

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

STATEMENT OF FINANCIAL CONDITION  
AS OF DECEMBER 31, 2004  
AND  
INDEPENDENT AUDITORS' REPORT  
AND  
SUPPLEMENTAL REPORT ON INTERNAL CONTROL  
December 31, 2004

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Filed pursuant to Rule 17a 5(e)(3) under the  
Securities and Exchange Act of 1934 and  
Regulation 1.10(g) under the Commodity  
Exchange Act as a Public Document

## INDEPENDENT AUDITORS' REPORT

To the Managing Member and Members of  
Interactive Brokers LLC  
Greenwich, Connecticut

We have audited the accompanying statement of financial condition of Interactive Brokers LLC (the "Company") as of December 31, 2004, that you are filing pursuant to Rule 17a-5 under the Securities Exchange Act of 1934 and Regulation 1.16 under the Commodity Exchange Act. This financial statement is the responsibility of the Company's management. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, such statement of financial condition presents fairly, in all material respects, the financial position of Interactive Brokers LLC at December 31, 2004, in conformity with accounting principles generally accepted in the United States of America.

*Deloitte & Touche LLP*

February 28, 2005

# INTERACTIVE BROKERS LLC

## STATEMENT OF FINANCIAL CONDITION

DECEMBER 31, 2004

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### ASSETS

Cash	\$ 76,859,966
Cash and securities - segregated under federal and other regulations	1,099,078,920
Securities purchased under agreements to resell	76,600,000
Securities borrowed from an affiliate	73,436,263
Securities owned - pledged as collateral	82,817,113
Receivables from customers	269,413,306
Receivables from brokers, dealers and clearing organizations	22,010,604
Receivables from affiliates	51,269,092
Other assets	<u>12,789,812</u>

TOTAL ASSETS \$1,764,275,076

### LIABILITIES AND MEMBERS' CAPITAL

#### LIABILITIES:

Payables to customers	\$1,525,054,608
Due to affiliates	8,063,403
Payables to brokers, dealers and clearing organizations	20,441,217
Accounts payable, accrued expenses and other liabilities	<u>16,318,314</u>

Total liabilities 1,569,877,542

MEMBERS' CAPITAL 194,397,534

TOTAL LIABILITIES AND MEMBERS' CAPITAL \$1,764,275,076

See notes to statement of financial condition.

# INTERACTIVE BROKERS LLC

## NOTES TO STATEMENT OF FINANCIAL CONDITION DECEMBER 31, 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 ("IBUK"). 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 December 31, 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. At December 31, 2004, the Company had \$51,148,752 in U.S. Treasury Bills, \$31,173,281 in U.S. Treasury Notes and \$495,080 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 December 31, 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 as of December 31, 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 \$82,817,113 of such securities pledged on December 31, 2004. The market value of collateral received from counterparties amounted to \$87,856,353 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 \$4,949,471 was included in Other assets on December 31, 2004.

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

Assets and liabilities denominated in foreign currencies are translated at year-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. At December 31, 2004, the Company had outstanding swap agreements in the amount of 125,000,000 Euros, 21,000,000 Canadian dollars, 9,000,000 Great British pounds and 11,000,000 Australian dollars for counter-value in U.S. dollars. Included in Other assets, was total mark-to-market gain on these agreements of \$2,834,900 at December 31, 2004.

### ***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***

The Company adopted Financial Accounting Standard Board ("FASB") Interpretation No. 46(R), *Consolidation of Variable Interest Entities, an interpretation of ARB 51*, ("FIN 46R"), as revised, to determine when enterprises should consolidate variable interest entities ("VIE's"). FIN 46R requires that a VIE be consolidated by its "primary beneficiary", who is the party subject to the majority of the expected losses or the majority of the expected residual returns of the VIE, or both. The adoption did not have a material impact on the Company's financial statements as of December 31, 2004 and for the year then ended.

In December 2004, the 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 adopted SFAS No. 123R in December 2004, and the adoption does not have a material impact on the Company's financial statements as of December 31, 2004 and for the year then ended.

### **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 December 31, 2004, cash and securities in the amount of \$66,973,929 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 December 31, 2004, cash and securities in the amount of \$38,255,018 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 December 31, 2004, the Company held cash and securities segregated for the benefit of customers in the amount of \$1,075,126,932 to satisfy this requirement. Included in this total were securities purchased under agreement to resell in the amount of \$53,300,000.

#### **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, 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). 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 December 31, 2004, the Company had net capital of \$124,585,077, which was \$116,106,240 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, THUK, THC, THA, THHK and THSHK are registered securities dealers in US, 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 December 31, 2004:

Securities borrowed	\$ 73,436,263
Loan receivable	50,000,000
Securities purchased under agreements to resell	15,300,000
Mark-to-market gain on foreign currency swaps	2,337,500
Currency settlement receivable	972,282
Brokerage fees receivable	801,552
Interest receivable	392,542
Prepaid commissions	67,240

Included in liabilities in the statement of financial condition were the following amounts with related parties as of December 31, 2004:

Consulting fee payable	\$ 3,600,891
Administrative fee payable	1,893,342
Advances payable	1,085,407
Brokerage and clearing fees payable	1,077,155
Agency settlement payable	398,850

## 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 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.

The ROI expenses are borne by the subsidiaries that employ the grantees. At December 31, 2004, the Company had a total ROI payable in the amount of \$4,450,836.

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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February 28, 2005

Interactive Brokers LLC  
Two Pickwick Plaza  
Greenwich, CT 06830

In planning and performing our audit of the financial statements of Interactive Brokers LLC (the "Company") for the year ended December 31, 2004 (on which we issued our report dated February 28, 2005), we considered its internal control, including control activities for safeguarding securities, in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the Company's internal control.

Also, as required by Rule 17a-5(g)(1) under the Securities Exchange Act of 1934 and Regulation 1.16 under the Commodity Exchange Act, we have made a study of the practices and procedures (including tests of compliance with such practices and procedures) followed by the Company that we considered relevant to the objectives stated in Rule 17a-5(g) and Regulation 1.16: (1) in making the periodic computations of aggregate debits and net capital under Rule 17a-3(a)(11) and the reserve required by Rule 15c3-3(e), including the practices and procedures followed by the Company in making the periodic computations for proprietary accounts of introducing brokers ("PAIB"); (2) in making the quarterly securities examinations, counts, verifications, and comparisons, and the recordation of differences required by Rule 17a-13; (3) in complying with the requirements for prompt payment for securities under Section 8 of Regulation T of the Board of Governors of the Federal Reserve System; (4) in obtaining and maintaining physical possession or control of all fully paid and excess margin securities of customers as required by Rule 15c3-3; and (5) in making the daily computations of the segregation requirements of Section 4d(2) and Regulation 30.7 under the Commodity Exchange Act.

The management of the Company is responsible for establishing and maintaining internal control and the practices and procedures referred to in the preceding paragraph. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control and of the practices and procedures, and to assess whether those practices and procedures can be expected to achieve the Securities and Exchange Commission's and the Commodity Futures Trading Commission's (the "Commissions") above-mentioned objectives. Two of the objectives of internal control and the practices and procedures are to provide management with reasonable, but not absolute, assurance that assets for which the Company has responsibility are safeguarded against loss from unauthorized acquisition, use, or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in conformity with accounting principles generally accepted in the United States of America. Rule 17a-5(g) and Regulation 1.16(d)(2) list additional objectives of the practices and procedures listed in the preceding paragraph.

Because of inherent limitations in any internal control or the practices and procedures referred to above, misstatements due to error or fraud may occur and not be detected. Also, projections of any evaluation of the internal control or of such practices and procedures to future periods are subject to the risk that they may become inadequate because of changes in conditions or that the degree of compliance with the practices or procedures may deteriorate.

Our consideration of the Company's internal control would not necessarily disclose all matters in the Company's internal control that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. However, we noted no matters involving the Company's internal control and its operation, including control activities for safeguarding securities, that we consider to be material weaknesses as defined above.

We understand that practices and procedures that accomplish the objectives referred to in the second paragraph of this report are considered by the Commissions to be adequate for their purposes in accordance with the Securities Exchange Act of 1934, the Commodity Exchange Act and related regulations, and that practices and procedures that do not accomplish such objectives in all material respects indicate a material inadequacy for such purposes. Based on this understanding and on our study, we believe that the Company's practices and procedures were adequate at December 31, 2004, to meet the Commissions' objectives.

This report is intended solely for the information and use of the board of directors, management, the Securities and Exchange Commission, the New York Stock Exchange, Inc., the National Association of Securities Dealers, Inc., the Commodity Futures Trading Commission, and other regulatory agencies that rely on Rule 17a-5(g) under the Securities Exchange Act of 1934 or Regulation 1.16 under the Commodity Exchange Act in their regulation of registered brokers and dealers and futures commission merchants, and is not intended to be and should not be used by anyone other than these specified parties.

Yours truly,

*Deloitte & Touche LLP*