

INTERACTIVE BROKERS LLC AND SUBSIDIARY  
(SEC I.D. No. 8-47257)

CONSOLIDATED STATEMENT OF FINANCIAL CONDITION  
AS OF JUNE 30, 2012  
(UNAUDITED)

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Interactive Brokers LLC  
Member, Securities Investor Protection Corporation (SIPC)  
Eight Greenwich Office Park  
Greenwich, Connecticut 06830

# INTERACTIVE BROKERS LLC AND SUBSIDIARY

## CONSOLIDATED STATEMENT OF FINANCIAL CONDITION

(UNAUDITED)

As of June 30, 2012

### Assets

Cash and cash equivalents	\$	858,036,265
Cash and securities - segregated for regulatory purposes		10,955,984,571
Securities borrowed		1,388,169,965
Securities purchased under agreements to resell		377,860,784
Deposits with clearing organization		2,099,831
Other receivables:		
Customers (net of allowance for doubtful accounts of \$3,332,071)		8,340,894,723
Brokers, dealers and clearing organizations		549,042,530
Affiliates		53,069,043
Interest		14,934,320
Other assets		25,310,913
Total assets	\$	<u>22,565,402,945</u>

### Liabilities and members' capital

Liabilities:		
Payable to customers	\$	18,901,645,098
Securities loaned		1,414,172,052
Securities sold under agreements to repurchase		136,676,815
Other payables:		
Brokers, dealers and clearing organizations		203,692,064
Accounts payable, accrued expenses and other liabilities		37,913,111
Affiliates		47,027,641
Interest		2,224,514
		<u>20,743,351,295</u>
Members' capital		<u>1,822,051,650</u>
Total liabilities and members' capital	\$	<u>22,565,402,945</u>

See accompanying notes to consolidated statement of financial condition.

**INTERACTIVE BROKERS LLC and SUBSIDIARY**  
**NOTES TO CONSOLIDATED STATEMENT OF FINANCIAL CONDITION**  
**(UNAUDITED)**  
**AS OF JUNE 30, 2012**

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**1. ORGANIZATION AND NATURE OF BUSINESS**

Interactive Brokers LLC (“IBLLC”), together with its wholly-owned subsidiary (the “Company”), a Connecticut limited liability company, is a broker-dealer registered under the Securities Exchange Act of 1934 and is a member of the Financial Industry Regulatory Authority (“FINRA”) and various securities and commodities exchanges. The Company is also a member of the National Futures Association (“NFA”) and is registered with Commodity Futures Trading Commission (“CFTC”) as a Futures Commission Merchant and a Foreign Exchange Dealer. The Company executes and clears securities and commodities transactions for customers. Certain transactions are cleared through other clearing brokers. Accordingly, the Company carries securities accounts for customers and is subject to the requirements of Rule 15c3-3 under the Securities Exchange Act of 1934 pertaining to the possession or control of customer-owned assets and reserve requirements. The Company also carries customer commodities accounts and is subject to the segregation requirements pursuant to the Commodity Exchange Act. IBLLC is subject to the Uniform Net Capital Rule (Rule 15c3-1) under the Exchange Act and the CFTC’s minimum financial requirements (Regulations 1.17 and 5.7).

The Company’s wholly-owned subsidiary is Interactive Brokers Corp. (“IB Corp.”), which is a broker-dealer registered with the Securities and Exchange Commission (“SEC”) and is a member of the FINRA and of the NFA.

The Company is 99.9% owned by IBG LLC, (“IBG LLC” or “the Group”), a Connecticut limited liability company. In addition to the Company, the Group is comprised of several Operating Companies (Note 7). The Group is consolidated into Interactive Brokers Group, Inc. (“IBG, Inc.”).

**2. SIGNIFICANT ACCOUNTING POLICIES**

***Basis of Presentation***

This consolidated statement of financial condition is presented in U.S. dollars and has been prepared pursuant to accounting standards generally accepted in the United States of America (“U.S. GAAP”) promulgated in the FASB Accounting Standards Codification (“ASC” or the “Codification”). 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 consolidated statement of financial condition 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 estimated useful lives of property and equipment, compensation accruals, allowance for doubtful accounts and estimated contingency reserves.

### ***Fair Value***

At June 30, 2012, substantially all of the Company's assets and liabilities, including financial instruments, were carried at fair value based on market prices, as published by exchanges and clearinghouses, or were assets which are short-term in nature and were carried at amounts that approximate fair value.

The Company 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      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.

In determining fair value, all financial instruments, except currency spot and forward contracts and FDIC insured corporate bonds, which are classified as Level 2 financial instruments, are classified within Level 1 of the fair value hierarchy. 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 obligations which are included in cash and securities – segregated for regulatory purposes and in deposits with clearing organization in the consolidated statement of financial condition. FDIC insured corporate bonds are included in cash and securities segregated for regulatory purposes, while currency spot and forward contracts are included in receivables from and payables to brokers, dealers and clearing organizations.

### ***Principles of Consolidation***

The consolidated statement of financial condition includes the accounts of the Company and its wholly-owned subsidiary. 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. Pursuant to ASC 860, *Transfers and Servicing* and ASC 810, *Consolidations*, the Company would also consolidate any Variable Interest Entities ("VIEs") of which it is the primary beneficiary. At June 30, 2012, the Company did not have any interests in VIEs.

At June 30, 2012, \$18,896,295 of assets and \$8,442,945 of liabilities were attributable to a consolidated subsidiary. The stockholder's equity of this subsidiary was \$10,453,350 at June 30, 2012.

### ***Cash and Cash Equivalents***

The Company defines cash equivalents as short-term, highly liquid securities and cash deposits with original maturities of three months or less.

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

The Company is obligated by rules mandated by its primary regulators including the SEC and the CFTC to segregate or set aside cash or qualified securities to satisfy such regulations, which regulations have been promulgated to protect customer assets. In addition, the Company is a member of various clearing organizations at which cash or securities are deposited as required to conduct day-to-day clearance activities. The Company maintains segregated accounts at major money-center banks. At June 30, 2012, the Company had more than 10% of its total cash and cash equivalents at one of these banks.

### ***Securities Borrowed and Securities Loaned***

Securities borrowed and securities loaned are recorded at the amount of cash collateral advanced or received. Securities borrowed transactions require the Company to provide the counterparty with collateral which may be in the form of cash, letters of credit or other securities. With respect to securities loaned, the Company 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.

The Company monitors the market value of securities borrowed and loaned on a daily basis, with additional collateral obtained or refunded as required contractually. Receivables and payables with the same counterparty are not offset in the consolidated statement of financial condition.

### ***Securities Purchased Under Agreements to Resell and Securities Sold Under the Agreements to Repurchase***

Securities purchased under agreements to resell and securities sold under agreements to repurchase are treated as collateralized financing transactions and are carried at contract value, plus accrued interest, which approximates fair value. The Company's policy is to obtain possession of collateral, with a market 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 through contractual provisions.

Securities received as collateral consisted of U.S. Treasury notes. In the normal course of business, these securities have been deposited with a clearing organization, and segregated for regulatory purposes.

### ***Financial Instruments***

#### ***Deposits with Clearing Organization***

Deposits with clearing organization consist of securities which have been placed with a clearing organization in the normal course of business. These securities consisted of U.S. Treasury bills, carried at fair value. These transactions are recorded on a trade date basis. At June 30, 2012, the Company had \$2,099,831 in U.S. Treasury bills that were pledged with the Company's clearing organization.

### ***Currency Spot and Forward Contracts***

The Company enters into currency forward contracts for customer funds denominated in foreign currencies to obtain U.S. dollars, with a locked-in rate of return, to make bank deposits denominated in U.S. dollars to satisfy regulatory segregation requirements and on behalf of its affiliates. A currency forward contract is an agreement to exchange a fixed amount of one currency for a specified amount of a second currency at the outset and at completion of the swap term. Interest rate differences, between currencies, are captured in the contractual swap rates. The Company also executes currency spot contracts on behalf of its customers and affiliates. These currency spot and forward transactions are recorded on a trade date basis at fair value based on quoted market prices. Included in the receivables from, and in payables to brokers, dealers and clearing organizations are \$50,915,944 and \$24,038,989 respectively, which represent unsettled amounts of currency spot and forward contracts at June 30, 2012.

### ***Foreign Currency Translation***

Foreign currency denominated assets and liabilities are translated into U.S. dollars at the year-end exchange rates. Foreign currency denominated revenues and expenses are translated at the exchange rates in effect at the transaction dates.

### ***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 the Company's customers. Securities owned by customers, including those that collateralize margin or other similar transactions, are not reflected on the consolidated statement of financial condition.

Receivables from institutional non-cleared customers and payables for execution and clearing fees and expenses are recorded as fees receivable and fees payable, which are included in other assets and accounts payable, accrued expenses and other liabilities on the consolidated statement of financial condition, respectively.

### ***Receivables from and Payables to Brokers, Dealers and Clearing Organizations***

Receivables from brokers, dealers and clearing organizations include amounts receivable for securities not delivered by the Company to the purchaser by the settlement date ("fails-to-deliver") and margin deposits. Payables to brokers, dealers and clearing organizations include amounts payable for securities not received by the Company from a seller by the settlement date ("fails-to-receive"). Receivables and payables to brokers, dealers and clearing organizations also include amounts related to futures contracts executed on behalf of the Company's customers as well as net payables and receivables from unsettled trades.

### ***Stock-Based Compensation***

The Company 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, the Company

expenses the fair value of stock 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 share awards are expensed when granted.

Shares 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 shares unless the employee is over the age of 59, in which case the employee would be eligible to receive 100% of unvested shares previously granted.

### ***Property and Equipment***

Property and equipment, which is a component of other assets, consist primarily of computer equipment, leasehold improvements, and office furniture and equipment. Property and equipment are reported at historical cost, net of 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. Property and equipment costs are included in other assets in the consolidated statement of financial condition.

### ***Income Taxes***

The Company accounts for income taxes in accordance with ASC 740, *Income Taxes*, which requires the recognition of tax benefits or expenses on the temporary differences between the financial reporting and tax bases of assets and liabilities, including the accounting for uncertainty of income tax positions and for deferred tax assets reported in financial statements, prescribing a “more likely than not” threshold and measurement attribute for recognition in the financial statements of an asset or liability resulting from a tax position taken or expected to be taken in an income tax return.

IBLLC operates in the United States as a limited liability company that is treated as a partnership for U.S. federal income tax purposes. Accordingly, IBLLC’s income is not subject to U.S. federal income taxes. Taxes related to income earned by partnerships represent obligations of the individual partners.

### ***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 2012, prior to the issuance of the Company’s consolidated statement of financial condition, ASUs 2012-01 and 2012-02 have been issued. Following is a summary of recently issued ASUs that may affect the Company’s consolidated statement of financial condition:

	<u>Affects</u>	<u>Status</u>
ASU 2011-03	<i>Transfers and Servicing (Topic 860)</i> - Reconsideration of Effective Control for Repurchase Agreements	Fiscal years, and interim periods within those fiscal years, beginning after December 15, 2011. Early application is not permitted.
ASU 2011-04	<i>Fair Value Measurement (Topic 820)</i> - Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRS	To be applied prospectively for interim and annual periods beginning after December 15, 2011. Early adoption is not permitted for public entities.
ASU 2011-08	<i>Intangibles - Goodwill and Other (Topic 350)</i> - Testing Goodwill for Impairment	Effective for fiscal years beginning after December 15, 2011. Early adoption is permitted.
ASU 2011-11	<i>Balance Sheet (Topic 210)</i> : Disclosures about Offsetting Assets and Liabilities	Effective for fiscal years beginning on or after January 1, 2013. Retrospective disclosures for comparative periods presented will be required.
ASU 2012-02	<i>Intangibles - Goodwill and Other (Topic 350)</i> : Testing Indefinite-Lived Intangible Assets for Impairment	Effective for fiscal years beginning after September 15, 2012. Early adoption is permitted.

Adoption of those ASUs that will become effective prior to the issuance of the Company's consolidated statement of financial condition will not have a material effect on the consolidated statement of financial condition. Management is assessing the potential impact on the Company's consolidated statement of financial condition of adopting ASUs that will become effective in the future.

### 3. BROKERAGE ACTIVITIES AND RELATED RISKS

Brokerage activities expose the Company to credit and currency risks. These risks are managed in accordance with established risk management policies and procedures adopted by the Company. Management has established a risk management process that includes:

- A regular review of the risk management process by the executive management as part of their 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 the Company's risk-taking is consistent with its business strategy, capital structure, and current and anticipated market conditions.

### ***Credit Risk***

The Company is exposed to risk of loss if a counterparty or issuer fails to perform its obligations under contractual terms (“default risk”). Both cash instruments and derivatives expose the Company to default risk. 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. The Company has established policies and procedures for reviewing and establishing limits for credit exposure, maintaining collateral, and continually assessing the creditworthiness of counterparties.

In the normal course of business, the Company executes, settles and finances various customer securities transactions. Execution of these transactions includes the purchase and sale of securities by the Company that exposes the Company to default risk arising from the potential that customers or counterparties may fail to satisfy their obligations. In these situations, the Company may be required to purchase or sell financial instruments at unfavorable market prices to satisfy obligations to other customers or counterparties. The Company seeks to control the risks associated with its customer margin activities by requiring customers to maintain collateral in compliance with regulatory and internal guidelines.

Liabilities to other brokers and dealers related to unsettled transactions (i.e., securities failed-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 failed-to-receive, the Company may purchase the underlying security in the market and seek reimbursement for losses from the counterparty.

The Company enters into securities purchased under agreements to resell and securities sold under agreements to repurchase transactions (“reverse repos” and “repos”, respectively) 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. The Company 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 the Company as permitted under contractual provisions.

### ***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 forward contracts are contracts for delayed delivery of currency at a specified future date. The Company uses currency forward contracts to manage the levels of its non-U.S. dollar currency balances to hedge its global exposure.

### ***Concentrations of Credit Risk***

The Company's exposure to credit risk associated with its brokerage 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 monitored in light of changing counterparty and market conditions. As of June 30, 2012, the Company did not have any concentrations of credit risk.

### ***Off-balance Sheet Risks***

The Company may be exposed to a risk of loss not reflected in the consolidated statement of financial condition for currency forward contracts, 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 the Company's cost to liquidate such futures contracts may exceed the amounts reported in the Company's consolidated statement of financial condition.

## **4. FAIR VALUE**

The following tables set forth, by level within the fair value hierarchy (Note 2), financial assets and liabilities, at fair value as of June 30, 2012. As required by ASC 820, assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement.

	<b>Financial Assets, At Fair Value as of June 30, 2012</b>			
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
Securities segregated for regulatory purposes	\$ 1,847,310,414	\$ 79,975,858	\$ -	\$ 1,927,286,272
Deposits with clearing organization	2,099,831	-	-	2,099,831
Receivables from brokers, dealers and clearing organizations	-	50,915,944	-	50,915,944
	<u>\$ 1,849,410,245</u>	<u>\$ 130,891,802</u>	<u>\$ -</u>	<u>\$ 1,980,302,047</u>

  

	<b>Financial Liabilities, At Fair Value as of June 30, 2012</b>			
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
Payables to brokers, dealers and clearing organizations	\$ -	\$ 24,038,989	\$ -	\$ 24,038,989
	<u>\$ -</u>	<u>\$ 24,038,989</u>	<u>\$ -</u>	<u>\$ 24,038,989</u>

## **5. SEGREGATION OF FUNDS AND RESERVE REQUIREMENTS**

As a result of customer activities, IBLLC is obligated by rules mandated by its primary regulators, the SEC and the CFTC to segregate or set aside cash or qualified securities to satisfy such rules which have been promulgated to protect customer assets. In addition, the IBLLC is a member of various clearing organizations at which cash or securities are deposited as required to conduct of day-to-day clearance activities.

Cash and securities – segregated for regulatory purposes consist of the following:

Interest bearing cash deposits	\$ 5,513,406,894
Securities purchased under agreements to resell	3,515,291,405
U.S. government securities	1,847,310,414
FDIC Insured corporate bonds	79,975,858
	<u>\$ 10,955,984,571</u>

In accordance with the Securities Exchange Act of 1934, IBLLC is required to maintain separate bank accounts for the exclusive benefit of customers. At June 30, 2012, IBLLC held cash and securities of \$5,466,882,324 and securities purchased under agreements to resell with a fair value of \$3,497,784,300 to satisfy this requirement.

During the six months ended June 30, 2012, IBLLC performed the computations for the assets in the proprietary accounts of its introducing brokers (commonly referred to as “PAIB”) in accordance with the customer reserve computation set forth under SEC Rule 15c3-3 (Customer Protection). At June 30, 2012, IBLLC had segregated \$11,624,876 to satisfy this requirement.

In accordance with the Commodity Exchange Act, IBLLC is required to segregate all monies, securities and property received to margin and to guarantee or secure the trades or contracts of customers in regulated commodities. At June 30, 2012, IBLLC had cash and commodities of \$1,812,760,506, receivables from brokers, dealers and clearing organizations of \$16,455,913 and commodities option contracts with net short market value of (\$87,460,106) segregated to satisfy this requirement. At June 30, 2012, the net market values of long and short commodity option contracts were included in payables to brokers, dealers and clearing organizations.

In accordance with CFTC Regulation 30.7, IBLLC is required to segregate all monies, securities and property received to margin and to guarantee or secure the trades or contracts of customers on foreign boards of trade. At June 30, 2012, IBLLC had cash and securities in the amount of \$149,434,909, receivables from brokers, dealers and clearing organizations of \$337,938,543 and payables to brokers, dealers and clearing organizations of (\$17,296,372) segregated to satisfy this requirement.

NFA Financial Requirements Section 14 requires IBLLC to hold amounts, equal to or in excess of its retail forex obligation, at one or more qualifying institutions in the United States or money center countries (as defined in CFTC Regulation 1.49). NFA authorized IBLLC to utilize its daily securities reserve computations (under SEC rule 15c3-3) to satisfy this requirement.

Pursuant to the requirements of subparagraph (k)(2)(i) of SEC Rule 15c3-3, IB Corp. has established a special cash account for the exclusive benefit of certain of its customers to fund and pay amounts collected for the payment of expenses on behalf of such customers. At June 30, 2012, \$20,897 was segregated, which was \$16,338 in excess of the requirement.

## **6. NET CAPITAL REQUIREMENTS**

IBLLC is subject to the SEC’s Uniform Net Capital Rule (Rule 15c3-1), which requires the maintenance of minimum net capital. IBLLC has elected to use the alternative method permitted by the rule, which requires that IBLLC maintain minimum net capital, as defined, equal to the greater of \$500,000 or 2% of aggregate debit balances arising from customer transactions, as

defined. IBLLC is also subject to the CFTC’s minimum financial requirements (Regulations 1.17 and 5.7), which require that IBLLC maintain minimum net capital, as defined, equal to the greater of \$20,000,000 plus 5% of total retail forex obligation in excess of \$10,000,000 or 8% of the total risk margin requirement for all positions carried in customer and non-customer accounts. The Uniform Net Capital Rule also provides that equity capital may not be withdrawn or cash dividends paid if resulting net capital would be less than 5% of aggregate debits. At June 30, 2012, IBLLC had net capital of \$1,397,619,128, which was \$1,206,425,971 in excess of required net capital of \$191,193,157.

IB Corp. is subject to the regulatory requirements promulgated by the SEC and other regulatory and exchange authorities. Net capital and excess net capital at June 30, 2012 as defined by these regulatory authorities were \$4,796,427 and \$4,233,564, respectively.

## 7. RELATED PARTY TRANSACTIONS

The Operating Companies, in addition to the Company, are comprised of the following companies: Timber Hill LLC (“THLLC”), Timber Hill Europe AG (“THE”), Timber Hill Canada Company (“THC”), Timber Hill Securities Hong Kong Limited (“THSHK”), Timber Hill Australia Pty Limited (“THA”), Interactive Brokers Canada Inc. (“IBC”), Interactive Brokers (U.K.) Limited (“IBUK”), Interactive Brokers Securities Japan, Inc. (“IBSJ”), Interactive Brokers (India) Private Limited (“IBI”), Interactive Brokers Hungary Kft (“IBH”), Interactive Brokers Financial Products S.A. (“IBFP”), Interactive Brokers Software Services Estonia OU (“IBEST”), Interactive Brokers Software Services Rus (“IBRUS”), IB Exchange Corp. (“IBEC”) and Interactive Brokers Brasil Participacoes Ltda. (“IBBH”).

IBLLC, IBUK, IBC, IBI and IBSJ are registered broker-dealers in the US, Great Britain, Canada, India and Japan, respectively, and engage in execution and clearing securities services for customers and affiliates. THLLC, THE, THC, THA and THSHK are registered securities dealers in the US, Switzerland, Canada, Australia and Hong Kong, respectively, and trade on a proprietary basis and engage in execution and clearing services for affiliates. IBEST, IBRUS and IBH provide the Group with computer programming services and IBEC holds certain of the Group’s strategic investments. IBFP is a securities issuer registered in Germany. IBBH is a Brazilian holding company that was formed to develop the Group’s business in Brazil. IBG LLC is the holding company for the group of Operating Companies. These companies share administrative, financial and technological resources, as well as engage in security transactions such as trade execution in the ordinary course of business with the Company.

Affiliate loans and brokerage transaction receivables and payables are reported gross. Other affiliate receivables and payables including interest, administrative, consulting and service fees and advances between Operating Companies are netted by operating company.

Included in assets in the consolidated statement of financial condition were the following amounts with related parties at June 30, 2012:

Securities borrowed	\$ 1,122,960,877
Receivables from brokers, dealers and clearing organizations	418,295,320
Receivable from affiliates	53,069,043
Receivables from customers	33,092,015
Interest receivable	963,330

Included in liabilities in the consolidated statement of financial condition were the following amounts with related parties at June 30, 2012:

Securities loaned	\$ 1,409,297,330
Payable to customers	349,845,224
Securities sold under agreements to repurchase	136,676,815
Payables to brokers, dealers and clearing organizations:	112,250,726
Payable to affiliates	47,027,641
Interest payable	57,800

## 8. DEFINED CONTRIBUTION AND EMPLOYEE INCENTIVE PLANS

### *Defined Contribution Plan*

The Group offers substantially all employees of U.S.-based operating companies who have met minimum service requirements the opportunity to participate in a defined contribution retirement plan qualifying under the provisions of Section 401(k) of the Internal Revenue Code. The general purpose of this plan is to provide employees with an incentive to make regular savings in order to provide additional financial security during retirement. The plan provides for the Company to match 50% of the employees' pretax contribution, up to a maximum of 10% of eligible earnings. The employee is vested in the matching contribution incrementally over six years.

### *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 IBG, Inc. Class A common stock ("Common Stock") as described below under "2007 Stock Incentive Plan."

As of June 30, 2012, payables to employees of the Company for ROI Dollar Units were \$1,712,877, of which 100% were vested. These amounts are included in accounts payable, accrued expenses and other liabilities in the consolidated statement of financial condition.

### *2007 ROI Unit Stock Plan*

Certain employees of the Company held ROI Dollar Units that entitled each holder thereof to accumulated earnings on the face value of the certificate representing his or her ROI Dollar Units.

Subsequent to the IPO, no additional ROI Dollar Units have been or will be granted. In connection with the IPO, ROI Dollar Units were, at the employee's election, redeemable for cash, as provided for under the ROI Dollar Unit plan, or the accumulated earnings attributable to the ROI Dollar Units as at December 31, 2006 may have been invested in shares of Common Stock pursuant to the Interactive Brokers Group, Inc. 2007 ROI Unit Stock Plan (the "ROI Unit Stock Plan"). All ROI Dollar Units held by employees of the Company that were outstanding as of December 31, 2006 were so invested, and 193,873 shares of restricted Common Stock to be issued to employees of the Company under the ROI Unit Stock Plan have been or will be distributed in accordance with the following schedule, subject to the conditions below:

- 10% on the date of the IPO; and
- an additional 15% on each of the first six anniversaries of the date of the IPO, assuming continued employment with Group companies and compliance with other applicable covenants.

### ***2007 Stock Incentive Plan***

Under the Interactive Brokers Group, Inc. 2007 Stock Incentive Plan (the "Stock Incentive Plan"), 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 unissued shares of Common Stock awarded under the Stock Incentive Plan, or provide that any such granted but unissued shares of Common Stock 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 of Common Stock 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 are issued to IBG LLC, to be held as Treasury Stock, and are 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.

The following is a summary of stock plan share activity as of June 30, 2012:

	<b>2007 Stock Incentive Plan Shares</b>	<b>2007 ROI Unit Stock Incentive Plan Shares</b>
Balance, January 1, 2012	1,934,254	56,778
Granted	349,624	-
Forfeited by employees	(9,871)	-
Distributed to employees	<u>(359,743)</u>	<u>(27,796)</u>
Balance, June 30, 2012	<u><u>1,914,264</u></u>	<u><u>28,982</u></u>

Estimated future grants under the Stock Incentive Plan are being accrued for ratably during each year under the ASC 718 “Graded Vesting” method.

Shares 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 shares unless the employee is over the age of 59, in which case the employee would be eligible to receive 100% of unvested shares previously granted. Distributions of remaining shares to former employees will occur annually following the anniversary of the discontinuation of employment over a five (5) year vesting schedule, 12.5% in each of the first four years and 50% in the fifth year. Through June 30, 2012, a total of 11,025 shares have been distributed under these post-employment provisions. These distributions are included in the Stock Plans activity tables above.

## 9. PROPERTY AND EQUIPMENT

Property and equipment, which are included in other assets in the consolidated statement of financial condition, are comprised of leasehold improvements, computer equipment, computer software and office furniture and equipment. At June 30, 2012 property and equipment consisted of:

	<b>June 30, 2012</b>
Leasehold improvements	\$ 15,286,144
Computer equipment	9,961,773
Computer software	563,582
Office furniture and equipment	<u>3,609,113</u>
	29,420,612
Less - accumulated depreciation and amortization	<u>(18,183,545)</u>
Property and equipment, net	<u><u>\$ 11,237,067</u></u>

## 10. 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. The Company 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, the Company 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. 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.

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, IBG Holdings LLC and IBLLC. Thereafter, Trading Technologies dismissed Interactive Brokers Group, Inc. and IBG Holdings LLC from the case, leaving only IBG LLC and IBLLC 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.

The Company accounts for potential losses related to litigation in accordance with ASC 450, *Contingencies*. As of June 30, 2012, reserves provided for potential losses related to litigation matters were not material.

### *Guarantees*

The Company provides guarantees to securities and futures clearinghouses and exchanges which meet the accounting definition of a guarantee under ASC 460, *Guarantees*. Under the standard membership agreement, members are required to guarantee the performance of other members. Under the agreements, if another member becomes unable to satisfy its obligations to the clearinghouse, other members would be required to meet shortfalls. In the opinion of management, the Company's liability under these arrangements is not quantifiable and could exceed the cash and securities it has posted as collateral. However, the potential for the Company to be required to make payments under these arrangements is remote. Accordingly, no contingent liability is carried in the consolidated statement of financial condition for these arrangements.

In connection with its retail brokerage business, the Company performs securities and commodities execution, clearance and settlement on behalf of its customers for whom it commits to settle trades submitted by such customers with the respective clearing houses. If a customer

fails to fulfill its obligation, the Company must fulfill the customer's obligation with the trade counterparty.

The Company is fully secured by assets in customers' accounts and any proceeds received from securities and commodities transactions entered into by the Company on behalf of customers. No contingent liability is carried on the consolidated statement of financial condition for these fully collateralized transactions.

### *Leases*

Directly and through affiliates, the Company has non-cancelable operating leases covering office space with terms through January 2019, with renewal options through January 2026. Office leases are subject to escalation clauses based on specified costs incurred by the landlord and contain a renewal election.

The Company's proportionate share of minimum future rental payment commitments, inclusive of amounts allocated by affiliates, is as follows:

<u>YEAR</u>	
2012	\$ 2,288,035
2013	4,555,358
2014	2,561,803
2015	2,402,834
2016	2,457,491
Thereafter	2,065,192
	<u>\$ 16,330,713</u>

## **11. COLLATERAL**

The Company enters into securities borrowing and lending transactions and agreements to repurchase and resell securities to obtain securities for settlement and to earn residual interest rate spreads. Under these agreements and 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 to these securities to counterparties to cover customer short positions. Amounts relating to transactions at June 30, 2012 are summarized as follows (millions):

Securities received as collateral, at fair value:	<u>Pledged</u>	<u>Repledged</u>
Securities lending transactions	\$ 1,362	\$ 1,341
Agreements to resell	3,875	3,875
Customer margin securities	11,671	1,337
	<u>\$ 16,908</u>	<u>\$ 6,553</u>

At June 30, 2012, substantially all securities repledged have been deposited in a separate bank account for the exclusive benefit of customers in accordance with SEC Rule 15c3-3, or were pledged to clearing organizations to satisfy daily margin and clearing fund requirements.

The Company has pledged certain firm-owned assets which are included in deposits with clearing organization. The fair value at June 30, 2012 of such securities that have been pledged, where the counterparty has the right to repledge, was \$2,099,831 which consisted of U.S. Treasury bills.

The Company also engages in securities financing transactions with and for customers through margin lending. Under these agreements and transactions, the Company either receives or provides collateral, including U.S. government securities, corporate debt and equity securities. 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. 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 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 or potential hedging strategies to reduce risk. 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, historic trading ranges, 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 June 30, 2012, there were approximately \$8.3 billion of customer margin loans outstanding.

## **12. SUBSEQUENT EVENTS**

The Company has evaluated subsequent events for adjustment to or disclosure in its consolidated statement of financial condition. No recordable or disclosable events have occurred.

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