

Interactive Brokers Group, Inc.  
Form 10-Q  
May 11, 2009

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## UNITED STATES

## SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

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## FORM 10-Q

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(Mark One)

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

**For the quarterly period ended March 31, 2009.**

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

**For the transition period from            to**

**Commission File Number: 001-33440**

## INTERACTIVE BROKERS GROUP, INC.

(Exact name of registrant as specified in its charter)

|   |   |
|---|---|
| <b>Delaware</b>   | <b>30-0390693</b>                       |
| (State or other<br>jurisdiction<br>of incorporation or<br>organization) | (I.R.S. Employer<br>Identification No.) |

**One Pickwick Plaza**

**Greenwich, Connecticut 06830**

(Address of principal executive office)

**(203) 618-5800**

(Registrant's telephone number, including area code)

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

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

|   |   |  |   |
|---|---|--|---|
| Large<br>accelerated<br>filer <input checked="" type="checkbox"/> | Accelerated<br>filer <input type="checkbox"/> | Non-accelerated filer <input type="checkbox"/> | SS Smaller<br>reporting company<br><input type="checkbox"/> |
|---|---|--|---|

(Do not check if a smaller reporting company)

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

As of May 8, 2009, there were 40,536,615 shares of the issuer's Class A common stock, par value \$0.01 per share, outstanding and 100 shares of the issuer's Class B common stock, par value \$0.01 per share, outstanding.

**INTERACTIVE BROKERS GROUP, INC.**

**QUARTERLY REPORT ON FORM 10-Q FOR THE QUARTER ENDED MARCH 31, 2009**

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**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 10.4% of the membership interests of IBG LLC (the "Group").

We are an automated global electronic market maker and broker specializing in routing orders and executing and processing trades in securities, futures and foreign exchange instruments on more than 80 electronic exchanges and trading venues around the world. In the U.S., our business is conducted from our headquarters in Greenwich, Connecticut as well as from Chicago, Illinois and Lake Forest, California. Abroad, we conduct business through offices located in Canada, England, Switzerland, Hong Kong, India, Japan and Australia. At March 31, 2009 we had 765 employees worldwide.

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

In December 2007, the FASB issued Statement of Financial Accounting Standards ("SFAS") No. 160, "Noncontrolling Interests in Consolidated Financial Statements, an amendment of ARB No. 51." Adoption of SFAS No. 160 as of January 1, 2009 required the Company to report non-controlling interests in subsidiaries (formerly reported as "minority interests") as a separate component of equity in the current period and had the retrospective effect of increasing reported equity in the unaudited condensed consolidated statement of financial position by \$3,894,207 as of December 31, 2008. SFAS No. 160 also requires changes in presentation and retrospective disclosure of non-controlling interests in the statements of income, of cash flows and of changes in equity for all periods presented. Accordingly, the accompanying unaudited condensed consolidated financial statements are presented as if SFAS No. 160 had been applicable historically. The reclassifications made to prior periods had no effect on previously reported results of operations or cash flows.

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

|  | <b>March 31,<br/>2009</b> | <b>December 31,<br/>2008</b> |
|--|---------------------------|------------------------------|
| <b>(in thousands, except share data)</b>   |                           |                              |
| <b>Assets</b>  |                           |                              |
| Cash and cash equivalents  | \$ 703,492                | \$ 943,497                   |
| Cash and securities - segregated for regulatory purposes   | 5,448,337                 | 4,992,121                    |
| Securities borrowed  | 3,534,592                 | 5,911,881                    |
| Securities purchased under agreements to resell  | 403,890                   | 715,732                      |
| Trading assets, at fair value:   |                           |                              |
| Financial instruments owned  | 9,801,617                 | 10,049,481                   |
| Financial instruments owned and pledged as collateral  | 975,520                   | 1,065,180                    |
|  | 10,777,137                | 11,114,661                   |
| Other receivables:   |                           |                              |
| Customers, less allowance for doubtful accounts of \$18,154 and \$17,572 at March 31, 2009 and December 31, 2008 | 1,879,924                 | 1,621,162                    |
| Brokers, dealers and clearing organizations  | 1,851,802                 | 2,527,981                    |
| Receivable from affiliate  | 642                       | 641                          |
| Interest   | 20,135                    | 25,185                       |
|  | 3,752,503                 | 4,174,969                    |
| Other assets   | 515,879                   | 503,774                      |
| Total assets   | \$ 25,135,830             | \$ 28,356,635                |
| <b>Liabilities and equity</b>  |                           |                              |
| <b>Liabilities:</b>  |                           |                              |
| Trading liabilities - financial instruments sold but not yet purchased,  |                           |                              |
| at fair value  | \$ 9,978,883              | \$ 13,476,757                |
| Securities loaned  | 733,358                   | 656,625                      |
| Short-term borrowings  | 248,729                   | 208,117                      |
| Other payables:  |                           |                              |
| Customers  | 7,636,317                 | 6,929,617                    |
| Brokers, dealers and clearing organizations  | 1,405,305                 | 1,614,810                    |
| Payable to affiliate   | 313,805                   | 313,800                      |
| Accounts payable, accrued expenses and other liabilities   | 227,077                   | 289,659                      |
| Interest   | 11,458                    | 16,135                       |
|  | 9,593,962                 | 9,164,021                    |
| Senior notes payable   | 146,090                   | 143,054                      |
| Senior secured credit facility   | -                         | 300,000                      |
| <b>Commitments, contingencies and guarantees</b>   |                           |                              |
| <b>Equity:</b>   |                           |                              |
| <b>Stockholders' equity:</b>   |                           |                              |
| Common stock, \$0.01 par value per share:  |                           |                              |
| Class A – Authorized - 1,000,000,000, Issued - 45,336,255  |                           |                              |
| Outstanding – 40,536,615 shares at March 31, 2009  |                           |                              |
| and December 31, 2008  | 453                       | 453                          |
| Class B – Authorized, Issued and Outstanding – 100 shares  |                           |                              |
| at March 31, 2009 and December 31, 2008  | -                         | -                            |
| Additional paid-in capital   | 485,839                   | 485,837                      |
| Retained earnings  | 153,829                   | 141,207                      |
| Accumulated other comprehensive income, net of income taxes of (\$1,488) and \$2,271 at                          |                           |                              |
| March 31, 2009 and December 31, 2008   | (2,560)                   | 3,907                        |
| Treasury stock, at cost, 4,799,640 shares at March 31, 2009 and December 31, 2008                                | (117,550)                 | (117,550)                    |
| Total stockholders' equity   | 520,011                   | 513,854                      |
| Non-controlling interests  | 3,914,797                 | 3,894,207                    |
| Total equity   | 4,434,808                 | 4,408,061                    |

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|                              |               |               |
|------------------------------|---------------|---------------|
| Total liabilities and equity | \$ 25,135,830 | \$ 28,356,635 |
|------------------------------|---------------|---------------|

See accompanying notes to the unaudited condensed consolidated financial statements.

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

| (in thousands, except for shares or per share amounts)    | Three months ended March 31, |             |
|---|------------------------------|-------------|
|   | 2009                         | 2008        |
| <b>Revenues:</b>  |                              |             |
| Trading gains   | \$ 180,454                   | \$ 378,640  |
| Commissions and execution fees                            | 84,264                       | 88,247      |
| Interest income   | 26,321                       | 143,920     |
| Other income  | 21,486                       | 30,850      |
| Total revenues  | 312,525                      | 641,657     |
| Interest expense  | 16,184                       | 113,138     |
| Total net revenues  | 296,341                      | 528,519     |
| <b>Non-interest expenses:</b>                             |                              |             |
| Execution and clearing                                    | 61,143                       | 87,159      |
| Employee compensation and benefits                        | 42,822                       | 41,374      |
| Occupancy, depreciation and amortization                  | 9,561                        | 8,525       |
| Communications  | 5,001                        | 3,995       |
| General and administrative                                | 10,867                       | 13,442      |
| Total non-interest expenses                               | 129,394                      | 154,495     |
| Income before income taxes                                | 166,947                      | 374,024     |
| Income tax expense  | 11,832                       | 33,413      |
| Net income  | 155,115                      | 340,611     |
| Less net income attributable to non-controlling interests | 142,493                      | 313,420     |
| Net income available for common stockholders              | \$ 12,622                    | \$ 27,191   |
| <b>Earnings per share:</b>                                |                              |             |
| Basic   | \$ 0.31                      | \$ 0.68     |
| Diluted   | \$ 0.30                      | \$ 0.66     |
| <b>Weighted average common shares outstanding:</b>        |                              |             |
| Basic   | 40,536,715                   | 40,143,860  |
| Diluted   | 399,045,731                  | 401,292,908 |

See accompanying notes to the unaudited condensed consolidated financial statements.



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

| (in thousands)  | Three months ended March 31, |             |
|---|------------------------------|-------------|
|   | 2009                         | 2008        |
| Cash flows from operating activities:   |                              |             |
| Net income  | \$ 155,115                   | \$ 340,611  |
| Adjustments to reconcile net income to net cash provided by operating activities: |                              |             |
| Translation (gains) losses  | (34,745)                     | 47,770      |
| Deferred income taxes   | 11,348                       | 14,382      |
| Depreciation and amortization   | 4,980                        | 4,350       |
| Employee stock plan compensation  | 7,909                        | 6,836       |
| Losses on non-trading investments, net  | 636                          | 642         |
| Bad debt expense and other  | 725                          | 1,048       |
| Change in operating assets and liabilities:                                       |                              |             |
| Increase in cash and securities - segregated for regulatory purposes              | (456,225)                    | (312,027)   |
| Decrease in securities borrowed   | 2,370,088                    | 322,405     |
| Decrease in securities purchased under agreements to resell                       | 311,844                      | 35,001      |
| Decrease in trading assets  | 308,237                      | 1,672,840   |
| Increase in receivables from customers  | (258,417)                    | (38,067)    |
| Decrease in other receivables   | 677,100                      | 916,828     |
| (Increase) decrease in other assets   | (7,219)                      | 27,562      |
| Decrease in trading liabilities   | (3,522,643)                  | (1,349,904) |
| Increase (decrease) in securities loaned  | 74,884                       | (335,240)   |
| Increase (decrease) in payable to customers                                       | 708,102                      | (145,724)   |
| Decrease in other payables  | (295,037)                    | (481,237)   |
| Net cash provided by operating activities   | 56,682                       | 728,076     |
| Cash flows from investing activities:   |                              |             |
| (Purchase) sale of investments  | (7,565)                      | 300         |
| Distribution received from equity investment                                      | 1,130                        | -           |
| Purchase of property and equipment  | (4,991)                      | (4,265)     |
| Net cash used in investing activities   | (11,426)                     | (3,965)     |
| Cash flows from financing activities:   |                              |             |
| Dividends paid to IBG Holdings LLC  | (33,781)                     | (33,043)    |
| Reduction in non-controlling interest in subsidiary                               | 22                           | -           |
| Issuance of senior notes  | 109,704                      | 124,699     |
| Redemptions of senior notes   | (106,668)                    | (120,132)   |
| Borrowings under senior secured credit facility                                   | -                            | 300,000     |
| Repayments of senior secured credit facility                                      | (300,000)                    | (450,000)   |
| Increase (decrease) in short-term borrowings, net                                 | 51,809                       | (403,483)   |
| Net cash used in financing activities   | (278,914)                    | (581,959)   |
| Effect of exchange rate changes on cash and cash equivalents                      | (6,347)                      | 31,459      |
| Net (decrease) increase in cash and cash equivalents                              | (240,005)                    | 173,611     |
| Cash and cash equivalents at beginning of period                                  | 943,497                      | 521,776     |
| Cash and cash equivalents at end of period  | \$ 703,492                   | \$ 695,387  |
| Supplemental disclosures of cash flow information:                                |                              |             |
| Interest paid   | \$ 20,860                    | \$ 124,432  |
| Taxes paid  | \$ 68,664                    | \$ 13,655   |

See accompanying notes to the unaudited condensed consolidated financial statements.



**Interactive Brokers Group, Inc. and Subsidiaries**  
**Condensed Consolidated Statement of Changes in Equity**  
**Three months ended March 31, 2009**  
**(Unaudited)**  
**(in thousands, except for share amounts)**

|   | Common Stock |           |                            |                |                   | Accumulated                |                            |                           |              |
|---|--------------|-----------|----------------------------|----------------|-------------------|----------------------------|----------------------------|---------------------------|--------------|
|   | Shares       | Par Value | Additional Paid-In Capital | Treasury Stock | Retained Earnings | Other Comprehensive Income | Total Stockholders' Equity | Non-controlling Interests | Total Equity |
| Balance, January 1, 2009  | 40,536,715   | \$ 453    | \$ 485,837                 | \$ (117,550)   | \$ 141,207        | \$ 3,907                   | \$ 513,854                 | \$ 3,894,207              | \$ 4,408,061 |
| Dividends paid by IBG LLC to non-controlling interests              |              |           |                            |                |                   |                            | -                          | (33,781)                  | (33,781)     |
| Reduction in non-controlling interest in subsidiary                 |              |           | 2                          |                |                   |                            | 2                          | 20                        | 22           |
| Comprehensive income:   |              |           |                            |                |                   |                            |                            |                           |              |
| Net income  |              |           |                            |                | \$ 12,622         |                            | 12,622                     | 142,493                   | 155,115      |
| Cumulative translation adjustment, net of income taxes of (\$3,758) |              |           |                            |                |                   | (6,467)                    | (6,467)                    | (88,142)                  | (94,609)     |
| Total comprehensive income  |              |           |                            |                | 12,622            | (6,467)                    | 6,155                      | 54,351                    | 60,506       |
| Balance, March 31, 2009   | 40,536,715   | \$ 453    | \$ 485,839                 | \$ (117,550)   | \$ 153,829        | \$ (2,560)                 | \$ 520,011                 | \$ 3,914,797              | \$ 4,434,807 |

See accompanying notes to the unaudited condensed consolidated financial statements.

**Interactive Brokers Group, Inc. and Subsidiaries**

**Notes to Unaudited Condensed Consolidated Financial Statements**

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

**1. Organization and Nature of Business**

Interactive Brokers Group, Inc. ("IBG, Inc." or the "Company") is a Delaware holding company whose primary asset is its ownership of approximately 10.4% of the membership interests of IBG LLC, which, in turn, owns all operating subsidiaries (collectively, "IBG LLC" or the "Group"). The accompanying unaudited condensed consolidated financial statements of IBG, Inc. reflect the consolidation of IBG, Inc.'s investment in IBG LLC for all periods presented (Note 4). IBG LLC is an automated global market maker and electronic broker specializing in routing orders and processing trades in securities, futures and foreign exchange instruments.

IBG LLC is a Connecticut limited liability company that conducts its business through its operating subsidiaries (collectively called the "Operating Companies"): Timber Hill LLC ("TH LLC"), Timber Hill Europe AG ("THE"), Timber Hill Securities Hong Kong Limited ("THSHK"), Timber Hill Australia Pty Limited ("THA"), Timber Hill Canada Company ("THC"), Interactive Brokers LLC ("IB LLC"), Interactive Brokers Canada Inc. ("IBC"), Interactive Brokers (U.K.) Limited ("IBUK"), Interactive Brokers (India) Private Limited ("IBI"), Interactive Brokers Hungary KFT ("IBH"), IB Exchange Corp. ("IBEC"), Interactive Brokers Securities Japan, Inc. ("IBSJ") and FutureTrade Technologies, LLC and subsidiaries ("FTT").

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 month periods ended March 31, 2009 and 2008 and the unaudited condensed consolidated statement of financial condition as of December 31, 2008 reflect IBG, Inc. and its subsidiaries and are presented in U.S. dollars and have been prepared pursuant to the rules and regulations of the U.S. Securities and Exchange Commission ("SEC") regarding interim financial reporting with respect to Form 10-Q. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America ("U.S. GAAP") for complete financial statements and should be read in conjunction with the audited consolidated financial statements and notes thereto included in IBG, Inc.'s Annual Report on Form 10-K filed with the SEC on March 2, 2009.

Adoption of SFAS No. 160, "Noncontrolling Interests in Consolidated Financial Statements, an amendment of ARB No. 51," as of January 1, 2009 required the Company to report non-controlling interests in subsidiaries (formerly reported as "minority interests") as a separate component of equity in the current period and had the retrospective effect of increasing reported equity in the unaudited condensed consolidated statement of financial position by \$3,894,207 as of December 31, 2008. SFAS No. 160 also requires changes in presentation and retrospective disclosure of non-controlling interests in the statements of income, of cash flows and of changes in equity for all periods presented. Accordingly, the accompanying unaudited condensed consolidated financial statements are presented as if SFAS No.160 had been applicable historically. Non-controlling interests in subsidiaries reported in Equity in the unaudited condensed consolidated statement of financial condition includes immaterial non-controlling interests in subsidiaries of IBG LLC in addition to IBG Holdings LLC's non-controlling interest in IBG LLC. Net income attributable to non-controlling interests in subsidiaries of IBG LLC, which is collectively immaterial, has been reclassified from other income to net income attributable to non-controlling interests in the unaudited condensed consolidated statements of income for all periods presented. The reclassifications made to prior periods had no effect on previously reported net income available to common stockholders or cash flows.

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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 year-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 redeemable members' interests or stockholders' equity as a component of accumulated other comprehensive income.

**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)**

***Principles of Consolidation***

The unaudited condensed consolidated financial statements include the accounts of IBG, Inc. and its majority and wholly owned subsidiaries. As sole managing member of IBG LLC, IBG, Inc. exerts control over the Group's operations. In accordance with Accounting Research Bulletin ("ARB") No. 51, "Consolidated Financial Statements," and SFAS No. 94, "Consolidation of All Majority-Owned Subsidiaries," the Company consolidates the Group's unaudited condensed consolidated financial statements and records as non-controlling interests the interests in the Group that IBG, Inc. does not own. The Company's policy is to consolidate all entities of which it owns more than 50% unless it does not have control. All inter-company balances and transactions have been eliminated. Pursuant to the revised Financial Accounting Standards Board ("FASB") Interpretation ("FIN") No. 46, "Consolidation of Variable Interest Entities," IBG, Inc. would also consolidate any Variable Interest Entities ("VIEs") of which it is the primary beneficiary. IBG, Inc. currently is not the primary beneficiary of any such entities and therefore no VIEs are included in the unaudited condensed consolidated financial statements.

***Use of Estimates***

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

***Fair Value***

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

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

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

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

***Earnings Per Share***

Earnings per share ("EPS") is computed in accordance with SFAS No. 128, "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. Diluted earnings per share are calculated utilizing net income available for common stockholders divided by the weighted average percentage of IBG LLC interests owned by IBG, Inc. during the period to arrive at an amount of net income that would be available for common stockholders on a fully-diluted basis if all member interests in IBG LLC currently held by IBG Holdings LLC had been sold to IBG, Inc. and an equivalent number of shares of Common Stock had been issued by IBG, Inc. This resulting net income is divided by the weighted average total number of shares of Class A and Class B common stock that would be

**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)**

outstanding if such a transaction had occurred, and includes shares of Common Stock issued and issuable under the 2007 ROI Unit Stock Plan and shares of Common Stock issued under the 2007 Stock Incentive Plan (Note 6).

***Stock-Based Compensation***

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

***Cash and Cash Equivalents***

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

***Cash and Securities — Segregated for Regulatory Purposes***

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

***Securities Borrowed and Securities Loaned***

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

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

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

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

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

Stocks, government and corporate bonds, futures and options transactions are reported in the unaudited condensed consolidated financial statements on a trade date basis. All financial instruments owned and financial instruments sold but not yet purchased are recorded at fair value



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based upon quoted market prices. All firm-owned financial instruments pledged to counterparties where the counterparty has the right, by contract or custom, to sell or repledge the financial instruments are classified as financial instruments owned and pledged as collateral in the unaudited condensed consolidated statements of financial condition.

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

### ***Customer Receivables and Payables***

Customer securities transactions are recorded on a settlement date basis and customer commodities transactions are recorded on a trade date basis. Receivables from and payables to customers include amounts due on cash and margin transactions, including futures contracts transacted on behalf of customers. Securities owned by customers, including 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.

**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)**

***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 as required under APB Opinion No. 18, "The Equity Method of Accounting for Investments in Common Stock," including where the investee is a limited partnership or limited liability company. 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 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.

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

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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.

**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)**

***Revenue Recognition***

***— Trading Gains***

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

***— Commissions and Execution Fees***

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

***Income Taxes***

IBG, Inc. accounts for income taxes in accordance with SFAS No. 109, "Accounting for 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, and FASB Interpretation ("FIN") No. 48, "Accounting for Uncertainty in Income Taxes — an interpretation of FASB Statement No. 109". FIN No. 48 clarifies the accounting for uncertainty of income tax positions recognized in financial statements in accordance with SFAS No. 109, 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 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, the Company's U.S. Federal income tax expense is assessed on the Company's proportionate share of the Group's income that is subject to tax.

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. State and local income taxes reported in the unaudited condensed consolidated statements of income represent taxes assessed on the Company's proportionate share of the Group's income that is subject to tax and taxes assessed on the Group by jurisdictions that do not recognize the Group's limited liability company status. Foreign income taxes paid on dividends received are also reported as income taxes.

Subsequent to the IPO, income tax expenses have been accrued for IBG, Inc.'s proportionate share of the Group's income that is subject to federal and state 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.

***Recently Issued Accounting Pronouncements***

In December 2007, the FASB issued SFAS No. 141(R), "Business Combinations." SFAS No. 141(R) replaces SFAS No. 141, mandating changes in the accounting for business combinations most notably that changes in purchase price allocations, if made, are required to be applied retrospectively, whereas under SFAS No. 141, such changes were applied prospectively. The Company adopted SFAS No. 141(R) as of January

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1, 2009. The Company has not entered into any business combination transactions as of March 31, 2009 and therefore cannot anticipate whether adoption of SFAS No. 141(R) will have a material effect on its unaudited condensed consolidated financial statements.

In March 2008, the FASB issued SFAS No. 161, "Disclosures about Derivative Instruments and Hedging Activities – an amendment of FASB Statement No. 133." SFAS No. 161 requires enhanced disclosures about an entity's derivative and hedging activities, and is effective for financial statements issued for fiscal years beginning after November 2008. Adoption of SFAS No. 161 as of January 1, 2009 did not have a material effect on IBG, Inc.'s unaudited condensed consolidated statements of financial condition, income or cash flows.

In November 2008, the SEC issued its "Roadmap for the Potential Use of Financial Statements Prepared in Accordance with International Financial Reporting Standards by U.S. Issuers" ("IFRS Roadmap"). The IFRS Roadmap would require SEC registrants to prepare their financial statements in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board in 2014. IFRS is increasingly being applied by financial statement preparers in countries outside the U.S. One of the stated purposes of the IFRS Roadmap is that adopting IFRS will provide a global set of high-quality accounting standards so that U.S. investors would have an enhanced ability to compare financial information of U.S. companies with that of non-U.S. Companies. In issuing the IFRS Roadmap, the SEC stated that, in 2011, it will determine whether to proceed with

**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)**

rulemaking to require the use of IFRS by U.S. registrants beginning in 2014. Management is assessing the potential impact of adopting IFRS on the Company's unaudited condensed consolidated financial statements.

**3. Trading Activities and Related Risks**

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

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

***Market Risk***

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

***Equity Price Risk***

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

***Currency Risk***

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

***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***

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IBG, Inc. is exposed to risk of loss if an individual, counterparty or issuer fails to perform its obligations under contractual terms ("default risk"). Both cash instruments and derivatives expose IBG, Inc. to default risk. Credit risk is limited in that substantially all of the contracts entered into are settled directly at securities and commodities clearing houses and a small portion is settled through member firms and banks with substantial financial and operational resources. IBG, Inc. has established policies and procedures for mitigating credit risk on principal transactions, including reviewing and establishing limits for credit exposure, maintaining collateral, and continually assessing the creditworthiness of counterparties.

In the normal course of business, IBG, Inc. executes, settles and finances various customer securities transactions. Execution of these transactions includes the purchase and sale of securities by IBG, Inc. that exposes IBG, Inc. to default risk arising from the potential that customers or counterparties may fail to satisfy their obligations. In these situations, IBG, Inc. may be required to purchase or sell financial instruments at unfavorable market prices to satisfy obligations to customers or counterparties. IBG, Inc. seeks to control the risks associated with its customer margin activities by requiring customers to maintain collateral in compliance with regulatory and internal guidelines.

**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)**

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

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

***Concentrations of Credit Risk***

IBG, Inc.'s exposure to credit risk associated with its trading and other activities is measured on an individual counterparty basis, as well as by groups of counterparties that share similar attributes. Concentrations of credit risk can be affected by changes in political, industry, or economic factors. To reduce the potential for risk concentration, credit limits are established and exposure is monitored in light of changing counterparty and market conditions. As of March 31, 2009, the Company did not have any concentrations of credit risk.

***Off-Balance Sheet Risks***

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

**4. Equity and Earnings Per Share**

In connection with its IPO in May 2007, IBG, Inc. purchased 10.0% of the membership interests in IBG LLC from IBG Holdings LLC, became the sole managing member of IBG LLC and began to consolidate IBG LLC's financial results into its financial statements. IBG Holdings LLC wholly owns all Class B common stock, which common stock has voting rights in proportion to its ownership interests in IBG LLC, approximately 89.6% as of March 31, 2009. The unaudited condensed consolidated financial statements reflect the results of operations and financial position of IBG, Inc., including consolidation of its investment in IBG LLC, and IBG Holdings LLC's ownership interests in IBG LLC are reported as non-controlling interests.

Adoption of SFAS No. 160 as of January 1, 2009 (Note 2) required the Company to report non-controlling interests in subsidiaries (formerly reported as "minority interests") as a separate component of equity in the current period and had the retrospective effect of increasing reported equity in the unaudited condensed consolidated statement of financial position by \$3,894,207 as of December 31, 2008.

***Recapitalization and Post-IPO Capital Structure***



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

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

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

**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)**

shares of Common Stock. Three hundred sixty (360) million shares of authorized Common Stock were reserved for such future sales.

On April 24, 2008, IBG, Inc. filed with the Securities and Exchange Commission a Registration Statement on Form S-1 relating to the offering of 50 million shares of its Class A common stock. The net proceeds of the offering were intended to be used to purchase additional IBG LLC member interests from IBG Holdings LLC, pursuant to the terms and conditions of the Exchange Agreement. The offering was terminated without issuance of any shares. The shares offered in the offering were deregistered and IBG, Inc. agreed not to register another public offering of its shares of Class A common stock until at least April 15, 2009.

The Exchange Agreement provides that IBG LLC, using its available liquidity, may facilitate the redemption by IBG Holdings LLC of interests held by its members. In May 2008, in lieu of the above-referenced offering, 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 at their fair value of \$72,015, equivalent to \$29.99 per share of Class A common stock. As a consequence of this transaction, IBG, Inc.'s interest in IBG LLC increased to approximately 10.4%, with IBG Holdings LLC owning the remaining 89.6%. The redemptions also resulted in an increase in the IBG Holdings LLC interest held by Thomas Peterffy and his affiliates from approximately 84.6% to approximately 85.2%.

As a result of a federal income tax election made by IBG LLC applicable to the acquisition of IBG LLC member interests by IBG, Inc. the income tax basis of the assets of IBG LLC acquired by IBG, Inc. have been adjusted based on the amount paid for such interests. A deferred tax asset of \$380,785 was recorded as of the IPO date, which deferred tax asset is being amortized as additional deferred income tax expense over 15 years, as allowable under current tax law. As of March 31, 2009 and December 31, 2008, the unamortized balance of the deferred tax asset was \$347,911 and \$351,632, respectively. IBG, Inc. also entered into an agreement (the "Tax Receivable Agreement") with IBG Holdings LLC to pay IBG Holdings LLC (for the benefit of the former members of IBG LLC) 85% of the tax savings that IBG, Inc. actually realizes as the result of the tax basis increase. As of the IPO date, a payable to IBG Holdings LLC of \$323,668 was recorded by IBG, Inc. Amounts payable under the Tax Receivable Agreement are subject to repayment to IBG Holdings LLC annually upon the filing of IBG, Inc.'s federal income tax return. The remaining 15%, \$57,117, was accounted for as a permanent increase to additional paid-in capital in the unaudited condensed consolidated statement of financial condition. In December 2008, the Company paid IBG Holdings LLC \$9,898 pursuant to the terms of the Tax Receivable Agreement.

Since consummation of the IPO and Recapitalization, IBG, Inc.'s equity capital structure has been comprised of Class A and Class B common stock. All shares of common stock have a par value of \$0.01 per share and have identical rights to earnings and dividends and in liquidation. As described previously in Note 2 and in this Note 4, Class B common stock has voting power in IBG, Inc. proportionate to the extent of IBG Holdings LLC's ownership of IBG LLC. At March 31, 2009, 1,000,000,000 shares of Class A common stock are authorized, of which 45,336,255 shares have been issued; and 40,536,615 shares were outstanding as of March 31, 2009 and December 31, 2008, respectively. Class B common stock is comprised of 100 authorized shares, of which 100 shares were issued and outstanding as of March 31, 2009 and December 31, 2008. In addition, 10,000 shares of preferred stock have been authorized, of which no shares are issued or outstanding as of March 31, 2009 and December 31, 2008.

***Stock Repurchase Program***

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

### *Earnings per Share*

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

**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)

|  | <b>Three month period<br/>ended<br/>March 31,<br/>2009      2008</b> |            |
|--|--|------------|
| Basic earnings per share:                            |  |            |
| Net income available for common stockholders         | \$ 12,622  | \$ 27,191  |
| Weighted average shares of common stock outstanding: |  |            |
| Class A  | 40,536,615   | 40,143,760 |
| Class B  | 100  | 100        |
|  | 40,536,715   | 40,143,860 |
| Basic earnings per share                             | \$ 0.31  | \$ 0.68    |

Diluted earnings per share are calculated utilizing net income available for common stockholders divided by the weighted average percentage of IBG LLC interests owned by IBG, Inc. to arrive at an amount of net income that would be available for common stockholders on a fully-diluted basis if all member interests in IBG LLC currently held by IBG Holdings LLC had been sold to IBG, Inc. and an equivalent number of shares of Common Stock had been issued by IBG, Inc. This resulting net income is divided by the weighted average total number of shares of Class A and Class B common stock for the periods presented that would be outstanding if such a transaction had occurred, and includes shares of Common Stock issued and issuable pursuant to the 2007 ROI Unit Stock Plan and shares of Common Stock issued under the 2007 Stock Incentive Plan (Note 6):

|   | <b>Three month period<br/>ended<br/>March 31,<br/>2009      2008</b> |             |
|---|--|-------------|
| Diluted earnings per share:                                     |  |             |
| Net income available for common stockholders                    | \$ 121,413   | \$ 263,818  |
| Weighted average shares of common stock outstanding:            |  |             |
| Class A:  |  |             |
| Issued and outstanding  | 40,536,615   | 40,143,760  |
| Assumed issuance in exchange for remaining interests in IBG LLC | 357,561,194  | 359,977,731 |
| Issuable pursuant to 2007 ROI Unit Stock Plan                   | 947,822  | 1,171,317   |

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|                            |             |             |
|----------------------------|-------------|-------------|
| Class B                    | 100         | 100         |
|                            | 399,045,731 | 401,292,908 |
| Diluted earnings per share | \$ 0.30     | \$ 0.66     |

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

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

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

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

|   | March 31, 2009 |                             | December 31, 2008 |                             |
|---|----------------|-----------------------------|-------------------|-----------------------------|
|   | Owned          | Sold, But Not Yet Purchased | Owned             | Sold, But Not Yet Purchased |
| Stocks                                  | \$ 2,861,591   | \$ 3,349,128                | \$ 2,841,974      | \$ 5,365,694                |
| Options                                 | 7,637,408      | 6,628,798                   | 7,893,668         | 8,110,754                   |
| U.S. and foreign government obligations | 178,088        | -                           | 286,563           | -                           |
| Warrants                                | 89,102         | -                           | 78,382            | -                           |
| Corporate bonds                         | 4,264          | 50                          | 4,671             | 52                          |
| Discount certificates                   | 6,684          | -                           | 8,171             | -                           |
| Currency forward contracts              | -              | 907                         | 1,232             | 257                         |
|   | \$ 10,777,137  | \$ 9,978,883                | \$ 11,114,661     | \$ 13,476,757               |

The following tables set forth, by level within the fair value hierarchy (Note 2), financial instruments owned and financial instruments sold, but not yet purchased, which consisted of the following, at fair value as of March 31, 2009 and December 31, 2008. As required by SFAS No. 157, assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement.

## Interactive Brokers Group, Inc. and Subsidiaries

## Notes to Unaudited Condensed Consolidated Financial Statements (Continued)

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

## Financial Assets At Fair Value as of March 31, 2009

|   | Level 1       | Level 2 | Level 3 | Total           |
|---|---------------|---------|---------|-----------------|
| Securites owned:                        |               |         |         | \$              |
| Stocks                                  | \$ 2,861,591  |         | \$ -    | \$ - 2,861,591  |
| Options                                 | 7,637,408     |         | -       | - 7,637,408     |
| U.S. and foreign government obligations | 178,088       |         | -       | - 178,088       |
| Warrants                                | 89,102        |         | -       | - 89,102        |
| Corporate bonds                         | 4,264         |         | -       | - 4,264         |
| Discount certificates                   | 6,684         |         | -       | - 6,684         |
|   | \$ 10,777,137 |         | \$ -    | \$ - 10,777,137 |

## Financial Liabilities At Fair Value as of March 31, 2009

|                                     | Level 1      | Level 2 | Level 3 | Total          |
|-------------------------------------|--------------|---------|---------|----------------|
| Securities sold, not yet purchased: |              |         |         | \$             |
| Stocks                              | \$ 3,349,128 |         | \$ -    | \$ - 3,349,128 |
| Options                             | 6,628,798    | -       | -       | 6,628,798      |
| Corporate bonds                     | 50           | -       | -       | 50             |
| Currency forward contracts          | -            | 907     | -       | 907            |
|                                     | \$ 9,977,976 | \$ 907  | \$ -    | \$ - 9,978,883 |

## Financial Assets At Fair Value as of December 31, 2008

|   | Level 1      | Level 2 | Level 3 | Total          |
|---|--------------|---------|---------|----------------|
| Securites owned:                        |              |         |         | \$             |
| Stocks                                  | \$ 2,841,974 |         | \$ -    | \$ - 2,841,974 |
| Options                                 | 7,893,668    | -       | -       | 7,893,668      |
| U.S. and foreign government obligations | 286,563      | -       | -       | 286,563        |
| Warrants                                | 78,382       | -       | -       | 78,382         |
| Corporate bonds                         | 4,671        | -       | -       | 4,671          |
| Discount certificates                   | 8,171        | -       | -       | 8,171          |

|                            |            |          |                 |
|----------------------------|------------|----------|-----------------|
| Currency forward contracts | - 1,232    | -        | 1,232           |
|                            | \$         |          | \$              |
|                            | 11,113,429 | \$ 1,232 | \$ - 11,114,661 |

**Financial Liabilities At Fair Value as of December 31, 2008**

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

**6. Employee Incentive Plans*****Return on Investment Dollar Units ("ROI Dollar Units")***

From 1998 through January 1, 2006, IBG LLC granted all non-member employees ROI Dollar Units, which are redeemable under the amended provisions of the plan, and in accordance with regulations issued by the Internal Revenue Service (Section 409A of the Internal Revenue Code). Upon redemption, the grantee is entitled to accumulated earnings on the face value of the certificate, but not the actual face value. For grants made in 1998 and 1999, grantees may redeem the ROI Dollar Units after vesting on the fifth anniversary of the date of their grant and prior to the tenth anniversary of the date of their grant. For grants made between January 1, 2000 and January 1, 2005, grantees must elect to redeem the ROI Dollar Units upon the fifth, seventh or tenth anniversary date. These ROI Dollar Units will vest upon the fifth anniversary of the date of their grant and will continue to accumulate earnings until the



**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)**

elected redemption date. For grants made on or after January 1, 2006, all ROI Dollar Units shall vest on the fifth anniversary date of their grant and will be automatically redeemed. Subsequent to the IPO, no additional ROI Dollar Units have been or will be granted, and non-cash compensation to employees will consist primarily of grants of shares of Common Stock as described below under “2007 Stock Incentive Plan.”

As of March 31, 2009 and December 31, 2008, payables to employees for ROI Dollar Units were \$19,666 and \$24,158, respectively. Of these payable amounts, \$8,657 and \$3,769 were vested as of March 31, 2009 and December 31, 2008, respectively. These amounts are included in accounts payable, accrued expenses and other liabilities in the unaudited condensed consolidated statements of financial condition. Compensation expense for the ROI Dollar Unit plan, included in the unaudited condensed consolidated statement of income was \$366 and \$3,695 for the three month periods ended March 31, 2009 and 2008, 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 statement of income for the three month periods ended March 31, 2009 and 2008 was \$861 and \$1,200, respectively. Estimated future compensation costs for unvested awards at March 31, 2009 were \$14.5 million.

***2007 Stock Incentive Plan***

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

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

The Stock Incentive Plan provides that, upon a change in control, the Compensation Committee may, at its discretion, fully vest any granted but unissued shares of Common Stock awarded under the Stock Incentive Plan, or provide that any such granted but unissued shares of Common

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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 January 1 of each year following the IPO to eligible employees as part of an overall plan of equity compensation. Shares of Common Stock granted are issued to IBG LLC, to be held as Treasury Stock, and are distributable to employees in accordance with

the following schedule:

- 10% on the anniversary of the IPO; and

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

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

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

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

|                        | Shares    | Fair<br>Value<br>at Date<br>of<br>Grant |
|------------------------|-----------|---|
|                        |           | \$                                      |
| In connection with IPO | 927,943   | 27,847                                  |
| July 31, 2007          | 16,665    | 404                                     |
| December 31, 2007      | 1,055,206 | 32,876                                  |
| December 31, 2008      | 2,065,432 | 35,600                                  |
|                        |           | \$                                      |
|                        | 4,065,246 | 96,727                                  |

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

Estimated future grants under the Stock Incentive Plan are being accrued ratably each year under the SFAS No. 123(R) "Graded Vesting" method. Compensation expense recognized in the unaudited condensed consolidated statement of income for the three month periods ended March 31, 2009 and 2008 was \$7,048 and \$5,636, respectively. Estimated future compensation costs for unvested awards at March 31, 2009 were \$43.3 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. Distributions of remaining shares to former employees will occur annually following the discontinuation of employment over a five (5) year vesting schedule, 12.5% in each of the first four years and 50% in the fifth year. As of March 31, 2009, no shares have been distributed under these post-employment provisions.

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The following is a summary of Stock Plan activity for the period from January 1 through March 31, 2009:

|                            | <b>Shares</b>                        |                                     |
|----------------------------|--------------------------------------|-------------------------------------|
|                            | <b>2007 Stock<br/>Incentive Plan</b> | <b>2007 ROI Unit<br/>Stock Plan</b> |
| Balance, December 31, 2008 | 3,715,073                            | 926,813                             |
| Granted                    | -                                    | -                                   |
| Forfeited by employees     | (4,836)                              | -                                   |
| Distributed to employees   | -                                    | -                                   |
| Balance, March 31, 2009    | 3,710,237                            | 926,813                             |

### **7. Commitments, Contingencies and Guarantees**

#### ***Litigation***

**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)**

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

IBG, Inc. accounts for potential losses related to litigation in accordance with SFAS No. 5 "Accounting for Contingencies." As of March 31, 2009 and December 31, 2008, reserves provided for potential losses related to litigation matters were not material.

***Guarantees***

Certain of the Operating Companies provide guarantees to securities clearing houses and exchanges which meet the accounting definition of a guarantee under FIN No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others." Under the standard membership agreement, members are required to guarantee collectively the performance of other members. Under the agreements, if another member becomes unable to satisfy its obligations to the clearinghouse, other members would be required to meet shortfalls. In the opinion of management, the Operating Companies' liability under these arrangements is not quantifiable and could exceed the cash and securities they have posted as collateral. However, the potential for these Operating Companies to be required to make payments under these arrangements is remote. Accordingly, no contingent liability is carried on the unaudited condensed consolidated statements of financial condition for these arrangements.

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

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

***Other Commitments***

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

**8. 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.

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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, income before income taxes for the three month periods ended March 31, 2009 and 2008 and to total assets as of March 31, 2009 and December 31, 2008:

**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)

|                            | <b>Three month period ended</b> |             |
|----------------------------|---------------------------------|-------------|
|                            | <b>March 31, 2009</b>           | <b>2008</b> |
| <b>Net revenues:</b>       |                                 |             |
| Market making              | \$ 181,944                      | \$ 403,255  |
| Electronic brokerage       | 107,396                         | 128,228     |
| Corporate and eliminations | 7,001                           | (2,964)     |
| Total net revenues         | \$ 296,341                      | \$ 528,519  |

|                                    |            |            |
|------------------------------------|------------|------------|
| <b>Income before income taxes:</b> |            |            |
| Market making                      | \$ 118,115 | \$ 321,042 |
| Electronic brokerage               | 45,526     | 57,783     |
| Corporate and eliminations         | 3,306      | (4,801)    |
| Total income before income taxes   | \$ 166,947 | \$ 374,024 |

|                            | <b>March 31, 2009</b> | <b>December 31, 2008</b> |
|----------------------------|-----------------------|--------------------------|
| <b>Segment assets:</b>     |                       |                          |
|                            | \$                    |                          |
| Market making              | 17,155,465            | \$ 21,227,371            |
| Electronic brokerage       | 8,798,358             | 8,152,375                |
| Corporate and eliminations | (817,993)             | (1,023,111)              |
|                            | \$                    |                          |
| Total assets               | 25,135,830            | \$ 28,356,635            |

IBG, Inc. operates its automated global business in U.S. and international markets on more than 80 exchanges and market centers. A significant portion of IBG, Inc.'s net revenues are generated by unaudited condensed consolidated subsidiaries operating outside the United States. International operations are comprised of market making and electronic brokerage activities in 27 countries in Europe, Asia and North America (outside the United States). The following table presents total net revenues and income before income taxes by geographic area for the three month periods ended March 31, 2009 and 2008:

|                            | <b>Three month period ended</b> |             |
|----------------------------|---------------------------------|-------------|
|                            | <b>March 31, 2009</b>           | <b>2008</b> |
| <b>Net revenues:</b>       |                                 |             |
|                            | \$                              | \$          |
| United States              | 177,705                         | 331,022     |
| International              | 111,631                         | 200,397     |
| Corporate and eliminations | 7,005                           | (2,900)     |

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|                    |         |         |
|--------------------|---------|---------|
|                    | \$      | \$      |
| Total net revenues | 296,341 | 528,519 |

## **Income before income taxes:**

|                                  |           |         |
|----------------------------------|-----------|---------|
|                                  | \$        | \$      |
| United States                    | \$ 97,343 | 230,192 |
| International                    | 66,319    | 148,761 |
| Corporate and eliminations       | 3,285     | (4,929) |
|                                  | \$        | \$      |
| Total income before income taxes | 166,947   | 374,024 |

## **9. Regulatory Requirements**

At March 31, 2009, aggregate excess regulatory capital for all of the Operating Companies was \$3,160,315.

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 March 31, 2009, TH LLC had net capital of \$1,319,097, which was \$1,303,029 in excess of required net capital of \$16,068, and IB LLC had net capital of \$639,923, which was \$594,381 in excess of required net capital of \$45,542.

THE is subject to the Swiss National Bank eligible equity requirement. At March 31, 2009, THE had eligible equity of



**Interactive Brokers Group, Inc. and Subsidiaries**

**Notes to Unaudited Condensed Consolidated Financial Statements (Continued)**

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

\$1,303,381, which was \$984,158 in excess of the minimum requirement of \$319,223.

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 March 31, 2009, all of the Operating Companies were in compliance with their respective regulatory capital requirements.

Regulatory capital requirements could restrict the Operating Companies from expanding their business and declaring

dividends if their net capital does not meet regulatory requirements. Also, certain entities within IBG, Inc. are subject to other regulatory restrictions and requirements.

**10. Related Party Transactions**

Receivable from affiliate represents amounts advanced to IBG Holdings LLC. Included in receivable from and payable to customers in the accompanying unaudited condensed consolidated statement of financial condition as of March 31, 2009 and December 31, 2008 were director and officer account receivables of \$25,220 and \$71,823 and payables of \$31,167 and \$55,113, respectively. Included in senior notes payable at March 31, 2009 and December 31, 2008 were senior notes purchased by directors and their affiliates of \$10,330 and \$9,492, respectively.

**11. Subsequent Event**

On April 16, 2009, IBG LLC paid a distribution to its members of \$21,900, of which IBG, Inc.'s proportionate allocation was \$2,249.

\*\*\*\*\*

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

The following discussion should be read in conjunction with the unaudited condensed consolidated financial statements and the related notes in Item 1, included elsewhere in this report. In addition to historical information, the following discussion also contains forward-looking statements that include risks and uncertainties. Our actual results may differ materially from those anticipated in these forward-looking statements as a result of certain factors, including those set forth under the heading "Risk Factors" in our Annual Report on Form 10-K filed with the SEC on March 2, 2009 and elsewhere in this report.

### Introduction

IBG, Inc. is a holding company whose primary asset is ownership of approximately 10.4% of the membership interests of the Group.

We are an automated global electronic market maker and broker specializing in routing orders and executing and processing trades in securities, futures and foreign exchange instruments on more than 80 electronic exchanges and trading venues around the world. Since our inception in 1977, we have focused on developing proprietary software to automate broker-dealer functions. The advent of electronic exchanges in the last 19 years has provided us with the opportunity to integrate our software with an increasing number of exchanges and trading venues into one automatically functioning, computerized platform that requires minimal human intervention.

### Business Segments

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

- *Market Making.* We conduct our market making business through our TH subsidiaries. As one of the largest market makers on many of the world's leading exchanges, we provide liquidity by offering competitively tight bid/offer spreads over a broad base of approximately 557,000 tradable, exchange-listed products. As principal, we commit our own capital and derive revenues or incur losses from the difference between the price paid when securities are bought and the price received when those securities are sold. Because we provide continuous bid and offer quotations and we are continuously both buying and selling quoted securities, we may have either a long or a short position in a particular product at a given point in time. Our entire portfolio is evaluated each second and continuously rebalanced throughout the trading day, thus minimizing the risk of our portfolio at all times. This real-time rebalancing of our portfolio, together with our real-time proprietary risk management system, enables us to curtail risk and to be profitable in both up-market and down-market scenarios.
- *Electronic Brokerage.* We conduct our electronic brokerage business through our IB subsidiaries. As an electronic broker, we execute, clear and settle trades globally for both institutional and individual customers. Capitalizing on the technology originally developed for our market making business, IB's systems provide our customers with the capability to monitor multiple markets around the world simultaneously and to execute trades electronically in these markets at a low cost, in multiple products and currencies from a single trading account. We offer our customers access to all classes of tradable, exchange-listed products, including stocks, bonds, options, futures and forex, traded on more than 80 exchanges and market centers and in 17 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

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Diluted earnings per share were \$0.30 for the three months ended March 31, 2009, 55% lower than the same period last year. IBG, Inc.'s diluted earnings per share were \$0.66 for the three months ended March 31, 2008.

**Consolidated:** For the three months ended March 31, 2009, our net revenues were \$296.3 million and income before income taxes was \$166.9 million, compared to net revenues of \$528.4 million and income before income taxes of \$374.0 million for the same period in 2008. Trading gains decreased 52% in the first three months of 2009, compared to the same period last year and commissions and execution fees decreased by 4% for the same time period, while net interest income decreased 67%. Our pre-tax margin for the three months ended March 31, 2009 was 56%, compared to 71% for the same period in 2008.

**Market Making:** During the three months ended March 31, 2009, income before income taxes in our market making segment decreased 63%, compared with the same period in 2008. The first quarter of 2008 was an exceptional period with high market volumes and volatility. A contraction in bid/offer spreads adversely affected trading gains and trading volumes were down slightly from the prior period. Pre-tax margin decreased to 65% in the first quarter of 2009 compared to 80% in the same period of 2008.

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**Brokerage:** During the three months ended March 31, 2009, income before income taxes in our electronic brokerage segment fell 21% compared to the same period in 2008, reflecting a significant reduction in net interest income and slightly lower commissions and execution fees. Benchmark U.S. interest rates, on which we earn spreads from customer cash and margin balances were approximately 0.2% in the first quarter of 2009, compared to 3.2% in the same quarter of 2008. Pre-tax margin decreased from 45% to 42% in the same time periods. Total Daily Average Revenue Trades (“DARTs”) for cleared and execution-only customers increased 1% to 358,000 during the three months ended March 31, 2009, compared to 354,000 during the three months ended March 31, 2008. The number of customer accounts grew 17% from the year ago quarter.

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

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

## TRADE VOLUMES:

(in 000's, except %)

| Period | Market Making |          | Brokerage |          | Brokerage Non |          | Total   |          | Avg. Trades |             |
|--------|---------------|----------|-----------|----------|---------------|----------|---------|----------|-------------|-------------|
|        | Trades        | % Change | Cleared   | % Change | Cleared       | % Change | Trades  | % Change | per U.S.    | Trading Day |
| 2003   | 32,772        |          | 22,748    |          | 2,367         |          | 57,887  |          | 230         |             |
| 2004   | 41,506        | 27%      | 28,876    | 27%      | 2,932         | 24%      | 73,314  | 27%      | 290         |             |
| 2005   | 54,044        | 30%      | 34,800    | 21%      | 7,380         | 152%     | 96,224  | 31%      | 382         |             |
| 2006   | 66,043        | 22%      | 51,238    | 47%      | 12,828        | 74%      | 130,109 | 35%      | 518         |             |
| 2007   | 99,086        | 50%      | 72,931    | 42%      | 16,638        | 30%      | 188,655 | 45%      | 752         |             |
| 2008   | 101,672       | 3%       | 120,195   | 65%      | 16,966        | 2%       | 238,833 | 27%      | 944         |             |
| 1Q2008 | 25,811        |          | 27,550    |          | 4,716         |          | 58,077  |          | 952         |             |
| 1Q2009 | 24,753        | -4%      | 31,797    | 15%      | 2,829         | -40%     | 59,379  | 2%       | 973         |             |

## CONTRACT AND SHARE VOLUMES:

(in 000's, except %)

## TOTAL

| Period | Options (contracts) | % Change | Futures* (contracts) | % Change | Stocks (shares) | % Change |
|--------|---------------------|----------|----------------------|----------|-----------------|----------|
|--------|---------------------|----------|----------------------|----------|-----------------|----------|

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|        |         |      |         |      |                |
|--------|---------|------|---------|------|----------------|
| 2003   | 194,358 |      | 31,034  |      | 17,038,250     |
| 2004   | 269,715 | 39%  | 37,748  | 22%  | 17,487,528 3%  |
| 2005   | 409,794 | 52%  | 44,560  | 18%  | 21,925,120 25% |
| 2006   | 563,623 | 38%  | 62,419  | 40%  | 34,493,410 57% |
| 2007   | 673,144 | 19%  | 83,134  | 33%  | 47,324,798 37% |
| 2008   | 757,732 | 13%  | 108,984 | 31%  | 55,845,428 18% |
|        |         |      |         |      |                |
| 1Q2008 | 202,104 |      | 28,034  |      | 13,868,099     |
| 1Q2009 | 164,382 | -19% | 21,905  | -22% | 15,453,272 11% |

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\* Includes options on futures

**MARKET MAKING**

| <b>Period</b> | <b>Options<br/>(contracts)</b> | <b>%<br/>Change</b> | <b>Futures*<br/>(contracts)</b> | <b>%<br/>Change</b> | <b>Stocks<br/>(shares)</b> | <b>%<br/>Change</b> |
|---------------|--------------------------------|---------------------|---------------------------------|---------------------|----------------------------|---------------------|
| 2003          | 177,459                        |                     | 6,638                           |                     | 12,578,584                 |                     |
| 2004          | 236,569                        | 33%                 | 10,511                          | 58%                 | 12,600,280                 | 0%                  |
| 2005          | 308,613                        | 30%                 | 11,551                          | 10%                 | 15,625,801                 | 24%                 |
| 2006          | 371,929                        | 21%                 | 14,818                          | 28%                 | 21,180,377                 | 36%                 |
| 2007          | 447,905                        | 20%                 | 14,520                          | -2%                 | 24,558,314                 | 16%                 |
| 2008 **       | 514,629                        | 15%                 | 21,544                          | 48%                 | 26,008,433                 | 6%                  |
| 1Q2008        | 137,767                        |                     | 5,380                           |                     | 7,035,193                  |                     |
| 1Q2009        |                                |                     |                                 |                     |                            |                     |
| **            | 118,176                        | -14%                | 3,981                           | -26%                | 6,990,407                  | -1%                 |

**BROKERAGE TOTAL**

| <b>Period</b> | <b>Options<br/>(contracts)</b> | <b>%<br/>Change</b> | <b>Futures*<br/>(contracts)</b> | <b>%<br/>Change</b> | <b>Stocks<br/>(shares)</b> | <b>%<br/>Change</b> |
|---------------|--------------------------------|---------------------|---------------------------------|---------------------|----------------------------|---------------------|
| 2003          | 16,898                         |                     | 24,396                          |                     | 4,459,667                  |                     |
| 2004          | 33,146                         | 96%                 | 27,237                          | 12%                 | 4,887,247                  | 10%                 |
| 2005          | 101,181                        | 205%                | 33,009                          | 21%                 | 6,299,319                  | 29%                 |
| 2006          | 191,694                        | 89%                 | 47,601                          | 44%                 | 13,313,033                 | 111%                |
| 2007          | 225,239                        | 17%                 | 68,614                          | 44%                 | 22,766,484                 | 71%                 |
| 2008          | 243,103                        | 8%                  | 87,440                          | 27%                 | 29,836,995                 | 31%                 |
| 1Q2008        | 64,337                         |                     | 22,654                          |                     | 6,832,906                  |                     |
| 1Q2009        | 46,206                         | -28%                | 17,924                          | -21%                | 8,462,865                  | 24%                 |

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\* Includes options on futures

\*\* In Brazil, an equity option contract typically represents 1 share of the underlying stock; however, 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 minimum trading quantity of 100. We began to actively trade in Brazil in the 4th quarter of 2008. In that quarter we traded and reported 26.1 million contracts. Applying the new method resulted in a 17% decrease in market making options volume for 4Q08 and a 5% decrease for the full year 2008 vs. reported volume.

**BROKERAGE CLEARED**

| <b>Period</b> | <b>Options<br/>(contracts)</b> | <b>%<br/>Change</b> | <b>Futures*<br/>(contracts)</b> | <b>%<br/>Change</b> | <b>Stocks<br/>(shares)</b> | <b>%<br/>Change</b> |
|---------------|--------------------------------|---------------------|---------------------------------|---------------------|----------------------------|---------------------|
| 2003          | 11,351                         |                     | 19,086                          |                     | 3,612,503                  |                     |
| 2004          | 16,438                         | 45%                 | 24,118                          | 26%                 | 4,339,462                  | 20%                 |
| 2005          | 23,456                         | 43%                 | 30,646                          | 27%                 | 5,690,308                  | 31%                 |
| 2006          | 32,384                         | 38%                 | 45,351                          | 48%                 | 12,492,870                 | 120%                |
| 2007          | 51,586                         | 59%                 | 66,278                          | 46%                 | 20,353,584                 | 63%                 |
| 2008          | 77,207                         | 50%                 | 85,599                          | 29%                 | 26,334,752                 | 29%                 |
| 1Q2008        | 16,801                         |                     | 21,958                          |                     | 5,913,872                  |                     |
| 1Q2009        | 20,475                         | 22%                 | 17,739                          | -19%                | 7,833,682                  | 32%                 |

\* Includes options on futures

**BROKERAGE STATISTICS:**

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

|                                    | <b>1Q2009</b> | <b>1Q2008</b> | <b>%<br/>Change</b> |
|------------------------------------|---------------|---------------|---------------------|
| Total Accounts                     | 116           | 99            | 17%                 |
| Customer Equity<br>(in billions) * | \$ 9.6        | \$ 9.2        | 4%                  |
| Cleared DARTs                      | 330           | 303           | 9%                  |
| Total Customer<br>DARTs            | 358           | 354           | 1%                  |

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

|   |          |          |      |
|---|----------|----------|------|
| Commission per<br>DART                          | \$ 3.96  | \$ 4.32  | -8%  |
| DART per Avg.<br>Account<br>(Annualized)        | 736      | 788      | -7%  |
| Net Revenue per<br>Avg. Account<br>(Annualized) | \$ 3,604 | \$ 4,645 | -22% |

\* Excluding Non-Customers (i.e., officers, directors and affiliated parties)

## Business Environment

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

As the result of the upheaval on Wall Street, we believe many trading operations refocused their activities on the listed option markets, creating heightened competition and substantially narrower bid/offer spreads. While implied and actual volatilities remained equally high during the period, the substantial narrowing of bid/offer spreads had a large negative impact on our results during the period as compared to the first quarter of 2008. While the electronic brokerage segment is also impacted by trends in market prices and trading volumes, the effects on brokerage are less volatile. While market values, as measured by the S&P 500 Index, declined about 12%, over the first quarter of 2009, customer trading levels remained robust. The majority of our customer base is comprised of experienced, professional traders who have shown greater resilience to severe market swings than average retail investors. Our customer accounts continue to grow and activity levels of cleared customers, which generate direct revenues for the brokerage segment, remain healthy. Declines in customer volume were attributable to non-cleared customers, which is a lower margin business that we have de-emphasized over time.

According to data compiled by the FIA and based on data received from exchanges worldwide, volumes in exchange-listed equity-based options increased by approximately 3.5% globally and decreased approximately 2.4% in the U.S. during the quarter ended March 31, 2009, compared to the same period in 2008. The growing "equity culture" has been positive for trading volumes and even though we may see brief periods of interruption, we believe the long-term growth trend is likely to continue. We have also observed a rise in certain types of options activity that are driven by non-trading strategies. One such strategy results in spikes in trading volume prior to ex-dividend dates that would appear to be overstating the exchange-reported volumes, especially in the United States. Such activity does not represent trades with which other market participants, including market makers and customers, can interact. We cannot estimate the impact this activity has on overall trading volumes.

According to data compiled by the FIA and based on data received from exchanges worldwide, during the first quarter of 2009 we accounted for approximately 11.6% of the exchange-listed equity based options (including options in ETF's and stock index products) volume traded worldwide and approximately 14.2% of exchange-listed equity based options volume traded in the U.S. This compares to approximately 14.8% of the exchange-listed equity based options volume traded worldwide and approximately 17.8% of the exchange-listed equity based options volume traded in the U.S. in the first quarter of 2008.

Finally, as of the date of this filing, there are certain potential regulatory changes that, if passed, will impact our business. The SEC has proposed certain amendments to Regulation SHO to curb abusive short selling. The effect of these proposed amendments cannot be predicted with certainty, but we generally believe the impact will be minor.

## 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.



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

See “Risk Factors” in Part I, Item 1A of the Company’s Annual Report on Form 10-K filed with the SEC on March 2, 2009 and elsewhere in this report for a discussion of other risks that may affect our financial condition and results of operations.

## Results of Operations

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

|   | <b>Three Months<br/>Ended March 31,<br/>2009          2008<br/>(in millions except share<br/>and per share data)</b> |          |
|---|--|----------|
| <b>Revenues:</b>  |  |          |
| Trading gains   | \$ 180.5   | \$ 378.6 |
| Commissions and execution fees                            | 84.3   | 88.2     |
| Interest income   | 26.3   | 143.9    |
| Other income  | 21.4   | 30.8     |
|   |  |          |
| Total revenues  | 312.5  | 641.5    |
|   |  |          |
| Interest expense  | 16.2   | 113.1    |
|   |  |          |
| Total net revenues  | 296.3  | 528.4    |
| <b>Non-interest expenses:</b>                             |  |          |
| Execution and clearing                                    | 61.1   | 87.1     |
| Employee compensation and benefits                        | 42.8   | 41.4     |
| Occupancy, depreciation and amortization                  | 9.6  | 8.5      |
| Communications  | 5.0  | 4.0      |
| General and administrative                                | 10.9   | 13.4     |
|   |  |          |
| Total non-interest expenses                               | 129.4  | 154.4    |
|   |  |          |
| Income before income taxes                                | 166.9  | 374.0    |
|   |  |          |
| Income tax expense  | 11.8   | 33.4     |
|   |  |          |
| Net income  | 155.1  | 340.6    |
|   |  |          |
| Less net income attributable to non-controlling interests | 142.5  | 313.4    |
|   |  |          |
| Net income available for common shareholders              | \$ 12.6  | \$ 27.2  |

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**Earnings per share:**

|         |         |         |
|---------|---------|---------|
| Basic   | \$ 0.31 | \$ 0.68 |
| Diluted | \$ 0.30 | \$ 0.66 |

**Weighted average common shares outstanding:**

|         |             |             |
|---------|-------------|-------------|
| Basic   | 40,536,715  | 40,143,860  |
| Diluted | 399,045,731 | 401,292,908 |

### Three Months Ended March 31, 2009 Compared to the Three Months Ended March 31, 2008

#### *Net Revenues*

Total net revenues for the three months ended March 31, 2009 decreased \$232.1 million, or 44%, to \$296.3 million from \$528.4 million, during the three months ended March 31, 2008. Trading volume is one of the most important drivers of revenues and costs for both our market making and electronic brokerage segments. Based on data published by the FIA and options exchanges worldwide, global equity options volume during the first three months of 2009 increased approximately 3.5%, compared to the same period in 2008. U.S. equity options volume decreased approximately 2.4% between the same periods. For the quarter ended March 31, 2009, options contracts executed by our subsidiaries decreased by 37.7 million, or 19%, to 164.4 million contracts from 202.1 million contracts for the quarter ended March 31, 2008. The decrease came primarily from market making and brokerage for non-cleared customers.

*Trading Gains.* Trading gains for the three months ended March 31, 2009 decreased \$198.1 million, or 52%, to \$180.5 million from \$378.6 million for the three months ended March 31, 2008, primarily due to tighter spreads on exchange-traded options and other factors described in the "Business Environment" section above. As market makers, we provide liquidity by buying from sellers and selling to buyers. During the three months ended March 31, 2009, our market making operations executed 24.8 million trades, a decrease of 4% compared to the number of trades executed in the three months ended March 31, 2008. Market making options contract volume in the quarter ended March 31, 2009 decreased by 14% from the same period in 2008.

Included in trading gains are net dividends and currency translation gains and losses from market making activities. Dividend income and expense arise from holding market making positions over dates on which dividends are paid to shareholders of record. When a stock pays a dividend, its market price is generally adjusted downward to reflect the value paid to the shareholders of record, which will not be received by those who purchase stock after the ex-dividend date. Hence, the apparent gains and losses due to these price changes, reflecting the value of dividends paid to shareholders, must be taken together with the dividends paid and received, respectively, in order to accurately reflect the results of our market making operations. As part of managing our overall exposure to foreign currency fluctuations, we maintain a portion of our capital in foreign currencies. Translation gains of \$30.1 million were recognized in the three months ended March 31, 2009, on foreign currency balances held by our subsidiaries, compared to translation losses of \$47.7 million for the three months ended March 31, 2008. A discussion of our approach to managing foreign currency exposure is contained in Part I, Item 3 of this Quarterly Report on Form 10-Q entitled "Quantitative and Qualitative Disclosures about Market Risk."

*Commissions and Execution Fees.* Commissions and execution fees for the three months ended March 31, 2009 decreased \$3.9 million, or 4%, to \$84.3 million, as compared to the three months ended March 31, 2008. This decrease was due to a 21% decrease in futures volume as well as a 46% decrease in non-cleared options volume. Total DARTs for cleared and execution-only customers for the three months ended March 31, 2009 increased 1% to 358,000, compared to 354,000 during the three months ended March 31, 2008. DARTs for cleared customers, i.e., customers for whom we execute trades as well as clear and carry positions, increased 9% to approximately 330,000, for the three months ended March 31, 2009, compared to approximately 303,000 for the three months ended March 31, 2008. The number of customer accounts grew by 17% to approximately 116,000 at March 31, 2009, compared to approximately 99,000 at March 31, 2008. Average commission per DART for cleared customers, for the quarter ended March 31, 2009, decreased by \$0.36, or 8%, to \$3.96, as compared to \$4.32 for the quarter ended March 31, 2008, primarily due to shifts in the mix of products our customers traded.

*Interest Income and Interest Expense.* Net interest income (interest income less interest expense) for the quarter ended March 31, 2009 decreased \$20.7 million, or 67%, to \$10.1 million, as compared to the quarter ended March 31, 2008. Net interest income was derived almost entirely from the electronic brokerage segment during the three months ended March 31, 2009. For market making, net interest contracted \$12.0 million to -\$0.2 million, a decrease of 102% 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 first quarter of 2009 resulted in a mix of positions that produced more trading income and less interest income. In addition, average securities borrowed decreased by 31%, to \$4.72 billion and average securities loaned decreased by 86%, to \$695 million, for the quarter ended March 31, 2009, as market making positions contracted and our strong liquidity position reduced our financing needs in the securities lending markets. Customer cash balances increased by 2%, to \$7.64 billion, end-of-period, and customer fully secured margin borrowings decreased 5%, to \$1.85 billion, end-of-period, at March 31, 2009, as compared to \$7.49 billion and \$1.95 billion, end-of-period, respectively, at March 31, 2008. Lower interest rates had a negative effect on the net interest income we earned on customer cash balances. The average Fed Funds effective rate dropped 300 basis points to 0.2% for the quarter ended March 31, 2009 as compared to 3.2% for the quarter ended March 31, 2008. Net interest earned in electronic brokerage decreased \$12.1 million, or 55%, to \$9.9 million, as compared to the quarter ended March 31, 2008.



*Other Income.* Other income, for the three months ended March 31, 2009, decreased \$9.4 million, or 31%, to \$21.4 million, as compared to the three months ended March 31, 2008. This decrease was primarily attributable to a non-recurrence of the \$8.9 million in mark-to-market gains on non-trading securities recognized in the quarter ended March 31, 2008; and a \$6.3 million decrease in payment for order flow income received by our brokerage unit, primarily due to the expansion of the options penny pricing program in the U.S., which was introduced in February 2007 and extended to 63 options classes in March 2008. These reductions were offset by a \$4.9 million increase in translation gains from non-trading companies.

#### ***Non-Interest Expenses***

Non-interest expenses, for the three months ended March 31, 2009, decreased by \$25.0 million, or 16%, to \$129.4 million from \$154.4 million, during the three months ended March 31, 2008. Execution and clearing expenses made up 47% and employee compensation and benefits were 33% of non-interest expenses. As a percentage of total net revenues, non-interest expenses increased to 44% for the three months ended March 31, 2009 from 29% during the same period in 2008.

*Execution and Clearing.* Execution and clearing expenses, for the three months ended March 31, 2009, decreased \$26.0 million, or 30%, to \$61.1 million, as compared to the three months ended March 31, 2008. Execution and clearing expenses, outside of payment for order flow expenses, decreased by \$24.9 million, or 30%, to \$57.6 million primarily due to decreased trading volume across the markets in which the Group and its customers traded. Payments to order flow customers, a component of execution and clearing costs, for the three months ended March 31, 2009, decreased by \$1.1 million, or 24%, to \$3.5 million, as compared to the three months ended March 31, 2008. Payment for order flow expense was partially offset by payment for order flow revenue received from U.S. options exchanges, as described above under “Net Revenues—Other Income.”

*Employee Compensation and Benefits.* Employee compensation and benefits expenses, for the three months ended March 31, 2009, increased by \$1.4 million, or 3%, to \$42.8 million, as compared to the three months ended March 31, 2008. This increase reflected the 11% growth in the average number of employees to 758 for the quarter ended March 31, 2009, as compared to 682 for the same period in 2008. As we continue to grow, our focus on automation has allowed us to maintain a relatively small staff. As a percentage of total net revenues, employee compensation and benefits expenses were 14% and 8%, for the three month periods ended March 31, 2009 and 2008, respectively.

*General and Administrative.* General and administrative expenses, for the three months ended March 31, 2009, decreased \$2.5 million, or 19%, to \$10.9 million, as compared to the three months ended March 31, 2008, primarily attributable to a decrease in our reserve for legal contingencies.

## Business Segments

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

|                                 |                            | <b>Three Months<br/>Ended March 31,<br/>2009      2008<br/>(in millions)</b> |          |
|---------------------------------|----------------------------|--|----------|
| <b>Market Making</b>            | Net revenues               | \$ 182.0   | \$ 403.3 |
|                                 | Non-interest expenses      | 63.8   | 82.3     |
|                                 |                            |  |          |
|                                 | Income before income taxes | \$ 118.2   | \$ 321.0 |
|                                 |                            |  |          |
|                                 | Pre-tax profit margin      | 65%  | 80%      |
| <b>Electronic<br/>Brokerage</b> | Net revenues               | \$ 107.4   | \$ 128.2 |
|                                 | Non-interest expenses      | 61.9   | 70.4     |
|                                 |                            |  |          |
|                                 | Income before income taxes | \$ 45.5  | \$ 57.8  |
|                                 |                            |  |          |
|                                 | Pre-tax profit margin      | 42%  | 45%      |
| <b>Corporate*</b>               | Net revenues               | \$ 6.9   | (\$3.1)  |
|                                 | Non-interest expenses      | 3.7  | 1.7      |
|                                 |                            |  |          |
|                                 | Income before income taxes | \$ 3.2   | (\$4.8)  |
| <b>Total</b>                    | Net revenues               | \$ 296.3   | \$ 528.4 |
|                                 | Non-interest expenses      | 129.4  | 154.4    |
|                                 |                            |  |          |
|                                 | Income before income taxes | \$ 166.9   | \$ 374.0 |
|                                 |                            |  |          |
|                                 | Pre-tax profit margin      | 56%  | 71%      |

\* Corporate includes corporate 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

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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<br>Ended March 31,<br>20092008<br>(in millions) |          |
|--|--|----------|
| Revenues:                                |  |          |
| Trading gains                            | \$ 178.3   | \$ 377.3 |
| Interest income                          | 16.8   | 76.3     |
| Other income                             | 3.9  | 14.2     |
|  |  |          |
| Total revenues                           | 199.0  | 467.8    |
|  |  |          |
| Interest expense                         | 17.0   | 64.5     |
|  |  |          |
| Total net revenues                       | 182.0  | 403.3    |
|  |  |          |
| Non-interest expenses:                   |  |          |
| Execution and clearing                   | 33.6   | 51.8     |
| Employee compensation and benefits       | 16.3   | 15.9     |
| Occupancy, depreciation and amortization | 2.4  | 2.9      |
| Communications                           | 2.7  | 2.3      |
| General and administrative               | 8.8  | 9.4      |
|  |  |          |
| Total non-interest expenses              | 63.8   | 82.3     |
|  |  |          |
| Income before income taxes               | \$ 118.2   | \$ 321.0 |

**Three Months Ended March 31, 2009 Compared to the Three Months Ended March 31, 2008**

Market making total net revenues for the three months ended March 31, 2009 decreased \$221.3 million, or 55%, to \$182.0 million, from \$403.3 million during the three months ended March 31, 2008. Trading gains for the three months ended March 31, 2009 decreased \$199.0 million, or 53%, primarily due to tighter spreads on exchange-traded options and other factors described in the “Business Environment” section above. Market making options contract volume in the three months ended March 31, 2009 decreased by 14% from the same period in 2008, driven by these unfavorable market conditions. Trading gains also include translation gains and losses. Translation gains, for the three months ended March 31, 2009, were \$30.2 million, as compared to translation losses of \$48.6 million, for the three months ended March 31, 2008. Net interest income, for the three months ended March 31, 2009, decreased by \$12.0 million, or 102%. As described above, our trading income and our net interest income are interchangeable and depend on the mix of market making positions in our portfolio and on the relative interest rates in the stock and options markets. In the first quarter of 2009, these factors produced more trading income and less interest income.

Market making non-interest expenses for the three months ended March 31, 2009 decreased \$18.5 million, or 23%, as compared to the three months ended March 31, 2008. This change primarily resulted from an \$18.2 million decrease in execution and clearing costs, which reflects reduced trading volumes as well as the reduction in exchange mandated payment for order flow program costs as more options are traded in penny increments. In addition, greater options volume was executed on U.S. option exchanges that use the make-or-take model, where as a market maker we are paid for providing liquidity instead of paying exchange fees. As a percentage of total net revenues, market making

non-interest expenses increased to 35% from 20% for the three month periods ended March 31, 2009 and 2008, respectively.

**Electronic Brokerage**

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

|  | Three Months<br>Ended March 31,<br>2009      2008<br>(in millions) |                |
|--|--|----------------|
| <b>Revenues:</b>                         |  |                |
| Commissions and execution fees           | \$ 84.3  | \$ 88.2        |
| Interest income                          | 13.0   | 72.8           |
| Other income                             | 13.2   | 18.0           |
|  |  |                |
| Total revenues                           | 110.5  | 179.0          |
|  |  |                |
| Interest expense                         | 3.1  | 50.8           |
|  |  |                |
| <b>Total net revenues</b>                | 107.4  | 128.2          |
|  |  |                |
| <b>Non-interest expenses:</b>            |  |                |
| Execution and clearing                   | 27.5   | 34.5           |
| Employee compensation and benefits       | 12.8   | 13.1           |
| Occupancy, depreciation and amortization | 4.2  | 3.3            |
| Communications                           | 2.3  | 1.7            |
| General and administrative               | 15.1   | 17.8           |
|  |  |                |
| <b>Total non-interest expenses</b>       | 61.9   | 70.4           |
|  |  |                |
| <b>Income before income taxes</b>        | <b>\$ 45.5</b>   | <b>\$ 57.8</b> |

**Three months ended March 31, 2009 Compared to the Three months ended March 31, 2008**

Electronic brokerage total net revenues for the three months ended March 31, 2009 decreased \$20.8 million, or 16%, to \$107.4 million, from \$128.2 million during the three months ended March 31, 2008, primarily due to lower net interest income. This decrease reflects lower interest rates which reduce the spread we earn on customer cash balances. The average Fed Funds effective rate dropped 300 basis points to 0.2% for the quarter ended March 31, 2009 as compared to 3.2% for the quarter ended March 31, 2008. Commission and execution fees decreased \$3.9 million or 4% for the three months ended March 31, 2009 compared to the same period in the prior year due to a 21% decrease in futures volume and a 46% decrease in non-cleared options volume. Total DARTs from cleared and execution-only customers for the three months ended March 31, 2009 increased 1% to 358,000, compared to 354,000 during the three months ended March 31, 2008. DARTs from cleared customers for the three months ended March 31, 2009 increased 9% to 330,000, compared to 303,000 during the three months ended March 31, 2008. Despite broad market value declines, total customer account equity grew by 4% to \$9.6 billion at March 31, 2009, from \$9.2 billion at March 31, 2008. The number of customer accounts grew 17% from March 31, 2008 to approximately 116,000. The primary component of other income, payment for order flow received through programs administered by U.S. options exchanges, decreased \$6.3 million, or 44%, primarily due to the expansion of the penny pricing program to 68 classes on March 28, 2008.

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Electronic brokerage non-interest expenses for the three months ended March 31, 2009 decreased \$8.5 million, or 12%, as compared to the three months ended March 31, 2008. Within that, execution and clearing expenses decreased by \$7 million, which was comprised of a decrease of \$6.3 million in trade execution and clearing expenses and a \$0.7 million reduction in payment for order flow expense in the three months ended March 31, 2009, as compared to the three months ended March 31, 2008. General and administrative expenses decreased by \$2.7 million, or 15%, primarily due to a decrease in our reserve for legal contingencies. As a percentage of total net revenues, non-interest expenses increased to 58% from 55% for the three month periods ended March 31, 2009 and 2008, respectively.

## Liquidity and Capital Resources

We maintain a highly liquid balance sheet. The majority of our assets consist of exchange-listed marketable securities inventories, which are marked-to-market daily, and collateralized receivables arising from customer-related and proprietary securities transactions. Collateralized receivables consist primarily of securities borrowed, receivables from clearing houses for settlement of securities transactions and, to a lesser extent, customer margin loans and securities purchased under agreements to resell. At March 31, 2009, total assets were \$25.14 billion of which approximately \$24.64 billion, or 98% were considered liquid and consisted predominantly of marketable securities and collateralized receivables.

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

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

In order to provide additional liquidity and to further increase our regulatory capital reserves, we issue senior notes and we maintain a committed senior secured revolving credit facility from a syndicate of banks (see “Principal Indebtedness” below). As of March 31, 2009, borrowings under these facilities totaled \$146.1 million, which represented 3% of IBG LLC’s 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 \$4.02 billion at March 31, 2008 to \$4.43 billion at March 31, 2009, representing an increase of 10%. The amounts presented at March 31, 2008 and 2009 include non-controlling interests as prescribed by SFAS No. 160 “Noncontrolling Interests in Consolidated Financial Statements, an amendment of ARB No. 51.”

## Cash Flows

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

|                                       | <b>Three Months<br/>Ended March<br/>31,<br/>2009      2008</b> |          |
|---------------------------------------|--|----------|
|                                       | <b>(in millions)</b>   |          |
| Cash provided by operating activities | \$ 56.6  | \$ 728.1 |

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|  |            |          |
|--|------------|----------|
| Cash used in investing activities                            | (11.4)     | (4.0)    |
| Cash used in financing activities                            | (278.9)    | (582.0)  |
| Effect of exchange rate changes on cash and cash equivalents | (6.3)      | 31.5     |
| (Decrease) increase in cash and cash equivalents             | \$ (240.0) | \$ 173.6 |

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 the purchase of interests in IBG LLC from existing members, capitalized internal software development, purchases and sales of memberships at exchanges where we trade and strategic investments in exchanges where such investments will enable us to offer better execution alternatives to our current and prospective customers, or create new opportunities for ourselves as market makers or where we can influence exchanges to provide competing products at better prices using sophisticated technology. Our cash flows from financing activities are comprised of short-term borrowings, long-term borrowings and capital transactions. Short-term borrowings from banks are part of our daily cash management in support of operating activities. Long-term borrowings provide us with flexible sources of excess liquidity and regulatory capital, and they include a committed senior secured revolving credit facility from a syndicate of banks that was initiated in May 2006 and expires in May 2009, and senior notes issued in private placements to certain qualified customers of IB LLC.

**Three Months Ended March 31, 2009:** Our cash and cash equivalents decreased by \$240.0 million to \$703.5 million for the three months ended March 31, 2009. We raised \$56.6 million in net cash from operating activities. We used net cash of \$290.3 million in our investing and financing activities primarily due to repayments on our senior secured revolving credit facility.

**Three Months Ended March 31, 2008:** Our cash and cash equivalents increased by \$173.6 million to \$695.4 million for the three months ended March 31, 2008. We raised \$728.1 million in net cash from operating activities primarily from increased net income and

decreased trading positions. We used net cash of \$586.0 million in our investing and financing activities primarily due to a decrease in short term borrowings and repayments on our senior secured revolving credit facility.

### ***Regulatory Capital Requirements***

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

At March 31, 2009, aggregate excess regulatory capital for all of the Operating Companies was \$3.16 billion.

### ***Principal Indebtedness***

IBG LLC is the borrower under a \$300.0 million senior secured revolving credit facility, which had no balance outstanding as of March 31, 2009, and is the issuer of senior notes, of which \$146.1 million were outstanding as of March 31, 2009.

#### ***Senior Secured Revolving Credit Facility***

On May 19, 2006, IBG LLC entered into a \$300.0 million three-year senior secured revolving credit facility with JPMorgan Chase Bank, N.A. as administrative agent, Harris N.A., as syndication agent, and Citibank, N.A. and HSBC Bank USA National Association, as co-syndication agents. IBG LLC is the sole borrower under this credit facility, which is required to be guaranteed by IBG LLC's domestic non-regulated subsidiaries (currently there are no such entities). The facility is secured by a first priority interest in all of the capital stock of each entity owned directly by IBG LLC (subject to customary limitations with respect to foreign subsidiaries). The facility may be used to finance working capital needs and general corporate purposes, including downstreaming funds to IBG LLC's regulated broker-dealer subsidiaries as regulatory capital. This allows IBG LLC to take advantage of market opportunities when they arise, while maintaining substantial excess regulatory capital. The financial covenants contained in this credit facility are as follows:

- minimum net worth of \$1.5 billion, with quarterly increases equal to 25% of positive consolidated income;
- maximum total debt to capitalization ratio of 30%;
- minimum liquidity ratio of 1.0 to 1.0; and

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• maximum total debt to net regulatory capital ratio of 35%.

As of March 31, 2009, IBG LLC was in compliance with all of the covenants under this credit facility. In January 2009, the Company reduced its borrowings under this facility to \$-0-. This credit facility will expire in May of 2009 and the Company is considering renewing this facility. Since we maintain a highly liquid balance sheet, this will not have a material impact on our future cash needs.

### *Senior Notes*

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

IBG LLC had \$146.1 million and \$143.1 million of senior notes outstanding at March 31, 2009 and December 31, 2008, respectively. During the period from January 1 through March 31, 2009, total senior notes issued were \$109.7 million, and senior notes redeemed totaled \$106.7 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 \$5.0 million and \$4.3 million for the three month periods ending March 31, 2009 and 2008, respectively. We anticipate that our 2009 gross capital expenditures to continue at a similar level, 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 has made strategic investments in electronic trading exchanges including: Boston Options Exchange, LLC; OneChicago LLC; CBOE Stock Exchange, LLC; and Quadriserv Inc., an electronic securities lending platform provider in which the Company invested during February 2009. The Company also continues to have loans to and holds warrants to purchase approximately 25.86% of W.R. Hambrecht + Co. Inc.

We intend to continue making acquisitions on an opportunistic basis, generally only when the acquisition candidate will, in our opinion, enable us to acquire either technology or customers faster than we could develop them on our own. At March 31, 2009, there were no definitive agreements with respect to any material acquisition.

### **Certain Information Concerning Off-Balance-Sheet Arrangements**

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

### **Critical Accounting Policies**

#### ***Valuation of Financial Instruments***

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

#### ***Contingencies***

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

We have been from time to time subject to litigation and other legal proceedings. As of March 31, 2009, we, along with certain of our subsidiaries, have been named parties to legal actions, which we and/or such subsidiaries intend to defend vigorously. Although the results of legal actions cannot be predicted with certainty, it is the opinion of management that the resolution of these actions is not expected to have a material adverse effect, if any, on our business or financial condition, but may have a material impact on the results of operations for a given period. As of March 31, 2009 and 2008, reserves provided for potential losses related to litigation matters were not material.

*Use of Estimates*

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

**Recent Accounting Pronouncements**

In December 2007, the FASB issued SFAS No. 141(R), "Business Combinations." SFAS No. 141(R) replaces SFAS No. 141, mandating changes in the accounting for business combinations most notably that changes in purchase price allocations, if made,

are required to be applied retrospectively, whereas under SFAS No. 141, such changes were applied prospectively. The Company adopted SFAS No. 141(R) as of January 1, 2009. The Company has not entered into any business combination transactions as of March 31, 2009 and therefore cannot anticipate whether adoption of SFAS No. 141(R) will have a material effect on its unaudited condensed consolidated financial statements.

In March 2008, the FASB issued SFAS No. 161, "Disclosures about Derivative Instruments and Hedging Activities – an amendment of FASB Statement No. 133." SFAS No. 161 requires enhanced disclosures about an entity's derivative and hedging activities, and is effective for financial statements issued for fiscal years beginning after November 2008. Adoption of SFAS No. 161 as of January 1, 2009 did not have a material effect on IBG, Inc.'s unaudited condensed consolidated statements of financial condition, income or cash flows.

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

#### **Forward-Looking Statements**

We have included in Parts I and II of this Quarterly Report on Form 10-Q, and from time to time our management may make, statements which may constitute "forward-looking statements" within the meaning of the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Statements that are not historical facts, including statements about our beliefs and expectations, are forward looking statements. Forward looking statements include statements preceded by, followed by or that include the words "may," "could," "would," "should," "believe," "expect," "anticipate," "plan," "estimate," "target," "project," "intend" and similar expressions. These statements include, among others, statements regarding our expected business outlook, anticipated financial and operating results, our business strategy and means to implement the strategy, our objectives, the amount and timing of capital expenditures, the likelihood of our success in expanding our business, financing plans, budgets, working capital needs and sources of liquidity.

Forward looking statements are only predictions and are not guarantees of performance. These statements are based on our management's beliefs and assumptions, which in turn are based on currently available information. Important assumptions relating to the forward looking statements include, among others, assumptions regarding demand for our products, the expansion of product offerings geographically or through new applications, the timing and cost of planned capital expenditures, competitive conditions and general economic conditions. These assumptions could prove inaccurate. Forward looking statements also involve known and unknown risks and uncertainties, which could cause actual results that differ materially from those contained in any forward looking statement. Many of these factors are beyond our ability to control or predict. Important factors that could cause actual results to differ from those in our specific forward-looking statements include, but are not limited to, those discussed under "Risk Factors" beginning on page 17 of our Annual Report on Form 10-K. Except as required by applicable law, including the securities laws of the United States and the rules and regulations of the SEC, we are under no obligation to publicly update or revise any forward looking statements after the date of this Quarterly Report on Form 10-Q.

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

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

#### Pricing Model Exposure

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

#### Foreign Currency Exposure

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

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

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

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

#### **Interest Rate Risk**

Under our senior secured revolving credit facility, we have the ability to choose borrowing tenors from overnight to twelve months, which permits us to minimize the risk of interest rate fluctuations. We have no borrowings outstanding under this facility as of March 31, 2009.

We pay our electronic brokerage customers interest based on benchmark overnight interest rates in various currencies. In a normal rate environment, we typically invest a portion of these funds in U.S. government treasury securities with maturities of up to three months. Under these circumstances, if interest rates were to increase rapidly and substantially, in increments that were not reflected in the yields on these treasury securities, our net interest income from customer deposits would decrease. Based upon investments outstanding at March 31, 2009, we had no exposure of this nature.

We also face the potential for reduced net interest income from customer deposits due to interest rate spread compression in a low rate environment. A decrease of 0.25% in benchmark interest rates below 0.50% would reduce our net interest income by approximately \$19.1 million on an annualized basis.

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

### **Dividend Risk**

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

### **Margin Credit**

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

We expect this kind of exposure to increase with growth in our overall business. Because we indemnify and hold harmless our clearing firms from certain liabilities or claims, the use of margin credit and short sales may expose us to significant off-balance-sheet risk in the event that collateral requirements are not sufficient to fully cover losses that customers may incur and those customers fail to satisfy their obligations. As of March 31, 2009, we had \$1.85 billion in margin credit extended to our customers. The amount of risk to which we are exposed from the margin credit we extend to our customers and from short sale transactions by our customers is unlimited and not quantifiable as the risk is dependent upon analysis of a potential significant and undeterminable rise or fall in stock prices. Our account level margin credit requirements meet or exceed those required by Regulation T of the Board of Governors of the Federal Reserve. As a matter of practice, we enforce real-time margin compliance monitoring and liquidate customers' positions if their equity falls below required margin requirements.

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



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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 March 2, 2009. During our normal course of business, the Company's regulated operating companies are in discussions with regulators about matters raised during regulatory examinations or otherwise subject to their inquiry. These matters could result in censures, fines or other sanctions. Management believes the outcome of any resulting actions will not be material to the Company's financial condition, results of operations or cash flows. However, the Company is unable to predict the outcome of these matters.

The Company believes, based on current knowledge and after consultation with counsel, that the outcome of the pending matters will not have a material adverse effect on the consolidated financial condition of the Company. Legal reserves have been established in accordance with SFAS No.5 "Accounting for 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 March 2, 2009.

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

None

### **ITEM 3. DEFAULTS UPON SENIOR SECURITIES**

None

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

None

### **ITEM 5. OTHER INFORMATION**

None

**ITEM 6. EXHIBITS**

Certification of Chief Executive Officer, pursuant to  
31.1 Section 302 of the Sarbanes-Oxley Act of 2002

Certification of Chief Financial Officer, pursuant to  
31.2 Section 302 of the Sarbanes-Oxley Act of 2002

Certification of Chief Executive Officer, pursuant to  
32.1 Section 906 of the Sarbanes-Oxley Act of 2002

Certification of Chief Financial Officer, pursuant to  
32.2 Section 906 of the Sarbanes-Oxley Act of 2002

**SIGNATURES**

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

INTERACTIVE  
BROKERS GROUP,  
INC.

/s/ Paul J. Brody  
Name: Paul J. Brody  
Title: Chief Financial  
Officer, Treasurer and  
Secretary  
(Signing both in his  
capacity as a duly  
authorized officer and  
as principal financial  
officer of the  
registrant)

Date:  
May 8,  
2009