

optionsXpress, Inc.
Statement of Financial Condition
June 30, 2009
(Unaudited)

Assets	
Cash and cash equivalents	\$ 98,555,008
Cash and investments segregated in compliance with federal regulations	568,628,720
Receivables from brokerage customers, net	126,582,666
Receivables from brokers, dealers and clearing organizations	21,485,298
Deposits with clearing organizations	72,188,798
Fixed assets (net of accumulated depreciation and amortization of \$18,125,725)	10,718,513
Goodwill	62,824,035
Other intangible assets, net	2,250,000
Other assets	2,434,199
Due from Parent	4,268,029
Due from affiliates	<u>2,167,715</u>
Total assets	<u>\$ 972,102,981</u>
Liabilities and stockholders' equity	
Payables to brokerage customers	\$ 788,364,939
Payables to brokers, dealers and clearing organizations	168,249
Accounts payable and accrued liabilities	9,709,157
Current and deferred income taxes	2,416,473
Due to affiliates	<u>1,618,959</u>
Total liabilities	<u>802,277,777</u>
Stockholders' equity:	
Common stock, \$0.01 par value, 25,000,000 shares authorized; 1,000 issued and outstanding	10
Additional paid-in capital	141,430,403
Retained earnings	<u>28,394,791</u>
Total stockholders' equity	<u>169,825,204</u>
Total liabilities and stockholders' equity	<u>\$ 972,102,981</u>

See accompanying notes.

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1. Basis of Presentation

optionsXpress, Inc. (the Company) follows United States generally accepted accounting principles, including certain accounting guidance used by the brokerage industry.

2. Nature of Operations

The Company provides internet-based options, stock, mutual fund, fixed income, and futures brokerage services to retail customers located throughout the United States and certain foreign countries. optionsXpress, Inc. is a wholly owned subsidiary of optionsXpress Holdings, Inc. (the Parent).

optionsXpress, Inc. is a broker-dealer registered with the Securities and Exchange Commission (SEC) and is a member of the Financial Industry Regulatory Authority, Inc. (FINRA), Securities Investor Protection Corporation, the National Securities Clearing Corporation, and the Depository Trust Company (together, the Depository Trust & Clearing Corporation or DTCC), and the Options Clearing Corporation (OCC). The Company is also a member of various exchanges, including the Chicago Board Options Exchange (CBOE), the International Securities Exchange, the Boston Options Exchange, the American Stock Exchange, the NYSE Arca Exchange and the Philadelphia Stock Exchange. In addition, the Company is registered as a non-clearing futures commission merchant with the Commodity Futures Trading Commission (CFTC) and is a member of the National Futures Association (NFA).

The Company provides clearing and execution services for its customers, and the customers of its affiliates, brokersXpress, LLC, optionsXpress Europe, BV, optionsXpress Australia Pty Limited, optionsXpress Singapore Pte. Ltd. As the clearing broker, optionsXpress, Inc. maintains custody and control over the assets in those customers' accounts and provides back office functions including: maintaining customer accounts; extending credit to margin accounts; settling stock and bond transactions with the DTCC and option transactions with the OCC; settling commissions and clearing fees; preparing customer trade confirmations and statements; performing designated cashier functions, including the delivery and receipt of funds and securities to or from the customer; possession or control of customer securities, safeguarding customer funds and transmitting tax accounting information to the customer and to the applicable tax authorities; and forwarding prospectuses, proxies and other shareholder information to customers. The Company clears all of its U.S. futures accounts transactions as a non-clearing futures commission merchant through an omnibus account arrangement and a facilities management agreement with a clearing futures commission merchant.

3. Significant Accounting Policies

Use of Estimates

The preparation of the statement of financial condition in conformity with United States generally accepted accounting principles (GAAP) requires management to make estimates and assumptions regarding the valuation of certain investments, the capitalization of internally developed software and other matters affecting the statement of financial condition and the accompanying notes presented. Actual results could differ from management's estimates.

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3. Significant Accounting Policies (continued)

Income Taxes

The Company files a consolidated income tax return with its Parent. Deferred income tax assets and liabilities are determined based on the differences between the financial statement carrying amounts and the income tax bases of assets and liabilities using the currently enacted income taxes rates. Valuation allowances are established to reduce deferred tax assets to the amount that more likely than not will be realized.

Uncertain tax positions are initially recognized in the statement of financial condition when it is more likely than not that the positions will be sustained upon examination by the tax authorities.

Cash and Cash Equivalents

The Company considers all highly liquid investments with a maturity of three months or less at the time of purchase to be cash equivalents. Cash and cash equivalents consist primarily of cash and money market funds held at banks and other financial institutions.

Cash Segregated in Compliance With Federal Regulations

Cash segregated in compliance with federal regulations consists of interest-bearing cash deposits from customers' security accounts held in a special reserve bank account according to Rule 15c3-3 of the Securities Exchange Act of 1934, and of interest-bearing cash deposit accounts that have been segregated or secured for the benefit of futures customers according to the regulations of the CFTC governing a futures commission merchant.

Fixed Assets

Fixed assets consist of furniture and equipment, leasehold improvements, and computer software. Fixed assets are carried at cost, less accumulated depreciation and amortization.

The Company capitalizes costs associated with software developed for internal use based on Statement of Position (SOP) 98-1, *Accounting for the Costs of Computer Software Developed or Obtained for Internal Use*, and other related guidance. Capitalized costs include external direct costs of materials and services consumed in developing or obtaining internal-use software and payroll for employees directly associated with, and who devote time to, the development of the internal-use software. The Company periodically reviews the capitalized fixed asset costs for impairment.

Securities Borrowed

Securities borrowed transactions are recorded at the amount of cash collateral advanced. Securities borrowed transactions require the Company to provide the counterparty with collateral in the form of cash or other securities.

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3. Significant Accounting Policies (continued)

Customer Transactions

Customer asset and liability balances related to their securities activities, excluding futures activities, are recorded on a settlement date basis. Securities owned by customers, including those that collateralize margin or similar transactions, are not reflected in the statement of financial condition. Customer asset and liability balances related to futures activities are recorded on a trade-date basis.

Fair Value of Financial Instruments

The Company adopted Statement of Financial Accounting Standards (SFAS) No. 157, *Fair Value Measurements*, effective January 1, 2008. SFAS No. 157 defines fair value, establishes a framework for measuring fair value and requires enhanced disclosures about fair value measurements. SFAS No. 157 does not require new fair value measurements. Fair value is generally based on quoted market prices. If quoted market prices are not available, fair value is determined based on other relevant factors, including dealer price quotations, price activity for equivalent instruments and valuation pricing models. The adoption of SFAS No. 157 did not have an effect on the Company's financial position or liquidity.

In February 2008, the Financial Accounting Standards Board (FASB) issued FASB Staff Position (FSP) 157-2, *Effective Date of FASB Statement No. 157*, to partially defer SFAS No. 157. FSP 157-2 defers the effective date of SFAS No. 157 for non-financial assets and non-financial liabilities that are not remeasured at fair value in the financial statements on a recurring basis (at least annually). These include goodwill and other indefinite lived intangible assets. The Company adopted FSP 157-2 effective January 1, 2008. Therefore, the Company adopted SFAS No. 157 for non-financial assets and non-financial liabilities on January 1, 2009.

SFAS No. 107, *Disclosure about Fair Value of Financial Instruments*, requires the disclosure of the fair value of financial instruments, including assets and liabilities recognized in the statement of financial condition. Management estimates that the fair value of financial instruments recognized in the statement of financial condition (including cash and cash equivalents, receivables, payables, and accrued liabilities) approximates their carrying value.

Goodwill

The Company has recorded goodwill to the extent that the purchase price of business acquisitions has exceeded the fair value of the net identifiable tangible and intangible assets of the acquired business. In addition, goodwill has been assigned to the Company for acquisitions of the Parent benefiting the Company. The Company's policy is to test goodwill for impairment on at least an annual basis, or whenever events and circumstances indicate that the carrying value may not be recoverable.

Other Intangible Assets, Net

The Company also recorded other intangible assets, net for a specifically identified intangible asset that was acquired during a business acquisition. The Company's policy is to review identified other intangible assets for impairment on at least an annual basis, or whenever events and circumstances indicate that the carrying value may not be recoverable.

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3. Significant Accounting Policies (continued)

Subsequent events

The Company adopted SFAS No. 165, *Subsequent Events* – providing authoritative guidance for *AU Section 560*. SFAS No. 165 modifies the disclosure requirements for subsequent events requiring entities to report the date through which an entity has evaluated subsequent events and the basis for that date, that is, whether the date represents the date the financial statements were issued or were available to be issued.

4. Recent Accounting Pronouncements

In June 2009, the FASB issued SFAS No. 168, *The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles*, SFAS No. 168 identifies the FASB Accounting Standards Codification as the authoritative source GAAP. Rules and interpretive releases of the SEC under federal securities laws are also sources of authoritative GAAP for SEC registrants. SFAS No. 168 is effective for financial statements issued for interim and annual periods ending after September 15, 2009. The adoption of SFAS No. 168 is not expected to have a material impact on the Company's statement of financial condition.

5. Receivables from Brokers, Dealers and Clearing Organizations

Receivables from brokers, dealers and clearing organizations consisted of the following at June 30, 2009:

Deposit for securities borrowed	\$ 7,326,634
Receivable for securities failed to deliver	8,934,746
Order flow receivables	3,231,936
Other receivables from brokers, dealers and clearing organizations	1,991,982
	<u>\$ 21,485,298</u>

6. Fixed Assets

Fixed assets, including leasehold improvements and capitalized software development costs, consisted of the following at June 30, 2009:

Furniture and equipment	\$ 13,625,434
Computer software	11,105,727
Leasehold improvements	4,113,077
	<u>28,844,238</u>
Less accumulated depreciation and amortization	(18,125,725)
	<u>\$ 10,718,513</u>

As of June 30, 2009, the cost and accumulated amortization related to internally developed software, included in computer software, was \$8,311,307 and \$5,083,406, respectively.

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7. Goodwill

The Company has recorded goodwill for business combinations to the extent the purchase of each completed acquisition exceeded the fair value of the net identifiable tangible and intangible assets of the acquired company. In addition, the Parent assigned \$33,881,116 of goodwill related to the acquisition of Lanai Partners, LLC, the sole stockholder of Optionetics, Inc. and its affiliates (collectively "Optionetics"). Optionetics, based in Redwood City, California and Sydney, Australia, is a leading provider of investment education seminars, proprietary software analytics, online and offline educational products and individual coaching to potential investors in 12 countries. The following table summarizes changes in the carrying amount of goodwill:

Balance at January 1, 2009	\$ 28,942,919
Goodwill assigned by Parent for the acquisition of Optionetics	<u>33,881,116</u>
Balance at June 30, 2009	<u><u>\$ 62,824,035</u></u>

In performing the annual impairment test, the Company utilized quoted market prices of the Parent's common stock to estimate the fair value of the Parent as a whole. The estimated fair value was then allocated to the Parent's reporting units based on operating revenues, and was compared to the carrying value of the reporting unit. No impairment of goodwill has been determined as of June 30, 2009.

8. Other Intangible Assets, Net

As of June 30, 2009, the Company's gross carrying amount and accumulated amortization related to the customer relationships intangible asset was \$3,675,000 and \$1,425,000, respectively.

The Company reviews other intangible assets for impairment on an annual basis and whenever events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. Recoverability of the Company's finite lived customer relationships asset was evaluated by comparing the undiscounted cash flows associated with the asset to the asset's carrying amount. No impairment of customer relationships has been determined as of June 30, 2009.

9. Other Assets

Other assets consisted of the following at June 30, 2009:

Prepaid expenses	\$ 741,246
Loan receivable	628,200
Interest receivable	621,991
Other	<u>442,762</u>
	<u><u>\$ 2,434,199</u></u>

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10. Payables to Brokers, Dealers, and Clearing Organizations

Amounts payable to brokers, dealers, and clearing organizations consisted entirely of securities failed to receive.

11. Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities consisted of the following at June 30, 2008:

Accrued liabilities	\$ 5,943,727
Accrued employee compensation	1,779,000
Accounts payable	322,831
Other accrued expenses	1,663,599
	<u>\$ 9,709,157</u>

12. Employee Benefit Plan

The Company maintains a 401(k) savings plan covering all eligible employees of the Company. Discretionary contributions may be made to the plan although no such contributions have been made to the plan for the six-month period June 30, 2009.

13. Employee Stock Purchase Plan

The Company's Parent offers a stock purchase plan that provides its employees the opportunity to purchase the Parent's stock at a five percent discount. In general, participants may elect to have a certain amount withheld through payroll over a six-month period. At the end of each six-month period, the employee's withholding is used to purchase the Parent's stock at a five percent discount for the closing price on the last day of the period.

14. Equity Incentive Plans

The Company's Parent maintains three equity incentive plans: the 2001 Equity Incentive Plan, the 2005 Equity Incentive Plan and the 2008 Equity Incentive Plan (collectively, the Plans). All of the options outstanding pursuant to the Plans are options to purchase common stock of the Parent granted to employees of the Company. Under the terms of the Plans, the Parent may grant eligible employees, directors, and other individuals performing services for the Company various equity incentive awards up to 3,750,000 shares of options, restricted stock or deferred shares. No restricted stock has been issued under the plans.

15. Fair Value of Financial Instruments

Financial Assets

Effective January 1, 2008, the Company adopted SFAS No. 157, *Fair Value Measurements*, for its financial assets and financial liabilities. As defined in SFAS No. 157, fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction.

The following table sets forth the Company's financial instruments owned, at fair value:

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15. Fair Value of Financial Instruments (continued)

	<u>June 30,</u> <u>2009</u>
Financial instruments owned, at fair value:	
Money market funds included in cash and cash equivalents	\$ 48,746,414
Money market funds included in deposits with clearing organizations	50,000,000
U.S. treasuries included in deposits with clearing organizations	<u>10,249,015</u>
	<u>\$ 108,995,429</u>

SFAS No. 157 establishes a fair value hierarchy that prioritizes 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 or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). The three levels of the fair value hierarchy under which financial assets and liabilities will be classified are as follows:

Level 1: Quoted market prices in active markets for identical assets or liabilities.

Level 2: Observable market based inputs or unobservable inputs that are corroborated by market data.

Level 3: Unobservable inputs that are not corroborated by market data.

As required by SFAS No. 157, financial instruments are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. As of June 30, 2009, all of the Company's financial instruments are in Level 1 of the fair value hierarchy and have readily available market values as follows:

Financial instruments owned, at fair value:	
Money market funds included in cash and cash equivalents	\$ 48,746,414
Money market funds included in deposits with clearing organizations	50,000,000
U.S. treasury securities included in deposits with clearing organizations	<u>10,249,015</u>
	<u>\$ 108,995,429</u>

Non-Financial Assets

The Company adopted FASB Staff Position 157-2 for certain non-financial assets and non-financial liabilities. The adoption of this portion of SFAS No. 157 was deferred according to the terms of FASB Staff Position 157-2. This deferred portion of SFAS No. 157 pertains to the Company's recognized goodwill and other intangible assets.

The following table summarizes the non-financial assets subject to fair value measurements along with the total impairment, if any, recognized:

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15. Fair Value of Financial Instruments (continued)

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Impairment</u>
Non-financial assets				
Goodwill	\$ —	\$ —	\$ 62,824,035	\$ —
Customer relationships included in other intangible assets, net	—	—	2,250,000	—
	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 65,074,035</u>	<u>\$ —</u>

16. Commitments, Contingencies, and Guarantees

Commitments

The Company leases office space under non-cancelable operating lease agreements that expire on various dates through September 2011. The aggregate future rent payments for the term of these leases are included in the table below:

2009 (Six months)	\$71,697
2010	148,299
2011	114,912
	<u>\$ 334,908</u>

The Company enters into agreements to purchase telecommunications and data services from various service providers. These agreements expire on various dates through August 2010. The fixed and determinable portions of these obligations are 1,269,793 for the remaining portion of 2009 and 440,000 for the year ended December 31, 2010.

Credit Facility

To support its self-clearing activities, the Company established an unsecured, uncommitted credit facility with JPMorgan Chase Bank, NA. Any outstanding balances on this credit facility would be callable on demand. The Company anticipates that the credit facility will only be used occasionally, addressing potential timing issues with the flow of customer funds, and will only be used to facilitate transactions for which customers already have sufficient funds in brokerage accounts. At June 30, 2009, there was no balance outstanding on this credit facility.

General Contingencies

The Company extends margin credit and leverage to its customers, which are subject to various regulatory and clearing firm margin requirements. Margin credit balances are collateralized by cash and securities in the customers' accounts. Leverage involves securing a large potential future obligation with a larger amount of cash or securities. The risks associated with margin credit and leverage increase during periods of fast market movements, or in cases where leverage or collateral is concentrated and market movements occur. During such times, customers who utilize margin credit or leverage and who have collateralized their obligations with securities may find that the securities have a rapidly depreciating value and may not be sufficient to cover their obligations in the event of liquidation. The Company is exposed to credit risk when its

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16. Commitments, Contingencies, and Guarantees (continued)

customers execute transactions, such as short sales of options and equities or futures transactions that can expose them to risk beyond their invested capital. At June 30, 2009, the Company had \$90,039,311 in credit extended to its customers. In addition, the Company may be obligated for margin extended to the Company's customers by its third-party clearing agent on collateralized securities and futures positions.

The margin and leverage requirements that the Company imposes on its customer accounts meet or exceed those required by various regulatory requirements and Regulation T of the Board of Governors of the Federal Reserve. The amount of this risk is not quantifiable since the risk is dependent upon analysis of a potential significant and undeterminable rise or fall in stock prices. As a result, the Company is exposed to significant off-balance sheet credit risk in the event customer collateral is not sufficient to fully cover losses that customers may incur. In the event customers fail to satisfy their obligations, the Company may be required to purchase or sell financial instruments at prevailing market prices to fulfill the customers' obligations. The Company believes that it is unlikely that it will have to make any material payments under these arrangements, and no liabilities related to these guarantees and indemnifications have been recognized in the accompanying statement of financial condition.

The Company borrows securities temporarily from other broker-dealers in connection with its broker-dealer business. The Company deposits cash as collateral for the securities borrowed. Decreases in securities prices may cause the market value of the securities borrowed to fall below the amount of cash deposited as collateral. In the event the counterparty to these transactions does not return the cash deposited, the Company may be exposed to the risk of selling the securities at prevailing market prices. The Company seeks to manage this risk by requiring credit approvals for counterparties, by monitoring the securities' values on a daily basis and by requiring additional collateral as needed.

Legal Contingencies

In the ordinary course of business, the Company is subject to lawsuits, arbitrations, claims and other legal proceedings. Management cannot predict with certainty the outcome of pending legal proceedings. A substantial adverse judgment or other resolution regarding the proceedings could have a material adverse effect on the Company's financial condition. However, in the opinion of management, after consultation with legal counsel, the outcome of any pending proceedings is not likely to have a material adverse effect on the financial condition of the Company.

Guarantees

The Company clears its customers' futures transactions on an omnibus basis through a futures commission merchant. The Company has agreed to indemnify its clearing futures commission merchant for losses that it may sustain for the customer accounts introduced to it by the Company.

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16. Commitments, Contingencies, and Guarantees (continued)

The Company provides guarantees to its clearing organizations and exchanges under their standard membership agreements, which require members to guarantee the performance of other members. Under the agreements, if another member becomes unable to satisfy its obligations to the clearing organization or exchange, the other members would be required to meet any shortfalls. The Company's liability under these arrangements is not quantifiable and may exceed the cash and securities it has posted as collateral. However, the Company believes that it is unlikely that it will have to make any material payments under these arrangements, and no liabilities related to these guarantees have been recognized in the accompanying statement of financial condition.

17. Net Capital Requirements

The Company is subject to the SEC Uniform Net Capital Rule (Rule 15c3-1) under the Securities Exchange Act of 1934, administered by the SEC and FINRA, which requires the maintenance of minimum net capital. Under Rule 15c3-1, The Company is required to maintain net capital of 2% of "aggregate debits" or \$250,000, whichever is greater, as these terms are defined.

The Company is also subject to the CFTC Regulation 1.17 (Reg. 1.17) under the Commodity Exchange Act, administered by the CFTC and the NFA, which also requires the maintenance of minimum net capital. The Company, as a futures commission merchant, is required to maintain minimum net capital equal to the greater of its net capital requirement under Rule 15c3-1 (\$500,000), or the sum of 8% of the total risk margin requirements for all positions carried in customer accounts, as defined in Reg. 1.17, and 4% of the total risk margin requirements for all positions carried in non-customer accounts.

As of June 30, 2009, The Company had net capital requirements of \$6,543,677 and net capital of \$77,969,887. The net capital rules may effectively restrict the payment of cash distributions or other equity withdrawals.

18. Income Taxes

Deferred tax assets (liabilities) are comprised of the following at the June 30, 2009:

Deferred tax assets:	
Stock-based compensation	\$ 1,608,422
Other deferred tax assets	108,916
Total deferred tax assets	<u>1,717,338</u>
Deferred tax liabilities:	
Property and intangible assets	(2,870,445)
Other deferred tax liabilities	(274,985)
Total deferred tax liabilities	<u>(3,145,430)</u>
Net deferred tax liabilities	<u><u>\$(1,428,092)</u></u>

The Company did not have any unrecognized tax benefits at June 30, 2009. Currently, the Company estimates that the balance of the unrecognized tax benefits will not significantly change during the remainder of 2009. The Company believes it is no longer subject to U.S. federal and state income tax examinations for the years prior to 2004.

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19. Related-Party Transactions

The Company provides securities and futures clearing and execution services to its affiliates. In addition, the Company provided certain support services to its affiliates, including the use of personnel, facilities and equipment.

In conjunction with transactions between its affiliates, the following related-party amounts were included in the statement of financial condition at June 30, 2009:

	<u>Due From Affiliates</u>
Payments made on behalf of affiliates	<u>\$2,167,715</u>
	<u>Due to Affiliates</u>
Commissions collected on behalf of affiliates	\$1,352,428
Less expenses allocated on behalf of affiliates	(142,689)
Advance made from an affiliate	371,202
Marketing expenses incurred with an affiliate	38,018
	<u>\$1,618,959</u>

At June 30, 2009, the Company had a receivable of \$4,268,029 due from the Parent for various advances that the Company made to the Parent.

The payment for order flow that the Company receives included funds allocated to the Company through the exchanges' various liquidity providers. One of the liquidity providers that routed funds to the Company through the CBOE is G-Bar Limited Partnership (G-Bar), a shareholder of the Company's Parent. James Gray, the Chairman of the Board of Directors of the Parent, is also the President of G-Bar.

20. Subsequent Events

Subsequent events have been evaluated through the issue date of the statement of financial condition, August 25, 2009. The Company has no subsequent events to be disclosed for the statement of financial condition dated June 30, 2009.