

Interactive Brokers Group, Inc.
Form 10-Q
November 09, 2012

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2012.

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

For the transition period from to

Commission File Number: 001-33440

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

Delaware
(State or other jurisdiction
of incorporation or organization)

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

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

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

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

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

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

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

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

As of November 9, 2012, there were 47,488,923 shares of the issuer's Class A common stock, par value \$0.01 per share, outstanding and 100 shares of the issuer's Class B common stock, par value \$0.01 per share, outstanding.

INTERACTIVE BROKERS GROUP, INC.

QUARTERLY REPORT ON FORM 10-Q FOR THE QUARTER ENDED SEPTEMBER 30, 2012

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Explanatory Note

In May 2012, in connection with the review of the Company's Quarterly Report of Form 10-Q for the quarter ended March 31, 2012, Deloitte & Touche LLP, the Company's independent registered public accounting firm questioned the Company's interpretation and application of accounting guidance contained in Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC or the "Codification") 480-10-S99, Distinguishing Liabilities from Equity, SEC Materials, formerly FASB Emerging Issues Task Force Topic D-98, to cash redemption provisions regarding redeemable noncontrolling interests. After reassessing its interpretation and application of this accounting guidance, including obtaining an interpretation from the Office of the Chief Accountant of the Securities and Exchange Commission ("SEC"), the Company concluded that its interpretation of this accounting guidance and its application of that guidance to these cash redemption provisions was incorrect, resulting in an error in its consolidated financial statements. This error had no effect on reported net income attributable to common stockholders or cash flows, but did affect the classification of redeemable noncontrolling interests in IBG LLC ("LLC") attributable to IBG Holdings LLC ("Holdings") during the period from the Company's May 3, 2007 initial public offering through June 6, 2012, as more fully described in Note 21 to the consolidated financial statements contained in Part 2, Item 8 of the Company's Amended Annual Report on Form 10-K/A filed with the SEC on August 31, 2012.

As described in the notes to the unaudited condensed consolidated financial statements included in this Form 10-Q, this change in the classification of redeemable noncontrolling interests prior to the June 6, 2012 amendment to the Exchange Agreement (Note 4) also affected the calculation of earnings per share (Note 17). Additionally, as reported in the statement of changes in equity and further described in Note 4, subsequent to the June 6, 2012 amendment to the Exchange Agreement, Holdings' noncontrolling interests have been reclassified, at book value, as a component of permanent equity.

Internal Control Considerations

In conjunction with the restatement, management identified control deficiencies in its internal controls over financial reporting associated with the review and interpretation of complex accounting issues - specifically, redeemable noncontrolling interests in LLC attributable to Holdings and stock based compensation - that constitute a material weakness in internal control. A material weakness is a control deficiency, or combination of control deficiencies, that results in more than a remote likelihood that a material misstatement of the annual or interim consolidated financial statements will not be prevented or detected. For a discussion of management's consideration of our disclosure controls and procedures, the material weakness identified and the remediation plan implemented in September 2012, see Part II, Item IA, "Risk Factors", and Part I, Item 4, "Controls and Procedures", included in this filing on Form 10-Q.

In accordance with applicable SEC rules, this filing includes certifications from our Chief Executive Officer and Chief Financial Officer dated as of the date of this filing.

PART I. FINANCIAL INFORMATION

Financial Statements Introductory Note

The Company is a holding company whose primary asset is its ownership of approximately 11.9% of the membership interests of LLC. 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 routing orders and executing and processing trades in securities, futures, foreign exchange instruments, bonds and mutual funds on more than 100 electronic exchanges and trading venues around the world. In the U.S., our business is conducted from our headquarters in Greenwich, Connecticut and from Chicago, Illinois and Jersey City, New Jersey. Abroad, we conduct business through offices located in Canada, England, Switzerland, Hong Kong, India, Australia, Japan and Brazil. At September 30, 2012, we had 883 employees worldwide.

As discussed in Note 17, the unaudited condensed consolidated financial statements for the three and nine months ended September 30, 2011 included herein have been restated for certain errors.

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

(in thousands, except share data)	September 30, 2012	December 31, 2011
Assets		
Cash and cash equivalents	\$ 1,659,505	\$ 1,695,495
Cash and securities - segregated for regulatory purposes	12,325,775	10,069,938
Securities borrowed	2,966,071	2,661,671
Securities purchased under agreements to resell	344,165	375,366
Trading assets, at fair value:		
Financial instruments owned	3,460,913	5,069,271
Financial instruments owned and pledged as collateral	2,244,056	1,545,807
	5,704,969	6,615,078
Other receivables:		
Customers, less allowance for doubtful accounts of \$3,621 and \$3,332 at September 30, 2012 and December 31, 2011	9,391,015	7,024,792
Brokers, dealers and clearing organizations	874,879	1,397,772
Receivable from affiliate	593	595
Interest	21,426	20,540
	10,287,913	8,443,699
Other assets	573,298	543,118
Total assets	\$ 33,861,696	\$ 30,404,365
Liabilities and equity		
Liabilities:		
Trading liabilities - financial instruments sold but not yet purchased, at fair value	\$ 4,547,182	\$ 6,156,148
Securities loaned	1,945,097	1,386,059
Short-term borrowings	16,870	6,538
Other payables:		
Customers	21,281,337	17,300,105
Brokers, dealers and clearing organizations	496,380	247,360
Payable to affiliate	274,407	271,602
Accounts payable, accrued expenses and other liabilities	140,857	116,771
Interest	4,724	6,416
	22,197,705	17,942,254
Senior notes payable	-	101,411

