

Interactive Brokers Group, Inc.  
Form 10-Q  
November 08, 2013

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

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FORM 10-Q

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(Mark One)

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

For the quarterly period ended September 30, 2013

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

For the transition period from            to

Commission File Number: 001-33440

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

Delaware  
(State or other jurisdiction  
of incorporation or organization)

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

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

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during

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the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

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

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

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

As of November 8, 2013, there were 49,971,727 shares of the issuer's Class A common stock, par value \$0.01 per share, outstanding and 100 shares of the issuer's Class B common stock, par value \$0.01 per share, outstanding.

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INTERACTIVE BROKERS GROUP, INC.  
 QUARTERLY REPORT ON FORM 10-Q FOR THE QUARTER ENDED SEPTEMBER 30, 2013  
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PART I. FINANCIAL INFORMATION

Financial Statements Introductory Note

Interactive Brokers Group, Inc. (“IBG, Inc.” or the “Company”) is a holding company whose primary asset is its ownership of approximately 12.4% of the membership interests of IBG LLC (the “Group”). See Notes 1 and 4 to the unaudited condensed consolidated financial statements for further discussion of the Company’s capital and ownership structure.

We are an automated global electronic broker and market maker specializing in executing and clearing trades in securities, futures, foreign exchange instruments, bonds and mutual funds on more than 100 electronic exchanges and trading venues around the world and offering custody, prime brokerage, stock and margin borrowing services to our customers. In the U.S., our business is conducted from our headquarters in Greenwich, Connecticut and from Chicago, Illinois and from Jersey City, New Jersey. Abroad, we conduct business through offices located in Canada, England, Switzerland, China (Hong Kong and Shanghai), India, Australia and Japan. At September 30, 2013, we had 878 employees worldwide.

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

(in thousands, except share data)	September 30, 2013	December 31, 2012
<b>Assets</b>		
Cash and cash equivalents	\$ 1,548,520	\$ 1,614,592
Cash and securities - segregated for regulatory purposes	12,681,070	12,482,388
Securities borrowed	3,363,242	2,833,145
Securities purchased under agreements to resell	487,774	428,904
<b>Financial instruments owned, at fair value:</b>		
Financial instruments owned	3,454,897	3,617,879
Financial instruments owned and pledged as collateral	970,376	926,857
Total financial instruments owned	4,425,273	4,544,736
<b>Receivables:</b>		
Customers, less allowance for doubtful accounts of \$3,540 and \$1,416 at September 30, 2013 and December 31, 2012	12,727,552	9,851,018
Brokers, dealers and clearing organizations	490,859	844,584
Receivable from affiliate	651	620
Interest	24,236	22,829
Total receivables	13,243,298	10,719,051
Other assets	527,867	576,741
Total assets	\$ 36,277,044	\$ 33,199,557
<b>Liabilities and equity</b>		
<b>Liabilities:</b>		
Financial instruments sold but not yet purchased, at fair value	\$ 3,593,292	\$ 4,286,260
Securities loaned	2,193,008	1,839,274
Short-term borrowings	2,579	110,420
<b>Payables:</b>		
Customers	24,809,349	21,421,978
Brokers, dealers and clearing organizations	234,833	361,834
Payable to affiliate	259,723	259,441
Accounts payable, accrued expenses and other liabilities	108,895	102,695
Interest	2,483	4,508
Total payables	25,415,283	22,150,456
Total liabilities	31,204,162	28,386,410
<b>Commitments, contingencies and guarantees</b>		
<b>Equity</b>		
Stockholders' equity		

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Common stock, \$0.01 par value per share:		
Class A – Authorized - 1,000,000,000, Issued - 50,096,562 and 47,797,844 shares, Outstanding – 49,971,727 and 47,499,739 shares at September 30, 2013 and December 31, 2012	501	478
Class B – Authorized, Issued and Outstanding – 100 shares at September 30, 2013 and December 31, 2012	-	-
Additional paid-in capital	517,865	493,912
Retained earnings	100,712	82,072
Accumulated other comprehensive income, net of income taxes of \$1,081 and \$1,417 at September 30, 2013 and December 31, 2012	26,038	29,754
Treasury stock, at cost, 124,835 and 298,105 shares at September 30, 2013 and December 31, 2012	(2,518)	(7,718)
Total stockholders' equity	642,598	598,498
Noncontrolling interests	4,430,284	4,214,649
Total equity	5,072,882	4,813,147
Total liabilities and stockholders' equity	\$ 36,277,044	\$ 33,199,557

See accompanying notes to the unaudited condensed consolidated financial statements.

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

(in thousands, except for shares or per share amounts)	Three months ended September 30,		2013	2012	Nine months ended September 30,		2013
<b>Revenues:</b>							
Trading gains	\$	123,286	\$	149,700	\$	201,386	\$
Commissions and execution fees		120,331		100,584		377,961	
Interest income		74,000		65,410		220,572	
Other income		20,826		17,104		64,999	
<b>Total revenues</b>		<b>338,443</b>		<b>332,798</b>		<b>864,918</b>	
<b>Interest expense</b>		<b>12,191</b>		<b>14,199</b>		<b>38,636</b>	
<b>Total net revenues</b>		<b>326,252</b>		<b>318,599</b>		<b>826,282</b>	
<b>Non-interest expenses:</b>							
Execution and clearing		56,016		61,646		180,283	
Employee compensation and benefits		44,242		57,676		148,578	
Occupancy, depreciation and amortization		9,387		9,043		28,705	
Communications		6,125		6,089		17,281	
General and administrative		14,100		11,525		38,904	
<b>Total non-interest expenses</b>		<b>129,870</b>		<b>145,979</b>		<b>413,751</b>	
<b>Income before income taxes</b>		<b>196,382</b>		<b>172,620</b>		<b>412,531</b>	
<b>Income tax expense</b>		<b>10,414</b>		<b>14,747</b>		<b>31,239</b>	
<b>Net income</b>		<b>185,968</b>		<b>157,873</b>		<b>381,292</b>	
<b>Less net income attributable to noncontrolling interests</b>		<b>169,521</b>		<b>145,385</b>		<b>347,910</b>	
<b>Net income attributable to common stockholders</b>	\$	<b>16,447</b>	\$	<b>12,488</b>	\$	<b>33,382</b>	\$
<b>Earnings per share:</b>							
Basic	\$	0.33	\$	0.26	\$	0.68	\$
Diluted	\$	0.32	\$	0.26	\$	0.67	\$
<b>Weighted average common shares outstanding:</b>							
Basic		49,966,050		47,488,459		48,807,321	
Diluted		50,988,214		47,679,818		49,981,664	
<b>Comprehensive income:</b>							
<b>Net income attributable to common stockholders</b>	\$	<b>16,447</b>	\$	<b>12,488</b>	\$	<b>33,382</b>	\$
<b>Other comprehensive income:</b>		<b>3,691</b>		<b>2,965</b>		<b>(4,051)</b>	



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Cumulative translation adjustment, before income taxes				
Income taxes related to items of other comprehensive income	61	1,071	(335)	
Other comprehensive income (loss), net of tax	3,630	1,894	(3,716)	
Comprehensive income attributable to common stockholders	\$ 20,077	\$ 14,382	\$ 29,666	\$
Comprehensive income attributable to noncontrolling interests:				
Net income attributable to noncontrolling interests	\$ 169,521	\$ 145,385	\$ 347,910	\$
Other comprehensive income (loss) - cumulative translation adjustment	26,013	21,934	(29,602)	
Comprehensive income attributable to noncontrolling interests	\$ 195,534	\$ 167,319	\$ 318,308	\$

See accompanying notes to the unaudited condensed consolidated financial statements.

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

(in thousands)	Nine Months Ended September 30,	
	2013	2012
Cash flows from operating activities:		
Net income	\$ 381,292	\$ 396,346
Adjustments to reconcile net income to net cash provided by operating activities:		
Translation losses (gains)	19,839	(678)
Deferred income taxes	11,164	16,881
Depreciation and amortization	13,914	14,201
Employee stock plan compensation	28,086	54,032
(Gains) losses on other investments, net	(2,728)	7,742
Bad debt expense and other	2,472	607
Change in operating assets and liabilities:		
Increase in cash and securities - segregated for regulatory purposes	(199,142)	(2,255,850)
Increase in securities borrowed	(530,221)	(303,477)
(Increase) decrease in securities purchased under agreements to resell	(58,852)	31,218
Decrease in financial instruments owned	110,268	911,667
Increase in receivables from customers	(2,876,532)	(2,367,432)
Decrease in other receivables	350,520	523,193
Decrease (increase) in other assets	23,258	(5,900)
Decrease in financial instruments sold but not yet purchased	(695,806)	(1,606,918)
Increase in securities loaned	354,398	559,452
Increase in payable to customers	3,387,375	3,978,476
(Decrease) increase in other payables	(127,152)	258,159
Net cash provided by operating activities	192,153	211,719
Cash flows from investing activities:		
Purchases of other investments	(189,934)	(326,784)
Proceeds from sales of other investments	202,245	292,826
Distributions received from and redemptions of equity investments	11,054	1,567
Purchase of property and equipment	(12,006)	(13,971)
Net cash provided by (used in) investing activities	11,359	(46,362)
Cash flows from financing activities:		
Dividends paid to shareholders	(14,742)	(14,055)
Dividends paid to noncontrolling interests	(107,698)	(105,264)
Redemptions of senior notes	-	(101,411)
(Decrease) increase in short-term borrowings, net	(110,566)	10,008
Net cash used in financing activities	(233,006)	(210,722)
Effect of exchange rate changes on cash and cash equivalents	(36,578)	9,375

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Net decrease in cash and cash equivalents	(66,072)	(35,990)
Cash and cash equivalents at beginning of period	1,614,592	1,695,495
Cash and cash equivalents at end of period	\$ 1,548,520	\$ 1,659,505
Supplemental disclosures of cash flow information:		
Cash paid for interest	\$ 40,661	\$ 51,168
Cash paid for taxes	\$ 45,243	\$ 25,352
Non-cash financing activities:		
Adjustments to additional paid-in capital for changes in proportionate ownership in IBG LLC	\$ 20,463	\$ 13,766
Adjustments to noncontrolling interests for changes in proportionate ownership in IBG LLC	\$ (20,463)	\$ (13,766)
Changes in redemption value of redeemable noncontrolling interests	\$ -	\$ (5,269,619)
Changes to total equity (deficit) for the change in the redemption value of redeemable noncontrolling interests	\$ -	\$ 5,269,619

See accompanying notes to the unaudited condensed consolidated financial statements.

Interactive Brokers Group, Inc. and Subsidiaries  
 Condensed Consolidated Statements of Changes in Equity  
 Nine months ended September 30, 2013 and September 30, 2012  
 (Unaudited)

(in thousands, except for share amounts)

Common Stock									
	Issued Shares	Par Value	Additional Paid-In Capital	Treasury Stock	Retained Earnings	Accumulated Other Comprehensive Income	Total Stockholders' Equity		
Balance, January 1, 2013	47,797,844	\$ 478	\$ 493,912	\$ (7,718)	\$ 82,072	\$ 29,754	\$ 500,000		
Common Stock distributed pursuant to stock plans	2,298,718	23	(23)	5,200					
Compensation for stock grants vesting in the future			3,513						
Dividends paid to stockholders					(14,742)				
Dividends paid by IBG LLC to noncontrolling interests									
Adjustments for changes in proportionate ownership in IBG LLC			20,463						
Comprehensive income, net of tax					33,382	(3,716)			
Balance, September 30, 2013	50,096,562	\$ 501	\$ 517,865	\$ (2,518)	\$ 100,712	\$ 26,038	\$ 600,000		

Common Stock

Issued Shares	Par Value	Additional Paid-In Capital	Treasury Stock	Retained Earnings/ (Accumulated Deficit)	Accumulated Other Comprehensive Income	Total Stockholders' Equity (Deficit)
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Balance, January 1, 2012	46,061,256 \$	460 \$	- \$	(13,310) \$	(465,138) \$	18,487 \$	(4
Adjustment of redeemable noncontrolling interests to redemption value		472,409			572,840		1,0
Common Stock distributed pursuant to stock plans	1,727,973	17	(17)	5,526			
Compensation for stock grants vesting in the future		5,759					
Deferred tax benefit retained		495					
Dividends paid to stockholders					(14,055)		0
Dividends paid by IBG LLC to other noncontrolling interests							
Adjustments for changes in proportionate ownership in IBG LLC		13,766					
Comprehensive income, net of tax					31,556	814	
Balance, September 30, 2012	47,789,229 \$	477 \$	492,412 \$	(7,784) \$	125,203 \$	19,301 \$	6

See accompanying notes to the unaudited condensed consolidated financial statements.

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

1. Organization and Nature of Business

Interactive Brokers Group, Inc. (“IBG, Inc.” or the “Company”) is a Delaware holding company whose primary asset is its ownership of approximately 12.4% of the membership interests of IBG LLC, which, in turn, owns operating subsidiaries (collectively, “IBG LLC” or the “Group”). The accompanying unaudited condensed consolidated financial statements of IBG, Inc. reflect the consolidation of IBG, Inc.’s investment in IBG LLC for all periods presented (Note 4). IBG LLC is an automated global electronic broker and market maker specializing in routing orders and processing trades in securities, futures and foreign exchange instruments.

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

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

Certain of the Operating Companies are members of various securities and commodities exchanges in North America, Europe and the Asia/Pacific region and are subject to regulatory capital and other requirements (Note 14). IB LLC, IBUK, IBC, IBI and IBSJ carry securities accounts for customers or perform custodial functions relating to customer securities.

2. Significant Accounting Policies

Basis of Presentation

These unaudited condensed consolidated financial statements are presented in U.S. dollars and have been prepared pursuant to the rules and regulations of the U.S. Securities and Exchange Commission (“SEC”) regarding financial reporting with respect to Form 10-Q and accounting standards generally accepted in the United States of America (“U.S. GAAP”) promulgated in the Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC” or the “Codification”). These unaudited condensed consolidated financial statements include the accounts of the Company and its subsidiaries and include all adjustments of a normal, recurring nature necessary to present fairly the financial condition as of September 30, 2013 and December 31, 2012, the results of operations and comprehensive income for the three and nine months ended September 30, 2013 and 2012 and cash flows for the nine months ended September 30, 2013 and 2012. These unaudited condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto included in IBG, Inc.’s 2012 Annual Report on Form 10-K filed with the SEC on March 8, 2013. The condensed consolidated financial statement information as of December 31, 2012 has been derived from the 2012 audited consolidated financial statements. The results of operations for interim periods are not necessarily indicative of results for the entire year.

Principles of Consolidation, including Noncontrolling Interests

The unaudited condensed consolidated financial statements include the accounts of IBG, Inc. and its majority and wholly owned subsidiaries. As sole managing member of IBG LLC, IBG, Inc. exerts control over the Group's operations. In accordance with ASC 810, Consolidation, the Company consolidates the Group's consolidated financial statements and records the interests in the Group that IBG, Inc. does not own as noncontrolling interests.

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

Prior to the June 6, 2012 amendment (the "Amendment") to the Exchange Agreement (Note 4), the Company was required to report IBG Holdings LLC's ("Holdings") ownership as redeemable noncontrolling interests (i.e., temporary equity) pursuant to ASC 810-10-45, ASC 815-40-25 and ASC 480-10-S99-3A (formerly FASB Emerging Issues Task Force Topic D-98), outside of total equity. Redemption value of these redeemable noncontrolling interests was measured as the number of equivalent shares of member interests in IBG LLC owned by Holdings multiplied by the then current market price per share of the Company's common stock. The excess of the redemption value over the book value of these interests, which did not affect net income attributable to common stockholders or cash flows, was required to be accounted for as a reduction of the Company's stockholders' equity.

The Company elected to recognize changes in redemption value in each reporting period immediately as they occurred as if the end of each reporting period was also the redemption date for the entire redeemable noncontrolling interest under paragraph 15(b) of ASC 480-10-S99-3A, notwithstanding that the redeemable noncontrolling interests are redeemable over a period of time pursuant to a redemption schedule (Note 4).

For periods after the above referenced amendment, the noncontrolling interests in IBG LLC attributable to Holdings are reported as a component of equity.

The Company's policy is to consolidate all entities of which it owns more than 50% unless it does not have control. All inter-company balances and transactions have been eliminated. IBG, Inc. would also consolidate any Variable Interest Entities ("VIEs") pursuant to ASC 860, Transfers and Servicing and ASC 810 of which it is the primary beneficiary. IBG, Inc. currently is not the primary beneficiary of any such entities and therefore no VIEs are included in the unaudited condensed consolidated financial statements.

#### Use of Estimates

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

#### Fair Value

At September 30, 2013 and December 31, 2012, substantially all of IBG, Inc.'s assets and liabilities, including financial instruments, were carried at fair value based on published market prices and were marked to market, or were assets which are short-term in nature and were carried at amounts that approximate fair value.

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

#### Level 1



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Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities;

- Level 2 Quoted prices in markets that are not considered to be active or financial instruments for which all significant inputs are observable, either directly or indirectly; and
- Level 3 Prices or valuations that require inputs that are both significant to fair value measurement and unobservable.

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

Currency forward contracts are valued using broadly distributed bank and broker prices, and are classified as Level 2 financial instruments as such instruments are not exchange-traded. Other securities that are not traded in active markets are also

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

classified in Level 2. Level 3 financial instruments are comprised of securities that have been delisted or otherwise are no longer tradable and have been valued by the Company based on internal estimates, excluding securities subject to corporate actions that have a determinable external price, which remain classified as Level 1 securities.

Other fair value investments, reported in other assets in the accompanying unaudited condensed consolidated statement of financial condition and in Note 6 - Financial Assets and Financial Liabilities, are comprised of securities that the Company does not carry in its market making business, and include listed common stocks, corporate and municipal debt and mortgage backed and other asset backed securities. These investments are generally reported as Level 2 financial instruments, except for unrestricted listed equities, which are classified as Level 1 financial instruments. The fair values of other fair value investments are determined using broker and vendor prices that have been independently validated by the Company. Validation methods applied by the Company include comparisons of the broker and vendor prices to other independent pricing services and reviews of the underlying assumptions and other inputs (such as estimated cash flows, underlying default rates and variable interest rate sensitivity analysis) used by brokers or vendors to calculate these investments' fair values.

#### Earnings Per Share

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

For periods prior to June 6, 2012 (Note 4), the Company has determined to reflect Topic D-98 measurement adjustments for non-fair value redemption rights through application of the two-class method of calculating earnings per share in lieu of recognizing the impact through the determination of net income attributable to common shareholders. Furthermore, in accordance with footnote 17 of ASC 480-10-S99-3A, the Company has elected to treat only the portion of the periodic measurement adjustments that reflect a redemption in excess of fair value as being akin to a dividend, reducing net income attributable to common stockholders for purposes of applying the two-class method. Decreases in the carrying amount of redeemable noncontrolling interests through Topic D-98 measurement adjustments are reflected in the application of the two-class method only to the extent they represent recoveries of amounts previously accounted for by applying the two-class method.

#### Stock-Based Compensation

IBG, Inc. follows ASC 718, Compensation—Stock Compensation, to account for its stock-based compensation plans. ASC 718 requires all share-based payments to employees to be recognized in the financial statements using a fair value-based method. As a result, IBG, Inc. expenses the fair value of awards granted to employees, generally 50% in the year of grant in recognition of plan forfeiture provisions (described below) and the remaining 50% over the related vesting period utilizing the "graded vesting" method permitted under ASC 718-10. In the case of "retirement eligible" employees (those employees older than 59), 100% of awards are expensed when granted.

Awards granted under the stock-based compensation plans are subject to forfeiture in the event an employee ceases employment with the Company. The plans provide that employees who discontinue employment with the Company

without cause and continue to meet the terms of the plans' post-employment provisions will forfeit 50% of unvested previously granted awards unless the employee is over the age of 59, in which case the employee would be eligible to receive 100% of unvested awards previously granted.

#### Cash and Cash Equivalents

IBG, Inc. defines cash equivalents as short-term, highly liquid securities and cash deposits, other than those used to support margin and clearing requirements or assets held in segregated accounts for regulatory purposes.

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

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

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

or securities are deposited as required to conduct day-to-day clearance activities. Securities segregated for regulatory purposes consisted of U.S. Treasury Bills of \$2.50 billion and \$2.30 billion at September 30, 2013 and December 31, 2012, respectively, which are recorded as Level 1 financial assets and securities purchased under agreements to resell in the amount of \$6.51 billion and \$6.37 billion as of September 30, 2013 and December 31, 2012, respectively, which amounts approximate fair value.

#### Securities Borrowed and Securities Loaned

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

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

#### Securities Purchased Under Agreements to Resell

Securities purchased under agreements to resell, which are reported as collateralized financing transactions, are recorded at contract value, plus accrued interest, which approximates fair value. The Company's policy is to obtain possession of collateral with a fair value equal to or in excess of the principal amount loaned under resale agreements. To ensure that the fair value of the underlying collateral remains sufficient, this collateral is valued daily with additional collateral obtained or excess collateral returned, as permitted under contractual provisions. The Company does not net securities purchased under agreements to resell transactions with securities sold under agreements to repurchase transactions entered into with the same counterparty.

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

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

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

#### Customer Receivables and Payables

Customer securities transactions are recorded on a settlement date basis and customer commodities transactions are recorded on a trade date basis. Receivables from and payables to customers include amounts due on cash and margin transactions, including futures contracts transacted on behalf of customers. Securities owned by customers, including those that collateralize margin loans or other similar transactions, are not reported in the unaudited condensed consolidated statements of financial condition. Amounts receivable from customers that are determined by management to be uncollectible are expensed as a component of general and administrative expense.

Receivables from and Payables to Brokers, Dealers and Clearing Organizations

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

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## Investments

IBG, Inc. makes certain strategic investments related to financial services and accounts for these investments under the cost method of accounting or under the equity method of accounting as required under ASC 323, Investments—Equity Method and Joint Ventures. Investments are accounted for under the equity method of accounting when IBG, Inc. has significant influence over the investee. Investments accounted for under the equity method, including where the investee is a limited partnership or limited liability company, are recorded at the fair value amount of IBG, Inc.'s initial investment and adjusted each period for IBG, Inc.'s share of the investee's income or loss. IBG, Inc.'s share of the income or losses from equity investments is reported as a component of other income in the unaudited condensed consolidated statements of comprehensive income. The recorded amounts of IBG, Inc.'s equity method investments, \$27.0 million at September 30, 2013 (\$34.7 million at December 31, 2012), which are reported as a component of other assets in the unaudited condensed consolidated statements of financial condition, increase or decrease accordingly. Contributions paid to and distributions received from equity investees are recorded as additions or reductions, respectively, to the respective investment balance.

A judgmental aspect of accounting for investments is evaluating whether an other-than-temporary decline in the value of an investment has occurred. The evaluation of an other-than-temporary impairment is dependent on specific quantitative and qualitative factors and circumstances surrounding an investment, including recurring operating losses, credit defaults and subsequent rounds of financing. IBG, Inc.'s equity investments do not have readily determinable market values. All equity method investments are reviewed for changes in circumstances or occurrence of events that suggest IBG, Inc.'s investment may not be recoverable. If an unrealized loss on any investment is considered to be other-than-temporary, the loss is recognized in the period the determination is made. IBG, Inc. also holds exchange memberships and investments in equity securities of certain exchanges as required to qualify as a clearing member, and strategic investments in corporate stock that do not qualify for equity method accounting. Such investments, \$27.8 million at September 30, 2013 (\$36.2 million at December 31, 2012), are recorded at cost or, if an other-than-temporary impairment in value has occurred, at a value that reflects management's estimate of the impairment, and are also components of other assets in the unaudited condensed consolidated statements of financial condition. Dividends received from cost basis investments are recognized as a component of other income as such dividends are received.

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

## Property and Equipment

Property and equipment, which is a component of other assets, consists of purchased technology hardware and software, internally developed software, leasehold improvements and office furniture and equipment. Property and equipment are recorded at historical cost, less accumulated depreciation and amortization. Additions and improvements that extend the lives of assets are capitalized, while expenditures for repairs and maintenance are expensed as incurred. Depreciation and amortization are computed using the straight-line method. Equipment is depreciated over the estimated useful lives of the assets, while leasehold improvements are amortized over the lesser of the estimated economic useful life of the asset or the term of the lease. Computer equipment is depreciated over three to five years and office furniture and equipment are depreciated over five to seven years. Qualifying costs for internally developed software are capitalized and amortized over the expected useful life of the developed software, not to exceed three years.

Comprehensive Income and Foreign Currency Translation

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

Comprehensive income consists of two components: net income and other comprehensive income ("OCI"). OCI is comprised of revenues, expenses, gains and losses that are reported in the comprehensive income section of the statement of comprehensive income, but are excluded from reported net income. IBG, Inc.'s OCI is comprised of foreign currency translation adjustments, net of related income taxes, where applicable.

IBG, Inc.'s non-U.S. domiciled subsidiaries have a functional currency that is other than the U.S. dollar. Such subsidiaries' assets and liabilities are translated into U.S. dollars at period-end exchange rates, and revenues and expenses are translated at average exchange rates prevailing during the period. Adjustments that result from translating amounts from a subsidiary's functional currency are reported as a component of accumulated OCI. In general, the practice and intention of the Company is to reinvest the earnings of its non-U.S. subsidiaries in those operations. Deferred income taxes have not been provided for U.S. tax liabilities or for additional foreign taxes on unremitted earnings that have been indefinitely reinvested.

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## Revenue Recognition

### —Trading Gains

Trading gains and losses are recorded on trade date and are reported on a net basis. Trading gains are comprised of changes in the fair value of financial instruments owned and financial instruments sold but not yet purchased (i.e., unrealized gains and losses) and realized gains and losses. Dividends are integral to the valuation of stocks and interest is integral to the valuation of fixed income instruments. Accordingly, both dividends and interest income and expense attributable to financial instruments owned and financial instruments sold but not yet purchased are reported on a net basis as a component of trading gains in the accompanying unaudited condensed consolidated statements of comprehensive income.

### —Commissions and Execution Fees

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

### —Interest Income and Expense

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

### —Foreign Currency Transaction Gains and Losses

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

## Income Taxes

IBG, Inc. accounts for income taxes in accordance with ASC 740, Income Taxes. The Company's income tax expense, deferred tax assets and liabilities, and reserves for unrecognized tax benefits are based on enacted tax laws (Note 11) and reflect management's best assessment of estimated future taxes to be paid. The Company is subject to income taxes in both the United States and numerous foreign jurisdictions. Determining income tax expense requires significant judgments and estimates.

Deferred income tax assets and liabilities arise from temporary differences between the tax and financial statement recognition of the underlying assets and liabilities. In evaluating the ability to recover deferred tax assets within the jurisdictions from which they arise, the Company considers all available positive and negative evidence, including scheduled reversals of deferred tax liabilities, projected future taxable income, tax-planning strategies, and results of recent operations. In projecting future taxable income, historical results are adjusted for changes in accounting policies and incorporate assumptions including the amount of future state, federal and foreign pretax operating income, the reversal of temporary differences, and the implementation of feasible and prudent tax-planning strategies. These assumptions require significant judgment about the forecasts of future taxable income and are consistent with the plans and estimates the Company is using to manage the underlying businesses. In evaluating the objective evidence



that historical results provide, three years of cumulative operating income (loss) are considered. Deferred income taxes have not been provided for U.S. tax liabilities or for additional foreign taxes on the unremitted earnings of foreign subsidiaries that have been indefinitely reinvested.

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

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

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

Recently Issued Accounting Pronouncements

Subsequent to the adoption of the ASC, the FASB will issue Accounting Standards Updates ("ASUs") as the means to add to or delete from, or otherwise amend the ASC. In 2013, prior to the issuance of the Company's unaudited condensed consolidated financial statements, ASUs 2013-01 through 2013-11 have been issued. Following is a summary of recently issued ASUs that have affected or may affect the Company's unaudited condensed consolidated financial statements:

	Affects	Status
ASU 2011-11	Balance Sheet (Topic 210): Disclosures about Offsetting Assets and Liabilities	Effective for fiscal periods beginning on or after January 1, 2013. Retrospective disclosures have been made for comparative periods presented.
ASU 2013-01	Balance Sheet (Topic 210): Clarifying the Scope of Disclosures about Offsetting Assets and Liabilities	Effective for fiscal periods beginning on or after January 1, 2013 (the same as the effective date of ASU 2011-11).
ASU 2013-02	Comprehensive Income (Topic 220): Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income	Effective for fiscal periods beginning on or after December 15, 2012.
ASU 2013-04	Liabilities (Topic 405): Obligations Resulting from Joint and Several Liability Arrangements for Which the Total Amount of the Obligation Is Fixed at the Reporting Date	Effective prospectively for fiscal periods beginning on or after December 15, 2013. Early adoption is permitted.
ASU 2013-05	Foreign Currency Matters (Topic 830): Parent's Accounting for the Cumulative Translation Adjustment upon Derecognition of Certain Subsidiaries or Groups of Assets within a Foreign Entity or of an Investment in a Foreign Entity	Effective for fiscal periods beginning on or after December 15, 2013. Early adoption is permitted.

Adoption of those ASUs that became effective during 2013, prior to the issuance of the Company's unaudited condensed consolidated financial statements, did not have a material effect on those financial statements. Management is assessing the potential impact on the Company's financial statements of adopting ASUs that will become effective in the future.

### 3. Trading Activities and Related Risks

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

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

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### Market Risk

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

#### Equity Price Risk

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

#### Currency Risk

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

#### Interest Rate Risk

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

#### Credit Risk

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

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

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

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

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#### Concentrations of Credit Risk

IBG, Inc.'s exposure to credit risk associated with its trading and other activities is measured on an individual counterparty basis, as well as by groups of counterparties that share similar attributes. Concentrations of credit risk can be affected by changes in political, industry, or economic factors. To reduce the potential for risk concentration, credit limits are established and exposure is monitored in light of changing counterparty and market conditions. As of September 30, 2013, the Company did not have any material concentrations of credit risk outside the ordinary course of business.

#### Off-Balance Sheet Risks

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

#### 4. Equity and Earnings Per Share

In connection with its initial public offering of Class A common stock ("IPO") in May 2007, IBG, Inc. purchased 10.0% of the membership interests in IBG LLC from Holdings, became the sole managing member of IBG LLC and began to consolidate IBG LLC's financial results into its financial statements. Holdings wholly owns all Class B common stock, which common stock has voting rights in proportion to its ownership interests in IBG LLC, approximately 87.6% as of September 30, 2013. The consolidated financial statements reflect the results of operations and financial position of IBG, Inc., including consolidation of its investment in IBG LLC. Prior to the June 6, 2012 amendment to the Exchange Agreement (described below), Holdings' ownership interests in IBG LLC were accounted for and reported in these consolidated financial statements as "redeemable noncontrolling interests" (temporary equity) pursuant to ASC 810-10-45, ASC 815-40-25 and ASC 480-10-S99-3A. For periods after the Amendment, beginning with the quarter ended June 30, 2012, the noncontrolling interests in IBG LLC attributable to Holdings are reported as a component of total equity, as described below.

#### Recapitalization and Post-IPO Capital Structure

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

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

Since consummation of the IPO and Recapitalization, IBG, Inc.'s equity capital structure has been comprised of Class A and Class B common stock. All shares of common stock have a par value of \$0.01 per share and have identical rights to earnings and dividends and in liquidation. As described previously in this Note 4, Class B common stock has voting power in IBG, Inc. proportionate to the extent of Holdings' and IBG, Inc.'s respective ownership of IBG LLC. At September 30, 2013 and December 31, 2012, 1,000,000,000 shares of Class A common stock were authorized, of which 50,096,562 and 47,797,844 shares have been issued; and 49,971,727 and 47,499,739 shares were outstanding, respectively. Class B common stock is comprised of 100 authorized shares, of which 100 shares were issued and outstanding as of September 30, 2013 and December 31, 2012, respectively. In addition, 10,000 shares of preferred stock have been authorized, of which no shares are issued or outstanding as of September 30, 2013 and December 31, 2012, respectively.

As a result of a federal income tax election made by IBG LLC applicable to the acquisition of IBG LLC member interests by IBG, Inc., the income tax basis of the assets of IBG LLC acquired by IBG, Inc. have been adjusted based on the amount paid for such interests. Deferred tax assets were recorded as of the IPO date and in connection with the 2011 redemption of Holdings member interests in exchange for common stock, which deferred tax assets are a component of other assets in the unaudited condensed consolidated statement of financial condition and are being amortized as additional deferred income tax expense over 15 years from the IPO date and from the 2011 redemption date, respectively, as allowable under current tax law. As of September 30, 2013 and December 31, 2012, the unamortized balance of these deferred tax assets was \$266.6 million and \$281.6 million, respectively.

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IBG, Inc. also entered into an agreement (the “Tax Receivable Agreement”) with Holdings to pay Holdings (for the benefit of the former members of IBG LLC) 85% of the tax savings that IBG, Inc. actually realizes as the result of tax basis increases. These payables, net of payments made to Holdings, are reported as payable to affiliate in the unaudited condensed consolidated statement of financial condition.

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

The cumulative amounts of deferred tax assets, payables to Holdings and credits to additional paid-in capital arising from stock offerings from the date of the IPO through September 30, 2013 were \$387.1 million, \$329.0 million and \$58.1 million, respectively. Amounts payable under the Tax Receivable Agreement are payable to Holdings annually upon the filing of IBG, Inc.’s federal income tax return. The Company has paid Holdings a total of \$70.4 million through September 30, 2013 pursuant to the terms of the Tax Receivable Agreement.

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

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

As a consequence of these redemption transactions, and distribution of shares to employees (Note 10), IBG, Inc.’s interest in IBG LLC has increased to approximately 12.4%, with Holdings owning the remaining 87.6% as of September 30, 2013. The redemptions also resulted in an increase in the Holdings interest held by Thomas Peterffy and his affiliates from approximately 84.6% at the IPO to approximately 86.4% at September 30, 2013.

The Exchange Agreement, as amended June 6, 2012, provides that the Company may facilitate the redemption by Holdings of interests held by its members through the issuance of shares of common stock through a public offering in exchange for the interests in IBG LLC being redeemed by Holdings. The Amendment eliminated from the Exchange Agreement an alternative funding method, which provided that upon approval by the board of directors and by agreement of the Company, IBG LLC and Holdings, redemptions could be made in cash.

Subsequent to the amendment to the Exchange Agreement on June 6, 2012, the Company recorded adjustments to report Holdings’ noncontrolling interests in IBG LLC as component of total equity, reducing redeemable noncontrolling interests to zero and reversing the cumulative effect of adjustments through June 6, 2012 to redemption value previously recorded to additional paid-in capital. The effect of these adjustments was:

	Adjustments as of June 6, 2012
(in thousands)	\$(5,367,553)



Redeemable noncontrolling interests	
Additional Paid in Capital	\$472,409
Retained earnings	\$572,840
Noncontrolling interests	\$4,322,304

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Earnings per Share

For periods prior to June 6, 2012, the Company reflected measurement adjustments for non-fair value redemption rights through application of the two-class method of calculating earnings per share in lieu of recognizing the impact through the determination of net income attributable to common stockholders.

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

	Three months ended September 30,		Nine months ended September 30,	
	2013	2012	2013	2012
Basic earnings per share:				
Net income attributable to common stockholders	\$ 16,447	\$ 12,488	\$ 33,382	\$ 31,556
Add (deduct) net income attributable to non-fair value redemption rights	-	-	-	1,108
Net income available for common stockholders	\$ 16,447	\$ 12,488	\$ 33,382	\$ 32,664
Weighted average shares of common stock outstanding:				
Class A	49,965,950	47,488,359	48,807,221	46,588,113
Class B	100	100	100	100
	49,966,050	47,488,459	48,807,321	46,588,213
Basic earnings per share	\$ 0.33	\$ 0.26	\$ 0.68	\$ 0.70

Diluted earnings (loss) per share are calculated utilizing the Company's basic net income available for common stockholders divided by diluted weighted average shares outstanding with no adjustments to net income available to common stockholders for potentially dilutive common shares:

	Three months ended September 30,		Nine months ended September 30,	
	2013	2012	2013	2012
Diluted earnings per share:	\$ 16,447	\$ 12,488	\$ 33,382	\$ 32,664

Net income available  
for common  
stockholders

Weighted average shares of common stock  
outstanding:

Class A:

Issued and outstanding	49,965,950	47,488,359	48,807,221	46,588,113
Potentially dilutive common shares issuable pursuant to employee incentive plans	1,022,164	191,359	1,174,343	277,557

Class B	100	100	100	100
	50,988,214	47,679,818	49,981,664	46,865,770

Diluted earnings per share	\$	0.32	\$	0.26	\$	0.67	\$	0.70
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#### Member and Stockholder Dividends

Through September 30, 2013, IBG LLC paid dividends totaling \$122.7 million to its members, of which IBG, Inc.'s proportionate share was \$15.0 million. In March, June and September 2013, the Company paid cash dividends of \$0.10 per share of Common Stock, totaling \$4.7 million, \$5.0 million and \$5.0 million, respectively.

On October 15, 2013, the Company declared a cash dividend of \$0.10 per common share, payable on December 13, 2013 to shareholders of record as of November 29, 2013.

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## 5. Comprehensive Income

Comprehensive income is comprised of Net Income and Other Comprehensive Income (“OCI”). The Company’s OCI is comprised of foreign currency translation adjustments, which arise from changes in the U.S. dollar value of the net worth of the Company’s subsidiaries whose functional currency is other than U.S. dollars during respective reporting periods. The following table presents comprehensive income and earnings per share on comprehensive income (calculated using the two-class method for periods prior to June 6, 2012):

	Three months ended September 30,		Nine months ended September 30,	
	2013	2012	2013	2012
Comprehensive income attributable to common stockholders, net of tax	\$ 20,077	\$ 14,382	\$ 29,666	\$ 32,370
Add (deduct) net income attributable to non-fair value redemption rights	-	-	-	1,108
Comprehensive income available for common stockholders	\$ 20,077	\$ 14,382	\$ 29,666	\$ 33,478
Earnings per share on comprehensive income:				
Basic	\$ 0.40	\$ 0.30	\$ 0.61	\$ 0.72
Diluted	\$ 0.39	\$ 0.30	\$ 0.59	\$ 0.71
Weighted average common shares outstanding:				
Basic	49,966,050	47,488,459	48,807,321	46,588,213
Diluted	50,988,214	47,679,818	49,981,664	46,865,770

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## 6. Financial Assets and Financial Liabilities

## Fair Value

The following tables set forth, by level within the fair value hierarchy (Note 2), financial assets and liabilities, primarily financial instruments owned and financial instruments sold, but not yet purchased at fair value as of September 30, 2013 and December 31, 2012. As required by ASC 820, financial assets and financial liabilities are classified in their entirety based on the lowest level of input that is significant to the respective fair value measurement.

## Financial Assets At Fair Value as of September 30, 2013

	Level 1	Level 2	Level 3	Total
Securities segregated for regulatory purposes	\$ 2,500,627	\$ -	\$ -	\$ 2,500,627
Financial instruments owned:				
Stocks	1,167,306	-	181	1,167,487
Options	2,119,958	19,426	-	2,139,384
Warrants and discount certificates	55,392	-	-	55,392
U.S. and foreign government obligations	1,967	2,309	-	4,276
Corporate and municipal bonds	64,057	20,148	-	84,205
Currency forward contracts	-	4,153	-	4,153
Total financial instruments owned	3,408,680	46,036	181	3,454,897
Financial instruments owned and pledged as collateral:				
Stocks	865,051	-	-	865,051
Warrants	312	-	-	312
U.S. and foreign government obligations	103,015	-	-	103,015
Corporate and municipal bonds	1,998	-	-	1,998
Total financial instruments owned and pledged as collateral	970,376	-	-	970,376
Subtotal	4,379,056	46,036	181	4,425,273
Other fair value investments, included in other assets:				
Stocks	7,545	407	-	7,952

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Corporate and municipal bonds	1,820	39,120	-	40,940
Mortgage backed securities	-	28,081	-	28,081
Other asset backed securities	-	14,607	-	14,607
Other	-	8,717	-	8,717
<b>Total Financial Assets at Fair Value</b>	<b>\$ 6,889,048</b>	<b>\$ 136,968</b>	<b>\$ 181</b>	<b>\$ 7,026,197</b>

Financial Liabilities At Fair Value as of September 30, 2013

	Level 1	Level 2	Level 3	Total
Financial instruments sold, not yet purchased:				
Stocks	\$ 1,443,990	\$ -	\$ 64	\$ 1,444,054
Options	2,058,289	9,084	-	2,067,373
Warrants and discount certificates	1,640	-	-	1,640
U.S. and foreign government obligations	-	1,229	-	1,229
Corporate bonds	70,056	7,981	-	78,037
Currency forward contracts	-	959	-	959
<b>Total financial instruments sold, not yet purchased</b>	<b>\$ 3,573,975</b>	<b>\$ 19,253</b>	<b>\$ 64</b>	<b>\$ 3,593,292</b>

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Financial Assets At Fair Value as of December 31, 2012

	Level 1	Level 2	Level 3	Total
Securities segregated for regulatory purposes	\$ 2,297,024	\$ -	\$ -	\$ 2,297,024
Financial instruments owned:				
Stocks	887,031	-	-	887,031
Options	2,388,173	-	-	2,388,173
Warrants and discount certificates	147,317	-	-	147,317
U.S. and foreign government obligations	30,087	-	-	30,087
Corporate and municipal bonds	104,387	59,533	-	163,920
Currency forward contracts	-	1,351	-	1,351
Total financial instruments owned	3,556,995	60,884	-	3,617,879
Financial instruments owned and pledged as collateral:				
Stocks	775,222	-	-	775,222
Warrants	350	-	-	350
U.S. and foreign government obligations	146,953	-	-	146,953
Corporate and municipal bonds	4,332	-	-	4,332
Total financial instruments owned and pledged as collateral	926,857	-	-	926,857
Subtotal	4,483,852	60,884	-	4,544,736
Other fair value investments, included in other assets:				
Stocks	17,707	3,549	-	21,256
Corporate and municipal bonds	2,249	53,325	-	55,574
Mortgage backed securities	-	21,311	-	21,311
Other asset backed securities	-	17,023	-	17,023
Other	-	1,068	-	1,068
	\$ 6,800,832	\$ 157,160	\$ -	\$ 6,957,992

Total Financial Assets at  
Fair Value

## Financial Liabilities At Fair Value as of December 31, 2012

	Level 1	Level 2	Level 3	Total
Financial instruments sold, not yet purchased:				
Stocks	\$ 1,787,741	\$ -	\$ -	\$ 1,787,741
Options	2,389,871	-	-	2,389,871
Warrants and discount certificates	2,104	-	-	2,104
U.S. and foreign government obligations	451	-	-	451
Corporate bonds	90,710	11,833	-	102,543
Currency forward contracts	-	3,550	-	3,550
Total financial instruments sold, not yet purchased	\$ 4,270,877	\$ 15,383	\$ -	\$ 4,286,260

## Transfers Between Level 1 and Level 2

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

During the three months ended September 30, 2013 the Company reclassified \$0.2 million of financial instruments owned from Level 1 to Level 2 and reclassified approximately \$0.2 million from Level 2 to Level 1. Financial instruments sold, but not yet purchased of approximately \$0.5 million were reclassified from Level 1 to Level 2 and approximately \$0.6 million were reclassified from Level 2 to Level 1.

During the nine months ended September 30, 2013, the Company reclassified approximately \$1.7 million of financial instruments owned from Level 1 to Level 2 and reclassified approximately \$1.4 million from Level 2 to Level 1. Financial instruments sold, but not yet purchased of approximately \$1.3 million were reclassified from Level 1 to Level 2 and approximately \$1.5 million were reclassified from Level 2 to Level 1.



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There were no transfers of financial instruments to or from Level 1 and Level 2 during the three and nine months ended September 31, 2012.

Level 3 Financial Assets and Financial Liabilities

The Company's Level 3 financial assets and financial liabilities are comprised of financial instruments owned. The following tables report Level 3 activities for the three and nine months ended September 30, 2013:

Financial assets – Level 3 activities:

		Delisted Securities
Balance, January 1, 2013	\$	-
Total gains or losses (realized/unrealized)		
- Included in earnings		(184)
Purchases, issuances and settlements		-
Transfers in and/or out of Level 3		365
Balance, September 30, 2013	\$	181

Financial liabilities – Level 3 activities:

		Delisted Securities
Balance, January 1, 2013	\$	-
Total gains or losses (realized/unrealized)		
- Included in earnings		77
Purchases, issuances and settlements		-
Transfers in and/or out of Level 3		(13)
Balance, September 30, 2013	\$	64

There were no Level 3 activities, including transfers, for the three and nine months ended September 30, 2012.

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Netting of Financial Assets and Financial Liabilities

The Company adopted the guidance in ASU 2013-01, Balance Sheet (Topic 210): Clarifying the Scope of Disclosures about Offsetting Assets and Liabilities for periods beginning after January 1, 2013. This authoritative guidance requires companies to report disclosures of offsetting assets and liabilities. The Company has applied the guidance retrospectively to the year ended 2012 and has included, in tabular format, the gross and net amounts of certain financial instruments in quarterly filings to date.

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

The following table sets forth the netting of financial assets and of financial liabilities as of September 30, 2013 and December 31, 2012, pursuant to the requirements of ASU 2011-11 and ASU 2013-01 (millions).

		September 30, 2013		Gross Amounts Not Offset in the Condensed Consolidated Statement of Financial Condition	
	Gross Amounts of Recognized Assets	Gross Amounts Offset in the Condensed Consolidated Statement of Financial Condition	Net Amounts of Assets Presented in the Condensed Consolidated Statement of Financial Condition	Financial Instruments	Cash Colla Received
Offsetting of Financial Assets:					
Securities segregated for regulatory purposes - purchased under agreements to resell	\$ 6,510.1	(1) \$	- \$	6,510.1 \$	(6,510.1) \$
Securities borrowed	3,363.2		-	3,363.2	(3,363.2)
Securities purchased under agreements to resell	487.8		-	487.8	(487.8)
Financial Instruments owned:					
Options	2,139.4		-	2,139.4	(1,945.1)
Warrants and	55.4		-	55.4	(1.6)

discount certificates						
Currency forward contracts		4.2		-		4.2
Total	\$	12,560.1	\$	-	\$	12,560.1
						(12,307.8)

		Gross Amounts of Recognized Liabilities	Gross Amounts Offset in the Condensed Consolidated Statement of Financial Condition	Net Amounts of Liabilities Presented in the Condensed Consolidated Statement of Financial Condition		Gross Amounts Not Offset in the Condensed Consolidated Statement of Financial Condition
					Financial Instruments	Cash Collateral Pledged
Offsetting of Financial Liabilities:						
Securities loaned	\$	2,193.0	\$	-	\$	2,193.0
						(2,193.0)
Financial instruments sold, not yet purchased:						
Options		2,067.4		-		2,067.4
Warrants and discount certificates		1.6		-		1.6
						(1,945.1)
Currency forward contracts		1.0		-		1.0
Total	\$	4,263.0	\$	-	\$	4,263.0
						(4,139.7)

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December 31, 2012

					Gross Amounts Not Offset in the Condensed Consolidated Statement of Financial Condition	
	Gross Amounts of Recognized Assets	Gross Amounts Offset in the Condensed Consolidated Statement of Financial Condition		Net Amounts of Assets Presented in the Condensed Consolidated Statement of Financial Condition	Financial Instruments	Cash Collected
Offsetting of Financial Assets:						
Securities segregated for regulatory purposes - purchased under agreements to resell	\$ 6,366.4	(1) \$	- \$	6,366.4 \$	(6,366.4) \$	
Securities borrowed	2,833.1		-	2,833.1	(2,833.1)	
Securities purchased under agreements to resell	428.9		-	428.9	(428.9)	
Financial Instruments owned:						
Options	2,388.2		-	2,388.2	(2,202.1)	
Warrants and discount certificates	147.3		-	147.3	(2.1)	
Currency forward contracts	1.4		-	1.4	-	
Total	\$ 12,165.3	\$	- \$	12,165.3 \$	(11,832.6) \$	

					Gross Amounts Not Offset in the Condensed Consolidated Statement of Financial Condition	
	Gross Amounts of Recognized	Gross Amounts Offset in the Condensed Consolidated Statement of		Net Amounts of Liabilities Presented in the Condensed Consolidated Statement of	Financial	Cash Collected

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	Liabilities		Financial Condition	Financial Condition	Instruments	Pledged
Offsetting of Financial Liabilities:						
Securities loaned	\$ 1,839.3	\$	-	\$ 1,839.3	\$ (1,839.3)	\$
Financial instruments sold, not yet purchased:						
Options	2,389.9		-	2,389.9	(2,202.1)	
Warrants and discount certificates	2.1		-	2.1	(2.1)	
Currency forward contracts	3.6		-	3.6	-	
Total	\$ 4,234.9	\$	-	\$ 4,234.9	\$ (4,043.5)	\$

(1) As of September 30, 2013 and December 31, 2012, the company had \$6.51 billion and \$6.37 billion, respectively, of securities purchased under agreements to resell that were segregated to satisfy regulatory requirements. These securities are included in "Cash and securities - segregated for regulatory purposes" in the unaudited condensed consolidated statements of financial condition.

#### 7. Collateralized Transactions

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

The Company also engages in securities financing transactions with and for customers through margin lending. Customer receivables generated from margin lending activity are collateralized by customer-owned securities held by the Company. Customers' required margin levels and established credit limits are monitored continuously by risk management staff using automated systems.

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Notes to Unaudited Condensed Consolidated Financial Statements (Continued)  
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Pursuant to Company policy and as enforced by such systems, customers are required to deposit additional collateral or reduce positions, when necessary to avoid automatic liquidation of their positions.

Margin loans are extended on a demand basis and are not committed facilities. Factors considered in the acceptance or rejection of margin loans are the amount of the loan, the degree of leverage being employed in the account and an overall evaluation of the portfolio to ensure proper diversification or, in the case of concentrated positions, appropriate liquidity of the underlying collateral. Additionally, transactions relating to concentrated or restricted positions are limited or prohibited by raising the level of required margin collateral (to 100% in the extreme case). Underlying collateral for margin loans is evaluated with respect to the liquidity of the collateral positions, valuation of securities, volatility analysis and an evaluation of industry concentrations. Adherence to the Company's collateral policies significantly limits the Company's credit exposure to margin loans in the event of a customer's default. Under margin lending agreements, the Company may request additional margin collateral from customers and may sell securities that have not been paid for or purchase securities sold but not delivered from customers, if necessary. At September 30, 2013 and December 31, 2012, approximately \$12.73 billion and \$9.85 billion, respectively, of customer margin loans were outstanding.

Amounts relating to collateralized transactions at September 30, 2013 and December 31, 2012 are summarized as follows (millions):

	September 30, 2013		December 31, 2012 (2)	
	Permitted to Repledge	Sold or Repledged	Permitted to Repledge	Sold or Repledged
Securities lending transactions	\$ 9,082.1	\$ 2,941.5	\$ 5,323.7	\$ 2,699.2
Agreements to resell (1)	7,003.6	7,003.6	6,778.8	6,778.8
Customer margin securities	10,304.0	3,609.2	13,603.7	3,016.3
	\$ 26,389.7	\$ 13,554.3	\$ 25,706.2	\$ 12,494.3

(1) At September 30, 2013, \$6.51 billion or 93% (at December 31, 2012, \$6.37 billion, or 94%), of securities acquired through agreements to resell that are shown as repledged have been deposited in a separate bank account for the exclusive benefit of customers in accordance with SEC Rule 15c3-3.

(2) The Company has revised its reporting of collateral permitted to be repledged and collateral sold or repledged, primarily with respect to securities available for pledging under securities lending transactions in connection with the Company's Stock Yield Enhancement Program. Disclosures for December 31, 2012 have been conformed to the new presentation for comparability purposes.

In the normal course of business, the Company pledges qualified securities with clearing organizations to satisfy daily margin and clearing fund requirements. At September 30, 2013 and December 31, 2012, the majority of the Company's government obligations owned were pledged to clearing organizations.

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Financial instruments owned and pledged, including amounts pledged to affiliates, where the counterparty has the right to repledge, at September 30, 2013 and December 31, 2012 consisted of the following (millions):

	September 30, 2013		December 31, 2012	
Stocks	\$	865.1	\$	775.2
Warrants		0.3		0.4
U.S. and foreign government obligations		103.0		147.0
Corporate and municipal bonds		2.0		4.3
	\$	970.4	\$	926.9

8. Senior Notes Payable

In January 2012, the Company discontinued its Senior Notes Program. All previously issued Senior Notes, \$101,411 outstanding as of December 31, 2011, were redeemed prior to June 30, 2012.

Interactive Brokers Group, Inc. and Subsidiaries

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9. Senior Secured Revolving Credit Facility

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

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

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

At September 30, 2013 and December 31, 2012, no borrowings were outstanding under this credit facility and IBG LLC was in compliance with all of the covenants. At maturity, subject to meeting certain terms of the facility, the Company will have an option to convert the facility to a one-year term loan.

10. Employee Incentive Plans

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

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



As of September 30, 2013 and December 31, 2012, payables to employees for ROI Dollar Units were \$5.5 million and \$7.6 million, respectively, all of which were vested. These amounts are included in accounts payable, accrued expenses and other liabilities in the unaudited condensed consolidated statements of financial condition.

Compensation expense for the ROI Dollar Unit plan, included in the unaudited condensed consolidated statements of comprehensive income was \$0.5 million and \$0.6 million for the nine months ended September 30, 2013 and September 30, 2012, respectively.

#### 2007 ROI Unit Stock Plan

In connection with the IPO, IBG, Inc. adopted the Interactive Brokers Group, Inc. 2007 ROI Unit Stock Plan (the "ROI Unit Stock Plan"). Under this plan, certain employees of the Group who held ROI Dollar Units, at the employee's option, elected to invest their ROI Dollar Unit accumulated earnings as of December 31, 2006 in shares of Common Stock. An aggregate of 1,271,009 shares of Common Stock (consisting of 1,250,000 shares issued under the ROI Unit Stock Plan and 21,009 shares under the 2007 Stock Incentive Plan, as described below), with a fair value at the date of grant of \$38.1 million were issued to IBG LLC and held as treasury stock, to be distributed to employees in accordance with the following schedule and subject to the conditions below:

- 10% on the date of the IPO (or on the first anniversary of the IPO, in the case of U.S. ROI Unit holders who made the above-referenced elections after December 31, 2006); and

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

Of the fair value at the date of grant, \$17.8 million represented the accumulated ROI Dollar Unit value elected to be invested by employees in Common Stock and such amount was accrued for as of December 31, 2006. The remainder is being ratably accrued as compensation expense by the Company from the date of the IPO over the requisite service period represented by the aforementioned distribution schedule. Compensation expense for the 2007 ROI Unit Stock Plan and related grants under the 2007 Stock Incentive Plan, net of the effect of forfeitures, included in the unaudited condensed consolidated statements of comprehensive income for the nine months ended September 30, 2012 was \$2.7 million. As of December 31, 2012, compensation costs for the ROI Unit Stock Plan had been fully accrued.

#### 2007 Stock Incentive Plan

Under the Interactive Brokers Group, Inc. 2007 Stock Incentive Plan (the "Stock Incentive Plan" or "SIP"), up to 20.0 million shares of common stock may be granted and issued to directors, officers, employees, contractors and consultants of IBG, Inc. and its subsidiaries. The purpose of the Stock Incentive Plan is to promote IBG, Inc.'s long-term financial success by attracting, retaining and rewarding eligible participants.

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

The Stock Incentive Plan provides that, upon a change in control, the Compensation Committee may, at its discretion, fully vest any granted but not yet earned awards under the Stock Incentive Plan, or provide that any such granted but not yet earned awards will be honored or assumed, or new rights substituted therefore by the new employer on a substantially similar basis and on terms and conditions substantially comparable to those of the Stock Incentive Plan.

IBG, Inc. granted awards under the Stock Incentive Plan in connection with the IPO and is expected to continue to grant awards on or about December 31 of each year following the IPO, to eligible employees as part of an overall plan of equity compensation. Shares of common stock vest, and become distributable to employees in accordance with the following schedule:

- 10% on the first vesting date, which approximates the anniversary of the IPO; and

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

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

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

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	Shares	Fair Value at Date of Grant (\$Millions)
In connection with IPO	927,943	\$ 27.8
July 31, 2007	16,665	0.4
December 31, 2007	1,055,206	32.9
December 31, 2008	2,065,432	35.6
December 31, 2009	2,448,031	42.8
December 31, 2010	2,513,738	43.2
December 31, 2011	3,411,613	50.8
January 6, 2012	1,215,866	18.4
December 31, 2012	3,629,960	50.5
	17,284,454	\$ 302.4

Estimated future grants under the Stock Incentive Plan are accrued for ratably during each year under the ASC 718 “Graded Vesting” method. Compensation expense recognized in the unaudited condensed consolidated statements of comprehensive income for the nine months ended September 30, 2013 and 2012 were \$28.1 million and \$51.2 million, respectively. Estimated future compensation costs for unvested awards at September 30, 2013 are \$30.2 million.

The following is a summary of Stock Plan activity for the period from January 1, 2013 through September 30, 2013:

	2007 Stock Incentive Plan	Shares	2007 ROI Unit Stock Plan
Balance, December 31, 2012	12,402,482		169,289
Granted	-		-
Forfeited	(308,925)		(6,423)
Distributed (1)	(2,309,122)		(162,866)
Balance, September 30, 2013	9,784,435		-

(1) Shares distributed under the 2007 Stock Incentive Plan include 10,404 shares from Treasury representing shares acquired at the IPO to satisfy obligations under the 2007 ROI Unit Stock Plan.

Awards granted under the ROI Unit Stock Plan and the Stock Incentive Plan are subject to forfeiture in the event an employee ceases employment with the Company. The plans provide that employees who discontinue employment with the Company without cause and continue to meet the terms of the plans’ post-employment provisions will forfeit 50% of unvested previously granted awards unless the employee is over the age of 59, in which case the employee would be eligible to receive 100% of unvested awards previously granted. Distributions of remaining awards granted on or before January 1, 2009 to former employees will occur within 90 days of the anniversary of the termination of employment date over a five (5) year vesting schedule, 12.5% in each of the first four years and 50% in the fifth year. Distributions of remaining awards granted on or after January 1, 2010 to former employees will occur over the remaining vesting schedule applicable to each grant. Through September 30, 2013, a total of 78,312 shares have been

distributed under these post-employment provisions. These distributions are included in the Stock Plans activity tables above.

#### 11. Income Taxes

Income tax expense for the three and nine months ended September 30, 2013 and 2012 differs from the U.S. federal statutory rate due to the differing effective tax rates in foreign, state and local jurisdictions where certain of the Company's subsidiaries are subject to corporate taxation. Deferred income taxes arise primarily due to the amortization of the deferred tax assets recognized in connection with the Common Stock offerings (Note 4), differences in the valuation of financial assets and liabilities, and for other temporary differences arising from the deductibility of compensation and depreciation expenses in different time periods for book and tax return purposes.

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At September 30, 2013, accumulated earnings held by non-U.S. subsidiaries totaled \$1.06 billion (at December 31, 2012 \$969.8 million). Of this amount, approximately \$416.7 million (at December 31, 2012 \$380.6 million) is attributable to earnings of the Company's foreign subsidiaries that are considered "pass-through" entities for U.S. income tax purposes. Since the Company accounts for U.S. income taxes on these earnings on a current basis, no additional U.S. tax consequences would result from the repatriation of these earnings other than that which would be due arising from currency fluctuations between the time the earnings are reported for U.S. tax purposes and when they are remitted. With respect to certain of these subsidiaries' accumulated earnings (approximately \$315.5 million and \$297.5 million as of September 30, 2013 and December 31, 2012, respectively), repatriation would result in additional foreign taxes in the form of dividend withholding tax imposed on the recipient of the distribution or dividend distribution tax imposed on the payor of the distribution. The Company has not provided for its proportionate share of these additional foreign taxes as it does not intend to repatriate these earnings in the foreseeable future. For the same reason, the Company has not provided deferred U.S. tax on cumulative translation adjustments associated with these earnings.

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

## 12. Commitments, Contingencies and Guarantees

### Litigation

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

On February 3, 2010, Trading Technologies International, Inc. ("Trading Technologies") filed a complaint in the United States District Court for the Northern District of Illinois, Eastern Division, against Interactive Brokers Group, Inc., IBG LLC, Holdings, and Interactive Brokers LLC. Thereafter, Trading Technologies dismissed Interactive Brokers Group, Inc. and Holdings from the case, leaving only IBG LLC and Interactive Brokers LLC as defendants ("Defendants"). The operative complaint, as amended, alleges that the Defendants have infringed and continue to infringe twelve U.S. patents held by Trading Technologies. Trading Technologies is seeking, among other things, unspecified damages and injunctive relief. The case is in the early stages and discovery has yet to begin. While it is too early to predict the outcome of the matter, we believe we have meritorious defenses to the allegations made in the complaint and intend to defend ourselves vigorously against them. However, litigation is inherently uncertain and there can be no guarantee that the Company will prevail or that the litigation can be settled on favorable terms.

IBG, Inc. accounts for potential losses related to litigation in accordance with ASC 450, Contingencies. As of September 30, 2013 and December 31, 2012, reserves provided for potential losses related to litigation matters were

not material.

#### Guarantees

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

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

#### Other Commitments

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

### 13. Segment and Geographic Information

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

Interactive Brokers Group, Inc. and Subsidiaries

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

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

Management believes that the following information by business segment provides a reasonable representation of each segment's contribution to total net revenues and income before income taxes for the three and nine months ended September 30, 2013 and 2012, and to total assets as of September 30, 2013 and December 31, 2012 (millions):

	Three months ended September 30,		Nine months ended September 30,	
	2013	2012	2013	2012
Net revenues:				
Electronic brokerage	\$ 194.7	\$ 167.6	\$ 602.5	\$ 498.3
Market making	130.9	154.1	221.9	387.8
Corporate and eliminations	0.7	(3.1)	1.9	(2.7)
Total net revenues	\$ 326.3	\$ 318.6	\$ 826.3	\$ 883.4
Income before income taxes:				
Electronic brokerage	\$ 108.4	\$ 80.8	\$ 342.7	\$ 254.4
Market making	87.5	90.2	66.1	180.2
Corporate and eliminations	0.5	1.6	3.7	(3.8)
Total income before income taxes	\$ 196.4	\$ 172.6	\$ 412.5	\$ 430.8
Assets:				
Electronic brokerage			\$ 29,612.5	\$ 25,741.5
Market making			12,513.3	12,730.8
Corporate and eliminations			(5,848.8)	(5,272.7)
Total assets			\$ 36,277.0	\$ 33,199.6

The Company operates its automated global business in U.S. and international markets on more than 100 exchanges and market centers. A significant portion of IBG, Inc.'s net revenues are generated by subsidiaries operating outside the United States. International operations are comprised of electronic brokerage and market making activities in 23 countries in Europe, Asia and the Americas (outside the United States). The following table presents total net revenues and income before income taxes by geographic area for the three and nine months ended September 30, 2013 and 2012 (millions):



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	Three months ended September 30,		Nine months ended September 30,	
	2013	2012	2013	2012
Net revenues:				
United States	\$ 265.4	\$ 237.1	\$ 597.3	\$ 645.4
International	59.5	86.0	227.2	243.4
Corporate and eliminations	1.4	(4.5)	1.8	(5.4)
Total net revenues	\$ 326.3	\$ 318.6	\$ 826.3	\$ 883.4
Income before income taxes:				
United States	\$ 180.9	\$ 134.1	\$ 331.9	\$ 348.0
International	14.3	38.3	76.9	89.1
Corporate and eliminations	1.2	0.2	3.7	(6.3)
Total income before income taxes	\$ 196.4	\$ 172.6	\$ 412.5	\$ 430.8

Interactive Brokers Group, Inc. and Subsidiaries

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

14. Regulatory Requirements

At September 30, 2013, aggregate excess regulatory capital for all of the Operating Companies was \$2.91 billion.

TH LLC and IB LLC are subject to the Uniform Net Capital Rule (Rule 15c3-1) under the Exchange Act and the CFTC's minimum financial requirements (Regulation 1.17), and THE is subject to the Swiss Financial Market Supervisory Authority eligible equity requirement. Additionally, THSHK is subject to the Hong Kong Securities Futures Commission liquid capital requirement, THA is subject to the Australian Stock Exchange liquid capital requirement, THC and IBC are subject to the Investment Industry Regulatory Organization of Canada risk adjusted capital requirement, IBUK is subject to the U.K. Financial Conduct Authority (formerly known as the U.K. Financial Services Authority) Capital Requirements Directive (formerly the financial resources requirement), IBI is subject to the National Stock Exchange of India net capital requirements and IBSJ is subject to the Japanese Financial Supervisory Agency capital requirements. The following table summarizes capital, capital requirements and excess regulatory capital (millions):

	Net Capital/ Eligible Equity	Requirement	Excess
IB LLC	\$ 1,922.0	\$ 283.0	\$ 1,639.0
TH LLC	470.0	50.5	419.5
THE	654.3	169.3	485.0
Other regulated Operating Companies	404.7	34.0	370.7
	\$ 3,451.0	\$ 536.8	\$ 2,914.2

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

At September 30, 2013, all of the regulated Operating Companies were in compliance with their respective regulatory capital requirements.

15. Related Party Transactions

Receivable from affiliate represents amounts advanced to Holdings and payable to affiliate represents amounts payable to Holdings under the Tax Receivable Agreement (Note 4).

Included in receivables from and payables to customers in the accompanying unaudited condensed consolidated statements of financial condition as of September 30, 2013 and December 31, 2012 were accounts receivable from directors, officers and their affiliates of \$14.3 million and \$1.1 million and payables of \$268.8 million and \$745.0 million, respectively.

16. Subsequent Events

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

Recently, a small number of the Company's brokerage customers took relatively large positions in four securities listed on the Singapore Exchange. In early October, within a very short timeframe, these securities lost over 90% of their value. The customer accounts were margined and fell into deficits to the extent of approximately \$68 million in aggregate, as measured shortly after the event. The maximum aggregate loss, which would occur if the securities' prices all fell to zero and none of the debts were collected, would be approximately \$84 million. The Company is currently pursuing the collection of the debts. The ultimate effect of this incident on the Company's results will depend upon market conditions and the outcome of the Company's debt collection efforts.

No other recordable or disclosable events, not otherwise reported in these financial statements or the notes thereto, occurred.

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

The following discussion should be read in conjunction with the unaudited condensed consolidated financial statements and the related notes in Item 1, included elsewhere in this report. In addition to historical information, the following discussion also contains forward-looking statements that include risks and uncertainties. Our actual results may differ materially from those anticipated in these forward-looking statements as a result of certain factors, including those set forth under the heading "Risk Factors" in our Annual Report on Form 10-K filed with the Securities Exchange Commission ("SEC") on March 8, 2013 and elsewhere in this report.

### Introduction

IBG, Inc. is a holding company whose primary asset is ownership of approximately 12.4% of the membership interests of the Group.

We are an automated global electronic broker and market maker specializing in executing and clearing trades in securities, futures, foreign exchange instruments, bonds and mutual funds on more than 100 electronic exchanges and trading venues around the world and offering custody, prime brokerage, stock and margin borrowing services. 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 23 years has provided us with the opportunity to integrate our software with an increasing number of exchanges and trading venues into one automatically functioning, computerized platform that requires minimal human intervention.

### Business Segments

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

- **Electronic Brokerage.** We conduct our electronic brokerage business through our Interactive Brokers ("IB") subsidiaries. As an electronic broker, we execute, clear and settle trades globally for both institutional and individual customers. Capitalizing on the technology originally developed for our market making business, IB's award-winning systems provide our customers with the capability to monitor multiple markets around the world simultaneously and to execute trades electronically in these markets at a low cost, in multiple products and currencies from a single trading account. We offer our customers access to all classes of tradable, exchange-listed products, including stocks, bonds, options, futures, forex and mutual funds traded on more than 100 exchanges and market centers and in 22 countries around the world seamlessly.

Our customer base is diverse, with respect to geography and segments. Currently, more than half of our customers are located outside the U.S., residing in over 190 countries. More than 40% of our customers are institutional accounts, including hedge funds, financial advisors, proprietary trading desks and introducing brokers. We have developed specialized products and services that have been successful in attracting these accounts. For example, we offer prime brokerage services including capital introduction and securities lending to hedge funds; and our model portfolio technology, automated share allocation and rebalancing tools are particularly attractive to financial advisors. The IB Money Manager Marketplace allows wealth advisors to search for money managers and assign them to client accounts based on their investment strategy. In addition, IBEmployeeTrackSM is widely used by compliance officers of financial institutions to streamline the process of tracking their employees' brokerage activities.

We also provide information services through the Interactive Brokers Information System ("IBIS"). IBIS offers subscribers and our brokerage customers a robust suite of informational tools at a fraction of the cost of traditional

research platforms. It includes live quotes, newswire feeds, calendars of economic and earnings events, fundamental research data, charts and more in an interface that can be configured to customers' needs. IBIS is available to our cleared customers free of charge.

- **Market Making.** We conduct our market making business through our Timber Hill subsidiaries. As one of the largest market makers on many of the world's leading exchanges, we provide liquidity by offering competitively tight bid/offer spreads over a broad base of over 866,000 tradable, exchange-listed products. As principal, we commit our own capital and derive revenues or incur losses from the difference between the price paid when securities are bought and the price received when those securities are sold. Because we provide continuous bid and offer quotations and we are continuously both buying and selling quoted securities, we may have either a long or a short position in a particular product at a given point in time. Our entire portfolio is evaluated each second and continuously rebalanced throughout the trading day, minimizing the risk of our portfolio at all times. This real-time rebalancing of our portfolio, together with our real-time proprietary risk management system, enables us to curtail risk and to be profitable in both up-market and down-market scenarios.

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

## Executive Overview

**Third Quarter Results:** Diluted earnings per share on a comprehensive basis were \$0.39 for the quarter ended September 30, 2013 as compared to comprehensive diluted earnings per share of \$0.30 for the same period in 2012.

Reported results on a comprehensive basis reflect the GAAP convention that requires the reporting of currency translation results contained in other comprehensive income (“OCI”) as part of reportable earnings.

Currency translation effects are largely a result of our currency strategy. We have determined to base our net worth in GLOBALs, a self-defined basket of currencies in which we maintain our equity. As a result, approximately 62% of our equity is denominated in currencies other than U.S. dollars<sup>1</sup>. The effects of our currency strategy appear in two places in the financial statements: (1) as a component of trading gains in the unaudited condensed consolidated statement of comprehensive income and (2) as OCI in the unaudited condensed consolidated statement of financial condition. As described above, the full effect of the GLOBAL is captured in comprehensive income.

On a non-comprehensive basis, which excludes the effect of changes in the U.S. dollar value of the Company’s non-U.S. subsidiaries, diluted earnings per share were \$0.32 for the three months ended September 30, 2013, as compared to \$0.26 for the three months ended September 30, 2012.

In light of the weakening of the U.S. dollar against a number of other currencies, adding OCI to net income increased diluted comprehensive earnings per share by \$0.07 for the current quarter.

**Consolidated:** For the three months ended September 30, 2013, our net revenues were \$326.3 million and income before income taxes was \$196.4 million, as compared to net revenues of \$318.6 million and income before income taxes of \$172.6 million for the corresponding period in 2012. This increase was driven by higher commissions and execution fees and higher net interest income, partially offset by a decrease in trading gains. Commissions and execution fees increased from the year-ago quarter, reflecting growth in customer accounts and higher average trading activity per customer. The decrease in trading gains was a result of a continued lackluster market making environment marked by low volatility and lower actual to implied volatility. As a result of the weakening of the U.S. dollar and our currency diversification strategy, currency translation increased trading gains by \$46.2 million this quarter compared to a gain of \$41.5 million in the year-ago quarter. Our pretax margin for the three months ended September 30, 2013 was 60%, as compared to 54% for the corresponding period in 2012.

**Brokerage:** During the three months ended September 30, 2013, income before income taxes in our electronic brokerage segment increased 34%, to \$108.4 million from \$80.8 million, in the three months ended September 30, 2012, driven by increased commissions and execution fees and higher net interest income. Commissions increased by 20% from the year-ago quarter on higher customer volume in options, futures and stocks and continued account growth. Total customer Daily Average Revenue Trades (“DARTs”) increased by 21% from the same period last year. The increase in net interest income was attributable to higher net interest earned on larger customer cash and margin balances compared to the year-ago period as well as an increase in net fees earned from securities borrowed and loaned transactions. Customer equity grew by 31%, to \$41.4 billion, from the year-ago quarter<sup>2</sup>. Pretax margin increased from 48% to 56% for the three months ended September 30, 2012 and 2013, respectively, as we continue to leverage our highly automated brokerage model.

**Market Making:** During the three months ended September 30, 2013, income before income taxes in our market making segment decreased 3%, to \$87.5 million from \$90.2 million, in the three months ended September 30, 2012. This reflects a \$26.5 million decrease in trading gains from the year-ago quarter. Removing the effects of currency translation, the Market Making segment produced \$41.3 million pretax income in this quarter, compared to \$48.7 million for the same period last year. Trading gains were negatively impacted by a lackluster market making environment with low volatility and lower actual to implied volatility. The average CBOE Volatility Index, or VIX<sup>®</sup>,

declined by 12% from the year-ago quarter.

Execution and clearing expenses were 31% lower during the three months ended September 30, 2013 than in the year-ago quarter due to lower options trading volume, which was down 16% from the year-ago quarter. Pretax margin increased to 67% in the third quarter of 2013 from 59% in the corresponding period of 2012. Excluding currency translation effects, pretax margin was 49%, as compared to 43% in the prior year quarter. The increase in pretax margin was attributable to a 33% decrease in fixed expenses and currency translation gains.

Nine Months Results: Diluted earnings per share on a comprehensive basis were \$0.59 for the nine months ended September 30, 2013 as compared to comprehensive diluted earnings per share of \$0.71 for the same period in 2012.

1 For a full description of our currency strategy, please see pages 54 - 55, Foreign Currency Exposure.

2 Approximately 10% of the \$9.9 billion increase in customer equity was due to the reclassification of certain related accounts from “non-customer” to “customer”, which are regulatory distinctions.

On a non-comprehensive basis, which excludes the effect of changes in the U.S. dollar value of the Company's non-U.S. subsidiaries, diluted earnings per share were \$0.67 for the nine months ended September 30, 2013, as compared to \$0.70 for the nine months ended September 30, 2012.

In light of the overall strengthening of the U.S. dollar against a number of other currencies, adding OCI to net income decreased diluted comprehensive earnings per share by \$0.08 for the nine months ended September 30, 2013.

Consolidated: For the nine months ended September 30, 2013, our net revenues were \$826.3 million and income before income taxes was \$412.5 million, as compared to net revenues of \$883.4 million and income before income taxes of \$430.8 million for the corresponding period in 2012. This decrease was driven by lower trading gains, partially offset by an increase in commissions and execution fees and an increase in net interest income. The decrease in trading gains was a result of a subdued market making environment and negative currency translation effects as compared to the nine months ended September 30, 2012. As a result of the strengthening of the U.S. dollar, currency translation decreased trading gains by \$57.3 million for the first nine months of the year compared to a negative impact of \$0.5 million in the year-ago period. Commissions and execution fees increased from the same period last year due to higher customer volume. The reduction in expenses was attributable to lower execution and clearing fees and lower employee compensation and benefits, as compared to the year-ago period. Our pretax margin for the nine months ended September 30, 2013 was 50%, as compared to 49% for the corresponding period in 2012.

Brokerage: During the nine months ended September 30, 2013, income before income taxes in our electronic brokerage segment increased 35%, to \$342.7 million from \$254.4 million, in the nine months ended September 30, 2012. The drivers were increased commissions and execution fees and net interest income, partially offset by an increase in execution and clearing fee expenses. Commissions increased by 22% from the year-ago period on higher customer volume in options, futures and stocks. Total DARTs from cleared and execution only customers increased by 16% from the same period last year. Execution and clearing expenses were 12% higher on increased customer volume. The increase in net interest income was attributable to larger customer cash and margin balances compared to the year-ago period as well as an increase in net fees earned from securities borrowed and loaned transactions. Pretax margin increased from 51% to 57% for the nine months ended September 30, 2012 and 2013, respectively.

Market Making: During the nine months ended September 30, 2013, income before income taxes in our market making segment decreased 63%, to \$66.1 million from \$180.2 million, in the nine months ended September 30, 2012. This reflects a \$170.7 million decrease in trading gains from the prior year period. Removing the effects of currency translation, the Market Making segment produced \$123.4 million pretax income in the first nine months of 2013, as compared to \$180.7 million for the same period last year. Trading gains were negatively impacted by an unfavorable market making environment with low volatility.

Currency translation effects decreased trading gains by \$56.8 million more than in the corresponding period in 2012, reflecting a \$57.3 million loss compared to a \$0.5 million loss in the first nine months of 2012. Execution and clearing expenses were 28% lower during the nine months ended September 30, 2013 than in the prior year period due to an 11% decrease in options volume. Pretax margin decreased to 30% for the first nine months of 2013, as compared to 47% in the corresponding period of 2012. Excluding currency translation effects, pretax margin was 44%, as compared to 47% in the prior year period.

Subsequent Event, anticipated increase in customer bad debt reserve

Recently, a small number of our brokerage customers took relatively large positions in four securities listed on the Singapore Exchange. In early October, within a very short timeframe, these securities lost over 90% of their value. The customer accounts were margined and fell into deficits to the extent of approximately \$68 million in aggregate, as measured shortly after the event. The maximum aggregate loss, which would occur if the securities'



prices all fell to zero and none of the debts were collected, would be approximately \$84 million. We are currently pursuing the collection of the debts. The ultimate effect of this incident on our results will depend upon market conditions and the outcome of our debt collection efforts.

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

TRADE VOLUMES:

(in 000's, except %)

Period	Market Making		Brokerage		Brokerage Non		Total		Avg. Trades per U.S. Trading Day
	Trades	% Change	Trades	% Change	Trades	% Change	Trades	% Change	
2009	93,550		127,338		13,636		234,524		934
2010	75,169	-20%	133,658	5%	18,732	37%	227,559	-3%	905
2011	63,602	-15%	160,567	20%	19,187	2%	243,356	7%	968
2012	60,421	-5%	150,000	-7%	16,118	-16%	226,540	-7%	904
3Q2012	14,405		36,246		3,435		54,086		865
3Q2013	15,522	8%	42,597	18%	4,586	34%	62,705	16%	987

CONTRACT AND SHARE VOLUMES:

(in 000's, except %)

TOTAL Period	Options (contracts)	% Change	Futures (contracts)	% Change	Stocks (shares)	% Change
2009	643,380		82,345		75,449,891	
2010	678,856	6%	96,193	17%	84,469,874	12%
2011	789,370	16%	106,640	11%	77,730,974	-8%
2012	698,140	-12%	98,801	-7%	65,872,960	-15%
3Q2012	169,745		24,020		15,364,650	
3Q2013	153,153	-10%	29,666	24%	22,989,713	50%

MARKET MAKING Period	Options (contracts)	% Change	Futures (contracts)	% Change	Stocks (shares)	% Change
2009	428,810		15,122		26,205,229	
2010	435,184	1%	15,371	2%	19,165,000	-27%
2011	503,053	16%	15,519	1%	11,788,769	-38%
2012	457,384	-9%	12,660	-18%	9,339,465	-21%
3Q2012	110,549		3,007		2,347,903	
3Q2013	93,254	-16%	4,263	42%	3,169,320	35%

Notes:

1. Futures contract volume includes options on futures.

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

CONTRACT AND SHARE VOLUMES, continued:  
 (in 000's, except %)

BROKERAGE TOTAL						
Period	Options (contracts)	% Change	Futures (contracts)	% Change	Stocks (shares)	% Change
2009	214,570		67,223		49,244,662	
2010	243,672	14%	80,822	20%	65,304,874	33%
2011	286,317	18%	91,121	13%	65,942,205	1%
2012	240,756	-16%	86,141	-5%	56,533,495	-14%
3Q2012	59,196		21,013		13,016,747	
3Q2013	59,899	1%	25,403	21%	19,820,393	52%
BROKERAGE CLEARED						
Period	Options (contracts)	% Change	Futures (contracts)	% Change	Stocks (shares)	% Change
2009	93,868		66,241		46,627,344	
2010	103,054	10%	79,144	19%	62,077,741	33%
2011	145,993	42%	89,610	13%	63,098,072	2%
2012	144,539	-1%	84,794	-5%	54,371,351	-14%
3Q2012	37,174		20,686		12,594,066	
3Q2013	42,668	15%	25,017	21%	18,820,414	49%

Note:

1. Futures contract volume includes options on futures.

## BROKERAGE STATISTICS

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

	3Q2013	3Q2012	% Change
Total Accounts	231	205	13%
Customer Equity (in billions) *	\$41.4	\$31.5	31%
Cleared DARTs	426	369	15%
Total Customer DARTs	471	390	21%

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

Commission per DART	\$4.32	\$4.23	2%
DART per Avg. Account (Annualized)	469	456	3%
Net Revenue per Avg. Account (Annualized)	\$3,291	\$3,216	2%

\* Excludes non-customers. Approximately 10% of the \$9.9 billion increase in customer equity was due to the reclassification of certain related accounts from "non-customer" to "customer", which are regulatory distinctions.



## Business Environment

During the third quarter, we continued to see strong growth in customer accounts, margin balances and customer equity. Customer accounts grew by 13%, which exceeded the growth rate of other large eBrokers. Margin balances grew 38% year over year as customers took advantage of our low financing rates. As an example, the highest borrowing rate we charged customers on U.S. dollar balances, on average, was 1.59% for the third quarter of 2013. Market values continued to rise as U.S. indexes added to their strong gains from the first half of the year, with the S&P 500 Index climbing 17% over its year-ago level. This partially contributed to our 31% increase in customer equity, with the remaining increase driven by new account growth as well as existing accounts transferring more assets to our platform.

Exchange traded volumes and volatility levels were more subdued than in the second quarter of this year, during which there was a temporary increase in market activity. Compared to the year ago quarter, volatility levels were significantly lower and exchange traded volumes were slightly higher. In general, volatility and trading volumes are directly correlated to the profits of our brokerage and market making businesses. This environment weighed on trading gains and commission revenues during the quarter when comparing our results on a sequential basis.

We maintained our position as the largest U.S. electronic broker as measured by number of customer revenue trades. Our customers' trading activity continued to outpace the industry, with a 21% year-over-year increase in DARTs. By comparison, global trading volumes in exchange-listed equity-based options increased by 2% both globally and in the U.S., as compared to the corresponding quarter in 2012, according to data received from exchanges worldwide.

This environment of historical low volatility depressed our market making earnings, although our trading gains were boosted this quarter by positive currency movements as described below. Our market making profits are generally correlated with market volatility since we typically maintain an overall long volatility position, which protects us against a severe market dislocation in either direction. Based on the VIX® the average volatility during the third quarter was approximately 12% lower than it was in the third quarter of 2012 and 4% lower than the previous quarter. The ratio of actual to implied volatility is also meaningful to our results, because the cost of hedging our positions is based on implied volatility while our trading profits are, in part, based on actual market volatility. A higher ratio of actual to implied volatility is generally favorable and a lower ratio generally has a negative effect on our trading gains. This ratio averaged approximately 63% during the third quarter, as compared to 95% in the second quarter of 2013 and 71% in the year-ago quarter.

Currency movements positively impacted our performance as the U.S. dollar weakened against a number of the currencies in the GLOBAL, a self-defined currency basket in which we base our equity. As a global market maker trading on exchanges around the world in multiple currencies, we are exposed to foreign currency risk. We actively manage this exposure by maintaining our net worth in GLOBALs. Because we report our financial results in U.S. dollars, the change in the value of the GLOBAL expressed in U.S. dollars affects our earnings. As of September 30, 2013, 62% of the GLOBAL was comprised of foreign currencies. During the third quarter of 2013, the value of the GLOBAL as expressed in U.S. dollars increased 1.5% from the previous quarter-end, which positively affected our comprehensive earnings and partially offset the negative impact of lower year-over-year volatilities this quarter.

During the third quarter of 2013 we accounted for approximately 8.7% of the exchange-listed equity-based options (including options on ETFs and stock index products) volume traded worldwide and approximately 11.7% of exchange-listed equity-based options volume traded in the U.S. This compares to approximately 9.9% of the exchange-listed equity-based options volume traded worldwide and approximately 13.4% of the exchange-listed equity-based options volume traded in the U.S. in the third quarter of 2012. Note that market share is not directly correlated with our profits.

See the tables on pages 35-36 of this Quarterly Report on Form 10-Q for additional details regarding our trade volumes, contract and share volumes and brokerage statistics.

## Certain Trends and Uncertainties

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

- Over the past several years, the effects of market structure changes, competition (in particular, from HFTs) 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.
- The practice of internalization of order flow by brokers and the expanded use of so-called “dark pools”, which may exclude certain market participants from interacting with marketable orders, may reduce liquidity and transparency in the securities markets.
- 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.
- Regulatory and legislative authorities have increased their scrutiny of equity and option market makers, hedge funds and soft dollar practices. New legislation or modifications to existing regulations and rules could occur in the future.
  - Consolidation among market centers may adversely affect the value of our smart routing software.
- A driver of our market making profits is the relationship between actual and implied volatility in the equities markets. The cost of maintaining our conservative risk profile is based on implied volatility, while our profitability, in part, is based on actual volatility. Hence, our profitability is increased when actual volatility runs above implied volatility and it is decreased when actual volatility falls below implied volatility. Implied volatility tends to lag actual volatility.

See “Risk Factors” in Part I, Item 1A of the Company’s Annual Report on Form 10-K filed with the SEC on March 8, 2013 and elsewhere in this report for a discussion of other risks that may affect our financial condition and results of operations.

## Results of Operations

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

	Three Months		Nine Months	
	Ended September 30, 2013	2012	Ended September 30, 2013	2012
(in millions, except share and per share data)				
Revenues:				
Trading gains	\$123.3	\$149.7	\$201.4	\$372.0
Commissions and execution fees	120.4	100.5	378.0	309.5
Interest income	74.0	65.4	220.6	200.6
Other income	20.8	17.2	65.0	50.8
<b>Total revenues</b>	<b>338.5</b>	<b>332.8</b>	<b>865.0</b>	<b>932.9</b>
Interest expense	12.2	14.2	38.7	49.5
<b>Total net revenues</b>	<b>326.3</b>	<b>318.6</b>	<b>826.3</b>	<b>883.4</b>
Non-interest expenses:				
Execution and clearing	56.0	61.7	180.3	192.5
Employee compensation and benefits	44.3	57.7	148.6	180.2
Occupancy, depreciation and amortization	9.3	9.0	28.6	28.9
Communications	6.2	6.0	17.4	17.2
General and administrative	14.1	11.6	38.9	33.8
<b>Total non-interest expenses</b>	<b>129.9</b>	<b>146.0</b>	<b>413.8</b>	<b>452.6</b>
<b>Income before income taxes</b>	<b>196.4</b>	<b>172.6</b>	<b>412.5</b>	<b>430.8</b>
Income tax expense	10.4	14.7	31.2	34.4
<b>Net income</b>	<b>186.0</b>	<b>157.9</b>	<b>381.3</b>	<b>396.4</b>
Less net income attributable to noncontrolling interests	169.5	145.4	347.9	364.8
<b>Net income (loss) attributable to common stockholders</b>	<b>\$16.5</b>	<b>\$12.5</b>	<b>\$33.4</b>	<b>\$31.6</b>
Earnings (loss) per share :				
Basic	\$0.33	\$0.26	\$0.68	\$0.70
Diluted	\$0.32	\$0.26	\$0.67	\$0.70



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Weighted average common shares  
outstanding:

Basic	49,966,050	47,488,459	48,807,321	46,588,213
Diluted	50,988,214	47,679,818	49,981,664	46,865,770

Comprehensive income:

Net income (loss) attributable to common stockholders	\$16.5	\$12.5	\$33.4	\$31.6
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Other comprehensive income:

Cumulative translation adjustment, before income taxes	3.7	3.0	(4.0)	1.3
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Income taxes related to items of other comprehensive income	0.1	1.1	(0.3)	0.5
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Other comprehensive income (loss), net of tax	3.6	1.9	(3.7)	0.8
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Comprehensive income (loss) attributable to common stockholders	\$20.1	\$14.4	\$29.7	\$32.4
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Comprehensive income attributable to noncontrolling interests:

Net income attributable to noncontrolling interests	\$169.5	\$145.4	\$347.9	\$364.8
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Other comprehensive income (loss) - cumulative translation adjustment	26.0	22.0	(29.6)	9.9
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Comprehensive income attributable to noncontrolling interests	\$195.5	\$167.4	\$318.3	\$374.7
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Three Months Ended September 30, 2013 Compared to the Three Months Ended September 30, 2012

Net Revenues

Total net revenues for the quarter ended September 30, 2013 increased \$7.7 million or 2%, to \$326.3 million from \$318.6 million during the quarter ended September 30, 2012. The increase in net revenues was primarily due to higher commissions and execution fees and higher net interest income, partially offset by a decrease in trading gains compared to the year-ago quarter. Trading volume is an important driver of revenues and costs for both our electronic brokerage and market making segments. Our third quarter 2013 volumes in options decreased 10% from year-ago levels while futures contracts and stock shares volumes increased 24% and 50%, respectively.

**Trading Gains.** Trading gains for the quarter ended September 30, 2013 decreased \$26.4 million, or 18%, to \$123.3 million from \$149.7 million for the quarter ended September 30, 2012. Removing the effects of currency translation, the Market Making segment produced \$77.0 million in trading gains in this quarter, compared to \$108.2 million in trading gains for the same period last year. As market makers, we provide liquidity by buying from sellers and selling to buyers. During the quarter ended September 30, 2013, our market making operations executed 15.5 million trades, an increase of 8% as compared to the number of trades executed in the quarter ended September 30, 2012. Marketing making options contract volume decreased 16% while futures contracts and stock shares volumes increased 42% and 35%, respectively, as compared to the year-ago quarter. Trading gains reflected a currency translation gain of \$46.2 million during the current quarter compared to a \$41.5 million gain in same period of 2012. As part of managing our overall exposure to foreign currency fluctuations, we maintain our capital in a basket of currencies we call the GLOBAL. A discussion of our approach to managing foreign currency exposure is contained in Part I, Item 3 of this Quarterly Report on Form 10-Q entitled “Quantitative and Qualitative Disclosures about Market Risk.”

Trading gains were negatively impacted by a 12% decrease in average volatility, as measured by the VIX®, in the three months ended September 30, 2013 as compared to the year-ago quarter. Further, the ratio of actual to implied volatility decreased by 11% to 63%, as compared to the year-ago quarter. As a result, after removing the effects of currency translation, our trading gains were approximately 29% lower than those of the year-ago quarter.

Included in trading gains are net dividends. 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, which will not be received by those who purchase stock after the ex-dividend date. Hence, the apparent gains and losses due to these price changes, reflecting the value of dividends paid to shareholders, must be taken together with the dividends paid and received, respectively, to accurately reflect the results of our market making operations.

**Commissions and Execution Fees.** Commissions and execution fees for the quarter ended September 30, 2013 increased \$19.9 million, or 20%, to \$120.4 million, as compared to the quarter ended September 30, 2012, reflecting growth in customer accounts and higher average trading activity per customer. Cleared customer options, futures and stock volumes increased 15%, 21% and 49%, respectively. Total DARTs for cleared and execution-only customers for the quarter ended September 30, 2013 increased 21% to approximately 471,000, as compared to approximately 390,000 during the quarter ended September 30, 2012. Average commission per DART for cleared customers, for the quarter ended September 30, 2013, increased by 2% to \$4.32, as compared to \$4.23 for the quarter ended September 30, 2012. DARTs for cleared customers, i.e., customers for whom we execute trades as well as clear and carry positions, increased 15% to approximately 426,000, for the quarter ended September 30, 2013, as compared to approximately 369,000 for the quarter ended September 30, 2012. The number of customer accounts grew by 13% to approximately 231,000 at September 30, 2013, as compared to approximately 205,000 at September 30, 2012. Customer equity grew by 31%, to \$41.4 billion, from the year-ago quarter-end.

Interest Income and Interest Expense. Net interest income (interest income less interest expense) for the quarter ended September 30, 2013 increased \$10.6 million, or 21%, to \$61.8 million, as compared to the quarter ended September 30, 2012. The increase in net interest income was driven by higher customer cash and margin balances and higher net fees earned from securities borrowed and loaned transactions.

Net interest income on customer balances increased \$4.4 million compared to the year-ago quarter. Average customer cash balances increased by 21%, to \$24.00 billion, while average customer fully secured margin borrowings increased 35% to \$12.03 billion, for the quarter ended September 30, 2013, as compared to \$19.78 billion and \$8.88 billion, respectively, for the quarter ended September 30, 2012. The average Fed Funds effective rate decreased five basis points to 0.09% for the quarter ended September 30, 2013 as compared to the quarter ended September 30, 2012.

We earn fees on securities loaned and borrowed to support customer long and short stock holdings in margin accounts. In addition, our Stock Yield Enhancement Program provides an opportunity for customers with fully-paid stock to allow IB to lend it out. In exchange for lending out their stock, our customers receive 50% of the stock loan fees. IB places cash collateral securing the loans in the customer's account.

In the market making segment, as a result of the way we have integrated our market making and securities lending systems, our trading income and our net interest income are interchangeable and depend on the mix of market making positions in our portfolio. When implied interest rates in the equity and equity options and futures markets exceed the actual interest rates available to us, our market making systems tend to buy stock and sell it forward, which produces higher trading gains and lower net interest income. When these rates are inverted, our market making systems tend to sell stock and buy it forward, which produces lower trading gains and higher net interest income.

Average securities borrowed increased by 22%, to \$3.43 billion and average securities loaned increased by 20%, to \$2.26 billion, for the quarter ended September 30, 2013. Net interest earned from securities borrowed and loaned is also affected by the level of demand for securities positions held by our market making companies and by our customers. During the quarter ended September 30, 2013, net fees earned by our brokerage and market making segments from securities borrowed and loaned transactions increased \$6.1 million compared to the quarter ended September 30, 2012.

**Other Income.** Other income, for the quarter ended September 30, 2013, increased \$3.6 million, or 21%, to \$20.8 million, as compared to the quarter ended September 30, 2012. The increase was primarily due to gains on non-market making securities.

#### Non-Interest Expenses

Non-interest expenses, for the quarter ended September 30, 2013, decreased by \$16.1 million, or 11%, to \$129.9 million from \$146.0 million, during the quarter ended September 30, 2012. The decrease was primarily due to lower execution and clearing fees in the market making segment and lower employee compensation and benefits expenses. As a percentage of total net revenues, non-interest expenses decreased to 40% for the quarter ended September 30, 2013 from 46% during the corresponding period in 2012.

**Execution and Clearing.** Execution and clearing expenses for the quarter ended September 30, 2013, decreased \$5.7 million, or 9%, to \$56.0 million, as compared to the quarter ended September 30, 2012. The decrease is in line with the trading volume fluctuations in the quarter, and an increase in the proportion of our market maker executions on exchanges and ECNs with make-or-take revenue models. As a market maker under the make-or-take fee model, we are paid for providing liquidity instead of being charged payment-for-order flow fees.

**Employee Compensation and Benefits.** Employee compensation and benefits expenses, for the quarter ended September 30, 2013, decreased by \$13.4 million, or 23%, to \$44.3 million, as compared to the quarter ended September 30, 2012, reflecting the non-recurrence of a special employee Stock Incentive Plan (“SIP”) grant made in 2012 and forfeiture of SIP units. The average number of employees was 885 for the quarter ended September 30, 2013, in line with the year-ago quarter, although within that total, the electronic brokerage segment count increased while market making was reduced. As we continue to grow, our focus on automation has allowed us to maintain a relatively small staff. As a percentage of total net revenues, employee compensation and benefits expenses were 14% and 18% for the quarters ended September 30, 2013 and 2012, respectively.

**General and Administrative.** General and administrative expenses, for the quarter ended September 30, 2013, increased \$2.5 million, or 22% to \$14.1 million, as compared to the quarter ended September 30, 2012. The increase in general and administrative expenses was primarily due to increases in litigation settlement and bad debt expenses.

#### Nine Months Ended September 30, 2013 Compared to the Nine Months Ended September 30, 2012

#### Net Revenues

Total net revenues for the nine months ended September 30, 2013 decreased \$57.1 million or 6%, to \$826.3 million from \$883.4 million during the nine months ended September 30, 2012. The decrease in net revenues was primarily due to lower trading gains compared to the year-ago quarter, partially offset by increases in commissions and execution fees and net interest income. Trading volume is an important driver of revenues and costs for both our electronic brokerage and market making segments. During the nine months ended September 30, 2013 our volumes in options decreased 6% from prior year levels while futures contracts and stock shares volumes increased 27% and 41%, respectively.

**Trading Gains.** Trading gains for the nine months ended September 30, 2013 decreased \$170.6 million, or 46%, to \$201.4 million from \$372.0 million for the nine months ended September 30, 2012. Removing the effects of currency translation, the Market Making segment produced \$258.6 million in trading gains in the nine months ended September 30, 2013, compared to \$372.5 million in trading gains for the same period last year. As market makers, we provide liquidity by buying from sellers and selling to buyers. During the nine months ended September 30, 2013, our market making operations executed 50.9 million trades, an increase of 11% as compared to the number of trades executed in the nine months ended September 30, 2012. Market Making options contract volume decreased 11% while futures contracts and stock shares volumes increased 47% and 44%, respectively, as compared to the year-ago period. The decrease in trading gains was amplified by a \$56.8 million increase in currency losses. Trading gains reflected a currency translation loss of \$57.3 million during the first nine months of the year, compared to a \$0.5 million loss in same period of 2012. As

part of managing our overall exposure to foreign currency fluctuations, we maintain our capital in a basket of currencies we call the GLOBAL. A discussion of our approach to managing foreign currency exposure is contained in Part I, Item 3 of this Quarterly Report on Form 10-Q entitled “Quantitative and Qualitative Disclosures about Market Risk.”

Trading gains were negatively impacted by a 22% decrease in average volatility, as measured by the VIX®, in the nine months ended September 30, 2013 as compared to the year-ago period. As a result, our trading gains, after removing the effects of currency translation, were approximately 31% lower than those of the year-ago period.

Included in trading gains are net dividends. 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, which will not be received by those who purchase stock after the ex-dividend date. Hence, the apparent gains and losses due to these price changes, reflecting the value of dividends paid to shareholders, must be taken together with the dividends paid and received, respectively, to accurately reflect the results of our market making operations.

**Commissions and Execution Fees.** Commissions and execution fees for the nine months ended September 30, 2013 increased \$68.5 million, or 22%, to \$378.0 million, as compared to the nine months ended September 30, 2012, driven by continued customer account growth and increased customer activity. Cleared customer options, futures and stock volumes increased 22%, 24% and 39%, respectively. Total DARTs for cleared and execution-only customers for the nine months ended September 30, 2013 increased 16% to approximately 481,000, as compared to approximately 415,000 during the nine months ended September 30, 2012. Average commission per DART for cleared customers, for the nine months ended September 30, 2013, increased by 8% to \$4.48, as compared to \$4.14 for the nine months ended September 30, 2012. DARTs for cleared customers, i.e., customers for whom we execute trades as well as clear and carry positions, increased 13% to approximately 437,000, for the nine months ended September 30, 2013, as compared to approximately 386,000 for the nine months ended September 30, 2012.

**Interest Income and Interest Expense.** Net interest income (interest income less interest expense) for the nine months ended September 30, 2013 increased \$30.8 million, or 20%, to \$181.9 million, as compared to the nine months ended September 30, 2012. The increase in net interest income was driven by higher customer cash and margin balances and higher net fees earned from securities borrowed and loaned transactions.

Net interest income on customer balances increased \$11.4 million compared to the year-ago quarter. Average customer cash balances increased by 20%, to \$22.88 billion, while average customer fully secured margin borrowings increased 37% to \$11.44 billion, for the nine months ended September 30, 2013, as compared to \$19.12 billion and \$8.38 billion, respectively, for the nine months ended September 30, 2012. The average Fed Funds effective rate decreased one basis point to 0.12% for the nine months ended September 30, 2013.

We earn fees on securities loaned and borrowed to support customer long and short stock holdings in margin accounts. In addition, our Stock Yield Enhancement Program provides an opportunity for customers with fully-paid stock to allow IB to lend it out. In exchange for lending out their stock, our customers receive 50% of the stock loan fees. IB places cash collateral securing the loans in the customer’s account.

In the market making segment, as a result of the way we have integrated our market making and securities lending systems, our trading income and our net interest income are interchangeable and depend on the mix of market making positions in our portfolio. When implied interest rates in the equity and equity options and futures markets exceed the actual interest rates available to us, our market making systems tend to buy stock and sell it forward, which produces higher trading gains and lower net interest income. When these rates are inverted, our market making systems tend to sell stock and buy it forward, which produces lower trading gains and higher net interest income.

Average securities borrowed increased by 18%, to \$3.45 billion and average securities loaned increased by 23%, to \$2.17 billion, for the nine months ended September 30, 2013. Net interest earned from securities borrowed and loaned is also affected by the level of demand for securities positions held by our market making companies and by our customers. During the nine months ended September 30, 2013, net fees earned by our brokerage and market making segments from securities borrowed and loaned transactions increased \$18.6 million as compared to the nine months ended September 30, 2012.

Other Income. Other income, for the nine months ended September 30, 2013, increased \$14.2 million, or 28%, to \$65.0 million, as compared to the nine months ended September 30, 2012. The increase was due to increased gains on non-market making investments and dividend income on an exchange investment.

#### Non-Interest Expenses

Non-interest expenses, for the nine months ended September 30, 2013, decreased by \$38.8 million, or 9%, to \$413.8 million from \$452.6 million, during the nine months ended September 30, 2012. The decrease was primarily due to lower employee compensation and benefits expenses and lower execution and clearing fees in the market making segment. As a percentage of total net

revenues, non-interest expenses decreased to 50% for the nine months ended September 30, 2013 from 51% during the corresponding period in 2012.

**Execution and Clearing.** Execution and clearing expenses for the nine months ended September 30, 2013, decreased \$12.2 million, or 6%, to \$180.3 million, as compared to the nine months ended September 30, 2012. The decrease resulted from a 6% drop in options volume and an increase in the proportion of our market maker executions on exchanges and ECNs with make-or-take revenue models. As a market maker under the make-or-take fee model, we are paid for providing liquidity instead of being charged payment-for-order flow fees.

**Employee Compensation and Benefits.** Employee compensation and benefits expenses, for the nine months ended September 30, 2013, decreased by \$31.6 million, or 18%, to \$148.6 million, as compared to the nine months ended September 30, 2012, reflecting the non-recurrence of a special employee Stock Incentive Plan grant made in 2012 and lower incentive compensation related expenses. The average number of employees increased 1% to 888 for the nine months ended September 30, 2013, as compared to 884 for the corresponding period in 2012. As we continue to grow, our focus on automation has allowed us to maintain a relatively small staff. As a percentage of total net revenues, employee compensation and benefits expenses were 18% and 20% for the nine months ended September 30, 2013 and 2012, respectively.

**General and Administrative.** General and administrative expenses, for the nine months ended September 30, 2013, increased \$5.1 million, or 15% to \$38.9 million, as compared to the nine months ended September 30, 2012. The increase in general and administrative expenses was primarily due to increases in bad debt, litigation settlement and advertising expenses.



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Business Segments

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

		Three Months Ended September 30,		Nine Months Ended September 30,	
		2013	2012	2013	2012
		(in millions)			
Electronic Brokerage	Net revenues	\$194.7	\$167.6	\$602.5	\$498.3
	Non-interest expenses	86.3	86.8	259.8	243.9
	Income (loss) before income taxes	\$108.4	\$80.8	\$342.7	\$254.4
	Pre-tax profit margin	56%	48%	57%	51%
Market Making	Net revenues	\$130.9	\$154.1	\$221.9	\$387.8
	Non-interest expenses	43.4	63.9	155.8	207.6
	Income (loss) before income taxes	\$87.5	\$90.2	\$66.1	\$180.2
	Pre-tax profit margin	67%	59%	30%	46%
Corporate*	Net revenues	\$0.7	(\$3.1)	\$1.9	(\$2.7)
	Non-interest expenses	0.2	(4.7)	(1.8)	1.1
	Income (loss) before income taxes	\$0.5	\$1.6	\$3.7	(\$3.8)
	Pre-tax profit margin				
Total	Net revenues	\$326.3	\$318.6	\$826.3	\$883.4
	Non-interest expenses	129.9	146.0	413.8	452.6
	Income (loss) before income taxes	\$196.4	\$172.6	\$412.5	\$430.8
	Pre-tax profit margin	60%	54%	50%	49%

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

The following sections discuss results of our operations by business segment, excluding a discussion of corporate income and expense. In the following tables, revenues and expenses directly associated with each segment are included in determining income before income taxes. Due to the integrated nature of the business segments, estimates and judgments have been made in allocating certain revenue and expense items. Transactions between segments generally result from one subsidiary facilitating the business of another subsidiary through the use of its existing trading memberships and clearing arrangements. In such cases, certain revenue and expense items are eliminated to accurately reflect the external business conducted in each segment. Rates on transactions between segments are

designed to approximate full costs. In addition to execution and clearing expenses, which are the main cost driver for both the market making segment and the electronic brokerage segment, each segment's operating expenses include (i) employee compensation and benefits expenses that are incurred directly in support of the businesses, (ii) general and administrative expenses, which include directly incurred expenses for property leases, professional fees, travel and entertainment, communications and information services, equipment, and (iii) indirect support costs (including compensation and other related operating expenses) for administrative services provided by IBG LLC. Such administrative services include, but are not limited to, computer software development and support, accounting, tax, legal and facilities management.

## Electronic Brokerage

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

	Three Months		Nine Months	
	Ended September 30, 2013	2012	Ended September 30, 2013	2012
(in millions)				
Revenues:				
Commissions and execution fees	\$120.4	\$100.5	\$378.0	\$309.5
Interest income	61.1	53.0	184.4	157.2
Other income	18.5	20.1	57.2	53.8
<b>Total revenues</b>	<b>200.0</b>	<b>173.6</b>	<b>619.6</b>	<b>520.5</b>
<b>Interest expense</b>	<b>5.3</b>	<b>6.0</b>	<b>17.1</b>	<b>22.2</b>
<b>Total net revenues</b>	<b>194.7</b>	<b>167.6</b>	<b>602.5</b>	<b>498.3</b>
Non-interest expenses:				
Execution and clearing	36.7	35.0	113.5	101.3
Employee compensation and benefits	17.3	20.0	55.6	60.6
Occupancy, depreciation and amortization	3.1	3.0	9.4	9.3
Communications	2.8	2.4	7.3	6.7
General and administrative	26.4	26.4	74.0	66.0
<b>Total non-interest expenses</b>	<b>86.3</b>	<b>86.8</b>	<b>259.8</b>	<b>243.9</b>
<b>Income before income taxes</b>	<b>\$108.4</b>	<b>\$80.8</b>	<b>\$342.7</b>	<b>\$254.4</b>

### Three Months Ended September 30, 2013 Compared to the Three Months Ended September 30, 2012

Total net revenues for the quarter ended September 30, 2013 increased \$27.1 million, or 16%, to \$194.7 million, from \$167.6 million during the quarter ended September 30, 2012, driven by higher commissions and execution fees and higher net interest income. Commissions and execution fees increased \$19.9 million, or 20%, and net interest income increased \$8.8 million, or 19%, for the quarter ended September 30, 2013 as compared to the corresponding period in 2012. The increase in commissions and execution fees reflected growth in customer accounts and higher average trading activity per customer. Cleared customer volume rose in options and futures contracts and stock shares by 15%, 21% and 49%, respectively, for the quarter ended September 30, 2013 from the corresponding period in 2012. Total DARTs from cleared and execution-only customers for the quarter ended September 30, 2013 increased 21% to approximately 471,000, as compared to approximately 390,000 during the quarter ended September 30, 2012. DARTs from cleared customers for the quarter ended September 30, 2013 increased 15% to approximately 426,000, as compared to approximately 369,000 during the quarter ended September 30, 2012. The increase in net interest income was attributable to greater customer credit balances and margin borrowings, along with an increase in net fees from securities borrowed and loaned transactions. Average customer credit balances grew by 21% and average fully secured customer margin borrowings grew by 35% as compared to the same period last year. Our fully-paid Stock Yield Enhancement Program continues to provide an additional source of interest revenue that is shared with our participating customers. Total customer equity grew by 31% to \$41.4 billion at September 30, 2013,

from \$31.5 billion at September 30, 2012. The number of customer accounts grew by 13% from September 30, 2012 to approximately 231,000 at September 30, 2013.

Electronic brokerage non-interest expenses for the quarter ended September 30, 2013 decreased \$0.5 million, or 1%, as compared to the quarter ended September 30, 2012. Within non-interest expenses, execution and clearing expenses increased by \$1.7 million, in line with customer trading volume increases. Employee compensation and benefits expenses decreased by \$2.7 million, or 14% during the quarter ended September 30, 2013 as compared to 2012. As a percentage of total net revenues, non-interest expenses decreased to 44% for the quarter ended September 30, 2013 as compared to 52% in the corresponding period in 2012.

#### Nine Months Ended September 30, 2013 Compared to the Nine Months Ended September 30, 2012

Electronic brokerage total net revenues for the nine months ended September 30, 2013 increased \$104.2 million, or 21%, to \$602.5 million, from \$498.3 million during the nine months ended September 30, 2012, primarily due to higher commissions and execution fees and higher net interest income. Commissions and execution fees increased \$68.5 million, or 22%, and net interest income increased \$32.3 million, or 24%, for the nine months ended September 30, 2013 as compared to the corresponding period in 2012. The increase in commissions and execution fees is directly attributable to higher cleared customer volume, which rose in options and futures contracts and stock shares by 22%, 24% and 39%, respectively, for the nine months ended September 30, 2013 from the corresponding period in 2012. Total DARTs from cleared and execution-only customers for the nine months ended September 30, 2013 increased 16% to approximately 481,000, as compared to approximately 415,000 during the nine months ended September 30, 2012. DARTs from

cleared customers for the nine months ended September 30, 2013 increased 13% to approximately 437,000, as compared to approximately 386,000 during the nine months ended September 30, 2012. The increase in net interest income was attributable to greater customer credit balances and margin borrowings, as well as increased net fees from securities borrowed and loaned transactions. Average customer credit balances grew by 20% and average fully secured customer margin borrowings grew by 37% in the first nine months of 2013 from the same period last year.

Electronic brokerage non-interest expenses for the nine months ended September 30, 2013 increased \$15.9 million, or 7%, as compared to the nine months ended September 30, 2012. Within non-interest expenses, execution and clearing expenses increased by \$12.2 million, driven primarily by an increase in customer trading volume. Employee compensation and benefits expenses decreased by \$5.0 million, or 8% during the nine months ended September 30, 2013 as compared to 2012. The decrease in employee compensation and benefits expense reflects the non-recurrence of the special discretionary grant of restricted stock units awarded in January 2012. General and administrative expenses increased \$8.0 million, during the nine months ended September 30, 2013 as compared to 2012, primarily due to increases in consulting fees for software development. As a percentage of total net revenues, non-interest expenses decreased to 43% from 49% for the nine months ended September 30, 2013 as compared to the corresponding period in 2012.

## Market Making

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

	Three Months		Nine Months	
	Ended September 30, 2013	2012	Ended September 30, 2013	2012
(in millions)				
Revenues:				
Trading gains	\$123.2	\$149.7	\$201.3	\$372.0
Interest income	13.3	12.5	37.6	43.9
Other income	1.8	0.4	5.9	0.8
<b>Total revenues</b>	<b>138.3</b>	<b>162.6</b>	<b>244.8</b>	<b>416.7</b>
Interest expense	7.4	8.5	22.9	28.9
<b>Total net revenues</b>	<b>130.9</b>	<b>154.1</b>	<b>221.9</b>	<b>387.8</b>
Non-interest expenses:				
Execution and clearing	19.2	27.7	67.3	93.4
Employee compensation and benefits	6.7	13.7	33.0	50.7
Occupancy, depreciation and amortization	1.5	1.6	4.7	5.5
Communications	2.3	2.6	6.5	7.5
General and administrative	13.7	18.3	44.3	50.5
<b>Total non-interest expenses</b>	<b>43.4</b>	<b>63.9</b>	<b>155.8</b>	<b>207.6</b>
Income before income taxes	\$87.5	\$90.2	\$66.1	\$180.2

### Three Months Ended September 30, 2013 Compared to the Three Months Ended September 30, 2012

Market making total net revenues for the quarter ended September 30, 2013 decreased \$23.2 million, or 15%, to \$130.9 million, from \$154.1 million during the quarter ended September 30, 2012. Trading gains for the quarter ended September 30, 2013 decreased \$26.5 million, or 18% from the year-ago quarter. As part of managing our overall exposure to foreign currency fluctuations, we maintain our capital in proportion to a basket of currencies we call the GLOBAL. The decrease in trading gains was mitigated by a currency translation gain of \$46.2 million in the third quarter of 2013 as compared to a \$41.5 million gain in the corresponding period in 2012. A discussion of our approach to managing foreign currency exposure is contained in Part I, Item 3 of this Quarterly Report on Form 10-Q entitled “Quantitative and Qualitative Disclosures about Market Risk.”

Trading gains were negatively impacted by a 12% decrease in average volatility, as measured by the VIX®, which decreased to 14.3, for the three months ended September 30, 2013 as compared to the year-ago quarter. The market making environment was lackluster, marked by low volatility and lower actual to implied volatility. As a result, our trading gains, after removing the effects of currency translation, were 29% lower than those of the year-ago quarter.

Market making options contract volume decreased 16%, while futures contracts and stock shares volumes increased 42% and 35%, respectively, in the quarter ended September 30, 2013 as compared to the corresponding period in 2012.

Net interest income for the quarter ended September 30, 2013 increased by \$1.9 million to \$5.9 million. The increase was driven by higher net fees earned from securities borrowed and loaned transactions partially offset by lower interest earned on firm cash balances. As described above, our trading gains and our net interest income are interchangeable and depend on the mix of market making positions in our portfolio and on relative interest rates in the stock and options markets. In the quarter ended September 30, 2013, these factors, together with securities lending activity, produced more interest income than in the third quarter of 2012.

Market making non-interest expenses for the quarter ended September 30, 2013 decreased \$20.5 million, or 32%, as compared to the quarter ended September 30, 2012. The decrease primarily resulted from a reduction of \$8.5 million in execution and clearing fees during the quarter ended September 30, 2013 as compared to 2012. The decrease in execution and clearing fees was primarily due to lower options volume and an increase in the proportion of our market maker executions on exchanges and ECNs with make-or-take revenue models. As a market maker under the make-or-take fee model, we are paid for providing liquidity instead of being charged payment-for-order flow fees. The decrease in employee compensation and benefits expense reflects lower incentive compensation expenses as well as the non-recurrence of the special discretionary grant of restricted stock units awarded in January 2012 and forfeitures associated with the SIP. As a percentage of total net revenues, market making non-interest expenses were 33% and 41% for the quarters ended September 30, 2013 and 2012, respectively.

Nine Months Ended September 30, 2013 Compared to the Nine Months Ended September 30, 2012

Market making total net revenues for the nine months ended September 30, 2013 decreased \$165.9 million, or 43%, to \$221.9 million, from \$387.8 million during the nine months ended September 30, 2012. Trading gains for the nine months ended September 30, 2013 decreased \$170.7 million, or 46% from the year-ago period. As part of managing our overall exposure to foreign currency fluctuations, we maintain our capital in proportion to a basket of currencies we call the GLOBAL. The decrease in trading gains was amplified by a currency translation loss of \$57.3 million in the first nine months of 2013 as compared to a \$0.5 million loss in the corresponding period in 2012. A discussion of our approach to managing foreign currency exposure is contained in Part I, Item 3 of this Quarterly Report on Form 10-Q entitled “Quantitative and Qualitative Disclosures about Market Risk.”

Trading gains were negatively impacted by a 22% decrease in average volatility, as measured by the VIX®, which decreased to 14.2, for the nine months ended September 30, 2013 as compared to the year-ago period. As a result, our trading gains, after removing the effects of currency translation, were 31% lower than those of the year-ago quarter.

Market making options contract volume decreased 11%, while futures contracts and stock shares volumes increased 47% and 44%, respectively, in the nine months ended September 30, 2013 as compared to the corresponding period in 2012.

Net interest income for the nine months ended September 30, 2013 decreased by \$0.3 million to \$14.7 million. The decrease was driven by lower interest earned on firm cash balances, partially offset by an increase in net fees earned from securities borrowed and loaned transactions. As described above, our trading gains and our net interest income are interchangeable and depend on the mix of market making positions in our portfolio and on relative interest rates in the stock and options markets. In the nine months ended September 30, 2013, these factors, together with securities lending activity, produced less net interest income than in the first nine months of 2012.

Market making non-interest expenses for the nine months ended September 30, 2013 decreased \$51.8 million, or 25%, as compared to the nine months ended September 30, 2012. The decrease primarily resulted from a \$26.1 million decrease in execution and clearing fees and a \$17.7 million decrease in employee compensation and benefits during the nine months ended September 30, 2013 as compared to 2012. The decrease in execution and clearing fees was driven by lower options volume and an increase in the proportion of our market maker executions on exchanges and ECNs with make-or-take revenue models. The decrease in employee compensation and benefits expense reflects lower incentive compensation expenses as well as the non-recurrence of the special discretionary grant of restricted stock units awarded in January 2012 and forfeitures associated with the SIP. As a percentage of total net revenues, market making non-interest expenses increased to 70% from 54% for the nine months ended September 30, 2013 and 2012, respectively.

#### Liquidity and Capital Resources

We maintain a highly liquid balance sheet. The majority of our assets consist of exchange-listed marketable securities, which are marked-to-market daily, cash and securities segregated for customers, and collateralized receivables arising from customer-related and proprietary securities transactions. Collateralized receivables consist primarily of securities borrowed, customer margin loans, receivables from clearing houses for settlement of securities transactions and securities purchased under agreements to resell. At September 30, 2013, total assets were \$36.28 billion of which approximately \$35.87 billion, or 98.9%, were considered liquid and consisted predominantly of marketable securities, customers’ cash and collateralized receivables.

We undertake daily monitoring of liquidity needs and available collateral levels to help ensure that we maintain an appropriate liquidity cushion, in the form of unpledged collateral at all times. Our ability to quickly reduce funding needs by balance sheet contraction without adversely affecting our core businesses and to pledge additional collateral



in support of secured borrowings is continuously evaluated to ascertain the adequacy of our capital base.

We actively manage our excess liquidity and we maintain significant borrowing facilities through the securities lending markets and with banks. As a general practice, we maintain sufficient levels of cash on hand to provide us with a buffer should we need immediately available funds for any reason.

For purposes of providing additional liquidity and further increasing our regulatory capital reserves, we maintain a committed senior secured revolving credit facility from a syndicate of banks and we previously issued senior notes (see “Principal Indebtedness” below). As of September 30, 2013, we had no borrowings under these facilities. Liability balances in connection with our payables to customers and securities loaned as of September 30, 2013 were higher than their respective average balances during the previous nine months. Liability balances in connection with our short-term borrowings as of September 30, 2013 were lower than their respective average balances during the previous nine months.

Based on our current level of operations, we believe our cash flows from operations, available cash and available borrowings under our senior secured revolving credit facility will be adequate to meet our future liquidity needs for more than the next twelve months.

Cash and cash equivalents held by the Company's non-U.S. operating companies at September 30, 2013 were \$858.4 million (\$515.1 million at December 31, 2012). These funds are primarily intended to finance each individual Operating Company's local operations, and thus would not be available to fund U.S. domestic operations unless repatriated through payment of dividends to IBG LLC. The Company currently has no intention to repatriate further amounts from non-U.S. operating companies. In the event dividends were to be paid to the Company in the future by a non-U.S. operating company, as occurred in connection with the special dividend in December 2010 and, in part, in December 2012, the Company would be required to accrue and pay income taxes on such dividends to the extent that U.S. income taxes had not been paid previously on the income of the paying company.

Historically, our consolidated equity has consisted primarily of accumulated retained earnings, which to date have been sufficient to fund our operations and growth. Our consolidated equity decreased to \$5.07 billion at September 30, 2013 from \$5.13 billion at September 30, 2012 as a result of dividends paid during the last four quarters, including the special dividend paid in December 2012, partially offset by twelve months of comprehensive earnings.

#### Cash Flows

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

	Nine Months Ended September 30,	
	2013	2012
	(in millions)	
Cash provided by operating activities	\$ 192.2	\$ 211.7
Cash provided by (used in) investing activities	11.4	(46.4)
Cash used in financing activities	(233.0)	(210.7)
Effect of exchange rate changes on cash and cash equivalents	(36.6)	9.4
Decrease in cash and cash equivalents	\$ (66.0)	\$ (36.0)

Our cash flows from operating activities are largely a reflection of the size and composition of trading positions held by our market making subsidiaries and of the changes in customer cash and margin debit balances in our electronic brokerage business. Our cash flows from investing activities are primarily related to capitalized internal software development, purchases and sales of memberships at exchanges where we trade and strategic investments in exchanges where such investments will enable us to offer better execution alternatives to our current and prospective customers, or create new opportunities for ourselves as market makers or where we can influence exchanges to provide competing products at better prices using sophisticated technology, and other non-market making securities. Our cash flows from financing activities are comprised of short-term borrowings, long-term borrowings and capital transactions. Short-term borrowings from banks are part of our daily cash management in support of operating activities. Other borrowings provide us with flexible sources of excess liquidity and regulatory capital, including a committed three-year \$100.0 million senior secured revolving credit facility from a syndicate of banks. Capital transactions consist primarily of quarterly cash dividends paid to common stockholders, which commenced during the second quarter of 2011 and cash distributions paid to IBG Holdings LLC ("Holdings").

Nine months ended September 30, 2013: Our cash and cash equivalents decreased by \$66.1 million to \$1,548.5 million for the nine months ended September 30, 2013. We generated \$192.2 million in net cash in operating activities. We used net cash of \$221.6 million in our investing and financing activities primarily due to a decrease in short-term borrowings and dividends paid to Holdings and to common stockholders.

Nine months Ended September 30, 2012: Our cash and cash equivalents decreased by \$36.0 million to \$1,659.5 million for the nine months ended September 30, 2012. We raised \$211.7 million in net cash in operating activities. We used net cash of \$257.1 million in our investing and financing activities primarily due to a decrease in senior notes outstanding and dividends paid to Holdings and to common stockholders.

#### Regulatory Capital Requirements

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

At September 30, 2013, aggregate excess regulatory capital for all of the Operating Companies was \$2.91 billion. The following table summarizes capital, capital requirements and excess regulatory capital (millions):

	Net Capital/		
	Eligible Equity	Requirement	Excess
IB LLC	\$ 1,922.0	\$ 283.0	\$ 1,639.0
TH LLC	470.0	50.5	419.5
THE	654.3	169.3	485.0
Other regulated Operating Companies	404.7	34.0	370.7
	\$ 3,451.0	\$ 536.8	\$ 2,914.2

At September 30, 2013, all of the Operating Companies were in compliance with their respective regulatory capital requirements.

For additional information regarding our net capital requirements see note 14 to the unaudited condensed consolidated financial statements in Part I, Item 1 of this Quarterly Report on Form 10-Q.

#### Principal Indebtedness

IBG LLC is the borrower under a \$100.0 million senior secured revolving credit facility, which had no balance outstanding as of September 30, 2013.

#### Senior Secured Revolving Credit Facility

On May 17, 2012, IBG LLC entered into a \$100 million three-year senior secured revolving credit facility with a syndicate of banks. This credit facility replaced a similar two-year facility that expired on May 17, 2012. IBG LLC is the sole borrower under this credit facility. The facility's interest rate is indexed to the British Bankers Association LIBOR rate or the overnight federal funds rate for the relevant term, at the borrower's option, and is secured by a first priority interest in all of the capital stock of each entity owned directly by IBG LLC (subject to customary limitations with respect to foreign subsidiaries). The facility may be used to finance working capital needs and general corporate purposes, including downstreaming funds to IBG LLC's regulated broker-dealer subsidiaries as regulatory capital. This allows IBG LLC to take advantage of market opportunities when they arise, while maintaining substantial excess regulatory capital. The financial covenants contained in this credit facility are as follows:

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

At September 30, 2013, IBG LLC was in compliance with all of the covenants of this credit facility. At maturity, subject to meeting certain terms of the facility, the Company will have an option to convert the facility to a one-year term loan.

#### Senior Notes

Prior to January 2012, IBG LLC periodically issued senior notes in private placements to certain qualified customers of IB LLC. IBG LLC used the proceeds from sales of the senior notes to provide capital to IBG LLC's broker-dealer subsidiaries in the form of subordinated loans and for other general purposes. Based on a review of its available liquidity resources, which resulted in a determination of a strong liquidity position, in January 2012 the Company decided to discontinue the Senior Notes Program.

#### Capital Expenditures

Our capital expenditures are comprised of compensation costs of our software engineering staff for development of software for internal use and expenditures for computer, networking and communications hardware. These expenditure items are reported as property and equipment. Capital expenditures for property and equipment were approximately \$12.0 million and \$14.0 million for the nine months ended September 30, 2013 and 2012, respectively. We anticipate that our 2013 gross capital expenditures will be lower than in 2012 as we complete the expansion of our data center and backup facilities. In the future, we plan to meet capital expenditure needs as we continue our focus on technology infrastructure initiatives to further enhance our competitive position. We anticipate that we will fund capital expenditures with cash from operations and cash on hand. In response to changing economic conditions, we

believe we have the flexibility to modify our capital expenditures by adjusting them (either upward or downward) to match our actual performance. If we pursue any strategic acquisitions, we may incur additional capital expenditures.

#### Seasonality

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

#### Inflation

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

#### Strategic Investments and Acquisitions

We periodically engage in evaluations of potential strategic investments and acquisitions. The Company holds strategic investments in electronic trading exchanges including: Boston Options Exchange, LLC; OneChicago LLC and CBOE Stock Exchange, LLC.

We intend to continue making acquisitions on an opportunistic basis, generally only when the acquisition candidate will, in our opinion, enable us to acquire either technology or customers faster than we could develop them on our own. At September 30, 2013, there were no definitive agreements with respect to any material acquisition.

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

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

#### Critical Accounting Policies

##### Valuation of Financial Instruments

Due to the nature of our operations, substantially all of our financial instrument assets, comprised of financial instruments owned, securities purchased under agreements to resell, securities borrowed and receivables from brokers, dealers and clearing organizations are carried at fair value based on published market prices and are marked to market daily, or are assets which are short-term in nature and are reported at amounts approximating fair value. Similarly, all of our financial instrument liabilities that arise from financial instruments sold but not yet purchased, securities sold under agreements to repurchase, securities loaned and payables to brokers, dealers and clearing organizations are short-term in nature and are reported at quoted market prices or at amounts approximating fair value. Our long and short positions are valued at either the last consolidated trade price or the last consolidated bid/offer mid-point (where applicable) at the close of regular trading hours, in their respective markets. Given that we manage a globally integrated market making portfolio, we have large and substantially offsetting positions in securities and commodities that trade on different exchanges that close at different times of the trading day. As a result, there may be large and anomalous swings in the value of our positions daily and, accordingly, in our earnings in any period. This is

especially true on the last business day of each calendar quarter, although such swings tend to come back into equilibrium on the first business day of the succeeding calendar quarter.

#### Principles of Consolidation, including Noncontrolling Interests

The unaudited condensed consolidated financial statements include the accounts of IBG, Inc. and its majority and wholly owned subsidiaries. As sole managing member of IBG LLC, IBG, Inc. exerts control over the Group's operations. In accordance with ASC 810, Consolidation, the Company consolidates the Group's consolidated financial statements and records as noncontrolling interest the interests in the Group that IBG, Inc. does not own.

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 12.4% ownership interest in IBG LLC. Holdings is owned by the original members of IBG LLC and holds approximately 87.6% ownership interest in IBG LLC. Our share of IBG LLC's net income is approximately 12.4% and similarly, outstanding shares of our common stock represent approximately 12.4% of the outstanding membership interests of IBG LLC.

Prior to the June 6, 2012 amendment to the Exchange Agreement (see Note 4 to the unaudited condensed consolidated financial statements), the Company was required to report Holdings' ownership as redeemable noncontrolling interests (i.e., temporary equity) pursuant to ASC 810-10-45, ASC 815-40-25 and ASC 480-10-S99-3A (formerly FASB Emerging Issues Task Force Topic D-98), outside of total equity in the consolidated financial statements. Redemption value of these redeemable noncontrolling interests was measured as the number of equivalent shares of member interests in IBG LLC owned by Holdings multiplied by the then current market price per share of the Company's common stock. The excess of the redemption value over the book value of these interests, which did not affect net income attributable to common stockholders or cash flows, was required to be accounted for as a reduction of the Company's stockholders' equity in the unaudited condensed consolidated statement of financial condition.

The Company elected to recognize changes in redemption value in each reporting period immediately as they occurred as if the end of each reporting period was also the redemption date for the entire redeemable noncontrolling interest under paragraph 15(b) of ASC 480-10-S99-3A, notwithstanding that the redeemable noncontrolling interests are redeemable over a period of time pursuant to a redemption schedule (see Note 4 to the unaudited condensed consolidated financial statements).

For periods after the Amendment, the noncontrolling interests in IBG LLC attributable to Holdings will be reported as a component of total equity.

#### Earnings Per Share

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

For periods prior to June 6, 2012, the Company has determined to reflect Topic D-98 measurement adjustments for non-fair value redemption rights through application of the two-class method of calculating earnings per share in lieu of recognizing the impact through the determination of net income attributable to common shareholders. Furthermore, in accordance with footnote 17 of ASC 480-10-S99-3A, the Company has elected to treat only the portion of the periodic measurement adjustments that reflect a redemption in excess of fair value as being akin to a dividend, reducing net income attributable to common stockholders for purposes of applying the two-class method. Decreases in the carrying amount of redeemable noncontrolling interests through Topic D-98 measurement adjustments are reflected in the application of the two-class method only to the extent they represent recoveries of amounts previously accounted for by applying the two-class method.

#### Stock-Based Compensation

IBG, Inc. follows ASC 718, Compensation—Stock Compensation, to account for its stock-based compensation plans. ASC 718 requires all share-based payments to employees to be recognized in the financial statements using a fair value-based method. As a result, IBG, Inc. expenses the fair value of awards granted to employees, generally 50% in the year of grant in recognition of plan forfeiture provisions (described below) and the remaining 50% over the related vesting period utilizing the "graded vesting" method permitted under ASC 718-10. In the case of "retirement eligible" employees (those employees older than 59), 100% of awards are expensed when granted.

Awards granted under the stock-based compensation plans are subject to forfeiture in the event an employee ceases employment with the Company. The plans provide that employees who discontinue employment with the Company



without cause and continue to meet the terms of the plans' post-employment provisions will forfeit 50% of unvested previously granted awards unless the employee is over the age of 59, in which case the employee would be eligible to receive 100% of unvested awards previously granted.

#### Contingencies

Our policy is to estimate and accrue for potential losses that may arise out of litigation and regulatory proceedings, to the extent that such losses are probable and can be estimated, in accordance with ASC 450, Contingencies. Potential losses that might arise out of tax audits, to the extent that such losses are "more likely than not," would be estimated and accrued in accordance with ASC 740-10. Significant judgment is required in making these estimates and our final liabilities may ultimately be materially different. Our total liability accrued with respect to litigation and regulatory proceedings is determined on a case-by-case basis and represents an estimate of probable losses based on, among other factors, the progress of each case, our experience with and industry experience with similar cases and the opinions and views of internal and external legal counsel. Given the inherent difficulty of predicting the outcome of our litigation and regulatory matters, particularly in cases or proceedings in which substantial or indeterminate damages or fines are sought, or where cases or proceedings are in the early stages, we cannot estimate losses or ranges of losses for cases or proceedings where there is only a reasonable possibility that a loss may be incurred.

We have been from time to time subject to certain pending and legal actions which arise out of the normal course of business. Litigation is inherently unpredictable, particularly in proceedings where claimants seek substantial or indeterminate damages, or which are in their early stages. We cannot predict with certainty the actual loss or range of loss related to such legal proceedings, the manner in which they will be resolved, the timing of final resolution or the ultimate settlement. Consequently, we cannot estimate losses or ranges of losses related to such legal matters, even in instances where it is reasonably possible that a future loss will be incurred. As of September 30, 2013, we, along with certain of our subsidiaries, have been named parties to legal actions, which we and/or such subsidiaries intend to defend vigorously. Although the results of legal actions cannot be predicted with certainty, it is the opinion of management that the resolution of these actions is not expected to have a material adverse effect, if any, on our business or financial condition, but may have a material impact on the results of operations for a given period. As of September 30, 2013 and December 31, 2012, reserves provided for potential losses related to litigation matters were not material.

#### Use of Estimates

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

#### Income Taxes

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

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

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

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

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

#### Recently Issued Accounting Pronouncements

Subsequent to the adoption of the ASC, the FASB will issue Accounting Standards Updates ("ASUs") as the means to add to or delete from, or otherwise amend the ASC. In 2013, prior to the issuance of the Company's unaudited condensed consolidated financial statements, ASUs 2013-01 through 2013-11 have been issued. Following is a summary of recently issued ASUs that have affected or may affect the Company's unaudited condensed consolidated financial statements:

	Affects	Status
ASU 2011-11	Balance Sheet (Topic 210): Disclosures about Offsetting Assets and Liabilities	Effective for fiscal periods beginning on or after January 1, 2013. Retrospective disclosures have been made for comparative periods presented.
ASU 2013-01	Balance Sheet (Topic 210): Clarifying the Scope of Disclosures about Offsetting Assets and Liabilities	Effective for fiscal periods beginning on or after January 1, 2013 (the same as the effective date of ASU 2011-11).
ASU 2013-02	Comprehensive Income (Topic 220): Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income	Effective for fiscal periods beginning on or after December 15, 2012.
ASU 2013-04	Liabilities (Topic 405): Obligations Resulting from Joint and Several Liability Arrangements for Which the Total Amount of the Obligation Is Fixed at the Reporting Date	Effective prospectively for fiscal periods beginning on or after December 15, 2013. Early adoption is permitted.
ASU 2013-05	Foreign Currency Matters (Topic 830): Parent's Accounting for the Cumulative Translation Adjustment upon Derecognition of Certain Subsidiaries or Groups of Assets within a Foreign Entity or of an Investment in a Foreign Entity	Effective for fiscal periods beginning on or after December 15, 2013. Early adoption is permitted.

Adoption of those ASUs that became effective during 2013, prior to the issuance of the Company's unaudited condensed consolidated financial statements, did not have a material effect on those financial statements. Management is assessing the potential impact on the Company's financial statements of adopting ASUs that will become effective in the future.

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

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

#### Pricing Model Exposure

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

our losses from these events have been immaterial in comparison to our annual trading profits.

#### Foreign Currency Exposure

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

- THE buys and sells futures contracts and securities denominated in various currencies and carries bank balances and borrows and lends such currencies in its regular course of business. At the end of each accounting period THE's assets and liabilities are translated into Swiss francs for presentation in its financial statements. The resulting gains or losses are reported as translation gain or loss in THE's income statement. When we prepare our unaudited condensed consolidated financial statements, THE's Swiss franc balances are translated into U.S. dollars for U.S. GAAP purposes. THE's translation gains or losses appear as such on IBG, Inc.'s unaudited condensed consolidated statement of comprehensive income, included in trading gains.

- THE's net worth is carried on THE's books in Swiss francs in accordance with Swiss accounting standards. At the end of each accounting period, THE's net worth is translated at the then prevailing exchange rate into U.S. dollars and the resulting gain or loss is reported as OCI in our unaudited condensed consolidated statement of financial condition and unaudited condensed consolidated statement of comprehensive income. To a smaller extent, OCI is also produced by our other non-U.S. subsidiaries.

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

Since 2005, we have expanded our market making systems to incorporate cash forex and forex options to hedge our currency exposure at little or no cost and to hedge our currency exposure throughout the day on a continuous basis. In connection with the development of our currency strategy, we determined to base our net worth in GLOBALs, a basket of currencies. Periodically, we re-evaluate the composition of the GLOBAL; in 2011 we expanded the composition of the GLOBAL from six to 16 currencies. The table below shows a comparison of the U.S. dollar equivalent of the GLOBAL as of September 30, 2012 and 2013.

Currency	Composition	As of 9/30/2012			As of 9/30/2013			CHANGE in % of Comp.
		FX Rate	GLOBAL in USD Equiv.	% of Comp.	FX Rate	GLOBAL in USD Equiv.	% of Comp.	
USD	0.41	1.0000	0.410	37.1%	1.0000	0.410	38.0%	1.0%
EUR	0.17	1.2858	0.219	19.8%	1.3526	0.230	21.3%	1.6%
JPY	10.00	0.0128	0.128	11.6%	0.0102	0.102	9.4%	-2.2%
GBP	0.03	1.6164	0.048	4.4%	1.6185	0.049	4.5%	0.1%
CAD	0.04	1.0166	0.041	3.7%	0.9702	0.039	3.6%	-0.1%
BRL	0.08	0.4936	0.039	3.6%	0.4511	0.036	3.3%	-0.2%
INR	2.00	0.0189	0.038	3.4%	0.0160	0.032	3.0%	-0.5%
CHF	0.03	1.0640	0.032	2.9%	1.1053	0.033	3.1%	0.2%
HKD	0.25	0.1290	0.032	2.9%	0.1289	0.032	3.0%	0.1%
AUD	0.03	1.0379	0.031	2.8%	0.9320	0.028	2.6%	-0.2%
KRW	28.00	0.0009	0.025	2.3%	0.0009	0.026	2.4%	0.1%
MXN	0.30	0.0777	0.023	2.1%	0.0764	0.023	2.1%	0.0%
SEK	0.09	0.1523	0.014	1.2%	0.1555	0.014	1.3%	0.1%
NOK	0.06	0.1746	0.010	0.9%	0.1663	0.010	0.9%	0.0%
SGD	0.01	0.8147	0.008	0.7%	0.7963	0.008	0.7%	0.0%
DKK	0.04	0.1725	0.007	0.6%	0.1814	0.007	0.7%	0.0%
		\$	1.106	100.0%	\$	1.079	100.0%	0.0%

Because we conduct business in many countries and many currencies and we actively manage our global currency exposure by maintaining our equity in GLOBALs, we consider ourselves a global enterprise based in a diversified basket of currencies rather than a U.S. dollar based company. The U.S. dollar value of the GLOBAL decreased from \$1.106 to \$1.079, or 3%, at September 30, 2013 compared to September 30, 2012. At September 30, 2013 approximately 62% of our equity was denominated in currencies other than U.S. dollars.

The effects of our currency strategy appear in two places in the financial statements: (1) as a component of trading gains in the unaudited condensed consolidated statement of comprehensive income and (2) as OCI in the unaudited

condensed consolidated statement of financial condition. The full effect of the GLOBAL is captured in comprehensive income.

Reported results on a comprehensive basis reflect the U.S. GAAP convention adopted in 2011 that requires the reporting of currency translation results contained in OCI as part of reportable earnings. Previously, currency translation results were reported only as a component of changes in Total Equity in the unaudited condensed consolidated statement of financial condition.

#### Interest Rate Risk

Under our senior secured revolving credit facility, we have the ability to choose borrowing tenors from overnight to twelve months, which permits us to minimize the risk of interest rate fluctuations. We have no borrowings outstanding under this facility as of September 30, 2013.

We pay our electronic brokerage customers interest based on benchmark overnight interest rates in various currencies. In a higher interest rate environment, exhibiting a positive yield curve, we typically invest a portion of these funds in U.S. government treasury securities with maturities of up to three months. Under these circumstances, if interest rates were to increase rapidly and

substantially, in increments that were not reflected in the yields on these treasury securities, our net interest income from customer deposits would decrease. Based upon investments outstanding at September 30, 2013, we had minimal exposure of this nature.

We also face the potential for reduced net interest income from customer deposits due to interest rate spread compression in a low rate environment. Due to a currently low rate environment, a decrease of the U.S. benchmark interest rates by 0.05% would reduce our net interest income by approximately \$10.6 million on an annualized basis.

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

#### Dividend Risk

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

#### Margin Credit

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

We expect this kind of exposure to increase with growth in our overall business. Because we indemnify and hold harmless our clearing firms from certain liabilities or claims, the use of margin credit and short sales may expose us to significant off-balance-sheet risk in the event that collateral collected from customers is not sufficient to fully cover losses that those customers may incur and if those customers fail to satisfy their obligations. As of September 30, 2013, we had \$12.67 billion in margin credit extended to our customers, excluding non-customers. The amount of risk to which we are exposed from the margin credit we extend to our customers and from short sale transactions by our customers is theoretically unlimited and not quantifiable as the risk is dependent upon analysis of a potential significant and undeterminable rise or fall in securities prices. Our account level margin credit requirements meet or exceed those required by Regulation T of the Board of Governors of the Federal Reserve or the SEC portfolio margining regulations, as appropriate. As a matter of practice, we enforce real-time margin compliance monitoring and liquidate customers' positions if their equity falls below required margin requirements.

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



Our credit exposure is to a great extent mitigated by our policy of automatically evaluating each account throughout the trading day and closing out positions automatically for accounts that are found to be under-margined. While this methodology is effective in most situations, it may not be effective in situations where no liquid market exists for the relevant securities or commodities or where, for any reason, automatic liquidation for certain accounts has been disabled.

## ITEM 4. CONTROLS AND PROCEDURES

### Evaluation of Disclosure Controls and Procedures

As reported in the Company's 2012 Annual Report on Form 10-K, the Company has evaluated, under the supervision and with the participation of management, including the Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO"), the effectiveness of its disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) of the Exchange Act, as of December 31, 2012. Based on that evaluation, the CEO and CFO have concluded that the Company's disclosure controls and procedures were not effective as of December 31, 2012 and September 30, 2013 due to a material weakness that exists within the Company's internal control over financial reporting related to the review and interpretation of complex accounting issues. A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the Company's annual or interim financial statements will not be prevented or detected on a timely basis.

In response to the material weakness described above, the Company has made significant progress toward implementing its Remediation Plan described in its 2012 Annual Report on Form 10-K. Actions taken under the Remediation Plan include:

- Formation of the nine-member Accounting Policy Committee ("APC") in September 2012. The APC is responsible to the Company's Audit Committee and, through recurring quarterly procedures has been assessing significant transactions and official accounting guidance applied to the Company's consolidated financial statements and reporting on such assessments to the Audit Committee;
  - Changes in procedures and controls over the preparation of its consolidated financial statements; and
- Performance of additional detailed procedures and analysis and other post-closing procedures performed during the preparation of the Company's consolidated financial statements.

Notwithstanding that the Remediation Plan has not been fully implemented, our management has concluded that the Company's unaudited condensed consolidated financial statements contained in this Quarterly Report on Form 10-Q present fairly the Company's financial condition, results of operations and cash flows as of September 30, 2013 and for the nine months then ended in all material respects, in accordance with U.S. GAAP.

### Changes to Internal Control over Financial Reporting

There have been no changes in our internal control over financial reporting other than those described above that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

There have been no material changes to the legal proceedings disclosed under Part 1, Item 3 of our Annual Report on Form 10-K filed with the SEC on March 8, 2013. During our normal course of business, the Company's regulated operating companies are in discussions with regulators about matters raised during regulatory examinations or otherwise subject to their inquiry. These matters could result in censures, fines or other sanctions. Management believes the outcome of any resulting actions will not be material to the Company's financial condition, results of operations or cash flows. However, the Company is unable to predict the outcome of these matters.

The Company believes, based on current knowledge and after consultation with counsel, that the outcome of the pending matters will not have a material adverse effect on the unaudited condensed consolidated financial condition of the Company. Legal reserves have been established in accordance with ASC 450, Contingencies. The ultimate resolution may differ from the amounts reserved.

ITEM 1A. RISK FACTORS

There have been no material changes to the risk factors disclosed in under Part 1, Item 1A of our Annual Report on Form 10-K filed with the SEC on March 8, 2013.

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

None

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None

ITEM 5. OTHER INFORMATION

None

ITEM 6. EXHIBITS

Exhibit Number	Description
10.1	Amended and Restated Operating Agreement of IBG LLC (filed as Exhibit 10.1 to the Quarterly Report on Form 10-Q for the Quarterly Period Ended March 31, 2007 filed by the Company on June 15, 2007).**
10.2	Form of Limited Liability Company Operating Agreement of IBG Holdings LLC (filed as Exhibit 10.5 to Amendment No. 1 to the Registration Statement on Form S-1 filed by the Company on February 12, 2007).**
10.3	Exchange Agreement by and among Interactive Brokers Group, Inc., IBG Holdings LLC, IBG LLC and the Members of IBG LLC (filed as Exhibit 10.3 to the Quarterly Report on Form 10-Q for the Quarterly Period Ended September 30, 2009 filed by the Company on November 11, 2009).**
10.4	Tax Receivable Agreement by and between Interactive Brokers Group, Inc. and IBG Holdings LLC (filed as Exhibit 10.3 to the Quarterly Report on Form 10-Q for the Quarterly Period Ended March 31, 2007 filed by the Company on June 15, 2007).**
10.5	Interactive Brokers Group, Inc. 2007 Stock Incentive Plan (filed as Exhibit 10.8 to Amendment No. 2 to the Registration Statement on Form S-1 filed by the Company on April 4, 2007).**+
10.6	Interactive Brokers Group, Inc. 2007 ROI Unit Stock Plan. (filed as Exhibit 10.9 to Amendment No. 2 to the Registration Statement on Form S-1 filed by the Company on April 4, 2007).**+
10.7	Interactive Brokers Group, Inc. Amendment to the Exchange Agreement . (filed as Exhibit 10.1 to the Form 8-K filed by the Company on June 6, 2012).**+
11.1	Statement Re; Computation of Earnings per Common Share (the calculation of per share earnings is disclosed in Part II, Item 8, Note 4 to the Consolidated Financial Statements "Equity and Earnings per Share" and is omitted in accordance with Section (b)(11) of Regulation S-K)
31.1	Certification of Chief Executive Officer, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of Chief Financial Officer, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification of Chief Executive Officer, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

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

101.INS XBRL Instance Document\*

101.SCH XBRL Extension Schema\*

101.CAL XBRL Extension Calculation Linkbase\*

101.DEF XBRL Extension Definition Linkbase\*

101.LAB XBRL Extension Label Linkbase\*

101.PRE XBRL Extension Presentation Linkbase\*

\*\* Previously filed; incorporated herein by reference.

+ These exhibits relate to management contracts or compensatory plans or arrangements.

\* Attached as Exhibit 101 to this Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2013, are the following materials formatted in XBRL (Extensible Business Reporting Language) (i) the Unaudited Condensed Consolidated Statements of Financial Condition, (ii) the Unaudited Condensed Consolidated Statements of Comprehensive Income, (iii) the Unaudited Condensed Consolidated Statements of Cash Flows, (iv) the Unaudited Condensed Consolidated Statement of Changes in Stockholders' Equity and (v) Notes to the Unaudited Condensed Consolidated Financial Statements tagged in detail levels 1-4.

SIGNATURES

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

INTERACTIVE BROKERS GROUP, INC.

/s/ Paul J. Brody

Name: Paul J. Brody

Title: Chief Financial Officer, Treasurer and  
Secretary

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

Date: November 8,  
2013