

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

STATEMENT OF FINANCIAL CONDITION
AS OF MARCH 31, 2006

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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

March 31, 2006

ASSETS

| | |
|--|-------------------|
| Cash | \$ 37,142,754 |
| Cash and securities - segregated under federal and other regulations | 1,955,126,204 |
| Securities purchased under agreements to resell | 40,900,000 |
| Securities borrowed | 161,383,594 |
| Securities owned - pledged as collateral | 200,826,202 |
| Receivable from customers | 632,700,493 |
| Receivable from brokers, dealers and clearing organizations | 39,996,993 |
| Receivable from affiliates | 27,948,023 |
| Other assets | <u>22,084,294</u> |

TOTAL ASSETS \$3,118,108,557

LIABILITIES AND MEMBERS' CAPITAL

LIABILITIES:

| | |
|--|-------------------|
| Payable to customers | \$2,744,791,949 |
| Securities Loaned | 6,234,376 |
| Due to affiliates | 7,960,202 |
| Payable to brokers, dealers and clearing organizations | 57,399,852 |
| Accounts payable, accrued expenses and other liabilities | <u>29,438,837</u> |

Total liabilities 2,845,825,216

MEMBERS' CAPITAL 272,283,341

TOTAL LIABILITIES AND MEMBERS' CAPITAL \$3,118,108,557

See notes to statement of financial condition.

INTERACTIVE BROKERS LLC

NOTES TO STATEMENT OF FINANCIAL CONDITION March 31, 2006

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 (“IBG LLC”). In addition to the Company, IBG LLC is comprised of the following companies: Timber Hill LLC (“TH LLC”), Timber Hill Europe AG (“THE”), 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 (“IBUK”) and Timber Hill Hong Kong Limited (“THHK”), which ceased operating in February 2004 and was liquidated in October 2005. 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 March 31, 2006. Actual results could differ from these estimates. Such estimates include estimated useful lives of equipment and estimated fair value of financial instruments.

Securities Owned – Pledged as Collateral

Securities owned – pledged as collateral consisted of U.S. and Canadian Treasury bills, carried at amortized cost, which approximate fair value. Security transactions are recorded on a trade date basis. At March 31, 2006, the Company had \$199,117,211 in U.S. Treasury Bills and \$1,708,991 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 and margin deposits on March 31, 2005.

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 required contractually.

On the statement of financial condition as of March 31, 2006, 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*. At March 31, 2006, collateral received from counterparties amounted to \$157,000,078, which the Company had the right to repledge or resell, of which substantially all has been repledged or resold. In addition, the Company held \$885,780,690 in customer securities pledged to the company, of which \$6,234,376 have been repledged.

Property and Equipment

Property and equipment consists primarily of technology hardware, software and leasehold improvements. 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, while leasehold improvements are amortized over the lesser of the estimated economic useful life of the asset or the term of the lease. Total property and equipment of \$5,624,452, net of accumulated depreciation and amortization of \$4,534,332, was included in Other assets at March 31, 2006.

Translation of Foreign Currencies

Assets and liabilities denominated in foreign currencies are translated at March 31, 2006 rates of exchange.

Cross-Currency Swap Transactions

The Company enters into cross-currency swap transactions 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. At March 31, 2006, the Company had outstanding swap transactions in the amount of 212,060,170 Euros, 34,869,705 Australian dollars, 61,350,352 Swiss francs, 23,152,206 Great British pounds, (18,406,187) Hong Kong dollars, 53,500,000 Canadian dollars and 2,561,397,252 Japanese yen for counter-value in U.S. dollars and 1,800,000 U.S dollars for counter-value in Hong Kong dollars. The unrealized gains or losses from cross-currency swap transactions are recorded in Other assets or Accounts payable, accrued expenses and other liabilities.

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 December 2004, the Financial Accounting Standard Board ("FASB") issued SFAS No. 123 (revised 2004), *Share-Based Payment* ("SFAS No. 123R"). SFAS No.123R eliminates the intrinsic value method under APB 25 as an alternative method of accounting for stock-based awards. SFAS No. 123R also revises the fair-value-based method of accounting for share-based payment liabilities, forfeitures, and modifications of stock-based awards and clarifies SFAS No. 123's guidance in several areas, including measuring fair value, classifying an award as equity or as a liability, and attributing compensation cost to reporting periods. The Company expects that the adoption of SFAS No. 123R in 2006 will not have a material impact on its financial statements.

SFAS No. 154 - *Accounting Changes and Error Corrections* was issued in May 2005 and is effective beginning January 1, 2006. This statement replaces APB No. 20 - *Accounting Changes*, and SFAS No. 3 - *Reporting Accounting Changes in Interim Financial Statements*, and changes the requirements for reporting a change in accounting principle. SFAS No. 154 generally requires retrospective application to prior periods' financial statements of changes in accounting principle. The Company adopted SFAS No. 154 as of January 1, 2005, noting that no such accounting changes affected the Company's financial statement in 2005.

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 guarantee or secure the trades or contracts of customers in regulated commodities. As of March 31, 2006, cash and securities in the amount of \$181,897,936 were segregated. Included in this total were securities purchased under agreement to resell in the amount of \$3,050,000.

In accordance with CFTC regulation 30.7, the Company 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. As of March 31, 2006, cash and securities in the amount of \$56,209,071 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 March 31, 2006, the Company held cash and securities segregated for the benefit of customers in the amount of \$1,656,969,089 to satisfy this requirement.

5. FAIR VALUE DISCLOSURES

Due to the nature of its operations, substantially all of the Company's financial instrument assets are comprised of: cash, cash and securities segregated for federal and other regulations or deposited with clearing organizations, securities purchased under agreements to resell, securities borrowed, 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% 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). On September 30, 2004 Commodity Futures Trading Commission amended Rule 1.17 to require that the Company maintain minimum net capital, as defined, of 8% of the total risk margin requirement for all positions carried in customer accounts plus 4% of the total risk margin requirement for all positions carried in noncustomer accounts. 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 March 31, 2006, the Company had net capital of \$219,733,217, which was \$200,232,420 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. THLLC, THE, THC, THA and THSHK are registered securities dealers in US, Switzerland, 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 December 31, 2005:

| | |
|---|----------------|
| Securities borrowed | \$ 161,150,553 |
| Loan receivable (Unsecured demand note) | 25,300,000 |
| Advances receivable | 38,600,000 |
| Receivable from brokers, dealers and clearing organizations | 34,322,083 |
| Brokerage fees receivable | 1,717,644 |
| Interest receivable | 1,024,315 |
| Mark-to-market gain on foreign currency swaps | 1,508,202 |
| Other | 2,448 |

Included in liabilities in the statement of financial condition were the following amounts with related parties as of December 31, 2005:

| | |
|---|--------------|
| Stock Loan | \$ 6,234,376 |
| Brokerage fee receivable | 2,470,376 |
| Consulting fee payable | 3,424,561 |
| Administrative fee payable | 1,440,779 |
| Interest Payable | 1,046,383 |
| Advances payable | 544,761 |
| Mark-to-market loss on foreign currency swaps | 36,566 |

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.

Return on Investment Dollar Units ("ROI"): Since 1998, IBGLLC has 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 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 units upon the fifth, seventh or tenth anniversary date. These 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 units shall vest on the fifth anniversary date of their grant and will be automatically redeemed. At March 31, 2006, the Company had a total ROI payable in the amount of \$6,134,010.

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 percentage. Redemptions of member interests are treated as capital distributions from IBGLLC.

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