

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

STATEMENT OF FINANCIAL CONDITION  
AS OF JUNE 30, 2004

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Interactive Brokers LLC  
Member, Securities Investor Protection Corporation (SIPC)  
Two Pickwick Plaza  
Greenwich, Connecticut 06830

# INTERACTIVE BROKERS LLC

## STATEMENT OF FINANCIAL CONDITION

JUNE 30, 2004

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### ASSETS

Cash	\$ 43,466,750
Cash and securities - segregated under federal and other regulations	1,012,357,473
Securities purchased under agreements to resell	21,300,000
Securities borrowed from an affiliate	77,370,990
Securities owned - pledged as collateral	63,966,816
Receivable from customers	176,738,105
Receivable from brokers, dealers and clearing organizations	12,298,413
Receivable from affiliates	50,768,493
Other assets	<u>9,566,934</u>

TOTAL ASSETS \$1,467,833,974

### LIABILITIES AND MEMBERS' CAPITAL

#### LIABILITIES:

Payables to customers	\$1,258,110,507
Due to affiliates	5,717,924
Payables to brokers, dealers and clearing organizations	19,882,108
Accounts payable, accrued expenses and other liabilities	<u>9,454,647</u>

Total liabilities 1,293,165,186

MEMBERS' CAPITAL 174,668,788

TOTAL LIABILITIES AND MEMBERS' CAPITAL \$1,467,833,974

See notes to statement of financial condition.

# INTERACTIVE BROKERS LLC

## NOTES TO STATEMENT OF FINANCIAL CONDITION JUNE 30, 2004

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### 1. ORGANIZATION AND NATURE OF BUSINESS

Interactive Brokers LLC (the “Company”), a Connecticut limited liability company, is a broker-dealer registered under the Securities Exchange Act of 1934 and is a member of various securities and commodities exchanges and the National Association of Securities Dealers, Inc. The Company is also a member of the National Futures Association and a registered futures commission merchant. The Company executes and clears securities and commodities transactions for customers. Certain transactions are cleared through other clearing brokers. Accordingly, the Company carries security 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 commodity accounts and is subject to the segregation requirements pursuant to the Commodity Exchange Act.

The Company is 99.9% owned by Interactive Brokers Group LLC (“IBGLLC”). In addition to the Company, IBGLLC is comprised of the following companies: Timber Hill LLC (“THLLC”), Timber Hill Europe AG (“THE”), Timber Hill Hong Kong Limited (“THHK”), Timber Hill Securities Hong Kong Limited (“THSHK”), Timber Hill Australia Pty Limited (“THA”), Timber Hill Canada Company (“THC”), Interactive Brokers Canada Inc. (“IBC”) and Interactive Brokers (U.K.) Limited. THE is the parent company of Timber Hill (U.K.) Limited (“THUK”).

### 2. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Company conform to accounting principles generally accepted in the United States of America and prevailing industry practice.

#### *Use of Accounting Estimates*

The preparation of the statement of financial condition in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities as of June 30, 2004. Actual results could differ from those estimates. Such estimates include estimated useful lives of equipment, estimated fair value of financial instruments and estimated contingency reserves.

#### *Securities Owned – Pledged as Collateral*

Securities are carried at fair value. Fair value is based on readily available market data sources, which include quotes from various brokers or dealers. Security transactions are recorded on a trade date basis. As of June 30, 2004, the Company had \$56,872,967 in U.S. Treasury Bills, \$6,721,305 in U.S. Treasury Notes and \$372,544 in Canadian Treasury Bills that have been pledged with the Company’s clearing organizations in the normal course of business.

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

Receivables from and payables to brokers, dealers and clearing organizations represent amounts from unsettled customer trading activities on June 30, 2004.

### ***Collateralized Financing Arrangements***

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 as specified in the respective agreements. 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 market value of the underlying collateral remains sufficient, this collateral is valued daily with additional collateral obtained or excess collateral returned when appropriate, as required through contractual provisions.

The Company borrows securities in order to facilitate customer settlements. Securities borrowed are recorded at the amount of cash collateral advanced. Interest is accrued at the stipulated contract rate. Securities borrowed transactions require the Company to deposit cash, letters of credit, or other securities with the counterparty. The Company monitors the market value of securities borrowed on a daily basis, with additional collateral obtained or refunded as necessary.

On the statement of financial condition for the period ended June 30, 2004, any firm owned securities pledged to counterparties where the counterparty has the right, by contract or custom, to sell or repledge the securities are classified as securities pledged as collateral, as required by Statement of Financial Accounting Standards ("SFAS") No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities – a Replacement of FASB Statement No. 125*. There were \$63,966,816 of such securities pledged on June 30, 2004. The market value of collateral received from counterparties amounted to \$153,767,463 of which none has been repledged.

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

Property and equipment primarily consists of technology hardware and software. Property and equipment are reported at historical cost, net of accumulated depreciation and amortization. Depreciation and amortization are computed using the straight-line method. Equipment is depreciated over the estimated useful lives of the assets. Net of accumulated depreciation and amortization, total property and equipment of \$3,428,462 was included in Other assets on June 30, 2004.

### ***Translation of Foreign Currencies***

Assets and liabilities denominated in foreign currencies are translated at month-end rates of exchange.

### ***Off Balance-Sheet Transactions***

The Company enters into cross-currency swap agreements for customer funds denominated in foreign currencies in order to fund the U.S. dollars denominated safekeeping account for the benefit of customers. A cross-currency swap is an agreement to exchange a fixed amount of one currency for specified amount of a second currency at the outset and at completion of the swap term. As of June 30, 2004, the Company had outstanding swap agreements in the amount of Euro 107,000,000, Australian dollar 13,000,000, Canadian dollar 12,000,000, Japanese yen 800,000,000 and British pound 3,500,000 for counter-value in U.S. dollars.

## ***Guarantees***

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 applicable clearing houses. The Company stands ready to meet the obligations of its customers with respect to securities and commodities transactions. If a customer fails to fulfill his obligation, the Company must fulfill the customer's obligation with the trade counterparty. The Company is fully secured by assets in the customer's account as well as any proceeds received from the securities and commodities transactions entered into by the Company on behalf of the customer. No contingent liability is carried on the balance sheet for these transactions as they are fully collateralized.

## ***New Accounting Pronouncements***

In January 2003, the Financial Accounting Standards Board ("FASB") issued Interpretation No. 46 ("FIN 46"), *Consolidation of Variable Interest Entities, an Interpretation of ARB 51*, which provides guidance to determine when enterprises should consolidate variable interest entities ("VIE's"). In general, a VIE is an entity whose equity investors either (a) do not provide sufficient resources to enable the VIE to finance its activities without additional financial support from any parties or (b) lack either decision making authority, the obligation to absorb the expected losses of the entity, or the right to receive the expected residual returns of the entity.

In December 2003, the FASB issued a revised version of FIN 46 (referred to as "FIN 46R") which amended certain reporting and disclosure requirements, and various definitions of certain terms. The revisions to FIN 46, as noted in FIN 46R, are required to be adopted by public entities no later than the first reporting period after March 15, 2004, though they may be adopted prior to such date. The Company, as a privately held company, is required to adopt FIN46R in the first reporting period after December 15, 2004, and believes that the adoption of FIN46R will not have a material impact on its statement of financial condition.

In May 2003, the FASB issued SFAS No. 150, *Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity*, which requires certain financial instruments to be classified as liabilities rather than equity. SFAS No. 150 was effective for the six months ended June 30, 2003 for financial instruments entered into or modified after May 31, 2003, and was otherwise effective July 1, 2003 for previously issued instruments. The adoption of SFAS No. 150 did not have a material impact on the financial condition of the Company.

### **3. SEGREGATION OF FUNDS**

In accordance with the Commodity Exchange Act, the Company is required to segregate all monies, securities and property received to margin and to guaranty or secure the trades or contracts of customers in regulated commodities. As of June 30, 2004, cash and securities in the amount of \$69,743,427 were segregated.

In accordance with CFTC regulation 30.7, the Company is required to segregate all monies, securities and property received to margin and to guaranty or secure the trades or contracts of customers on foreign boards of trade. As of June 30, 2004, cash and securities in the amount of \$22,188,569 were segregated.

#### **4. RESERVE REQUIREMENTS AND POSSESSION OR CONTROL REQUIREMENTS**

In accordance with the Securities Exchange Act of 1934, the Company is required to maintain a separate bank account for the exclusive benefit of customers. As of June 30, 2004, the Company held cash and securities segregated for the benefit of customers in the amount of \$928,188,704 to satisfy this requirement. Included in this total were securities purchased under agreement to resell in the amount of \$39,900,000.

#### **5. FAIR VALUE DISCLOSURES**

Due to the nature of its operations, substantially all of the Company's financial instrument assets comprise: cash, cash and securities segregated for federal and other regulations or deposited with clearing organizations, securities purchased under agreements to resell, securities borrowed, and receivables from brokers, dealers and clearing organizations and other assets which are short-term in nature and are reflected at amounts approximating fair value. Similarly, all of the Company's financial instrument liabilities arise from customers, securities sold under agreements to repurchase and liabilities which are short term in nature and are reported at amounts approximating fair value.

#### **6. NET CAPITAL REQUIREMENTS**

The Company is subject to the Uniform Net Capital Rule (Rule 15c3-1) under the Securities Exchange Act of 1934, which requires the maintenance of minimum net capital. The Company has elected to use the alternative method permitted by the rule, which requires that the Company maintain minimum net capital, as defined, equal to the greater of \$250,000 or 2 percent of aggregate debit balances arising from customer transactions, as defined. The Company is also subject to the Commodity Futures Trading Commission's minimum financial requirements (Regulation 1.17) which require that the Company maintain net capital, as defined, equal to 4% of customer funds required to be segregated pursuant to the Commodity Exchange Act, less the market value of certain commodity options, as defined. The 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. As of June 30, 2004, the Company had net capital of \$94,943,337 which was \$88,428,369 in excess of required net capital.

#### **7. RELATED PARTY TRANSACTIONS**

IBLLC, IBUK and IBC are registered broker-dealers in the US, Great Britain and Canada, respectively, and engage in execution and clearing securities services for customers. THE, THUK, THC, THA, THHK and THSHK are registered securities dealers in Switzerland, Great Britain, Canada, Australia and Hong Kong, respectively, and trade on a proprietary basis. IBGLLC 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.

Included in assets in the statement of financial condition were the following amounts with related parties as of June 30, 2004:

Securities borrowed	\$77,370,990
Loan receivable	\$50,000,000
Securities purchased under agreements to resell	1,800,000
Currency Forward MTM Gains	1,652,960
Agency settlement	204,385
Stock borrow and other interest receivables	196,651
Prepaid commissions	63,531
Advances receivable	28,534
Interest receivable on repurchase agreements	18,645
Brokerage fees receivable	6,993

Included in liabilities in the statement of financial condition were the following amounts with related parties as of June 30, 2004:

Consulting fee payable	2,220,577
Administrative fee payable	1,717,655
Brokerage fees payable	1,175,903
Advances payable	602,783
Interest and Other Payable	1,563

## 8. EMPLOYEE INCENTIVE PLANS

The Company participates in two employee incentive plans sponsored by IBGLLC that provide eligible employees with the opportunity to share in the long-term growth of IBGLLC. The Company applies the guidance contained in SFAS No. 123 in accounting for transactions of these plans.

Return on Investment Dollar Unit ("ROI"): Since 1998, the Company has granted all non-member employees ROI Dollar Units. Grantees may redeem the units beginning 5 years and ending 10 years after the date of grant. Upon proper redemption, the grantee is entitled to accumulated earnings on the face value of the certificate, but not the actual face value.

In 2003, IBGLLC determined that the accumulated ROI accruals should be borne by the subsidiaries that employ the grantees. As a result, as of June 30, 2004, Accounts payable, accrued expenses, and other liabilities included accruals relating to ROI of \$3,845,491.

Member Interests: Selected employees of the Company are granted non-transferable member interests in IBGLLC. Those member interests entitle the grantees to share in the net consolidated profit or loss of IBGLLC based on their holding percentages. Redemption of member interests is treated as capital distribution from IBGLLC.

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