

Interactive Brokers Group, Inc.  
Form 10-Q  
November 09, 2007

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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-Q**

(Mark One)

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

For the quarterly period ended September 30, 2007.

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_  
Commission File Number: 001-33440

**INTERACTIVE BROKERS GROUP, INC.**

(Exact name of registrant as specified in its charter)

**Delaware**  
(State or other jurisdiction  
of incorporation or organization)

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

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

**(203) 618-5800**

(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant 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

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

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As of November 9, 2007, there were 40,142,096 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.

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**INTERACTIVE BROKERS GROUP, INC.**  
**QUARTERLY REPORT ON FORM 10-Q FOR THE QUARTER ENDED SEPTEMBER 30, 2007**  
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**PART I: FINANCIAL INFORMATION**

**ITEM 1. FINANCIAL STATEMENTS (UNAUDITED)**

**Introductory Note**

On May 3, 2007, Interactive Brokers Group, Inc., a Delaware corporation ("IBG, Inc."), priced an initial public offering (the "IPO") of shares of its Class A common stock, par value \$0.01 per share (the "Common Stock"). In connection with the IPO, IBG, Inc. purchased 10% of the membership interests in IBG LLC, a Connecticut limited liability company, from IBG Holdings LLC, a Delaware limited liability company, became the sole managing member of IBG LLC and began to consolidate IBG LLC's financial results into its financial statements. Such transactions, collectively referred to herein as the "Recapitalization," are described in greater detail in Note 4 to the unaudited condensed consolidated financial statements.

The unaudited condensed consolidated financial statements reflect the historical results of operations and financial position of IBG, Inc., including consolidation of its investment in IBG LLC since May 4, 2007. Prior to May 4, 2007, the date of IBG, Inc.'s IPO, the unaudited condensed consolidated financial statements included herein represent the financial statements of IBG LLC and subsidiaries (the "Group"). The historical unaudited condensed consolidated financial statements do not reflect what the financial position, results of operations or cash flows of IBG, Inc. or the Group would have been had these companies been stand-alone public companies for the periods presented. Specifically, the historical financial statements of the Group do not give effect to the following matters:

The Recapitalization;

U.S. corporate federal income taxes; and

Minority interest held by IBG Holdings LLC.

As a consequence, earnings per share information reported in the unaudited condensed consolidated statements of income for the nine months ended September 30, 2007 reflect only the net income available for common stockholders for the period from May 4, 2007 through September 30, 2007, as detailed in Note 4. The unaudited pro forma earnings per share data for the nine month period ended September 30, 2007 reported in Part 1, Item 2 of this Quarterly Report on Form 10-Q entitled "MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS" present earnings per share giving pro forma effect to income taxes and minority interest as if the Recapitalization and the IPO had been completed as of January 1, 2006 with respect to the unaudited condensed consolidated statements of income data.

## Interactive Brokers Group, Inc. and Subsidiaries

Condensed Consolidated Statements of Financial Condition  
(Unaudited)

(in thousands)	September 30, 2007	December 31, 2006
<b>Assets</b>		
Cash and cash equivalents	\$ 500,810	\$ 669,271
Cash and securities segregated for regulatory purposes	4,714,811	3,111,795
Securities borrowed	9,288,201	10,479,231
Securities purchased under agreements to resell		97,740
Trading assets, at fair value:		
Financial instruments owned	10,918,687	7,485,879
Financial instruments owned and pledged as collateral	6,469,832	8,331,923
	<u>17,388,519</u>	<u>15,817,802</u>
Other receivables:		
Customers, less allowance for doubtful accounts of \$2,028 at September 30, 2007 and \$1,031 at December 31, 2006	1,321,623	848,448
Brokers, dealers and clearing organizations	2,547,998	856,957
Interest	86,906	62,772
	<u>3,956,527</u>	<u>1,768,177</u>
Other assets	402,052	136,502
Total assets	<u>\$ 36,250,920</u>	<u>\$ 32,080,518</u>
<b>Liabilities, redeemable members' interests and stockholders' equity</b>		
Liabilities:		
Trading liabilities financial instruments sold but not yet purchased, at fair value	\$ 18,226,056	\$ 14,785,617
Securities loaned	5,077,647	8,026,468
Short-term borrowings	1,150,418	1,296,909
Other payables:		
Customers	6,446,616	3,914,037
Brokers, dealers and clearing organizations	1,211,871	743,339
Payable to affiliate	211,095	
Accounts payable, accrued expenses and other liabilities	214,154	161,812
Interest	47,610	49,821
	<u>8,131,346</u>	<u>4,869,009</u>
Senior notes payable	154,917	150,598
Senior secured credit facility	212,000	150,000
Minority interest	2,930,162	
<b>Commitments, contingencies and guarantees</b>		
Redeemable members' interests, including accumulated other comprehensive income of \$98,568		2,801,917
Stockholders' equity, including accumulated other comprehensive income of \$2,828	368,374	
Total liabilities, redeemable members' interests and stockholders' equity	<u>\$ 36,250,920</u>	<u>\$ 32,080,518</u>

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See accompanying notes to the condensed consolidated financial statements.

## Interactive Brokers Group, Inc. and Subsidiaries

Condensed Consolidated Statements of Income  
(Unaudited)

(in thousands, except for shares or per share amounts)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007	2006	2007	2006
<b>Revenues:</b>				
Trading gains	\$ 289,226	\$ 229,524	\$ 638,327	\$ 631,108
Commissions and execution fees	69,490	42,816	186,110	127,957
Interest income	207,547	183,305	597,157	475,869
Other income	21,610	18,669	68,903	65,242
<b>Total revenues</b>	<b>587,873</b>	<b>474,314</b>	<b>1,490,497</b>	<b>1,300,176</b>
Interest expense	142,720	134,467	419,803	340,971
<b>Total net revenues</b>	<b>445,153</b>	<b>339,847</b>	<b>1,070,694</b>	<b>959,205</b>
<b>Non-interest expenses:</b>				
Execution and clearing	85,171	76,694	256,665	230,811
Employee compensation and benefits	30,993	28,307	92,667	84,114
Occupancy, depreciation and amortization	6,706	5,080	19,124	16,797
Communications	4,055	3,250	10,990	9,116
General and administrative	10,363	6,373	28,392	18,441
<b>Total non-interest expenses</b>	<b>137,288</b>	<b>119,704</b>	<b>407,838</b>	<b>359,279</b>
Income before income taxes and minority interest	307,865	220,143	662,856	599,926
Income tax expense	27,228	5,886	38,875	21,639
Minority interest subsequent to May 3, 2007	(258,394)		(342,400)	
<b>Net income</b>	<b>\$ 22,243</b>	<b>\$ 214,257</b>	<b>\$ 281,581</b>	<b>\$ 578,287</b>
Net Income and earnings per share for the period from May 4, 2007 through September 30, 2007:				
Net income available for common stockholders	\$ 22,243		\$ 29,249	
<b>Earnings per share (Note 4):</b>				
Basic	\$ 0.55		\$ 0.73	
Diluted	\$ 0.53		\$ 0.69	
<b>Weighted average common shares outstanding:</b>				
Basic	40,142,196		40,159,927	
Diluted	401,315,481		401,334,128	

See accompanying notes to the condensed consolidated financial statements.

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

(in thousands)	Nine Months Ended September 30,	
	2007	2006
<b>Cash flows from operating activities:</b>		
Net income	\$ 29,249	\$ 578,287
Adjustments to reconcile net income to net cash provided by operating activities:		
Translation (gains) losses	(43,084)	53,875
Deferred income taxes	15,360	
Depreciation and amortization	8,954	9,187
Minority interest	594,732	
Employee stock plan compensation	16,627	
(Gains) losses on non-trading investments, net	(4,557)	170
Other	1,781	71
Change in operating assets and liabilities:		
Increase in cash and securities segregated for regulatory purposes	(1,602,472)	(859,982)
Decrease (increase) in securities borrowed	1,252,679	(2,449,972)
Decrease in securities purchased under agreements to resell	97,740	4,000
Increase in trading assets	(1,217,802)	(3,486,160)
Increase in receivables from customers	(472,347)	(338,452)
Increase in other receivables	(1,665,368)	(472,945)
Increase in other assets	(248,306)	(13,368)
Increase in trading liabilities	3,091,548	2,860,031
(Decrease) increase in securities loaned	(2,962,971)	2,469,955
Increase in payable to customers	2,528,825	1,044,685
Increase in other payables	703,645	653,973
	124,233	53,355
<b>Cash flows from investing activities:</b>		
Purchase of IBG LLC historical member interests	(1,177,892)	
Dividends received from IBG LLC	11,982	
Purchase of investments	(9,941)	(26,500)
Distributions received from investment in exchange		607
Purchase of trading rights	(750)	
Purchase of property and equipment	(12,007)	(8,264)
	(1,188,608)	(34,157)
<b>Cash flows from financing activities:</b>		
Net proceeds from issuance of Class A and Class B Common Stock	1,177,392	
Class A Common Stock acquired from employees	(1,376)	
Dividends paid by IBG LLC prior to May 4, 2007	(158,500)	(152,000)
Issuance of senior notes	341,716	395,315
Redemptions from senior notes	(337,397)	(416,289)
Borrowings under senior secured credit facility	62,000	150,000
(Decrease) increase in short-term borrowings, net	(220,414)	242,288
Cash capital contribution to THE	3,882	
Members' contributions to IBG LLC		10,527
IBG LLC member interests redeemed		(3,900)
	867,303	225,941
Effect of exchange rate changes on cash and cash equivalents	28,611	8,845
Net (decrease) increase in cash and cash equivalents	(168,461)	253,984
Cash and cash equivalents at beginning of period	669,271	408,232

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	Nine Months Ended September 30,	
	<u>          </u>	<u>          </u>
Cash and cash equivalents at end of period	\$ 500,810	\$ 662,216
	<u>          </u>	<u>          </u>
Supplemental disclosures of cash flow information:		
Refinancing of bridge loan	\$ 10,018	\$
	<u>          </u>	<u>          </u>
Interest paid	\$ 422,015	\$ 318,932
	<u>          </u>	<u>          </u>
Taxes paid	\$ 3,489	\$ 12,335
	<u>          </u>	<u>          </u>

See accompanying notes to the condensed consolidated financial statements.

## Interactive Brokers Group, Inc. and Subsidiaries

**Condensed Consolidated Statement of Changes in Redeemable Members' Interests  
and Stockholders' Equity  
Nine months ended September 30, 2007  
(Unaudited)**

(in thousands, except for shares or per share amounts, unless otherwise noted)

	<u>Common Stock</u>					Retained Earnings	Accumulated Other Comprehensive Income	Total Stockholders' Equity and Redeemable Members' Interests
	Redeemable Members' Interests	Shares	Par Value	Additional Paid-In-Capital	Treasury Stock			
Balance, January 1, 2007	\$ 2,703,349						\$ 98,568	\$ 2,801,917
Comprehensive income through May 3, 2007:								
Net Income	252,332							252,332
Cumulative translation adjustment							13,245	13,245
Dividends, through May 3, 2007	(158,500)							(158,500)
Adjustments to eliminate redeemable members' interests and establish minority interest as of May 3, 2007, net	(2,797,181)						(100,632)	(2,897,813)
Adjustments to eliminate remaining accumulated other comprehensive income as of May 3, 2007, applied to additional paid in capital				\$ 11,181			(11,181)	0
Net proceeds from issuance of Common Stock in IPO		40,000,000	\$ 400	279,318				279,718
Issuance of Class B shares of common stock		100						
Common Stock issued pursuant to stock plans		2,215,617	22	66,373				66,395
Treasury stock, unearned compensation		(2,215,617)			\$ (66,395)			(66,395)
Common Stock distributed to employees		187,953			5,640			5,640
Common stock acquired from employees		(45,857)			(1,376)			(1,376)
Deferred tax benefit retained				37,252				37,252
IBG, Inc.'s allocable share of capital contribution to THE				3,882				3,882
Comprehensive income, after May 3, 2007:								
Net income						\$ 29,249		29,249
Cumulative translation adjustment, net of income taxes of \$1,643							2,828	2,828
<b>Total comprehensive income after May 3, 2007</b>						<b>29,249</b>	<b>\$ 2,828</b>	<b>32,077</b>
Balance, September 30, 2007	\$ 0	40,142,196	\$ 422	\$ 398,006	\$ (62,131)	\$ 29		