

Interactive Brokers Group, Inc.
Form 10-Q
May 12, 2014

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2014

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

For the transition period from to

Commission File Number: 001-33440

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

Delaware
(State or other jurisdiction
of incorporation or organization)

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

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

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

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

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

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

Large accelerated filer	Accelerated filer	Non-accelerated filer	SS Smaller reporting company
<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/> (Do not check if a smaller reporting company)	<input type="checkbox"/>

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, 2014, there were 54,666,825 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, 2014
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PART I. FINANCIAL INFORMATION

Financial Statements Introductory Note

Interactive Brokers Group, Inc. (“IBG, Inc.”, “we”, “our” or the “Company”) is a holding company whose primary asset is its ownership of approximately 13.6% of the membership interests of IBG LLC (the “Group”). See Notes 1 and 4 to the condensed consolidated financial statements for further discussion of the Company’s capital and ownership structure.

We are an automated global electronic broker and market maker specializing in executing and clearing trades in securities, futures, foreign exchange instruments, bonds and mutual funds on more than 100 electronic exchanges and trading venues around the world and offering custody, prime brokerage, stock and margin borrowing services to our customers. In the U.S., our business is conducted from our headquarters in Greenwich, Connecticut and from Chicago, Illinois and from Jersey City, New Jersey. Abroad, we conduct business through offices located in Canada, England, Switzerland, China (Hong Kong and Shanghai), India, Australia and Japan. At March 31, 2014, we had 901 employees worldwide.

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

(Unaudited)

(in thousands, except share amounts)	March 31, 2014	December 31, 2013
Assets		
Cash and cash equivalents	\$ 991,439	\$ 1,213,241
Cash and securities - segregated for regulatory purposes	15,579,679	13,991,711
Securities borrowed	2,846,539	2,751,501
Securities purchased under agreements to resell	282,748	386,316
Financial instruments owned, at fair value:		
Financial instruments owned	2,605,766	3,285,313
Financial instruments owned and pledged as collateral	822,434	1,163,531
Total financial instruments owned	3,428,200	4,448,844
Receivables:		
Customers, less allowance for doubtful accounts of \$68,024 and \$67,999 at March 31, 2014 and December 31, 2013	14,413,560	13,596,650
Brokers, dealers and clearing organizations	902,173	858,189
Receivable from affiliate	38	55
Interest	36,162	26,489
Total receivables	15,351,933	14,481,383
Other assets	499,838	597,704
Total assets	\$ 38,980,376	\$ 37,870,700
Liabilities and equity		
Liabilities:		
Financial instruments sold but not yet purchased, at fair value	\$ 3,170,552	\$ 3,153,673
Securities loaned	2,931,222	2,563,653
Short-term borrowings	33,603	24,635
Payables:		
Customers	26,975,572	26,319,420
Brokers, dealers and clearing organizations	241,394	330,956
Payable to affiliate	287,215	287,242
Accounts payable, accrued expenses and other liabilities	93,145	96,026
Interest	3,467	2,969
Total payables	27,600,793	27,036,613
Total liabilities	33,736,170	32,778,574
Commitments, contingencies and guarantees		
Equity		
Stockholders' equity		
Common stock, \$0.01 par value per share:		
Class A – Authorized - 1,000,000,000, Issued - 54,789,790 and 54,788,049 shares, Outstanding – 54,666,825 and 54,664,095 shares at March 31, 2014 and December 31, 2013	548	548
	-	-

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Class B – Authorized, Issued and Outstanding – 100 shares at March 31, 2014 and December 31, 2013		
Additional paid-in capital	585,070	583,312
Retained earnings	112,491	98,868
Accumulated other comprehensive income, net of income taxes of \$1,059 and \$936 at March 31, 2014 and December 31, 2013	27,396	27,028
Treasury stock, at cost, 122,965 and 123,954 shares at March 31, 2014 and December 31, 2013	(2,462)	(2,492)
Total stockholders' equity	723,043	707,264
Noncontrolling interests	4,521,163	4,384,862
Total equity	5,244,206	5,092,126
Total liabilities and stockholders' equity	\$ 38,980,376	\$ 37,870,700

See accompanying notes to the condensed consolidated financial statements.

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

(in thousands, except for shares or per share amounts)	Three months ended March 31,	
	2014	2013
Revenues:		
Trading gains	\$ 127,512	\$ 18,994
Commissions and execution fees	136,641	119,538
Interest income	85,883	70,502
Other income	19,158	19,911
Total revenues	369,194	228,945
Interest expense	14,286	12,871
Total net revenues	354,908	216,074
Non-interest expenses:		
Execution and clearing	54,210	59,540
Employee compensation and benefits	53,486	46,318
Occupancy, depreciation and amortization	9,819	10,069
Communications	6,002	5,453
General and administrative	13,247	12,471
Total non-interest expenses	136,764	133,851
Income before income taxes	218,144	82,223
Income tax expense	16,950	6,935
Net income	201,194	75,288
Less net income attributable to noncontrolling interests	182,105	68,731
Net income available for common stockholders	\$ 19,089	\$ 6,557
Earnings per share:		
Basic	\$ 0.35	\$ 0.14
Diluted	\$ 0.34	\$ 0.14
Weighted average common shares outstanding:		
Basic	54,664,225	47,499,898
Diluted	56,041,282	47,688,314
Comprehensive income:		
Net income available for common stockholders	\$ 19,089	\$ 6,557
Other comprehensive income:		
Cumulative translation adjustment, before income taxes	491	(3,735)
Income taxes related to items of other comprehensive income	123	7

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Other comprehensive income (loss), net of tax		368		(3,742)
Comprehensive income available for common stockholders	\$	19,457	\$	2,815
Comprehensive income attributable to noncontrolling interests:				
Net income attributable to noncontrolling interests	\$	182,105	\$	68,731
Other comprehensive income (loss) - cumulative translation adjustment		3,120		(27,621)
Comprehensive income attributable to noncontrolling interests	\$	185,225	\$	41,110

See accompanying notes to the 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,	
	2014	2013
Cash flows from operating activities:		
Net income	\$ 201,194	\$ 75,288
Adjustments to reconcile net income to net cash used in operating activities:		
Deferred income taxes	2,390	9,759
Depreciation and amortization	4,896	4,969
Employee stock plan compensation	10,051	8,470
(Gains) losses on other investments, net	(162)	133
Bad debt expense	743	454
Change in operating assets and liabilities:		
(Increase) decrease in cash and securities - segregated for regulatory purposes	(1,585,783)	42,571
Increase in securities borrowed	(95,038)	(907,250)
Decrease (increase) in securities purchased under agreements to resell	103,568	(33,038)
Decrease (increase) in financial instruments owned	1,020,583	(117,573)
Increase in receivables from customers	(817,653)	(1,333,080)
(Increase) decrease in other receivables	(53,640)	34,475
Increase in other assets	(1,136)	(7,943)
Increase in financial instruments sold but not yet purchased	16,879	81,127
Increase in securities loaned	367,569	359,492
Increase in payable to customers	656,152	1,638,924
Decrease in other payables	(89,674)	(65,689)
Net cash used in operating activities	(259,061)	(208,911)
Cash flows from investing activities:		
Purchases of other investments	(60,368)	(67,482)
Proceeds from sales of other investments	152,561	67,234
Distributions received from and redemptions of equity investments	-	11,054
Purchase of property and equipment	(4,707)	(3,702)
Net cash provided by investing activities	87,486	7,104
Cash flows from financing activities:		
Dividends paid to shareholders	(5,466)	(4,750)
Dividends paid to noncontrolling interests	(57,217)	(35,137)
Increase (decrease) in short-term borrowings, net	8,968	(91,573)
Net cash used in financing activities	(53,715)	(131,460)
Effect of exchange rate changes on cash and cash equivalents	3,488	(31,364)
Net decrease in cash and cash equivalents	(221,802)	(364,631)
Cash and cash equivalents at beginning of period	1,213,241	1,380,599
Cash and cash equivalents at end of period	\$ 991,439	\$ 1,015,968

Supplemental disclosures of cash flow information:

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Cash paid for interest	\$	13,788	\$	14,460
Cash paid for taxes	\$	26,533	\$	20,628
Non-cash financing activities:				
Adjustments to additional paid-in capital for changes in proportionate ownership in IBG LLC	\$	393	\$	(125)
Adjustments to noncontrolling interests for changes in proportionate ownership in IBG LLC	\$	(393)	\$	125

See accompanying notes to the condensed consolidated financial statements.

Interactive Brokers Group, Inc. and Subsidiaries
Condensed Consolidated Statements of Changes in Equity
Three Months Ended March 31, 2014 and March 31, 2013

(Unaudited)

(in thousands,
except for
share amounts)

	Common Stock				Retained Earnings	Accumulated Other Comprehensive Income	Total Stockholders' Equity
	Issued Shares	Par Value	Additional Paid-In Capital	Treasury Stock			
Balance, January 1, 2014	54,788,049 \$	548 \$	583,312 \$	(2,492) \$	98,868 \$	27,028 \$	707,264
Common Stock distributed pursuant to stock plans	1,741			30			30
Compensation for stock grants vesting in the future			1,365				1,365
Dividends paid to stockholders					(5,466)		(5,466)
Dividends paid by IBG LLC to noncontrolling interests							
Adjustments for changes in proportionate ownership in IBG LLC			393				393
Comprehensive income					19,089	368	19,457
Balance, March 31, 2014	54,789,790 \$	548 \$	585,070 \$	(2,462) \$	112,491 \$	27,396 \$	723,043

Common Stock

Issued	Par	Additional Paid-In	Treasury	Retained	Accumulated Other Comprehensive	Total Stockholders'
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	Shares	Value	Capital	Stock	Earnings	Income	Equity
Balance, January 1, 2013	47,797,844	\$ 478	\$ 493,912	\$ (7,718)	\$ 82,072	\$ 29,754	\$ 598,498
Common stock distributed pursuant to stock plans	3,605			52			52
Compensation for stock grants vesting in the future			1,036				1,036
Dividends paid to shareholders					(4,750)		(4,750)
Dividends paid by IBG LLC to noncontrolling interests							
Adjustments for changes in proportionate ownership in IBG LLC			(125)				(125)
Comprehensive income					6,557	(3,742)	2,815
Balance, March 31, 2013	47,801,449	\$ 478	\$ 494,823	\$ (7,666)	\$ 83,879	\$ 26,012	\$ 597,526

See accompanying notes to the 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 13.6% of the membership interests of IBG LLC, which, in turn, owns operating subsidiaries (collectively, “IBG LLC” or the “Group”). The accompanying condensed consolidated financial statements of IBG, Inc. reflect the consolidation of IBG, Inc.’s investment in IBG LLC for all periods presented (Note 4). IBG LLC is an automated global electronic broker and market maker specializing in routing orders and processing trades in securities, futures and foreign exchange instruments.

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

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

Certain of the Operating Companies are members of various securities and commodities exchanges in North America, Europe and the Asia/Pacific region and are subject to regulatory capital and other requirements (Note 13). IB LLC, IBUK, IBC, IBI and IBSJ carry securities accounts for customers or perform custodial functions relating to customer securities.

2. Significant Accounting Policies

Basis of Presentation

These condensed consolidated financial statements are presented in U.S. dollars and have been prepared pursuant to the rules and regulations of the U.S. Securities and Exchange Commission (“SEC”) regarding financial reporting with respect to Form 10-Q and accounting standards generally accepted in the United States of America (“U.S. GAAP”) promulgated in the Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC” or the “Codification”). These condensed consolidated financial statements include the accounts of the Company and its subsidiaries and include all adjustments of a normal, recurring nature necessary to present fairly the financial condition as of March 31, 2014 and December 31, 2013, the results of operations and comprehensive income for the three months ended March 31, 2014 and 2013 and cash flows for the three months ended March 31, 2014 and 2013. These condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto included in IBG, Inc.’s 2013 Annual Report on Form 10-K filed with the SEC on March 3, 2014. The condensed consolidated financial statement information as of December 31, 2013 has been derived from the 2013 audited consolidated financial statements. The results of operations for interim periods are not

necessarily indicative of results for the entire year.

Principles of Consolidation, including Noncontrolling Interests

The 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

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)

accordance with ASC 810, Consolidation, the Company consolidates the Group's financial statements and records the interests in the Group that IBG, Inc. does not own as noncontrolling interests.

The Company's policy is to consolidate all other entities in which it owns more than 50% unless it does not have control. All inter-company balances and transactions have been eliminated.

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 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 allowance for doubtful accounts, compensation accruals, current and deferred income taxes, and estimated contingency reserves.

Fair Value

At March 31, 2014 and December 31, 2013, substantially all of IBG, Inc.'s assets and liabilities, including financial instruments, were carried at fair value based on published market prices and were marked to market, or were assets and liabilities which are short-term in nature and were carried at amounts that approximate fair value.

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

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

Financial instruments owned and financial instruments sold, not yet purchased are generally classified as Level 1 financial instruments. The Company's Level 1 financial instruments, which are valued using quoted market prices as published by exchanges and clearing houses or otherwise broadly distributed in active markets, include U.S. government and sovereign obligations, active listed securities, options, futures, options on futures and corporate and municipal debt securities. IBG, Inc. does not adjust quoted prices for Level 1 financial instruments, even in the event that the Company may hold a large position whereby a purchase or sale could reasonably impact quoted prices.

Currency forward contracts are valued using broadly distributed bank and broker prices, and are classified as Level 2 financial instruments as such instruments are not exchange-traded. Other securities that are not traded in active markets are also classified in Level 2. Level 3 financial instruments are comprised of securities that have been delisted or otherwise are no longer tradable and have been valued by the Company based on internal estimates.

Other fair value investments, reported in other assets in the accompanying condensed consolidated statement of financial condition and in Note 6—Financial Assets and Financial Liabilities, are comprised of financial instruments that the Company does not carry in its market making business, which were comprised of listed stocks and options, and corporate debt securities. These investments are generally reported as Level 2 financial instruments, except for unrestricted listed equities, which are classified as Level 1 financial instruments. Other fair value liabilities are comprised of unrestricted listed equities which are classified as Level 1 financial instruments.

Earnings per Share

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

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

Stock-Based Compensation

IBG, Inc. follows ASC 718, Compensation—Stock Compensation, to account for its stock-based compensation plans. ASC 718 requires all share-based payments to employees to be recognized in the condensed consolidated financial statements using a fair value-based method. Grants, which are denominated in U.S. dollars, are communicated to employees in the year of grant, thereby establishing the fair value of each grant. The fair value of awards granted to employees are generally expensed as follows—50% in the year of grant in recognition of plan forfeiture provisions (described below) and the remaining 50% over the related vesting period utilizing the “graded vesting” method permitted under ASC 718-10. In the case of “retirement eligible” employees (those employees older than 59), 100% of awards are expensed when granted.

Awards granted under stock-based compensation plans 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 awards unless the employee is over the age of 59, in which case the employee would be eligible to receive 100% of unvested awards previously granted.

Cash and Cash Equivalents

The Company considers all highly liquid investments, with maturities of three months or less, that are not segregated and deposited for regulatory purposes or to meet margin requirements at clearing houses to be cash equivalents.

Cash and Securities—Segregated for Regulatory Purposes

As a result of customer activities, certain Operating Companies are obligated by rules mandated by their primary regulators to segregate or set aside cash or qualified securities to satisfy such regulations, which regulations have been promulgated to protect customer assets. In addition, substantially all of the Operating Companies are members of various clearing organizations at which cash or securities are deposited as required to conduct day-to-day clearance activities. Securities segregated for regulatory purposes consisted of U.S. Treasury Bills of \$3.43 billion and \$1.30 billion at March 31, 2014 and December 31, 2013, respectively, which are recorded as Level 1 financial assets and securities purchased under agreements to resell in the amount of \$6.44 billion and \$6.73 billion as of March 31, 2014 and December 31, 2013, respectively, which amounts approximate fair value.

Securities Borrowed and Securities Loaned

Securities borrowed and securities loaned are recorded at the amount of collateral advanced or received. Securities borrowed transactions require the Company 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 condensed consolidated statements of financial condition.

Securities lending fees received or paid by IBG, Inc. are recorded as interest income or interest expense in the condensed consolidated statements of comprehensive income.

Securities Purchased Under Agreements to Resell

Securities purchased under agreements to resell, which are reported as collateralized financing transactions, are recorded at contract value, plus accrued interest, which approximates fair value. 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. The Company does not net securities purchased under agreements to resell transactions with securities sold under agreements to repurchase transactions entered into with the same counterparty.

Financial Instruments Owned and Sold But Not Yet Purchased

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

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

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 condensed consolidated statements of financial condition. Amounts receivable from customers that are determined by management to be uncollectible are expensed as a component of general and administrative expense.

Receivables from and Payables to Brokers, Dealers and Clearing Organizations

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

Investments

IBG, Inc. makes certain strategic investments related to financial services and accounts for these investments under the cost method of accounting or under the equity method of accounting as required under ASC 323, Investments—Equity Method and Joint Ventures. Investments accounted for under the equity method, including where the investee is a limited partnership or limited liability company, are recorded at the fair value amount of IBG, Inc.’s initial investment and adjusted each period for IBG, Inc.’s share of the investee’s income or loss. IBG, Inc.’s share of the income or losses from equity investments is reported as a component of other income in the condensed consolidated statements of comprehensive income. The recorded amounts of IBG, Inc.’s equity method investments, \$27.0 million at March 31, 2014 (\$27.5 million at December 31, 2013), which are reported as a component of other assets in the condensed consolidated statements of financial condition, increase or decrease accordingly. Contributions paid to and distributions received from equity investees are recorded as additions or reductions, respectively, 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. IBG, Inc.’s equity investments do not have readily determinable market values. All 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, \$27.2 million at March 31, 2014 (\$27.6 million at December 31, 2013), 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 also components of other assets in the condensed consolidated statements of financial condition. Dividends received from cost basis investments are recognized as a component of other income when such dividends are received.

The Company also makes other fair value investments (which are not considered core business activities) that are accounted for at fair value (Note 6), with gains and losses recorded as a component of other 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)

Property and Equipment

Property and equipment, which is a component of other assets, consists 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

The Company's operating results are reported in the condensed consolidated statement of comprehensive income pursuant to Accounting Standards Update 2011-05, Comprehensive Income.

Comprehensive income consists of two components: net income and other comprehensive income ("OCI"). OCI is comprised of revenues, expenses, gains and losses that are reported in the comprehensive income section of the statement of comprehensive income, but are excluded from reported net income. IBG, Inc.'s OCI is comprised of foreign currency translation adjustments, net of related income taxes, where applicable. In general, the practice and intention of the Company is to reinvest the earnings of its non-U.S. subsidiaries in those operations.

IBG, Inc.'s non-U.S. domiciled subsidiaries have a functional currency 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. Adjustments that result from translating amounts from a subsidiary's functional currency are reported as a component of accumulated OCI.

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 financial instruments owned and financial instruments sold but not yet purchased (i.e., unrealized gains and losses) and realized gains and losses. Included in trading gains are net gains and losses on exchange traded options, futures and other derivative instruments. Dividends are integral to the valuation of stocks and interest is integral to the valuation of fixed income instruments. Accordingly, both dividends and interest income and expense attributable to financial instruments owned and financial instruments sold but not yet purchased are reported on a net basis as a component of trading gains in the accompanying condensed consolidated statements of comprehensive income.

—Commissions and Execution Fees

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

the related expenses are reported as execution and clearing expenses.

—Interest Income and Expense

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

—Foreign Currency Transaction Gains and Losses

Foreign currency transaction gains and losses from market making are reported as a component of trading gains in the condensed consolidated statements of comprehensive income. Electronic brokerage foreign currency transaction gains and losses are included in interest (if arising from currency swap transactions) or other 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)

Income Taxes

IBG, Inc. accounts for income taxes in accordance with ASC 740, Income Taxes. The Company's income tax expense, deferred tax assets and liabilities, and reserves for unrecognized tax benefits are based on enacted tax laws (Note 10) and reflect management's best assessment of estimated future taxes to be paid. The Company is subject to income taxes in both the United States and numerous foreign jurisdictions. Determining income tax expense requires significant judgments and estimates.

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.

Deferred income tax assets and liabilities arise from temporary differences between the tax and financial statement recognition of the underlying assets and liabilities. In evaluating the ability to recover deferred tax assets within the jurisdictions from which they arise, the Company considers all available positive and negative evidence, including scheduled reversals of deferred tax liabilities, projected future taxable income, tax-planning strategies, and results of recent operations. In projecting future taxable income, historical results are adjusted for changes in accounting policies and incorporate assumptions including the amount of future state, federal and foreign pretax operating income, the reversal of temporary differences, and the implementation of feasible and prudent tax-planning strategies. These assumptions require significant judgment about the forecasts of future taxable income and are consistent with the plans and estimates the Company is using to manage the underlying businesses. In evaluating the objective evidence that historical results provide, three years of cumulative operating income (loss) are considered. Deferred income taxes have not been provided for U.S. tax liabilities or for additional foreign taxes on the unremitted earnings of foreign subsidiaries that have been indefinitely reinvested.

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

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

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

Interactive Brokers Group, Inc. and Subsidiaries
 Notes to Unaudited Condensed Consolidated Financial Statements (Continued)
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Recently Issued Accounting Pronouncements

Subsequent to the adoption of the ASC, the FASB will issue Accounting Standards Updates (“ASUs”) as the means to add to or delete from, or otherwise amend the ASC. In 2014, prior to the issuance of the Company’s condensed consolidated financial statements, ASUs 2014-01 through 2014-08 have been issued. Following is a summary of recently issued ASUs that have affected or may affect the Company’s condensed consolidated financial statements:

	Affects	Status
ASU 2013-05	Foreign Currency Matters (Topic 830): Parent's Accounting for the Cumulative Translation Adjustment upon Derecognition of Certain Subsidiaries or Groups of Assets within a Foreign Entity or of an Investment in a Foreign Entity	Effective for fiscal periods beginning on or after December 15, 2013.
ASU 2014-06	Technical Corrections and Improvements Related to Glossary Terms	Effective on issuance in March 2014.

Adoption of those ASUs that became effective during 2014, prior to the issuance of the Company’s condensed consolidated financial statements, did not have a material effect on those financial statements.

3. Trading Activities and Related Risks

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

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

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

Market Risk

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

Equity Price Risk

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

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Notes to Unaudited Condensed Consolidated Financial Statements (Continued)
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Currency Risk

Currency risk arises from the possibility that fluctuations in foreign exchange rates will impact the value of financial instruments. The Company manages this risk using spot (i.e., cash) currency transactions, currency futures contracts and currency forward contracts.

Interest Rate Risk

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

Credit Risk

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

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

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

For cash management purposes, IBG, Inc. enters into short-term securities purchased under agreements to resell and securities sold under agreements to repurchase transactions (“repos”) in addition to securities borrowing and lending arrangements, all of which may result in credit exposure in the event the counterparty to a transaction is unable to fulfill its contractual obligations. 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, 2014, the Company did not have any material concentrations of credit risk.

Off-Balance Sheet Risks

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

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4. Equity and Earnings per Share

In connection with its initial public offering of Class A common stock (“IPO”) in May 2007, IBG, Inc. purchased 10.0% of the membership interests in IBG LLC from Holdings, became the sole managing member of IBG LLC and began to consolidate IBG LLC’s financial results into its financial statements. Holdings wholly owns all Class B common stock, which common stock has voting rights in proportion to its ownership interests in IBG LLC, approximately 86.4% as of March 31, 2014. The condensed consolidated financial statements reflect the results of operations and financial position of IBG, Inc., including consolidation of its investment in IBG LLC. The noncontrolling interests in IBG LLC attributable to Holdings are reported as a component of total equity, as described below.

Recapitalization and Post-IPO Capital Structure

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

Since consummation of the IPO and Recapitalization, IBG, Inc.’s equity capital structure has been comprised of Class A and Class B common stock. All shares of common stock have a par value of \$0.01 per share and have identical rights to earnings and dividends and in liquidation. As described previously in this Note 4, Class B common stock has voting power in IBG, Inc. proportionate to the extent of Holdings’ and IBG, Inc.’s respective ownership of IBG LLC. At March 31, 2014 and December 31, 2013, 1,000,000,000 shares of Class A common stock were authorized, of which 54,789,790 and 54,788,049 shares have been issued; and 54,666,825 and 54,664,095 shares were outstanding, respectively. Class B common stock is comprised of 100 authorized shares, of which 100 shares were issued and outstanding as of March 31, 2014 and December 31, 2013, respectively. In addition, 10,000 shares of preferred stock have been authorized, of which no shares are issued or outstanding as of March 31, 2014 and December 31, 2013, respectively.

As a result of a federal income tax election made by IBG LLC applicable to the acquisition of IBG LLC member interests by IBG, Inc., the income tax basis of the assets of IBG LLC acquired by IBG, Inc. have been adjusted based on the amount paid for such interests. Deferred tax assets were recorded as of the IPO date and in connection with the 2011 and 2013 redemptions of Holdings member interests in exchange for common stock, which deferred tax assets are a component of other assets in the condensed consolidated statement of financial condition and are being amortized as additional deferred income tax expense over 15 years from the IPO date and from the 2011 and 2013 redemption dates, respectively, as allowable under current tax law. As of March 31, 2014 and December 31, 2013, the unamortized balance of these deferred tax assets was \$289.3 million and \$294.7 million, respectively.

IBG, Inc. also entered into an agreement (the “Tax Receivable Agreement”) with Holdings to pay Holdings (for the benefit of the former members of IBG LLC) 85% of the tax savings that IBG, Inc. actually realizes as the result of tax

basis increases. These payables, net of payments made to Holdings, are reported as payable to affiliate in the condensed consolidated statement of financial condition.

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

The cumulative amounts of deferred tax assets, payables to Holdings and credits to additional paid-in capital arising from stock offerings from the date of the IPO through March 31, 2014 were \$420.4 million, \$357.4 million and \$63.1 million, respectively. Amounts payable under the Tax Receivable Agreement are payable to Holdings annually following the filing of IBG, Inc.'s federal income tax return. The Company has paid Holdings a cumulative total of \$70.4 million through March 31, 2014 pursuant to the terms of the Tax Receivable Agreement.

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Notes to Unaudited Condensed Consolidated Financial Statements (Continued)
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The Exchange Agreement, as amended June 6, 2012, provides for future redemptions of member interests and for the purchase of member interests in IBG LLC by IBG, Inc. from Holdings, which could result in IBG, Inc. acquiring the remaining member interests in IBG LLC that it does not own. On an annual basis, holders of Holdings member interests are able to request redemption of such member interests over a minimum eight (8) year period following the IPO; 12.5% annually for seven (7) years and 2.5% in the eighth year.

At the time of the Company's IPO in 2007, three hundred sixty (360) million shares of authorized Common Stock were reserved for future sales and redemptions. From 2008 through 2010, Holdings redeemed 5,013,259 IBG LLC shares with a total value of \$114.0 million, which redemptions were funded using cash on hand at IBG LLC. Upon cash redemption these IBG LLC shares were retired. In 2013 and 2011, respectively, the Company issued 4,683,415 shares and 1,983,624 shares of Common Stock directly to Holdings in exchange for an equivalent number of shares of member interests in IBG LLC.

As a consequence of these redemption transactions, and distribution of shares to employees (Note 9), IBG, Inc.'s interest in IBG LLC has increased to approximately 13.6%, with Holdings owning the remaining 86.4% as of March 31, 2014. The redemptions also resulted in an increase in the Holdings interest held by Thomas Peterffy and his affiliates from approximately 84.6% at the IPO to approximately 87.6% at March 31, 2014.

Earnings per Share

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

	Three months ended March 31,	
	2014	2013
Basic earnings per share:		
Net income available for common stockholders	\$ 19,089	\$ 6,557
Weighted average shares of common stock outstanding:		
Class A	54,664,125	47,499,798
Class B	100	100
	54,664,225	47,499,898
Basic earnings per share	\$ 0.35	\$ 0.14

Interactive Brokers Group, Inc. and Subsidiaries
Notes to Unaudited Condensed Consolidated Financial Statements (Continued)
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Diluted earnings per share are calculated utilizing the Company's basic net income available for common stockholders divided by diluted weighted average shares outstanding with no adjustments to net income available to common stockholders for potentially dilutive common shares:

	Three months ended March 31,	
	2014	2013
Diluted earnings per share:		
Net income available for common stockholders	\$ 19,089	\$ 6,557
Weighted average shares of common stock outstanding:		
Class A:		
Issued and outstanding	54,664,125	47,499,798
Potentially dilutive common shares issuable pursuant to employee incentive plans	1,377,057	188,416
Class B		
	100	100
	56,041,282	47,688,314
Diluted earnings per share	\$ 0.34	\$ 0.14

Member and Stockholder Dividends

For the three months ended March 31, 2014, IBG LLC paid dividends totaling \$66.2 million to its members, of which IBG, Inc.'s proportionate share was \$9.0 million. In March 2014, the Company paid cash dividends of \$0.10 per share of Common Stock, totaling \$5.5 million.

On April 15, 2014, the Company declared a cash dividend of \$0.10 per common share, payable on June 13, 2014 to shareholders of record as of May 30, 2014.

5. Comprehensive Income

The following table presents comprehensive income and earnings per share on comprehensive income:

	Three months ended March 31,	
	2014	2013
Comprehensive income available for common stockholders, net of tax	\$ 19,457	\$ 2,815

Earnings per share on comprehensive income:

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Basic	\$	0.36	\$	0.06
Diluted	\$	0.35	\$	0.06

Weighted average common shares
outstanding:

Basic	54,664,225	47,499,898
Diluted	56,041,282	47,688,314

Interactive Brokers Group, Inc. and Subsidiaries
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6. Financial Assets and Financial Liabilities

Fair Value

The following tables set forth, by level within the fair value hierarchy (Note 2), financial assets and liabilities, primarily financial instruments owned and financial instruments sold, but not yet purchased at fair value as of March 31, 2014 and December 31, 2013. As required by ASC 820, financial assets and financial liabilities are classified in their entirety based on the lowest level of input that is significant to the respective fair value measurement.

Financial Assets At Fair Value as of March 31, 2014

	Level 1	Level 2	Level 3	Total
Securities segregated for \$ regulatory purposes	3,428,577	\$ -	\$ -	\$ 3,428,577
Financial instruments owned:				
Stocks	990,435	-	119	990,554
Options	1,418,104	-	-	1,418,104
Warrants and discount certificates	74,891	-	-	74,891
U.S. and foreign government securities	15,740	2,074	-	17,814
Corporate and municipal bonds	77,647	22,998	-	100,645
Currency forward contracts	-	3,758	-	3,758
Total financial instruments owned	2,576,817	28,830	119	2,605,766
Financial instruments owned and pledged as collateral:				
Stocks	762,857	-	-	762,857
Warrants	205	-	-	205
U.S. and foreign government securities	58,470	-	-	58,470
Corporate and municipal bonds	902	-	-	902
Total financial instruments owned and pledged as collateral	822,434	-	-	822,434
Total financial insturments owned	3,399,251	28,830	119	3,428,200

Other fair value investments, included in other assets:					
Stocks and options	33,642	-	112		33,754
Corporate and municipal bonds	-	1,869	-		1,869
Total other fair value investments, included in other assets	33,642	1,869	112		35,623
Total Financial Assets at \$ Fair Value	68,614,470	\$ 30,699	\$ 231	\$	6,892,400

Financial Liabilities At Fair Value as of March 31, 2014

	Level 1	Level 2	Level 3	Total
Financial instruments sold, not yet purchased:				
Stocks	\$ 1,612,564	\$ -	\$ 1	\$ 1,612,565
Options	1,467,109	-	-	1,467,109
Warrants and discount certificates	1,051	-	-	1,051
U.S. and foreign government securities	693	1,279	-	1,972
Corporate bonds	75,039	12,213	-	87,252
Currency forward contracts	-	603	-	603
Total financial instruments sold, not yet purchased	3,156,456	14,095	1	3,170,552
Other fair value liabilities, included in accounts payable, accrued expenses and other liabilities				
Stock	305	-	-	305
Total other fair value liabilities, included in accounts payable, accrued expenses and other liabilities	305	-	-	305
Total Financial Liabilities at Fair Value	\$ 3,156,761	\$ 14,095	\$ 1	\$ 3,170,857

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Notes to Unaudited Condensed Consolidated Financial Statements (Continued)
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Financial Assets At Fair Value as of December 31, 2013

	Level 1	Level 2	Level 3	Total
Securities segregated for regulatory purposes	\$ 1,300,016	\$ -	\$ -	\$ 1,300,016
Financial instruments owned:				
Stocks	1,243,914	-	57	1,243,971
Options	1,880,481	-	-	1,880,481
Warrants and discount certificates	57,144	-	-	57,144
U.S. and foreign government securities	4,641	2,102	-	6,743
Corporate and municipal bonds	72,750	18,476	-	91,226
Currency forward contracts	-	5,748	-	5,748
Total financial instruments owned	3,258,930	26,326	57	3,285,313
Financial instruments owned and pledged as collateral:				
Stocks	1,097,734	-	-	1,097,734
Warrants	233	-	-	233
U.S. and foreign government securities	64,439	-	-	64,439
Corporate and municipal bonds	1,125	-	-	1,125
Total financial instruments owned and pledged as collateral	1,163,531	-	-	1,163,531
Total financial instruments owned	4,422,461	26,326	57	4,448,844
Other fair value investments, included in other assets:				
Stocks	25,604	419	101	26,124
Corporate and municipal bonds	1,776	47,896	-	49,672
Mortgage backed securities	-	26,892	-	26,892

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Other asset backed securities	-	22,734	-	22,734
Other	-	5,328	-	5,328
Total other fair value assets	27,380	103,269	101	130,750
Total Financial Assets at Fair Value	\$ 5,749,857	\$ 129,595	\$ 158	\$ 5,879,610

Financial Liabilities At Fair Value as of December 31, 2013

	Level 1	Level 2	Level 3	Total
Financial instruments sold, not yet purchased:				
Stocks	\$ 1,266,429	\$ -	\$ 3	\$ 1,266,432
Options	1,793,248	-	-	1,793,248
Warrants and discount certificates	1,215	-	-	1,215
U.S. and foreign government securities	-	4,412	-	4,412
Corporate bonds	77,936	9,628	-	87,564
Currency forward contracts	-	802	-	802
Total financial instruments sold, not yet purchased	\$ 3,138,828	\$ 14,842	\$ 3	\$ 3,153,673

Transfers between Level 1 and Level 2

Transfers of financial instruments owned and sold, not yet purchased to or from Levels 1 and 2 arise where the market for a specific security has become active or inactive during the period. The fair values transferred are ascribed as if the financial assets or financial liabilities had been transferred as of the end of the period.

During the three months ended March 31, 2014, the Company reclassified approximately \$2.1 million of financial instruments owned from Level 1 to Level 2 and reclassified approximately \$1.8 million from Level 2 to Level 1. Financial instruments sold, but not yet purchased of approximately \$1.4 million were reclassified from Level 1 to Level 2 and approximately \$1.1 million were reclassified from Level 2 to Level 1. The Company reclassified approximately \$1.8 million of other fair value investments, recorded in other assets, from Level 1 to Level 2.

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During the three months ended March 31, 2013, the Company reclassified approximately \$1.1 million of financial instruments owned from Level 1 to Level 2 and reclassified approximately \$3.4 million from Level 2 to Level 1. Financial instruments sold, but not yet purchased of approximately \$2.0 million were reclassified from Level 1 to Level 2 and approximately \$3.1 million were reclassified from Level 2 to Level 1.

Level 3 Financial Assets and Financial Liabilities

The Company's Level 3 financial assets and financial liabilities are comprised of delisted securities reported within financial instruments owned and financial instruments sold, not yet purchased. The following tables report Level 3 activities for the three months ended March 31, 2014:

Financial assets—Level 3 activities:

Balance, January 1, 2014	\$	158
Total gains or losses (realized/unrealized)		
- Included in earnings		30
Purchases, issuances and settlements		(22)
Transfers in and/or out of Level 3		65
Balance, March 31, 2014	\$	231

Financial liabilities—Level 3 activities:

Balance, January 1, 2014	\$	3
Total gains or losses (realized/unrealized)		
- Included in earnings		-
Purchases, issuances and settlements		(2)
Transfers in and/or out of Level 3		-
Balance, March 31, 2014	\$	1

There were no Level 3 activities, including transfers, for the three months ended March 31, 2013.

Trading Gains from Market Making Transactions

Trading gains, net from market making transactions reported in the statements of comprehensive income, by major product type, are comprised of:

	Three months ended March 31,	
	2014	2013
Equities	\$ 95,145	\$ 68,524
Fixed Income	5,730	7,768
Foreign Exchange	26,637	(57,325)
Commodities	-	27

Total Trading Gains	\$	127,512	\$	18,994
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These transactions are related to the Company's financial instruments owned and financial instruments sold, not yet purchased (all at fair value) and include both derivative and non-derivative financial instruments, including exchange traded options and futures. These gains and losses also include market making related dividend and fixed income trading interest income and expense.

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The gains (losses) in the above table are not representative of the integrated trading strategies applied by the Company, which utilize financial instruments across various product types. Gains and losses in one product type frequently offset gains and losses in other product types.

Netting of Financial Assets and Financial Liabilities

The Company adopted the guidance in ASU 2011-11, Balance Sheet (Topic 210): Disclosures about Offsetting Assets and Liabilities and ASU 2013- 01, Balance Sheet (Topic 210): Clarifying the Scope of Disclosures about Offsetting Assets and Liabilities for periods beginning after January 1, 2013. This authoritative guidance requires companies to report disclosures of offsetting assets and liabilities.

The Company does not net securities segregated for regulatory purposes, and securities borrowed and securities loaned are presented on a gross basis in the condensed consolidated statements of financial condition. In the tables below, the amounts of derivative financial instruments owned that are not offset in the condensed consolidated statements of financial condition, but could be netted against financial liabilities with specific counterparties under master netting agreements, including clearing houses (exchange traded options, warrants and discount certificates) or over the counter currency forward contract counterparties, are presented to provide financial statement readers with the Company's estimate of its net exposure to counterparties for these derivative financial instruments.

The following table sets forth the netting of financial assets and of financial liabilities as of March 31, 2014 and December 31, 2013, pursuant to the requirements of ASU 2011-11 and ASU 2013-01 (millions).

March 31, 2014		Gross Amounts Not Offset in the Condensed Consolidated Statement of Financial Condition			
Gross Amounts of Recognized Assets	Gross Amounts Offset in the Condensed Consolidated Statement of Financial Condition	Net Amounts of Assets Presented in the Condensed Consolidated Statement of Financial Condition	Financial Instruments	Cash Coll Pledged	
Offsetting of Financial Assets:					
\$					
Securities segregated for regulatory purposes - purchased under agreements to resell	6,438.7(1) \$	- \$	6,438.7 \$	(6,438.7) \$	
Securities borrowed	2,846.5	-	2,846.5	(2,793.3)	
	282.7	-	282.7	(282.7)	

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Securities purchased under agreements to resell						
Financial Instruments owned:						
Options	1,418.1		-	1,418.1		(1,350.8)
Warrants and discount certificates	75.1		-	75.1		(1.1)
Currency forward contracts	3.8		-	3.8		-
Total	\$ 11,064.9	\$	- \$	11,064.9	\$	(10,866.6) \$

	Gross Amounts of Recognized Liabilities	Gross Amounts Offset in the Condensed Consolidated Statement of Financial Condition	Net Amounts of Liabilities Presented in the Condensed Consolidated Statement of Financial Condition	Gross Amounts Not Offset in the Condensed Consolidated Statement of Financial Condition	Financial Instruments	Cash Coll Received
Offsetting of Financial Liabilities:						
Securities loaned	\$ 2,931.2	\$	- \$	2,931.2	\$	(2,918.2) \$
Financial instruments sold, not yet purchased:						
Options	1,467.1		-	1,467.1		(1,350.8)
Warrants and discount certificates	1.1		-	1.1		(1.1)
Currency forward contracts	0.6		-	0.6		
Total	\$ 4,400.0	\$	- \$	4,400.0	\$	(4,270.1) \$

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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)

December 31, 2013

				Gross Amounts Not Offset in the Condensed Consolidated Statement Financial Condition	
	Gross Amounts of Recognized Assets	Gross Amounts Offset in the Condensed Consolidated Statement of Financial Condition	Net Amounts of Assets Presented in the Condensed Consolidated Statement of Financial Condition	Financial Instruments	Cash Collateral Pledged
Offsetting of Financial Assets:					
	\$				
Securities segregated for regulatory purposes - purchased under agreements to resell	6,734.2(1)	\$	\$ 6,734.2	(6,734.2)	\$
Securities borrowed	2,751.5	-	2,751.5	(2,694.6)	
Securities purchased under agreements to resell	386.3	-	386.3	(386.3)	
Financial Instruments owned:					
Options	1,880.5	-	1,880.5	(1,652.8)	
Warrants and discount certificates	57.4	-	57.4	(1.2)	
Currency forward contracts	5.7	-	5.7	-	
Total	\$ 11,815.6	\$	\$ 11,815.6	(11,469.1)	\$

Gross Amounts Not Offset in the
Condensed Consolidated Statement
Financial Condition

Gross Amounts
Offset in the
Condensed

Net Amounts of
Liabilities Presented
in the Condensed

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	Gross Amounts of Recognized Liabilities	Consolidated Statement of Financial Condition	Consolidated Statement of Financial Condition	Financial Instruments	Cash Colla Received
Offsetting of Financial Liabilities:					
Securities					
loaned	\$ 2,563.7	\$ -	\$ 2,563.7	\$ (2,544.6)	\$
Financial instruments sold, not yet purchased:					
Options	1,793.2	-	1,793.2	(1,652.8)	
Warrants and discount certificates	1.2	-	1.2	(1.2)	
Currency forward contracts	0.8	-	0.8	-	
Total	\$ 4,358.9	\$ -	\$ 4,358.9	\$ (4,198.6)	\$

- (1) As of March 31, 2014 and December 31, 2013, the Company had \$6.44 billion and \$6.73 billion, respectively, of securities purchased under agreements to resell that were segregated to satisfy regulatory requirements. These securities are included in “Cash and securities—segregated for regulatory purposes” in the condensed consolidated statements of financial condition.

7. Collateralized Transactions

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

The Company also engages in securities financing transactions with and for customers through margin lending. Customer receivables generated from margin lending activity are collateralized by customer-owned securities held by the Company. Customers’ required margin levels and established credit limits are monitored continuously by risk management staff using automated systems. Pursuant to Company policy and as enforced by such systems, customers are required to deposit additional collateral or reduce positions, when necessary to avoid automatic liquidation of their positions.

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)

Margin loans are extended to customers on a demand basis and are not committed facilities. Factors considered in the acceptance or rejection of margin loans are the amount of the loan, the degree of leverage being employed in the customer account and an overall evaluation of the customer's portfolio to ensure proper diversification or, in the case of concentrated positions, appropriate liquidity of the underlying collateral. Additionally, transactions relating to concentrated or restricted positions are limited or prohibited by raising the level of required margin collateral (to 100% in the extreme case). Underlying collateral for margin loans is evaluated with respect to the liquidity of the collateral positions, valuation of securities, volatility analysis and an evaluation of industry concentrations. Adherence to the Company's collateral policies significantly limits the Company's credit exposure to margin loans in the event of a customer's default. Under margin lending agreements, the Company may request additional margin collateral from customers and may sell securities that have not been paid for or purchase securities sold but not delivered from customers, if necessary. At March 31, 2014 and December 31, 2013, approximately \$14.41 billion and \$13.60 billion, respectively, of customer margin loans were outstanding.

Amounts relating to collateralized transactions at March 31, 2014 and December 31, 2013 are summarized as follows (millions):

	March 31, 2014		December 31, 2013	
	Permitted to Repledge	Sold or Repledged	Permitted to Repledge	Sold or Repledged
Securities lending transactions	\$ 8,834.5	\$ 2,492.7	\$ 9,331.9	\$ 2,504.3
Agreements to resell (1)	6,725.5	6,694.9	7,116.1	7,099.6
Customer margin assets	13,061.4	5,721.9	11,753.3	4,602.9
	\$ 28,621.4	\$ 14,909.5	\$ 28,201.3	\$ 14,206.8

(1) At March 31, 2014, \$6.44 billion or 96% (at December 31, 2013, \$6.73 billion, or 95%), of securities acquired through agreements to resell that are shown as repledged have been deposited in a separate bank account for the exclusive benefit of customers in accordance with SEC Rule 15c3-3.

In the normal course of business, the Company pledges qualified securities with clearing organizations to satisfy daily margin and clearing fund requirements. At March 31, 2014 and December 31, 2013, the majority of the Company's government securities owned were pledged to clearing organizations.

Financial instruments owned and pledged, including amounts pledged to affiliates, where the counterparty has the right to repledge, at March 31, 2014 and December 31, 2013 consisted of the following (millions):

	March 31, 2014	December 31, 2013
Stocks	\$ 762.8	\$ 1,097.8
Warrants	0.2	0.2
U.S. and foreign government obligations	58.5	64.4
Corporate and municipal bonds	0.9	1.1
	\$ 822.4	\$ 1,163.5

8. Senior Secured Revolving Credit Facility

On May 17, 2012, IBG LLC entered into a \$100 million three-year senior secured revolving credit facility with Bank of America, N.A. as administrative agent and Citibank, N.A., as syndication agent. This credit facility replaced a similar two-year facility that expired on May 18, 2012.

IBG LLC is the sole borrower under this credit facility. The facility's interest rate is indexed to the overnight federal funds rate or to the British Bankers Association LIBOR rate for the relevant term, at the borrower's option, and is secured by a first priority interest in all of the capital stock of each entity owned directly by IBG LLC (subject to customary limitations with respect to foreign subsidiaries). The facility may be used to finance working capital needs and general corporate purposes, including downstreaming funds to IBG LLC's regulated broker-dealer subsidiaries as regulatory capital. This allows IBG LLC to take advantage of market opportunities when they arise, while maintaining substantial excess regulatory capital. The financial condition covenants contained in this credit facility include the following:

- minimum consolidated shareholders' equity, as defined, of \$3.6 billion, with quarterly increases equal to 25% of positive consolidated net income;
- maximum total debt to capitalization ratio of 30%;
- minimum liquidity ratio of 1.0 to 1.0; and
- maximum total debt to net regulatory capital ratio of 35%.

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At March 31, 2014 and December 31, 2013, no borrowings were outstanding under this credit facility and IBG LLC was in compliance with all of the covenants. At maturity, subject to meeting certain terms of the facility, the Company will have an option to convert the facility to a one-year term loan.

9. 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 have vested at the fifth anniversary of the date of their grant and will continue to accumulate earnings until the elected redemption date. For grants made on or after January 1, 2006, all ROI Dollar Units vested on the fifth anniversary date of their grant and were or 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, 2014 and December 31, 2013, payables to employees for ROI Dollar Units were \$3.9 million and \$5.6 million, respectively, all of which were vested. These amounts are included in accounts payable, accrued expenses and other liabilities in the condensed consolidated statements of financial condition. Compensation expense for the ROI Dollar Unit plan, included in the condensed consolidated statements of comprehensive income was \$0.1 million and \$0.1 million for the three months ended March 31, 2014 and 2013, 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 \$38.1 million were issued to IBG LLC and held as treasury stock, to be distributed to employees in accordance with the following schedule and 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, \$17.8 million represented the accumulated ROI Dollar Unit value elected to be invested by employees in Common Stock and such amount was accrued for as of December 31, 2006. The remainder is being ratably accrued as compensation expense by the Company from the date of the IPO over the requisite service

period represented by the aforementioned distribution schedule

As of December 31, 2012, compensation costs for the ROI Unit Stock Plan had been fully accrued and as of December 31, 2013, all shares issued to current employees under the ROI Unit Stock Plan had been distributed.

2007 Stock Incentive Plan

Under the Interactive Brokers Group, Inc. 2007 Stock Incentive Plan (the “Stock Incentive Plan” or “SIP”), up to 30.0 million shares (20.0 million shares at March 31, 2014 and December 31, 2013) of common stock may be granted and issued to directors, officers, employees, contractors and consultants of IBG, Inc. and its subsidiaries. The 10.0 million increase in shares allocated to the SIP was approved by the Company’s Compensation Committee and Board of Directors in February 2014, and was approved by the stockholders at the Company’s 2014 Annual Meeting on April 24, 2014. The purpose of the Stock Incentive Plan is to promote IBG, Inc.’s long-term financial success by attracting, retaining and rewarding eligible participants.

As a result of the Company’s organizational structure, a description of which can be found on page 4 of the Company’s 2013 Annual Report on Form 10-K, filed with the SEC, there is no dilutive effect upon ownership of minority shareholders of issuing shares

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)

under the Stock Incentive Plan. The issuances do not dilute the book value the ownership of minority shareholders because a) the restricted stock units are granted at market value and b) upon their vesting and the related issuance of shares of Common Stock, the ownership of the Company in its operating subsidiary, IBG LLC, increases proportionately to the shares issued. As a result of such proportionate increase in share ownership, the dilution upon issuance of Common Stock is borne by IBG LLC's majority shareholder (i.e., noncontrolling interest), IBG Holdings LLC, and not by the Company or its minority shareholders. Additionally, dilution of earnings that may take place after issuance of Common Stock is reflected in the earnings per share ("EPS") reported in the Company's financial statements. The EPS dilution can be neither estimated nor projected, but historically it has not been material.

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 stock 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 restricted 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 not yet earned awards under the Stock Incentive Plan, or provide that any such granted but not yet earned awards 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 under the Stock Incentive Plan in connection with the IPO and is expected to continue to grant awards on or about December 31 of each year following the IPO, to eligible employees as part of an overall plan of equity compensation. Shares of common stock vest, and become distributable to employees in accordance with the following schedule:

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

Awards granted to external directors vest, and are distributed, over a five-year period (20% per year) commencing one year after the date of grant. A total of 20,423 shares have been granted to the external directors cumulatively since the IPO.

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

	Shares	Fair Value at Date of Grant (\$ millions)
In connection with IPO	927,943	\$ 27.8
July 31, 2007	16,665	0.4
December 31, 2007	1,055,206	32.9

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December 31, 2008	2,065,432	35.6
December 31, 2009	2,448,031	42.8
December 31, 2010	2,513,738	43.2
December 31, 2011	3,411,613	50.8
January 6, 2012	1,215,866	18.4
December 31, 2012	3,629,960	50.5
December 31, 2013	1,894,046	46.2
	19,178,500 \$	348.6

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)

Estimated future grants under the Stock Incentive Plan are accrued for ratably during each year under the ASC 718 “Graded Vesting” method. In accordance with the vesting schedule, outstanding awards vest and are distributed to participants once each year on or about the Company’s IPO anniversary. At the end of each year, there are no vested awards that remain undistributed.

Compensation expense recognized in the condensed consolidated statements of comprehensive income was \$10.0 million and \$8.7 million for the three months ended March 31, 2014 and 2013, respectively. Estimated future compensation costs for unvested awards at March 31, 2014 are \$36.7 million.

The following is a summary of stock plan activity for the three months ended March 31, 2014:

	Shares 2007 Stock Incentive Plan
Balance, December 31, 2013	11,647,117
Granted	-
Forfeited	-
Distributed (1)	(2,730)
Balance, March 31, 2014	11,644,387

(1) Shares cumulatively distributed under the 2007 Stock Incentive Plan include 14,843 shares from Treasury representing shares acquired at the IPO to satisfy obligations under the 2007 ROI Unit Stock Plan.

Awards granted under the stock plans are subject to forfeiture in the event an employee ceases employment with the Company. The stock 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 awards unless the employee is over the age of 59, in which case the employee would be eligible to receive 100% of unvested awards previously granted. Distributions of remaining awards granted on or before January 1, 2009 to former employees will occur within 90 days of the anniversary of the termination of employment date over a five (5) year vesting schedule, 12.5% in each of the first four years and 50% in the fifth year. Distributions of remaining awards granted on or after January 1, 2010 to former employees will occur over the remaining vesting schedule applicable to each grant. Through March 31, 2014, a total of 93,496 shares have been distributed under these post-employment provisions. These distributions are included in the Stock Plans activity tables above.

10. Income Taxes

Income tax expense for the three months ended March 31, 2014 and 2013 differs from the U.S. federal statutory rate primarily due to the taxation treatment of income attributable to noncontrolling interests in IBG LLC. These noncontrolling interests are subject to U.S. taxation as partnerships. Accordingly, the income attributable to these noncontrolling interests is reported in the condensed consolidated statements of comprehensive income, but the related U.S. income tax expense attributable to these noncontrolling interests is not reported by the Company as it is the obligation of the individual partners. Income tax expense is also affected by the differing effective tax rates in

foreign, state and local jurisdictions where certain of the Company's subsidiaries are subject to corporate taxation.

Deferred income taxes arise primarily due to the amortization of the deferred tax assets recognized in connection with the Common Stock offerings (Note 4), differences in the valuation of financial assets and liabilities, and for other temporary differences arising from the deductibility of compensation and depreciation expenses in different time periods for book and income tax return purposes.

As of and for the three months ended March 31, 2014 and 2013, the Company had no unrecognized tax liabilities as defined under ASC 740, Income Taxes and no valuation allowances on deferred tax assets were required. The Company is subject to taxation in the United States and various states and foreign jurisdictions. As of March 31, 2014, the Company's tax returns for 2010 through 2013 are subject to examination by the respective tax authorities. As of March 31, 2014, the Company is open to U.S. Federal income tax examinations for the tax years 2010 through 2012, and to non U.S. income tax examinations for the tax years 2006 through 2012. In addition, the Company is open to state and local income tax examinations in various jurisdictions for the tax years 2009 through 2012.

Interactive Brokers Group, Inc. and Subsidiaries
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At March 31, 2014, accumulated earnings held by non-U.S. subsidiaries totaled \$1,078.6 million (at December 31, 2013 \$1,072.9 million). Of this amount, approximately \$398.5 million (at December 31, 2013 \$422.3 million) is attributable to earnings of the Company's foreign subsidiaries that are considered "pass-through" entities for U.S. income tax purposes. Since the Company accounts for U.S. income taxes on these earnings on a current basis, no additional U.S. tax consequences would result from the repatriation of these earnings other than that which would be due arising from currency fluctuations between the time the earnings are reported for U.S. tax purposes and when they are remitted. With respect to certain of these subsidiaries' accumulated earnings (approximately \$300.4 million and \$318.7 million as of March 31, 2014 and December 31, 2013, respectively), repatriation would result in additional foreign taxes in the form of dividend withholding tax imposed on the recipient of the distribution or dividend distribution tax imposed on the payor of the distribution. The Company has not provided for its proportionate share of these additional foreign taxes as it does not intend to repatriate these earnings in the foreseeable future. For the same reason, the Company has not provided deferred U.S. tax on cumulative translation adjustments associated with these earnings.

The remainder of the accumulated earnings are attributable to non-U.S. subsidiaries that are not considered "pass-through" entities for U.S. tax purposes. The Company's U.S. tax basis in the stock of most of these entities exceeds its book basis. Establishing a deferred tax asset pursuant to ASC 740 is not permitted as this difference will not reverse in the foreseeable future. In the instances in which the Company's book basis exceeds its U.S. tax basis, no deferred tax liability has been established as the Company considers the earnings of those entities to be indefinitely reinvested.

11. Commitments, Contingencies and Guarantees

In October 2013, a small number of the Company's brokerage customers had taken relatively large positions in four stocks listed on the Singapore Exchange. In early October, within a very short timeframe, these securities lost over 90% of their value. The customer accounts were margined and fell into deficits totaling \$64 million prior to the time the Company took possession of their securities positions. Through March 31, 2014, the Company has recognized a cumulative loss of approximately \$77 million. The maximum aggregate loss, which would occur if the securities' prices all fell to zero and none of the debts were collected, would be approximately \$84 million. The Company is currently pursuing the collection of the debts. The ultimate effect of this incident on the Company's results will depend upon market conditions and the outcome of the Company's debt collection efforts.

Litigation

The Company is subject to certain pending and threatened legal actions which arise out of the normal course of business. Litigation is inherently unpredictable, particularly in proceedings where claimants seek substantial or indeterminate damages, or which are in their early stages. IBG, Inc. has not been able to quantify 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. Management believes that the resolution of these actions will not have a material effect, if any, on the Company's business or financial condition, but may have a material impact on the results of operations for a given period.

On February 3, 2010, Trading Technologies International, Inc. ("Trading Technologies") filed a complaint in the United States District Court for the Northern District of Illinois, Eastern Division, against Interactive Brokers Group, Inc., IBG LLC, Holdings, and Interactive Brokers LLC. Thereafter, Trading Technologies dismissed Interactive Brokers Group, Inc. and Holdings from the case, leaving only IBG LLC and Interactive Brokers LLC as defendants

("Defendants"). The operative complaint, as amended, alleges that the Defendants have infringed and continue to infringe twelve U.S. patents held by Trading Technologies. Trading Technologies is seeking, among other things, unspecified damages and injunctive relief. The case is in the early stages and discovery has yet to begin. While it is too early to predict the outcome of the matter, we believe we have meritorious defenses to the allegations made in the complaint and intend to defend ourselves vigorously against them. However, litigation is inherently uncertain and there can be no guarantee that the Company will prevail or that the litigation can be settled on favorable terms.

IBG, Inc. accounts for potential losses related to litigation in accordance with ASC 450, Contingencies. As of March 31, 2014 and December 31, 2013, reserves provided for potential losses related to litigation matters were not material.

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Guarantees

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

In connection with its retail brokerage business, IB LLC or other electronic brokerage Operating Companies perform securities and commodities execution, clearance and settlement on behalf of their customers for whom they commit to settle trades submitted by such customers with the respective clearing houses. If a customer fails to fulfill its settlement obligations, the respective Operating Company must fulfill those settlement obligations. No contingent liability is carried on the condensed consolidated statements of financial condition for such customer obligations.

Other Commitments

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

12. Segment and Geographic Information

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

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

Management believes that the following information by business segment provides a reasonable representation of each segment's contribution to total net revenues and income before income taxes for the three months ended March 31, 2014 and 2013, and to total assets as of March 31, 2014 and December 31, 2013 (millions):

	Three months ended March 31,	
2014		2013

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Net revenues:			
Electronic brokerage	\$	223.7	\$ 195.3
Market making		133.1	23.6
Corporate and eliminations		(1.9)	(2.8)
Total net revenues	\$	354.9	\$ 216.1
Income before income taxes:			
Electronic brokerage	\$	134.3	\$ 111.0
Market making		88.1	(29.0)
Corporate and eliminations		(4.3)	0.2
Total income before income taxes	\$	218.1	\$ 82.2

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 Notes to Unaudited Condensed Consolidated Financial Statements (Continued)
 (dollars in thousands, except shares and per share amounts, unless otherwise noted)

	March 31, 2014	December 31, 2013
Assets:		
Electronic brokerage	\$ 33,021.1	\$ 31,333.5
Market making	12,330.4	12,139.5
Corporate and eliminations	(6,371.1)	(5,602.3)
Total assets	\$ 38,980.4	\$ 37,870.7

The Company operates its automated global business in U.S. and international markets on more than 100 exchanges and market centers. A significant portion of IBG, Inc.'s net revenues are generated by subsidiaries operating outside the United States. International operations are comprised of electronic brokerage and market making activities in 24 countries in Europe, Asia and the Americas (outside the United States). The following table presents total net revenues and income before income taxes by geographic area for the three months ended March 31, 2014 and 2013 (millions):

	Three months ended March 31,	
	2014	2013
Net revenues:		
United States	\$	