

Interactive Brokers Group, Inc.  
Form 10-K  
March 27, 2008

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

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**FORM 10-K**

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

**For the year ended December 31, 2007**

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**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)

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(203) 618-5800

(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of the each exchange on which registered
Common Stock, par value \$.01 per share	The NASDAQ Stock Market LLC (NASDAQ Global Select Market)

Securities registered pursuant to Section 12(g) of the Act: **None**

Indicate by check mark whether the registrant is a well-known seasoned issuer, as defined in Rule 405 of the securities act. Yes ☐ No ☒.

Indicate by check mark whether the registrant is not required to file reports pursuant to Section 13 or 15(d) of the act. Yes ☐ No ☒.

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☐

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

Large accelerated filer ☐ Accelerated filer ☐ Non-accelerated filer ☒ Smaller reporting company ☐  
(Do not check if smaller reporting company)

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

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The aggregate market value of the voting and non-voting common equity stock held by non-affiliates of the registrant was approximately \$1,085,200,000 computed by reference to the \$27.13 closing sale price of the common stock on the NASDAQ Global Select Market, on June 29, 2007, the last business day of the registrant's most recently completed second fiscal quarter.

As of March 27, 2008, there were 40,143,760 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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ANNUAL REPORT ON FORM 10-K FOR THE YEAR ENDED DECEMBER 31, 2007

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**CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS**

We have included or incorporated by reference in this Annual Report on Form 10-K, and from time to time our management may make, statements that may constitute forward-looking statements within the meaning of the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Forward-looking statements are not historical facts, but instead represent only our beliefs regarding future events, many of which, by their nature, are inherently uncertain and outside our control. These statements include statements other than historical information or statements of current condition and may relate to our future plans and objectives and results, among other things, and may also include our belief regarding the effect of various legal proceedings, as set forth under Legal Proceedings in Part I, Item 3 of this Annual Report on Form 10-K, as well as statements about the objectives and effectiveness of our liquidity policies, statements about trends in or growth opportunities for our businesses, in Part II, Item 7 of this Annual Report on Form 10-K. By identifying these statements for you in this manner, we are alerting you to the possibility that our actual results may differ, possibly materially, from the anticipated results indicated in these forward-looking statements. Important factors that could cause actual results to differ from those in the forward-looking statements include, among others, those discussed below and under Risk Factors in Part I, Item 1A of this Annual Report on Form 10-K and Management's Discussion and Analysis of Financial Condition and Results of Operations in Part II, Item 7 of this Annual Report on Form 10-K.

Factors that could cause actual results to differ materially from any future results, expressed or implied, in these forward-looking statements include, but are not limited to, the following:

- general economic conditions in the markets where we operate;
- increased industry competition and downward pressures on bid/offer spreads and electronic brokerage commissions;
- risks inherent to the electronic market making and brokerage businesses;
- failure to protect or enforce our intellectual property rights in our proprietary technology;
- our ability to keep up with rapid technological change;
- system failures and disruptions;
- non-performance of third-party vendors;

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- conflicts of interest and other risks due to our ownership and holding company structure;
- the loss of key executives and failure to recruit and retain qualified personnel;
- the risks associated with the expansion of our business;
- our possible inability to integrate any businesses we acquire;
- competitive pressures;
- compliance with laws and regulations, including those relating to the securities industry; and
- other factors discussed under **Risk Factors** in Part I, Item 1A of this Annual Report on Form 10-K or elsewhere in this Annual Report on Form 10-K.

We undertake no obligation to publicly update or revise any forward-looking statements to reflect events or circumstances that may arise after the date of this Annual Report on Form 10-K.

## PART I

### ITEM 1. BUSINESS

#### Overview

Interactive Brokers Group, Inc. ( IBG, Inc. or the Company ) is an automated global electronic market maker and broker specializing in routing orders and executing and processing trades in securities, futures and foreign exchange instruments on more than 70 electronic exchanges and trading venues around the world. In the U.S., our business is conducted from our headquarters in Greenwich, Connecticut as well as from Chicago, Illinois and Lake Forest, California. Abroad, we conduct business through offices located in Montreal, London, Zug, Hong Kong and Sydney. At December 31, 2007 we had 675 employees worldwide.

On May 3, 2007, IBG, Inc. priced its initial public offering (the IPO ) of shares of common stock. In connection with the IPO, IBG, Inc. purchased 10.0% of the membership interests in IBG LLC, became the sole managing member of IBG LLC, the current holding company for our businesses, and began to consolidate IBG LLC's financial results into its financial statements. We are currently a holding company and our primary assets are our ownership of approximately 10% of the membership interests of IBG LLC. When we use the terms we, us, and our, we mean IBG LLC and its subsidiaries for periods prior to the IPO, and IBG, Inc. and its subsidiaries (including IBG LLC) for periods from and after the IPO. Unless otherwise indicated, the term common stock refers to the Class A common stock of IBG, Inc.

We are a successor to the market making business founded by our Chairman and Chief Executive Officer, Thomas Peterffy, on the floor of the American Stock Exchange in 1977. Since our inception in 1977, we have focused on developing proprietary software to automate broker-dealer functions. During that time, we have been a pioneer in developing and applying technology as a financial intermediary to increase liquidity and transparency in the capital markets in which we operate. The advent of electronic exchanges in the last 17 years has provided us with the opportunity to integrate our software with an increasing number of exchanges and trading venues into one automatically functioning, computerized platform that requires minimal human intervention. Three decades of developing our automated market making platform and our automation of many middle and back office functions has allowed us to become one of the lowest cost providers of broker-dealer services and increase significantly the volume of trades we handle.

Our activities are divided into two principal business segments: (1) market making and (2) electronic brokerage:

- As a market maker, we provide continuous bid and offer quotations on approximately 420,000 securities and futures products listed on electronic exchanges around the world. Our quotes are driven by proprietary mathematical models that assimilate market data and reevaluate our outstanding quotes each second. Unlike firms that trade over-the-counter ( OTC ) derivative products, it is our business to create liquidity and transparency on electronic exchanges.
- As a direct market access broker, we serve the customers of both traditional brokers and prime brokers. We provide our customers with an advanced order management, trade execution and portfolio management platform at a very low cost. Our customers can simultaneously access different financial markets worldwide and trade across multiple asset classes (stocks, options, futures, foreign exchange ( forex ) and bonds) denominated in 12 different currencies, on one screen, from a single account based in any major currency. Our large bank and



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broker-dealer customers may white label our trading interface (i.e., make our trading interface available to their customers without referencing our name), or can select from among our modular functionalities, such as order routing, trade reporting or clearing on specific products or exchanges where they may not have up-to-date technology, in order to offer their customers a complete global range of services and products.

Our electronic market making and brokerage businesses are complementary. Both benefit from our combined scale and volume, as well as from our proprietary technology. Our brokerage customers benefit from the technology and market structure expertise developed in our market making business. The expense of developing and maintaining our unique technology, clearing, settlement, banking and regulatory structure required by any specific exchange or market center is shared by both of our businesses. This, in turn, enables us to provide lower transaction costs to our customers than our competitors, whether they use our services as market maker, broker or both. In addition, we believe we gain a competitive advantage by applying the software features we have developed for a specific product or market to newly-introduced products and markets over others who may have less automated facilities in one or both of our businesses or who operate only in a subset of the exchanges and market centers on which we operate. Our trading system contains unique architectural aspects that, together with

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our massive trading volume in markets worldwide, impose a significant barrier to entry for firms wishing to compete in our specific businesses and permit us to compete favorably against our competitors.

Our Internet address is [www.interactivebrokers.com](http://www.interactivebrokers.com) and the investor relations section of our web site is located at [www.interactivebrokers.com/ir](http://www.interactivebrokers.com/ir). We make available free of charge, on or through the investor relations section of our web site, this Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as well as proxy statements, as soon as reasonably practicable after we electronically file such material with, or furnish it to, the U.S. Securities and Exchange Commission ( SEC ). Also posted on our web site are our Bylaws, our Amended and Restated Certificate of Incorporation, charters for the Audit Committee, Compensation Committee and Nominating and Corporate Governance Committee of our board of directors, our Accounting Matters Complaint Policy, our Whistle Blower Hotline, our Corporate Governance Guidelines and our Code of Business Conduct and Ethics governing our directors, officers and employees. Within the time periods required by SEC and the NASDAQ Stock Market ( NASDAQ ), we will post on our web site any amendment to the Code of Business Conduct and Ethics and any waiver applicable to any executive officer, director or senior financial officer. In addition, our web site includes information concerning purchases and sales of our equity securities by our executive officers and directors, as well as disclosure relating to certain non-GAAP financial measures (as defined in Regulation G) promulgated under the Securities Act of 1933, as amended (the Securities Act ) and the Securities Exchange Act of 1934, as amended (the Exchange Act ) that we may make public orally, telephonically, by webcast, by broadcast or by similar means from time to time.

Our Investor Relations Department can be contacted at Interactive Brokers Group, Inc., 2 Pickwick Plaza, Greenwich, Connecticut 06830, Attn: Investor Relations, telephone: 203-618-4070, e-mail: [investor-relations@interactivebrokers.com](mailto:investor-relations@interactivebrokers.com).

## Segment Operating Results

		Year Ended December 31,			
		2007	2006	2005	
		(in millions)			
<b>Market Making</b>	Net revenues	\$ 1,031.2	\$ 954.7	\$ 738.5	
	Non-interest expenses	311.4	291.9	233.3	
	Income before income taxes	\$ 719.8	\$ 662.8	\$ 505.2	
	Pre-tax profit margin	70%	69%	68%	
<b>Electronic Brokerage</b>	Net revenues	\$ 425.2	\$ 298.4	\$ 185.3	
	Non-interest expenses	227.3	199.8	126.0	
	Income before income taxes	\$ 197.9	\$ 98.6	\$ 59.3	
	Pre-tax profit margin	47%	33%	32%	
<b>Total</b>	Net revenues	\$ 1,468.2	\$ 1,252.4	\$ 929.1	
	Non-interest expenses	536.6	490.8	359.8	
	Income before income taxes and minority interest	\$ 931.6	\$ 761.6	\$ 569.3	

Financial information concerning our business segments for each of 2007, 2006 and 2005 is set forth in Management's Discussion and Analysis of Financial Condition and Results of Operations, and the consolidated financial statements and the notes thereto, which are in Part II, Items 7 and 8 of this Annual Report on Form 10-K.

### Market Making Timber Hill

Market making represented 70% of 2007 net revenues. We conduct our market making business through our Timber Hill ( TH ) subsidiaries. As one of the largest market makers on many of the world's leading electronic exchanges, we provide liquidity by offering competitively tight bid/offer spreads over a broad base of approximately 420,000 tradable, exchange-listed products, including equity derivative products, equity index derivative products, equity securities and futures. As principal, we commit our own capital and derive revenues or incur losses from the difference between the price paid when securities are bought and the price received when those securities are sold. Historically, our profits have been principally a function of transaction volume on electronic exchanges rather than volatility or the direction of price movements.

Our strategy is to calculate quotes at which supply and demand for a particular security are likely to be in balance a few seconds ahead of the market and execute small trades at tiny but favorable differentials. Because we provide continuous bid and offer quotations and we are continuously both buying and selling quoted securities, we may have either a long or a short position in a particular product at a given point in time. As a matter of practice, we will generally not take portfolio positions in either the broad market or the financial instruments of specific issuers in anticipation that prices will either rise or fall. Our entire portfolio is evaluated each second and continuously rebalanced throughout the trading day, thus minimizing the risk of our portfolio at all times. This real-time rebalancing of our portfolio, together with our real-time proprietary risk management system, enables us to curtail risk and to be profitable in both up-market and down-market scenarios. Our quotes are based on our proprietary model rather than customer order flow, and we believe that this approach provides us with a competitive advantage.

We are a market leader in exchange-traded equity options and equity-index options and futures. Together with our electronic brokerage customers, in 2007 we accounted for approximately 14.1% of exchange-listed equity options traded worldwide and approximately 16.3% of exchange-listed equity options volume traded on those markets in which we actively trade, according to data compiled by the Futures Industry Association ( FIA ) and data received from exchanges worldwide. Our ability to make markets in such a large number of exchanges and market centers simultaneously around the world is one of our core strengths and has contributed to the large volumes in our market making business. We engage in market making operations in North America, Europe and in the Asia/Pacific regions as described below.

*North American Market Making Activities.* Our U.S. market making activities are conducted through Timber Hill LLC ( TH LLC ), a SEC-registered securities broker-dealer that conducts market making in equity derivative products, equity index derivative products and equity securities. Since its inception in 1982, TH LLC has grown to become one of the largest of the listed options market makers in the United States. As of December 31, 2007, TH LLC held specialist, primary market maker or lead market maker designations in options on approximately 1,200 underlying securities listed in the United States. TH LLC is a member at the American Stock Exchange, Boston Options Exchange, Chicago Board Options Exchange, Chicago Mercantile Exchange, Chicago Board of Trade, International Securities Exchange, OneChicago and Philadelphia Stock Exchange. We also conduct market making activities in Canada through our Canadian subsidiary, Timber Hill Canada Company ( THC ) and in Mexico through TH LLC.

*International Market Making Activities.* Our international market making subsidiaries, primarily Timber Hill Europe AG, conduct operations in 22 countries, comprising the major securities markets in these regions.

We began our market making operations in Europe in 1990. In Germany and Switzerland, we have been among the largest equity options market makers in terms of volume on Eurex, the world's largest futures and options exchange, which is jointly operated by Deutsche Börse AG and SWX Swiss Exchange. We have also been active in trading German stocks and warrants as a member of the XETRA, the German electronic stock trading system, and the Frankfurt and Stuttgart stock exchanges; and in Swiss stocks and warrants as a member of the SWX Swiss Exchange and Virt-x, a cross-border trading platform for pan-European companies. Our other European operations are conducted on the London Stock Exchange; the Irish Stock Exchange; the Copenhagen Stock Exchange; the Helsinki Stock Exchange; the Euronext exchanges in Amsterdam, Paris, Brussels, Lisbon and London; EDX, formerly OM, the Swedish and Norwegian options market; the Swedish Stock Exchange; the MEFF and Bolsa de Valencia in Spain; the IDEM and Borsa Italiana in Milan; and the ÖTOB in Vienna.

Since 1995, we have conducted market making operations in Hong Kong. Our Hong Kong subsidiary, Timber Hill Securities Hong Kong Ltd ( THSHK ), is a member of the cash and derivatives markets of the Hong Kong Exchanges. Since 1997, we have conducted operations in Australia. Our Australian subsidiary, Timber Hill Australia Pty Ltd ( THA ), is a member of the Australian Stock Exchange, and routes orders for its trading on the Sydney Futures Exchange through its affiliate, Interactive Brokers LLC. We commenced trading in Japan during the first half of 2002, Korea and Singapore during 2004, and Taiwan in 2007.

All of the above trading activities take place on exchanges and all securities and commodities that we trade are cleared by exchange owned or authorized clearing houses.

#### **Electronic Brokerage Interactive Brokers**

Electronic brokerage represented 29% of 2007 net revenues. We conduct our electronic brokerage business through our Interactive Brokers ( IB ) subsidiaries. As an electronic broker, we execute, clear and settle trades globally for both institutional and individual customers. Capitalizing on the technology originally developed for our market making business, IB's systems provide our customers with the capability to monitor multiple markets around the world simultaneously and to execute trades electronically in these markets at a low cost in multiple products and currencies from a single trading account.

Since launching this business in 1993, we have grown to approximately 95,000 institutional and individual brokerage customers. We provide our customers with what we believe to be one of the most effective and efficient electronic brokerage platforms in the industry. The following are key highlights of our electronic brokerage business:

- *Low Costs* - We provide our customers with among the lowest transaction costs in two ways. First, our customers benefit from our advanced routing of orders designed to achieve the best available price. Second, we offer among the lowest execution, commission and financing costs in the industry.
- *Risk Control* - Throughout the trading day, we calculate margin requirements for each of our customers on a real-time basis across all product classes (stocks, options, futures, bonds and forex) and across all currencies. Our customers are alerted to approaching margin violations and if a customer's equity falls below what is required to support that customer's margin, we automatically liquidate positions on a real-time basis to bring the customer's account into margin compliance. This is done to protect IB, as well as the customer, from excessive losses.
- *IB Universal AccountSM* - From a single point of entry in one IB Universal AccountSM our customers are able to trade products denominated in 12 different currencies, across multiple classes of tradable, exchange-listed products, including stocks, bonds, options, futures and forex, traded on more than 60 exchanges and market centers and in 16 countries around the world seamlessly.
- *IB SmartRoutingSM* - Our customers benefit from our advanced routing. IB SmartRoutingSM retains control of the customer's order, continuously searches for the best available price and, unlike most other routers, dynamically routes and re-routes all or parts of a customer's order to achieve optimal execution and among the lowest execution and commission costs in the industry.
- *Flexible and Customizable System* - Our platform is designed to provide an efficient customer experience, beginning with a highly automated account opening process and ending with a fast trade execution, with real-time position monitoring. Our sophisticated interface provides interactive real-time views of account balances, positions, profits or losses, buying power and what-if scenarios to enable our customers to more easily make informed investment

decisions and trade efficiently. Our system is configured to remember the user's preferences and is specifically designed for multi-screen systems. When away from their main workstations, customers are able to access their accounts through our IB WebTrader<sup>SM</sup> or MobileTrader interfaces.

- *Interactive Analytics<sup>SM</sup> and IB Options Analytics<sup>SM</sup>* - We offer our customers state-of-the-art tools, which include a customizable trading platform, advanced analytic tools and sophisticated order types such as guaranteed combination trades. IB also provides real-time option analytics, an arbitrage meter (a tool that illustrates the extent of the premium (or discount) of the lead month futures price above (or below) its fair future value with respect to the index price) and various combinations of charts and other analytical tools.
- *IB Risk Navigator<sup>SM</sup>* - We offer free to all customers, our real-time market risk management platform that unifies exposure across multiple asset classes around the globe. The system is capable of identifying overexposure to risk by starting at the portfolio level and drilling down into successively greater detail within multiple report views. Report data is updated every ten seconds or upon changes to portfolio composition. Predefined reports allow the summarization of a portfolio from different risk perspectives, and allow views of Exposure, Value at Risk ( VaR ), Delta, Gamma, Vega and Theta and profit and loss and position quantity measures for the different portfolio views. The system also offers the customer the ability to modify positions through what-if scenarios that show hypothetical changes to the risk summary.
- *White Labeling* - Our large bank and broker-dealer customers may white label our trading interface or can select from among our modular functionalities, such as order routing, trade reporting or clearing, on specific products or exchanges where they may not have up-to-date technology, in order to offer to their customers a complete global range of services and products.

IB provides its customers with high-speed trade execution at low commission rates, in large part because it utilizes the backbone technology developed for Timber Hill's market making operations. As a result of our advanced electronic brokerage platform, IB attracts sophisticated and active investors. No single customer represents more than 1.1% of our commissions and execution fees.

## Technology

Our proprietary technology is the key to our success. We built our business on the belief that a fully computerized market making system that could integrate pricing and risk exposure information quickly and continuously would enable us to make markets profitably in many different financial instruments simultaneously. We believe that integrating our system with electronic exchanges and market centers results in transparency, liquidity and efficiencies of scale. Together with the IB SmartRouting<sup>SM</sup> system and our low commissions, this reduces overall transaction costs to our customers and, in turn, increases our transaction volume and profits. Over the past 30 years, we have developed an integrated trading system and communications network and have positioned our company as an efficient conduit for the global flow of risk capital across asset and product classes on electronic exchanges around the world, permitting us to have one of the lowest cost structures in the industry. We believe that developing, maintaining and continuing to enhance our proprietary technology provides us and our customers with the competitive advantage of being able to adapt quickly to the changing environment of our industry and to take advantage of opportunities presented by new exchanges, products or regulatory changes before our competitors.

The quotes that we provide as market makers are driven by proprietary mathematical models that assimilate market data and reevaluate our outstanding quotes each second. Because our technology infrastructure enables us to process large volumes of pricing and risk exposure information rapidly, we are able to make markets profitably in securities with relatively low spreads between bid and offer prices. As market makers, we must ensure that our interfaces connect effectively and efficiently with each exchange and market center where we make markets

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and that they are in complete conformity with all the applicable rules of each local venue. Utilizing up-to-date computer and telecommunications systems, we transmit continually updated pricing information directly to exchange computer devices and receive trade and quote information for immediate processing by our systems. As a result, we are able to maintain more effective control over our exposure to price and volatility movements on a real-time basis than many of our competitors. This is important, not only because our system must process, clear and settle several hundred thousand market maker trades per day with a minimal number of errors, but also because the system monitors and manages the risk on the entire portfolio, which generally consists of several million open contracts distributed among more than 100,000 different products. Using our system, which we believe affords an optimal interplay of decentralized trading activity and centralized risk management, we quote markets in approximately 420,000 securities and futures products traded around the world.



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In our electronic brokerage business, our proprietary technology infrastructure enables us to provide our customers with the ability to effect trades at among the lowest execution and commission costs in the industry. Additionally, our customers benefit from real-time systems optimization for our market making business. Customer trades are both automatically captured and reported in real time in our system. Our customers trade on more than 60 exchanges and market centers in 16 countries around the world. All of these exchanges are partially or fully electronic, meaning that a customer can buy or sell a product traded on that exchange via an electronic link from his or her computer terminal through our system to the exchange. We offer our products and services through a global communications network that is designed to provide secure, reliable and timely access to the most current market information. We provide our customers with a variety of means to connect to our brokerage systems, including dedicated point-to-point data lines, virtual private networks and the Internet.

Specifically, our customers receive worldwide direct-access connectivity through our Trader Workstation (our real-time Java-based trading platform), our proprietary Application Program Interface ( API ), and/or industry standard Financial Information Exchange ( FIX ) connectivity. Customers who want a professional quality trading application with a sophisticated user interface utilize our Trader Workstation. Customers interested in developing program trading applications in MS-Excel, Java, Visual Basic or C++ utilize our API. Large institutions with FIX infrastructure prefer to use our FIX solution for seamless integration of their existing order gathering and reporting applications.

While many brokerages, including online brokerages, rely on manual procedures to execute many day-to-day functions, IB employs proprietary technology to automate, or otherwise facilitate, many of the following functions:

- account opening process;
- order routing and best execution;
- seamless trading across all types of securities and currencies around the world from one account;
- order types and analytical tools offered to customers;
- delivery of customer information, such as confirmations, customizable real-time account statements and audit trails;
- customer service; and
- risk management through automated real-time credit management of all new orders and margin monitoring.

### Research and Development

One of our core strengths is our expertise in the rapid development and deployment of automated technology for the financial markets. Our core software technology is developed internally, and we do not generally rely on outside vendors for software development or maintenance. To achieve optimal performance from our systems, we are continuously rewriting and upgrading our software. Use of the best available technology not only improves our performance but also helps us attract and retain talented developers. Our software development costs are low because the employees who oversee the development of the software are the same employees who design the application and evaluate its performance. This also enables us to add features and further refine our software rapidly.

Our internally-developed, fully integrated trading and risk management systems are unique and transact across all product classes on more than 70 markets and 14 currencies around the world. These systems have the flexibility to assimilate new exchanges and new product classes without compromising transaction speed or fault tolerance. Fault tolerance, or the ability to maintain system performance despite exchange malfunctions or hardware failures, is crucial to successful market making and ensuring best executions for brokerage customers. Our systems are designed to detect exchange malfunctions and quickly take corrective actions by re-routing pending orders.

Our company is technology-focused, and our management team is hands-on and technology-savvy. Most members of the management team write detailed program specifications for new applications. The development queue is prioritized and highly disciplined. Progress on programming initiatives is generally tracked on a weekly basis by a steering committee consisting of senior executives. This enables us to prioritize key initiatives and achieve rapid results. All new business starts as a software development project. We generally do not engage in any business that we cannot automate and incorporate into our platform prior to entering into the business.

The rapid software development and deployment cycle is achieved by our ability to leverage a highly integrated, object oriented development environment. The software code is modular, with each object providing a specific function and being reusable in multiple applications. New software releases are tracked and tested with proprietary automated testing tools. We are not hindered by disparate and often limiting legacy systems assembled through acquisitions. Virtually all of our software has been developed and maintained with a unified purpose.

For 30 years, we have built and continuously refined our automated and integrated, real-time systems for world-wide trading, risk management, clearing and cash management, among others. We have also assembled a proprietary connectivity network between us and exchanges around the world. Efficiency and speed in performing prescribed functions are always crucial requirements for our systems. As a result, our trading systems are able to assimilate market data, recalculate and distribute streaming quotes for tradable products in all product classes each second.

### **Risk Management Activities**

The core of our risk management philosophy is the utilization of our fully integrated computer systems to perform critical, risk-management activities on a real-time basis. In our market making business, our real-time integrated risk management system seeks to ensure that overall IBG positions are continuously hedged at all times, curtailing risk. In our electronic brokerage business, integrated risk management seeks to ensure that each customer's positions are continuously credit checked and brought into compliance if equity falls short of margin requirements, curtailing bad debt losses.

### *Market Making*

We employ certain hedging and risk management techniques to protect us from a severe market dislocation. Our risk management policies are developed and implemented by our Chairman and our steering committee, which is comprised of senior executives of our various companies. Our strategy is to calculate quotes a few seconds ahead of the market and execute small trades at a tiny but favorable differential as a result. This is made possible by our proprietary pricing model, which evaluates and monitors the risks inherent in our portfolio, assimilates market data and reevaluates the outstanding quotes in our portfolio each second. Our model automatically rebalances our positions throughout each trading day to manage risk exposures both on our options and futures positions and the underlying securities, and will price the increased risk that a position would add to the overall portfolio into the bid and offer prices we post. Under risk management policies implemented and monitored primarily through our computer systems, reports to management, including risk profiles, profit and loss analysis and trading performance, are prepared on a real-time basis as well as daily and periodical bases. Although our market making is completely automated, the trading process and our risk are monitored by a team of individuals who, in real time, observe multiple dimensional representations of various risk parameters of our consolidated positions. Our assets and liabilities are marked-to-market daily for financial reporting purposes and re-valued continuously throughout the trading day for risk management and asset/liability management purposes. No more than 0.5% of firm capital is at risk of loss at any one time.

Since 1990 we have rapidly expanded our market presence and the number of financial instruments in which we make markets. This diversification acts as a passive form of portfolio risk management.

We trade primarily the options on stocks (and individual stocks) where the underlying equity market capitalization is greater than \$1 billion. Throughout the trading day we produce online, real-time profit and loss, risk evaluation, activity and other management reports. Our software assembles from external sources a balance sheet and income statements for our accounting department to reconcile the trading system results.

The adaptability of our portfolio risk management system and trading methods have allowed us to expand not only the number of financial instruments traded but also across markets.

*Electronic Brokerage*

IB calculates margin requirements for each of its customers on a real-time basis across all product classes (stocks, options, futures, bonds and forex) and across all currencies. Recognizing that IB's customers are experienced investors, we expect our customers to manage their positions proactively and we provide tools to facilitate our customers' position management. However, if a customer's equity falls below what is required to support that customer's margin, IB will automatically liquidate positions on a real-time basis to bring the customer's account into margin compliance. This is done to protect IB, as well as the customer, from excessive losses and further contributes to our low-cost structure. The entire credit management process is completely automated, and IB does not employ a margin department.

As a safeguard, all liquidations are displayed on custom built liquidation monitoring screens that are part of the toolset our technical staff uses to monitor performance of our systems at all times the markets around the world are open. In the event our systems absorb erroneous market data from exchanges, which prompts liquidations, risk specialists on our technical staff have the capability to halt liquidations that meet specific criteria. The liquidation halt function is highly restricted.

IB's customer interface includes color coding on the account screen and pop-up warning messages to notify customers that they are approaching their margin limits. This feature allows customers to take action, such as entering margin reducing trades, to avoid having IB liquidate their positions. These tools and real-time margining allow IB's customers to understand their trading risk at any moment of the day and help IB maintain low commissions, by not having to price in the cost of credit losses.

#### *Operational Controls*

We have automated the full cycle of controls surrounding the market making and brokerage business. Key automated controls include the following:

- Our technical operations section continuously monitors our network and the proper functioning of each of our nodes (exchanges, ISPs, leased customer lines and our own data centers) around the world.
- Our real-time credit manager software provides pre- and post-execution controls by:
  - testing every customer order to ensure that the customer's account holds enough equity to support the execution of the order, rejecting the order if equity is insufficient or directing the order to an execution destination without delay if equity is sufficient; and
  - continuously updating a customer account's equity and margin requirements and, if the account's equity falls below its minimum margin requirements, automatically issuing liquidating orders in a smart sequence designed to minimize the impact on account equity.
- Our market making system continuously evaluates approximately 420,000 securities and futures products in which we provide bid and offer quotes and changes its bids and offers in such a way as to maintain an overall hedge and a low-risk profile. The speed of communicating with exchanges and market centers is maximized through continuous software and network engineering innovation, thereby allowing the firm to achieve real-time controls over market exposure.
- Our clearing system captures trades in real-time and performs automated reconciliation of trades and positions, corporate action processing, customer account transfer, options exercise, securities lending and inventory management, allowing the firm to effectively manage operational risk.

- Our accounting system operates with automated data feeds from clearing and banking systems, allowing the firm to produce financial statements for all parts of our business every day by mid-day on the day following trade date.
- Software developed to interface with the accounting and market making systems performs daily profit and loss reconciliations, which provide tight financial controls over market making functions.

### **Transaction Processing**

Our transaction processing is automated over the full life cycle of a trade. Our market making software generates and disseminates to exchanges and market centers continuous bid and offer quotes on approximately 420,000 tradable, exchange listed products. Our fully automated smart router system searches for the best possible combination of prices available at the time a customer order is placed and immediately seeks to execute that order electronically or send it where the order has the highest possibility of execution at the best price.

At the moment a trade is executed, our systems capture and deliver this information back to the source, either the market making system or via the brokerage system to the customer, in most cases within a fraction of a second. Simultaneously, the trade record is written into our clearing system, where it flows through a chain of control accounts that allow us to reconcile trades, positions and money until the final settlement occurs. Our integrated software tracks other important activities, such as dividends, corporate actions, options exercises, securities lending, margining, risk management and funds receipt and disbursement.

### **IB SmartRouting<sup>SM</sup>**

IB SmartRouting<sup>SM</sup> searches for the best destination price in view of the displayed prices, sizes and accumulated statistical information about the behavior of market centers at the time an order is placed and IB SmartRouting<sup>SM</sup> immediately seeks to execute that order electronically. Unlike other smart routers, IB SmartRouting<sup>SM</sup> never relinquishes control of the order, and constantly searches for the best price. It continuously evaluates fast-changing market conditions and dynamically re-routes all or parts of the order seeking to achieve optimal execution. IB SmartRouting<sup>SM</sup> represents each leg of a spread order independently and enters each leg at the best possible venue. IB SmartRouting Autorecovery<sup>SM</sup> re-routes a customer's U.S. options order in the case of an exchange malfunction, with IB undertaking the risk of double executions. In addition, IB SmartRouting<sup>SM</sup> checks each new order to see if it could be executed against any of its pending orders. As the system gains more users, this feature becomes more important for customers in a world of multiple exchanges and penny price orders because it increases the possibility of best executions for our customers ahead of customers of other brokers.

As a result of this feature, our customers have a greater chance of executing limit orders and can do so sooner than those who use other routers.

### **Clearing and Margining**

Our activities in the United States are almost entirely self-cleared. We are a full clearing member of The Options Clearing Corporation ( OCC ), the Chicago Mercantile Exchange Clearing House ( CMECH ), The Clearing Corporation and The Depository Trust and Clearing Corporation.

Due to our large positions in broad based index products, we benefit from the cross margin system maintained by these clearing houses. For example, if we hold a position in an OCC-cleared product and have an offsetting position in a CMECH cleared product, the cross margin computation takes both positions into account, thereby reducing the overall margin requirement. The reduced margin benefit proves especially useful during times of market stress, such as on days with large price movements when intra-day margin calls may be reduced or eliminated by the cross margin calculation. We are planning to make similar benefits available to customers under an SEC-approved risk-based portfolio margin program.

In addition, we are self-cleared in the United Kingdom, Canada, Germany, Belgium, Ireland, France, Hong Kong, the Netherlands, Norway, Sweden and Switzerland.

### **Customers**

We established our electronic brokerage subsidiary, IB, in 1993 to enhance the use of our global network of trading interfaces, exchange and clearinghouse memberships and regulatory registrations assembled over the prior 16 years to serve our market making business. We realized that electronic access to market centers worldwide through our network could easily be utilized by the very same floor traders and trading desk professionals who, in the coming years, would be displaced by the conversion of exchanges from open outcry to electronic systems.

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We currently service approximately 95,000 cleared customer accounts. Our customers reside in approximately 140 countries around the world. IB currently executes trades for at least two of the largest commercial banks and at least two of the largest bulge bracket investment banks.

The target IB customer is one that requires the latest in trading technology, derivatives expertise, and worldwide access and expects low overall transaction costs. IB's customers are mainly comprised of self-service individuals, former floor traders, trading desk professionals, electronic retail brokers, financial advisors who are comfortable with technology, banks that require global access and hedge funds.

Our customers fall into three groups based on services provided: cleared customers, trade execution customers and wholesale customers. With the advent of portfolio margining, we believe we will be able to persuade more of our trade execution hedge fund customers to utilize our cleared business solution, which will benefit the hedge funds in terms of cost savings. Many prime brokers offer increased leverage over Regulation T credit limitations and NYSE margin requirements through offshore entities and joint back office arrangements. Through portfolio margining, IB will now be able to offer similar leverage with lower margin requirements that reflect the reduced risk of a hedged portfolio.

- **Cleared Customers:** We provide trade execution and clearing services to our cleared customers who are generally attracted to our low commissions, low financing rates, high interest paid and best price execution. From small market making groups and individual market makers, our cleared customer base has expanded over the years to include institutional and individual traders and investors, financial advisors and introducing brokers.



- **Trade Execution Customers:** We offer trade execution for customers who choose to clear with another prime broker or a custodian bank; these customers are able to take advantage of our low commissions for trade execution as well as our best price execution.
- **Wholesale Customers:** Our wholesale customers, which include some of the largest banks and retail electronic brokers, are generally self-clearing. These customers count on us for our superior options and option/stock combination trade routing and execution and our ability to assist them in satisfying their regulatory requirements to provide best execution to their customers.

Our non-cleared customers include large online brokers and increasing numbers of the proprietary and customer trading units of U.S., Canadian and European commercial banks. These customers are attracted by the IB SmartRouting SM technology as well as our direct access to stock, options, futures, forex and bond markets worldwide.

Our customers receive worldwide direct access connectivity in one of three ways: the Trader Workstation (our real-time Java-based trading platform), our proprietary API, and/or industry standard FIX connectivity.

## **Employees and Culture**

We take pride in our technology-focused company culture and embrace it as one of our fundamental strengths. We remain committed to improving our technology, and we try to minimize corporate hierarchy to facilitate efficient communication among employees. We have assembled what we believe is a highly talented group of employees. As we grow, we expect to continue to provide significant rewards for our employees who provide significant value to us and the world's financial markets.

As of December 31, 2007, we had 675 employees, all of whom were employed on a full-time basis. None of our employees are covered by collective bargaining agreements. We believe that our relations with our employees are good.

## **Competition**

### *Market making*

Market makers range from sole proprietors with very limited resources, of which there are still a few hundred left, to a few highly sophisticated groups which have substantially greater financial and other resources, including programmers and other research and development personnel, than we do. Along with the ongoing conversion of exchanges from floor-based, open outcry arenas to electronic matching systems, Timber Hill's competitors have changed from many individuals or groups of traders to large, integrated broker-dealers. Today, Timber Hill's major competitors are large broker-dealers, such as Goldman Sachs, Citigroup, UBS, Morgan Stanley and Merrill Lynch, and niche players such as Citadel, LaBranche, Group One Trading, Wolverine Trading and Peak6. Many of our competitors in market making are much larger than we are and have more captive order flow, although this is less true with respect to our narrow focus on options, futures and ETFs listed on electronic exchanges. In order to compete successfully, we believe that we must have more sophisticated, versatile and robust software than our

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competitors. This is our primary focus, as contrasted with many of our competitors. With respect to these competitors, Timber Hill maintains the advantage of having had much longer experience with the development and usage of its proprietary electronic brokerage and market making systems. Market conditions that are difficult for other market participants often present Timber Hill with the opportunities inherent in diminished competition. Our advantage is our expertise and decades of single-minded focus on developing our technology. This enables us to have a unique platform specializing strictly in electronic market making and brokerage.

### *Electronic brokerage*

The market for electronic brokerage services is rapidly evolving and highly competitive. IB believes that it neither fits within the definition of a traditional broker nor a prime broker. IB's primary competitors include offerings targeted to professional traders by large retail online brokers (such as E\*TRADE's Power E\*TRADE Pro business and Charles Schwab & Co., Inc.'s CyberTrader business) and the prime brokerage and electronic brokerage arms of major investment banks and brokers (such as Goldman Sachs' RediPlus business and Morgan Stanley's Passport business). We also encounter competition to a lesser extent from full commission brokerage firms including Merrill Lynch, Smith Barney (a division of Citigroup), as well as other financial institutions, some of which provide online brokerage services. The electronic brokerage businesses of many of our competitors are relatively insignificant in the totality of their firms' business. IB provides access to a global range of products from a single IB Universal AccountSM and professional level executions and pricing, which positions it in competition

with niche direct-access providers and prime brokers. In addition, IB provides sophisticated order types and analytical tools that give a competitive edge to its customers.

## **Regulation**

Our securities and derivatives businesses are extensively regulated by U.S. federal and state regulators, foreign regulatory agencies, and numerous exchanges and self-regulatory organizations of which our subsidiaries are members. In the current era of heightened regulation of financial institutions, we expect to incur increasing compliance costs, along with the industry as a whole.

### *Overview*

As registered U.S. broker-dealers, Interactive Brokers LLC ( IB LLC ) and TH LLC are subject to the rules and regulations of the Exchange Act, and as members of various exchanges, we are also subject to such exchanges' rules and requirements. Additionally, as registered futures commission merchants, IB LLC and TH LLC are subject to the Commodity Exchange Act and rules promulgated by the Commodity Futures Trading Commission ( CFTC ) and the various commodity exchanges of which they are members. Finally, we are subject to the requirements of various self-regulatory organizations such as the Financial Industry Regulatory Authority ( FINRA ) and the National Futures Association ( NFA ). Our foreign affiliates are similarly regulated under the laws and institutional framework of the countries in which they operate.

U.S. broker-dealers and futures commission merchants are subject to laws, rules and regulations that cover all aspects of the securities and derivatives business, including:

- sales methods;
- trade practices;
- use and safekeeping of customers' funds and securities;
- capital structure;
- record-keeping;

- financing of customers purchases; and
- conduct of directors, officers and employees.

In addition, the businesses that we may conduct are limited by our agreements with and our oversight by FINRA. Participation in new business lines, including trading of new products or participation on new exchanges or in new countries often requires governmental and/or exchange approvals, which may take significant time and resources. As a result, we may be prevented from entering new businesses that may be profitable in a timely manner, or at all.

As certain of our subsidiaries are members of FINRA, we are subject to certain regulations regarding changes in control of our ownership. FINRA Rule 1017 generally provides that FINRA approval must be obtained in connection with any transaction resulting in a change in control of a member firm. The FINRA defines control as ownership of 25% or more of the firm's equity by a single entity or person and would include a change in control of a parent company. As a result of these regulations, our future efforts to sell shares or raise additional capital may be delayed or prohibited by FINRA.

#### *Net Capital Rule*

The SEC, FINRA, CFTC and various other regulatory agencies within the United States have stringent rules and regulations with respect to the maintenance of specific levels of net capital by regulated entities. Generally, a broker-dealer's capital is net worth plus qualified subordinated debt less deductions for certain types of assets. The Net Capital Rule requires that at least a minimum part of a broker-dealer's assets be maintained in a relatively liquid form.

If these net capital rules are changed or expanded, or if there is an unusually large charge against our net capital, our operations that require the intensive use of capital would be limited. A large operating loss or charge against our net capital could adversely affect our ability to expand or even maintain these current levels of business, which could have a material adverse effect on our business and financial condition.

The SEC and FINRA impose rules that require notification when net capital falls below certain predefined criteria. These rules also dictate the ratio of debt-to-equity in the regulatory capital composition of a broker-dealer, and constrain the ability of a broker-dealer to expand its business under certain circumstances. If a firm fails to maintain the required net capital, it may be subject to suspension or revocation of registration by the applicable regulatory agency, and suspension or expulsion by these regulators could ultimately lead to the firm's liquidation. Additionally, the Net Capital Rule and certain FINRA rules impose requirements that may have the effect of prohibiting a broker-dealer from distributing or withdrawing capital and requiring prior notice to and approval from the SEC and FINRA for certain capital withdrawals.

#### *Supervision and Compliance*

Our Compliance Department supports and seeks to ensure proper operations of our market making and electronic brokerage businesses. The philosophy of the Compliance Department, and our company as a whole, is to build automated systems to try to eliminate manual steps and errors in the compliance process and then to augment these systems with human staff who apply their judgment where needed. We have built automated systems to handle wide-ranging compliance issues such as trade and audit trail reporting, financial operations reporting, enforcement of short sale rules, enforcement of margin rules and pattern day trading restrictions, review of employee correspondence, archival of required records, execution quality and order routing reports, approval and documentation of new customer accounts, and anti-money laundering and anti-fraud surveillance. In light of our automated operations and our automated compliance systems, we have a smaller and more efficient Compliance Department than many traditional securities firms. Nonetheless, we have increased the staffing in our Compliance Department over the past several years to meet the increased regulatory burdens faced by all industry participants.

IB and TH each has a Chief Compliance Officer who reports to its General Counsel and its internal audit and compliance committee. These Chief Compliance Officers, plus certain other senior staff members, are FINRA-registered principals with supervisory responsibility over the various aspects of our businesses. Staff members in the Compliance Department or in other departments of the firm are also registered with FINRA, NFA or other regulatory organizations.

#### *Regulation NMS*

In 2007, the U.S. securities industry implemented a number of new rules contained in Regulation NMS ( "Reg NMS" ), which was approved by the SEC in June 2005 and makes a number of changes to the U.S. national market structure for equities. Among other things, Reg NMS governs how market centers provide access to their quotations, changes the way market data fees are paid and distributed, and prevents quoting in sub-penny increments. The most controversial aspect of Reg NMS is the Trade-Through Rule, which generally prevents a market center from trading a stock at a price worse than an electronically accessible quote for the same stock displayed on a competing market center.

It is difficult to predict exactly how Reg NMS will affect our businesses, although IB LLC and TH LLC are well-positioned to benefit to the extent that Reg NMS increases transparency and automation in the U.S. equity markets. The Company participated in various panel discussions and filed comment letters during the SEC's formulation and evaluation of Reg NMS, and IB LLC was an early proponent and supporter of the Reg NMS initiative. Some exchanges and market centers, especially the NYSE, have already increased their efforts to automate more stock executions rather than rely on human brokers and specialists to match trades. Our brokerage and proprietary trading businesses are benefiting and should continue to benefit from this trend toward automatic executions, which increase the speed and transparency of trading and reduce the ability of human traders to commit fraud by backing away or changing their quotes after we send them an order, or by front-running orders.

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With respect to the specific functionality of IB LLC's brokerage platform, increased availability of automatic executions on stock exchanges will tend to make IB LLC's automated platform more useful and valuable. On the other hand, the new Reg NMS Trade-Through Rule could pose a competitive threat to the IB SmartRoutingSM system for stocks, because exchanges likely will build improved linkages to send orders to each other when an exchange is not itself offering the best posted price. However, an order smart routed by IB will always trade sooner than one that is linked by one exchange to another.

While increased competition from exchanges to provide smart order routing services is likely, IB is expected to have many advantages over any exchange systems, including the facts that:

- IB has nearly a decade's lead in developing smart routing technology and network infrastructure;
- IB's system is connected to a broad array of exchanges, ECNs and market makers;

- the IB SmartRouting<sup>SM</sup> system has the ability to split orders and route them to different markets and then re-route each piece as market conditions change;
- multiple products in addition to stocks are available on the IB platform; and
- IB offers clearing, financing, custodial and many other services to its customers that exchanges are not in a position to provide.

#### *Portfolio Margining*

In April 2007, IB LLC was approved for and began to offer portfolio margining to its customers. Portfolio margining allows customers to take advantage of reduced margin requirements based on the risk of their combined equities and derivatives positions instead of traditional static margin requirements that are based on percent of value for each security that the customers hold. This risk-based margining allows for a more realistic representation of risk in a customer's portfolio, giving the benefit of lower margin requirements to hedged portfolios. As a result, IB LLC became more competitive with the largest U.S. prime clearing broker-dealers who use their balance sheets to provide financing to customers. IB LLC caters to sophisticated customers who utilize hedging to reduce risk in their portfolios and benefit from a risk-based margin approach.

SEC portfolio margining rules require each participating firm to file an application with their designated self-regulatory organization ( SRO ) and receive approval for implementation of the portfolio margining program and related parameters, including margin determination and risk management.

#### *Patriot Act and Increased Anti-Money Laundering ( AML ) and Know Your Customer Obligations*

Registered broker-dealers traditionally have been subject to a variety of rules that require that they know their customers and monitor their customers' transactions for suspicious financial activities. With the passage of the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001 (the Patriot Act ), broker-dealers are now subject to even more stringent requirements. Likewise, the SEC, CFTC, foreign regulators, and the various exchanges and SROs, of which IB companies are members, have passed numerous new AML and customer due diligence rules. Significant criminal and civil penalties can be imposed for violations of the Patriot Act, and significant fines and regulatory penalties for violations of other governmental and SRO AML rules.

As required by the Patriot Act and other new rules, we have established comprehensive anti-money laundering and customer identification procedures, designated an AML compliance officer, trained our employees and conducted independent audits of our program. Our anti-money laundering screening is conducted using a mix of automated and manual review and has been structured to comply with recent regulations. We collect required information through our new account opening process and then screen accounts with databases for the purposes of identity verification and for review of negative information and appearance on the Office of Foreign Assets and Control, Specially Designated Nationals and Blocked Persons lists. Additionally, we have developed methods for risk control and continue to add upon specialized processes, queries and automated reports designed to identify money laundering, fraud and other suspicious activities.

*Business Continuity Planning*

Federal regulators and industry self-regulatory organizations have passed a series of rules in the past several years requiring regulated firms to maintain business continuity plans that describe what actions firms would take in the event of a disaster (such as a fire, natural disaster or terrorist incident) that might significantly disrupt operations. IB has developed business continuity plans that describe steps that the firm and its employees would take in the event of various scenarios. The firm has built a backup site for certain of its operations at its Chicago facilities that would be utilized in the event of a significant outage at the firm's Greenwich headquarters. In addition, the firm has strengthened the infrastructure at its Greenwich headquarters and has built redundancy of certain systems so that certain operations can be handled from multiple offices.

*Foreign Regulation*

Our international subsidiaries are subject to extensive regulation in the various jurisdictions where they have operations. The most significant of our international subsidiaries are: Timber Hill Europe AG ( THE ), registered to do business in Switzerland as a securities dealer; THSHK, registered to do business in Hong Kong as a securities dealer; THA, registered to do business in Australia as a securities dealer and futures broker; Interactive Brokers (U.K.) Limited ( IBUK ), registered to do business in the U.K. as a broker; Interactive Brokers Canada Inc. ( IBC ) and THC, registered to do business in Canada as an investment dealer and securities dealer, respectively.



As with those U.S. subsidiaries subject to FINRA rules, the ability of our regulated U.K. subsidiary, IBUK, to pay dividends or make capital distributions may be impaired due to applicable capital requirements. IBUK is subject to consolidated regulation, in addition to being subject to regulation on a legal entity basis. Consolidated regulation impacts the regulated entity and its parent holding companies in the United Kingdom, including the regulated entity's ability to pay dividends or distribute capital.

IBUK is also subject to regulations regarding changes in control similar to those described above under Overview. Under Financial Services Authority (FSA) rules, regulated entities must obtain prior approval for any transaction resulting in a change in control of a regulated entity. Under applicable FSA rules, control is broadly defined as a 10% interest in the regulated entity or its parent or otherwise exercising significant influence over the management of the regulated entity. As a result of these regulations, our future efforts to sell shares or raise additional capital may be delayed or prohibited by the FSA.

In Hong Kong, the Securities and Futures Commission (SFC) regulates our subsidiary, THSHK, as a securities dealer. The compliance requirements of the SFC include, among other things, net capital requirements and stockholders' equity requirements. The SFC regulates the activities of the officers, directors, employees and other persons affiliated with THSHK and requires the registration of such persons.

In Canada, both THC and IBC are subject to the Investment Dealers Association of Canada (IDA) risk adjusted capital requirement. In Switzerland, THE is subject to the Swiss National Bank eligible equity requirement. In Australia, THA is subject to the Australian Stock Exchange liquid capital requirement.

## ITEM 1A. RISK FACTORS

We face a variety of risks that are substantial and inherent in our businesses, including market, liquidity, credit, operational, legal, regulatory and our company structure. In addition to the risks identified elsewhere in this Annual Report on Form 10-K, the following risk factors apply to our business results of operations and financial condition:

### **Risks Related to Our Company Structure**

**Control by Thomas Peterffy of a majority of the combined voting power of our common stock may give rise to conflicts of interests and could discourage a change of control that other stockholders may favor, which could negatively affect our stock price, and adversely affect stockholders in other ways.**

Thomas Peterffy, our founder, Chairman and Chief Executive Officer, and his affiliates beneficially own approximately 85% of the economic interests and all of the voting interests in IBG Holdings LLC, which owns all of our Class B common stock, representing approximately 89.7% of the combined voting power of all classes of our voting stock. As a result, Mr. Peterffy has the ability to elect all of the members of our board of directors and thereby to control our management and affairs, including determinations with respect to acquisitions, dispositions, material expansions or contractions of our business, entry into new lines of business, borrowings, issuances of common stock or other securities, and the declaration and payment of dividends on our common stock. In addition, Mr. Peterffy is able to determine the outcome of all matters requiring stockholder approval and will be able to cause or prevent a change of control of our company or a change in the composition of our board of directors and could preclude any unsolicited acquisition of our company. The concentration of ownership could discourage potential takeover attempts that other stockholders may favor and could deprive stockholders of an opportunity to receive a premium for their common stock as part of a sale of our company and this may adversely affect the market price of our common stock.

Moreover, because of Mr. Peterffy's substantial ownership, we are eligible to be and are, treated as a controlled company for purposes of the NASDAQ Marketplace Rules. As a result, we are not required by NASDAQ to have a majority of independent directors or to maintain Compensation and Nominating and Corporate Governance Committees composed entirely of independent directors to continue to list the shares of our common stock on The NASDAQ Global Select Market (NASDAQ GS). Our Compensation Committee is comprised of Messrs. Thomas Peterffy (Chairman of the Compensation Committee) and Earl H. Nemser (our Vice Chairman). Mr. Peterffy's membership on the Compensation Committee may give rise to conflicts of interests in that Mr. Peterffy is able to influence all matters relating to executive compensation, including his own compensation.

**We are dependent on IBG LLC to distribute cash to us in amounts sufficient to pay our tax liabilities and other expenses.**

We are a holding company and our primary assets are our approximately 10.3% equity interest in IBG LLC and our controlling interest and related rights as the sole managing member of IBG LLC and, as such, we operate and control all of the business and affairs of IBG LLC and are able to consolidate IBG LLC's financial results into our financial statements. We have no independent means of generating revenues. IBG LLC is treated as a partnership for U.S. federal income tax purposes and, as such, is not subject to U.S. federal income tax. Instead, its taxable income is allocated on a pro rata basis to IBG Holdings LLC and us. Accordingly, we incur income taxes on our proportionate share of the net taxable income of IBG LLC, and also incur expenses related to our operations. We intend to cause IBG LLC to distribute cash to its members in amounts at least equal to that necessary to cover their tax liabilities, if any, with respect to the earnings of IBG LLC. To the extent we need funds to pay such taxes, or for any other purpose, and IBG LLC is unable to provide such funds, it could have a material adverse effect on our business, financial condition or results of operations.

**We are required to pay IBG Holdings LLC for the benefit relating to additional tax depreciation or amortization deductions we claim as a result of the tax basis step-up our subsidiaries received in connection with our IPO.**

In connection with our IPO, we purchased interests in IBG LLC from IBG Holdings LLC for cash. In addition, IBG LLC membership interests held by IBG Holdings LLC may be sold in the future to us and financed by our issuances of shares of our common stock. The initial purchase did, and the subsequent purchases may, result in increases in the tax basis of the tangible and intangible assets of IBG LLC and its subsidiaries that otherwise would not have been available. Such increase will be approximately equal to the amount by which our stock price at the time of the purchase exceeds the income tax basis of the assets of IBG LLC underlying the IBG LLC interests acquired by us. These increases in tax basis will result in increased deductions in computing our taxable income and resulting tax savings for us generally over the 15 year period which

commenced with the initial purchase. We have agreed to pay 85% of these tax savings, if any, to IBG Holdings LLC as they are realized as additional consideration for the IBG LLC interests that we acquire.

As a result of the IPO, the increase in the tax basis attributable to our interest in IBG LLC is \$0.95 billion. The tax savings that we would actually realize as a result of this increase in tax basis likely would be significantly less than this amount multiplied by our effective tax rate due to a number of factors, including the allocation of a portion of the increase in tax basis to foreign or non-depreciable fixed assets, the impact of the increase in the tax basis on our ability to use foreign tax credits and the rules relating to the amortization of intangible assets, for example. Based on current facts and assumptions, including that subsequent purchases of IBG LLC interests will occur in fully taxable transactions, the potential tax basis increase resulting from the initial and future purchases of the IBG LLC interests held by IBG Holdings LLC could be as much as \$9.45 billion. The tax receivable agreement requires 85% of such tax savings, if any, to be paid to IBG Holdings LLC, with the balance to be retained by us. The actual increase in tax basis depends, among other factors, upon the price of shares of our common stock at the time of the purchase and the extent to which such purchases are taxable and, as a result, could differ materially from this amount. Our ability to achieve benefits from any such increase, and the amount of the payments to be made under the tax receivable agreement, depends upon a number of factors, as discussed above, including the timing and amount of our future income.

If either immediately before or immediately after any purchase or the related issuance of our stock, the IBG Holdings LLC members own or are deemed to own, in the aggregate, more than 20% of our outstanding stock, then all or part of any increase in the tax basis of goodwill may not be amortizable and, thus, our ability to realize the annual tax savings that otherwise would have resulted if such tax basis were amortizable may be significantly reduced. Although the IBG Holdings LLC members are prohibited under the exchange agreement from purchasing shares of Class A common stock, grants of our stock to employees and directors who are also members or related to members of IBG Holdings LLC and the application of certain tax attribution rules, such as among family members and partners in a partnership, could result in IBG Holdings LLC members being deemed for tax purposes to own shares of Class A common stock.

If the IRS successfully challenges the tax basis increase, under certain circumstances, we could be required to make payments to IBG Holdings LLC under the tax receivable agreement in excess of our cash tax savings.

**Our senior secured revolving credit facility and our senior notes impose certain restrictions. A failure to comply with these restrictions could lead to an event of default, resulting in an acceleration of indebtedness, which may affect our ability to finance future operations or capital needs, or to engage in other business activities.**

As of December 31, 2007, our total indebtedness (consisting of the aggregate amounts outstanding under senior notes, senior secured revolving credit facility and short-term borrowings) was approximately \$1.88 billion. On May 19, 2006, IBG LLC entered into a \$300.0 million three-year senior secured revolving credit facility with JPMorgan Chase Bank, N.A. as administrative agent, Harris N.A. as syndication agent, and Citibank, N.A. and HSBC Bank USA National Association as co-syndication agents. In addition, subject to restrictions in our senior secured revolving credit facility and our senior notes, we may incur additional first-priority secured borrowings under the senior secured revolving credit facility.

The operating and financial restrictions and covenants in our debt agreements, including the senior secured revolving credit facility and our senior notes, may adversely affect our ability to finance future operations or capital needs or to engage in other business activities. Our senior secured revolving credit facility requires us to maintain specified financial ratios and tests, including interest coverage and total leverage ratios and maximum capital expenditures, which may require that we take action to reduce debt or to act in a manner contrary to our business objectives. In addition, the senior secured revolving credit facility and the senior notes restrict our ability to, among other things:

- incur additional indebtedness;
- dispose of assets;
- guarantee debt obligations;
- repay indebtedness or amend debt instruments;
- pay dividends;
- create liens on assets;

- make investments;
- make acquisitions;
- engage in mergers or consolidations; or
- engage in certain transactions with subsidiaries and affiliates and otherwise restrict corporate activities.

A more detailed discussion of the restrictions contained in our senior secured revolving credit facility can be found in Part II, Item 7

Management's Discussion and Analysis of Financial Condition and Results of Operations of this Annual Report on Form 10-K. A failure to comply with the restrictions contained in the senior secured revolving credit facility could lead to an event of default, which could result in an acceleration of our indebtedness. Such an acceleration would constitute an event of default under our senior notes. A failure to comply with the restrictions in our senior notes could result in an event of default under our senior notes. Our future operating results may not be sufficient to enable compliance with the covenants in the senior secured revolving credit facility, our senior notes or other indebtedness or to remedy any such default. In addition, in the event of an acceleration, we may not have or be able to obtain sufficient funds to refinance our indebtedness or make any accelerated payments, including those under the senior notes. In addition, we may not be able to obtain new financing. Even if we were able to obtain new financing, we would not be able to guarantee that the new financing would be on commercially reasonable terms or terms that would be acceptable to us. If we default on our indebtedness, our business financial condition and results of operation could be materially and adversely affected.

**Future sales of our common stock in the public market could lower our stock price, and any additional capital raised by us through the sale of equity or convertible securities may dilute your ownership in us.**

The members of IBG Holdings LLC have the right to cause the redemption of their IBG Holdings LLC membership interests over time in connection with offerings of shares of our common stock. We intend to sell additional shares of common stock in subsequent public offerings on a regular basis, including annual offerings of our common stock to finance future purchases of IBG LLC membership interests which, in turn, will finance corresponding redemptions of IBG Holdings LLC membership interests. These annual offerings and related transactions are anticipated to occur on or about each of the first eight years following the IPO and, depending on the timing of redemptions, possibly extend into the future in accordance with an exchange agreement among us, IBG LLC, IBG Holdings LLC and the historical members of IBG LLC. We may also issue additional shares of common stock or convertible debt securities to finance future acquisitions or business combinations. We currently have approximately 40.2 million outstanding shares of common stock. Assuming no anti dilution adjustments based on combinations or divisions of our common stock, the annual offerings referred to above could result in the issuance by us of up to an additional approximately 360.0 million shares of common stock. It is possible, however, that such shares could be issued in one or a few large transactions.

We cannot predict the size of future issuances of our common stock or the effect, if any, that future issuances and sales of shares of our common stock may have on the market price of our common stock. Sales of substantial amounts of our common stock (including shares issued in connection with an acquisition), or the perception that such sales could occur, may cause the market price of our common stock to decline.

**Certain provisions in our amended and restated certificate of incorporation may prevent efforts by our stockholders to change our direction or management.**

Provisions contained in our amended and restated certificate of incorporation could make it more difficult for a third party to acquire us, even if doing so might be beneficial to our stockholders. For example, our amended and restated certificate of incorporation authorizes our board of directors to determine the rights, preferences, privileges and restrictions of unissued series of preferred stock, without any vote or action by our stockholders. We could issue a series of preferred stock that could impede the completion of a merger, tender offer or other takeover attempt. These provisions may discourage potential acquisition proposals and may delay, deter or prevent a change of control of us, including through transactions, and, in particular, unsolicited transactions, that some or all of our stockholders might consider to be desirable. As a result, efforts by our stockholders to change our direction or management may be unsuccessful.

## **Risks Related to Our Business**

**Our business may be harmed by global events beyond our control, including overall slowdowns in securities trading.**

Like other brokerage and financial services firms, our business and profitability are directly affected by elements that are beyond our control, such as economic and political conditions, broad trends in business and finance, changes in volume of securities and futures transactions, changes in the markets in which such transactions occur and changes in how such transactions are processed. A weakness in equity markets, such as a slowdown causing reduction in trading volume in U.S. or foreign securities and derivatives, has historically resulted in reduced transaction revenues and would have a material adverse effect on our business, financial condition and results of operations.

**Because our revenues and profitability depend on trading volume, they are prone to significant fluctuations and are difficult to predict.**

Our revenues are dependent on the level of trading activity on securities and derivatives exchanges in the United States and abroad. In the past, our revenues and operating results have varied significantly from period to period due primarily to the willingness of competitors to trade more aggressively by decreasing their bid/offer spreads and thereby assuming more risk in order to acquire market share, to movements and trends in the underlying markets, and to fluctuations in trading levels. As a result, period to period comparisons of our revenues and operating results may not be meaningful, and future revenues and profitability may be subject to significant fluctuations or declines.

**Our reliance on our computer software could cause us great financial harm in the event of any disruption or corruption of our computer software. We may experience technology failures while developing our software.**

We rely on our computer software to receive and properly process internal and external data. Any disruption for any reason in the proper functioning or any corruption of our software or erroneous or corrupted data may cause us to make erroneous trades or suspend our services and could cause us great financial harm. In order to maintain our competitive advantage, our software is under continuous development. As we identify and enhance our software, there is risk that software failures may occur and result in service interruptions and have other unintended consequences.

**Our business could be harmed by a systemic market event.**

Some market participants could be overleveraged. In case of sudden, large price movements, such market participants may not be able to meet their obligations to brokers who, in turn, may not be able to meet their obligations to their counterparties. As a result, the financial system or a portion thereof could collapse, and the impact of such an event could be catastrophic to our business.

**We may incur material trading losses from our market making activities.**



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A substantial portion of our revenues and operating profits is derived from our trading as principal in our role as a market maker and specialist. We may incur trading losses relating to these activities since each primarily involves the purchase or sale of securities for our own account. In any period, we may incur trading losses in a significant number of securities for a variety of reasons including:

- price changes in securities;
- lack of liquidity in securities in which we have positions; and
- the required performance of our market making and specialist obligations.

These risks may limit or restrict our ability to either resell securities we purchased or to repurchase securities we sold. In addition, we may experience difficulty borrowing securities to make delivery to purchasers to whom we sold short, or lenders from whom we have borrowed. From time to time, we have large position concentrations in securities of a single issuer or issuers engaged in a specific industry or traded in a particular market. Such a concentration could result in higher trading losses than would occur if our positions and activities were less concentrated.

In our role as a market maker, we attempt to derive a profit from the difference between the prices at which we buy and sell, or sell and buy, securities. However, competitive forces often require us to match the quotes other market makers display and to hold varying amounts of securities in inventory. By having to maintain inventory positions, we are subjected to a high

degree of risk. We cannot assure you that we will be able to manage such risk successfully or that we will not experience significant losses from such activities, which could have a material adverse effect on our business, financial condition and operating results.

**Reduced spreads in securities pricing, levels of trading activity and trading through market makers and/or specialists could harm our business.**

Computer-generated buy/sell programs and other technological advances and regulatory changes in the marketplace may continue to tighten spreads on securities transactions. Tighter spreads and increased competition could make the execution of trades and market making activities less profitable. In addition, new and enhanced alternative trading systems such as ECNs have emerged as an alternative for individual and institutional investors, as well as broker-dealers, to avoid directing their trades through market makers, and could result in reduced revenues derived from our market making business.

**We may incur losses in our market making activities in the event of failures of our proprietary pricing model.**

The success of our market making business is substantially dependent on the accuracy of our proprietary pricing mathematical model, which continuously evaluates and monitors the risks inherent in our portfolio, assimilates market data and reevaluates our outstanding quotes each second. Our model is designed to automatically rebalance our positions throughout the trading day to manage risk exposures on our positions in options, futures and the underlying securities. In the event of a flaw in our pricing model and /or a failure in the related software, our pricing model may lead to unexpected and/or unprofitable trades, which may result in material trading losses.

**The valuation of the financial instruments we hold may result in large and occasionally anomalous swings in the value of our positions and in our earnings in any period.**

The market prices of our long and short positions are reflected on our books at closing prices which are typically the last trade price before the official close of the primary exchange on which each such security trades. Given that we manage a globally integrated portfolio, we may have large and substantially offsetting positions in securities that trade on different exchanges that close at different times of the trading day. As a result, there may be large and occasionally anomalous swings in the value of our positions daily and, accordingly, in our earnings in any period. This is especially true on the last business day of each calendar quarter.

**We are exposed to losses due to lack of perfect information.**

As market makers, we provide liquidity by buying from sellers and selling to buyers. Quite often, we trade with others who have different information than we do, and as a result, we may accumulate unfavorable positions preceding large price movements in companies. Should the frequency or magnitude of these events increase, our losses will likely increase correspondingly.

**Rules governing specialists and designated market makers may require us to make unprofitable trades or prevent us from making profitable trades.**

Specialists and designated market makers are granted certain rights and have certain obligations to make a market in a particular security. They agree to specific obligations to maintain a fair and orderly market. In acting as a specialist or designated market maker, we are subjected to a high degree of risk by having to support an orderly market. In this role, we may at times be required to make trades that adversely affect our profitability. In addition, we may at times be unable to trade for our own account in circumstances in which it may be to our advantage to trade, and we may be obligated to act as a principal when buyers or sellers outnumber each other. In those instances, we may take a position counter to the market, buying or selling securities to support an orderly market. Additionally, the rules of the markets which govern our activities as a specialist or designated market maker are subject to change. If these rules are made more stringent, our trading revenues and profits as specialist or designated market maker could be adversely affected.

**We are subject to potential losses as a result of our clearing and execution activities.**

As a clearing member firm providing financing services to certain of our brokerage customers, we are ultimately responsible for their financial performance in connection with various stock, options and futures transactions. Our clearing operations require a commitment of our capital and, despite safeguards implemented by our software, involve risks of losses due to the potential failure of our customers to perform their obligations under these transactions. If our customers default on their obligations, we remain financially liable for such obligations, and although these obligations are collateralized, we are subject to

market risk in the liquidation of customer collateral to satisfy those obligations. There can be no assurance that our risk management procedures will be adequate. Any liability arising from clearing operations could have a material adverse effect on our business, financial condition and/or operating results.

As a clearing member firm of securities and commodities clearing houses in the United States and abroad, we are also exposed to clearing member credit risk. Securities and commodities clearing houses require member firms to deposit cash and/or government securities to a clearing fund. If a clearing member defaults in its obligations to the clearing house in an amount larger than its own margin and clearing fund deposits, the shortfall is absorbed pro rata from the deposits of the other clearing members. Many clearing houses of which we are members also have the authority to assess their members for additional funds if the clearing fund is depleted. A large clearing member default could result in a substantial cost to us if we are required to pay such assessments.

**Our internal controls over financial reporting may not be effective and our independent auditors may not be able to certify as to their effectiveness, which could have a significant and adverse effect on our business and reputation.**

We are evaluating our internal controls over financial reporting in order to allow management to report on, and our independent auditors to attest to, our internal controls over financial reporting, as required by Section 404 of the Sarbanes-Oxley Act of 2002, as amended, and rules and regulations of the SEC thereunder, which we refer to as Section 404. We are in the process of documenting and testing our internal control procedures in order to satisfy the requirements of Section 404, which requires annual management assessments of the effectiveness of our internal controls over financial reporting and a report by our independent registered public accounting firm addressing these assessments.

As we continue our evaluation, we may identify material weaknesses that we may not be able to remediate in time to meet the deadline imposed by the Sarbanes-Oxley Act of 2002, as amended, for compliance with the requirements of Section 404. We will be required to comply with the requirements of Section 404 for our year ending December 31, 2008. In addition, if we fail to achieve and maintain the adequacy of our internal controls, as such standards are modified, supplemented or amended from time to time, we may not be able to ensure that we can conclude on an ongoing basis that we have effective internal controls over financial reporting in accordance with Section 404. We cannot be certain as to the timing of completion of our evaluation, testing and any remediation actions or the impact on our operations. If we are not able to implement the requirements of Section 404 in a timely manner or with adequate compliance, our independent auditors may not be able to certify as to the effectiveness of our internal control over financial reporting and we may be subject to sanctions or investigation by regulatory authorities, such as the SEC. As a result, there could be a negative reaction in the financial markets due to a loss of confidence in the reliability of our financial statements. In addition, we may be required to incur costs in improving our internal control system and the hiring of additional personnel. Any such action could negatively affect our results of operations.

**We may not pay dividends on our common stock at any time in the foreseeable future.**

As a holding company for our interest in IBG LLC, we will be dependent upon the ability of IBG LLC to generate earnings and cash flows and distribute them to us so that we may pay any dividends to our stockholders. To the extent (if any) that we have excess cash, any decision to declare and pay dividends in the future will be made at the discretion of our board of directors and will depend on, among other things, our results of operations, financial conditions, cash requirement, contractual restrictions and other factors that our board of directors may deem relevant. We have made no determination as to whether to pay dividends on our common stock at any time in the foreseeable future.

**Regulatory and legal uncertainties could harm our business.**

The securities and derivatives businesses are heavily regulated. Firms in financial service industries have been subject to an increasingly regulated environment over recent years, and penalties and fines sought by regulatory authorities have increased accordingly. This regulatory and enforcement environment has created uncertainty with respect to various types of transactions that historically had been entered into by financial services firms and that were generally believed to be permissible and appropriate. Our broker-dealer subsidiaries are subject to regulations in the United States and abroad covering all aspects of their business. Regulatory bodies include, in the United States, the SEC, FINRA, the Board of Governors of the Federal Reserve System, the Chicago Board Options Exchange, the Commodity Futures Trading Commission, and the National Futures Association; in Switzerland, the Federal Banking Commission; in the United Kingdom, the Financial Services Authority; in Hong Kong, the Securities and Futures Commission; in Australia, the Australian Securities and Investment Commission; and in Canada, the Investment Dealers Association of Canada and various Canadian securities commissions. Our mode of operation and profitability may be directly affected by additional legislation changes in rules promulgated by various domestic and foreign government agencies and self-regulatory organizations that oversee our businesses, and changes in the interpretation or enforcement of existing laws and rules. Noncompliance with applicable laws or regulations could result in sanctions being

levied against us, including fines and censures, suspension or expulsion from a certain jurisdiction or market or the revocation or limitation of licenses. Noncompliance with applicable laws or regulations could adversely affect our reputation, prospects, revenues and earnings. In addition, changes in current laws or regulations or in governmental policies could adversely affect our operations, revenues and earnings.

Domestic and foreign stock exchanges, other self-regulatory organizations and state and foreign securities commissions can censure, fine, issue cease-and-desist orders, suspend or expel a broker-dealer or any of its officers or employees. Our ability to comply with all applicable laws and rules is largely dependent on our internal system to ensure compliance, as well as our ability to attract and retain qualified compliance personnel. We could be subject to disciplinary or other actions in the future due to claimed noncompliance, which could have a material adverse effect on our business, financial condition and results of operations. To continue to operate and to expand our services internationally, we may have to comply with the regulatory controls of each country in which we conduct, or intend to conduct business, the requirements of which may not be clearly defined. The varying compliance requirements of these different regulatory jurisdictions, which are often unclear, may limit our ability to continue existing international operations and further expand internationally.

**Our future efforts to sell shares or raise additional capital may be delayed or prohibited by regulations.**

As certain of our subsidiaries are members of FINRA, we are subject to certain regulations regarding changes in control of our ownership. FINRA Rule 1017 generally provides that FINRA approval must be obtained in connection with any transaction resulting in a change in control of a member firm. FINRA defines control as ownership of 25% or more of the firm's equity by a single entity or person and would include a change in control of a parent company. Interactive Brokers (U.K.) Limited is subject to similar change in control regulations promulgated by the FSA in the United Kingdom. As a result of these regulations, our future efforts to sell shares or raise additional capital may be delayed or prohibited. We may be subject to similar restrictions in other jurisdictions in which we operate.

**We depend on our proprietary technology, and our future results may be impacted if we cannot maintain technological superiority in our industry.**

Our success in the past has largely been attributable to our sophisticated proprietary technology that has taken many years to develop. We have benefited from the fact that the type of proprietary technology equivalent to that which we employ has not been widely available to our competitors. If our technology becomes more widely available to our current or future competitors for any reason, our operating results may be adversely affected. Additionally, adoption or development of similar or more advanced technologies by our competitors may require that we devote substantial resources to the development of more advanced technology to remain competitive. The markets in which we compete are characterized by rapidly changing technology, evolving industry standards and changing trading systems, practices and techniques. Although we have been at the forefront of many of these developments in the past, we may not be able to keep up with these rapid changes in the future, develop new technology, realize a return on amounts invested in developing new technologies or remain competitive in the future.

**The loss of our key employees would materially adversely affect our business.**

Our key executives have substantial experience and have made significant contributions to our business, and our continued success is dependent upon the retention of our key management executives, as well as the services provided by our staff of trading system, technology and programming specialists and a number of other key managerial, marketing, planning, financial, technical and operations personnel. The loss of such key personnel could have a material adverse effect on our business. Growth in our business is dependent, to a large degree, on our ability to retain and attract such employees.

**We are exposed to risks associated with our international operations.**

During 2007, approximately 32% of our net revenues were generated outside the United States. We are exposed to risks and uncertainties inherent in doing business in international markets, particularly in the heavily regulated brokerage industry. Such risks and uncertainties include political, economic and financial instability; unexpected changes in regulatory requirements, tariffs and other trade barriers; exchange rate fluctuations; applicable currency controls; and difficulties in staffing, including reliance on newly hired local experts, and managing foreign operations. These risks could cause a material adverse effect on our business, financial condition or results of operations.

**We do not have fully redundant systems. System failures could harm our business.**

If our systems fail to perform, we could experience unanticipated disruptions in operations, slower response times or decreased customer service and customer satisfaction. Our ability to facilitate transactions successfully and provide high quality customer service also depends on the efficient and uninterrupted operation of our computer and communications hardware and software systems. Our service has experienced periodic system interruptions, which we believe will continue to occur from time to time. Our systems and operations also are vulnerable to damage or interruption from human error, natural disasters, power loss, telecommunication failures, break-ins, sabotage, computer viruses, intentional acts of vandalism and similar events. While we currently maintain redundant servers to provide limited service during system disruptions, we do not have fully redundant systems, and our formal disaster recovery plan does not include restoration of all services. For example, we have backup facilities to our disaster recovery site that enable us, in the case of complete failure of our main North America data center, to recover and complete all pending transactions, provide customers with access to their accounts to deposit or withdraw money, transfer positions to other brokers and manage their risk by continuing trading through the use of marketable orders. These backup services are currently limited to U.S. markets. We do not currently have separate backup facilities dedicated to our non-U.S. operations. It is our intention to provide for and progressively deploy backup facilities for our global facilities over time. In addition, we do not carry business interruption insurance to compensate for losses that could occur to the extent not required. Any system failure that causes an interruption in our service or decreases the responsiveness of our service could impair our reputation, damage our brand name and materially adversely affect our business, financial condition and results of operations.

**Failure of third-party systems on which we rely could adversely affect our business.**

We rely on certain third-party computer systems or third-party service providers, including clearing systems, exchange systems, Internet service, communications facilities and other facilities. Any interruption in these third-party services, or deterioration in their performance, could be disruptive to our business. If our arrangement with any third party is terminated, we may not be able to find an alternative source of systems support on a timely basis or on commercially reasonable terms. This could have a material adverse effect on our business, financial condition and results of operations.

**We face competition in our market making activities.**

In our market making activities, we compete with other firms who act as market makers based on our ability to provide liquidity at competitive prices and to attract order flow. Market makers range from sole proprietors with very limited resources, of which there are still a few hundred left, to a few highly sophisticated groups which have substantially greater financial and other resources, including research and development personnel, than we do. These larger and better capitalized competitors may be better able to respond to changes in the market making industry, to compete for skilled professionals, to finance acquisitions, to fund internal growth and to compete for market share generally. We may not be able to compete effectively against these firms, particularly those with greater financial resources, and our failure to do so could materially and adversely affect our business, financial condition and results of operations. As in the past, we may in the future face enhanced competition, resulting in narrowing bid/offer spreads in the marketplace that may adversely impact our financial performance. This is especially likely if others can acquire systems that enable them to predict markets or process trades more efficiently than we can.

**Our direct market access clearing and non-clearing brokerage operations face intense competition.**



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With respect to our direct market access brokerage business, the market for electronic and interactive bidding, offering and trading services in connection with equities, options and futures is relatively new, rapidly evolving and intensely competitive. We expect competition to continue and intensify in the future. Our current and potential future competition principally comes from five categories of competitors:

- prime brokers who, in an effort to satisfy the demands of their customers for hands-on electronic trading facilities, universal access to markets, smart routing, better trading tools, lower commissions and financing rates, have embarked upon building such facilities and product enhancements;
- direct market access and online options and futures firms;
- direct market access and online equity brokers;
- software development firms and vendors who create global trading networks and analytical tools and make them available to brokers; and
- traditional brokers.

In addition, we compete with financial institutions, mutual fund sponsors and other organizations, many of which provide online, direct market access or other investing services. A number of brokers provide our technology and execution services to their customers, and these brokers will become our competitors if they develop their own technology. Some of our competitors in this area have greater name recognition, longer operating histories and significantly greater financial, technical, marketing and other resources than we have and offer a wider range of services and financial products than we do. Some of our competitors may also have an ability to charge lower commissions. We cannot assure you that we will be able to compete effectively or efficiently with current or future competitors. These increasing levels of competition in the online trading industry could significantly harm this aspect of our business.

**We are subject to risks relating to litigation and potential securities laws liability.**

We are exposed to substantial risks of liability under federal and state securities laws, other federal and state laws and court decisions, as well as rules and regulations promulgated by the SEC, the CFTC, the Federal Reserve, state securities regulators, the self-regulatory organizations and foreign regulatory agencies. We are also subject to the risk of litigation and claims that may be without merit. We could incur significant legal expenses in defending ourselves against and resolving lawsuits or claims. An adverse resolution of any future lawsuits or claims against us could result in a negative perception of our company and cause the market price of our common stock to decline or otherwise have an adverse effect on our business, financial condition and/or operating results. See Part I, Item 3, Legal Proceedings and Regulatory Matters.

**Any future acquisitions may result in significant transaction expenses, integration and consolidation risks and risks associated with entering new markets, and we may be unable to profitably operate our consolidated company.**

Although our growth strategy has not focused historically on acquisitions, we may in the future engage in evaluations of potential acquisitions and new businesses. We may not have the financial resources necessary to consummate any acquisitions in the future or the ability to obtain the necessary funds on satisfactory terms. Any future acquisitions may result in significant transaction expenses and risks associated with entering new markets in addition to integration and consolidation risks. Because acquisitions historically have not been a core part of our growth strategy, we have no material experience in successfully utilizing acquisitions. We may not have sufficient management, financial and other resources to integrate any such future acquisitions or to successfully operate new businesses and we may be unable to profitably operate our expanded company.

**Internet-related issues may reduce or slow the growth in the use of our services in the future.**

Critical issues concerning the commercial use of the Internet, such as ease of access, security, privacy, reliability, cost, and quality of service, remain unresolved and may adversely impact the growth of Internet use. If Internet usage continues to increase rapidly, the Internet infrastructure may not be able to support the demands placed on it by this growth, and its performance and reliability may decline. The recent growth in Internet traffic has caused frequent periods of decreased performance, outages and delays. Although our larger institutional customers use leased data lines to communicate with us, our ability to increase the speed with which we provide services to consumers and to increase the scope and quality of such services is limited by and dependent upon the speed and reliability of our customers' access to the Internet, which is beyond our control. If periods of decreased performance, outages or delays on the Internet occur frequently or other critical issues concerning the Internet are not resolved, overall Internet usage or usage of our web based products could increase more slowly or decline, which would cause our business, results of operations and financial condition to be materially and adversely affected.

**Our computer infrastructure may be vulnerable to security breaches. Any such problems could jeopardize confidential information transmitted over the Internet, cause interruptions in our operations or cause us to have liability to third persons.**

Our computer infrastructure is potentially vulnerable to physical or electronic computer break-ins, viruses and similar disruptive problems and security breaches. Any such problems or security breaches could cause us to have liability to one or more third parties, including our customers, and disrupt our operations. A party able to circumvent our security measures could misappropriate proprietary information or customer information, jeopardize the confidential nature of information transmitted over the Internet or cause interruptions in our operations. Concerns over the security of Internet transactions and the privacy of users could also inhibit the growth of the Internet or the electronic brokerage industry in general, particularly as a means of conducting commercial transactions. To the extent that our activities involve the storage and transmission of proprietary information such as personal financial information, security breaches could expose us to a risk of financial loss, litigation and other liabilities. Our estimated annual losses from reimbursements to customers whose accounts have been negatively affected by unauthorized access have historically been less than \$500,000, but instances of unauthorized access of customer accounts have been increasing recently on an industry-wide basis. Our current insurance program may protect us against some, but not

all, of such losses. Any of these events, particularly if they (individually or in the aggregate) result in a loss of confidence in our company or electronic brokerage firms in general, could have a material adverse effect on our business, results of operations and financial condition.

**We may not be able to protect our intellectual property rights or may be prevented from using intellectual property necessary for our business.**

We rely primarily on trade secret, contract, copyright, patent and trademark laws to protect our proprietary technology. It is possible that third parties may copy or otherwise obtain and use our proprietary technology without authorization or otherwise infringe on our rights. We may also face claims of infringement that could interfere with our ability to use technology that is material to our business operations.

In the future, we may have to rely on litigation to enforce our intellectual property rights, protect our trade secrets, determine the validity and scope of the proprietary rights of others or defend against claims of infringement or invalidity. Any such litigation, whether successful or unsuccessful, could result in substantial costs and the diversion of resources and the attention of management, any of which could negatively affect our business.

**Our future success will depend on our response to the demand for new services, products and technologies.**

The demand for market making services, particularly services that rely on electronic communications gateways, is characterized by:

- rapid technological change;
- changing customer demands;
- the need to enhance existing services and products or introduce new services and products; and
- evolving industry standards.

New services, products and technologies may render our existing services, products and technologies less competitive. Our future success will depend, in part, on our ability to respond to the demand for new services, products and technologies on a timely and cost-effective basis and to adapt to technological advancements and changing standards to address the increasingly sophisticated requirements and varied needs of our customers and prospective customers. We cannot assure you that we will be successful in developing, introducing or marketing new services, products and technologies. In addition, we may experience difficulties that could delay or prevent the successful development, introduction or marketing of these services and products, and our new service and product enhancements may not achieve market acceptance. Any failure on

our part to anticipate or respond adequately to technological advancements, customer requirements or changing industry standards, or any significant delays in the development, introduction or availability of new services, products or enhancements could have a material adverse effect on our business, financial condition and operating results.

**The expansion of our market making activities into forex-based products entails significant risk, and unforeseen events in such business could have an adverse effect on our business, financial condition and results of operation.**

We recently entered into market making for forex-based products. This includes the trading of cash in foreign currencies with banks and exchange-listed futures, options on futures, options on cash deposits and currency-based ETFs. All of the risks that pertain to our market making activities in equity-based products also apply to our forex-based market making. In addition, we have very little experience in the forex markets and even though we are easing into this activity very slowly, any kind of unexpected event can occur that can result in great financial loss.

**We are subject to counterparty risk whereby defaults by parties with whom we do business can have an adverse effect on our business, financial condition and/or operating results.**

In our electronic brokerage business, our customer margin credit exposure is to a great extent mitigated by our policy of automatically evaluating each account throughout the trading day and closing out positions automatically for accounts that are found to be under-margined. While this methodology is effective in most situations, it may not be effective in situations in which no liquid market exists for the relevant securities or commodities or in which, for any reason, automatic liquidation for certain accounts has been disabled. If no liquid market exists or automatic liquidation has been disabled, we are subject to risks inherent in extending credit, especially during periods of rapidly declining markets. Any loss or expense incurred due to defaults

by our customers in failing to repay margin loans or to maintain adequate collateral for these loans would cause harm to our business.

## ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

## ITEM 2. PROPERTIES

Our headquarters are located in Greenwich, Connecticut. We lease approximately 70,000 square feet for our headquarters, which lease expires in the year 2014. We also lease facilities in 11 other locations throughout parts of the world where we conduct our operations, which are located in Chicago, IL, expiring in 2017; Lake Forest, CA, expiring in 2012; Zug, Switzerland, expiring in 2008; Hong Kong, expiring in 2009; London, expiring in 2015; Sydney, Australia, expiring in 2009; Montreal, Canada, expiring in 2009; Budapest, Hungary, expiring in 2008; St. Petersburg, Russia, expiring in 2008; Tallinn, Estonia, expiring in 2009; and Washington D.C., currently month to month. The lease with respect to the Washington D.C. location is expected to be renewed on a long-term basis. Unless otherwise indicated, all properties are used by both our market making and electronic brokerage segments. We believe our present facilities, together with our current options to extend lease terms, are adequate for our current needs.

The following table sets forth certain information with respect to our leased facilities:

Location	Space	Principal Usage
Greenwich, CT	70,027 sq. feet	Headquarters and data center
Chicago, IL	62,446 sq. feet	Office space and data center
Lake Forest, CA	22,168 sq. feet	Office space
Washington, D.C.	416 sq. feet	Office space
Montreal, Canada	4,668 sq. feet	Office space
London, United Kingdom	2,283 sq. feet	Office space and data center
Zug, Switzerland	19,590 sq. feet	Office space and data center
Sydney, Australia	1,313 sq. feet	Office space
Hong Kong	5,820 sq. feet	Office space and data center
Budapest, Hungary	970 sq. feet	Office space
St. Petersburg, Russia	2,552 sq. feet	Office space
Tallinn, Estonia	3,635 sq. feet	Office space

### ITEM 3. LEGAL PROCEEDINGS AND REGULATORY MATTERS

The securities industry is highly regulated and many aspects of our business involve substantial risk of liability. In recent years, there has been an increasing incidence of litigation involving the securities brokerage industry, including class action suits that generally seek substantial damages, including in some cases punitive damages. Compliance and trading problems that are reported to federal, state and provincial securities regulators, securities exchanges or other self-regulatory organizations by dissatisfied customers are investigated by such regulatory bodies, and, if pursued by such regulatory body or such customers, may rise to the level of arbitration or disciplinary action. We are also subject to periodic regulatory audits and inspections.

Like other securities brokerage firms, we have been named as a defendant in lawsuits and from time to time we have been threatened with, or named as a defendant in, arbitrations and administrative proceedings. The following contains information regarding potentially material pending litigation and pending regulatory inquiries. We may in the future become involved in additional litigation or regulatory proceedings in the ordinary course of our business, including litigation or regulatory proceedings that could be material to our business.

#### *Potentially Material Pending Litigation*

**Nayab Class Action** - On January 14, 2008, we were named as a defendant in a purported shareholder class action lawsuit alleging that we violated Sections 11 and 12(a)(2) of the Securities Act by issuing a registration statement and prospectus in connection with the IPO that contained false and misleading statements or omitted material facts concerning losses suffered by us in connection with trading in options of Altana AG on the German stock market. A lead plaintiff was appointed on March 14, 2008, and an amended complaint was served on or about March 24, 2008. The amended complaint adds our founder and chief executive officer, Thomas Peterffy, as a defendant. The amended complaint asserts claims against us under Sections 11 and 12(a)(2) of the Securities Act, and against Mr. Peterffy under Sections 11 and 15 of the Securities Act, based on the allegations that the registration statement failed to disclose \$25 million in trading losses in the first quarter of 2007 that resulted from unusually high volume in advance of certain corporate announcements as well as the alleged failure to disclose the losses in trading options of Altana AG. Defendants believe the action is without merit and intend to defend themselves vigorously. No assurance can be given that the outcome of the action will be favorable to us or that an adverse outcome would not be material.

**Kevin Steele Matter** - National Futures Association Complaint Against Interactive Brokers; Commodity Futures Trading Commission Inquiry; and Related Threatened Civil Litigation.

On May 25, 2005, the U.S. Commodity Futures Trading Commission filed a civil action, in the United States District Court for the Northern District of Illinois Eastern Division, against Kevin Steele, a former customer of Interactive Brokers LLC, for fraud and for failure to register as a commodity pool operator. IB LLC was not a party to this action. The CFTC alleged that Mr. Steele had solicited approximately \$7.5 million in funds from more than 200 investors and was operating an unregistered commodity investment pool in an ordinary, individual investment account held in Steele's name at IB LLC. The CFTC alleged in its complaint against Mr. Steele that Mr. Steele had misrepresented the nature of his account with IB LLC when he opened the account and had made repeated misrepresentations to IB LLC personnel regarding the nature of the account. The IB LLC account held in Mr. Steele's name suffered substantial losses.

On July 17, 2007, IB LLC agreed to settle regulatory charges brought by the CFTC alleging that IB LLC failed to supervise diligently its compliance employees' handling of Kevin Steele's commodity trading account. Without admitting or denying liability, IB LLC agreed to remit \$175,000 in commissions it earned from Steele's account to the Clerk of the Provincial Court of British Columbia for distribution to Mr. Steele's

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clients. On May 29, 2007, IB LLC had agreed to settle a parallel case brought by the National Futures Association regarding IB LLC's handling of Mr. Steele's account. Without admitting or denying liability, IB LLC agreed to pay a \$125,000 fine and volunteered to pay up to \$325,000 into a restitution fund for the benefit of Steele's clients.

On November 9, 2007, IB LLC was named as a defendant in a complaint filed in the Circuit Court of Cook County, Illinois by a number of Mr. Steele's clients. The complaint seeks compensatory and punitive damages for plaintiffs alleged losses and sets forth various causes of action alleging that IB LLC employees were negligent and/or intentionally aided and abetted Mr. Steele's fraud. The case has been transferred to the United State District Court for the Northern District of Illinois. We intend to defend this action vigorously. No assurance can be given that the outcome of the action will be favorable to us or that an adverse outcome would not be material.

### *Pending Regulatory Inquiries*

IB's businesses are heavily regulated by state, federal and foreign regulatory agencies as well as numerous exchanges and self-regulatory organizations. IB's various companies are regulated under state securities laws, U.S. and foreign securities, commodities and financial services laws and under the rules of more than 25 exchanges and SROs. In the current era of



dramatically heightened regulatory scrutiny of financial institutions, IB has incurred sharply increased compliance costs, along with the industry as a whole. Increased regulation also creates increased barriers to entry, however, and IB has built human and automated infrastructure to handle increased regulatory scrutiny, which provides IB an advantage over potential newcomers to the business.

IB receives hundreds of regulatory inquiries each year in addition to being subject to frequent regulatory examinations. The great majority of these inquiries do not lead to fines or any further action against IB. Most often, regulators do not inform IB as to when and if an inquiry has been concluded. IB is currently the subject of regulatory inquiries regarding topics such as order audit trail reporting, trade reporting, short sales, market making obligations, anti-money laundering, business continuity planning and other topics of recent regulatory interest. There are no formal regulatory enforcement actions pending against IB's regulated entities, except as specifically disclosed herein and IB is unaware of any specific regulatory matter that, itself, or together with similar regulatory matters, would have a material impact on IB's financial condition. Nonetheless, in the current climate, we expect to pay significant regulatory fines on various topics on an ongoing basis, as other regulated financial services businesses do. The amount of any fines, and when and if they will be incurred, is impossible to predict given the nature of the regulatory process.

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

No matters were submitted to a vote of stockholders during the fourth quarter of 2007.

**PART II****ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY; RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES****Common Stock Information**

Our common stock began trading on the NASDAQ Global Select Market, under the symbol IBKR, on May 4, 2007. Prior to that date there was no established public market for our common stock. The following table shows the high and low sale prices for the periods indicated for the Company's common stock, as reported by Bloomberg.

	Sales Price			
		High		Low
<b>2007</b>				
May 4, 2007 through June 30, 2007	\$	34.25	\$	24.54
Third Quarter	\$	27.99	\$	21.00
Fourth Quarter	\$	33.36	\$	26.11
<b>2008</b>				
January 1, 2008 through March 26, 2008	\$	35.93	\$	20.25

The closing price of our common stock on March 26, 2008, as reported by Bloomberg, was \$26.87 per share.

**Holders**

On March 26, 2008, there were two holders of record, which does not reflect those shares held beneficially or those shares held in street name. Accordingly, the number of beneficial owners of our common stock exceeds this number.

**Dividends and Other Restrictions**

No dividends have been paid on our common stock. We have made no determination as to whether to pay any dividends on our common stock in the foreseeable future. Restrictions contained in our loan agreements limit our ability to pay dividends on our common stock. See Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources.

**Securities Authorized for Issuance under Equity Compensation Plans**

Refer to Part III, Item 12 of this Annual Report on Form 10-K for information regarding shares authorized for issuance under the Company's equity compensation plans.

#### **Stockholder Return Performance Graph**

The following graph compares cumulative total stockholder return on our common stock, the S&P 500 Index and the NASDAQ Financial-100 Index from May 4, 2007 to December 31, 2007. The comparison assumes \$100 was invested on May 4, 2007 in our common stock and each of the foregoing indices and assumes reinvestment of dividends before consideration of income taxes. We have paid no dividends on our common stock.

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- (1) The NASDAQ Financial-100 Index includes 100 of the largest domestic and international financial securities listed on The NASDAQ Stock Market based on market capitalization. They include companies classified according to the Industry Classification Benchmark as Financials, which are included within the NASDAQ Bank, NASDAQ Insurance, and NASDAQ Other Finance Indexes.

The stock performance depicted in the graph above is not to be relied upon as indicative of future performance. The stock performance graph shall not be deemed to be incorporated by reference into any of our filings under the Securities Act or the Exchange Act, except to the extent that we specifically incorporate the same by reference, nor shall it be deemed to be soliciting material or to be filed with the SEC or subject to Regulations 14A or 14C or to the liabilities of Section 18 of the Exchange Act.

## **ITEM 6. SELECTED FINANCIAL DATA**

The following tables set forth selected historical consolidated financial and other data of IBG LLC as of and for the years ended December 31, 2003, 2004, 2005 and 2006. The historical financial and other data of IBG, Inc. is presented for the year ended, and as of, December 31, 2007.

On May 3, 2007, IBG, Inc. priced its initial public offering of shares of Common Stock. In connection with the IPO, IBG, Inc. purchased 10.0% of the membership interests in IBG LLC, became the sole member for IBG LLC and began to consolidate IBG LLC's financial results into its financial statements. The consolidated statement of income data for the periods presented reflect the consolidated operating results of IBG LLC and its subsidiaries prior to May 4, 2007 and reflect the consolidated operating results of IBG, Inc. and its subsidiaries from May 4, 2007 through December 31, 2007. This represents 100% of the earnings prior to our IPO and actual earnings attributable to IBG, Inc. following the IPO. The consolidated statement of financial condition data as of December 31, 2006 reflects the audited condensed consolidated statement of financial condition of IBG LLC and its subsidiaries, and the consolidated statement of financial condition data as of December 31, 2007 reflects the audited consolidated statement of financial condition of IBG and its subsidiaries.

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For all periods presented, IBG LLC has operated in the United States as a limited liability company that was treated as a partnership for U.S. federal income tax purposes. As a result, IBG LLC has not been subject to U.S. federal income taxes on its income; and historical results of operations prior to the IPO do not include Delaware franchise tax, minority interest, and federal and certain other state income taxes. Such items are included in periods subsequent to May 3, 2007.

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The following selected historical consolidated financial and other data should be read in conjunction with Management's Discussion and Analysis of Financial Condition and Results of Operations, and the audited consolidated financial statements and related notes included elsewhere in this Annual Report on Form 10-K.

	Year Ended December 31,					
	2007	2006	2005	2004	2003	
	(in millions, except per share data)					
<b>Consolidated Statement of Income Data:</b>						
<b>Revenues:</b>						
Trading gains	\$ 888.1	\$ 805.1	\$ 640.4	\$ 423.2	\$ 488.4	
Commissions and execution fees	261.1	174.4	132.1	112.0	93.0	
Interest income	782.2	672.1	273.2	79.5	59.3	
Other income	92.0	85.2	53.4	7.0	10.4	
Total revenues	2,023.4	1,736.8	1,099.1	621.7	651.1	
Interest expense	555.2	484.4	170.0	57.7	46.1	
Total net revenues	1,468.2	1,252.4	929.1	564.0	605.0	
<b>Non-interest expenses:</b>						
Execution and clearing	335.7	313.3	215.0	152.5	127.3	
Employee compensation and benefits	118.8	110.1	90.2	79.1	73.5	
Occupancy, depreciation and amortization	26.5	22.7	20.4	16.4	13.7	
Communications	14.9	12.6	10.4	9.0	7.5	
General and administrative	40.7	32.1	23.8	17.0	18.2	
Total non-interest expenses	536.6	490.8	359.8	274.0	240.2	
<b>Income before income taxes and minority interest</b>						
	\$ 931.6	\$ 761.6	\$ 569.3	\$ 290.0	\$ 364.8	

**ACTUAL:** The following actual information relating to IBG LLC and IBG, Inc. is presented in conformity with accounting principles generally accepted in the United States of America ( U.S. GAAP ). See Note 4 to the consolidated financial statements in Part II, Item 8 of this Annual Report on Form 10-K.

	Actual	Actual	Actual	Actual	Actual
<b>Income tax expense</b>	63.0	27.4	33.8	19.6	19.9
<b>Minority interest</b>	(568.1)	0.0	0.0	0.0	0.0
<b>Net income</b>	<b>\$ 300.5</b>	<b>\$ 734.2</b>	<b>\$ 535.5</b>	<b>\$ 270.4</b>	<b>\$ 344.9</b>
<b>Earnings per share</b>					
Basic	\$ 1.20				
Diluted	\$ 1.16				
<b>Weighted average common shares outstanding</b>					
Basic	40,153,606				
Diluted	401,327,844				

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**PRO FORMA:** Certain pro forma information with respect to the periods described above is presented below. Information for the years ended December 31, 2007 and 2006 is presented as if we had been a public company for the entire period. For a full reconciliation between U.S. GAAP and pro forma presentations, see Part II, Item 8 Financial Statements and Supplementary Data, of this Annual Report on Form 10-K.

	Pro Forma (1)	Pro Forma (1)
<b>Income tax expense (3),(4)</b>	71.2	52.3
<b>Minority interest (5)</b>	(794.4)	(658.5)
<b>Net income (2)(3)</b>	\$ 66.0	\$ 50.6
<b>Earnings per share (6)</b>		
Basic	\$ 1.64	\$ 1.26
Diluted	\$ 1.59	\$ 1.22
<b>Weighted average common shares outstanding</b>		
Basic	40,142,474	40,142,196
Diluted	401,317,190	401,317,851

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(1) Pro forma earnings per share calculations (i) include the restricted shares of Common Stock that have been issued or are to be issued pursuant to the 2007 ROI Unit Stock Plan and issuance of restricted shares of Common Stock pursuant to the 2007 Stock Incentive Plan, but (ii) exclude shares of Common Stock that are issuable in the future pursuant to the 2007 Stock Incentive Plan.

(2) Adjusted for to Delaware franchise taxes that will be payable, estimated at \$0.165 million annually for the year ended December 31, 2006. Delaware franchise is already reflected in the actual amounts for 2007.

(3) The income tax adjustments of \$25.2 million and \$24.9 million for the years ended December 31, 2007 and 2006, respectively, represent the sum of the current income tax expense adjustment for this period and the deferred income tax expense adjustment for this period (referenced in footnote 4 below).

(4) Additional deferred income tax expense will be \$25.4 million annually, resulting from the straight-line amortization of the deferred tax asset of \$380.8 million arising from the acquisition of the 10.0% member interest in IBG LLC (see footnote 3 above) over 15 years.

(5) Adjusted for the approximate 89.7% interest in IBG LLC that IBG Holdings LLC holds arising from the Recapitalization and the IPO, including initial share issuances pursuant to employee equity incentive plans (see footnote 1 above). The adjustments are equal to approximately 89.7% of total net income for the periods presented.

(6) Basic pro forma earnings per share are calculated based on 40.1 million shares of Common Stock and 100 shares of Class B common stock being outstanding, including 0.1 million shares issued pursuant to the 2007 Stock Incentive Plan. Diluted earnings per share are calculated based on an assumed purchase by us of all remaining IBG LLC membership interests held by IBG Holdings LLC and the issuance by us of 360 million shares of Common Stock, resulting in a total of 401.3 million shares deemed outstanding as of the beginning of each period. There is no impact on earnings per share for such purchase and issuance because 100% of net income before minority interest would be available to common stockholders as IBG Holdings LLC would no longer hold a minority interest, and the full difference between the book and tax basis of IBG LLC's assets would also be available for reducing income tax expense. Therefore, the net income utilized to calculate diluted earnings per share would be \$640 million and \$491 million for the years ended December 31, 2007 and 2006, respectively.

Diluted weighted average common shares outstanding of 401.3 million shares also includes 1.2 million shares of Common Stock to be issued pursuant to the 2007 ROI Unit Stock Plan. Shares of Common Stock to be issued in connection with the 2007 Stock Incentive Plan have been excluded from diluted weighted average common shares outstanding because such shares are non-dilutive.



	2007	2006	Year Ended December 31, 2005 (in millions)	2004	2003
<b>Cash, cash equivalents and short-term investments(1)</b>	\$ 5,789.3	\$ 3,878.8	\$ 2,741.9	\$ 1,844.5	\$ 1,390.8
<b>Total assets (2)(3)</b>	34,542.1	32,080.5	24,292.2	15,060.4	10,811.6
<b>Total liabilities, excluding redeemable members interests and minority interest (3)</b>	30,968.3	29,278.6	22,118.0	13,261.9	9,255.1
<b>Redeemable members interests (4)</b>		2,801.9	2,174.2	1,798.5	1,556.5
<b>Minority interest</b>	3,165.4				
<b>Stockholders equity</b>	408.4				

(1) Cash, cash equivalents and short-term investments represent cash and cash equivalents, cash and securities segregated under federal and other regulations, short-term investments, U.S. and foreign government obligations and securities purchased under agreements to resell.

(2) At December 31, 2007, approximately \$34.02 billion, or 98.5%, of total assets were considered to be liquid and consisted primarily of marketable securities.

(3) As a result of our acquisition from IBG Holdings LLC of IBG LLC membership interests, we received not only an interest in IBG LLC but also, for federal income tax purposes, a step-up to the federal income tax basis of the assets of IBG LLC underlying such additional interest. This increased tax basis is expected to result in tax benefits as a result of increased amortization deductions. We will retain 15% of the tax benefits actually realized. As set forth in the tax receivable agreement we entered into with IBG Holdings LLC, we will pay the remaining 85% of the realized tax benefits relating to any applicable tax year to IBG Holdings LLC. At December 31, 2007 the deferred tax asset was \$369.7 million and the corresponding payable to IBG Holdings LLC was \$323.7 million.

(4) Redeemable members interests represent member interests in IBG LLC that are entitled to share in the consolidated profits and losses of IBG LLC. IBG LLC is a private entity owned by the members holding such member interests. As a private company, such amounts were classified historically as members capital. For presentation purposes, IBG LLC has applied guidance within EITF D-98 which requires securities or equity interests of a company whose redemption is outside the control of the company to be classified outside of permanent capital in the statement of financial condition. The member interests in IBG LLC can be redeemed by the members at book value at their option. Because this redemption right is deemed to be outside the control of the company, IBG LLC has reclassified all members capital outside of permanent capital to redeemable members interests in the consolidated statement of financial condition. Such reclassification was made to comply with EITF D-98 and the requirements of Regulation S-X of the Exchange Act. Redeemable members interests include accumulated other comprehensive income.

## ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion should be read in conjunction with the audited consolidated financial statements and the related notes in Item 8, included elsewhere in this report. In addition to historical information, the following discussion also contains forward-looking statements that include risks and uncertainties. Our actual results may differ materially from those anticipated in these forward-looking statements as a result of certain factors, including those set forth under the heading "Risk Factors" in Part I, Item 1A of this Annual Report on Form 10-K.

### Business Overview

We are an automated global electronic market maker and broker specializing in routing orders and executing and processing trades in securities, futures and foreign exchange instruments on more than 70 electronic exchanges and trading venues around the world. Since our inception in 1977, we have focused on developing proprietary software to automate broker-dealer functions. The advent of electronic exchanges in the last 17 years has provided us with the opportunity to integrate our software with an increasing number of exchanges and trading venues into one automatically functioning, computerized platform that requires minimal human intervention.

In connection with the IPO priced on May 3, 2007, IBG, Inc. purchased 10.0% of the membership interests in IBG LLC, became the sole managing member of IBG LLC and began to consolidate IBG LLC's financial results into its financial statements.

### *Overview of Recapitalization Transactions and Our Organizational Structure*

Prior to the IPO, we had historically conducted our business through a limited liability company structure. Our primary assets are our ownership of approximately 10.3% of the membership interests of IBG LLC, the current holding company for our businesses, and our controlling interest and related contractual rights as the sole managing member of IBG LLC. The remaining approximately 89.7% of IBG LLC membership interests are held by IBG Holdings LLC, a holding company is owned by our founder, Chairman and Chief Executive Officer, Thomas Peterffy, and his affiliates, management and other employees of IBG LLC, and certain other members. The IBG LLC membership interests held by IBG Holdings LLC will be subject to purchase by us over time in connection with offerings by us of shares of our common stock.

### *Business Segments*

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

- *Market Making.* We conduct our market making business through our TH subsidiaries. As one of the largest market makers on many of the world's leading exchanges, we provide liquidity by offering competitively tight bid/offer spreads over a broad base of approximately 420,000 tradable, exchange-listed products. As principal, we commit our own capital and derive revenues or incur losses from the difference between the price paid when securities are bought and the price received when those securities are sold. Because we provide continuous bid

and offer quotations and we are continuously both buying and selling quoted securities, we may have either a long or a short position in a particular product at a given point in time. Our entire portfolio is evaluated each second and continuously rebalanced throughout the trading day, thus minimizing the risk of our portfolio at all times. This real-time rebalancing of our portfolio, together with our real-time proprietary risk management system, enables us to curtail risk and to be profitable in both up-market and down-market scenarios.

- *Electronic Brokerage.* We conduct our electronic brokerage business through our IB subsidiaries. As an electronic broker, we execute, clear and settle trades globally for both institutional and individual customers. Capitalizing on the technology originally developed for our market making business, IB's systems provide our customers with the capability to monitor multiple markets around the world simultaneously and to execute trades electronically in these markets at a low cost, in multiple products and currencies from a single trading account. We offer our customers access to all classes of tradable, exchange-listed products, including stocks, bonds, options, futures and forex, traded on more than 60 exchanges and market centers and in 16 countries around the world seamlessly.

## Financial Overview

Diluted earnings per share were \$1.16 for the period from May 4, 2007 through December 31, 2007. The calculation of diluted earnings per share is detailed in Note 4, Initial Public Offering and Recapitalization, to the audited consolidated financial statements, in Part II, Item 8 of this Annual Report on Form 10-K. Pro forma diluted earnings per share, calculated as if the company had been public for the duration of each period, were \$1.59 and \$1.22 for the years ended December 31, 2007 and 2006, respectively. The calculation of pro forma diluted earnings per share is detailed in Part II, Item 6, Selected Financial Data of this Annual Report on Form 10-K.

For the year ended December 31, 2007, our net revenues were \$1,468.2 million and income before income taxes and minority interest was \$931.6 million, compared to net revenues of \$1,252.4 million and income before income taxes of \$761.6 million for 2006. Trading gains increased 10% in 2007, compared to the same period last year and commissions and execution fees grew by 50% for the same time period, while net interest income grew 21%. Our pre-tax margin for the year ended December 31, 2007 was 63%, compared to 61% for 2006.

During the year ended December 31, 2007, income before income taxes in our market making segment increased 9%, compared with the same period in 2006. A moderate increase in trading gains was driven by a robust trading environment in the third and fourth quarters, when volume and volatility in the markets presented our automated trading system with more opportunities to trade; although, this was offset, in part, by heavy options activity in advance of certain corporate announcements in the first two quarters of 2007. Pre-tax margin was relatively steady at 70% in 2007 compared to 69% in 2006. Our strong capital position, which allows us to maintain more than \$1 billion of excess regulatory capital, together with committed standby financing facilities, allowed us to make markets continuously during the period of constrained liquidity in the third quarter.

During the year ended December 31, 2007, income before income taxes in our electronic brokerage segment grew 101% compared to the same period in 2006, reflecting higher revenues from commissions and execution fees and growth in net interest income. Pre-tax margin increased from 33% to 47% in the same time periods. The increase in commissions and execution fees was related to strong growth in transaction volume and customer accounts. Total Daily Average Revenue Trades ( DARTs ) for cleared and execution-only customers increased 35% to 265,000 during the year ended December 31, 2007, compared to 196,000 during the year ended December 31, 2006. The increase in net interest was driven by the growth in customer balances and fully-secured margin loans.

Market making, by its nature, does not produce predictable earnings. Our results in any given period may be materially affected by volumes in the global financial markets, the level of competition and other factors. Electronic brokerage is more predictable, but it is dependent on customer activity, growth in customer accounts and assets, interest rates and other factors. For a further discussion of the factors, that may affect our future operating results, please see the description of risk factors in Part I, Item 1A of this Annual Report on Form 10-K.

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The following two tables present net revenues and income before income taxes for each of our business segments for the periods indicated.

Net revenues of each of our business segments and our total net revenues are summarized below:

	2007	Year Ended December 31, 2006 (in millions)	2005
Market making	\$ 1,031.2	\$ 954.7	\$ 738.5
Electronic brokerage	425.2	298.4	185.3
Corporate (1)	11.8	(0.7)	5.3
<b>Total</b>	<b>\$ 1,468.2</b>	<b>\$ 1,252.4</b>	<b>\$ 929.1</b>

(1) Corporate includes corporate related activities as well as inter-segment eliminations.

Income before income taxes of each of our business segments and our total income before income taxes are summarized below:

	2007	Year Ended December 31, 2006 (in millions)	2005
Market making	\$ 719.8	\$ 662.8	\$ 505.2
Electronic brokerage	197.9	98.6	59.3
Corporate (1)	13.9	0.2	4.8
<b>Total</b>	<b>\$ 931.6</b>	<b>\$ 761.6</b>	<b>\$ 569.3</b>

(1) Corporate includes corporate related activities as well as inter-segment eliminations.

## Revenue

### Trading Gains

Our revenue base is comprised largely of trading gains generated in the normal course of market making. Trading revenues are, in general, proportional to the trading activity in the markets. Our revenue base is highly diversified and comprised of millions of relatively small individual trades of various financial products traded on electronic exchanges, primarily stocks, options and futures. Trading gains accounted for approximately 44%, 46% and 58% of our total revenues for the years ended December 31, 2007, 2006 and 2005, respectively. Trading gains also include translation gains and losses on cash and positions in foreign currency held primarily by our foreign market making subsidiaries as well as revenues from net dividends. Market making activities require us to hold a substantial inventory of equity

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securities. We derive significant revenues in the form of dividend income from these equity securities. This dividend income is largely offset by dividend expense incurred when we make significant payments in lieu of dividends on short positions in securities in our portfolio. Dividend income and expense arise from holding market making positions over dates on which dividends are paid to shareholders of record. When a stock pays a dividend, its market price is generally adjusted downward to reflect the value paid to the shareholders of record, which will not be received by those who purchase the stock after the dividend date. Hence, the apparent gains and losses due to these price changes must be taken together with the dividends paid and received, respectively, in order to accurately reflect the results of our market making operations.

Our trading gains are geographically diversified. In 2007, 2006 and 2005, we generated 41%, 25% and 40%, respectively, of our trading gains from operations conducted internationally. The increase in U.S. trading gains, as a proportion of total trading gains, during the year ended December 31, 2006, as compared to the prior year period, was primarily due to a 58% increase in U.S. trading gains, accompanied by level trading gains and foreign currency translation losses of our European market making subsidiary.

*Commissions and Execution Fees*

We earn commissions and execution fees from our cleared customers for whom we act as executing and clearing brokers and from our non-cleared customers for whom we act as an executing broker only. During 2005, we introduced a new commission structure that allows customers to choose between an all-inclusive bundled rate or an unbundled rate that has lower commissions for high volume customers. For unbundled commissions, we charge regulatory and exchange fees, at our cost, separately from our commissions, adding transparency to our fee structure. Commissions and execution fees accounted for 13%, 10% and 12% of our total revenues for the years ended December 31, 2007, 2006 and 2005, respectively.

*Interest Income and Interest Expense*

We earn interest on customer funds segregated in safekeeping accounts; on customer borrowings on margin, secured by marketable securities these customers hold with us; from our investment in government treasury securities; from borrowing securities in the general course of our market making and brokerage activities, and on bank balances. Interest income accounted for 39%, 39% and 25% of total revenues for the years ended December 31, 2007, 2006 and 2005, respectively. Interest income is partially offset by interest expense.

We pay interest on cash balances customers hold with us; for cash received from lending securities in the general course of our market making and brokerage activities; and on our borrowings. Interest expense was 27%, 28% and 15% of total revenues for the years ended December 31, 2007, 2006 and 2005, respectively.

In 2005, we began to automate and integrate our securities lending system with our trading system. As a result, we have been able to expand our securities lending activity and our net interest income (interest income less interest expense). Our net interest income accounted for approximately 15%, 15% and 11% of our total net revenues for the years ended December 31, 2007, 2006 and 2005, respectively.

*Other Income*

Other income consists primarily of payment for order flow income, mark-to-market gains on non-traded securities (primarily investments in exchanges) and market data fee income. Our other income accounted for approximately 5% of our total revenues for each of the years ended December 31, 2007, 2006 and 2005.

*Costs and Expenses*

*Execution and Clearing Expenses*

Our largest single expense category is execution and clearing expenses, which includes the costs of executing and clearing our market making and electronic brokerage trades, as well as other direct expenses, including payment for order flow, regulatory fees and market data fees. Execution fees are paid primarily to electronic exchanges and market centers on which we trade. Clearing fees are paid to clearing houses and clearing agents. Payments for order flow are made as part of exchange-mandated programs and to otherwise attract order volume to our system. Market data fees are fees that we must pay to third parties to receive streaming quotes and related information.

*Employee Compensation and Benefits*

Employee compensation and benefits includes salaries, bonuses, group insurance, contributions to benefit programs and other related employee costs.

*Occupancy, Depreciation and Amortization*

Occupancy expense consists primarily of rental payments on office leases and related occupancy costs, such as utilities. Depreciation and amortization expense results from the depreciation of fixed assets such as computing and communications hardware as well as amortization of leasehold improvements and capitalized in-house software development.

*Communications*

Communications expense consists primarily of the cost of voice and data telecommunications lines supporting our business including connectivity to exchanges around the world.



*General and Administrative*

Expenses in this category are primarily incurred for professional services, such as legal and audit work, and other operating expenses such as advertising and exchange membership lease expenses. As a public company since May 4, 2007, we are incurring additional costs for external services such as legal, accounting and auditing.

In addition, as a public company, we are subject to the requirements of the Sarbanes-Oxley Act of 2002, which we expect will require us to incur significant expenditures in the near term to develop systems and hire and train personnel to comply with these requirements.

*Income Tax Expense*

Historically, our business was operated through a limited liability company that was not subject to U.S. federal and certain state income taxes; our income tax expense consisted primarily of corporate subsidiary taxes, and our net income did not reflect cash distributions to IBG LLC's members to pay their taxes related to their proportionate shares of our net income. Those distributions reduced IBG LLC's members' capital. After the IPO, we became subject to taxes applicable to C corporations. As a corporation, we are required to pay U.S. federal, state and local income taxes on our taxable income, which is proportional to the percentage of IBG LLC owned by IBG. Our subsidiaries will continue to be subject to income tax in the respective jurisdictions in which they operate.

**Minority Interest**

We are the sole managing member of IBG LLC and, as such, operate and control all of the business and affairs of IBG LLC and its subsidiaries and consolidate IBG LLC's financial results into our financial statements. We hold approximately 10.3% ownership interest in IBG LLC. IBG Holdings LLC is owned by the original members of IBG LLC and holds approximately 89.7% ownership interest in IBG LLC. We reflect IBG Holdings LLC's ownership as a minority interest in our statement of financial condition and statement of income. Our historical results are those of IBG LLC, as our predecessor company. As a result, our net income, after excluding IBG Holdings LLC's minority interest, represents approximately 10.3% of IBG LLC's net income and similarly, outstanding shares of our common stock represent approximately 10.3% of the outstanding membership interests of IBG LLC.

**Certain Trends and Uncertainties**

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

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

See **Risk Factors** in Part I, Item 1A of this Annual Report on Form 10-K for a discussion of other risks that may affect our financial condition and results of operations.

## Business Environment

In the year ended December 31, 2007, we observed high volume combined with high volatility in the equity and derivatives markets brought about by turmoil in the credit markets. Liquidity tightening that began in the third quarter presented a challenging environment for broker-dealers. One side effect, a divergence between the U.S. dollar LIBOR and Fed Funds interest rates, created challenges for brokers in managing their interest earned and interest paid to customers.

According to data compiled by the FIA and based on data received from exchanges worldwide, volumes in exchange-listed equity-based options increased by approximately 36% globally and 41% in the U.S. during the year ended December 31, 2007, compared to the same period in 2006. This is a continuation of a trend we have observed over the past seven years, and we believe that as the equity culture spreads around the world this trend is likely to continue. We have also observed a rise in certain types of options activity that are driven by non-trading strategies. One such strategy results in spikes in trading volume prior to ex-dividend dates that would appear to be overstating the exchange-reported volumes, especially in the United States. Such activity does not represent trades with which other market participants, including market makers and customers, can interact. We cannot estimate the impact this activity has on overall trading volumes.

In February 2007, the SEC introduced a penny pricing pilot program for 13 classes of options. Options in the pilot program trade in minimum price increments of one cent, rather than the five and ten cent increments quoted in other options classes. Overall, the results of the pilot were favorable to our business, which we believe is a reflection of our ability to compete at narrower bid/offer spreads. The penny pricing pilot has been considered a success by the SEC. On September 28, 2007, the pilot grew to cover classes representing approximately 35% of industry trading volume with the addition of 22 option classes. The additional names are quoted in pennies for options under \$3.00 and nickels for options above \$3.00. By March 28, 2008, penny pricing will be extended to 63 options classes that account for over 50% of U.S. options volume.

According to data compiled by the FIA and based on data received from exchanges worldwide, in 2007 we accounted for approximately 14.1% of the exchange-listed equity options volume traded worldwide and approximately 18.3% of exchange-listed equity options volume traded in the U.S. This compares to approximately 15.9% of the exchange-listed equity options volume traded worldwide and approximately 21.4% of the exchange-listed equity options volume traded in the U.S. in 2006. In addition to an increase in volume driven by non-trading strategies described above, the decline in our market share can be attributed to several strategic changes we made in market making. Early in the year, we reduced the amount of liquidity we provide as a defense against traders who front run corporate news based on insider information. Late in the year, we took similar action out of our concern for the heightened risk of a clearing member default. We believe these were prudent actions, consistent with our risk-averse philosophy.

## Results of Operations

The tables in the period comparisons below provide summaries of our revenues and expenses. The period-to-period comparisons below of financial results are not necessarily indicative of future results. Historical results of operations are reported as a limited liability company until the IPO and do not include Delaware franchise tax, minority interest, and federal and certain state income taxes. Such items are included in subsequent periods. Therefore the historical results for periods prior to the IPO and subsequent thereto are not comparable. For pro forma comparison calculated as if the Company had been a public company for the duration of each year ending December 31, 2006 and 2007 see Part I, Item 6 Selected Financial Data, of this Annual Report on Form 10-K.

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

	2007	Year Ended December 31, 2006 (in millions)	2005
<b>Revenues:</b>			
Trading gains	\$ 888.1	\$ 805.1	\$ 640.4
Commissions and execution fees	261.1	174.4	132.1
Interest income	782.2	672.1	273.2
Other income	92.0	85.2	53.4
<b>Total revenues</b>	<b>2,023.4</b>	<b>1,736.8</b>	<b>1,099.1</b>
<b>Interest expense</b>	<b>555.2</b>	<b>484.4</b>	<b>170.0</b>