

Interactive Brokers Quarterly Order Routing Report

Quarter Ending March 31, 2004

I. Introduction

Interactive Brokers (“IB”) has prepared this report pursuant to a U.S. Securities and Exchange Commission (“SEC”) rule requiring all brokerage firms to make publicly available quarterly reports describing their order routing practices. This report is intended to describe how and where customer orders are routed when customers use IB’s Smart Order Routing System (or Smart ECN routing option) rather than directing their order to a particular market center.

II. IB’s Smart Routing Systems

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 multiple exchanges or ECNs, however, IB recommends that customers use IB’s Smart Routing System, 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 market center posting the best price, taking into account factors such as the availability of automatic order execution. Even after an order is routed, IB’s Smart Routing system continually scans the relevant market centers and will cancel and re-route an unexecuted order if a better price becomes available on another market. For example, non-marketable limit orders received by IB are routed to a default destination (NYSE for listed stocks and the Island ECN for Nasdaq stocks) and are then continually monitored and re-routed to the market posting the best price when they become marketable.

For Nasdaq small cap securities traded on ECNs, IB also offers “Smart ECN” Routing, which will look for the best prevailing price for the customer’s order among available ECNs, excluding traditional exchanges.

III. Importance of Automatic Execution

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. Wherever possible, when an IB customer selects “Smart” or “Smart ECN” 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. IB believes that use of the IB Smart Routing System to route orders to the exchange or market center with the best posted price, combined with automatic execution, provides IB customers overall 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 systems, for certain Nasdaq stocks, NYSE stocks, non-U.S.-listed stocks and other exchange-listed stocks (see description below).

IV. Payment for Order Flow and Internalization

Except for liquidity rebates that may be paid by ECNs for certain orders routed to those ECNs, IB does not generally accept payment for order flow for stock orders. ECN liquidity rebates are credited against the fees charged by the ECNs to execute other orders. For example, as of January 2004, Island and Instinet both offered a liquidity rebate of \$.002 (2/10ths of one cent) per executed share for orders for ETFs and OTC stocks that add liquidity to their order books. Other ECNs may also provide liquidity rebates.

IB receives order flow payments from U.S. option exchange specialists and/or market makers pursuant to the mandatory marketing fee programs that have been adopted by the exchanges and approved by the SEC.

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. For non-directed IB customer stock orders routed using IB's Smart Routing systems, if an IB affiliate is willing to provide an execution at the best available posted price or better for that stock, IB generally will send the order to its affiliate for an immediate automatic execution. Orders sent to IB affiliates for automatic execution are eligible for price improvement (i.e., they may be executed at a price better than the best posted bid or offer). Only orders that are immediately executable are eligible to be routed by IB to an affiliate for automatic execution by that affiliate.

Likewise, if an IB affiliate is a specialist or market maker on an exchange that has posted the best bid or offer for an option contract for which an IB customer has placed an order, and another exchange is also posting the same best bid or offer, IB generally will break the tie by sending the order to the exchange where the IB affiliate is acting as specialist or market maker.

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.

V. Order Routing Information for Particular Types of Securities

This section provides statistical and other information about orders that are sent through IB's Smart Routing systems for the following types of securities: New York Stock Exchange ("NYSE") listed stocks; Nasdaq stocks; stocks listed on the American Stock Exchange ("Amex") or regional exchanges; and exchange-listed options. For each of these types of securities, this section identifies the market centers most often selected by IB's Smart Routing systems and the percentage of various types of orders sent to those market centers. This section also addresses material relationships of IB and its affiliates to each market center to which IB routes orders.

A. NYSE Stocks

Summary Statistics:

Percentage of total orders that were non-directed (i.e., sent using Smart Routing).....	71.6%
Percentage of total non-directed orders that were market orders....	7.5%
Percentage of total non-directed orders that were limit orders.....	91.6%

Market Centers Receiving Significant Percentage of Non-Directed Orders

1. NYSE:	
Percentage of total non-directed orders.....	53%
Percentage of non-directed market orders.....	69.5%
Percentage of non-directed limit orders*.....	51.2%

*** NOTE: Non-marketable limit orders for NYSE stocks are all routed to the NYSE. Such orders are then continually monitored and are re-routed if they become marketable at another market center.**

2. Island:	
Percentage of total non-directed orders.....	35.4%
Percentage of non-directed market orders.....	7.7%
Percentage of non-directed limit orders.....	38%
3. Archipelago:	
Percentage of total non-directed orders.....	7%
Percentage of non-directed market orders.....	5.2%
Percentage of non-directed limit orders.....	7.2%
4. Timber Hill LLC:	
Percentage of total non-directed orders.....	3.8%
Percentage of non-directed market orders.....	16.2%
Percentage of non-directed limit orders.....	2.8%
5. Instinet:	
Percentage of total non-directed orders.....	.7%
Percentage of non-directed market orders.....	.7%
Percentage of non-directed limit orders.....	.7%

Material Aspects of IB Relationship with Execution Venues for NYSE Stocks

Interactive Brokers does not accept payment for order flow from any execution venues for NYSE stocks, except to the extent that the ECN liquidity rebates described above may be considered payment for order flow. For non-directed orders for certain NYSE stocks, if IB affiliate Timber Hill LLC is willing to provide an execution at the best available posted price or better for that stock, IB generally will send the order to Timber Hill for an immediate automatic execution.

B. Nasdaq Stocks

Summary Statistics:

Percentage of total orders that were non-directed (i.e., sent using Smart Routing).....	88.5%
Percentage of total non-directed orders that were market orders....	6.1%
Percentage of total non-directed orders that were limit orders.....	93.7%

Market Centers Receiving Significant Percentage of Non-Directed Orders

1.	Island:		
		Percentage of total non-directed orders.....	82.1%
		Percentage of non-directed market orders.....	32.8%
		Percentage of non-directed limit orders.....	85.4%
2.	Archipelago:		
		Percentage of total non-directed orders.....	6.9%
		Percentage of non-directed market orders.....	18.4%
		Percentage of non-directed limit orders.....	6.1%
3.	SuperMontage:		
		Percentage of total non-directed orders.....	3.3%
		Percentage of non-directed market orders.....	18.3%
		Percentage of non-directed limit orders.....	2.3%
4.	Timber Hill LLC:		
		Percentage of total non-directed orders.....	2.9%
		Percentage of non-directed market orders.....	13.3%
		Percentage of non-directed limit orders.....	2.2%

5.	Brut:	Percentage of total non-directed orders.....	2.7%
		Percentage of non-directed market orders.....	10.8%
		Percentage of non-directed limit orders.....	2.2%
6.	Instinet:	Percentage of total non-directed orders.....	1.5%
		Percentage of non-directed market orders.....	3.9%
		Percentage of non-directed limit orders.....	1.4%
7.	Bloomberg Tradebook (B-Trade):	Percentage of total non-directed orders.....	.6%
		Percentage of non-directed market orders.....	2.5%
		Percentage of non-directed limit orders.....	.5%

Material Aspects of IB Relationship with Execution Venues for Nasdaq Stocks

Interactive Brokers does not accept payment for order flow from any execution venues for Nasdaq stocks, except to the extent that the ECN liquidity rebates described above may be considered payment for order flow. For non-directed orders for certain Nasdaq stocks, if IB’s affiliate Timber Hill LLC is willing to provide an execution at the best available posted price or better for that stock, IB generally will send the order to Timber Hill for an immediate automatic execution.

Non-directed, non-marketable limit orders for Nasdaq stocks are all routed to the Island ECN. Such orders are then continually monitored and are re-routed if they become marketable at another market center.

C. American Stock Exchange and Regional Exchange-Listed Stocks

Summary Statistics:

Percentage of total orders that were non-directed (i.e., sent using Smart Routing).....	49.4%
Percentage of total non-directed orders that were market orders....	6.6%
Percentage of total non-directed orders that were limit orders.....	93.2%

Market Centers Receiving Significant Percentage of Non-Directed Orders

1.	Island:	Percentage of total non-directed orders.....	49.2%
		Percentage of non-directed market orders.....	23.3%

	Percentage of non-directed limit orders.....	51.2%
2.	Amex:	
	Percentage of total non-directed orders.....	30.6%
	Percentage of non-directed market orders.....	34.2%
	Percentage of non-directed limit orders.....	30.2%
3.	Archipelago:	
	Percentage of total non-directed orders.....	14.5%
	Percentage of non-directed market orders.....	12.8%
	Percentage of non-directed limit orders.....	14.7%
4.	Timber Hill LLC:	
	Percentage of total non-directed orders.....	3.2%
	Percentage of non-directed market orders.....	14.8%
	Percentage of non-directed limit orders.....	2.4%
5.	NYSE:	
	Percentage of total non-directed orders.....	2%
	Percentage of non-directed market orders.....	14.4%
	Percentage of non-directed limit orders*.....	1.1%
6.	Instinet:	
	Percentage of total non-directed orders.....	.4%
	Percentage of non-directed market orders.....	.5%
	Percentage of non-directed limit orders.....	.4%

Material Aspects of IB Relationship with Execution Venues for Amex and Other Regional Exchange-Listed Stocks

Interactive Brokers does not accept payment for order flow from any execution venues for stocks listed on Amex and other regional exchanges, except to the extent that the ECN liquidity rebates described above may be considered payment for order flow. For non-directed orders for certain Amex and other regional exchange-listed stocks, if IB's affiliate Timber Hill LLC is willing to provide an execution at the best available posted price or better for that stock, IB generally will send the order to Timber Hill for an immediate automatic execution.

D. Exchange-Listed Options

Summary Statistics:

Percentage of total orders that were non-directed (i.e., sent using Smart Routing).....	74.3%
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Percentage of total non-directed orders that were market orders.... 2.3%

Percentage of total non-directed orders that were limit orders..... 97.7%

NOTE: Non-marketable limit orders for listed options are routed to a default destination and then are continually monitored and are re-routed if they become marketable at another market center.

Market Centers Receiving Significant Percentage of Non-Directed Orders

1.	International Securities Exchange (“ISE”):	
	Percentage of total non-directed orders.....	54.4%
	Percentage of non-directed market orders.....	44.4%
	Percentage of non-directed limit orders.....	54.7%
2.	Philadelphia Stock Exchange (“PHLX”):	
	Percentage of total non-directed orders.....	17.2%
	Percentage of non-directed market orders.....	17.4%
	Percentage of non-directed limit orders.....	17.2%
3.	Pacific Exchange (“PCX”):	
	Percentage of total non-directed orders.....	11.8%
	Percentage of non-directed market orders.....	14.5%
	Percentage of non-directed limit orders.....	11.7%
4.	Chicago Board Options Exchange (“CBOE”):	
	Percentage of total non-directed orders.....	11%
	Percentage of non-directed market orders.....	13.2%
	Percentage of non-directed limit orders.....	11%
5.	American Stock Exchange (“Amex”):	
	Percentage of total non-directed orders.....	4.4%
	Percentage of non-directed market orders.....	6.6%
	Percentage of non-directed limit orders.....	4.3%
6.	Boston Options Exchange (“BOX”):	
	Percentage of total non-directed orders.....	1.2%
	Percentage of non-directed market orders.....	3.9%
	Percentage of non-directed limit orders.....	1.1%

Material Aspects of IB Relationship with Listed Option Market Centers

Affiliate Relationship: IB's affiliate Timber Hill LLC acts as a specialist or market maker on all U.S. option exchanges. If Timber Hill is a specialist or market maker on an exchange that has posted the best bid or offer for an option contract for which an IB customer has placed an order, and another exchange is also posting the same best bid or offer, IB will break the tie by sending the order to the exchange where Timber Hill is acting as specialist or market maker.

Exchange Marketing Fee/Payment for Order Flow Programs: Listed option exchanges recently have experimented with imposition of "marketing fees" charged on a per contract basis to members and then collected and redistributed by exchange specialists/primary market makers. Under these SEC-approved plans, the marketing fees typically are expected to be redistributed in the form of payment for order flow or used in other ways to increase the relevant exchanges' market share. IB has received varying marketing fee payments from several exchange specialists and market makers, including IB's affiliate Timber Hill LLC. Receipt of payment for order flow under these exchange programs plays no role in determining where IB routes non-directed customer orders. As of the date of the release of this report, several exchanges have suspended their marketing fee plans.

Equity Investment in Boston Options Exchange Group LLC: IB is owned by the Interactive Brokers Group. Interactive Brokers Group has a substantial, minority investment in the Boston Options Exchange Group LLC, which operates the Boston Options Exchange as a facility of the Boston Stock Exchange.

VI. Order Routing Information for Particular Orders Available Upon Request

Under SEC Rule 11Ac1-6(c), upon request of a customer, a broker-dealer is required 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 above 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).