-dealer subsidiaries in the form of subordinated loans and for other general purposes. In September of this year we reduced the interest rate on new notes to 5% per annum. The outstanding senior notes have a 7% and 5% per annum interest rate, and either a 15-month or an 18-month maturity. IBG LLC may, solely at its option, redeem the senior notes at any time on or after a specified date in the third month or the sixth month, respectively, after the date on which the senior notes are issued and sold, at a redemption price equal to 100% of the principal amount of the senior notes to be redeemed plus accrued interest.

Total senior notes outstanding at September 30, 2010 were \$219.6 million, with \$174.2 million being 7% notes and \$45.4 million being 5% notes. Senior notes outstanding at December 31, 2009 of \$205.8 million all carried a 7% per annum rate. During the period from January 1 through September 30, 2010, total senior notes issued were \$471.6 million, and senior notes redeemed totaled \$457.7 million.

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 \$14.5 million and \$17.4 million for the nine month periods ending September 30, 2010 and 2009, respectively. We anticipate that our gross capital expenditures will be level with the first nine months of the year, including costs related to expansion of our data center and backup facilities. We expect our future capital expenditures to rise as we continue our focus on technology infrastructure initiatives in order to further enhance our competitive position. We anticipate that we will fund capital expenditures with cash from operations and cash on hand. In response to changing economic conditions, we believe we have the flexibility to modify our capital expenditures by adjusting them (either upward or downward) to match our actual performance. If we pursue any strategic acquisitions, we may incur additional capital expenditures.

#### Seasonality

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

#### Inflation

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

#### Strategic Investments and Acquisitions

We periodically engage in evaluations of potential strategic investments and acquisitions. The Company holds strategic investments in electronic trading exchanges including: Boston Options Exchange, LLC; OneChicago LLC and CBOE Stock Exchange, LLC. During 2009, the company 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 September 30, 2010, 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 September 30, 2010, 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 September 30, 2010 and December 31, 2009, reserves provided for potential losses related to litigation matters were not material.

#### Use of Estimates

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

#### Recent Accounting Pronouncements

Subsequent to the adoption of the ASC, the FASB will issue Accounting Standards Updates (“ASU’s”) as the means to add to or delete from, or otherwise amend the ASC. In 2010, prior to the issuance of the Company’s unaudited condensed consolidated financial statements, ASU’s 2010-1 through ASU 2010-26 were issued. Following is a summary of recently issued ASU’s that may affect the Company’s unaudited condensed consolidated financial statements:

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

	Affects	Status
ASU 2009-12	Investments in Certain Entities That Calculate Net Asset Value per Share (or its equivalent) – Amends ASC 820 to offer investors a practical expedient for measuring the fair value of investments in certain entities that calculate net asset value per share	Periods ending after December 15, 2009
ASU 2009-13	Multiple Deliverable Revenue Arrangements – Amends ASC 605-25	Fiscal years beginning on or after June 15, 2010, early adoption permitted
ASU 2009-14	Certain Revenue Arrangements That Include Software Elements – Amends ASC 985-605 and 985-605-13 to exclude from their scope tangible products that contain software and non-software components that function together to deliver the products essential functionality	Fiscal years beginning on or after June 15, 2010, early adoption permitted
ASU 2009-15	Accounting for Own-Share Lending Arrangements in Contemplation of Convertible Debt Issuance or Other Financing	Periods beginning on or after December 15, 2009
ASU 2009-16	Transfers and Servicing: Accounting or Transfers of Financial Assets – Amends ASC 860 – eliminates exceptions for qualifying special purpose entities and for certain mortgage securitizations	Periods beginning after November 15, 2009
ASU 2009-17	Improvements to Financial Reporting by Enterprises Involved with Variable Interest Enterprises – Amends ASC 810 for the issuance of SFAS No. 167	Periods beginning on or after December 15, 2009
ASU 2010-09	Subsequent Events (Topic 855) – Amendments to Certain Recognition and Disclosure Requirements	Effective on issuance
ASU 2010-11	Derivatives and Hedging (Topic 815) - Scope Exception related to Embedded Credit Derivatives	First fiscal quarter beginning after June 15, 2010, early adoption permitted at the beginning of the first fiscal quarter after issuance.
ASU 2010-12	Income Taxes (Topic 740) - Accounting for Certain Tax Effects of the 2010 Health Care Reform Acts	Effective on issuance.
ASU 2010-13	Compensation - Stock Compensation (Topic 718) - Effect of Denominating the Exercise Price of a Share-Based Payment Award in the Currency of the Market in Which the Underlying Equity Security Trades	Fiscal years, and interim periods within those fiscal years, beginning after December 15, 2010. Early application is permitted.

Adoption of those ASU's that became effective during 2009 and in 2010, 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 ASU's 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. The Work Plan is expected to provide the SEC with information to be able to conclude whether IFRS should be adopted for U.S. registrants. While neither the February statement nor the Work Plan define a certain date for adoption of IFRS, both documents stated an expectation that a decision on whether the SEC would mandate adoption of IFRS is expected to be made in 2011. If a decision to adopt IFRS is made at that point in time, initial adoption for U.S. registrants would be approximately 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 continues to assess the potential impact of adopting IFRS on the Company's unaudited condensed consolidated financial statements.

Other

ASC 860, Transfers and Servicing, incorporates former SFAS No. 166, Accounting for Transfers of Financial Assets, an amendment of FASB No. 140, was issued in June 2009 and became effective for interim and annual periods beginning after January 1, 2010. These provisions of ASC 860 require more information about transfers of financial assets, including securitization transactions, and where entities have continuing exposure to the risks related to transferred financial assets. The concept of a "qualifying special-purpose entity" ("SPE") was eliminated under these provisions of ASC 860, which also changed the requirements for derecognizing financial assets and requires additional disclosures. Adoption of these provisions did not have a material effect on the Company's unaudited condensed consolidated financial statements.

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



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

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

#### Pricing Model Exposure

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

#### Foreign Currency Exposure

As a result of our international market making activities and accumulated earnings in our foreign subsidiaries, our income and net worth is exposed to fluctuations in foreign exchange rates. Our European operations and some of our Asian operations are conducted by our Swiss subsidiary, THE. THE is regulated by the Swiss 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 consolidated financial statements, THE's Swiss franc balances are translated into U.S. dollars for U.S. GAAP purposes. THE's translation gains or losses appear as such on IBG, Inc.'s income statement, included in trading gains.
- THE's net worth is carried on THE's books in Swiss francs in accordance with Swiss accounting standards. At the end of each accounting period, THE's net worth is translated at the then prevailing exchange rate into U.S. dollars and the resulting gain or loss is reported in our consolidated statement of financial condition as "other comprehensive income," which is neither an income nor an expense item in our statement of income, in accordance with U.S. GAAP.

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

In late 2005, we began to expand our market making systems to incorporate cash forex and forex options in order to hedge our currency exposure at little or no cost. In 2006, we began hedging our currency exposure throughout the day on a continuous basis. In connection with the development of our currency hedging strategy, we have determined to base our net worth in GLOBALs. We currently define a GLOBAL as consisting of 55 U.S. cents, 24 Euro cents, 10

Japanese yen, 3 British pence, 4 Canadian cents and 3 Australian cents. With the growth of our international operations, we foresee including other currencies in our definition of the GLOBAL. As our forex market making systems continue to develop, and as more exchanges trade more forex-based products electronically, we expect more trading volume to flow through this system and, accordingly, we expect to be able to manage the risks in forex in the same low cost manner as we currently manage the risks of our market making in equity-based products.

We actively manage our global currency exposure by maintaining our equity in GLOBALs. As a result, we consider ourselves a global enterprise based in a diversified basket of currencies rather than a U.S. dollar based company. Approximately half of our equity is denominated in currencies other than U.S. Dollars. The weakening of the U.S. dollar relative to other key currencies during this quarter had a positive effect on our market making earnings, which are reported in U.S. dollars. The primary driver of this translation gain was the 11.4% appreciation of the Euro as expressed in U.S. dollars during the third quarter.

#### Interest Rate Risk

Under our senior secured revolving credit facility, we have the ability to choose borrowing tenors from overnight to twelve months, which permits us to minimize the risk of interest rate fluctuations. We have no borrowings outstanding under this facility as of September 30, 2010.

We pay our electronic brokerage customers interest based on benchmark overnight interest rates in various currencies. In a normal rate environment, we typically invest a portion of these funds in U.S. government treasury securities with maturities of up to three months. Under these circumstances, if interest rates were to increase rapidly and substantially, in increments that were not reflected in the yields on these treasury securities, our net interest income from customer deposits would decrease. Based upon investments outstanding at September 30, 2010, we had no exposure of this nature.

We also face the potential for reduced net interest income from customer deposits due to interest rate spread compression in a low rate environment. Due to a currently low rate environment, a decrease of the U.S. benchmark interest rates to zero, or roughly .19%, would reduce our net interest income by approximately \$2.2 million on an annualized basis.

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

#### Dividend Risk

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

#### Margin Credit

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

We expect this kind of exposure to increase with growth in our overall business. Because we indemnify and hold harmless our clearing firms from certain liabilities or claims, the use of margin credit and short sales may expose us to significant off-balance-sheet risk in the event that collateral requirements are not sufficient to fully cover losses that customers may incur and those customers fail to satisfy their obligations. As of September 30, 2010, we had \$5.42 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 26, 2010. During our normal course of business, the Company's regulated operating companies are in discussions with regulators about matters raised during regulatory examinations or otherwise subject to their inquiry. These matters could result in censures, fines or other sanctions. Management believes the outcome of any resulting actions will not be material to the Company's financial condition, results of operations or cash flows. However, the Company is unable to predict the outcome of these matters.

The Company believes, based on current knowledge and after consultation with counsel, that the outcome of the pending matters will not have a material adverse effect on the consolidated financial condition of the Company. Legal reserves have been established in accordance with ASC 450, Contingencies. 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 26, 2010.

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).**+
31.1	Certification of Chief Executive Officer, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of Chief Financial Officer, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification of Chief Executive Officer, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2	Certification of Chief Financial Officer, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
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 September 30, 2010, are the following materials formatted in XBRL (Extensible Business Reporting Language) (i) the Condensed Consolidated Statements of Financial Condition, (ii) the Condensed Consolidated Statements of Income, (iii) the Condensed Consolidated Statements of Cash Flows, (iv) the Condensed Consolidated Statement of Changes in Stockholders' Equity and (v) Notes to Condensed Consolidated Financial Statements, tagged as blocks of text.
---	---



SIGNATURES

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

INTERACTIVE BROKERS GROUP, INC.

/s/ Paul J. Brody

Name: Paul J. Brody

Title: Chief Financial Officer, Treasurer and  
Secretary

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

Date: November 8,  
2010