

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

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, 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.

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
Assets		
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
Financial instruments owned, at fair value:		
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
Receivables:		
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
Liabilities and equity		
Liabilities:		
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
Payables:		
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
Commitments, contingencies and guarantees		
Equity		
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
Revenues:							
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	
Total revenues		338,443		332,798		864,918	
Interest expense		12,191		14,199		38,636	
Total net revenues		326,252		318,599		826,282	
Non-interest expenses:							
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	
Total non-interest expenses		129,870		145,979		413,751	
Income before income taxes		196,382		172,620		412,531	
Income tax expense		10,414		14,747		31,239	
Net income		185,968		157,873		381,292	
Less net income attributable to noncontrolling interests		169,521		145,385		347,910	
Net income attributable to common stockholders	\$	16,447	\$	12,488	\$	33,382	\$
Earnings per share:							
Basic	\$	0.33	\$	0.26	\$	0.68	\$
Diluted	\$	0.32	\$	0.26	\$	0.67	\$
Weighted average common shares outstanding:							
Basic		49,966,050		47,488,459		48,807,321	
Diluted		50,988,214		47,679,818		49,981,664	
Comprehensive income:							
Net income attributable to common stockholders	\$	16,447	\$	12,488	\$	33,382	\$
Other comprehensive income:		3,691		2,965		(4,051)	

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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)