

Dear BATS Subscribers and Members of the Trading Community,

In this edition of our newsletter you will find ...

- * BATS Goes to Europe
- * Dark Liquidity Initiatives
- * Yahoo! Finance & Market Data for All
- * The Grand Pricing Experiment (update)

BATS Goes to Europe

The landscape in Europe looks all too familiar, at least to those who have been watching the U.S. market evolve over the last 10 years. Several recent events have laid the foundation for true market center competition to thrive in Europe, and BATS is on the ground floor ready to be a part of the new landscape. BATS has been weighing different opportunities at home and abroad over the last year, and the biggest new opportunity we see is trading cash equities in Europe.

BATS is committed to entering the European market, using many of the same “secret sauce” ingredients that helped propel our growth in the U.S. Some of those ingredients include:

- Superior matching engine, order handling, and routing technology
- Influential and progressive ownership group
- Executive leadership excellence
- Market structure expertise
- The best of the best, A+ employees (if this is you, email us at work@batstrading.com)
- In house software development and network engineering teams
- World class (informed and helpful) service and support
- A constant focus on doing what’s right
- A high level strategy of “Making Markets Better”

In the short time since we announced our intentions to enter the European equities market center space, we have secured a world class data center location, ordered all required hardware and networking gear, hired and/or extended offers for all local senior management positions, located a permanent office site, prepared our MTF application, and negotiated CCP agreements. Our interactions with the FSA have been akin to our dealings with U.S. regulators ... constructive, open, helpful, and enthusiastic. Based on the progress already made this spring, we anticipate being live in the fall of 2008.

Mark Hemsley (CEO), Paul O’Donnell (COO), and Ken Conklin (Global Head of Business Development) have been working day and night for the last several months moving our efforts forward for the BATS European Markets Division with great success. In addition to our executive team, the senior management candidates selected for operations & infrastructure, accounting, compliance, and sales will send the message that we are a serious competitor and that we intend to capture meaningful market share in a short period of time.

Dark Liquidity Initiatives

BATS has released two major initiatives related to dark liquidity recently. In both cases BATS is breaking new ground, and experience will soon tell us whether these innovative products provide valuable solutions to our subscriber base.

The first product is called **Dark Scan**. Dark Scan is an optional “pre-routing” technology that attempts to locate liquidity via a select group of Dark Liquidity Partners (or DLPs). Unlike our competitors, BATS will not be connecting to every conceivable dark pool, which by some counts may be as many as 25 to 40 different

destinations. We anticipate closely managed relationships with approximately 5 - 10 DLPs, with speed, fill rates, and execution quality measures being the determining factors as to who is in our network and who isn't. Also *unlike our competitors*, BATS will be transparent about who our DLPs are, by name, so that BATS subscribers can choose whether to participate in Dark Scan or not. There will be a mix of DLPs, some being Market Makers, and others being Independent/Agency pools. The first two DLPs were ATD (Fast LP) and Liquidnet, with other destinations currently under development.

Two additional differentiating factors associated with the BATS Dark Scan product include “pre-routing” and a reduced access fee. Pre-routing means that BATS will route to DLPs *before* accessing the BATS book, and then scan the BATS book only after filling as much of the order as possible through multiple DLP routes. The interaction between BATS and DLPs is done through directed IOC's, so Dark Scan orders are not “shopped around” as other market centers might do, instead they are routed to liquidity destinations for immediate execution or cancel.

The second product we recently released is called **Dark Match**. Dark Match introduces a pricing strategy aimed at incenting larger (block) executions in a passive (dark) environment, but is fully integrated with our primary displayed market. On an average day, 8% to 12% of BATS' executed volume matches up against dark/hidden liquidity resting on the BATS book. As such, the Dark Match program represents a substantial liquidity pool of dark orders and is an innovative way to lower access fees for market participants at a time when other market centers are raising prices for a majority of their users.

BATS' competitors have dramatically lowered rebates for hidden liquidity and pocketed the savings for themselves. The BATS approach involves scaling liquidity rebates based on execution size on a trade-by-trade basis. As the rebate lowers with larger execution sizes, BATS passes the savings along to its subscribers in the form of reduced access fees. This lowered access fee provides an incentive to attract subscribers seeking large block executions. For example, the BATS access fee drops to as low as 0.0015 for Dark Match transactions greater than 25,000 shares.

BATS also offers the extra flexibility of comprehensive minimum quantity implementation, allowing both liquidity providers and removes the ability to target their level of rebate or fee. It should be noted that for Dark Match executions up to 10,000 shares, the BATS hidden order rebate is currently greater than rebates offered by other market centers. Liquidity removes automatically benefit on a trade-by-trade basis with progressively lower access fees as the size of their executions increase, without requiring any changes to the way orders are sent to BATS.

For more information on Dark Scan and/or Dark Match, please contact your BATS account manager. (http://www.batstrading.com/subscriber_resources.php)

Yahoo! Finance & Market Data for All

In a clear step at “Making Markets Better”, BATS has been working with high profile financial web sites to provide them with free real-time market data. Over the last two years, the retail public has not generally had easy or affordable access to real-time price discovery information for stocks traded in the U.S. Prior to the INET acquisition by Nasdaq, INET had provided many of these internet sites with a source of real-time data, but that opportunity disappeared shortly after the Nasdaq acquisition.

Since that time, most of the popular finance web sites have had to revert to displaying 15 – 20 minute delayed data because viable sources of real-time data became too costly. In a world where professional trading firms can get order acknowledgements back in fractions of a *second*, 15 *minute* delayed data isn't much better than quotes from yesterday's trading session. We felt compelled to reach out to today's finance web sites and offer them our data so that the retail public would once again have access to real-time market data.

With BATS approaching 10% matched market share as the 3rd largest market center in the U.S. (based on daily matched market share), and our exchange application pending, our real-time market data feed has become credible and very relevant to the tens of millions of internet users who haven't had access to real-time data until now. Yahoo! is host to one of the top internet finance web sites (as measured by unique visitors monthly) and is in production today with BATS real-time data. They have additional functionality on the way soon to show even more of the BATS real-time market data in subsequent product releases.

The deal we struck with Yahoo! is not unique. We have been offering our real-time data feed for free since we began operations just over two years ago. The two requirements we ask of companies receiving our feed is that they don't charge their customers for it, and that they prominently attribute the source of data as coming from BATS. With those two conditions met, we offer our real-time data feed to anybody who requests it. I am happy to report that several other financial portals are working through projects currently to carry BATS real-time market data, so be on the look out for upcoming press releases announcing other sites that are "Powered by BATS".

The Grand Pricing Experiment (update)

As you may remember, there was a move by our major competitors to raise their maker/taker prices "up the scale" in May, and BATS elected to stay put with our current pricing. In fact, we haven't changed our headline prices all year, and coming into June both of our major competitors have tweaked their prices yet again.

Last month I posed the following challenge to the industry: "If you feel that our current price structure hits the theoretical sweet spot and provides the right level of incentive for those who post liquidity, while also representing the fair costs of accessing liquidity, then keep sending your orders to BATS. BATS has been a leader with regards to aggressive non-tiered pricing as well as pricing innovation, and we feel strongly that our current price model fits our customers' needs. We would rather not follow our competitors as they venture up the price scale, but believe we are actually leading the industry (yet again) by staying right where we are. If you feel the same way, then vote with your volume and bring your business to BATS."

With a full month of trading activity to examine under the competitions' new price models (and BATS keeping our prices unchanged), we have enough data at our disposal to see how market share might have shifted among market centers as a result of the different pricing strategies at work in May. The analysis I used involved taking the average market share over the last 5 trading days of April and comparing that to the last 5 trading days in May (excluding today, May 30th, since I'm writing the newsletter during the regular market session).

Following is the market share analysis for the last 5 days of April versus the last 5 days of May for the major U.S. market centers:

	Last 5 Days of April	Last 5 Days of May	Growth Rate
BATS	8.36%	8.62%	3.11%
Nasdaq	29.35%	29.71%	1.23%
Arca	16.29%	16.44%	0.92%
NYSE	19.18%	18.11%	-5.58%

* Market share statistics compiled in-house using industry consolidated data feeds

The first observation we made is that market share didn't actually move around all that much. There was movement, but it wasn't compelling. While BATS did see the most market share growth among our peers, Nasdaq and Arca also gained small increments in market share as well.

A likely take-away is that there isn't quite as much price sensitivity, within a given range of access fees and rebates, as we expected. This turns out to be a good news / bad news situation. The bad news is that market

centers appear unlikely to be able to steal significant market share away from each other based purely on price. The good news is that while pricing isn't the sole driver in market share growth, other factors do weigh in to the equation, including reliability, performance, support, and innovation. And that's great news for BATS subscribers, since we continue to be a leader in the industry in all of these categories.

As a side note, one of the biggest complaints I heard while visiting customers in May was frustration caused by the continual stream of price changes from several different market centers. The trading community doesn't necessarily like to continually update their routing tables and order management systems, and keeping up with the monthly price changes in the industry has become a major issue for several firms. We agree with you. BATS has not changed our headline prices even once this year, and based on the result of the May experiment, we feel compelled to leave our prices where they are for the foreseeable future and continue to focus on performance and innovation as the primary ways to differentiate BATS from our competitors.

Thank You

We would like to thank our subscribers for their continued support, which has allowed BATS to challenge and legitimately compete with the incumbent national exchanges. As always, your comments and feedback are welcome.

Sincerely,

Joe Ratterman
President and CEO
BATS Trading ... Making Markets Better