

MEMORANDUM

TO: File No. S7-08-09

FROM: Sarah Casey Otte  
Office of Commissioner Aguilar

DATE: April 28, 2009

RE: Meeting with Representatives of Direct Edge and Williams & Jensen,  
PLLC

On April 23, 2009, William O'Brien and Eric W. Hess of Direct Edge, and David E. Franasiak and Joel G. Oswald of Williams & Jensen, PLLC, met with Commissioner Aguilar and his counsel, Sarah Casey Otte. They discussed, among other things, short sale restrictions, including the price tests and the circuit breaker approach, outlined in the Commission's proposing release titled Amendments to Regulation SHO, Rel. No. 34-59748. Representatives of Direct Edge also provided the attached materials.

Attachment



# Introduction to Direct Edge

April 2009

Everybody Needs  
Some Edge



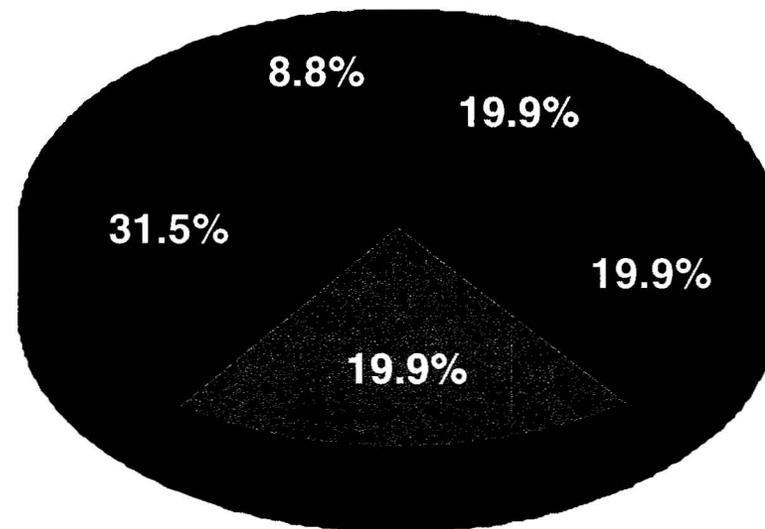
## Overview – General

- **3<sup>rd</sup> Largest Market for Trading of U.S. Cash Equities**
  - Executing and routing orders in all exchange-listed stocks
  - Broker-dealer customers only
  
- **Broker-dealer with pending exchange applications**
  - Dual exchange applications submitted to SEC
  - Leverage control of the ISE Stock Exchange in interim
  
- **A fast-growing, profitable financial services company**
  - 74 employees (over 50 new hires within past two years)
  - Headquartered in Jersey City, NJ

## Overview – Ownership

- ISE owns strategic 31.54% ownership stake
- Knight, Citadel, and Goldman Sachs all at 19.9%, the maximum allowable under SEC rules
- Legacy ISE Stock Exchange investors own 8.76%, with JP Morgan holding majority

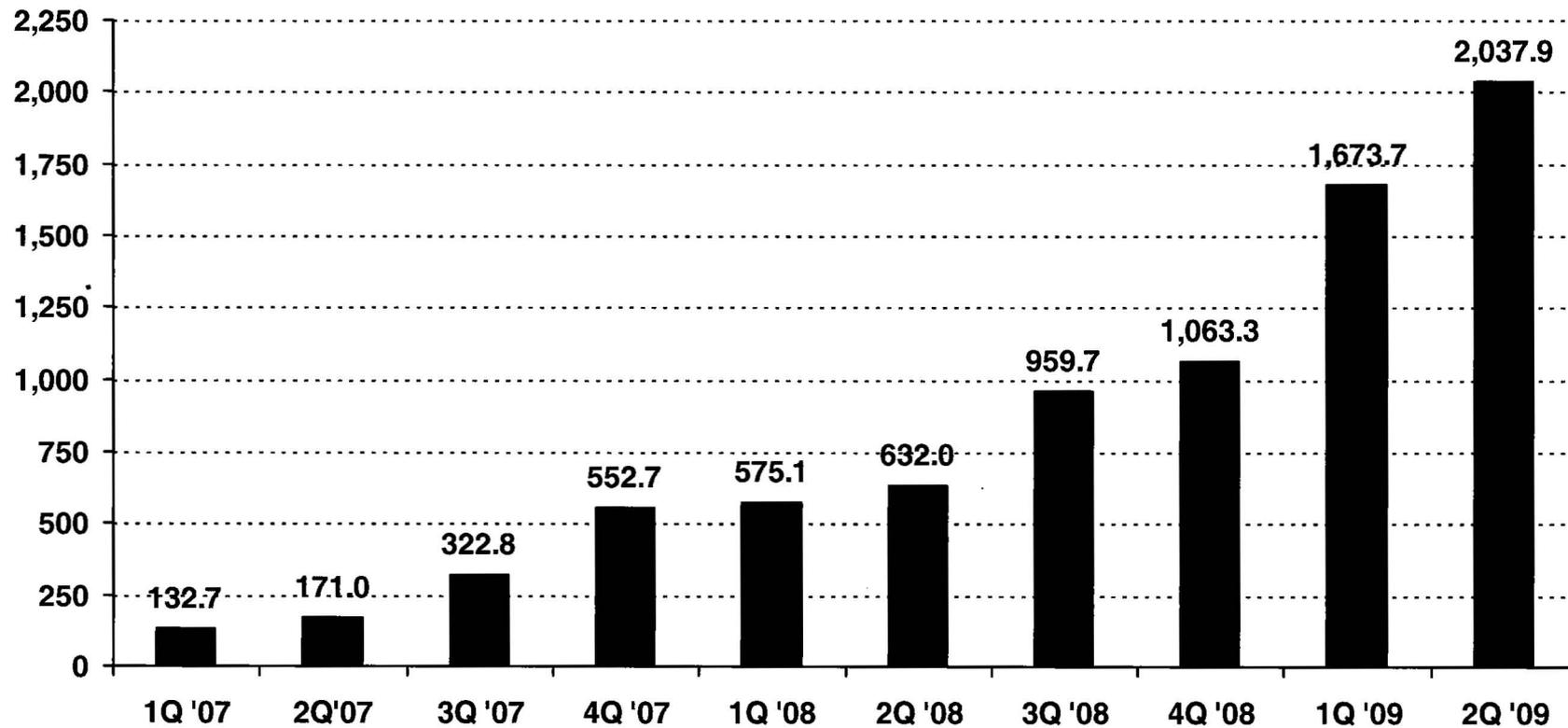
Direct Edge Ownership



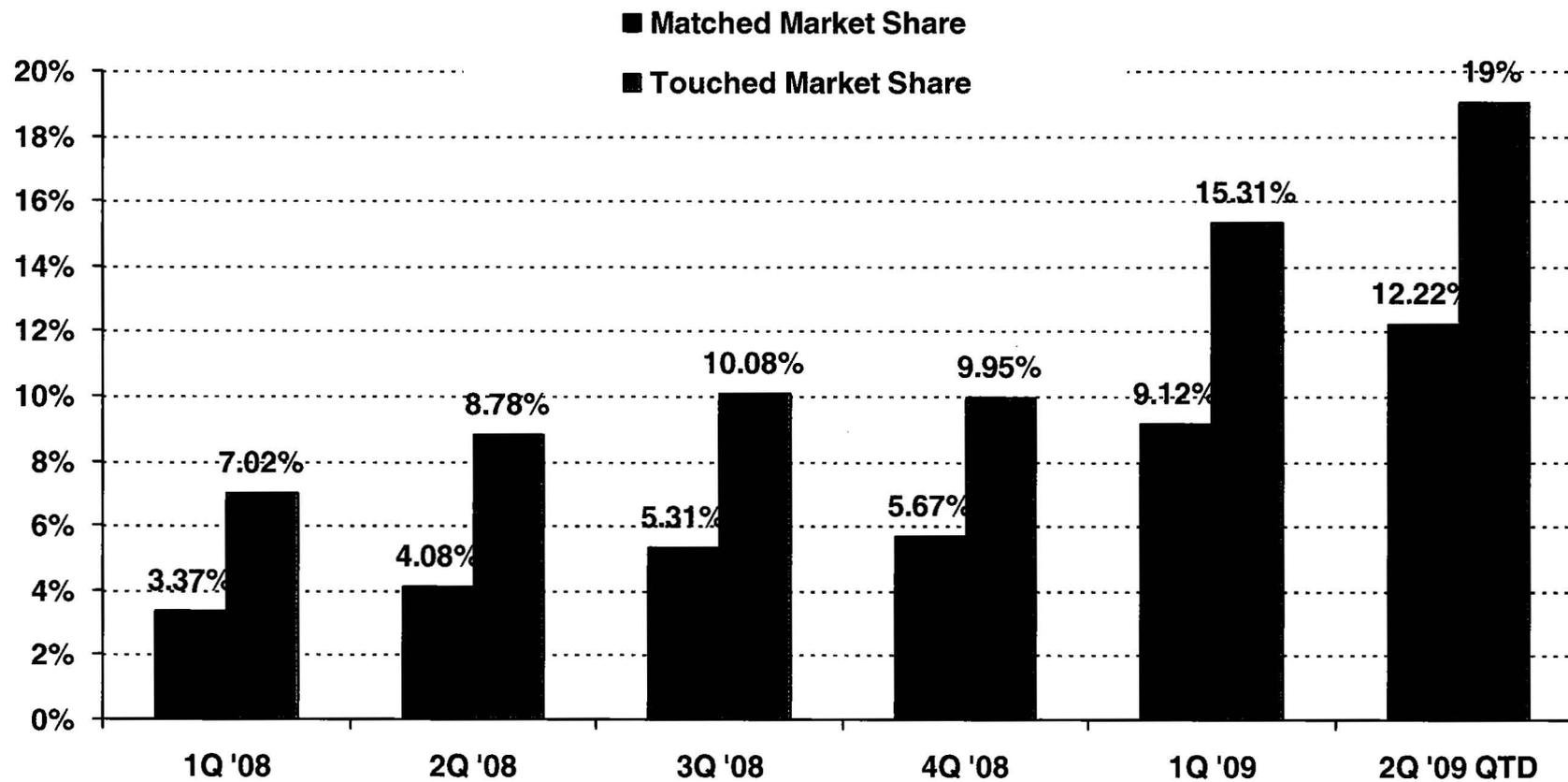
- Knight
- Goldman Sachs
- Citadel
- ISE
- Legacy ISE-SX Investors

# Overview – Volume Growth

## Average Daily Volume (in Millions)

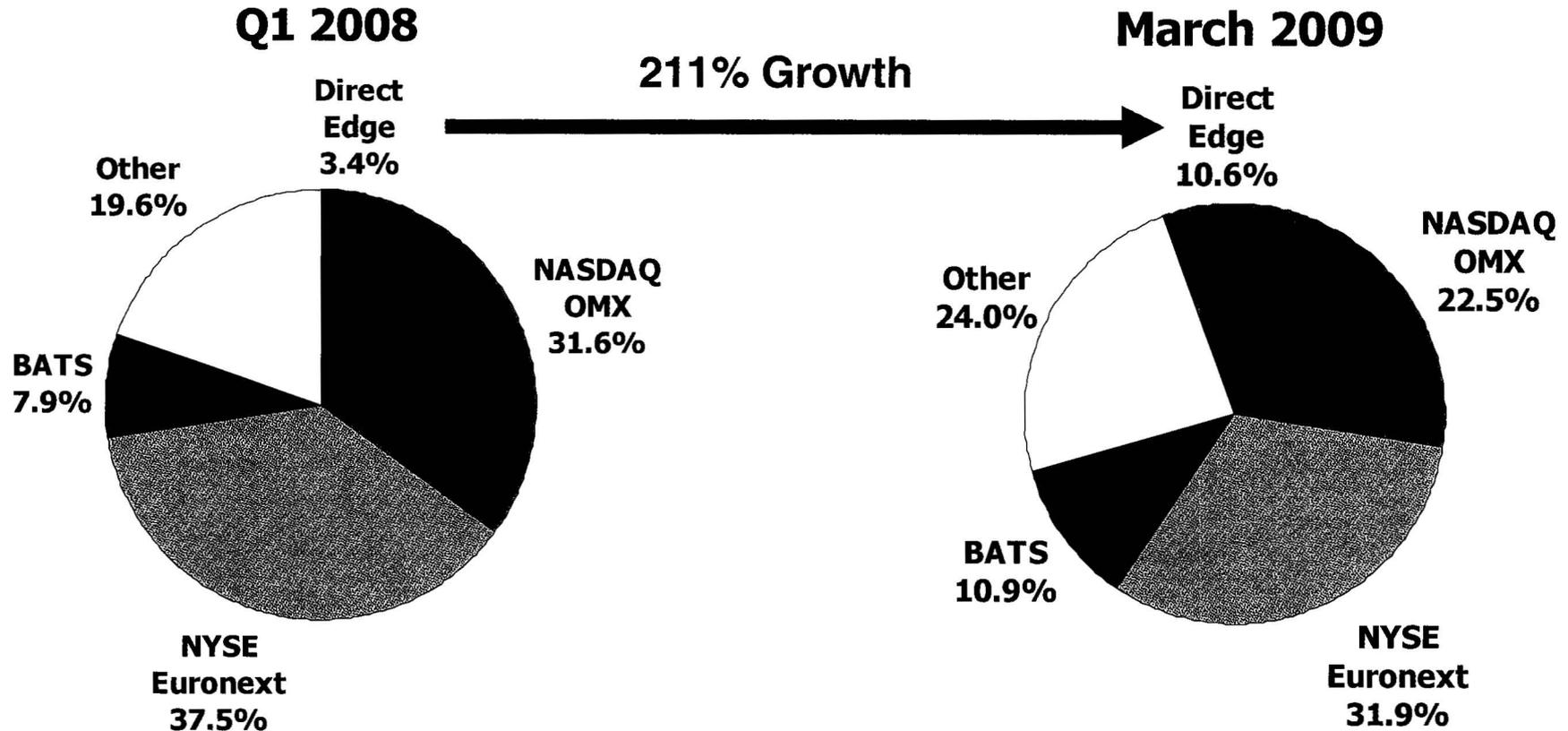


# Overview – Market Share Growth



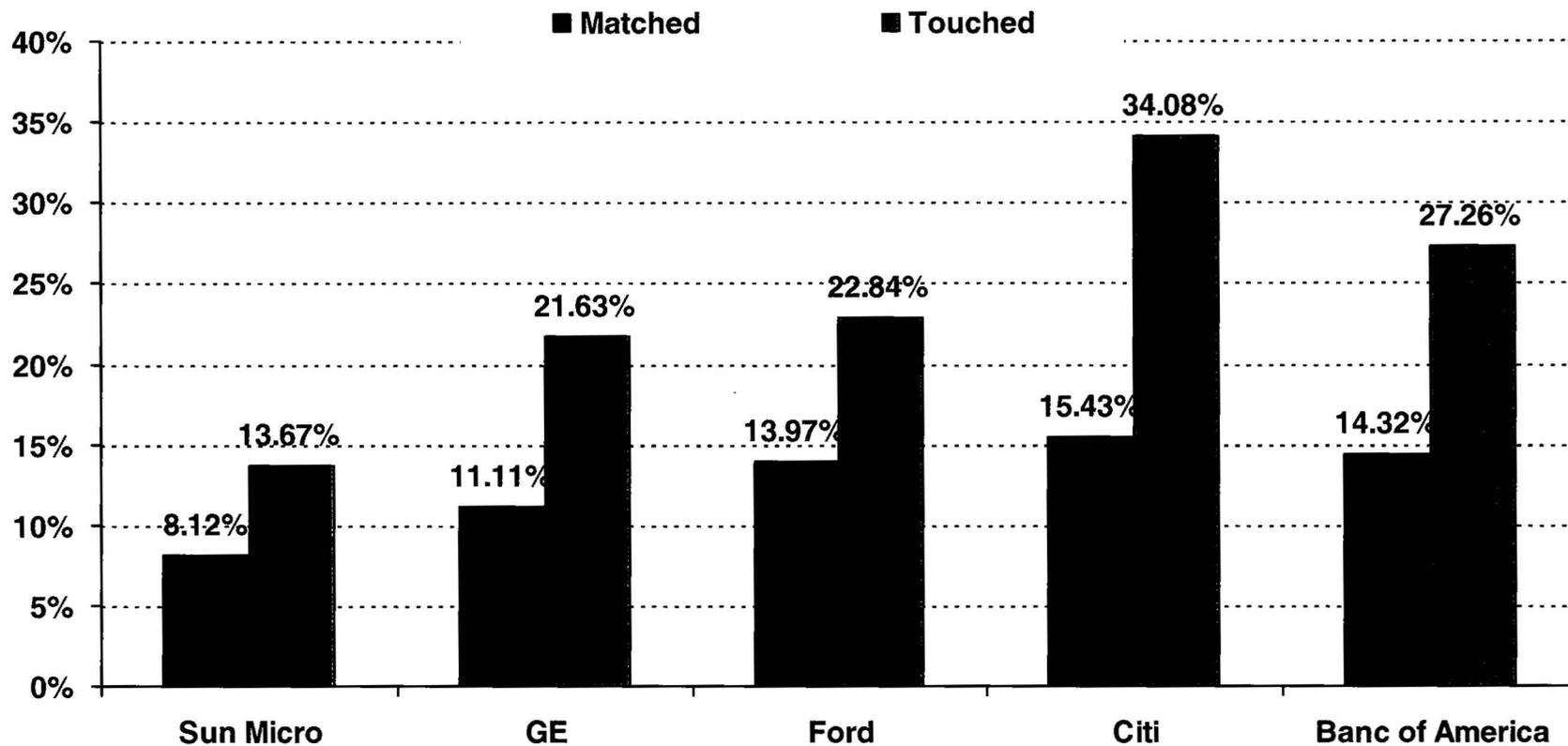
# Overview – Competitive Position

## Matched Market Share – U.S. Equities



# Significant Market Share in Actively-Traded Stocks

Direct Edge Market Share – March 2009



## Innovation as a Path to Differentiation

- Two Trading Systems are Better Than One
  - EDGX caters to big users of limit orders
  - EDGA more targeted towards users of market orders
  - Cost-based routing provides execution-quality backstop
  - Both platforms offer advanced technology and functionality
  
- Material Integration with Dark Liquidity
  - Direct Edge integrates rather than competes with “dark pools”
  - Provides retail investors with access to “upstairs liquidity” for the first time

At scale, innovation can create a “virtuous cycle” to foster growth

## Future Milestones

- **Technology**
  - New primary data center being built in Secaucus, NJ
  - Development of next-generation trading platform underway
  - Secondary site being developed with ISE
- **Business diversification**
  - Our biggest upside remains our U.S. cash equities business
  - Staying true to our core of innovation
  - Avoid the “Lemming Syndrome”
  - Leverage our assets while partnering for greater capability

**Continued growth and credible plans for expansion  
will pave way for public market acceptance**



Q&A

Everybody Needs  
Some Edge