

Interactive Brokers Order Routing and Payment for Order Flow Disclosure

IB's Order Routing System: Interactive Brokers offers its customers two primary methods of routing their orders to the market for execution. First, IB customers may directly route their orders to a particular market of their choice. For stocks and options traded at exchanges or ECNs, however, IB recommends that customers use IB's intelligent Best Execution Order Routing System ("Smart Routing"), which is designed to optimize both speed and price of execution. IB's Smart Routing system continually scans competing market centers and automatically seeks to route orders to the best market, taking into account factors such as the availability of automatic order execution.

Automatic Execution and Price Improvement: Electronic Communication Networks ("ECNs") and exchange automatic execution systems generally execute orders instantaneously at the posted bid or offer, rather than routing orders to a specialist or a trading crowd for manual handling. Generally, when an IB customer selects Smart Routing, IB routes eligible customer orders to exchanges and market centers currently offering automatic execution of orders. While automatically executed orders may not have an opportunity to be executed at a price better than the market center's posted bid or offer, automatic execution of customer orders is faster and more certain than other methods of execution and eliminates execution of orders at prices inferior to the prices posted at the market when the order was routed to it. Automatic execution of orders also eliminates the ability of a market maker or a specialist to hold a customer order and perhaps decline to execute the order if the market moves in the customer's favor while the order is pending. Overall, IB believes that use of the Smart Routing system to route orders to the exchange or market center with the best price, combined with automatic execution, provides IB customers with the most favorable order execution.

In addition to automatic execution of orders by certain exchanges and ECNs, IB's market-making affiliates, including Timber Hill LLC and Timber Hill Europe, also may provide automatic execution for certain eligible IB customer orders routed through IB's Smart Routing system, for certain Nasdaq stocks, NYSE stocks, non-U.S.-listed stocks and other securities. When an order is sent using Smart Routing, if an IB affiliate is willing to provide an execution at the best available posted price or better for that stock (sometimes called the national best bid or offer or "NBBO"), IB may send the order to that affiliate for an immediate automatic execution. Orders sent to IB affiliates for automatic execution may be eligible for price improvement (i.e., they may be executed at a price better than the best posted bid or offer).

Please note that if a quote is posted on a U.S. national securities exchange and the associated size is only 100 shares, this quote may not be considered as part of the best available national price. This is because such quotes usually are "default quotes" that are not automatically executable. Such quotes have no standing under the Intermarket Trading System trade-through rules.

Orders Sent Near the Opening of Trading: Please note that markets can be especially volatile near the opening of a trading session, with prices and available volume often changing rapidly and with data feeds from various markets potentially being slow or temporarily unavailable. IB cannot guarantee that orders sent near the opening of trading necessarily will receive the best posted price. You may want to consider the use of limit orders at the open, although market orders should be used if you want a higher certainty of getting a fill.

Order Conversion and Designation: Interactive Brokers may convert certain order types or apply conditions to certain IB customer orders sent to IB via Smart Routing in order to facilitate an execution. For example, order types not offered by certain exchanges may be simulated by the IB system using order designations. In addition, orders may be sent Immediate or Cancel, Fill-Or-Kill, All-Or-None, etc. in order to facilitate an immediate automatic execution, consistent with the objectives of the customer order.

Payment for Order Flow - Stocks: IB does not generally accept direct payment for order flow for stock orders. However, several types of payments received by IB for various types of order executions may be considered indirect payment for order flow under SEC interpretations.

ECN Rebates: IB receives liquidity rebates from ECNs for certain orders routed to those ECNs, ECN liquidity rebates are credited against the fees charged by the ECNs to execute other orders. ECN rebate amounts change frequently. Rebate rates for most ECNs are posted on the IB website (in the section on unbundled commission costs). They also typically are posted on ECN websites.

Liquidity Provider Relationships: IB has entered arrangements with certain institutions under which such institutions may send orders to IB on a "not held" basis. These orders are held within the IB system and are not displayed in the national market. If another IB customer order could be immediately executed against such an order held in the IB system (at the national best bid or offer), the orders may be crossed and the execution reported to the tape. This arrangement provides extra liquidity for some IB customer orders and leads to faster executions at NBBO (since the orders do not have to be sent to an exchange or ECN to be executed but can be executed within the IB system). IB may receive payment in the form of commissions or otherwise from the liquidity providers for these executions.

Payment for Order Flow - Options: IB receives order flow payments in varying amounts (from 55 cents to 65 cents as of July 2006) from U.S. option exchanges, specialists and/or market makers pursuant to the mandatory marketing fee programs that have been adopted by the exchanges and approved by the SEC. If multiple exchanges are quoting at the NBBO for an option order and IB has discretion as to where to send the order or a portion of it, IB generally will "break the tie" by sending the order to an exchange where it will receive the most payment for the order, or to an exchange designated by the firm from whom IB will receive the most payment (typically IB's affiliate Timber Hill LLC – see below).

Affiliate Relationships: IB's affiliate Timber Hill LLC makes markets in stocks and acts as a specialist or market maker on all U.S. option exchanges. Other IB affiliates worldwide, including Timber Hill Europe, also act as market makers on global exchanges. As noted above, for non-directed IB customer stock orders routed using IB's Smart Routing system, if an IB affiliate is willing to provide an execution at the best available posted price or better for that stock, IB may send the order to its affiliate for an immediate automatic execution.

As specialist on various options exchanges, IB's affiliate Timber Hill LLC may be responsible for allocating payment for order flow that is generated in its assigned options classes, depending on the design of the applicable exchange's SEC-approved payment for order flow plan. As much as consistent with these plans, Timber Hill pays such funds to Interactive Brokers. As of July 2006, these payments range up to 50-60 cents per contract. For Boston Options Exchange orders, Timber Hill pays IB \$1.00 for eligible contracts executed against Timber Hill (excluding contracts that are executed at better than NBBO).

Additionally, IB itself pays certain other broker-dealers for routing orders to IB, for IB then to execute, generally using IB's Smart Routing system.

Statistical information regarding the quality of executions for stock orders effected through IB's affiliate Timber Hill LLC (e.g., average execution speed, percentage of orders receiving price improvement, etc.) is available on the Interactive Brokers website at www.interactivebrokers.com or may be downloaded at

<http://www.interactivebrokers.com/en/accounts/legalDocuments/timberHill.php>

Interactive Brokers Penny Option Trading Facility: To help IB customers get better prices for their U.S. option trades, IB has developed a system to display penny option prices in the IB TWS and on the IB website and try to match penny-priced bids and offers and send them to an exchange for execution. This allows price improvement for customer orders over the ordinary nickel and dime trading increments offered by exchange automatic execution systems. The following governs penny option orders in the IB system:

- Your penny price (with size) will be publicly displayed through the IB TWS and website (if it is the best price in our system), unless you instruct us otherwise. Display of your penny-priced indication is not limited to other IB customers and is broadly public. You can instruct us not to display your penny price, but that will make it less likely for you to trade.
- Your interest at the penny price will not be displayed at an options exchange or through the Options Price Reporting Authority: If you send a penny-priced order, IB will send your order rounded to a nickel or dime (down for a bid and up for an offer) to an option exchange, but your penny price will only be displayed on the IB system. In this respect your penny-priced order is a discretionary order.
- IB is not an options exchange and the IB penny option pricing system cannot execute option orders, only route them to an exchange for execution.
- When IB sends potentially matching orders to an options exchange, an auction process will be used and you may not get to trade: Other traders will have a chance to come in and join the trade at the same price or offer a better price.
- The penny prices displayed in the IB system are not "firm" and will not always result in a trade: Penny prices displayed through IB are non-firm indications of interest and may be cancelled before you can trade against them or circumstances may change such that IB cannot start the required auction at an options exchange.
- Trading in pennies may result in a better price but a slower fill: You will have to wait at least three seconds while the option exchange penny auction is conducted.

Quarterly Order Routing Reports and Other Order Routing Information Available upon Request: U.S. Securities and Exchange Commission rules require all brokerage firms to make publicly available quarterly reports describing their order routing practices. For IB, these quarterly reports describe how and where customer orders are routed when customers use IB's Smart Routing system rather than directing their order to a particular market center. IB's quarterly order routing reports are available on the IB website at www.interactivebrokers.com, or can be obtained by an e-mail request directed to IB Customer Service at help@interactivebrokers.com.

In addition to the basic quarterly reports, under SEC NMS Rule 606 a broker-dealer is required upon a customer request to provide information regarding the identity of the market center to which any customer order (or all orders) was routed in the six months prior to the request; whether the order was a directed or non-directed order, and the time of the transaction, if any, that resulted from such order. Please e-mail the IB Customer Service Desk at help@interactivebrokers.com if you wish to receive the foregoing routing information for any order(s) within the past six months. Please type "Request for Order Routing Information" in the subject line of the e-mail and please include your name, user id and account number as well as the date of the order, the security, the quantity, and any other information necessary to identify the order (e.g., the time of day if there were several similar orders that day).