OPTIONSXPRESS, INC.

(SEC. I.D. NO. 8-52354)

Statement of Financial Condition (Unaudited)
June 30, 2016

OPTIONSXPRESS, INC.

STATEMENT OF FINANCIAL CONDITION
JUNE 30, 2016 (In thousands, except share and per share amounts)
(Unaudited)

Assets		
Cash and cash equivalents	$	108,441
Cash and investments segregated and on deposit for regulatory purposes		926,174
Receivables from brokers, dealers, and clearing organizations		50,906
Receivables from brokerage clients — net		176,406
Equipment and office facilities — net		1,548
Goodwill		62,824
Other assets		6,147
Total assets	$	1,332,446
Liabilities and Stockholder's Equity		
Payables to brokers, dealers, and clearing organizations	$	10,408
Payables to brokerage clients		974,048
Accrued expenses and other liabilities		11,187
Deferred income taxes payable		1,297
Payables to affiliates		349
Total liabilities		997,289
Stockholder's equity:		
Common stock — 25,000,000 shares authorized $0.01 par value per share; 1,000 shares issued and outstanding	$	-
Additional paid-in capital		241,430
Retained earnings		93,727
Total stockholder's equity		335,157
Total liabilities and stockholder's equity	$	1,332,446

See Notes to Statement of Financial Condition.

1. Organization and Nature of Business

optionsXpress, Inc. (the Company) is a wholly-owned subsidiary of optionsXpress Holdings, Inc. (the Parent), which is a wholly-owned subsidiary of The Charles Schwab Corporation (CSC). The Company provides internet-based option, stock, mutual fund, fixed income, and futures brokerage services to retail clients located throughout the United States (U.S.) and certain foreign countries.

The Company is registered as a broker dealer with the U.S. Securities and Exchange Commission (SEC) and is a member of the Financial Industry Regulatory Authority, Inc. (FINRA), the Municipal Securities Rulemaking Board (MSRB), the Securities Investor Protection Corporation (SIPC), the National Securities Clearing Corporation and the Depository Trust Company (together, the “Depository Trust & Clearing Corporation” or DTCC), and the Options Clearing Corporation (OCC). In addition, the Company is registered with the Commodity Futures Trading Commission (CFTC) and is a member of the National Futures Association (NFA). The primary regulators of the Company are FINRA and, for futures and commodities trading activities, the NFA.

The Company provides clearing and execution services for its clients and the clients of its affiliates, optionsXpress Australia, Pty Limited, and optionsXpress Singapore Pte. Ltd. The Company clears all of its futures accounts transactions as a non-clearing futures commission merchant through an omnibus account arrangement with a clearing futures commission merchant (clearing FCM).

2. Summary of Significant Accounting Policies

Basis of presentation

The accompanying statement of financial condition has been prepared in conformity with accounting principles generally accepted in the U.S., which require management to make certain estimates and assumptions that affect the reported amounts in the accompanying financial statement. Certain estimates relate to valuation of goodwill, allowance for doubtful accounts, and legal and regulatory reserves. Actual results may differ from those estimates.

Cash and cash equivalents

The Company considers all highly liquid investments with original maturities of three months or less that are not segregated and on deposit for regulatory purposes to be cash equivalents. Cash and cash equivalents include deposits with banks.

Cash and investments segregated and on deposit for regulatory purposes

Cash and investments segregated and on deposit for regulatory purposes include interest-bearing cash deposits from clients’ security accounts held in a special reserve bank account in accordance with Rule 15c3-3 of the Securities Exchange Act of 1934, and interest-bearing cash deposits, including open trade equity and cash deposits with a clearing FCM, that have been segregated or secured for the benefit of futures clients according to the regulations of the CFTC governing a futures commission merchant.

Receivables from brokerage clients

Receivables from brokerage clients include margin loans to clients and are recorded net of an allowance for doubtful accounts. Receivables from brokerage clients that remain unsecured or partially secured for more than 30 days are fully reserved.

Securities borrowed and securities loaned

Securities borrowed require the Company to deliver cash to the lender in exchange for securities and are included in receivables from brokers, dealers, and clearing organizations. For securities loaned, the Company receives collateral in the form of cash in an amount equal to or greater than the market value of securities loaned. Securities loaned are included in payables to brokers, dealers, and clearing organizations. The Company monitors the market value of securities borrowed and loaned, with additional collateral obtained or refunded to ensure full collateralization.

Equipment and office facilities

Equipment and office facilities are recorded at cost net of accumulated depreciation and amortization. Equipment and office facilities are depreciated on a straight-line basis over an estimated useful life of five to seven years. Leasehold improvements are amortized on a straight-line basis over the shorter of the estimated useful life of the asset or the term of the lease. Software and certain costs incurred for purchasing or developing software for internal use are amortized on a straight-line basis over an estimated useful life of three or five years. Equipment and office facilities are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable.

Goodwill

Goodwill represents the fair value of acquired businesses in excess of the fair value of the individually identified net assets acquired. Goodwill is not amortized but is tested for impairment at the reporting unit level annually or more frequently when indications of impairment exist. Goodwill is considered impaired if the carrying value exceeds its implied fair value. The Company's annual impairment testing date is April 1st.

The Company may evaluate qualitative factors to determine whether it is more likely than not that the fair value of any of the Company's reporting units (defined as the Company's businesses for which financial information is available and reviewed regularly by management) is less than its carrying amount, including goodwill. A qualitative assessment considers macroeconomic and other industry-specific factors, such as trends in short-term and long-term interest rates and the ability to access capital, and Company specific factors such as trends in revenue generating activities and merger or acquisition activity.

If the Company elects to bypass qualitatively assessing goodwill, or, if based on the qualitative assessment, it is not more likely than not that the fair value of a reporting unit exceeds its carrying value, the Company proceeds to performing a two-step assessment involving estimation of the fair values of the Company's reporting units for comparison against their respective carrying values, including goodwill. The estimated fair values of the reporting units are established using an income approach based on a discounted cash flow model which includes significant assumptions about the future operating results and cash flows of each reporting unit as well as a market approach which applies financial multiples based on market prices of comparable companies to each of the Company's reporting units.

For the annual goodwill impairment assessment on April 1, 2016, the Company elected to bypass the qualitative assessment and performed the two-step assessment as described above. Based on the Company's analysis, fair value significantly exceeded the carrying value for all reporting units as of the annual testing date.

Income taxes

The Company is included in the consolidated federal income tax return of CSC. The Company provides for income taxes on all transactions that have been recognized in the financial statement on a pro rata basis with CSC's other subsidiaries in the consolidated income tax return. Accordingly, deferred tax assets are adjusted to reflect the tax rates at which future taxable amounts will likely be settled or realized. The effects of tax rate changes on future deferred tax assets and deferred tax liabilities, as well as other changes in income tax laws, are recorded in earnings in the period during which such changes are enacted. The Company's unrecognized tax benefits, which are included in accrued expenses and other liabilities, represent the difference between positions taken on tax return filings and estimated outcomes of potential tax settlement.

Fair values of assets and liabilities

Fair value is defined as the price that would be received to sell an asset or the price paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value measurement accounting guidance describes the fair value hierarchy for disclosing assets and liabilities measured at fair value based on the inputs used to value them. The fair value hierarchy maximizes the use of observable inputs and minimizes the use of unobservable inputs. Observable inputs are based on market pricing data obtained from sources independent of the Company. A quoted price in an active market provides the most reliable evidence of fair value and is generally used to measure fair value whenever available.

Unobservable inputs reflect management's judgment about the assumptions market participants would use in pricing the asset or liability. Where inputs used to measure fair value of an asset or liability are from different levels of the hierarchy, the asset or liability is categorized based on the lowest level input that is significant to the fair value measurement in its entirety. Assessing the significance of a particular input requires judgment. The fair value hierarchy includes three levels based on the objectivity of the inputs as follows:

- Level 1 inputs are quoted prices in active markets as of the measurement date for identical assets or liabilities that the Company has the ability to access.

- Level 2 inputs are inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. Level 2 inputs include quoted prices for similar assets and liabilities in active markets, and inputs other than quoted prices that are observable for the asset or liability, such as interest rates, benchmark yields, issuer spreads, new issue data, and collateral performance.

- Level 3 inputs are unobservable inputs for the asset or liability, and include situations where there is little, if any, market activity for the asset or liability.

The Company's policy is to recognize transfers of financial instruments between levels as of the beginning of the reporting period in which a transfer occurs.

Assets and liabilities measured at fair value on a recurring basis

The Company uses the market approach to determine the fair value of assets and liabilities. When available, the Company uses quoted prices in active markets to measure the fair value of assets and liabilities. When utilizing market data and bid-ask spread, the Company uses the price within the bid-ask spread that best represents fair value. When quoted prices do not exist, the Company uses prices obtained from independent third-party pricing services to measure the fair value of investment assets. The Company generally obtains prices from at least three independent pricing sources for assets recorded at fair value.

The Company's primary independent pricing service provides prices based on observable trades and discounted cash flows that incorporate observable information such as yields for similar types of securities (a benchmark interest rate plus observable spreads) and weighted-average maturity for the same or similar “to be issued” securities. The Company compares the prices obtained from its primary independent pricing service to the prices obtained from the additional independent pricing services to determine if the price obtained from the primary independent pricing service is reasonable. The Company does not adjust the prices received from independent third-party pricing services unless such prices are inconsistent with the definition of fair value and result in a material difference in the recorded amounts.

Fair value of other financial instruments

Descriptions of the valuation methodologies and assumptions used to estimate the fair value of other financial instruments are described below. The Company’s financial instruments not recorded at fair value but for which fair value can be approximated and disclosed include:

- *Cash and cash equivalents* are short-term in nature and accordingly are recorded at amounts that approximate fair value.

- *Cash and investments segregated and on deposit for regulatory purposes* are short-term in nature and accordingly are recorded at amounts that approximate fair value.

- *Receivables from/payables to brokers, dealers, and clearing organizations* are short-term in nature, recorded at contractual amounts and historically have been settled at those values. Accordingly, the carrying values of these financial instruments approximate their fair values.

- *Receivables from/payables to brokerage clients — net* are short-term in nature, recorded at contractual amounts and historically have been settled at those values. Accordingly, the carrying values of these financial instruments approximate their fair values.

- *Financial instruments included in other assets* primarily consist of cost method investments whose carrying values approximate their fair values.

New Accounting Standards

Adoption of New Accounting Standards

On January 1, 2016, the Company adopted ASU 2015-02, “Consolidation (Topic 810),” which amends the analysis a reporting entity must perform to determine whether it should consolidate certain types of legal entities. The new guidance is applicable to all entities but provides an exception for reporting entities with interests in legal entities that are required to comply with or operate in accordance with requirements that are similar to those in Rule 2a-7 of the Investment Company Act of 1940 for registered money market funds. The adoption of ASU 2015-02 did not have an impact on the Company’s financial statement as the new guidance did not change any existing consolidation conclusions reached in accordance with the previous guidance.

On January 1, 2016, the Company also adopted ASU 2015-05, “Intangibles – Goodwill and Other – Internal-Use Software (Subtopic 350-40),” which provides new guidance that clarifies customer’s accounting for fees paid in a cloud computing arrangement. Under the new guidance, if a cloud computing arrangement includes a software license, the customer shall account for the software license element of the arrangement consistent with the acquisition of other software licenses. If the cloud computing arrangement does not include a software license, the customer shall account for the arrangement as a service contract. The guidance applies to all new arrangements entered into after January 1, 2016. The adoption of ASU 2015-05 did not have an impact on the Company's financial position.

(In thousands, except as noted)

New Accounting Standards Not Yet Adopted

In January 2016, the FASB issued ASU 2016-01, "Financial Instruments – Overall (Subtopic 825-10)," which will become effective January 1, 2018. This new guidance addresses certain aspects of recognition, measurement, presentation, and disclosure of financial instruments. The main provisions of the guidance include (i) most equity investments are to be measured at fair value with changes in fair value recognized in net income, except for those accounted for under the equity method or those that do not have readily determinable fair values for which a practical expedient can be elected, (ii) requires the use of an exit price notion when measuring the fair value of financial instruments for disclosure purposes, and (iii) requires separate presentation of financial assets and financial liabilities by measurement category and form of financial instrument on the balance sheet or in the accompanying notes. The Company is currently evaluating the impact of this new guidance on its financial position.

In February 2016, the FASB issued ASU 2016-02, "Leases (Topic 842)" which amends the accounting for leases by lessees and lessors. The primary change as a result of the new standard is the recognition of lease assets and lease liabilities by lessees for those leases classified as operating leases. Additional changes include accounting for lease origination and executory costs, required lessee reassessments during the lease term due to changes in circumstances and expanded lease disclosures. ASU 2016-02 will become effective January 1, 2019, with early adoption permitted, and requires entities to apply the new guidance using a modified retrospective transition. Modified retrospective transition requires entities to apply the new guidance as of the beginning of the earliest comparative period presented in the financial statements in which the entity first applies the new standard. Certain transition reliefs are permitted if elected by the entity. The Company is currently evaluating the impact of this new guidance on its financial position.

In June 2016, the FASB issued ASU 2016-13, "Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments" which provides new guidance for recognizing impairment of most debt instruments measured at amortized cost, including loans and held to maturity debt securities. The new guidance will require estimating expected credit losses (ECL) over the remaining life of an instrument or a portfolio of instruments with similar risk characteristics based on relevant information about past events, current conditions and reasonable forecasts. The initial estimate of and the subsequent changes in ECL will be recognized as credit loss expense through current earnings and will be reflected as an allowance for credit losses offsetting the carrying value of the financial instrument(s) on the balance sheet. ASU 2016-13 will become effective January 1, 2020, with early adoption permitted as of January 1, 2019. The new guidance will be applied through a cumulative-effect adjustment to retained earnings as of the beginning of the first reporting period in which the entity applies the new guidance. The Company is currently evaluating the impact of this new guidance on its financial position.

3. Receivables from Brokers, Dealers, and Clearing Organizations

Amounts receivable from brokers, dealers, and clearing organizations consisted of the following at June 30, 2016:

Deposits with clearing organizations	$	37,877
Deposits for securities borrowed		11,207
Other receivables from brokers, dealers, and clearing organizations		1,822
Total receivables from brokers, dealers, and clearing organizations	$	50,906

(In thousands, except as noted)

4. Receivables from Brokerage Clients

Receivables from brokerage clients consist primarily of margin loans to brokerage clients of $175,458 at June 30, 2016. Securities owned by brokerage clients are held as collateral for margin loans. Such collateral is not reflected in the statement of financial condition.

5. Equipment and Office Facilities

Equipment and office facilities consisted of the following at June 30, 2016:

Computer software	$	18,993
Furniture and equipment		19,016
Leasehold improvements		4,113
Total equipment and office facilities		42,122
Accumulated depreciation and amortization		(40,574)
Total equipment and office facilities — net	$	1,548

6. Other Assets

The components of other assets at June 30, 2016 are as follows:

Income taxes receivable	$	2,902
Accounts receivable		1,183
Prepaid expenses		999
Other investments		736
Receivables from affiliates		184
Interest and dividends receivable		95
Other		48
Total other assets	$	6,147

7. Payables to Brokers, Dealers, and Clearing Organizations

Payables to brokers, dealers and clearing organizations at June 30, 2016 consisted of the following:

Deposits for securities loaned	$	8,708
Payable for securities failed to receive		1,700
Total payables to brokers, dealers, and clearing organizations	$	10,408

8. Payables to Brokerage Clients

The principal source of funding for the Company’s margin lending is cash balances in brokerage client accounts, which are included in payables to brokerage clients. Cash balances in interest-bearing brokerage client accounts were $869,762 at June 30, 2016.

(In thousands, except as noted)

9. Accrued Expenses and Other Liabilities

Accrued expenses and other liabilities consisted of the following at June 30, 2016:

Accrued expenses	$	6,928
Accrued compensation		2,839
Other		1,420
Total accrued expenses and other liabilities	$	11,187

10. Commitments and Contingencies

Commitments: The Company enters into agreements to purchase telecommunications and data services from various service providers. These agreements expire on various dates through October 2016. The fixed and determinable portions of these obligations are immaterial for the year ending December 31, 2016.

Guarantees: The Company clears its clients' futures transactions on an omnibus basis through a futures commission merchant. The Company has agreed to indemnify its third-party clearing broker and its clearing futures commission merchants for losses that they may sustain for the client accounts introduced to them by the Company. 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 houses and exchanges, other members would be required to meet shortfalls. The Company's liability under these arrangements is not quantifiable and may exceed the cash and securities it has posted as collateral. The potential requirement for the Company to make payments under these arrangements, however, is remote. Accordingly, no liability has been recognized for these guarantees.

Legal contingencies: The Company is subject to claims and lawsuits in the ordinary course of business, including arbitrations, class actions and other litigation, some of which include claims for substantial or unspecified damages. The Company is also the subject of inquiries, investigations, and proceedings by regulatory and other governmental agencies.

The Company believes it has strong defenses in all significant matters currently pending and is contesting liability and any damages claimed. Nevertheless, some of these matters may result in adverse judgments or awards, including penalties, injunctions or other relief, and the Company may also determine to settle a matter because of the uncertainty and risks of litigation. Described below are certain matters in which there is a reasonable possibility that a material loss could be incurred or where the matter may otherwise be of significant interest to stockholders. Unless otherwise noted, the Company is unable to provide a reasonable estimate of any potential liability given the stage of proceedings in the matter.

With respect to all other pending matters, based on current information and consultation with counsel, it does not appear reasonably possible that the outcome of any such matter would be material to the financial condition of the Company. Predicting the outcome of a litigation or regulatory matter, however, is inherently difficult, requiring significant judgment and evaluation of various factors, including the procedural status of the matter and any recent developments; prior experience and the experience of others in similar cases; available defenses, including potential opportunities to dispose of a case on the merits or procedural grounds before trial (e.g., motions to dismiss or for summary judgment); the progress of fact discovery; the opinions of counsel and experts regarding potential damages; potential opportunities for settlement and the status of any settlement discussions; and potential insurance coverage and indemnification. It may not be possible to reasonably estimate potential liability, if any, or a range of potential liability until the matter is closer to resolution – pending, for example, further proceedings, the outcome of key motions or appeals, or discussions among the parties. Numerous issues may have to be developed, such as discovery of important factual matters and determination of threshold legal issues, which may include novel or unsettled questions of law. Reserves are established or adjusted or further disclosure and estimates of potential loss are provided as the matter progresses and more information becomes available.

Regulatory matters: On April 16, 2012, the Company was charged by the SEC in an administrative proceeding alleging violations of the firm's close-out obligations under Regulation SHO (short sale delivery rules) in connection with certain customer trading activity. Following trial, in a decision issued June 7, 2013, the judge held that the Company had violated Regulation SHO and aided and abetted fraudulent trading activity by its customer, and ordered the Company and the customer to pay disgorgement and penalties. An accrual for the settlement was recorded and included in accrued expenses and other liabilities. The Company continues to dispute the allegations and is appealing the decision.

(In thousands, except as noted)

11. Financial Instruments Subject to Off-Balance Sheet Credit Risk

Off-Balance Sheet Credit Risk

Securities lending: The Company loans client securities temporarily to other brokers in connection with its securities lending activities and receives cash as collateral for the securities loaned. Increases in security prices may cause the fair value of the securities loaned to exceed the amount of cash received as collateral. In the event the counterparty to these transactions does not return the loaned securities or provide additional cash collateral, the Company may be exposed to the risk of acquiring the securities at prevailing market prices in order to satisfy its client obligations. The Company mitigates this risk by requiring credit approvals for counterparties, monitoring the fair value of securities loaned, and requiring additional cash as collateral when necessary. The fair value of client securities pledged in securities lending transactions to other broker-dealers was $7,886 at June 30, 2016. Additionally, the Company borrows securities from other broker-dealers to fulfill short sales by clients and delivers cash to the lender in exchange for the securities. The fair value of these borrowed securities was $10,151 at June 30, 2016. All of the Company's securities lending transactions are subject to enforceable master netting arrangements with other broker-dealers. The Company does not net securities lending transactions, however, and therefore, the Company's securities loaned and securities borrowed are presented gross in the consolidated statement of financial condition.

The following table presents information about the Company's securities lending activity to enable the users of the Company's financial statement to evaluate the potential effect of rights of setoff between these recognized assets and recognized liabilities at June 30, 2016.

				Gross Amounts Not Offset in the Statement of Financial Condition		
	Gross Assets / Liabilities	Gross Amounts Offset in the Statement of Financial Condition	Net Amounts Presented in the Statement of Financial Condition	Counterparty Offsetting	Collateral	Net Amount
Assets:						
Securities borrowed [1]	$ 11,207	$ -	$ 11,207	$ (1,263)	$ (9,861)	$ 83
Total	$ 11,207	$ -	$ 11,207	$ (1,263)	$ (9,861)	$ 83
Liabilities:						
Securities loaned [2,3]	$ 8,708	$ -	$ 8,708	$ (1,263)	$ (6,728)	$ 717
Total	$ 8,708	$ -	$ 8,708	$ (1,263)	$ (6,728)	$ 717

(1) Included in receivables from brokers, dealers, and clearing organizations in the Company's statement of financial condition.

(2) Included in payables to brokers, dealers, and clearing organizations in the Company's statement of financial condition.

(3) Securities loaned are predominantly comprised of equity securities with overnight and continuous remaining contractual maturities.

Client trade settlement: The Company is obligated to settle transactions with brokers and other financial institutions even if its clients fail to meet their obligations to the Company. Clients are required to complete their transactions on settlement date, generally three business days after the trade date. If clients do not fulfill their contractual obligations, the Company may incur losses. The Company has established procedures to reduce this risk by requiring deposits from clients in excess of amounts prescribed by regulatory requirements for certain types of trades, and therefore the potential to make payments under these client transactions is remote. Accordingly, no liability has been recognized for these transactions.

Margin Lending: The Company provides margin loans to its clients which are collateralized by securities in their brokerage accounts and may be liable for the margin requirement of its client margin securities transactions. As clients write options or sell securities short, the Company may incur losses if the clients do not fulfill their obligations and the collateral in client accounts is insufficient to fully cover losses which clients may incur from these strategies. To mitigate this risk, the Company monitors required margin levels and requires clients to deposit additional collateral, or reduce positions to meet minimum collateral requirements. The contractual value of margin loans to clients was $175,458 at June 30, 2016.

Clients with margin loans have agreed to allow the Company to pledge collateralized securities in their brokerage accounts in accordance with federal regulations. Under such regulations, the Company was allowed to pledge securities with a fair value of $228,347 at June 30, 2016. The fair value of client securities pledged to fulfill short sales of its clients was $13,652 at June 30, 2016. The Company may also pledge client securities to fulfill client margin requirements for open option contracts established with the OCC. The fair value of these pledged securities to the OCC was $154,531 at June 30, 2016. To partially satisfy the margin requirement of client option transactions with the OCC, the Company has unsecured standby letter of credit agreements (LOCs) with several banks in favor of the OCC in the amount of $85,000. There were no funds drawn under these LOCs at June 30, 2016.

Concentration Risk

The Company has exposure to concentration risk when holding large positions of financial instruments collateralized by assets with similar economic characteristics or in securities of a single issuer or industry.

The Company also has exposure to concentration risk from its margin and securities lending activities collateralized by securities of a single issuer or industry. This concentration risk is mitigated by collateral arrangements that require the fair value of such collateral exceeds the amounts loaned, as described above.

12. Fair Values of Assets and Liabilities

For a description of the fair value hierarchy and the Company's fair value methodologies, including the use of independent third-party pricing services, see "Notes – 2. Summary of Significant Accounting Policies." The Company did not transfer any assets or liabilities between Level 1, Level 2, or Level 3 during the first half of 2016. In addition, the Company did not adjust prices received from the primary independent third-party pricing service at June 30, 2016. The Company did not have any assets or liabilities recorded at fair value on a recurring basis as of June 30, 2016.

(In thousands, except as noted)

Fair Value of Other Financial Instruments

Descriptions of the valuation methodologies and assumptions used to estimate the fair value of other financial instruments are also described in "Notes – 2. Summary of Significant Accounting Policies." There were no significant changes in these methodologies or assumptions during the first half of 2016. The following table presents the fair value hierarchy for other financial instruments at June 30, 2016:

	Carrying Amount	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance at Fair Value
Assets:					
Cash and cash equivalents	$ 108,441	$ -	$ 108,441	$ -	$ 108,441
Cash and investments segregated and on deposit for regulatory purposes	926,174	-	926,174	-	926,174
Receivables from brokers, dealers, and clearing organizations	50,906	-	50,906	-	50,906
Receivables from brokerage clients — net	176,406	-	176,406	-	176,406
Other assets	736	-	736	-	736
Total	$1,262,663	$ -	$1,262,663	$ -	$1,262,663
Liabilities:					
Payables to brokers, dealers, and clearing organizations	$ 10,408	$ -	$ 10,408	$ -	$ 10,408
Payables to brokerage clients	974,048	-	974,048	-	974,048
Total	$ 984,456	$ -	$ 984,456	$ -	$ 984,456

13. Related-Party Transactions

The Company provides securities and futures clearing services on a fully disclosed basis to its affiliate broker-dealers, optionsXpress Australia, Pty Limited, and optionsXpress Singapore Pte. Ltd. At June 30, 2016, the Company had a payable to optionsXpress Australia, Pty Limited, of $142, which is included in payables to affiliates.

The Company pays rent for office facilities that are leased by the Parent.

The Company borrows securities from Charles Schwab & Co., Inc., (Schwab) a subsidiary of CSC. At June 30, 2016, securities borrowed from Schwab totaled $1,879 and are included in receivables from brokers, dealers, and clearing organizations. Schwab also provides technology, support, and other services to the Company and other affiliates. At June 30, 2016, the Company had no amounts payable related to these services.

The Company enables clients to sweep excess cash held in brokerage accounts into deposit accounts at Charles Schwab Bank, a subsidiary of CSC. At June 30, 2016, these sweep deposit balances totaled $1,490,875.

(In thousands, except as noted)

The Company has an unsecured credit facility with CSC of $200,000. As of June 2016, the expiration date of this facility remains December 2016. Borrowings under this facility do not qualify as regulatory capital for the Company and are included in payables to affiliates. There were no borrowings outstanding under this facility at June 30, 2016.

14. Taxes on Income

The Company's tax liability excludes the excess tax benefits from the exercise of stock options and the vesting of restricted stock awards. The excess tax benefits, which otherwise would, for accounting purposes, provide a reduction of income taxes payable, are remitted to CSC through the payables to affiliates pursuant to the provisions of the Company's tax sharing arrangement.

The temporary differences that created deferred tax assets and liabilities are detailed below:

Deferred tax assets:		
Employee compensation, severance, and benefits	$	1,540
Reserves and allowances		3,083
State and local taxes		306
Total deferred tax assets		4,929
Deferred tax liabilities:		
Depreciation and amortization		5,980
Other		246
Total deferred tax liabilities		6,226
Deferred tax liability — net	$	1,297

The federal tax return for 2011 is under examination by the IRS and tax periods 2012 through 2015 remain open to Federal tax examinations. The years open to examination by state and local governments vary by jurisdiction.

15. Regulatory Requirements

The Company is subject to Rule 15c3-1 under the Securities Exchange Act of 1934 (the Uniform Net Capital Rule). The Company computes net capital under the alternative method permitted by the Uniform Net Capital Rule. This method requires the maintenance of minimum net capital, as defined, of the greater of 2% of aggregate debit balances arising from client transactions or a minimum dollar requirement of $250, which is based on the type of business conducted by the Company. At June 30, 2016, 2% of aggregate debit balances was $6,978, which exceeded the minimum dollar requirement for the Company of $250. Under the alternative method, the Company may not repay subordinated borrowings, pay cash dividends, or make any unsecured advances or loans to its parent company or employees if such payment would result in a net capital amount of less than 5% of aggregate debit balances or less than 120% of its minimum dollar requirement.

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 Reg. 1.17 ($1,000), or the sum of 8% of the total risk margin requirements for all positions carried in client accounts and 8% of the total risk margin requirements for all positions carried in non-client accounts, as defined in Reg. 1.17. At June 30, 2016, 8% of the total risk margin requirements for all positions carried in client and non-client accounts was $4,478, which exceeded the minimum dollar requirement for the Company of $1,000.

At June 30, 2016, the Company's net capital was $259,755 (74% of aggregate debit balances), which was $252,777 in excess of its minimum required net capital and $242,309 in excess of 5% of aggregate debit balances.

The Company is also subject to Rule 15c3-3 under the Securities Exchange Act of 1934 and other applicable regulations, which requires the Company to maintain cash or qualified securities in a segregated reserve account for the exclusive benefit of clients. Additional amounts are segregated in accordance with the regulations of the CFTC governing futures commission merchants.

The Company had $802,956 of its cash segregated for the exclusive benefit of clients at June 30, 2016. In addition, the Company had $1,000 segregated relating to its proprietary accounts of broker dealers, $118,041 segregated relating to clients' domestic commodity futures positions, and $4,210 segregated relating to clients' foreign commodity futures positions pursuant to CFTC Regulation 30.7 as of June 30, 2016. On July 5, 2016, the Company withdrew a net amount of $26,986 of cash from its segregated reserve bank accounts.

16. Subsequent Events

The Company has evaluated the impact of events that have occurred subsequent to June 30, 2016, through the date the statement of financial condition was issued. Based on this evaluation, other than as recorded or disclosed within this statement of financial condition and related notes, the Company has determined none of these events were required to be recognized or disclosed.

****

FOR MORE INFORMATION

The annual report as of December 31, 2015, prepared pursuant to Rule 17a-5 under the Securities Exchange Act of 1934, has been filed with the Securities and Exchange Commission, and is available for examination and copying at our headquarters: 150 S. Wacker, 12th Floor, Chicago, Illinois 60606.

The Charles Schwab Corporation

For more information about the ultimate parent company of optionsXpress, Inc., write to The Charles Schwab Corporation, Investor Relations, 211 Main Street, San Francisco, California 94105; call 1-415-667-1959; email investor.relations@schwab.com; or visit our website at www.aboutschwab.com.

optionsXpress, Inc. (Member SIPC) and Charles Schwab & Co., Inc. (Member SIPC) are separate but affiliated companies and subsidiaries of The Charles Schwab Corporation.

REG67205-09 (09/16)