OPTIONSXPRESS, INC.

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

Statement of Financial Condition (Unaudited)
June 30, 2017

OPTIONSXPRESS, INC

STATEMENT OF FINANCIAL CONDITION
JUNE 30, 2017 (In thousands, except share and per share amounts)
(Unaudited)

Assets		
Cash and cash equivalents	$	185,629
Cash and other assets segregated and on deposit for regulatory purposes		882,508
Receivables from brokers, dealers, and clearing organizations		50,243
Receivables from brokerage clients — net		176,936
Equipment and office facilities — net		625
Goodwill		62,824
Other assets		4,796
Total assets	$	1,363,561
Liabilities and Stockholder's Equity		
Payables to brokers, dealers, and clearing organizations	$	6,009
Payables to brokerage clients		982,223
Accrued expenses and other liabilities		11,562
Deferred income taxes payable		3,923
Payables to affiliates		707
Total liabilities		1,004,424
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		117,707
Total stockholder's equity		359,137
Total liabilities and stockholder's equity	$	1,363,561

See Notes to Statement of Financial Condition.

OPTIONSXPRESS, INC.

NOTES TO THE STATEMENT OF FINANCIAL CONDITION
AS OF JUNE 30, 2017
(In thousands, except as noted)
(Unaudited)

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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).

In October 2017, the Company will transfer all of its retail brokerage customer accounts along with the related operations and the related goodwill to Charles Schwab & Co., Inc. (Schwab). No consideration will be paid by Schwab to the Company for the transfer of the Company’s retail brokerage business. After the transfer, the Company will de-register as a broker-dealer but remain a futures commission merchant providing futures brokerage services to retail clients located throughout the U.S. and certain foreign countries, and will be renamed Charles Schwab Futures, Inc. Both the Company and Schwab are wholly-owned subsidiaries of CSC; therefore, the transfer of the retail brokerage business from the Company to Schwab will be treated as a common control transaction for financial reporting purposes.

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 statement of financial condition. Certain estimates relate to valuation of goodwill, allowance for doubtful accounts, and legal and regulatory reserves. Actual results may differ from those estimates.

Client transactions

Clients’ securities transactions, excluding futures activity, are recorded on a settlement-date basis. Futures transactions are recorded on a trade-date basis. Securities owned by clients, including those that collateralize margin or similar transactions, are not reflected in the statement of financial condition.

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 other assets segregated and on deposit for regulatory purposes

Cash and other assets 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 includes margin loans to securities brokerage clients and other trading receivables from clients. Margin loans are collateralized by client securities and are carried at the amount receivable, net of an allowance for doubtful accounts. The Company monitors margin levels and requires clients to deposit additional collateral, or reduce margin positions to meet minimum collateral requirements if the fair value of the collateral changes. Receivables from brokerage clients that remain unsecured or partially secured for more than 30 days are fully reserved for in the allowance for doubtful accounts, except in the case of confirmed fraud, which is reserved immediately. Clients with margin loans have agreed to allow the Company to pledge collateralized securities in accordance with federal regulations. The collateral is not reflected in the statement of financial condition.

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 maintain 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 annually or whenever indications of impairment exist. The Company's annual impairment testing date is April 1st. The Company can elect to qualitatively assess goodwill for impairment if it is more likely than not that the fair value of a reporting unit exceeds its carrying value.

If the Company elects to bypass qualitatively assessing goodwill, or it is not more likely than not that the fair value of a reporting unit exceeds its carrying value, management estimates the fair values of each of the Company's reporting units (defined as the Company's businesses for which financial information is available and reviewed regularly by management) and compares it to their carrying values. Based on the Company's analysis, fair value significantly exceeded the carrying value of the Company as of its annual testing date.

Guarantees and indemnifications

The Company recognizes, at the inception of a guarantee, a liability equal to the estimated fair value of the obligation undertaken in issuing the guarantee. The fair values of obligations relating to guarantees are estimated based on transactions for similar guarantees or expected present value measures.

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 potential tax settlement outcomes.

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 other assets 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, 2017, the Company adopted, on a prospective basis, ASU 2016-09, "Stock Compensation – Improvements to Employee Share-Based Payment Accounting (Topic 718)," which requires entities to recognize the income tax effects for the difference between generally accepted accounting principles (GAAP) and federal income tax treatment (i.e., excess tax benefit or deficiency) of share-based awards in the income statement when the awards vest or are settled, rather than recording such effects in additional paid-in capital. Future effects will depend on the share price of CSC, restricted stock vesting, and the volume of equity incentive options exercised. For the purpose of recognizing compensation cost associated with share-based awards, ASU 2016-09 also provides entities with an accounting policy election to account for forfeitures of awards as they occur or continue with current practice of estimating forfeitures at the grant date to determine the number of awards expected to vest and adjusting that estimate as necessary. The Company has elected to continue to follow the current practice.

New Accounting Standards Not Yet Adopted

In May 2014, the Financial Accounting Standards Board (FASB) issued ASU 2014-09, "Revenue from Contracts with Customers (Topic 606)," which provides new guidance on revenue recognition. The guidance clarifies that revenue from contracts with customers should be recognized in a manner that depicts the timing of the related transfer of goods or performance of services at an amount that reflects the expected consideration. The FASB has subsequently issued several amendments to the standard, including deferral of the effective date until January 1, 2018, clarification of principal versus agent considerations, narrow scope improvements and other technical corrections. Entities may elect either full or modified retrospective transition. Full retrospective transition will require a cumulative effect adjustment to retained earnings as of the earliest comparative period presented. Modified retrospective transition will require a cumulative effect adjustment to retained earnings as of the beginning of the reporting period in which the entity first applies the new guidance.

The Company plans to adopt the revenue recognition guidance in the first quarter of 2018 using the modified retrospective method with a cumulative effect adjustment to opening retained earnings. The guidance does not apply to revenue associated with financial instruments, including loans and securities that are accounted for under other U.S. GAAP. Accordingly, the Company does not expect an impact to net interest revenue. The Company believes that the primary area of potential impact of the guidance for the Company is the presentation of certain revenue streams in the income statement (i.e., gross versus net reporting).

The American Institute of Certified Public Accountants has formed sixteen industry task forces to help assess industry specific implementation issues. Preliminary conclusions reached by the Company may be impacted by the finalized task-force papers, which have yet to be released. The next phase of the Company's implementation work will be to evaluate any changes that may be required to the Company's applicable disclosures. While the total revenue may be impacted by the adoption of the guidance, net income will not be affected.

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 alternative 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 liabilities by measurement category and form of instrument on the balance sheet or in the accompanying notes. The Company does not expect the adoption of ASU 2016-01 will have a material impact on its statement of financial condition.

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 (CECL) 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, CECL 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 statement of financial condition.

(In thousands, except as noted)

In March 2017, the FASB issued ASU 2017-08, "Receivables – Nonrefundable Fees and Other Costs (Subtopic 310-20): Premium Amortization on Purchased Callable Debt Securities," which shortens the amortization period for the premium on certain callable debt securities to the earliest call date. The amendments are applicable to any purchased individual debt security with an explicit and noncontingent call feature that is callable at a fixed price on a preset date. The amendments do not impact the accounting for callable debt securities held at a discount, which will continue to be accreted to maturity. ASU 2017-08 will become effective on January 1, 2019, with early adoption permitted including adoption in an interim period. The amendments will be applied on a modified retrospective basis through a cumulative-effect adjustment to retained earnings as of the beginning of the period of adoption. The Company is currently evaluating the impact of adopting ASU 2017-08 on its statement of financial condition.

3. Receivables from and Payables to Brokers, Dealers, and Clearing Organizations

Amounts receivable from and payable to brokers, dealers, and clearing organizations consisted of the following at June 30, 2017:

Receivables		
Deposits with clearing organizations	$	38,817
Deposits for securities borrowed		9,563
Other		1,863
Total receivables from brokers, dealers, and clearing organizations	$	50,243

Payables		
Deposits for securities loaned	$	5,168
Payables for securities failed to receive		841
Total payables to brokers, dealers, and clearing organizations	$	6,009

(In thousands, except as noted)

4. Receivables from and Payables to Brokerage Clients

Receivables from and payables to brokerage clients consisted of the following at June 30, 2017:

Receivables		
Margin loans, net of allowance for doubtful accounts	$	176,340
Other brokerage receivables		596
Receivables from brokerage clients — net	$	176,936

Payables		
Interest-bearing payables	$	862,484
Non-interest-bearing payables		119,739
Payables to brokerage clients	$	982,223

5. Equipment and Office Facilities

Equipment and office facilities consisted of the following at June 30, 2017:

Furniture and equipment	$	19,016
Computer software		18,992
Leasehold improvements		4,113
Total equipment and office facilities		42,121
Accumulated depreciation and amortization		(41,496)
Total equipment and office facilities — net	$	625

6. Other Assets

The components of other assets as of June 30, 2017 are as follows:

Income taxes receivable	$	2,040
Accounts receivable		1,145
Other investments		951
Prepaid expenses		516
Interest and dividends receivable		91
Receivables from affiliates		13
Other		40
Total other assets	$	4,796

(In thousands, except as noted)

7. Accrued Expenses and Other Liabilities

Accrued expenses and other liabilities consisted of the following at June 30, 2017:

Accrued compensation	$	5,050
Accrued expenses		3,823
Income taxes payable		2,217
Other		472
Total accrued expenses and other liabilities	$	11,562

8. 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 2018. The remaining fixed and determinable portions of these obligations were $463 at June 30, 2017.

Guarantees and indemnifications: The Company has clients that sell (i.e., write) listed option contracts that are cleared by the Options Clearing Corporation – a clearing house that establishes margin requirements on these transactions. The Company partially satisfies the margin requirements by arranging unsecured standby letter of credit agreements (LOCs), in favor of the Options Clearing Corporation, which are issued by multiple banks. At June 30, 2017, the aggregate face amount of these LOCs totaled $70 million. There were no funds drawn under any of these LOCs at June 30, 2017. In connection with its securities lending activities, the Company is required to provide collateral to certain brokerage clients. The Company satisfies the collateral requirements by providing cash as collateral.

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 they may sustain for the client accounts introduced to them by the Company. The Company provides guarantees to its clearing organizations and exchanges under 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 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.

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 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.

9. Financial Instruments Subject to Off-Balance Sheet Credit Risk, Credit Risk, or Market Risk

Off-Balance Sheet Credit Risk

Securities lending: The Company loans brokerage client securities temporarily to other brokers and clearing houses 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 Company borrows securities from other broker-dealers to fulfill short sales by brokerage clients and delivers cash to the lender in exchange for the securities. The fair value of these borrowed securities was $9,343 at June 30, 2017. All of the Company's securities lending transactions are subject to enforceable master netting arrangements with other broker-dealers; however, the Company does not net securities lending transactions. Therefore, the Company's securities loaned and securities borrowed are presented gross in the statement of financial condition.

(In thousands, except as noted)

The following table presents information about the Company's securities lending activity to enable the users of the Company's financial statements to evaluate the potential effect of rights of setoff between these recognized assets and recognized liabilities at June 30, 2017:

	Gross Assets/ Liabilities	Gross Amounts Offset in the Statement of Financial Condition	Net Amounts Presented in the Statement of Financial Condition	Gross Amounts Not Offset in the Statement of Financial Condition: Counterparty Offsetting	Gross Amounts Not Offset in the Statement of Financial Condition: Collateral	Net Amount
Assets:						
Securities borrowed [1]	$ 9,563	$ —	$ 9,563	$ (1,540)	$ (7,970)	$ 53
Total	$ 9,563	$ —	$ 9,563	$ (1,540)	$ (7,970)	$ 53
Liabilities:						
Securities loaned [2,3]	$ 5,168	$ —	$ 5,168	$ (1,540)	$ (3,155)	$ 473
Total	$ 5,168	$ —	$ 5,168	$ (1,540)	$ (3,155)	$ 473

(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 held in client brokerage accounts 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 the Company's 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: Clients with margin loans have agreed to allow the Company to pledge collateralized securities in their brokerage accounts in accordance with federal regulations. The following table summarizes the fair value of client securities available under such regulations, for the Company to utilize as collateral, and the amounts pledged by the Company, as of June 30, 2017:

Fair value of client securities available to be pledged	$ 247,331
Fair value of client securities pledged for:	
Securities lending to other broker-dealers	4,528
Fulfillment of client short sales	28,130
Fulfillment of requirements with the Options Clearing Corporation [1]	159,031
Total collateral pledged	$ 191,689

(1) Client securities pledged to fulfill client margin requirements for open option contracts established with the Options Clearing Corporation.

(In thousands, except as noted)

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.

10. 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 Note 2. The Company did not transfer any assets or liabilities between Level 1, Level 2, or Level 3 during the first half of 2017. In addition, the Company did not adjust prices received from the primary independent third-party pricing service at June 30, 2017. The Company did not have any assets or liabilities recorded at fair value on a recurring basis as of June 30, 2017.

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 Note 2. There were no significant changes in these methodologies or assumptions during the first half of 2017. The following table presents the fair value hierarchy for other financial instruments at June 30, 2017:

	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	$ 185,629	$ —	$ 185,629	$ —	$ 185,629
Cash and other assets segregated and on deposit for regulatory purposes	882,508	—	882,508	—	882,508
Receivables from brokers, dealers, and clearing organizations	50,243	—	50,243	—	50,243
Receivables from brokerage clients — net	176,936	—	176,936	—	176,936
Other assets	944	—	944	—	944
Total	$1,296,260	$ —	$ 1,296,260	$ —	$1,296,260
Liabilities:					
Payables to brokers, dealers, and clearing organizations	$ 6,009	—	6,009	—	6,009
Payables to brokerage clients	982,223	—	982,223	—	982,223
Total	$ 988,232	—	988,232	—	988,232

(In thousands, except as noted)

11. 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, 2017, the Company had a payable to optionsXpress Australia, Pty Limited, of $118, which is included in payables to affiliates.

The Company borrows securities from Schwab. At June 30, 2017, securities borrowed from Schwab totaled $1,042 and are included in receivables from brokers, dealers, and clearing organizations.

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, 2017, these sweep deposit balances totaled $1,431,243.

The Company has an unsecured credit facility with CSC of $200,000. This facility is scheduled to expire in December 2018. 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, 2017.

CSC and Schwab provide administrative, technology, support, and other services to the Company and other affiliates. At June 30, 2017, the Company had accrued a payable of $219 related to these services to Schwab and $249 to CSC, which are included in payables to affiliates.

12. Taxes on Income

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

Deferred tax assets:		
Employee compensation, severance, and benefits	$	2,310
State and local taxes		200
Reserves and allowances		544
Total deferred tax assets		3,054
Deferred tax liabilities:		
Depreciation and amortization		(6,796)
Other		(181)
Total deferred tax liabilities		(6,977)
Deferred tax liability — net	$	(3,923)

The Company's unrecognized tax benefits totaled $3,006 as of June 30, 2017, $2,950 of which if recognized, would affect the annual effective tax rate.

The Company had approximately $51 for the payment of interest and penalties accrued at June 30, 2017.

CSC's consolidated federal income tax returns for 2011 through 2016 remain subject to examination. The years open to examination by state and local governments vary by jurisdiction.

13. 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, 2017, 2% of aggregate debit balances was $7,249, 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 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, 2017, 8% of the total risk margin requirements for all positions carried in client and non-client accounts was $5,065, which exceeded the minimum dollar requirement for the Company of $1,000.

At June 30, 2017, the Company's net capital was $289,810 (80% of aggregate debit balances), which was $282,561 in excess of its minimum required net capital and $271,687 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 $746,730 of its cash segregated for the exclusive benefit of clients at June 30, 2017. In addition, the Company had $1,000 segregated relating to its proprietary accounts of broker dealers, $124,867 segregated relating to clients' domestic commodity futures positions, and $2,301 segregated relating to clients' foreign commodity futures positions pursuant to CFTC Regulation 30.7 as of June 30, 2017. On July 3, 2017, the Company deposited a net amount of $13,989 of cash into its segregated reserve bank accounts.

14. Subsequent Events

The Company has evaluated the impact of events that have occurred subsequent to June 30, 2017, 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.

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FOR MORE INFORMATION

The annual report as of December 31, 2016, 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 1-415-667-7000; email investor.relations@schwab.com; or visit our website at www.aboutschwab.com.

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