

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

STATEMENT OF FINANCIAL CONDITION
AS OF JUNE 30, 2003
(UNAUDITED)
* * * * *

INTERACTIVE BROKERS LLC

STATEMENT OF FINANCIAL CONDITION

JUNE 30, 2003

ASSETS

| | |
|--|------------------|
| Cash | \$ 23,927,207 |
| Cash and securities - segregated under federal and other regulations | 671,747,053 |
| Securities purchased under agreement to resell with an affiliate | 58,500,000 |
| Securities borrowed from an affiliate | 60,897,775 |
| Securities owned - pledged as collateral | 68,837,794 |
| Receivable from customers | 56,662,126 |
| Receivable from brokers, dealers and clearing organizations | 12,801,923 |
| Receivable from affiliates | 4,997,726 |
| Other assets | <u>9,838,330</u> |

TOTAL ASSETS \$968,209,934

LIABILITIES AND MEMBERS' CAPITAL

LIABILITIES:

| | |
|---|------------------|
| Payables to customers | \$ 786,023,335 |
| Securities sold under agreement to repurchase with an affiliate | 22,544,000 |
| Due to affiliates | 2,595,566 |
| Payables to brokers, dealers and clearing organizations | 18,484,347 |
| Accounts payable, accrued expenses and other liabilities | <u>3,143,720</u> |

Total liabilities 832,790,968

MEMBERS' CAPITAL 135,418,966

TOTAL LIABILITIES AND MEMBERS' CAPITAL \$968,209,934

See notes to statement of financial condition.

INTERACTIVE BROKERS LLC

NOTES TO STATEMENT OF FINANCIAL CONDITION JUNE 30, 2003

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 financial statements 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 at June 30, 2003. 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

Securities are carried at fair value. Fair value is based on quotes received from various broker-dealers. Security transactions are recorded on a trade date basis. Unrealized gains or losses are recognized on a trade date basis. At June 30, 2003, the Company had German treasury notes with a market value of \$22,070,428, which have been pledged under a repurchase agreement with THE. The Company also had \$46,767,365 in U.S. 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 represented amounts from unsettled customer trading activities at June 30, 2003.

Collateralized Financing Arrangements

Securities purchased under agreement 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, 2003, 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 \$68,837,794 of such securities pledged at June 30, 2003. The market value of collateral received from counterparties amounted to \$215,488,846 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 plant property and equipment of \$1,635,963 was included in Other assets at June 30, 2003.

New Accounting Pronouncements

In November 2002, the Financial Accounting Standards Board issued Financial Interpretation No. 45 ("FIN 45"), "*Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others*", which elaborates on the disclosures to be made by a guarantor about its obligations under certain guarantees that it issues. It also clarifies that a guarantor is required to recognize, at the inception of a guarantee, a liability for the fair value of the obligation undertaken in issuing the guarantee. The initial recognition and measurement provisions of FIN 45 apply prospectively to guarantees issued after December 31, 2002 regardless of the guarantor's fiscal year-end. The disclosure requirements in FIN 45 are effective for financial statements of any period ending after December 15, 2002.

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, with the applicable clearing houses, trades submitted by such customers. The Company stands ready to meet the obligations of its customers with respect to securities and commodities transactions. If the 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 the customer's account as well as any proceeds received from the securities and commodities transaction 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.

In January 2003, the Financial Accounting Standards Board issued Financial Interpretation No. 46 ("FIN 46"), "*Consolidation of Variable Interest Entities*", 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 do not provide sufficient resources to enable the VIE to finance its activities without additional financial support from other parties, or lack 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. FIN 46 requires that a VIE be consolidated by the party, referred to as the primary beneficiary, who is subject to a majority of the expected losses of the VIE or entitled to receive a majority of the expected residual returns of the VIE or both. FIN 46 is effective for any VIE's created after January 31, 2003 and applies in the first fiscal year after June 15, 2003 to VIE's in which an enterprise holds a variable interest that it acquired prior to February 1, 2003. The Company intends to adopt the provisions of FIN 46 as required in 2003 and such adoption will not have a material impact on the Company's financial statements.

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. At June 30, 2003, segregated funds exceeded such requirements by \$11,719,426

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. At June 30, 2003, cash and securities in the amount of \$14,199,755 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. At June 30, 2003, the Company held cash and securities segregated for the benefit of customers of \$629,965,820.

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). At June 30, 2003, the Company had net capital of \$105,906,843, which was \$102,711,378 in excess of required net capital.

7. RELATED PARTY TRANSACTIONS

Interactive Brokers Group LLC

The Company is party to an agreement with IBGLLC whereby IBGLLC provides computer software development services on behalf of the Company. At June 30, 2003, the Company had a payable of \$1,976,028 to IBGLLC, related to these services.

During 2002, the Company entered into an unsecured loan transaction with IBGLLC. Interest is calculated quarterly based on the three month LIBOR rate, and paid at maturity of the loan. At June 30, 2003, the Company had an unsecured loan of \$6,600,000 and interest receivable of \$25,525 from IBGLLC, which were included in Receivables from affiliates.

From time to time, and in the normal course of business, the Company and IBGLLC may incur and/or pay certain general and administrative expenses on each other's behalf (hereinafter referred to as intercompany "Advances"). At June 30, 2003, the Company had a receivable from IBGLLC of \$348,229 related to such advances.

Timber Hill LLC

The Company is party to an agreement with THLLC whereby THLLC provides administrative and operational services on behalf of the Company. At June 30, 2003, the Company had an administrative fee payable of \$357,161 to THLLC.

The Company is party to an agreement with THLLC whereby THLLC provides trade execution and clearing services to the Company for U.S. futures and options transactions. The Company had a brokerage payable at June 30, 2003 to THLLC of \$1,348,316, which is included in Due to affiliates.

The Company is also party to an agreement with THLLC for the execution of foreign currency trades. At June 30, 2003, the Company had a settlement receivable of \$8,286,916.

During the second quarter of 2003, the Company entered into securities borrowing transactions with THLLC. The Company had interest receivable of \$40,626 at June 30, 2003 related to these transactions, which is included in Other assets. The securities borrowed balance with THLLC at June 30, 2003 was \$60,897,775.

During the second quarter of 2003, the Company entered into resale transactions with THLLC. The Company had interest receivable of \$49,929 at June 30, 2003 related to these transactions, which is included in Other assets. The Securities purchased under agreements to resell balance with THLLC at June 30, 2003 was \$58,500,000.

The Company has also entered into an agreement to execute security transactions for THLLC. At June 30, 2003, the Company had fees receivable from THLLC of \$1,574,881, related to such activity, which is netted against other items in Due to affiliates.

From time to time, and in the normal course of business, the Company and THLLC may incur and/or pay certain general and administrative expenses on each other's behalf. At June 30, 2003, the Company had a payable to THLLC of \$257,118 related to such advances.

Timber Hill Europe

THE provides execution services on securities exchanges in various European countries on behalf of the Company. The amount payable to THE for brokerage at June 30, 2003 was \$606,168 and is included in Due to affiliates.

From time to time, and in the normal course of business, the Company and THE may incur and/or pay certain general and administrative expenses on each other's behalf. At June 30, 2003, the Company had a receivable from THE of \$10,777 related to such advances included in Due to affiliates. During the second quarter of 2003, the Company entered into a short term euro to U.S. dollar foreign currency swap with THE. At June 30, 2003, the notional amount of the swap was €40,000,000 and had a contractual maturity of September 30, 2003.

During the second quarter of 2003, the Company entered into a short term Canadian dollar to U.S. dollar foreign currency swap with THE. At June 30, 2003, the notional amount of the swap was CAD 11,000,000 and had a contractual maturity of September 30, 2003.

Interactive Brokers Canada Inc.

The Company has entered into an agreement to execute and clear security transactions for customers of IBC. At June 30, 2003, the Company had brokerage fees receivable from IBC of \$1,353,160, related to such activity, which is included in Payables to affiliates. At June 30, 2003, the Company had advances for brokerage fees payable to IBC of \$1,691,451, which are included in Due to affiliates.

Interactive Brokers (U.K.) Limited

During 2002, the Company entered into an agreement to execute and clear security transactions of IBUK. At June 30, 2003, the Company had brokerage fees payable to IBUK of \$1,279,279, which is included in Due to affiliates.

Additionally, the Company had a payable due to THSHK in the amount of \$74,079 that is included in Due to affiliates. These payables consist of certain general and administrative expenses paid by the THSHK on behalf of the Company.

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