ESPEED INC
Form 10-K
March 17, 2008
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

FOR ANNUAL AND TRANSITION REPORTS PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

(Mark One)

x **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended December 31, 2007

OR

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from to

Commission File Number 0-28191

eSpeed®, Inc.

(Exact Name of Registrant as Specified in Its Charter)

Delaware	**13-4063515**
(State or Other Jurisdiction of Incorporation)	**(I.R.S. Employer Identification No.)**
110 East 59th Street, New York, NY	**10022**
(Address of Principal Executive Offices)	**(Zip Code)**

(212) 610-2200

(Registrant s telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	**Name of Each Exchange on Which Registered**
Class A Common Stock, $0.01 par value	The NASDAQ Stock Market LLC

Securities registered pursuant to Section 12(g) of the Act:

None

(Title of Class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ¨ No x

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ¨ No x

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. x

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act.

Large Accelerated Filer ¨ Accelerated Filer x Non-accelerated Filer ¨ Smaller Reporting Company ¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No x

The aggregate market value of voting common equity held by non-affiliates of the registrant, based upon the closing price of the Class A common stock on June 29, 2007 as reported on NASDAQ, was approximately $237,916,371.

Indicate the number of shares outstanding of each of the registrant s classes of common stock, as of the latest practicable date.

Class	Outstanding at March 5, 2008
Class A Common Stock, par value $0.01 per share	**31,310,682 shares**
Class B Common Stock, par value $0.01 per share	**19,497,800 shares**

DOCUMENTS INCORPORATED BY REFERENCE.

None

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eSpeed, Inc.

2007 FORM 10-K ANNUAL REPORT

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Explanatory Note

eSpeed, Inc. (eSpeed , we or the Company) and BGC Partners, Inc. (BGC Partners), Cantor Fitzgerald, L.P. (Cantor), BGC Partners, L.P. (U.S.), BGC Global Holdings, L.P. (BGC Global) and BGC Holdings, L.P. (BGC Holdings) have entered into a definitive Agreement and Plan of Merger, dated as of May 29, 2007, as amended as of November 5, 2007 and February 1, 2008 (the merger agreement), pursuant to which BGC Partners will be merged (the merger) with and into the Company. The surviving corporation in the merger will be renamed BGC Partners, Inc. (the Combined Company). The merger was recommended by the unanimous vote of the special committee of the Board of Directors (the Special Committee). To acquire BGC Partners, the Company has agreed to issue in the merger an aggregate of 133,860,000 shares of Combined Company common stock and rights to acquire shares of Combined Company common stock. Of these shares and rights to acquire shares, it is expected that 56,000,000 will be in the form of Combined Company Class B common stock or rights to acquire Combined Company Class B common stock, and the remaining 77,860,000 shares and rights to acquire shares will be in the form of Combined Company Class A common stock or rights to acquire Combined Company Class A common stock. Current stockholders of the Company will hold the same number and class of shares of Combined Company common stock that they held in the Company prior to the merger. Following the completion of the merger, it is expected that the Combined Company Class A common stock will trade on the NASDAQ Global Market under the symbol BGCP. To obtain the required approval of the merger agreement by eSpeed s stockholders, we held a special meeting of our stockholders on March 14, 2008 (the Special Meeting) at which our stockholders adopted the merger agreement and the transactions contemplated thereby.

This report reflects the business and financial condition of eSpeed, Inc. on a stand-alone basis, prior to the completion of the merger. Where appropriate or instructive, certain sections of this report refer to the Combined Company after completion of the merger. The merger is subject to the closing conditions set forth in the merger agreement, and is expected on or about April 1, 2008. For further information regarding the merger, you are referred to eSpeed s Definitive Proxy Statement filed with the Securities and Exchange Commission on February 11, 2008 (the Merger Proxy Statement).

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Forward-Looking Information Safe Harbor Statement

Discussion of Forward-Looking Statements

The information in this report contains forward-looking statements within the meaning of Section 27A of the Securities Act and Section 21E of the Exchange Act. Such statements are based upon current expectations that involve risks and uncertainties. Any statements contained herein that are not statements of historical fact may be deemed to be forward-looking statements. For example, words such as may, will, should, estimates, predicts, potential, continue, strategy, believes, anticipates, plans, expects, intends and similar expressions are inte forward-looking statements.

The actual results of eSpeed, BGC Partners or the Combined Company and the outcome and timing of certain events may differ significantly from the expectations discussed in the forward-looking statements. Factors that might cause or contribute to such a discrepancy for eSpeed, BGC Partners and/or the Combined Company include, but are not limited to:

- the Combined Company s relationship with Cantor and its affiliates and any related conflicts of interest, competition for and retention of brokers and other managers and key employees;
- pricing and commissions and market position with respect to any of eSpeed s products and that of the Combined Company s respective competitors;
- the effect of industry concentration and consolidation;
- market conditions, including trading volume and volatility;
- economic or geopolitical conditions or uncertainties;
- the extensive regulation of the respective businesses and risks relating to compliance matters;
- factors related to specific transactions or series of transactions, including credit, performance and unmatched principal risk as well as counterparty failure;
- the costs and expenses of developing, maintaining and protecting intellectual property, including judgments or settlements paid or received in connection with intellectual property or employment or other litigation and their related costs and certain financial risks, including the possibility of future losses and negative cash flow from operations, risks of obtaining financing and risks of the resulting leverage, as well as interest and currency rate fluctuations;
- the ability to enter new markets or develop new products, trading desks, marketplaces or services and to induce customers to use these products, trading desks, marketplaces or services, to secure and maintain market share;
- the ability to enter into marketing and strategic alliances, and other transactions, including acquisitions, dispositions, reorganizations, partnering opportunities and joint ventures, and the integration of any completed transactions;

the ability to hire new personnel;

the ability to expand the use of technology for screen-assisted, voice-assisted and fully electronic trading;

effectively manage any growth that may be achieved;

risks relating to the proposed merger, the separation and the relationship between the various entities;

financial reporting, accounting and internal control factors, including identification of any material weaknesses in the Combined Company s internal controls and the Combined Company s ability to prepare historical and pro forma financial statements and reports in a timely manner; and

other factors, including those that are discussed under Risk Factors to the extent applicable.

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We believe that all forward-looking statements are based upon reasonable assumptions when made. However, we caution that it is impossible to predict actual results or outcomes or the effects of risks, uncertainties or other factors on anticipated results or outcomes and that accordingly you should not place undue reliance on these statements. Forward-looking statements speak only as of the date when made, and we undertake no obligation to update these statements in light of subsequent events or developments.

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PART I

ITEM 1. BUSINESS

Throughout this document eSpeed, Inc. is referred to as eSpeed and, together with its subsidiaries, as the Company , we , us or our.

eSpeed is a leader in developing and deploying electronic marketplaces and related trading technology that offers traders access to some of the most efficient, innovative and neutral financial markets in the world. We operate multiple buyer, multiple seller real-time electronic marketplaces for the global capital markets, including some of the world s largest government bond markets, the world s largest foreign exchange markets, and other financial marketplaces, which may be accessed through fully electronic transactions for some products or through an integrated hybrid voice-assisted network accessed by voice-brokers. Our suite of marketplace tools provides end-to-end transaction solutions for the purchase and sale of financial products over our global private network or via the Internet. Our neutral platform, reliable network, straight-through processing and proven solutions make us a trusted source for fully electronic and integrated hybrid voice-assisted trading at some of the largest fixed income and foreign exchange trading firms, major exchanges and leading equities trading firms in the world.

We commenced operations in March 1999 as a division of Cantor Fitzgerald Securities, a subsidiary of Cantor Fitzgerald, L.P. (Cantor). Our initial focus was the global government bond markets of the world, specifically in the U.S., Europe, Canada and Japan. Our relationships with Cantor, and with BGC Partners, Cantor s inter-dealer brokerage division, formed in connection with a reorganization of Cantor s inter-dealer brokerage business in 2004, and affiliates of BGC Partners, have enabled us to become an innovator in what today we consider our core electronic marketplaces, the government bond markets of the world. Cantor is a leading financial services provider that offers an array of financial products and services in the equity, fixed income and foreign exchange capital markets. BGC Partners is a leading global full-service inter-dealer broker specializing in the trading of financial instruments and related derivative products. BGC Partners provides integrated voice and electronic, execution and other brokerage services to many of the world s largest and creditworthy brokerage houses and banks for a broad range of global financial products, including fixed income securities, foreign exchange, equity derivatives, credit derivatives, futures, structured products and other instruments and market data and analytics related to selected financial instruments and markets.

eSpeed and BGC Partners, Inc., Cantor, BGC U.S., BGC Global and BGC Holdings have entered into a merger agreement, pursuant to which BGC Partners will be merged with and into eSpeed. The surviving corporation in the merger will be renamed BGC Partners, Inc (referred to as the Combined Company). To acquire BGC Partners, the Company has agreed to issue in the merger an aggregate of 133,860,000 shares of Combined Company common stock and rights to acquire shares of Combined Company common stock. Of these shares and rights to acquire shares, it is expected that 56,000,000 will be in the form of Combined Company Class B common stock or rights to acquire Combined Company Class B common stock, and the remaining 77,860,000 shares and rights to acquire shares will be in the form of Combined Company Class A common stock or rights to acquire Combined Company Class A common stock. Current stockholders of the Company will hold the same number and class of shares of Combined Company common stock that they held in the Company prior to the merger. Following the completion of the merger, it is expected that the Combined Company Class A common stock will trade on the NASDAQ Global Market under the symbol BGCP. For more information, see our Merger Proxy Statement.

Our products promote trading efficiency. They enable market participants to transact business more quickly, more effectively and at lower cost than with traditional markets and methods. Our systems were built to support multiple interactive marketplaces, in a completely neutral, efficient and real-time environment. In 2007, we processed approximately 11.1 million electronic transactions, totaling more than $121 trillion of notional transactional volume. Our customers include some of the largest fixed income, foreign exchange and equities trading firms and leading exchanges in the world. We have offices in the U.S., U.K. and Asia that collectively can transact trading 24 hours a day, around the world. In the course of conducting their core businesses, our customers are required to manage substantial market risk. Night and day, they utilize our solutions to assist them in this critical function. We believe we offer among the most robust, large-scale, instantaneous and reliable transaction processing systems in the world. Our global private network permits market participants to view information and execute transactions in milliseconds.

We are innovators. Our proprietary software provides an end-to-end solution, including unique front-end applications, customized order and trade input devices, proprietary transaction matching and processing engines, credit and risk management tools and back-office and clearance systems, enabling straight-through processing. We also leverage our electronic marketplace expertise and reputation to sell software products and services directly to participants in these marketplaces.

We are neutral in the financial markets. eSpeed neither acts as a participant in customer transactions, nor do we risk our own capital in transactions or extend credit to market participants. Our revenues consist primarily of fixed payments, transaction fees and licensing fees, and we market our services to customers, partners and prospects.

Our objective is to be the leading provider of trading and market risk management technology and interactive marketplaces for the world s capital markets, where we believe there is a substantial opportunity for both fully electronic and integrated hybrid voice-assisted trading. Specifically, we believe we are well-positioned to take advantage of the opportunities currently presented for both voice and fully electronic trading globally in markets related to credit, fixed income instruments, interest rate derivatives, equities, commodities and foreign exchange. We believe that the scalability and extendibility of our eSpeed suite of products, and our relationships with Cantor and BGC, enable us to enter new markets and distribute products and services quickly, cost effectively and seamlessly.

THE INDUSTRY

Historically, voice-only trading of over-the-counter financial and non-financial products has been an inefficient process for the most liquid benchmark securities. Buying, selling or trading activity is traditionally effected through (i) a central physical location, like a trading pit or auction house, where market participants have to access the market through this central location or its members; (ii) a bilateral arrangement between a buyer or seller; or (iii) several layers of middlemen and salespersons who assist in handling orders. Each of these approaches is labor and time intensive, which adds to the direct and indirect cost of the product being bought or sold.

Traditional voice-only over-the-counter financial markets and methods facilitate trading in less liquid securities where transaction risk is significant. Nevertheless, they have the following significant shortcomings: information leakage; limited direct access and, therefore, inefficient pricing; high transaction costs and slow execution due to the number of people involved in a traditional voice-only transaction; significant expense incurred in manual processing, confirming and clearing processes; and compliance and regulatory risk associated with traditional voice-only transactions and non-automated audit trails. While the value added by voice facilitation outweighs these disadvantages in many less liquid instruments and more complex transactions, these shortcomings are unacceptable to many participants in the markets for the most liquid and high volume benchmark securities. Whereas in less liquid markets the market, background and negotiation provided by a voice broker can assist in facilitating a trade that might not otherwise occur, in the most liquid securities there is little information or background necessary other than the intention of a market participant to offer a trade. In addition, traditional financial markets have difficulty in implementing computer-based trading of liquid securities, especially those computer-based systems designed to automatically and simultaneously execute multiple trades in different, but related products. Additional inefficiencies of traditional transaction execution include lack of real-time price information, small disparate groups of interested buyers and sellers, limited liquidity and problems associated with executing trades as market prices change. After a buy or sell order is executed, there are the additional tasks of recording, accounting, tracking, delivering and financially settling the transaction. Each of these tasks, if done manually, can add potential cost and error to the process as additional participants or systems enter the transaction cycle. As a market matures and benchmark securities appear, these costs and inefficiencies inhibit a market from realizing its full potential.

For more liquid markets such as U.S. Treasuries and certain foreign exchange products, electronic marketplaces have emerged as effective means of conducting transactions and creating markets. In an electronic marketplace, substantially all of the participants actions are facilitated through an electronic medium, such as a private electronic network or over the Internet, which reduces the need for actual face-to-face or voice-to-voice participant interaction to those functions where people provide the greatest value. For many market participants, the establishment of electronic marketplaces has created access to new opportunities, which generally increase trading profits, investment returns and market volumes, as well as made possible the creation of new financial products and strategies that have further contributed to increased market volumes. These increased trading volumes have in turn driven increased demand for newer, ever-more sophisticated financial technology products.

Many financial exchanges worldwide, including certain exchanges in the U.S., France, Canada, Germany, Japan, Sweden, Switzerland and the U.K., are now partially or completely electronic. Additionally, even in markets for less commoditized products where customers place orders through a voice-broker who implements a transaction electronically, companies will benefit from liquidity, pricing, robust interactive trading, post-trade processing and other services of our marketplace technology. Further, we believe that market participants will seek to outsource customized solutions for the electronic distribution of their products to avoid the difficulty and cost of developing and maintaining their own electronic solutions, and to improve the quality and reliability of these solutions.

OUR SOLUTION

Our electronic marketplace end-to-end solution includes real-time and auction-based transaction processing, credit and risk management tools and back-end processing and billing systems, all accessible through our privately managed global high-speed data network and over the Internet. Because of the scale and adaptability of our system, our products have applications across a broad range of customers, market participants, industries, and marketplaces, including nearly any global financial marketplace involving multiple buyers and multiple sellers. In addition, we license our software to provide a complete outsourced solution to our customers, enabling them to distribute their branded products to their customers through online offerings and auctions, including private and reverse auctions, and request-for-quote capabilities. Our products enable market participants to transact business and manage market risk virtually instantaneously, more effectively and at lower cost than traditional voice-only financial markets methods.

Our business model and affiliated relationships with voice-brokers BGC Partners and Freedom International Brokerage Company (Freedom) provide us with a significant long-term pipeline of our product opportunity, both in terms of electronic transaction volume and increased revenues across our product and service offerings, as a marketplace for a particular product matures from telephones with computer assistance and migrates to integrated hybrid voice-assisted trading and eventual fully electronic trading. Historically, new markets have initially tended to trade by voice alone. As volumes improve and the structure and characteristics of the market standardize over time, it s potential to leverage technology increases. Our eSpeed solution is built on three core principles: speed, simplicity and service. We provide products that are designed to be the market leader in terms of their speed of execution. Integral to our mission are solutions that are easy to understand and easy to use by our customers. Our customers utilize our solutions to assist them in managing substantial market risk. In exchange, we focus on superior customer service across all facets of our business.

We expect to continue to improve our technology through additional investment in our core products, expanding into new markets and developing technology to improve our system and our trading environment. In

2007, we continued to upgrade our system, making it faster and easier to use, and added senior sales staff to promote our products, and renewed our focus on developing technology and products for BGC Partners.

In December 2007, we and 11 other leading financial institutions announced the establishment of a yet-to-be-named fully-electronic futures exchange, which we currently refer to as ELX . We will hold, through a subsidiary, an approximately 25% interest in the exchange s operating limited partnership, ESX Futures, L.P., which we refer to as ESX LP, and its holding company general partner, ESX Futures Holdings, LLC, which we refer to as ESX LLC. Affiliates of Bank of America, Barclays Capital, Citadel, Citigroup, Credit Suisse, Deutsche Bank Securities, GETCO, JPMorgan, Merrill Lynch, PEAK6, and The Royal Bank of Scotland also hold a minority interest in each such entity. Through our subsidiary eSpeed Technology Services, L.P., we will provide software development, software maintenance, customer support, infrastructure, and internal technology services to support the new exchange s electronic trading platform.

OUR MARKET FOCUS

We focus our business primarily on the wholesale markets related to credit, fixed income instruments, foreign exchange, credit, equities, interest rate derivatives, and commodities. There has been continued movement towards the conversion of traditional open outcry markets to electronic trading. Significant business opportunities have arisen for the provision of front-end risk management and routing solutions that provide access to electronic marketplaces. We believe that there is significant opportunity in the continued conversion of these markets to fully electronic networks, such as our own.

Wholesale Fixed Income and Interest Rates Derivatives: eSpeed and its BGC Partners and Freedom affiliates have historically focused primarily on government debt, futures and currency and interest rate derivatives. These are the largest, most global and most actively traded of all markets because the main drivers of rates markets are global macroeconomic forces such as growth, inflation and government budget policies. According to the Bank for International Settlements (BIS), the notional amount outstanding globally for government debt increased by 13.5% to $26.8 trillion by June 2007 compared to December 2005. The BIS also estimates that the notional amount outstanding for interest rate derivatives increased by 27.8% to approximately $433.1 trillion by June 2007 compared to June 2006.

Foreign Exchange: eSpeed also supports both its own and BGC Partner s foreign exchange businesses. A foreign exchange transaction is a simultaneous deal where one currency is sold and the other is bought. Participants range from central banks to individuals, hedge funds and multi-national corporations using foreign exchange instruments to manage risk and speculate.

The foreign exchange market is the largest financial market in the world. According to the BIS, the average daily turnover in traditional foreign exchange instruments increased by 73.7% to $3.1 trillion over the three year period ending April 2007. The BIS also says that the foreign exchange swap average daily turnover was up by 82% over the same period. Finally, the BIS estimates the notional amount of exchange listed foreign exchange derivatives rose by 67.8% between June 30, 2006 and June 30, 2007, and that for both OTC and exchange traded foreign exchange derivatives, the notional value outstanding rose at a compounded annual growth rate of 29% over the five year period ended June 30, 2007.

Credit: eSpeed increasingly supports both voice and fully electronic trading for BGC Partner s expanding Credit business. BGC Partners provides its brokerage services in a wide range of credit instruments, including asset-backed securities, convertible bonds, corporate bonds, credit derivatives and high yield bonds. Since the introduction of the most fundamental form of credit derivative, the credit default swap, which we refer to as CDS, in the mid-1990s there has been extraordinary growth in the market. According to the International Swaps and Derivatives Association, the notional value of credit derivatives was approximately $632 billion in 1997, but increased to approximately $45.5 trillion by June 2007. This represented a 74.8% increase over the notional amount outstanding in June 2006 and a more than 70-fold increase compared to December 1997. Credit

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derivatives are now seen as a more responsive financial indicator than fixed income bonds and, being a pure synthetic contract, they have provided a new area of liquidity, especially in the transfer of credit risk to a wider spectrum of clients ranging from asset managers to hedge funds. BGC Partners global scope and presence in cash and CDS allows its brokers to be well positioned to transact in these products on a daily basis.

Other Asset Classes: eSpeed s technology also powers its affiliates equities, commodities, and energy businesses. BGC Partners provides brokerage services in a range of markets for equity products, including equity derivatives, equity index futures and options on equity products. In addition, BGC Partners has a small commodities and energy derivatives business. According to the BIS, the notional value of OTC of equity-related derivative instruments and of OTC commodity derivatives (including energy-related contracts) increased by 35.7% and 18.3%, respectively, in June 2007 compared to June 2006.

OUR FINANCIAL MARKETS SOLUTION

Our products cover various financial markets, including a network for the fully electronic or hybrid trading of U.S. Treasury securities, European, Japanese and Canadian government bonds, interest rate swaps, futures, options, foreign exchange, credit default swaps, equity-related products, repurchase agreements, U.S. Agency securities, U.S. Treasury swaps, Euro bonds and basis trades. Cantor had historically been a major facilitator and, in some cases, provider of liquidity in numerous financial products through its offices in the U.S., Canada, Europe, Asia and Australia. In August 2004, Cantor announced the restructuring of its inter-dealer brokerage business, renaming it BGC Partners , in honor of B. Gerald Cantor, Cantor s founder and a pioneer in screen brokerage and fixed income market data products. BGC Partners provides integrated voice and electronic execution and other brokerage services to many of the world s largest and most creditworthy banks that regularly trade in capital markets, brokerage houses and investment banks for a broad range of global financial products, including fixed income securities, foreign exchange, equity derivatives, credit derivatives, futures, structured products and other instruments, as well as market data products for selected financial instruments. In May 2005, BGC Partners acquired voice broker Maxcor Financial Group Inc. and its subsidiaries, including EuroBrokers Inc. and has grown its business substantially since then through a number of global acquisitions and hires. Our eSpeed system provides the only electronic means of access to BGC marketplaces. Through our affiliation with Freedom, eSpeed also powers the electronic platform of Freedom, the leading interdealer broker of Canadian fixed income and other capital markets products.

Our private electronic network for wholesale financial markets is connected to some of the largest financial institutions worldwide. We have installed in the offices of our existing customer base the technology infrastructure necessary to provide price information and trade execution on an instantaneous basis in a broad range of securities and financial instruments. We believe our eSpeed portfolio of products enables us to introduce and distribute a broad mix of financial products and services quickly, efficiently, and at a lower cost than traditional methods.

With our financial technology, participants in hybrid marketplaces may either electronically execute trades themselves or call our affiliated brokers, who then input trade orders into an integrated hybrid marketplace for them. In our fully electronic marketplace, all stages of the trade occur electronically. The participant inputs buy or sell order instructions directly into our electronic trading system using our software, a web-browser or electronically through an application programming interface or other software. Our system provides to the participant on-screen confirmation that the participant s order has been accepted. The system normally responds to all orders in less than 100 milliseconds. Simultaneously, an electronic confirmation is typically sent to the participant s back office and risk system, providing straight-through processing and enabling risk management capabilities for the participant. Our U.S. Government Securities marketplace is fully electronic, and we have also established fully electronic solutions for our newer foreign exchange and futures and options businesses, as well as for BGC Partners branded foreign exchange option and credit default swap trading platforms.

We see opportunities to expand our business by working more closely with our affiliated voice brokers, and by licensing our technology to other voice brokers and financial services firms in addition to Cantor and BGC Partners, as well as to exchanges and other financial institutions.

eSPEED PRODUCTS AND SERVICES

We organize our eSpeed business into two main categories. First, we focus on the business lines that create a solid foundation on which we can build. Electronic trading of government bonds is the first building block in our foundation. Relationships with voice-brokerage trading firms such as BGC Partners and Freedom, our strong intellectual property portfolio and Software Solutions services make up the remainder of our foundation businesses. Second, we look to areas of opportunity which we believe will grow, including through the introduction of new products. We are focusing on generating increased volume in the computer-based trading of U.S. Treasury securities, expanding further into the fully electronic foreign exchange, futures, options, U.S. dollar repo, interest rate swap, and credit default swap markets, as well as developing innovative trading tools that enhance eSpeed s platform and attract traders to our screens.

Foundation Businesses:

Government Bonds

Currently, most of our revenues derive from fully electronic transactions in the government bond markets in which participants electronically execute trades using a keyboard, mouse or computer program. These include U.S., European, and Canadian government securities, primarily concentrated in U.S. Treasury securities. Our full-service eSpeed system, combining all of our proprietary software and our global high-speed private network, currently operates in some of the largest government bond marketplaces in the world. It is designed to be extendible to any multiple-buyer, multiple-seller marketplace and can support liquidity and fluctuation in many markets. Our platform enables us to operate an integrated network with the inherent scale and leverage to engage in electronic trading in multiple products, marketplaces and market structures on a global basis and is a comprehensive platform providing volume, access, speed of execution and ease of use.

Voice-Assisted Trading

A substantial portion of our revenues is also derived from integrated hybrid voice-assisted trading. A voice-assisted trade is executed in substantially the same manner as an electronic trade, except that the customer participant telephones a broker, who then inputs the participant s order into our electronic marketplace system. An order may be matched with other voice assisted orders and/or on some systems with orders electronically submitted by other customers. This integrated hybrid voice-assisted trading model leverages a broker s skill and market knowledge but also serves as a pipeline for potential future fully electronic transactions.

In 2001, we entered the Canadian fixed income market through our investment in and technology agreement with Freedom, the leading Canadian interdealer broker of fixed income products and other capital products. In addition, BGC Partners provides voice brokerage services to the wholesale fixed income, interest rate and foreign exchange and derivative markets worldwide leveraging eSpeed technology. In May 2005, BGC Partners acquired the Euro Brokers voice brokerage network and ETC Pollack, a leading French interdealer broker. In November 2006, BGC Partners acquired Aurel Leven, another leading independent French interdealer broker in the equity, equity derivatives and fixed income markets and, in December 2006, BGC Partners acquired AS Menkul, an established broker in Turkey. Each of these acquisitions add to transactions on eSpeed s platforms.

Relationships with leading interdealer brokers like BGC Partners allow us to tap into the significant opportunities in voice-brokered businesses in which less commoditized products are traded. Our technology

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enables voice-brokers to provide superior customer service using pricing and trade history databases, through analytics, to price distribution. Through integrated hybrid voice-assisted trading, we see opportunities to increase our presence in the world s voice-brokered markets in products like Treasury spreads, off-the-run Treasury securities, when-issued U.S. Treasury securities, U.S. Government Agency securities and credit and fixed income derivative products.

Treasury spreads are financial products (e.g. interest rate swaps) that trade in relation to U.S. Treasury on-the-run benchmarks, the most recently issued Treasury securities that are the standard trading instruments in the bond market. A Treasury spread is derived from the price or yield difference between the financial product being traded and the benchmark.

Off-the-run securities are Treasury bonds and notes that were formerly on-the-run benchmarks but have been supplanted by more recently issued securities. When a new on-the-run benchmark is issued, the current on-the-run becomes an off-the-run.

When-issued U.S. Treasury securities represent new issues that will be created through the auction process and will become the new on-the-run benchmarks. A when-issued instrument has been authorized and may be traded although it has not yet been issued.

A U.S. Government Agency security is debt issued by a Government Sponsored Enterprise, such as the Federal Home Loan Bank (FHLB), Freddie Mac, Fannie Mae, TVA and TAPS. U.S. Agencies pay interest and are believed to have little or no credit risk, although they are not backed by the U.S. Government.

Treasury Inflation Protection Securities (TIPS) are debt issued by the U.S. Treasury that offer protection against inflation because their principal and interest payments are linked to inflation.

We believe that over time more of the traditional voice-brokered products, such as emerging market debt, corporate bonds, repurchase agreements and interest rate swaps, will fit the hybrid voice-assisted model. In December 2005, BGC Partners announced the first integrated hybrid voice-assisted and electronic U.S. dollar repo trading platform for primary dealers powered by eSpeed s technology. This repo platform allows primary dealers to execute and process overnight and term specials, Treasury bills and off-the-run Treasury repo trades either through fully electronic or through voice-assisted trading.

During 2007, we developed a new BGC Trader application for credit default swaps and corporate bonds based on customer feedback and individually tailored market preferences. Further extension of this new platform is expected through 2007 into other voice/electronic hybrid products such as credit default swaps, index tranches and options.

Intellectual Property Licensing

We have a strong intellectual property portfolio, and we intend to continue to develop and acquire more proprietary technology. We also intend to pursue new ways to monetize our technology through licensing arrangements, and to defend and protect our technology from time to time through litigation. Patented innovations to our technology allow us to differentiate our product offerings, create barriers to entry, and improve our products and services. Our patent portfolio is growing and consists of numerous patents and patent applications relating to our core businesses and relating to other businesses. See Protection of Our Intellectual Property. Certain of our intellectual properties are the subject of litigation. See Item 3. Legal Proceedings.

Software Solutions

Through our Software Solutions business, we provide customized software to broaden distribution capabilities and provide electronic solutions to both related and unrelated parties. The Software Solutions business leverages our global infrastructure, software, systems, portfolio of intellectual property, and electronic trading expertise to provide customers with electronic marketplaces and exchanges and real-time auctions to enhance debt issuance and to customize trading interfaces. We take advantage of the scalability, flexibility and functionality of our electronic trading system to enable our customers to distribute branded products to their customers through online offerings and auctions, including private and reverse auctions, via our trading platform and global network. Using Software Solutions, customers are able to develop a marketplace, trade with their customers, issue debt, trade odd lots, access program trading interfaces and access our network and our intellectual property.

Along with long-term licensing agreements, we have signed Software Solutions agreements with a number of U.S. and international enterprises, including the following:

For the World Bank, our trading engine and network connect the World Bank to its dealer customers anonymously through our Internet-based, real-time auction platform. This system was released in June 2003 and has handled over $20 billion of the World Bank s interest rate swap volume as of December 31, 2007.

The Federal Home Loan Bank is a U.S. government-sponsored enterprise and one of the largest issuers in the global short-term securities market. Our electronic auction-based technology has powered The Federal Home Loan Bank s primary discount note auctions since August 2002.

Support for ELX Futures Platform

In December 2007, we and 11 other leading financial institutions announced the establishment of ELX, a fully-electronic futures exchange. Through our subsidiary eSpeed ELX Holdings, L.P., we will hold an approximately 25% interest in the exchange s operating limited partnership, ESX LP and its holding company general partner, ESX LLC. Assuming we maintain this ownership percentage (and subject to certain limited exceptions), we will be entitled to approximately 25% of distributions from each entity. Affiliates of Bank of America, Barclays Capital, Citadel, Citigroup, Credit Suisse, Deutsche Bank Securities, GETCO, JPMorgan, Merrill Lynch, PEAK6, and The Royal Bank of Scotland also hold a minority interest in each such entity. Through our subsidiary, eSpeed Technology Services, L.P., we will provide software development, software maintenance, customer support, infrastructure, and internal technology services to support the new exchange s electronic trading platform.

Growth Businesses and New Products:

Computer-Based Program Trading in the U.S. Treasury Market

In recent years, the growth of electronic trading in the U.S. Treasury market has contributed to strong growth in trading volume. We believe another wave of volume growth is beginning to be driven by computer-based trading. Computer-based trading, which includes program trading, Black Box Trading, and algorithmic trading, is the use of sophisticated computer programs to manage and automatically execute securities trades from mathematical and risk formulas and the relationships among various securities and markets. These trades tend to be in high frequency. We believe eSpeed s trading platform is well-suited for this type of quantitative trading. We are enhancing our trading platform speeds and system tools to accommodate the needs of computer-based traders, as well as the new needs computerized trading creates among other market participants. As computerized trading becomes more widespread, we believe that we will be well positioned to capture a portion of the increase in volumes in the market.

Trading of Other Fully Electronic Financial Products

We have identified opportunities to leverage our position in the global government bond markets into a variety of other key financial markets and are actively developing technology and initiatives for trading less-established products. For example, we have rolled out technology for trading in foreign exchange along with, U.S. dollar repo, and European credit default swaps for use with BGC Partners, and for order routing in the futures markets. We invested in these businesses by adding dedicated, experienced sales professionals to focus on these products by penetrating new markets and enhancing customer service. In 2006 and into 2007, we continued to refine our sales and service efforts in order to develop more demand for these new products with increased usage of our spreading tools, to translate liquidity in one market to another.

Foreign Exchange. Launched in 2003, our foreign exchange product (eSpeed foreign exchange) was the first to introduce totally anonymous trading on a central counterparty to the professional trading community. This product offers global, scalable and real-time trading in all major CLS® currencies.

Futures and Options. In December 2002, we entered into an agreement with the CBOT to distribute futures products through our eSpeed system which provided customers with the ability to trade both cash and futures in one neutral, fully electronic marketplace. By routing CBOT futures trades over our existing eSpeed network and providing front-end integration to our customers, cash traders and the CBOT s futures traders had direct, instantaneous access to both markets. In 2004, our eSpeed system was fully integrated into the CBOT and EUREX and in 2005 to the CME, giving users of these exchanges direct access through eSpeed s platform. The CME and CBOT merged in 2007.

The combination of the cash and futures markets available to users of eSpeed is an advantage to all traders accessing eSpeed s platform. This integration extends eSpeed s exposure and access to additional U.S. and European traders and has the potential to create greater crossover transactions between the cash and futures markets. In October 2004, we acquired United Kingdom-based ITSEcco Holdings Limited and its subsidiaries (collectively, ECCO), a highly specialized software developer focused on the financial markets. ECCO provides a multi-asset class user interface for electronic trading incorporating automated cross market spreading functionality. During 2005, the ECCO product was interfaced with the eSpeed platform, facilitating the integrated trading of futures and eSpeed s U.S. Treasury and foreign exchange markets. In addition to its offering to eSpeed users, ECCO also markets its product directly to customers of major futures exchanges around the world both in the form of a packaged software solution and as a hosted service.

In December 2007, we and 11 other leading financial institutions announced the establishment of ELX, a fully-electronic futures exchange. Through our subsidiary eSpeed ELX Holdings, L.P., we will hold an approximately 25% interest in the exchange s operating limited partnership, ELX LP and its holding company general partner, ELX LLC. Assuming we maintain this ownership percentage (and subject to certain limited exceptions), we will be entitled to approximately 25% of distributions from each entity. Affiliates of Bank of America, Barclays Capital, Citadel, Citigroup, Credit Suisse, Deutsche Bank Securities, GETCO, JPMorgan, Merrill Lynch, PEAK6, and The Royal Bank of Scotland also hold a minority interest in each such entity. Through our subsidiary eSpeed Technology Services, L.P., we will provide software development, software maintenance, customer support, infrastructure, and internal technology services to support the new exchange s electronic trading platform.

Equities. In November 2003, we moved into the equities market with the launch of eSpeed Equities, an order-routing system for the institutional equities market. eSpeed Equities provides an order routing and execution platform that affords equity market participants multiple points of entry and simultaneous electronic access to the world s largest exchanges, market makers and ECNs as well as intelligent order handling capabilities, such that traders can automatically access the best prices available at multiple venues with a single order. In January 2007, we announced that we would spin off our former eSpeed equities business to form Aqua Securities, Inc., (Aqua), a business owned 51% by Cantor and 49% by eSpeed. Aqua s purpose was to bring new block trading liquidity to the global equities markets. On May 30, 2007, the Financial Industry Regulatory Authority (FINRA) approved the partial ownership change and name change of Aqua (formerly known as eSpeed Securities, Inc.). Aqua is also authorized to receive clearing and administrative services from Cantor and technology infrastructure services from eSpeed. Aqua is authorized to pay sales commissions to brokers of

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Cantor, BGC Partners or other brokers who participate in the sales process. On October 2, 2007, FINRA provided approval for Aqua to operate as an Alternative Trading System and to provide Direct Market Access for institutional block equity buy-side and sell-side firms. The agreement between Aqua, Cantor and eSpeed will remain in place after the merger as an obligation of the Combined Company.

OUR eSPEED STRATEGY

Our objective is to be the world s leading provider of fully electronic and integrated hybrid voice-assisted marketplaces and related software solutions to a broad range of financial marketplaces. Our strategy includes the following key elements:

Expand system functionality and develop new products, software and services for our existing financial markets

We plan to continue to expand the types of financial and other products traded in our marketplaces, both in the U.S. and abroad. We are currently focused on fixed income, as well as developing our sales in foreign exchange, futures, options and swaps. For example, we believe that our foreign exchange product has the potential to offer new efficiencies to the foreign exchange markets. As another example, we saw increased usage of our U.S. Treasuries yield curve swaps product through 2006, enhanced by our TOPSpeed spreading engine to execute such spread trades via their component U.S. Treasury benchmark markets. We plan, over time, to seek to serve additional marketplaces that can benefit from more efficient, centralized, electronic trading facilities. Our goal is to include in our electronic marketplaces a broad range of the most commodity-like financial products that are currently traded in today s capital markets worldwide, with particular focus on those products currently traded by our affiliated voice brokerages as they exhibit a higher velocity of trading. We believe we are well positioned to leverage the significant costs and efforts that have been incurred developing our eSpeed system to create electronic markets in a wide range of such financial products.

Develop and enhance integrated hybrid voice-assisted marketplaces

In markets that are less commodity-based, we have developed and intend to continue to develop relationships with voice brokers, including our affiliates, BGC Partners and Freedom, to provide voice-assisted brokerage services to their marketplaces. We plan to capitalize on and develop these relationships to increase our presence in the world s integrated hybrid voice-brokered markets by incentivizing voice brokers to use our electronic system for multiple products and in additional products such as Treasury spreads, off-the-run Treasury securities, when issued Treasury securities, U.S. Government Agency securities, U.S. Treasury bills, U.S. dollar repos, credit default swaps, foreign exchange options, interest rate derivatives and U.S. Treasury Inflation Protected Securities. As BGC Partners and other voice-brokers commoditize more of their previously less liquid marketplaces and brokers of such products become aware of the benefits of electronically-assisted trading for such products, through our technology, we expect these factors will lead to a migration towards more fully electronic trading volume.

Develop futures routing and ECCO software business

Our futures business comprises an order routing service that offers customers access to the futures markets over the eSpeed network and the ECCO front-end trading software product that provides sophisticated trading tools such as automated spreading. We plan to grow these complementary businesses by leveraging the current eSpeed customer base to expand the ECCO business while at the same time connecting new and existing ECCO customers to our eSpeed futures order routing service. More generally, we continue to market our routing services through the alternative eSpeed front-end and via API access while independently targeting our ECCO software products at the wider professional electronic futures trading community.

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Customized pricing alternatives for our foundation businesses

We plan to improve upon our position as an innovator in electronic trading of U.S. Treasury securities through improvements to our platform and product offerings for current and future customers. In 2007, we continued to negotiate new pricing arrangements with many of our largest customers for U.S. Treasury products that provide a greater share of fixed payments versus variable commissions, thus creating incentives for more trading volume. Certain of our other largest customers continue to pay transaction fees based on trading volume although we believe that as U.S. Treasury volumes increase over time, customers with variable price agreements will qualify for volume discounts and fixed price arrangements. Our goal is to maximize trading volumes and related revenues as we respond to customer demands on our platform.

License our software to a broad range of market participants and provide an outsourced eSpeed Software Solution for distribution of their products

Through Software Solutions, we plan to continue to capitalize on our global infrastructure, intellectual property and electronic trading expertise to provide a complete outsourced solution to our customers to enable them to access exchanges and electronic markets and distribute their branded products to their customers through online offerings, auctions, including private and reverse auctions, direct dealing capabilities and customized trading interfaces. Our sales force is focused on licensing our eSpeed Software Solutions technology to existing and new customers worldwide.

Leverage our intellectual property portfolio

We have a strong intellectual property portfolio and are committed to developing, maintaining and protecting our existing portfolio and developing and protecting new enhancements, products and inventions. We have historically entered into long-term licensing agreements with respect to our intellectual property with a number of customers and exchanges and, from time to time, are engaged in legal action to protect or defend our intellectual property. See Item 3. Legal Proceedings. We plan to continue our strategy of developing, maintaining and protecting these existing and new technologies. Our strategy may also include licensing such intellectual property for royalties, joint ventures with other marketplaces or exchanges or exclusively using patents in our marketplaces.

Expand electronic foreign exchange marketplace

Our foreign exchange product is an anonymous, neutral and virtually instantaneous electronic trading system. We plan to leverage our technology and customer arrangements to add increased liquidity and trading customers to this marketplace. We continue to invest in our foreign exchange platform.

Capitalize on expected market growth from computer-based proprietary trading by expanding trading and products in this marketplace

Many of our customers and other firms have added computer-based automated trading, using statistical arbitrage and algorithmic methods, to their operations to manage portfolios and automatically execute trades. We plan to further develop software and other products and services to add new methods to continue to improve system performance and capacity and drive efficiency for algorithmic solutions. We have positioned our technology and service of our eSpeed platform to provide products and services that will capitalize on this market change and growth.

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Pursue strategic alliances, acquisitions and other partnering opportunities

We are continually exploring opportunities to maximize stockholder value by expanding our fully electronic, integrated hybrid voice-assisted and other markets, enhancing our other partnering opportunities, product and service offerings, and generating future growth and market position, including through any one or more strategic alliances, acquisitions or combinations, strategic alliances, customer agreements, joint ventures, equity issuances and reorganizations and recapitalizations in our core business as well as in strategic or complimentary businesses. From time to time, we seek to enter into acquisitions, partnership arrangements, joint ventures, customer agreements and other strategic alliances to create liquidity in new and existing product markets, to develop and enhance technology offerings and services, to fully utilize our patents and to attract new participants to trade products in those markets. We have employed this strategy in our investments in ELX, Freedom, Aqua and in our other ventures, as well as in our acquisition of ECCO and our relationships with Cantor and BGC Partners, and will consider additional strategic opportunities with these and other potential partners in the coming periods.

Emphasize fundamental principles through dedication to customer service

We have recognized that our foundation and growth business objectives cannot be achieved without continuous focus on our fundamental principles of speed, simplicity and service. To put these principles into practice, we continue to explore opportunities and dedicate resources to strong customer service. We have an experienced sales team and are dedicated to providing timely and effective service to customers, responding to and anticipating customer needs and requests and making our platform more user-friendly. We plan to continue to dedicate our time and effort to these principles.

Technology

Pre-Trade Technology. BGC Partners brokers use a suite of pricing and analytical tools which have been developed both in-house and in cooperation with specialist software suppliers. The pre-trade software suite combines proprietary market data, pricing and calculation libraries, together with those outsourced from what we believe to be the best third-party providers in the sector. The tools in turn publish to a normalized, global market data distribution platform allowing prices and rates to be distributed to our proprietary network, data vendor pages, secure websites and trading applications as indicative pricing.

Inter-Dealer Trading Technology. We utilize a sophisticated proprietary electronic trading platform to distribute prices to our customers. Price data is transmitted over our proprietary global private network and also by third-party providers of connectivity to the financial community. Prices are in turn displayed by BGC Partners proprietary trading desktop application, BGC Trader. The majority of our global products are supported by this platform in either a view only, hybrid/managed or fully electronic mode. Trades executed by our customers in any mode are eligible for immediate electronic confirmation to straight-through processing hubs. Our proprietary graphical user interface is deployed on thousands of user desktops at hundreds of major banks and institutions.

BGC Trader is the new multi-asset BGC Partners-branded, hybrid offering to BGC Partners customers for voice and electronic execution. We undertook to combine the benefits of our existing hybrid system with a new concept of customer-focused and front end design. The first asset groups to be incorporated under the BGC Trader banner were European corporate bonds, European CDS and iTraxx. The BGC Trader brand has been well received by customers and BGC Partners plans to expand the number of products it supports, including other tradable and view-only products in the portfolio.

Post-Trade Technology. Our platform automates previously paper- and telephone-based transaction processing, confirmation and other functions, substantially improving and reducing the cost of many of our customers back offices and enabling straight-through processing. In addition to our own system, confirmation

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and trade processing is also available through third-party hubs including Swapswire, T-Zero, Reuters RTNS, Logicscope and direct straight-through processing in Financial Information eXchange (FIX) Protocol for various banks.

We have electronic connections to most mainstream clearinghouses, including the FICC, The Depository Trust & Clearing Corporation, OTC DerivServ, Continuous Linked Settlement, Euroclear, Clearstream, Monte Titoli, LCH.Clearnet, Eurex and the Chicago Mercantile Exchange. We intend to expand the number of clearinghouses to which we connect in the near future.

Systems Architecture. Our systems are implemented as a multi-tier architecture, comprised of several components, which provide matching, credit management, market data distribution, position reporting, customer display and customer integration. The private network currently operates from five concurrent data centers (two of which are in London, one of which is in Rochelle Park, New Jersey, one of which is in Trumbull, Connecticut and one of which is in New York) and 11 hub cities throughout the world acting as distribution points for all private network customers.

eSpeed Platform. Our eSpeed system is accessible to our customers through (1) our proprietary front-end trading software, (2) our application programming interface, which we refer to as API, which is a dedicated software library enabling customers to incorporate our platform directly into their own applications, (3) the Internet, via a browser interface or Java application, and (4) software developed in collaboration with independent software vendors. Our system runs on large-scale hardware located in data centers in the U.S. and the U.K. and is distributed either over our multiple-path global network or via the Internet through links to multiple global Internet service providers.

Our eSpeed-branded electronic marketplaces operate on a technology platform and network that emphasize scalability, performance, adaptability and reliability. Our technology platform consists of:

- our proprietary, internally developed real-time global network distribution system;

- our proprietary transaction processing software, which includes interactive matching auction engines, fully integrated credit and risk management systems, pricing engines, analytics and associated middle- and back-office operations systems; and

- customized inventory distribution and auction protocols designed to be used by our customers and partners in their distribution and trading systems and customer interfaces ranging from Windows, Java, Unix, Linux our API and proprietary vendor access.

Together, these components enable our customers to effect transactions in real-time, with straight-through processing.

Network Distribution System. Our eSpeed system contains a proprietary hub-and-spoke digital network. This network uses Cisco Systems network architecture, and we have Cisco-certified engineers on-site. Our network s high-speed points of presence comprise the major business centers of the world, including New York, London, Tokyo, Hong Kong, Singapore, Milan, Chicago, Los Angeles and Toronto. Altogether, we manage 35 hubs linked by over 50,000 miles of cable, over 1,000 Cisco network devices and more than 2,000 high-capacity Sun Microsystems and Hewlett Packard servers located in data centers in London, Chicago, New York and New Jersey that are able to process over 600 transactions per second, per auction instrument or product. The redundant structure of our system provides multiple backup paths and re-routing of data transmission if one spoke of a hub fails.

Our trading system accepts orders and postings and distributes responses, generally in under 100 milliseconds. We estimate that our network is currently running at approximately 15% to 20% of capacity over a 24-hour period.

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In addition to our own network system, we also receive and distribute secure trading information from customers using the services of multiple, major Internet service providers throughout the world. These connections enable us to offer our products and services via the Internet to our global customers.

Transaction Processing Software. Our transaction processing software applications have been developed internally and are central to the success of our eSpeed system. Our auction and trading engines operate in real- time, facilitating efficient interaction between buyers and sellers using a variety of choices of published and private auction and open trading methodologies. Our credit and risk management systems monitor and regulate these buyers and sellers. Our pricing engines provide prices for illiquid financial products derived from multiple trades in other related financial instruments and our TOPspeed engine enhances our voice-based market pipeline by handling hundreds of spread and basis orders in each marketplace to facilitate liquidity in otherwise more barren areas and trade simultaneous executions between different marketplaces. These critical applications work together seamlessly and are supported by middle- and back-office software that verifies, confirms, reports, stores, tracks and, if applicable, enables the settlement of each transaction. Our transaction processing software includes verification mechanisms at various stages of the execution process, which result in significantly reduced manual intervention, decreased probability of erroneous trades and more accurate execution for customers.

eSpeed Auction and Transaction Engines. Our auction and transaction engines use Interactive Matching, our proprietary rules-based method, instrument and product. These engines were developed to support trading in the largest capital markets in the world, such as government bonds and futures contracts, and the more diverse, fragmented and database intensive markets, such as corporate bonds and Eurobonds. These transaction engines are designed to be modular and flexible to allow modification in order to apply them to other markets and auction types. In Europe, for example, we have added a component that allows us to process transactions and auctions in multiple currencies simultaneously. Our transaction engines have embedded security features and an added messaging layer, via our proprietary API, to provide security from unauthorized use. In addition, we use encryption to protect our customers who transact business over the Internet.

We believe that our marketplace expertise and rules-based systems provide incentives for customers to actively participate in our marketplaces. For example, Interactive Matching provides incentives to participate in our marketplaces by encouraging participants to expose their orders to the market. In standard auctions, the incentive is for participants to wait until the last moment to make a bid or offer. Our priority rules encourage trading activity by giving the last successful active participant a time-based right of first refusal on the next sale or purchase. The party that provides auction products for the market or creates liquidity (by inputting a price to buy or sell) generally pays less commission than the participant that consummates the trade by acting on that price. With our pricing policies and proprietary priority rules, our system is designed to increase liquidity and to draw participants into the market. This proprietary rules-based system is adaptable and, as part of our business strategy, we intend to apply it across other non-financial markets for multiple products and services.

eSpeed Credit MasterSM Credit and Risk Management Systems. Our eSpeed Credit Master credit and risk management systems are an important part of the operation of our electronic marketplaces. These systems (1) continuously monitor trades of our customers to help prevent them from exceeding their credit limits, (2) automatically prevent increased exposure from further trading once a customer has reached a pre-determined credit limit and (3) evaluate transactions and calculate both individual positions and risk exposure across various products and credit limits.

eSpeed Name Give-Up MatrixSM-Credit Monitoring. Through the use of our name give-up matrix, we enable our market participants to create counterparty credit exposure limits to manage the counterparties with which they transact in non-central counterparty markets. In these markets, participants settle transactions directly with other participants. Using this matrix module, the participants can pre-select the counterparties that they are willing to transact with in that market. The module displays all prices to market participants, and highlights and enables execution on prices that are from approved counterparties. Additionally, the module has features that permit each participant to manage the activities of our traders on a real-time basis.

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eSpeed Pricing Engines and Analytics. We have developed a number of analytical software tools that permit us to price products that trade in less liquid markets and for which current pricing information is not readily available. For example, our TOPS system is a proprietary computer application that enables us to link multiple markets, offer prices and create and enhance marketplaces for products that have limited liquidity. In our financial markets, TOPS currently uses data from existing cash and futures markets to calculate pricing for related transactions where no market prices currently exist, thereby facilitating liquidity. These multi-variable trades are difficult to execute in voice-based markets due to their complexity and the slow speed of manual execution.

eSpeed Middle- and Back-Office Applications. Our middle- and back-office applications support clearance, settlement, tracking and reporting of trades and provide links to outside clearing entities. For example, in the financial markets, we outsource our clearance and settlement services to Cantor and Freedom (for Canadian markets), where both parties to a trade send either cash or securities to Cantor or Freedom and Cantor or Freedom settles the trade and sends each party the cash or securities due. Our reporting and accounting systems are designed to track and record all charges and commissions for a trade. Our eSpeed system and products automate previously paper- and telephone-based transaction processing, confirmation and other functions, substantially improving and reducing the cost of many of our customers back offices and enabling straight-through processing.

OUR CUSTOMERS

Our customers include banks, dealers, brokers, professional trading firms, futures commission merchants and other professional market participants and other financial institutions. We are a trusted source for electronic trading at the world s largest fixed income and foreign exchange trading firms and major exchanges. Other than Cantor and BGC, no individual customer accounts for more than 10% of our revenues. Approximately, 45.6% of our revenues are attributable to Cantor and 35.4% are attributable to BGC Partners.

We provide access to the electronic marketplaces and broker-assisted services supported by our eSpeed system. We expect that a portion of our customers who use voice brokers will migrate to fully electronic access over the coming years or will use our integrated hybrid voice-assisted products and brokerage services. We intend to continue to license our intellectual property. We also expect to add customers for eSpeed Software Solutions from the financial markets. In addition, we intend to build relationships with new customers, including traditional competitors of Cantor and BGC Partners. We further intend to provide third parties with the infrastructure, including systems administration, internal network support and operations and disaster recovery services, that is critical to providing fully electronic marketplaces in a wide variety of products.

PRICING POLICIES

Pursuant to certain transaction fee agreements with certain of our customers, including many of our largest customers, such customers receive brokerage services for the electronic arrangement and execution of financial transactions for a variety of fixed income securities at fees below our standard prevailing fees. These agreements typically provide for payment by each customer of a fixed periodic payment and/or product-specific transaction fees based on the aggregate notional value of securities bought or sold by the customer plus, where applicable, exchange fees and costs. The initial terms of these agreements typically last between one and three years, with provision for automatic renewal unless elected otherwise by either party.

We believe that customized pricing has resulted, and will continue to result, in more predictable market volumes on the eSpeed platform. In addition, in anticipation of projected increases in U.S. Treasury volumes, we believe that more customers with variable pricing in contracts will qualify for such volume for discounts and fixed price arrangements in the future.

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SALES, MARKETING AND CORPORATE DEVELOPMENT

We promote our electronic marketplaces and services to our existing and prospective customers through a combination of sales, marketing and co-marketing campaigns. We leverage our customer relationships through a variety of direct marketing and sales initiatives and build and enhance our brand image through marketing and communications campaigns targeted at a diverse audience, including traders, potential partners and the investor and press communities. We also may market to our existing and prospective customers through a variety of co-marketing/co-branding initiatives with our partners. We have designed our sales and marketing efforts to promote brand awareness and educate our audience regarding the nature of our electronic marketplaces, products and services and the advantages associated with the automation of trading activities.

Our senior management team actively works to establish strategic relationships, develop new markets for our technology and structure and execute investments and acquisitions. Our team promotes eSpeed at conferences, conventions, events and speaking engagements that advance both our technology and our brand name. In many cases, these engagements are focused within specific markets that we intend to develop in the future. All of these efforts are intended to enhance our image, customer awareness and profitability.

SOFTWARE DEVELOPMENT

We devote substantial efforts to the development and improvement of our hybrid and electronic marketplaces and licensed software products and services. We work with our customers to identify their specific requirements and make modifications to our software, network distribution systems and technologies that are responsive to those needs. Our efforts focus on internal development, strategic partnering, acquisitions and licensing. As of December 31, 2007, we employed 358 technology professionals.

One of our technology team s main objectives is to develop new products and services in order to provide superior electronic marketplace solutions to our customers. We also focus our efforts on enhancing our Internet interfaces to facilitate real-time markets and comply with standard Internet security and future security protocols in order to capitalize on the development of new commercial marketplaces. We are continuing to develop new marketplaces and products and services using our internally developed application software.

COMPETITION

The development and operation of electronic marketplaces are evolving. Because our business is driven by a number of different products, we face different levels of competition with respect to each market and product. As a result, competition in these marketplaces is currently fragmented. We face competition from a number of different sources varying in size, business objectives and strategy, some of which are larger than we are and have greater financial resources.

Although we do not believe that there is another fully integrated, multi-asset platform offering electronic trading across futures, foreign exchange and fixed income, there are a number of competitors in each of those markets. Our current and prospective competitors are numerous and include interdealer brokerage firms, multi-dealer trading companies, technology companies and market data and information vendors, securities and futures exchanges, electronic communications networks, crossing systems, software companies, consortia, business-to-business marketplace infrastructure companies and niche market energy and other commodity Internet-based trading systems. ICAP Plc, an interdealer broker in the financial markets, is a significant competitor for us in electronic trading of government securities and is a significant competitor in the electronic spot foreign exchange markets, along with Reuters. There are also a number of smaller electronic trading platforms competing in the foreign exchange space. The futures market also has a number of different order- routing and Independent Software Vendor (ISV) solutions for electronic trading, including Trading Technologies International, Inc., Patsystems plc, RTS Systems AG, FFastFill plc and other providers. GFI Group, Inc., Creditex Inc. and ICAP Plc are currently active in the credit derivatives market area in which we and our affiliate BGC Partners compete, and many of these competing firms have fully-electronic credit derivatives products. We believe that we may also face future competition from large computer software companies, market data and technology companies and some securities brokerage firms, some of whom are currently our customers, as well as from any future strategic alliances, joint ventures, or other partnerships created by one of more of our potential or existing competitors.

The electronic marketplace solutions we provide to our customers enable them to expand the range of services they provide to their ultimate customers to trade across multiple marketplaces. We believe our electronic marketplaces compete primarily on the basis of speed, functionality, efficiency, price, system stability and ability to provide market participants with access to liquidity. We also believe that the time and expense required to develop technology and create electronic marketplaces will serve as significant barriers to entry for our competitors.

PROTECTION OF OUR INTELLECTUAL PROPERTY

We have adopted a comprehensive intellectual property program to protect our proprietary technology. We currently have licenses covering various Cantor patents in the U.S., including patents relating to (i) a system and method for auction-based trading of specialized items such as fixed income instruments, (ii) a fixed income portfolio index processor, and (iii) a system for shared remote access of multiple application programs by one or more computers. Foreign counterpart applications for some of these U.S. patents have been filed. The licenses are exclusive, except in the event that we do not seek to or are unable to provide to Cantor any requested services covered by the patents and Cantor elects not to require us to do so.

We also have an agreement to license technology covered by several pending U.S. patent applications relating to various other aspects of our electronic trading systems, including both functional and design aspects. We have filed a number of patent applications to further protect our proprietary technology and innovations, and have received patents for some of those applications.

In April 2001, we purchased the Wagner Patent, which involved automated futures trading systems in which transactions are completed by computerized matching of bids and offers of futures contracts on an electronic platform. In August 2002, we and Electronic Trading Systems Corporation, which we refer to as ETS, the former owner of the Wagner Patent, entered into a settlement agreement with CME and CBOT to resolve litigation with CME and CBOT related to the Wagner Patent and provide for certain licenses. On March 29, 2002, we entered into a long-term licensing agreement with Intercontinental Exchange, Inc., which we refer to as ICE, granting use of our Wagner Patent to ICE. In December 2002, we entered into an agreement with CBOT to distribute futures products over our eSpeed system. In December 2003, we entered into a Settlement Agreement containing a license agreement with NYMEX to resolve litigation with NYMEX related to the Wagner Patent. With respect to all of these agreements, a portion of the fees received by eSpeed was paid to ETS. The Wagner Patent expired in February 2007.

In July 2004, we entered into an agreement with NYBOT, expiring in 2017, which provided among other things for payments in respect of NYBOT s electronic futures trading through 2017. As a result of the agreement with NYBOT, we are the sole owner of the Cantor Financial Futures Exchange and the Commodity Futures Clearing Corporation of New York. Additionally, we have agreed with NYBOT that NYBOT will provide processing services for futures contracts or options on futures contracts listed on the Cantor Financial Futures Exchange or other exchange designated by us.

Our patent portfolio is growing and consists of numerous patents and patent applications relating to our core business and relating to other businesses. We continue to look for opportunities to license and/or otherwise monetize these and other patents in our portfolio. Some of our patents are the subject of litigation. See Item 3. Legal Proceedings.

We cannot determine at this time the significance of any of the foregoing patents, or patent applications, if issued, to our business. We can give no assurance that any of the foregoing patents will be found by a court to be valid and enforceable, or that any of these patents would not be infringed by a third party competing or seeking to compete with our business. Our business strategy may or may not include licensing such patents for royalties, joint ventures with other marketplaces or exchanges, or exclusively using the patents in our marketplaces and other product and service offerings.

SEGMENT AND GEOGRAPHIC INFORMATION

See Item 8. Financial Statements and Supplemental Data Note 17 for more information regarding segment and geographic information.

EMPLOYEES

As of December 31, 2007, we had 422 employees, five of whom were our executive officers. None of these employees are represented by a union. We believe that we have good relations with our employees.

WEBSITE ACCESS TO REPORTS AND AVAILABLE INFORMATION

Our Internet website address is *www.espeed.com*. Through our Internet website, we make available the following reports as soon as reasonably practicable after electronically filing them with, or furnishing them to, the SEC: our annual report on Form 10-K; our quarterly reports on Form 10-Q; our current reports on Form 8-K; and amendments to those reports. Our Internet website also contains copies of our Code of Business Conduct and Ethics, Audit Committee Charter and Complaint and Investigation Procedures for Accounting, Internal Accounting Controls, or Auditing Matters. Our Proxy Statements for our Annual Meetings are also available through our Internet website. Our Internet website and the information contained therein or connected thereto are not intended to be incorporated into this Annual Report on Form 10-K.

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ITEM 1A. RISK FACTORS

In addition to the other information in this Annual Report on Form 10-K, the following risk factors should be considered carefully in evaluating us and our business. The risk factors refer to the separate business of eSpeed and the business of the Combined Company after completion of the merger, as well as certain risks related to the merger. For further information regarding the merger, see the Merger Proxy Statement.

RISKS RELATED TO OUR BUSINESS

Risks Related to the Merger

The failure to integrate successfully the businesses and operations of eSpeed and BGC Partners in the expected time frame may adversely affect the Combined Company s future results.

Historically, eSpeed and BGC Partners have operated as separate companies related primarily through the Amended and Restated Joint Services Agreement dated October 1, 2005 with Cantor (JSA), and they will continue to do so until the completion of the merger. The management of the Combined Company may face significant challenges in consolidating the functions of eSpeed and BGC Partners to be acquired in the merger, integrating their technologies, organizations, procedures, policies and operations, as well as retaining key personnel. The integration may also be complex and time consuming, and require substantial resources and effort potentially resulting in the diversion of management s attention for an extended period of time and the incurrence of substantial costs, including costs we may not anticipate. The integration process may also disrupt each company s ongoing businesses or cause inconsistencies in standards, controls, procedures and policies that adversely affect their relationships with employees and others with whom they have business or other dealings or to achieve the anticipated benefits of the merger, including the realization of anticipated cost savings and revenue enhancements. The Combined Company will incur approximately $12 million in non-recurring costs associated with combining the operations of the two companies, including legal, accounting or other transaction fees and other costs related to the merger. Although we expect that the elimination of duplicative costs, as well as the realization of other efficiencies related to the integration of the businesses combined in the merger, may over time offset the significant transaction and merger-related costs we incurred, this net benefit may not be achieved in the near term, or at all. In addition, difficulties in integrating the businesses of eSpeed and the BGC Partners businesses, acquired from Cantor in the merger, could harm our reputation.

Certain directors and executive officers of eSpeed and BGC Partners may have interests in the merger that are different from, or in addition to or in conflict with, yours.

Executive officers of BGC Partners (who, in some cases, are also officers of eSpeed) negotiated the terms of the merger agreement on behalf of BGC Partners and, upon the unanimous recommendation of the Special Committee, the eSpeed Board of Directors approved the merger agreement and the transactions contemplated thereby, including the merger and the issuance of Combined Company common stock and rights to acquire Combined Company common stock as consideration in the merger, and unanimously recommended that stockholders vote in favor of the adoption of the merger agreement and the transactions contemplated thereby at the Special Meeting. These directors and executive officers may have interests in the merger that are different from, or in addition to, yours, and the interests of the current directors and executive officers of eSpeed, the future directors and officers of the Combined Company and certain beneficial owners of eSpeed common stock may conflict with the interests of the unaffiliated eSpeed stockholders. These interests include the continued employment of certain executive officers of eSpeed or BGC Partners by the Combined Company, the continued positions of directors of eSpeed as directors of the Combined Company or as officers or partners of Cantor, and the indemnification of former eSpeed and BGC Partners directors and officers by the Combined Company.

eSpeed stockholders, other than Cantor and its affiliates, will have a reduced ownership and voting interest in the Combined Company after the merger and will be further diluted upon exchange of BGC Holdings limited partnership interests into Combined Company common stock.

After the completion of the merger, eSpeed stockholders, other than Cantor and its affiliates, will own a smaller percentage of the Combined Company than they currently own of eSpeed. Upon completion of the merger, the holders of eSpeed Class A common stock (other than Cantor and its affiliates) will own approximately 41.2% of the Combined Company Class A common stock and will have approximately 11.8% of the voting power of the Combined Company on a diluted basis. Following the closing of the merger, we currently expect to conduct a primary and secondary offering of the Combined Company Class A common stock. The timing, the size and the price of such offering have not yet been determined. Such an offering could dilute the Combined Company stockholders. Holders of eSpeed Class A common stock (other than Cantor and its affiliates), as a group, will have reduced ownership and voting power in the Combined Company compared to their ownership and voting power in eSpeed. In addition, future sales of shares of Combined Company Class A common stock could further dilute eSpeed stockholders. Current eSpeed stockholders will experience further dilution of their ownership interest in the Combined Company upon exchange of BGC Holdings limited partnership interests into Combined Company common stock.

The impact of the separation and the merger on the founding partners, restricted equity partners and future working partners may adversely affect the Combined Company s ability to retain, recruit and motivate these persons.

While we believe the separation will promote retention and recruitment, some founding partners, restricted equity partners and future working partners may be more attracted to the benefits of working at a private, controlled partnership or of being a partner in Cantor, which may adversely affect the Combined Company s ability to retain, recruit and motivate these persons. The impact of the separation on the founding partners, restricted equity partners, future working partners and other employee retention and recruitment is uncertain.

Many of the individuals that will be key employees of the Combined Company are currently limited partners of Cantor. We believe that the possibility of becoming a limited partner of Cantor has been an important tool in its ability to hire and retain key employees. Prior to the merger, Cantor will redeem Cantor limited partnership interests held by founding partners in exchange for BGC Holdings limited partnership interests and distribution rights in respect of BGC Partners interests and, after the merger, Combined Company Class A common stock. For a discussion of this redemption and the treatment of founding partners, BGC Partners employees and other persons who provide services to BGC Partners in connection with the separation and the merger, see Certain Relationships and Related Transactions, and Director Independence The Proposed Merger, and Certain Relationships and Related Transactions, and Director Independence BGC Holdings Participation Plan . Following the merger, it is not expected that the Combined Company s key employees will have the right to become limited partners in Cantor. In addition, we expect that from time to time following the merger, key employees of the Combined Company will have the opportunity to become limited partners of BGC Holdings. See Certain Relationships and Related Transactions, and Director Independence BGC Holdings Participation Plan.

While these BGC Holdings limited partnership interests will entitle founding/working partners and restricted equity partners to participate in distributions of income from the operations of the Combined Company s business, upon leaving BGC Holdings (or upon any other redemption or purchase of such limited partnership interests as described below), any such founding/working partner or restricted equity partners will, unless Cantor, in the case of the founding partners, and the Combined Company, as the general partner of BGC Holdings, otherwise determine, only be entitled to receive over time, and provided he or she does not violate certain partner obligations, an amount for his or her BGC Holdings limited partnership interests that reflects such partner s capital account, and not any goodwill or going concern value of the Combined Company s business. Moreover, unlike Cantor, founding/working partners and restricted equity partners will have no right to exchange their BGC Holdings limited partnership interests for shares of Combined Company capital stock (unless, in the

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case of founding partners, Cantor determines otherwise, as Cantor intends to do with respect to a portion of the founding partner interests immediately after the merger, and in the case of working partners and restricted equity partners, the BGC Holdings general partner with Cantor s consent determines otherwise) and thereby realize any higher value associated with Combined Company capital stock. See Certain Relationships and Related Transactions, and Director Independence.

The BGC Holdings limited partnership interests are also subject to redemption, with respect to the founding partners, upon mutual agreement of Cantor and the general partner of BGC Holdings, and with respect to the working partners and restricted equity partners, at the election of the general partner of BGC Holdings and will subject founding/working partners and restricted equity partners to non-competition and non-solicitation covenants. In addition, the exercise of Cantor s right of first refusal in respect of founding partner interests and, in certain circumstances, working partner interests and REU interests (in each case that have not become exchangeable), will result in the share of distributions of income from the operations of the Combined Company s business on other outstanding BGC Holdings limited partnership interests, including those held by founding/working or restricted equity partners, to remain the same rather than increasing as would be the case if such interests were redeemed by BGC Holdings.

The terms of the BGC Holdings limited partnership interests held by founding/working partners and restricted equity partners will also differ from the terms of the limited partnership interests in Cantor currently held by founding partners and by certain of the restricted equity partners as follows:

- unlike the limited partnership interests in Cantor, founding/working partners and restricted equity partners will not be entitled to reinvest the distributions on BGC Holdings limited partnership interests in additional BGC Holdings limited partnership interests at preferential or historical prices; and

- Cantor will be entitled to receive any amounts from selected extraordinary transactions which are withheld from distributions to founding/working partners and restricted equity partners and forfeited by founding/working partners and restricted equity partners leaving BGC Holdings prior to their interests in such withheld distributions fully vesting rather than any such forfeited amounts accruing to the benefit of all BGC Holdings limited partners on a pro rata basis.

Founding partners may find any of these terms of the BGC Holdings limited partnership interests to be less attractive than the current arrangements for limited partners of Cantor, which may reduce the effectiveness of these interests as retention tools.

In addition, the ownership of the distribution rights and underlying shares of Combined Company Class A common stock received by founding partners and other persons providing services to BGC Partners will not be dependent upon a founding partner s continued employment with the Combined Company or Cantor or compliance with the partner obligations, and founding partners will not be restricted from leaving the Combined Company by the potential loss of shares distributable pursuant to these distribution rights.

The Combined Company will be required to pay Cantor for a significant portion of the benefit relating to any additional tax depreciation or amortization deductions it may claim as a result of the tax basis step-up BGC Partners receives, the rights to which the Combined Company will assume in the merger, in connection with the separation and the related transactions, respectively.

The BGC Holdings exchangeable limited partnership interests received by Cantor may, in effect, be exchanged in the future for shares of Combined Company Class B common stock (or, at Cantor s option or if there are no additional authorized but unissued shares of Combined Company Class B common stock, Combined Company Class A common stock) on a one-for-one basis (subject to customary anti-dilution adjustments). The exchanges may result in increases in the tax basis of the tangible and intangible assets of BGC U.S. and BGC Global attributable to BGC Partners , or, after the merger, the Combined Company s, interest in BGC U.S. and BGC Global that otherwise would not have been available. These increases in the tax basis may reduce the

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amount of tax that BGC Partners, or, after the merger, the Combined Company, would otherwise be required to pay in the future, although the Internal Revenue Service may challenge all or part of that tax basis increase, and a court could sustain such a challenge.

The merger agreement and the separation agreement contemplate that BGC Partners will enter into, and the Combined Company will assume BGC Partners rights and obligations under, a tax receivable agreement with Cantor that will provide for the payment by the Combined Company to Cantor of 85% of the amount of cash savings, if any, in U.S. federal, state and local income tax or franchise tax that it actually realizes as a result of these increases in tax basis and of certain other tax benefits related to entering into the tax receivable agreement, including tax benefits attributable to payments under the tax receivable agreement. The Combined Company expects to benefit from the remaining 15% of cash savings, if any, in income or franchise tax that it realizes. The Combined Company will determine, after consultation with Cantor, the extent to which it is permitted to claim any such tax benefits, and such tax benefits will be taken into account in computing any cash savings so long as the Combined Company s accountants agree that it is at least more likely than not that such tax benefit is available. BGC Partners, or, after the merger, the Combined Company, will have the right to terminate the tax receivable agreement at any time for an amount based on an agreed value of payments remaining to be made under the agreement, provided that if Cantor and the Combined Company cannot agree upon a value, the agreement will remain in full force and effect. While the actual amount and timing of any payments under the tax receivable agreement will vary depending upon a number of factors, including the timing of exchanges, the extent to which such exchanges are taxable and the amount and timing of the income that BGC Partners, or, after the merger, the Combined Company, achieves, it is expected that as a result of the anticipated magnitude of the increases in the tax basis of the tangible and intangible assets of BGC U.S. and BGC Global attributable to BGC Partners , or, after the merger, the Combined Company s, interest in BGC U.S. and BGC Global, during the expected 24-year term of the tax receivable agreement, the payments that BGC Partners, or, after the merger, the Combined Company, may make to Cantor could be substantial. The ability of BGC Partners, or, after the merger, the Combined Company, to achieve benefits from any such increase will depend upon a number of factors, including the timing and amount of future income of BGC Partners, or, after the merger, the Combined Company.

Pursuant to the tax receivable agreement, 20% of each payment that would otherwise be made by the Combined Company will be deposited into an escrow account until the expiration of the statute of limitations for the tax year to which the payment relates. If the Internal Revenue Service successfully challenges the availability of any tax benefit and determines that a tax benefit is not available, the Combined Company will be entitled to receive reimbursements from Cantor for amounts it previously paid under the tax receivable agreement and Cantor will indemnify the Combined Company and hold it harmless with respect to any interest or penalties in respect of the disallowance of any deductions which gave rise to the payment under the tax receivable agreement (together with reasonable attorneys and accountants fees incurred in connection with any related tax contest, but only to the extent Cantor is permitted to control such contest). Any such reimbursement or indemnification payment shall be satisfied first from the escrow account (to the extent funded in respect of such payments under the tax receivable agreement). See Certain Relationships and Related Transactions, and Director Independence Tax Receivable Agreement .

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The separation and the merger might be challenged by creditors as a fraudulent transfer or conveyance, and equity holders and creditors of the entity held liable could be adversely affected should a court agree with such a challenge.

Although we do not believe that the separation or the merger will result in a fraudulent conveyance or transfer, if a court in a suit by an unpaid creditor or representative of creditors of Cantor or another entity transferring consideration to BGC Partners or the Combined Company, such as a trustee in bankruptcy, or Cantor or such other entity itself, as debtor-in-possession in a reorganization case under Title 11 of the U.S. Code, were to find that:

- the separation or the merger, as the case may be (or any component transaction thereof), was undertaken for the purpose of hindering, delaying or defrauding creditors of Cantor or another entity by transferring consideration to BGC Partners as part of the separation or the Combined Company as part of the merger, as the case may be; or

- Cantor or another entity transferring consideration to BGC Partners as part of the separation or the Combined Company as part of the merger received less than reasonably equivalent value or fair consideration in connection with the separation or the merger, as the case may be, and (1) any of Cantor or such other entity (as applicable) were insolvent immediately before, or were rendered insolvent by, the separation or the merger, as the case may be, (2) Cantor or such other entity (as applicable) immediately prior to, or as of the effective time of, the completion of the separation or the merger, as the case may be, and after giving effect thereto, intended or believed that it would be unable to pay its debts as they became due or (3) the capital of any of Cantor or such other entity (as applicable) immediately before, or at the effective time of, the completion of the separation or the merger, as the case may be, and after giving effect thereto, was inadequate to conduct its business;

then that court could determine that the separation or the merger, as the case may be (or any component transaction thereof), violated applicable provisions of the U.S. Bankruptcy Code or applicable non-bankruptcy fraudulent transfer or conveyance laws. This determination would permit unpaid creditors, the bankruptcy trustee or debtor-in-possession to rescind the separation or the merger, as the case may be (or component transaction thereof), to recover the consideration transferred or an amount equal to the value thereof from BGC Partners or the Combined Company, or to subordinate or render unenforceable the debt incurred in furtherance thereof, or to require BGC Partners or the Combined Company or the holder of such debt to fund liabilities for the benefit of creditors. Equity holders and creditors of BGC Partners or the Combined Company held liable as a result of such a determination would be adversely affected to the extent each is required to surrender value to satisfy its liability.

The measure of insolvency for purposes of the foregoing considerations will vary depending upon the law of the jurisdiction that is being applied. Generally, however, an entity would be considered insolvent if:

- the sum of its liabilities, including contingent liabilities, is greater than its assets, at a fair valuation;

- the present fair saleable value of its assets is less than the amount required to pay the probable liability on its total existing debts and liabilities, including contingent liabilities, as they become absolute and matured; or

- it is generally not paying its debts as they become due.

Similar provisions would also apply in any other jurisdiction in which the separation and/or merger takes effect.

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If the Combined Company were deemed an investment company under the Investment Company Act of 1940, as amended, as a result of its ownership of BGC U.S., BGC Global or BGC Holdings, applicable restrictions could make it impractical for the Combined Company to continue its business as contemplated and could materially adversely affect its business, financial condition and results of operation.

If Cantor ceases to hold a majority of the Combined Company s voting power, Cantor s interest in the Combined Company could be deemed an investment security under the Investment Company Act of 1940, as amended, which we refer to as the Investment Company Act. If the Combined Company were to cease participation in the management of BGC Holdings (or BGC Holdings, in turn, were to cease participation in the management of BGC U.S. or BGC Global) or not be deemed to have a majority of the voting power of BGC Holdings (or BGC Holdings, in turn, were to not be deemed to have a majority of the voting power of BGC U.S. or BGC Global), the Combined Company s interest in BGC Holdings or BGC U.S. or BGC Global could be deemed an investment security for purposes of the Investment Company Act. If BGC Holdings ceased to participate in the management of BGC U.S. or BGC Global or not be deemed to have a majority of the voting power of BGC U.S. or BGC Global, its interest in BGC U.S. or BGC Global could be deemed an investment security for purposes of the Investment Company Act. Generally, an entity is an investment company if it owns investment securities having a value exceeding 40% of the value of its total assets (exclusive of U.S. government securities and cash items), absent an applicable exemption. The Combined Company will be a holding company and will hold BGC U.S. limited partnership interests, BGC Global limited partnership interests, the BGC Holdings general partnership interest and the BGC Holdings special voting limited partnership interest, which entitles the holder thereof to remove and appoint the general partner of BGC Holdings. A determination that the Combined Company holds more than 40% of its assets in investment securities could result in the Combined Company being an investment company under the Investment Company Act and becoming subject to registration and other requirements of the Investment Company Act.

The Investment Company Act and the rules thereunder contain detailed prescriptions for the organization and operations of investment companies. Among other things, the Investment Company Act and the rules thereunder limit or prohibit transactions with affiliates, limit the issuance of debt and equity securities, prohibit the issuance of stock options and impose certain governance requirements. If anything were to happen that would cause the Combined Company, BGC Holdings or Cantor to be deemed to be an investment company under the Investment Company Act, the Investment Company Act would limit its capital structure, ability to transact business with affiliates (including Cantor, BGC Holdings or the Combined Company, as the case may be) and ability to compensate key employees. Therefore, if Cantor, BGC Holdings or the Combined Company became subject to the Investment Company Act, it could make it impractical to continue the business of the Combined Company as contemplated by the merger, impair the agreements and arrangements, including the merger agreement, the separation agreement and related agreements and the transactions contemplated by those agreements and arrangements between and among eSpeed, BGC Partners, BGC Holdings, BGC U.S., BGC Global and Cantor or any combination thereof and materially adversely affect the Combined Company s business, financial condition and results of operations.

Risks Related to the Combined Company s Business

Because competition for the services of brokers is intense, the Combined Company may not be able to attract and retain highly skilled brokers, which could adversely impact its revenues and as a result could materially adversely affect its business, financial condition and results of operations.

The Combined Company s ability to provide high-quality brokerage services and maintain long term relationships with its customers will depend, in large part, upon its brokers. As a result, the Combined Company must attract and retain highly qualified brokerage personnel. In recent years, BGC Partners has significantly grown the number of brokers in its business through new hires and acquisitions of existing businesses, and the Combined Company is expected to continue to do so in the future. Competition for the services of brokers is intense, especially for brokers with extensive experience in the specialized markets in which the BGC businesses participate or the Combined Company may seek to enter. If the Combined Company is unable to hire or retain

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highly qualified brokers, including retaining those employed by businesses we acquire in the future, the Combined Company may not be able to enter new brokerage markets or develop new products. If the Combined Company loses one or more of its brokers in a particular market in which it participates, the Combined Company s revenues may decrease and the Combined Company may lose market share in that particular market.

In addition, recruitment and retention of qualified brokers could result in substantial additional costs. The businesses constituting the Combined Company have been a party to, or otherwise involved in, several litigations and arbitrations involving competitor claims in connection with new employee hires. The Combined Company may also pursue its rights through litigation when competitors hire its employees who are under contract with the Combined Company. The businesses constituting the Combined Company are currently involved in litigations and arbitrations with their competitors relating to new employee hires and departures. We believe such proceedings are common in the Combined Company s industry due to its highly competitive nature. An adverse settlement or judgment related to these or similar types of claims could have a material adverse effect on the Combined Company s financial condition. Regardless of the outcome of these claims, the Combined Company will generally incur significant expenses and require substantial management time to deal with these claims. See Item 3. Legal Proceedings.

If the Combined Company fails to attract new personnel, or fails to retain and motivate its current personnel, or if the Combined Company incurs increased costs associated with attracting and retaining personnel (such as litigation, arbitration, sign-on or guaranteed bonuses or forgivable loans), the Combined Company s revenues and expenses could be adversely impacted and, as a result, its business, financial condition and results of operations could be materially adversely affected.

The Combined Company will face strong competition from brokerage and financial services firms, many of which have greater market presence, marketing capabilities and technological and personnel resources than will the Combined Company, which could lead to pricing pressures which could adversely impact the Combined Company s revenues and as a result could materially adversely affect the Combined Company s business, financial condition and results of operations.

The brokerage and financial services industries are intensely competitive, and are expected to remain so. The Combined Company will primarily compete with four major, diversified inter-dealer brokers. These inter-dealer brokers are ICAP plc, Tullett Prebon plc, GFI Group Inc. and Compagnie Financière Tradition (which is majority owned by Viel & Cie), all of which are currently publicly traded companies. Other inter-dealer broker competitors will include a number of smaller, private firms that tend to specialize in specific product areas or geographies. The Combined Company will also compete with companies that provide alternative products, such as contracts traded on futures exchanges, and trading processes, such as the direct dealer-to-dealer market for government securities and stock exchange markets for corporate equities and other securities. BGC Partners and eSpeed increasingly compete and after the merger, the Combined Company will compete with exchanges for the execution of trades in certain products, mainly in derivatives such as futures, options and options on futures. The recent consolidations of certain exchanges could have a negative impact on the Combined Company s operations. Some of the Combined Company s competitors have greater market presence, marketing capabilities and financial, technological and personnel resources than it will and, as a result, its competitors may be able to:

- develop and expand their network infrastructures and service offerings more efficiently or more quickly than the Combined Company can;
- adapt more swiftly to new or emerging technologies and changes in customer requirements;
- identify and consummate acquisitions and other opportunities more effectively than the Combined Company can;
- hire brokers and other key employees of the Combined Company;
- devote greater resources to the marketing and sale of their products and services;

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more effectively leverage existing relationships with customers and strategic partners or exploit more recognized brand names to market and sell their services;

provide a lower cost structure and lower commissions;

provide access to trading in products or a range of products that at any particular time the Combined Company does not offer; and

develop services similar to the Combined Company s new services that are preferred by the Combined Company s customers.

In addition, new competitors may emerge and entire product lines may be threatened by new technologies or market trends that reduce the value of these existing product lines. If the Combined Company is not able to compete successfully in the future, its revenues could be adversely impacted and as a result its business, financial condition and results of operations could be materially adversely affected.

Competition for brokerage transactions also has resulted in substantial commission discounting by brokers that will compete with the Combined Company for its brokerage business. Further discounting could adversely impact the Combined Company s revenues and margins and as a result could materially adversely affect the Combined Company s business, financial condition and results of operations. The market for hiring brokers of various securities and financial products is also highly competitive and, from time to time, may result in litigation and/or arbitration. See Item 3. Legal Proceedings.

The Combined Company s operations also will include the sale of pricing and transactional information produced by its brokerage operations to securities information processors and/or vendors. There is a high degree of competition in pricing and transaction reporting products and services, and such businesses may become more competitive in the future. Competitors and customers of the Combined Company s brokerage businesses have together and individually offered market information services in competition with those offered and expected to be offered by the Combined Company.

Consolidation in the brokerage, exchange and financial services industries could materially adversely affect the Combined Company s business, financial condition and results of operations because the Combined Company may not be able to compete successfully.

In recent years, there has been substantial consolidation and convergence among companies in the brokerage, exchange and financial services industries, resulting in increased competition. Continued consolidation in the financial services industry and especially among the Combined Company s customers could lead to the exertion of additional pricing pressure by the Combined Company s primary customers, impacting the commissions it generates from its brokerage services. Further, the recent consolidation among exchange firms, and expansion by these firms into derivative and other non-equity trading markets, will increase competition for customer trades and place additional pricing pressure on commissions and spreads. These developments have increased competition from firms with potentially greater access to capital resources than the Combined Company. Finally, consolidation among the Combined Company s competitors other than exchange firms could result in increased resources and product or service offerings for the Combined Company s competitors. If the Combined Company is not able to compete successfully in the future, its business, financial condition and results of operations could be materially adversely affected.

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The failure to integrate successfully the businesses and operations of eSpeed and the BGC Partners businesses acquired from Cantor in the merger could limit our ability to achieve the expected benefits from the acquisition and may adversely affect our future results.

Until the completion of the merger, eSpeed and the BGC Partners businesses to be acquired from Cantor in the merger have operated as separate companies related primarily through the Amended and Restated Joint Services Agreement, dated October 1, 2005, which we refer to as the JSA, with Cantor. Our management may face significant challenges in consolidating the functions of eSpeed and the BGC Partners businesses to be acquired in the merger, integrating their technologies, organizations, procedures, policies and operations, as well as retaining key personnel. The integration may also be complex and time consuming, and require substantial resources and effort potentially resulting in the diversion of management s attention for an extended period of time and the incurrence of substantial costs, including costs we may not anticipate. The integration process may also disrupt each company s ongoing businesses or cause inconsistencies in standards, controls, procedures and policies that adversely affect their relationships with employees and others with whom they have business or other dealings or to achieve the anticipated benefits of the merger, including the realization of anticipated cost savings and revenue enhancements. Although we expect that the elimination of duplicative costs, as well as the realization of other efficiencies related to the integration of the businesses combined in the merger, may over time offset the significant transaction and merger-related costs we incurred, this net benefit may not be achieved in the near term, or at all. In addition, difficulties in integrating the businesses of eSpeed and the BGC Partners businesses to be acquired from Cantor in the merger could harm our reputation.

The Combined Company may pursue strategic alliances, acquisitions or joint ventures or hire brokers for new or existing brokerage desks, which could present unforeseen integration obstacles or costs and could dilute the common stock owned by the Combined Company s stockholders.

BGC Partners and eSpeed have explored and the Combined Company intends to explore a wide range of strategic alliances, acquisitions or joint ventures with other brokers and with other companies that have interests in businesses in which there are brokerage or other strategic opportunities. For example, in December 2007, we and 11 other leading financial institutions announced the establishment of a new joint venture, a fully-electronic futures exchange, which we refer to as ELX. See Item 1. Business eSpeed products and Services Support for ELX Futures Platform. The Combined Company also may seek to hire brokers for new or existing brokerage desks. These acquisitions or new hires may be necessary in order for the Combined Company to enter into or develop new product areas.

Strategic alliances, acquisitions, joint ventures and new hires involve a number of risks and present financial, managerial and operational challenges, including:

- potential disruption of the Combined Company s ongoing business and product development and distraction of management;
- difficulty retaining and integrating personnel and integrating financial and other systems;
- the necessity of hiring additional management and other critical personnel and integrating them into current operations;
- litigation and/or arbitration associated with hiring brokerage personnel;
- increasing the scope, geographic diversity and complexity of the Combined Company s operations;
- potential dependence upon, and exposure to liability, losses or reputational damage relating to systems, controls and personnel that are not under the Combined Company s control;
- potential unfavorable reaction to the Combined Company s strategic alliance, acquisition or joint venture strategy by its customers;

to the extent that the Combined Company pursues business opportunities outside the United States, exposure to political, economic, legal, regulatory, operational and other risks that are inherent in operating in a foreign country, including risks of possible nationalization, expropriation, price controls, capital controls, exchange controls and other restrictive governmental actions, as well as the outbreak of hostilities;

the up-front costs associated with recruiting brokerage personnel, including those costs associated with establishing a new brokerage desk;

conflicts or disagreements between any strategic alliance or joint venture partners and the Combined Company; and

exposure to additional liabilities of any acquired business, strategic alliance or joint venture.

As a result of these risks and challenges, the Combined Company may not realize any anticipated benefits from strategic alliances, acquisitions or joint ventures, and such strategic alliances, acquisitions or joint ventures may in fact materially adversely affect the Combined Company s business, financial condition and results of operations. In addition, future strategic alliances, acquisitions or joint ventures or the hiring of new brokerage personnel may involve the issuance of additional shares of Combined Company common stock, which may dilute your ownership of the Combined Company or may involve litigation. See Item 3. Legal Proceedings.

If the Combined Company is unable to identify and exploit new market opportunities, its revenues may decline and as a result its business, financial condition and results of operations could be materially adversely affected.

As more participants enter markets in which the Combined Company operates, the resulting competition often leads to lower commissions. This may result in a decrease in revenues in a particular market even if the volume of trades the Combined Company handles in that market increases. As a result, the Combined Company s strategy will be to broker more trades and increase market share in existing markets and to seek out new markets in which it believes it can charge higher commissions. Pursuing this strategy may require significant management attention and broker expense. The Combined Company may not be able to attract new customers or successfully enter new markets. If the Combined Company is unable to identify and exploit new market opportunities on a timely and cost-effective basis, its revenues may decline and as a result its business, financial condition and results of operations could be materially adversely affected.

The Combined Company s ability to retain its key employees and the ability of certain key employees to devote adequate time to the Combined Company are critical to the success of the Combined Company s business, and failure to do so may adversely affect the Combined Company s revenues and as a result could materially adversely affect its business, financial condition and results of operations.

The Combined Company s people will be its most important resource. The Combined Company must retain the services of its key employees and strategically recruit and hire new talented employees to obtain customer transactions that generate substantially all of the Combined Company s revenues.

Howard W. Lutnick, who will serve as the Combined Company s Co-Chief Executive Officer and Chairman, is also the Chairman of the Board and Chief Executive Officer of Cantor and President and the controlling stockholder of CF Group Management, Inc., Cantor s managing general partner, which we refer to as CFGM. Lee M. Amaitis, who serves as our Co-Chief Executive Officer and a member of our board of directors, and who is currently Chairman and Chief Executive Officer of BGC International (formerly known as Cantor Fitzgerald International), which we refer to as BGCI, is currently employed as President and Chief Executive Officer of Cantor Index Limited and holds positions at various gaming affiliates of Cantor. Stephen M. Merkel, who will serve as the Combined Company s Executive Vice President, General Counsel and Secretary, is employed as Executive Managing Director, General Counsel and Secretary of Cantor. In addition, Messrs. Lutnick and Merkel also hold offices at various affiliates of Cantor. We currently expect that Mr. Lutnick will spend approximately 50% of his time each year on Combined Company matters, that Mr. Amaitis will spend approximately 90% of his time each year on Combined Company matters and that Mr. Merkel will spend approximately 50% of his time each year on Combined Company matters, although these percentages may vary depending on business developments at the Combined Company or Cantor or any of their affiliates. Messrs. Lutnick and Merkel hold Cantor partnership interests and will not have these interests redeemed as part of the separation. As a result, these key employees will dedicate only a portion of their professional efforts to the Combined Company s business and operations. These key employees may not be able to dedicate adequate time to the Combined Company s business and operations and the Combined Company could experience an adverse effect on its operations due to the demands placed on its management team by their other professional obligations. In addition these key employees other responsibilities could cause conflicts of interests with the Combined Company.

The BGC Holdings limited partnership agreement, which will include non-competition and other arrangements applicable to those key employees of the Combined Company who will be limited partners of BGC Holdings, may not prevent the Combined Company s key employees, including Messrs. Lutnick and Merkel, who as Cantor partners are not subject to these provisions in the BGC Holdings limited partnership agreement, from resigning or competing against the Combined Company. In addition, the success of the businesses that will comprise the Combined Company has largely been dependent on the efforts of Messrs. Lutnick, Amaitis and Shaun D. Lynn and other executive officers. Should Mr. Lutnick leave or otherwise become unavailable to render services to the Combined Company, control of the Combined Company would likely pass to Cantor, and indirectly pass to the then controlling stockholder of CFGM, Cantor s managing general partner, or to such other managing general partner as CFGM shall appoint. If any of the Combined Company s key employees, including Messrs. Lutnick, Amaitis and Lynn, were to join an existing competitor, form a competing company, offer services to Cantor that compete with the Combined Company s services or otherwise leave the Combined Company, some of the Combined Company s customers could choose to use the services of that competitor or another competitor instead of the Combined Company s services, which could adversely affect the Combined Company s revenues and as a result could materially adversely affect its business, financial condition and results of operations.

Difficult market conditions, economic conditions and geopolitical uncertainties could adversely affect the Combined Company s business in many ways by negatively impacting its revenues in the financial markets in which it offers services, which could have a material adverse effect on its business, financial condition and results of operations.

Difficult market conditions, economic conditions and geopolitical uncertainties have in the past adversely affected and may in the future adversely affect the businesses that will comprise the Combined Company s business and profitability. The businesses that will comprise the Combined Company and the brokerage and financial services industry in general are directly affected by national and international economic and political conditions, broad trends in business and finance, the level and volatility of interest rates, changes in and uncertainty regarding tax laws and substantial fluctuations in the volume and price levels of securities transactions. On a combined basis, in the year ended December 31, 2006 and the year ended December 31, 2007, over 85% and 89%, respectively, of the Combined Company s revenues were generated by brokerage operations. As a result, the Combined Company s revenues and profitability are likely to decline significantly during periods of low trading volume in the financial markets in which it will offer its services. The financial markets and the global financial services business are, by their nature, risky and volatile and are directly affected by many national and international factors that will be beyond the Combined Company s control. Any one of these factors may cause a substantial decline in the U.S. and global financial services markets, resulting in reduced trading volume. These events could have a material adverse effect on the Combined Company s results and profitability. These factors include:

- economic and political conditions in the United States, Europe and elsewhere in the world;

- concerns about terrorism, war and other armed hostilities;

- concerns over inflation and wavering institutional and consumer confidence levels;

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- the availability of cash for investment by the Combined Company s dealer customers and their customers;
- the level and volatility of interest rates and foreign currency exchange rates;
- the level and volatility of trading in certain equity and commodity markets;
- the level and volatility of the difference between the yields on corporate securities being traded and those on related benchmark securities, which we refer to as credit spreads; and
- currency values.

Low trading volume or declining prices generally result in reduced revenues. Under these conditions, profitability is adversely affected since many costs, including certain aspects of commissions, compensation and bonuses, are fixed. In addition, although less common, some of the Combined Company s brokerage revenues will be determined on the basis of the value of transactions or on credit spreads. For these reasons, decreases in trading volume or declining prices or credit spreads could have a material adverse effect on the Combined Company s business, financial condition and results of operations.

Employee misconduct or error could harm the Combined Company by impairing its ability to attract and retain customers and subjecting the Combined Company to significant legal liability and reputational harm; moreover, this type of misconduct is difficult to detect and deter and error is difficult to prevent.

Employee misconduct or error could subject the Combined Company to financial losses and regulatory sanctions and could seriously harm its reputation and negatively affect its business. It is not always possible to deter employee misconduct, and the precautions taken to prevent and detect employee misconduct may not always be effective. Misconduct by employees could include engaging in improper or unauthorized transactions or activities, failing to properly supervise other employees or improperly using confidential information. Employee errors, including mistakes in executing, recording or processing transactions for customers, could cause the Combined Company to enter into transactions that customers may disavow and refuse to settle, which could expose the Combined Company to the risk of material losses even if the errors are detected and the transactions are unwound or reversed. If the Combined Company s customers are not able to settle their transactions on a timely basis, the time in which employee errors are detected may be increased and its risk of material loss could be increased. The risk of employee error or miscommunication may be greater for products that are new or have non-standardized terms. It is not always possible to deter employee misconduct or error, and the precautions the Combined Company takes to detect and prevent this activity may not be effective in all cases.

The industry in which the Combined Company will operate is subject to significant regulation and as a result the Combined Company will be subject to regulatory capital requirements on the Combined Company s regulated entities, and a significant operating loss or any extraordinary charge against capital could adversely affect the Combined Company s ability to expand or, depending upon the magnitude of the loss or charge, even to maintain the current level of its business.

Many aspects of the Combined Company s business, like those of other brokerage firms, are subject to significant capital requirements. In the United States, the SEC, FINRA and various other regulatory bodies (including the Commodity Futures Trading Commission, which we refer to as the CFTC, and the National Futures Association, which we refer to as the NFA) have stringent provisions with respect to capital applicable to the operation of brokerage firms, which vary depending upon the nature and extent of the broker-dealer s activities. eSpeed and BGC Partners currently operates and the Combined Company will operate, three U.S.-registered broker-dealers: BGC Securities, a New York general partnership, which we refer to as BGC Securities, BGC Financial and eSpeed Brokerage, Inc., a Delaware corporation, which we refer to as eSpeed Brokerage. In addition, eSpeed holds a 49% limited partnership interest in Aqua Securities, L.P., a Delaware limited partnership, which we refer to as Aqua, a U.S. registered broker-dealer. These broker-dealers are each subject to SEC and FINRA net capital requirements.

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The Combined Company s international operations will also be subject to capital requirements, which we refer to as non-U.S. net capital requirements. BGC Partners, and after the merger, the Combined Company, and certain of its subsidiaries that are incorporated in the United Kingdom are subject to capital requirements established by the U.K. Financial Services Authority (FSA). The FSA also applies stringent provisions with respect to capital applicable to the operation of these brokerage firms, which vary depending upon the nature and extent of their activities. The provisions relating to capital requirements enforced by the FSA are likely to change with the implementation of the European Directive on Capital Requirements and our U.K. subsidiaries will be required to adhere to these changes. In addition, the majority of the Combined Company s other foreign subsidiaries will be subject to similar regulation by the relevant authorities in the countries in which they do business. These regulations often include minimum capital requirements which are subject to change.

While the Combined Company is expected to continue to maintain levels of capital in excess of regulatory minimums, there can be no assurance that this will be the case in the future. If the Combined Company fails to maintain the required capital, the Combined Company will be required to suspend its broker-dealer operations during the period that it is not in compliance with capital requirements, and may be subject to suspension or revocation of registration by the SEC and FINRA or withdrawal of authorization or other disciplinary action from domestic and international regulators, which would have a material adverse effect on the Combined Company s business. In addition, if the Combined Company fails to maintain the capital required by clearing organizations of which it is a member, its ability to clear through those clearing organizations may be impaired, which may adversely affect its ability to process trades. If the capital rules are changed or expanded, or if there is an unusually large charge against capital, operations that require the intensive use of capital would be limited. The Combined Company s ability to withdraw capital from its regulated subsidiaries is subject to restrictions, which, in turn, could limit its ability to pay dividends, repay debt and redeem or purchase shares of its common stock. In addition, the Combined Company may become subject to capital requirements in other foreign jurisdictions in which BGC Partners or eSpeed currently operates or in which the Combined Company may enter. We cannot predict the Combined Company s future capital needs or its ability to obtain additional financing.

BGC Partners has incurred substantial losses in recent periods and the Combined Company may incur losses in the future.

BGC Partners has incurred substantial losses in several recent periods as it has sought to expand its operations quickly. BGC Partners recorded net losses of $96.1 million and $123.4 million for the year ended December 31, 2005 and the year ended December 31, 2006, respectively. BGC Partners also recorded net losses in certain quarters within other fiscal years.

As the Combined Company continues to develop its systems and infrastructure and expand its brand recognition and customer base through increased hiring of sales and other personnel, the Combined Company may incur losses in the future. If the Combined Company s revenues do not increase sufficiently, or even if the Combined Company s revenues increase but it is unable to manage its expenses, it may not achieve and maintain profitability in future periods.

Due to the current customer concentration of the businesses that will comprise the Combined Company, a loss of two, three or more of the Combined Company s significant customers could harm the Combined Company s business, financial condition and results of operations.

For the year ended December 31, 2007, on a pro forma combined basis, the Combined Company s top 10 customers, collectively, accounted for approximately 40% of the Combined Company s revenues. If the Combined Company were to lose two, three or more of these significant customers for any reason and not be compensated for such loss by doing additional business with other customers or by adding new customers, the Combined Company s revenues would decline significantly and the Combined Company s business, financial condition and results of operations would suffer.

The Combined Company s brokerage activities will be subject to credit and performance risks, which could result in the Combined Company incurring significant losses and as a result could materially adversely affect its business, financial condition and results of operations.

The Combined Company s brokerage activities will be subject to credit and performance risks. For example, the Combined Company s customers may not deliver securities to one of the Combined Company s operating subsidiaries which has sold those securities to another customer. If the securities due to be delivered have increased in value, there is a risk that the Combined Company may have to expend its own funds in connection with the purchase of other securities to consummate the transaction. While the Combined Company will take steps to ensure that its customers and counterparties have high credit standings and that financing transactions are adequately collateralized, the large dollar amounts that may be involved in its brokerage and financing transactions could subject it to significant losses if, as a result of customer or counterparty failures to meet commitments, it was to incur significant losses in liquidating or covering its positions in the open market.

BGC Partners and eSpeed have adopted policies and procedures to identify, monitor and manage credit risk, in both agency and principal transactions, through reporting and control procedures and by monitoring credit standards applicable to their customers or counterparties. These policies and procedures, however, may not be fully effective. Some of these risk management methods depend upon the evaluation of information regarding markets, customers or other matters that are publicly available or otherwise accessible by BGC Partners, eSpeed or, after the merger, the Combined Company. That information may not, in all cases, be accurate, complete, up-to-date or properly evaluated. If BGC Partners and eSpeed s and, after the merger, the Combined Company s policies and procedures are not fully effective or the Combined Company is not always successful in monitoring or evaluating the risks to which it is, or may be, exposed, the Combined Company s financial condition and results of operations could be materially adversely affected. In addition, the Combined Company s insurance policies will not provide coverage for these risks.

In agency transactions, the Combined Company will charge a commission for connecting buyers and sellers and assisting in the negotiation of the price and other material terms of the transaction. After all material terms of a transaction are agreed upon, the Combined Company will identify the buyer and seller to each other and leave them to settle the trade directly. The Combined Company will be exposed to credit risk for commissions, as it bills to customers for its agency brokerage services. The Combined Company s customers may default on their obligations to the Combined Company due to disputes, bankruptcy, lack of liquidity, operational failure or other reasons. Any losses arising from such defaults could materially adversely affect the Combined Company s business, financial condition and results of operations.

Financial problems experienced by third parties could affect the markets in which the Combined Company provides brokerage services. In addition, a disruption in the credit derivative market could affect the Combined Company s brokerage revenues.

Problems experienced by third parties could also affect the markets in which the Combined Company provide brokerage services. For example, in recent years, hedge funds have increasingly begun to make use of credit and other derivatives as part of their trading strategies. As a result, an increasing percentage of our business, directly or indirectly, results from trading activity by hedge funds. Hedge funds typically employ a significant amount of leverage to achieve their results and, in the past, certain hedge funds have had difficulty managing this leverage, which has resulted in market-wide disruptions. If one or more hedge funds that is a significant participant in a derivatives market experienced similar problems in the future, that derivatives market could be adversely affected and, accordingly, our brokerage revenues in that market could decrease.

In addition, recent reports in the United States and United Kingdom have suggested weaknesses in the way credit derivatives are assigned by participants in the credit derivative markets. Such reports expressed concern that, due to the size of the credit derivative market, the volume of assignments and the suggested weaknesses in the assignment process, one or more significant defaults by corporate issuers of debt could lead to a market-wide disruption or result in the bankruptcy or operational failure of hedge funds or other market participants. If the credit derivative markets experience a market disruption or if there was real or perceived lack of confidence that the credit derivative markets could orderly process one or more significant defaults of corporate issuers of debt, the use of credit derivatives could be reduced and the credit derivative market could be adversely affected and, accordingly, the Combined Company brokerage revenues in that market could decrease.

The securities settlement process and the execution of matched principal transactions will expose the Combined Company to risks related to a counterparty failing to fulfill its obligations that may impact the Combined Company s liquidity and profitability and as a result could materially adversely affect its business, financial condition and results of operations.

The Combined Company will often provide brokerage services to its customers in the form of matched principal transactions, in which it will act as a middleman by serving as counterparty for identified buyers and sellers in matching, in whole or in part, reciprocal back-to-back trades. These principal transactions are then settled through clearing institutions with which the Combined Company will have a contractual relationship.

In executing matched principal transactions, the Combined Company is exposed to the risk that one of the counterparties to a transaction may fail to fulfill its obligations, either because it is not matched immediately or, even if matched, one party fails to deliver the cash or securities it is obligated to deliver. The exposure the Combined Company will have to less liquid markets exacerbates this risk because transactions in these markets tend to be more likely not to settle on a timely basis than transactions in liquid markets. Adverse movements in the prices of securities that are the subject of these transactions can increase the risk. In addition, widespread technological failure, natural disasters (e.g., tsunami and earthquakes) or communication failures, such as those which occurred as a result of the terrorist attacks on September 11, 2001 and the blackout in the eastern portion of the United States in August 2003, as well as actual or perceived credit difficulties or the insolvency of one or more large or visible market participants, could cause market-wide credit difficulties or other market disruptions. These failures, difficulties or disruptions could result in a large number of market participants not settling transactions or otherwise not fulfilling their obligations.

The Combined Company will be subject to financing risk in these circumstances because if a transaction does not settle on a timely basis, the resulting unmatched position may need to be financed, either directly by the Combined Company or through one of the clearing organizations, at the Combined Company s expense. These charges may be recoverable from the failing counterparty, but sometimes they are not. In addition, in instances where the unmatched position or failure to deliver is prolonged or widespread due to rapid or widespread declines in liquidity for an instrument, there may also be regulatory capital charges required to be taken by the Combined Company, which, depending on their size and duration, could limit the Combined Company s business flexibility or even force the curtailment of those portions of the Combined Company s business requiring higher levels of capital. Credit or settlement losses of this nature may impact the Combined Company s liquidity and profitability and as a result could adversely affect the Combined Company s business, financial condition and results of operations.

The Combined Company will have market risk exposure from unmatched principal transactions entered into by some of its brokerage desks, which could result in losses and have a disproportionate effect on its revenues, financial condition and results of operations for any particular reporting period.

On a limited basis, the Combined Company s brokerage desks will enter into unmatched principal transactions in the ordinary course of business due to errors or to facilitate transactions, add liquidity, improve customer satisfaction, increase revenue opportunities, attract additional order flow and, in a limited number of instances and subject to risk management limits, for the purpose of proprietary trading. As a result, the Combined Company will have market risk exposure on these unmatched principal transactions. The Combined Company s exposure will vary based on the size of the overall positions, the terms and liquidity of the instruments brokered and the amount of time the positions are held before the Combined Company disposes of the position.

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From a risk management perspective, the Combined Company will monitor risk on an end-of-day basis and desk managers will generally monitor such exposure on a continuous basis. Any unmatched positions are intended to be disposed of in the short term. Due to a number of factors, including the nature of the position and access to the market on which it trades, the Combined Company may not be able to match the position or effectively hedge its exposure and often may be forced to hold a position overnight that has not been hedged. To the extent these unmatched positions are not disposed of intra-day, the Combined Company will mark these positions to market. Adverse movements in the securities underlying these positions or a downturn or disruption in the markets for these positions could result in a loss. In addition, any principal gains and losses resulting from these positions could on occasion have a disproportionate effect, positive or negative, on the Combined Company s revenues, financial condition and results of operations for any particular reporting period.

The Combined Company will be generally subject to risks inherent in doing business in the international markets, particularly in the regulated brokerage industry, and any failure to develop effective compliance and reporting systems could result in regulatory penalties in the applicable jurisdiction and the Combined Company s business could be adversely affected.

The businesses that will comprise the Combined Company currently provide services and products to customers in North America, Europe and the Asia-Pacific region through offices in New York, London, as well as Beijing (representative office), Chicago, Copenhagen, Hong Kong, Istanbul, Mexico City, Nyon, Paris, Seoul, Singapore, Sydney, Tokyo and Toronto and we may seek to further expand our operations. On a pro forma combined basis, revenues from foreign countries were $810.3 million, or 72.5% of total revenues, and $533.1 million, or 62.4% of total revenues, for the year ended December 31, 2007 and the year ended December 31, 2006, respectively. There are certain additional political, economic, legal, regulatory, operational and other risks inherent in doing business in international markets, particularly in the regulated brokerage industry. These risks include:

- less developed automation in exchanges, depositories and national clearing systems;
- additional or unexpected changes in regulatory requirements, capital requirements, tariffs and other trade barriers;
- the impact of the laws and regulations of foreign governmental and regulatory authorities of each country in which the Combined Company conducts business;
- possible nationalization, expropriation and regulatory, political and price controls;
- difficulties in staffing and managing international operations;
- capital controls, exchange controls and other restrictive governmental actions;
- any failure to develop effective compliance and reporting systems, which could result in regulatory penalties in the applicable jurisdiction;
- fluctuations in currency exchange rates;
- reduced protections for intellectual property rights;
- adverse labor laws;

- outbreak of hostilities; and

- potentially adverse tax consequences arising from compliance with foreign laws and regulations to which the Combined Company s international subsidiaries are subject.

In many countries, the laws and regulations applicable to the securities and financial services industries are uncertain and evolving, and it may be difficult for the Combined Company to determine the exact requirements of local laws in every market. The Combined Company s inability to remain in compliance with local laws and

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regulations in a particular foreign market could have a significant and negative effect not only on its businesses in that market but also on its reputation generally. If the Combined Company is unable to manage any of these risks effectively, its business could be adversely affected.

If the value of the dollar against the other currencies in which the Combined Company pays expenses continues to decline or if the value of the dollar against the other currencies in which the Combined Company earns revenues improves dramatically, the Combined Company s financial results could suffer.

Because the Combined Company s business will be global, dramatic exchange rate fluctuations will be able to impact its results. Significant movements in the U.S. dollar against other currencies, including the Euro and the British pound, in which the Combined Company will pay expenses or earn profits, may have an adverse effect on its financial results. Potential movements in the U.S. dollar against other currencies in which the Combined Company will earn revenues could also adversely affect its financial results.

The Combined Company is expected to be leveraged, which could adversely affect its ability to raise additional capital to fund its operations, limit its ability to react to changes in the economy or its industry, expose it to interest rate risk and prevent it from meeting its obligations under its indebtedness.

The Combined Company is expected to be leveraged and have approximately $150 million of indebtedness, which is expected to be with third-party institutions and contain covenants that limit the Combined Company s ability to take selected actions or set financial tests for its business. These covenants could limit the Combined Company s ability to take advantage of certain business opportunities that may arise. In addition, if the Combined Company is unable to maintain compliance with these covenants, the holders of such indebtedness could declare a default, thereby causing the debt to become immediately due and payable at a premium. If a default were to occur and the Combined Company were unable to meet its obligations, it would be forced to restructure or refinance its indebtedness, sell additional equity or sell assets, which the Combined Company may not be able to do on favorable terms or at all.

The Combined Company s indebtedness could have important consequences for its stockholders, including:

- it may limit, along with the financial and other restrictive covenants in the Combined Company s indebtedness, among other things, its ability to borrow money, dispose of assets or sell equity for its working capital, capital expenditures, dividend payments, service our debt, strategic initiatives or other purposes;

- it may limit the Combined Company s flexibility in planning for, or reacting to, changes in its operations or business;

- the Combined Company may be more highly leveraged than some of its competitors, which may place it at a competitive disadvantage;

- it may make the Combined Company more vulnerable to downturns in its business or the economy; and

- there would be a material adverse effect on the Combined Company s business, financial condition and results of operations if it were unable to service its indebtedness or obtain additional financing, as needed.

The Combined Company may not be able to obtain additional financing, if needed, on terms that are acceptable to it, which could prevent it from developing or enhancing its business, taking advantage of future opportunities or responding to competitive pressure or unanticipated requirements.

The Combined Company will be dependent upon the availability of adequate funding and sufficient regulatory and clearing capital. Clearing capital is the amount of cash, guarantees or similar collateral that the

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Combined Company must provide or deposit with its third-party clearing organizations in support of its obligations under contractual clearing arrangements with these organizations. Historically at BGC Partners, these needs have been satisfied from internally generated funds and capital contributions by limited partners of Cantor. Because each of BGC U.S. and BGC Global is expected to distribute, on a quarterly basis, all of its net income to its limited partners, the Combined Company may not have sufficient internally generated funds and may need to raise additional funds. If for any reason the Combined Company needs to raise additional funds, including in order to meet increased clearing capital requirements arising from growth in its brokerage business or otherwise, the Combined Company may not be able to obtain additional financing when needed. If the Combined Company cannot raise additional funds on acceptable terms, the Combined Company may not be able to develop or enhance its business, take advantage of future opportunities or respond to competitive pressure or unanticipated requirements.

The brokerage and financial services industries in general face substantial litigation and regulatory risks, and the Combined Company may face damage to its professional reputation and legal liability if its services are not regarded as satisfactory or for other reasons, all of which could adversely affect the Combined Company s revenues and liabilities as a result could have a materially adverse effect on its business, financial condition and results of operations.

Many aspects of the Combined Company s business involve substantial risks of liability and, in the normal course of business, the businesses that will comprise the Combined Company have been a party to lawsuits, arbitrations, investigations and other actions involving primarily claims for damages. Regulatory inquiries and subpoenas or other requests for information or testimony in connection with litigation may cause the Combined Company to incur significant expenses, including fees for legal representation and fees associated with document production. The risks associated with such potential liabilities often may be difficult to assess or quantify and their existence and magnitude often remain unknown for substantial periods of time. The expansion of the Combined Company s business, including the expansion into new areas, imposes additional risks of liability. A settlement of, or judgment related to, any such claims or litigation, arbitration, investigation or other action could result in civil or criminal liability, fines, limitations on business activities and other sanctions and otherwise have a material adverse effect on the Combined Company s results of operations and financial condition. Any such action could also cause the Combined Company significant reputational harm, which, in turn, could seriously harm its business and prospects. In addition, regardless of the outcome of these lawsuits, arbitrations, investigations and other actions, the Combined Company may incur significant legal and other costs, including substantial management time, dealing with such matters, even if the Combined Company is not a party to the litigation or a target of the inquiry.

As a brokerage and financial services firm, the Combined Company will depend to a large extent on its relationships with its customers and its reputation for integrity and high-caliber professional services to attract and retain customers. As a result, if the Combined Company s customers are not satisfied with the Combined Company s services, such dissatisfaction may be more damaging to its business than to other types of businesses. Substantial legal liability or significant regulatory action against the Combined Company could adversely affect its revenues and liquidity and, as a result, could have a material adverse effect on its business, financial condition and results of operations or cause significant reputational harm to the Combined Company, which could seriously harm its business and prospects. See Item 3. Legal Proceedings.

Extensive regulation of the Combined Company s businesses will limit its activities and will result in ongoing exposure to the potential for significant penalties, including fines or limitations on the Combined Company s ability to conduct its businesses.

Firms in the financial services industry, including the Combined Company s businesses, have experienced increased scrutiny in recent years and penalties and fines sought by regulatory authorities, including the SEC, FINRA, state securities commissions, state attorneys general and the FSA, have increased accordingly. This regulatory and enforcement environment may generally create uncertainty.

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The financial services industry, including the Combined Company business, is subject to extensive regulation. The Combined Company and its subsidiaries will be subject to regulation by governmental and self- regulatory organizations in the jurisdictions in which they operate around the world. Many of these regulators, including U.S. and non-U.S. government agencies and self-regulatory organizations, as well as state securities commissions in the United States, are empowered to conduct administrative proceedings that can result in censure, fine, the issuance of cease-and-desist orders or suspension or expulsion. From time to time, associated persons of the businesses that will comprise the Combined Company have been and are subject to periodic investigations which have and may result in disciplinary actions by the SEC, self-regulatory organizations and state securities administrators. Currently, the businesses that will comprise the Combined Company and certain other inter-dealer brokers are being investigated by the SEC with respect to trading practices. In addition, the FSA s annual risk assessment of the BGC Group s regulated entities in 2005 identified certain failures in the BGC Group s risk and control functionality, monthly reporting statements and the classification of certain sub-ledger account items. Self-regulatory organizations such as FINRA and the NFA, along with statutory bodies such as the SEC and the FSA, require strict compliance with their rules and regulations. The requirements imposed by regulators are designed to ensure the integrity of the financial markets and to protect customers and other third parties who will deal with the Combined Company and are not designed to protect the Combined Company s stockholders. These regulations will often serve to limit the Combined Company s activities, including through capital, customer protection and market conduct requirements.

Changes in legislation and in the rules and regulations promulgated by the SEC, the CFTC, the U.S. Department of Treasury, which we refer to as the Treasury, the FSA and other domestic and international regulators and self-regulatory organizations, as well as changes in the interpretation or enforcement of existing laws and rules, often directly affect the method of operation and profitability of broker-dealers and could result in restrictions in the way the Combined Company conducts its business. For example, the U.S. Congress, the Treasury, the Board of Governors of the Federal Reserve System and the SEC are continuing to review the nature and scope of their regulation and oversight of the government securities markets and U.S. markets. In Europe, the implementation of the Markets in Financial Instruments Directive in Europe, which we refer to as the MIFID, in November 2007 involved wide-ranging changes to European financial services regulation. Future legislation and/or regulation, and uncertainties resulting from the possibility of legislation and/or regulation, could adversely impact the Combined Company s business. Failure to comply with any of these laws, rules or regulations could result in fines, limitations on business activity, suspension or expulsion from the industry, any of which could have a material adverse effect upon the Combined Company.

In addition, financial services firms are subject to numerous conflicts of interests or perceived conflicts, including for example principal trading and trading to make markets. The businesses that will comprise the Combined Company have adopted various policies, controls and procedures to address or limit actual or perceived conflicts and the Combined Company will regularly seek to review and update its policies, controls and procedures. However, these policies, controls and procedures may result in increased costs and additional operational personnel. Failure to adhere to these policies, controls and procedures may result in regulatory sanctions or customer litigation.

A portion of the Combined Company s revenues will be derived from its sale of market data to third parties, and a decline in customer purchases or adverse new legislation or regulation could have an adverse effect on the Combined Company s business.

A portion of the Combined Company s revenues, 2% on a pro forma combined basis for the year ended December 31, 2006, was derived from the sale of market data to third parties. BGCantor Market Data (formerly Cantor Market Data) is the exclusive source of real-time proprietary pricing and other data derived through BGC Partners and eSpeed for U.S. and European securities and derivatives. If customers cease buying data or making payments, or if new legislation or regulation were enacted affecting the Combined Company s right to sell or distribute its market data, it could have an adverse effect on the Combined Company s business.

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The Combined Company s revenues and profitability could be reduced or otherwise adversely affected by pricing plans relating to commissions and fees on its trading platform.

The businesses that will comprise the Combined Company negotiate from time to time with certain customers (including many of these businesses largest customers) to enter into customized volume discount pricing plans. While the pricing plans are designed to encourage customers to be more active on what will be the Combined Company s electronic trading platform, they will reduce the amount of commissions payable to the Combined Company by certain of its most active customers for certain products, which could limit the Combined Company s revenues and constrain its profitability.

Reduced spreads in securities pricing, levels of trading activity and trading through market makers and/or specialists could materially adversely affect the Combined Company s business, financial condition and results of operations.

Computer-generated buy/sell programs and other technological advances and regulatory changes in the marketplace may continue to tighten securities spreads. In addition, new and enhanced alternative trading systems, such as electronic communications networks, have emerged as an alternative for individual and institutional investors, as well as broker-dealers. As such systems do not direct trades through market makers, their use could result in reduced revenues for the Combined Company. In addition, reduced trading levels could lead to lower revenues which could materially adversely affect the Combined Company s business, financial condition and results of operations.

The Combined Company may not be able to protect its intellectual property rights or may be prevented from using intellectual property necessary for its business.

The Combined Company s success will be dependent, in part, upon its intellectual property. BGC Partners and eSpeed have generally relied, and the Combined Company will generally rely, primarily on trade secret, contract, copyright, trademark and patent law to establish and protect their rights to their proprietary technologies, methods and products. It is possible that third parties may copy or otherwise obtain and use the Combined Company s proprietary technologies without authorization or otherwise infringe on its rights. We cannot assure you that the Combined Company intellectual property rights are sufficient to protect its competitive advantages. In addition, the laws of some foreign countries may not protect the Combined Company s proprietary rights to the same extent as the laws in the United States. The Combined Company may also face claims of infringement that could interfere with its ability to use intellectual property or technology that is material to its business operations. Restrictions on the distribution of some of the market data generated by the Combined Company s brokerage desks could limit the comprehensiveness and quality of the data the Combined Company is able to distribute or sell. Although BGC Partners and eSpeed have taken and, after the merger, the Combined Company will take, steps to protect themselves, they may not be able to protect their technology from disclosure or from other developing technologies that are similar or superior to their technology.

In the future, the Combined Company may have to rely on litigation to enforce its intellectual property rights, protect its trade secrets, determine the validity and scope of the proprietary rights of others or defend against claims of infringement or invalidity. Any such claims or litigation, whether successful or unsuccessful, could result in substantial costs and the diversion of resources and the attention of management, any of which could negatively affect the Combined Company s business. Responding to these claims could also require the Combined Company to enter into royalty or licensing agreements with the third parties claiming infringement. Such royalty or licensing agreements, if available, may not be available on terms acceptable to the Combined Company.

Intellectual property rights of third parties may have an important bearing on the Combined Company s ability to offer certain of its products and services. Although BGC Partners and eSpeed have taken, and, after the merger, the Combined Company will take, steps to protect themselves, there can be no assurance that BGC

Partners and eSpeed are or the Combined Company will be aware of all patents or copyrights containing claims that may pose a risk of infringement by the Combined Company products and services. eSpeed is currently defending a patent infringement claim, which could have a material adverse effect on the Combined Company s business. See Item 3. Legal Proceedings.

In addition, in the past several years, there has been a proliferation of so-called business method patents applicable to the computer and financial services industries. There has also been a substantial increase in the number of such patent applications filed. Under current law, U.S. patent applications remain secret for 18 months and may, depending upon where else such applications are filed, remain secret until a patent is issued. In light of these factors, it is not economically practicable to determine in advance whether our products or services may infringe the present or future patent rights of others.

If the Combined Company is unable to protect the intellectual property rights it owns, its ability to operate electronic marketplaces may be materially adversely affected.

The Combined Company s business will be dependent on proprietary technology and other intellectual property rights. We cannot guarantee that the concepts which are the subject of the patents and patent applications that the Combined Company will own are patentable or that issued patents are or will be valid and enforceable or that such concepts will be marketable or profitable for the Combined Company s business. Additionally, from time to time, issued patents may expire and we may no longer receive revenue related to such patents, including the Wagner Patent, which expired on February 20, 2007. Where patents are granted in the United States, we can give no assurance that equivalent patents will be granted in Europe or elsewhere, as a result of differences in local laws affecting patentability and validity. Moreover, we cannot guarantee that third parties competing or intending to compete with the Combined Company will not infringe any of these patents. Despite precautions BGC Partners, eSpeed or Cantor has taken or that the Combined Company may take to protect the intellectual property rights that will be owned by the Combined Company, it is possible that third parties may copy or otherwise obtain and use the Combined Company s proprietary technology without authorization. It is also possible that third parties may independently develop technologies similar to the Combined Company. It may be difficult for the Combined Company to monitor unauthorized use of its proprietary technology and intellectual property rights. We cannot assure you that the steps the Combined Company will take will prevent misappropriation of its technologies or intellectual property rights.

If the Combined Company s software licenses from third parties are terminated or adversely changed or amended or if any of these third parties were to cease doing business, the Combined Company s ability to operate its business may be materially adversely affected.

BGC Partners and eSpeed currently license and after the merger the Combined Company will license databases and other software from third parties, much of which is integral to our systems and the Combined Company s business. The licenses are terminable if the Combined Company breaches its obligations under the license agreements. If any material relationships were terminated or adversely changed or amended or if any of these third parties were to cease doing business, the Combined Company may be forced to spend significant time and money to replace the licensed software, and the Combined Company s ability to operate its business may be materially adversely affected. Although the Combined Company will take steps to locate replacements, there can be no assurance that the necessary replacements will be available on reasonable terms, if at all.

The financial markets in which the Combined Company will operate are generally affected by seasonality which could have a material adverse effect on the Combined Company s financial performance in a given period.

Traditionally, the financial markets around the world experience lower volume during the summer and at the end of the year due to a general slowdown in the business environment and, therefore, the Combined Company s transaction volume levels may decrease during those periods. The timing of local holidays also affects transaction volume. These factors could have a material adverse effect on the Combined Company s financial performance in a given period.

The Combined Company will operate in a rapidly evolving business environment. If the Combined Company is unable to adapt its business effectively to keep pace with these changes, the Combined Company s ability to succeed will be adversely affected, which could have a material adverse effect on its business, financial condition and results of operations.

The pace of change in the industry in which the Combined Company will operate is extremely rapid. Operating in such a rapidly changing business environment involves a high degree of risk. The Combined Company s ability to succeed will depend on its ability to adapt effectively to these changing market conditions. If the Combined Company is unable to keep up with rapid technological changes, it may not be able to compete effectively.

To remain competitive, the Combined Company must continue to enhance and improve the responsiveness, functionality, accessibility and features of its proprietary software, network distribution systems and technologies. The Combined Company s business environment is characterized by rapid technological changes, changes in use and customer requirements and preferences, frequent product and service introductions embodying new technologies and the emergence of new industry standards and practices that could render its existing proprietary technology and systems obsolete. The Combined Company s success will depend, in part, on its ability to:

- develop, license and defend intellectual property useful in its business;
- enhance its existing services;
- develop new services and technologies that address the increasingly sophisticated and varied needs of the Combined Company s existing and prospective customers;
- respond to technological advances and emerging industry standards and practices on a cost-effective and timely basis;
- respond to the demand for new services, products and technologies on a cost-effective and timely basis; and
- adapt to technological advancements and changing standards to address the increasingly sophisticated requirements and varied needs of its customers and prospective customers.

There can be no assurance that the Combined Company will be able to respond in a timely manner to changing market conditions or customer requirements. The development of proprietary electronic trading technology entails significant technical, financial and business risks. Further, the adoption of new Internet, networking or telecommunications technologies may require the Combined Company to devote substantial resources to modify, adapt and defend its technology. There can be no assurance that the Combined Company will successfully implement new technologies or adapt its proprietary technology and transaction-processing systems to customer requirements or emerging industry standards, or that the Combined Company will be able to successfully defend any challenges to any technology it develops. Any failure on the part of the Combined Company to anticipate or respond adequately to technological advancements, customer requirements or changing industry standards, or any significant delays in the development, introduction or availability of new services, products or enhancements, could have a material adverse effect on the Combined Company s business, financial condition and results of operations.

The Combined Company s networks and those of its third-party service providers may be vulnerable to security risks, which could make the Combined Company s customers hesitant to use its electronic marketplaces.

We expect the secure transmission of confidential information over public networks to be a critical element of the Combined Company s operations. The Combined Company s networks, those of its third-party service vendors, including Cantor and associated clearing corporations, and the Combined Company s customers may be vulnerable to unauthorized access, computer viruses and other security problems. Persons who circumvent security measures could wrongfully use the Combined Company s information or cause interruptions or

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malfunctions in its operations, which could make the Combined Company s customers hesitant to use its electronic marketplaces. The Combined Company may be required to expend significant resources to protect against the threat of security breaches or to alleviate problems, including reputational harm and litigation, caused by any breaches.

If the Combined Company experiences computer systems failures or capacity constraints, its ability to conduct its operations could be harmed.

The Combined Company will internally support and maintain many of its computer systems and networks. The Combined Company s failure to monitor or maintain these systems and networks or, if necessary, to find a replacement for this technology in a timely and cost-effective manner would have a material adverse effect on its ability to conduct its operations. Although all of its business critical systems have been designed and implemented with fault tolerant and/or redundant clustered hardware and diversely routed network connectivity, the Combined Company s redundant systems or disaster recovery plans may prove to be inadequate. Although the Combined Company has three geographically disparate main data centers, they could be subject to failure due to environmental factors, power outage and other factors. Accordingly, the Combined Company may be subject to system failures and outages which might impact its revenues and relationship with customers. In addition, the Combined Company will be subject to risk in the event that systems of its partners, customers or vendors are subject to failures and outages.

The Combined Company is expected to rely on third parties for various computer and communications systems, such as telephone companies, online service providers, data processors, clearance organizations and software and hardware vendors. The Combined Company s systems, or those of its third-party providers, may fail or operate slowly, causing one or more of the following:

- unanticipated disruptions in service to its customers;
- slower response times;
- delays in its customers trade execution;
- failed settlement of trades;
- incomplete or inaccurate accounting, recording or processing of trades;
- financial losses;
- litigation or other customer claims; and
- regulatory sanctions.

There can be no assurance that the Combined Company will not experience additional systems failures in the future from power or telecommunications failures, acts of God or war, terrorist attacks, human error, natural disasters, fire, power loss, sabotage, hardware or software malfunctions or defects, computer viruses, intentional acts of vandalism and similar events. Any system failure that causes an interruption in service or decreases the responsiveness of the Combined Company s service, including failures caused by customer error or misuse of our systems, could damage its reputation, business and brand name.

If the Combined Company fails to implement and maintain an effective internal control environment, its business and stock price could suffer.

The Combined Company will be subject to the requirements of the Sarbanes-Oxley Act and the applicable SEC rules and regulations that require an annual management report on our internal controls over financial reporting. Such a report includes, among other matters, management s assessment of the effectiveness of our internal control over financial reporting. Until the separation and merger, BGC Partners is not subject to the requirements of the Sarbanes-Oxley Act and the applicable SEC rules and regulations that require an annual management report on internal controls over financial reporting. Subsequent to the issuance of our consolidated financial statements for the year ended December 31, 2006, management became aware that certain revenues and expenses related to a portion of the development of related party software covered under the JSA with Cantor required restatement. We had accounted for certain fees paid by related parties for software development as revenue in the period when the cash was received. We concluded that some of these paid fees should have been deferred and recognized ratably over the future period when such software will be used to provide services to Cantor. The restatement correction reduced revenue from current periods, thereby creating a deferred revenue liability. The restatement also corrected the amortization expense that was recorded in connection with the determination of the period of benefit provided by the developed software. We filed an Amendment to our Annual Report on Form 10-K for the year ended December 31, 2006, to reflect the restatement of our audited financial statements for the years ended December 31, 2006, 2005 and 2004, the financial information in the Selected Financial Data for the five-year period ended December 31, 2006, the unaudited selected quarterly financial information for each quarter in the years ended December 31, 2006 and 2005, and related financial information and disclosures originally filed with the SEC on Form 10-K on March 15, 2007.

In connection with that restatement, we also concluded that our internal control over financial reporting was not effective at December 31, 2006. In addition, our independent registered public accounting firm issued a revised report concluding that its internal control over financial reporting was not effective at December 31, 2006.

In November 2007, the BGC Division, comprising the BGC businesses, to be acquired in the merger, completed a restatement of its 2006 financial statements with respect to errors related to accounting for certain intercompany transactions between the BGC Division and certain affiliates. Also, as previously reported, management of the BGC Division identified a material weakness in its internal control over financial reporting, as defined in the standards established by the Public Company Accounting Oversight Board, including the lack of a formal, documented closing process designed to identify key financial reporting risk. This weakness may indicate a heightened risk that its annual or interim financial statements could contain a material misstatement.

Management of the Combined Company has not conducted an assessment of its internal control over financial reporting on a combined basis giving effect to the merger. The Combined Company cannot be certain as to its ability to comply with the requirements of the Sarbanes-Oxley Act. If it cannot comply with the requirements of the Sarbanes-Oxley Act in a timely manner or with adequate compliance, it may be subject to sanctions or investigation by regulatory authorities, including the SEC or the Nasdaq Global Market. In addition, if a material weakness is identified, there can be no assurance that it would be able to remediate such material weakness in a timely manner in future periods. Moreover, if it is unable to assert that its internal control over financial reporting is effective in any future period (or if its independent auditors are unable to express an opinion on the effectiveness of its internal controls), the Combined Company could lose investor confidence in the accuracy and completeness of its financial reports, which may have an a material adverse effect on its stock price.

Compliance with the Sarbanes-Oxley Act may require significant expenses and management resources that would need to be diverted from the Combined operations and could require a restructuring of internal controls over financial reporting. Any such expenses, time reallocations or restructuring could have a material adverse effect on the Combined Company s operations.

The Combined Company will be a holding company, and accordingly it will be dependent upon distributions from BGC U.S. and BGC Global to pay dividends, taxes and other expenses.

Following the merger, the Combined Company will be a holding company with no independent means of generating revenues. Any dividends declared by the Combined Company and all applicable taxes payable in respect of the Combined Company s net taxable income, if any, are expected to be paid from distributions to the Combined Company from BGC U.S. and BGC Global. To the extent that the Combined Company needs funds to pay taxes on its share of BGC U.S. s and BGC Global s net taxable income, or if the Combined Company needs funds for any other purpose, and either BGC U.S. or BGC Global is restricted from making such distributions under applicable law or regulation, or is otherwise unable to provide such funds, it could materially adversely affect the Combined Company s business, financial condition and results of operations and its ability to declare dividends. In addition, any unanticipated accounting or other charges against net income could adversely affect the Combined Company s ability to declare dividends.

While portions of the Combined Company s compensation structure will be variable, significant parts of the Combined Company s cost structure will be fixed, and if the Combined Company s revenues decline and the Combined Company is unable to reduce its costs in the amount that the Combined Company s revenues decline, its profitability could be materially adversely affected.

While the Combined Company s compensation structure will be variable, significant parts of the Combined Company s cost structure will be fixed. The Combined Company will base its overall cost structure on historical and expected levels of demand for the products and services of the businesses that will comprise the Combined Company. If demand for these products and services and the Combined Company s resulting revenues decline, the Combined Company may not be able to adjust its cost structure on a timely basis. If the Combined Company is unable to reduce its costs in the amount that the Combined Company s revenues decline, its profitability could be materially adversely affected.

The market price of eSpeed Class A common stock has fluctuated and the market price of Combined Company Class A common stock may fluctuate in the future. In addition, future sales of shares of Combined Company Class A common stock, including in any public offering, could adversely affect the market price of Combined Company Class A common stock. The Combined Company stockholders, other than Cantor and its affiliates, could be diluted by such future sales and be further diluted upon exchange of BGC Holdings limited partnership interests into Combined Company common stock and upon issuance of additional BGC U.S. and BGC Global limited partnership interests to BGC Holdings as a result of future issuances of BGC Holdings limited partnership interests. eSpeed has also repurchased its shares from time to time, and, after the merger, the Combined Company may cease doing so at any time.

The market price of eSpeed Class A common stock has fluctuated widely since its initial public offering in December 1999 and, after the merger, the market price of Combined Company Class A common stock may fluctuate widely, depending upon many factors, including the Combined Company s actual results of operations and perceived prospects, the prospects of the Combined Company s competition and of the financial marketplaces in general, differences between the Combined Company s actual financial and operating results and those expected by investors and analysts, changes in analysts recommendations or projections, seasonality, changes in general valuations for companies in the Combined Company s business segment, changes in general economic or market conditions and broad market fluctuations.

Future sales of the Combined Company s shares also could adversely affect the market price of its Class A common stock. Following the closing of the merger, we currently expect to conduct a primary and secondary offering of Class A common stock of the Combined Company. The timing, the size and the price of such offering have not yet been determined, any of which could adversely affect the market price of Combined Company Class A common stock. If the Combined Company s existing stockholders sell a large number of shares, or if the Combined Company issues a large number of shares of its common stock in connection with future acquisitions, strategic alliances, third-party investments and private placements or otherwise, the market price of Combined Company Class A common stock could decline significantly. Moreover, the perception in the public market that these stockholders might sell shares could depress the market price of Combined Company Class A common stock.

In addition, future sales of shares of the Combined Company Class A common stock could dilute the Combined Company stockholders. The Combined Company stockholders will experience further dilution of their ownership interest in the Combined Company upon exchange of BGC Holdings limited partnership interests for Combined Company common stock. Moreover, the Combined Company stockholders could be diluted upon issuance of additional BGC Holdings as a result of future issuances of BGC Holdings limited partnership interest.

eSpeed has registered under the U.S. Securities Act of 1933, as amended, which we refer to as the Securities Act, 30,430,000 shares of Class A common stock, which are reserved for issuance upon exercise of options, restricted stock and other incentive compensation granted under its Long Term Incentive Plan. Following the merger, the Combined Company may register additional shares of Class A common stock under the Securities Act that become reserved for issuance under its Long Term Incentive Plan. These shares can be sold in the public market upon issuance, subject to restrictions under the securities laws applicable to resales by affiliates. In addition, eSpeed has registered under the Securities Act 425,000 shares of Class A common stock issuable under its stock purchase plan and 500,000 shares issuable under its 401(k) plan.

Since June 9, 2002, approximately 5.9 million shares of eSpeed Class A common stock that have been distributed to partners of Cantor as part of a deferred stock distribution by Cantor have been eligible for resale in the public market subject to Rule 144 under the Securities Act. The availability for sale of such number of shares may have an adverse effect on the market price of eSpeed Class A common stock.

Cantor will be able to exchange up to an aggregate of 20 million of its BGC Holdings limited partnership interests prior to the first anniversary of the completion of the merger for shares of Combined Company Class A common stock in connection with a broad-based public offering including all shares received upon such exchange, of Combined Company Class A common stock underwritten by a nationally recognized investment banking firm and all of its BGC Holdings limited partnership interests after the first anniversary of the completion of the merger. The BGC Holdings limited partnership interests that Cantor transfers to founding partners in redemption of their current limited partnership interests in Cantor at the time of the separation will be exchangeable for Combined Company common stock if Cantor reacquires such interests from the founding partners, in which case such interests will be exchangeable with the Combined Company for Combined Company Class A common stock or Combined Company Class B common stock, or Cantor determines that such interests can be exchanged by such founding partners with the Combined Company for Combined Company Class A common stock. Cantor expects to permit such exchanges from time to time, including with respect to 20% of the BGC Holdings founding partner interests held by each founding partner, and certain additional exchange rights for Messrs. Lee M. Amaitis and Shaun Lynn immediately after the merger. See Item 10. Certain Relationships and Related Transactions, and Director Independence. Any working partner interests that are issued after the merger will not be exchangeable with the Combined Company unless otherwise determined by the Combined Company with the written consent of a BGC Holdings exchangeable limited partnership interest majority in interest.

The shares ultimately issuable pursuant to the BGC Holdings REUs (if exchangeable) and the BGC RSUs that may be issued upon the closing of the merger would be shares of Combined Company Class A common stock issued pursuant to the Long Term Incentive Plan or similar plan.

After the merger, we expect approximately 111,890,929 shares of Combined Company common stock will be reserved for issuance in connection with the exchange of the BGC Holdings exchangeable limited partnership interests, which will be entitled to registration rights under the terms of the separation registration rights agreement with Cantor that the Combined Company intends to assume in connection with the separation and the merger, and BGC Holdings founding partner interests (if exchangeable) and BGC Holdings REUs (if exchangeable). In addition, shares of Class A common stock issuable upon conversion of shares of Class B common stock held by Cantor are entitled to registration rights under a registration rights agreement entered into in connection with the formation of eSpeed, which we refer to as the formation registration rights agreement. In light of the number of shares of Combined Company Class A common stock issuable in connection with the full exchange of the BGC Holdings exchangeable limited partnership interests, BGC Holdings founding partner

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interests (if exchangeable), and BGC Holdings REUs (if exchangeable) the price of Combined Company Class A common stock may decrease and its ability to raise capital through the issuance of equity securities may be adversely impacted as these exchanges occur and transfer restrictions lapse.

In addition, the following table reflects the timetable for distributions by Cantor of shares of Combined Company Class A common stock that it holds or will hold in respect of the distribution rights that Cantor will provide to limited partners of Cantor in connection with the separation, assuming that the limited partners in Cantor were entitled to accelerated distribution of the shares underlying such distribution rights, as described under Certain Relationships and Related Transactions, and Director Independence. All of these shares of Combined Company Class A common stock will be distributed by Cantor. Cantor expects to use shares of Combined Company Class A common stock received upon its conversion of Class B common stock, shares of Combined Company common stock received upon exchange of BGC Holdings exchangeable limited partnership interests and purchases of shares of Combined Company common stock in the open market to satisfy its distribution obligation under the distribution rights.

Anniversary of the merger	**Number of shares of Combined Company Class A common stock that is expected to be distributed by Cantor to Cantor Partners in respect of the distribution rights**
12 month	7,693,500
18 month	7,744,512
24 month	7,744,512
30 month	1,255,712
36 month	1,255,712
Total	25,693,948

In addition to the table above, the managing general partner of Cantor will be able to grant earlier distribution of the shares in its discretion. After the one year anniversary of the merger, to the extent that earlier acceleration of distribution rights for the Combined Company s common stock is permitted for purposes of donating interests and/or distributed shares to charitable organizations, we anticipate that the charities receiving such donated shares would sell their holdings on the open market immediately after receipt.

In addition, eSpeed has issued shares of its Class A common stock, warrants and convertible preferred stock and granted registration rights in connection with certain of its strategic alliances. See Item 10. Certain Relationships and Related Transactions, and Director Independence.

During the year ended December 31, 2006, eSpeed repurchased an aggregate of 52,239 shares of its Class A common stock for a total of $0.5 million. The reacquired shares have been designated treasury shares and will be used for general corporate purposes. As of December 31, 2007, eSpeed s Board of Directors had authorized the repurchase of up to an additional $58.2 million of its outstanding Class A common stock. eSpeed and, after the merger, the Combined Company will consider making additional stock repurchases in 2008, but may cease making repurchases at anytime. For the year ended December 31, 2007, there were no stock repurchases.

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Risks Related to the Combined Company s Relationship with Cantor and Its Affiliates

Holders of Combined Company common stock will experience a reduction in their interest in the income distributed by BGC U.S. and BGC Global that is retained by the Combined Company upon the exchange of any BGC Holdings exchangeable limited partnership interest (or, if applicable, any BGC Holdings founding partner interest, BGC Holdings working partner interest or BGC Holdings REU interest) if, prior to such exchange, BGC Holdings distributes to its limited partners a greater share of the distributions BGC Holdings receives from BGC U.S. and BGC Global than the Combined Company distributes to its stockholders.

There is no assurance that the Combined Company and BGC Holdings will distribute to their respective equity holders an equal proportion of their profits from BGC U.S. and BGC Global and we expect that in the future the Combined Company may reinvest in BGC U.S. and BGC Global, including for the business needs of BGC U.S. and BGC Global. Pursuant to the terms of the BGC Holdings limited partnership agreement, distributions by BGC Holdings to its partners may not be decreased below 100% of net income received by BGC Holdings from BGC U.S. and BGC Global (other than with respect to selected extraordinary items, such as the disposition directly or indirectly of partnership assets outside of the ordinary course of business) unless the Combined Company and Cantor agree otherwise. In addition, distributions by the Combined Company to its stockholders will be determined by the Combined Company Board of Directors. Accordingly, there is overlap in the entities and persons who will make the determination as to the timing and amount of distributions from BGC U.S. and BGC Global with those who have an ultimate interest in those distributions, namely, the founding/working partners, the restricted equity partners, Cantor and the Combined Company s stockholders.

If BGC Holdings distributes to its limited partners a greater share of income received from BGC U.S. and BGC Global than the Combined Company distributes to its stockholders, and then Cantor exercises its exchange right to acquire Combined Company Class B common stock or Combined Company Class A common stock, as applicable (or, to the extent then-exchangeable, a BGC Holdings founding partner interest, a restricted equity partner interest or a working partner interest is exchanged for Combined Company Class A common stock), then Cantor, such founding partner, such restricted equity partner, and/or such working partner, as the case may be, will receive a greater share of the income of BGC U.S. and BGC Global than they had prior to such distribution by BGC Holdings and such exchange. This results from Cantor, such founding partner, such restricted equity partner, and/or such working partner, prior to such exchange, receiving the benefit of the income of BGC U.S. and BGC Global in the form of a distribution from BGC Holdings, and Cantor, such founding partner, such restricted equity partner, and/or such working partner, after such exchange, receiving the benefit of the profits of BGC U.S. and BGC Global in the form of equity in the Combined Company, which retained a greater portion of its share of the income of BGC U.S. and BGC Global. Consequently, holders of Combined Company Class A common stock and Class B common stock as of the date of such exchange will experience a reduction in their interest in the profits previously distributed by BGC U.S. and BGC Global but retained by the Combined Company.

The Combined Company will be controlled by Cantor, which will have potential conflicts of interest with the Combined Company and may exercise its control in a way that favors its interests to the Combined Company s detriment.

Cantor s Control

Immediately after the separation and the completion of the merger, Cantor will effectively be able to exercise control over the Combined Company s management and affairs and all matters requiring stockholder approval, including the election of the Combined Company s directors and determinations with respect to acquisitions and dispositions, as well as material expansions or contractions of the Combined Company s business, entry into new lines of business and borrowings and issuances of Combined Company Class A common stock and Class B common stock or other securities. This control will be subject to the approval of the Combined Company s independent directors on those matters requiring such approval. Cantor s voting power may also have

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the effect of delaying or preventing a change of control of the Combined Company. Conflicts of interest may arise between the Combined Company and Cantor in a number of areas relating to the Combined Company s past and ongoing relationships, including:

potential acquisitions and dispositions of businesses;

the issuance or disposition of securities by the Combined Company;

the election of new or additional directors to the Combined Company s Board of Directors;

the payment of dividends by the Combined Company (if any) and distribution of profits by BGC U.S., BGC Global and/or BGC Holdings;

business operations or business opportunities of the Combined Company and Cantor that would compete with the other party s business opportunities, including brokerage and financial services by the Combined Company and Cantor;

labor, tax, employee benefits, indemnification and other matters arising from the separation or the merger;

intellectual property matters;

business combinations involving the Combined Company;

the terms of the merger agreement and the related agreements we intend to enter into in connection with the merger and separation;

conflicts between the Combined Company s agency trading for primary and secondary bond sales and Cantor s investment banking bond origination business;

competition between the Combined Company s and Cantor s other equity derivatives and cash equity inter-dealer brokerage businesses; and

the nature, quality and pricing of administrative services to be provided by Cantor and/or Tower Bridge International Services, L.P.

The Combined Company also expects that Cantor will manage its ownership of the Combined Company so that it will not be deemed to be an investment company under the Investment Company Act, including by maintaining its voting power in the Combined Company above a majority absent an applicable exemption from the Investment Company Act. This may result in conflicts with the Combined Company, including those relating to acquisitions or offerings by the Combined Company involving issuances of common stock or securities convertible or exchangeable into shares of common stock that would dilute the voting power in the Combined Company of the holders of BGC Holdings exchangeable limited partnership interests.

In addition, Cantor has from time to time in the past considered possible strategic realignments of the business relationships that exist between and among Cantor and the businesses comprising the Combined Company and may do so in the future. Any future related party transactions or arrangements between the Combined Company and Cantor, until Cantor ceases to hold 5% of the Combined Company s voting power, will be subject to the prior approval by a majority of the Combined Company s independent directors, but generally will not otherwise require the separate approval of the Combined Company s stockholders, and if such approval were required, Cantor will retain sufficient voting power to provide any such requisite approval without the affirmative consent of the other stockholders.

In addition, the service of officers or partners of Cantor as the Combined Company s executive officers and directors, and those persons ownership interests in and payments from Cantor, and its affiliates, could create conflicts of interest when the Combined Company and those directors or officers are faced with decisions that could have different implications for Cantor and the Combined Company. See Risks Related to our Business The Combined Company s ability to retain our key employees and the ability of certain key

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employees to devote adequate time to us is critical to the success of our business, and failure to do so may adversely affect our revenues and as a result could materially adversely affect our business, financial condition and results of operations.

Our agreements and other arrangements with Cantor may be amended upon agreement of the parties to those agreements upon approval of the Special Committee (if prior to the merger) or Audit Committee of the Combined Company (if after the merger). During the time that the Combined Company is controlled by Cantor, Cantor may be able to require the Combined Company to agree to amendments to these agreements. The Combined Company may not be able to resolve any potential conflicts and, even if it does, the resolution may be less favorable to it than if it were dealing with an unaffiliated party.

Corporate Opportunities

In order to address potential conflicts of interest between the Combined Company and Cantor and its representatives, the Combined Company certificate of incorporation will contain provisions regulating and defining the conduct of the Combined Company s affairs as they may involve Cantor and its representatives, and the Combined Company s powers, rights, duties and liabilities and those of its representatives in connection with its relationship with Cantor and its affiliates, officers, directors, general partners or employees. The Combined Company certificate of incorporation will provide that no Cantor Company (as defined below) or any of the representatives (as defined below) of a Cantor Company will owe any fiduciary duty to, nor shall any Cantor Company or any of their respective representatives be liable for breach of fiduciary duty to, the Combined Company or any of its stockholders. The corporate opportunity policy that will be included in the Combined Company certificate of incorporation is designed to resolve potential conflicts of interest between the Combined Company and Cantor and its representatives. See Certain Relationships and Related Transactions, and Director Independence Potential Conflicts of Interest and Competition between eSpeed, the Combined Company and Cantor.

In addition, the Combined Company certificate of incorporation will provide that Cantor and its respective representatives will have no duty to refrain from:

- engaging in the same or similar business activities or lines of business as the Combined Company; or
- doing business with any of the Combined Company s clients or customers.

The limited partnership agreement for BGC Holdings will contain similar provisions with respect to the Combined Company and/or Cantor and their respective representatives, and the limited partnership agreements for BGC U.S. and BGC Global will contain similar provisions with respect to the Combined Company and/or BGC Holdings and their respective representatives.

If Cantor competes with the Combined Company, it could materially harm the Combined Company s business operations.

Agreements between the Combined Company and Cantor are between related parties and the terms of these agreements may be less favorable to the Combined Company than those that the Combined Company could have negotiated with third parties.

The Combined Company s relationship with Cantor results in agreements with Cantor that are between related parties. As a result, the prices charged to the Combined Company or by the Combined Company for services provided under agreements with Cantor may be higher or lower than prices that may be charged by third parties and the terms of these agreements may be less favorable to us than those that the Combined Company could have negotiated with third parties. For example, pursuant to the separation agreement, Cantor will have a right, subject to certain conditions, to be a customer of the Combined Company and to pay the lowest commissions paid by any other customer of the Combined Company, whether by volume, dollar or other applicable measure. In addition, Cantor will have an unlimited right to internally use market data from BGCantor

Market Data without any cost. Any future related party transactions or arrangements between the Combined Company and Cantor, until Cantor ceases to hold 5% of the Combined Company s voting power, will be subject to the prior approval by a majority of the Combined Company s independent directors, but generally will not otherwise require the separate approval of the Combined Company s stockholders, and if such approval were required, Cantor will retain sufficient voting power to provide any such requisite approval without the affirmative consent of the other stockholders. See Item 10. Certain Relationships and Related Transactions, and Director Independence.

Risks Related to the Combined Company s Capital Structure

Because the voting control of the Combined Company common stock will be concentrated among the holders of Combined Company Class B common stock, the market price of Combined Company Class A common stock may be adversely affected by disparate voting rights.

As of January 24, 2008, Cantor beneficially owned 87.1% of the Total Voting Power. Upon completion of the merger, Cantor will beneficially own approximately 88.2% of the combined voting power of all classes of Combined Company voting stock. As long as Cantor beneficially owns a majority of the combined voting power of Combined Company voting stock, it will have the ability, without the consent of the public stockholders, to elect all of the members of the Combined Company Board of Directors and to control the Combined Company s management and affairs. In addition, it will be able to determine the outcome of matters submitted to a vote of the Combined Company s stockholders for approval and will be able to cause or prevent a change of control of the Combined Company. In certain circumstances such as when transferred to an entity controlled by Cantor or Howard W. Lutnick, the shares of Combined Company Class B common stock issued to Cantor may be transferred without conversion to Combined Company Class A common stock.

The holders of Combined Company Class A common stock and Class B common stock will have substantially identical rights, except that holders of Combined Company Class A common stock will be entitled to one vote per share, while holders of Combined Company Class B common stock will be entitled to 10 votes per share on all matters to be voted on by stockholders in general. These votes are controlled by Cantor and are not subject to conversion or termination by the Combined Company Board of Directors or any committee thereof, or any other stockholder or third-party. This differential in the voting rights could adversely affect the market price of Combined Company Class A common stock.

Delaware law and the Combined Company certificate of incorporation may make a takeover of the Combined Company more difficult and dilute your percentage of ownership of Combined Company common stock.

Provisions of Delaware law, such as its business combination statute, may have the effect of delaying, deferring or preventing a change of control of the Combined Company. In addition, the Combined Company certificate of incorporation will authorize the issuance of preferred stock, which the Combined Company Board of Directors can create and issue without prior stockholder approval and with rights senior to those of the Combined Company common stock, as well as warrants to purchase Combined Company common stock. Any such issuances would make a takeover of the Combined Company more difficult and may dilute your percentage ownership of Combined Company common stock. The Combined Company certificate of incorporation and the Combined Company by-laws will include provisions that provide for advance notice for stockholder proposals and director nominations. These provisions may have the effect of delaying or preventing changes of control or management of the Combined Company, even if such transactions would have significant benefits to its stockholders. As a result, these provisions could limit the price some investors might be willing to pay in the future for shares of Combined Company Class A common stock.

Delaware law may protect decisions of the Combined Company Board of Directors that have a different effect on holders of Combined Company Class A common stock and Class B common stock.

Stockholders may not be able to challenge decisions that have an adverse effect upon holders of Combined Company Class A common stock if the Combined Company Board of Directors acts in a disinterested, informed manner with respect to these decisions, in good faith and in the belief that it is acting in the best interests of the Combined Company s stockholders. Delaware law generally provides that a Board of Directors owes an equal duty to all stockholders, regardless of class or series, and does not have separate or additional duties to either group of stockholders, subject to applicable provisions set forth in a company s charter.

ITEM 1B. UNRESOLVED STAFF COMMENTS

Not applicable.

ITEM 2. PROPERTIES

We have offices in the United States, United Kingdom and Asia. Our principal executive offices are located at contiguous space at 110 East 59th Street, New York, New York. For 2008, such rental expense is anticipated to be approximately $6.2 million. Under the Administrative Services Agreement, we are obligated to Cantor for our pro rata portion (based on square footage used) of rental expense during the 16-year term of the lease for such spaces.

Our largest presence outside of the New York metropolitan area is in London. In the second quarter of 2006, we relocated our principal London office to 40 Bank Street, Canary Wharf.

We occupy a concurrent computing center in Rochelle Park, New Jersey and a Midwest data center in Chicago, Illinois. In March 2007, we opened an additional data center in Trumbull, Connecticut. Our U.S. operations also lease office space in Boston, Massachusetts, Chicago, Illinois, Dallas, Texas, Los Angeles, California and Shrewsbury, New Jersey. In addition to our London location, our foreign operations lease office space in Hong Kong and Singapore. We believe that out facilities are adequate for our current operations. We believe that out facilities are adequate for our current operations and that we could potentially accommodate at least another 400 employees worldwide without acquiring additional space.

ITEM 3. LEGAL PROCEEDINGS

In August 2004, Trading Technologies International, Inc. (TT) commenced an action in the United States District Court, Northern District of Illinois, Eastern Division, against us. In its complaint, TT alleged that we infringe U.S. Patent No. 6,766,304, which issued on July 20, 2004, and U.S. Patent 6,772,132, which issued on August 3, 2004. TT later added eSpeed International and EccoWare LLC as defendants in a second amended complaint. On January 5, 2006, we answered TT s second amended complaint in which we denied the infringement allegations and we filed an amended counterclaim seeking a declaration that the patents in suit are invalid, we do not make, use or sell any product that infringes any claims of the patents in suit, the patents in suit are unenforceable because of inequitable conduct before the U.S. Patent and Trademark Office during the prosecution of the patents, and the patents are unenforceable due to TT s patent misuse. The Court consolidated for certain discovery and Markman hearing purposes our case with other patent infringement cases brought by TT against other defendants. A Markman hearing was held on August 16-18, 2006. On October 31, 2006, the Court issued a ruling on claim construction, which provides the meanings of the various terms in dispute in the asserted patents. In that ruling, the Court found that we correctly defined several of the patents key terms. The Court s ruling supports our consistent position that eSpeed and ECCO s products fall outside the scope of Trading Technologies patents. In February 2007, the Court denied TT s motion for clarification and reconsideration of the Markman decision and reconfirmed its October 2006 ruling. On June 20, 2007, the Court granted eSpeed s motion for partial summary judgment on TT s claims of infringement covering the Dual Dynamic, eSpeedometer and modified eSpeedometer versions of eSpeed and Ecco s products. As a result, the

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remaining products at issue in the case are the versions of the eSpeed and Ecco products that have not been on the market in the U.S. since roughly the end of 2004. TT moved for reconsideration of that summary judgment ruling which the court denied. The trial began on September 10, 2007 and ended on October 4, 2007. On October 10, 2007 a jury rendered a verdict that eSpeed and Ecco willfully infringed. The jury awarded damages in the amount of $3.5 million. On January 3, 2008, the court granted eSpeed s motion for directed verdict on willfulness, finding that eSpeed s infringement was not willful as a matter of law, and denied eSpeed s general motions for directed verdict and for new trial. On February 6, 2008, eSpeed s remittitur motion was conditionally granted and on February 12, 2008, TT accepted the remittitur, which reduces the jury s verdict to $2.5 million plus interest. Additionally, TT s motion for pre-judgment interest was granted and interest was set at the prime rate, compounded monthly. Presently pending before the Court is eSpeed s motion that the patents are unenforceable because of TT s inequitable conduct. A hearing is scheduled for April 2-3, 2008. The judgment entered by the Court on February 12, 2008 is subject to appeal by both parties. If TT ultimately prevails in the litigation, we may be required to pay TT damages and/or certain costs and expenses, and we may be forced to modify or withdraw certain products from the market. Both parties have requested attorneys fees from the other party, which may be awarded by the Court in exceptional cases.

In addition to the matters discussed above, we are a party to several pending legal proceedings and claims that have arisen during the ordinary course of business. The outcome of such items cannot be determined with certainty; therefore we cannot predict what the eventual loss or range of loss related to such matters will be. Our management believes that, based on currently available information, the final outcome of these current pending matter will not have a material effect on our cash flow, results of operations or financial position.

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ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

On December 13, 2007, we held our annual meeting of stockholders. At the meeting, the following directors were elected by the stockholders to hold office until the next annual meeting or until their successors have been duly elected and qualified: Howard W. Lutnick, Lee M. Amaitis, John H. Dalton, Catherine P. Koshland, Barry R. Sloane and Albert M. Weis.

The votes with respect to the election were cast in the following manner:

NAME	FOR	WITHHELD
	(Number of Votes)	
Howard W. Lutnick	217,826,376	12,679,424
Lee M. Amaitis	215,451,691	15,054,109
John H. Dalton	221,917,760	8,588,040
Catherine P. Koshland	222,375,462	8,130,338
Barry R. Sloane	228,482,067	2,023,733
Albert M. Weis	221,986,550	8,519,250

At the meeting, our Amended and Restated eSpeed, Inc. Incentive Bonus Compensation Plan was approved.

The votes with respect to the approval of our Amended and Restated eSpeed, Inc. Incentive Bonus Compensation Plan were cast in the following manner:

FOR	AGAINST	ABSTAIN
224,251,418	2,386,060	176,804

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PART II

ITEM 5. MARKET FOR THE REGISTRANT S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Price Range of Class A Common Stock

Our Class A common stock is traded in the Nasdaq Global Market under the symbol ESPD. There is no public trading market for our Class B common stock which is held by Cantor. The following table sets forth, for the fiscal quarters indicated, the high and low sales prices per share of our Class A common stock, as reported in the consolidated transaction reporting system. No quarterly dividends were declared during such periods.

	High	Low
2008		
First Quarter (through February 27, 2008)	$ 12.10	$ 10.90
2007		
First Quarter	$ 9.80	$ 7.22
Second Quarter	$ 11.28	$ 8.50
Third Quarter	$ 9.00	$ 7.02
Fourth Quarter	$ 11.64	$ 8.51
2006		
First Quarter	$ 9.57	$ 7.47
Second Quarter	$ 8.55	$ 7.15
Third Quarter	$ 9.23	$ 7.47
Fourth Quarter	$ 10.45	$ 8.45

On February 27, 2008, the last reported closing price of our Class A common stock on the NASDAQ Global Market was $12.10. As of February 27, 2008, there were 374 holders of record of our Class A common stock and two holders of record of our Class B common stock.

Dividend Policy

We intend to retain our future earnings, if any, to help finance the growth and development of our business. We have never declared or paid a cash dividend on our common stock.

In the event we decide to declare dividends on our common stock in the future, such declaration will be subject to the discretion of our Board of Directors. Our Board of Directors may take into account such matters as general business conditions, our financial results, capital requirements, and contractual, legal and regulatory restrictions on the payment of dividends by us to our stockholders or by our subsidiaries to us and any such other factors as our Board of Directors may deem relevant.

Following the proposed merger, we expect to use a substantial portion of the cash we receive from BGC US and BGC Global to distribute as dividends to our common stockholders or to reinvest.

Issuer Purchases of Equity Securities

On August 5, 2004, our Board of Directors authorized the repurchase of up to $100 million of outstanding Class A common stock to replace the remaining $20.5 million authorized from the prior plan. As of December 31, 2007, approximately $58.2 million from this plan was available for further share repurchases. As of December 31, 2007, we have repurchased an aggregate of 6.6 million shares of our Class A common stock for a total purchase price of approximately $63.4 million. The reacquired shares have been designated treasury shares and will be used for general corporate purposes. No repurchase of common stock was made during 2007, however we may consider making additional stock repurchases in 2008.

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ITEM 6. SELECTED CONSOLIDATED FINANCIAL DATA

The following table sets forth selected consolidated financial data for the last five years ended December 31, 2007. This selected consolidated financial data should be read in conjunction with Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations and our Consolidated Financial Statements and the accompanying Notes thereto included elsewhere in this Annual Report on Form 10-K.

	Year Ended December 31,				
	2007	2006	2005	2004	2003
			(in thousands)		
Total revenues	$ 159,215	$ 164,683	$ 151,834	$ 165,299	$ 155,815
Expenses:					
Compensation and employee benefits(1)	73,218	52,765	50,633	40,671	36,114
Occupancy and equipment:					
Amortization of software development costs and other intangibles	20,331	23,811	20,093	16,310	12,906
Other occupancy and equipment	37,067	37,280	30,678	25,202	23,733
Professional and consulting fees(2)	17,361	9,464	8,788	5,594	3,519
Provision for loss contingency(3)	3,500				
Impairment of long-lived assets	4,757	1,861	2,386	6,268	
Communications and client networks	9,117	8,101	8,157	6,487	6,714
Marketing	918	852	1,596	1,442	1,454
Administrative fees to related parties	13,824	12,598	13,938	13,228	10,442
Amortization of business partner and non-employee securities		19	318	856	2,167
Acquisition-related costs(4)	6,641	2,026	3,327		
Other expenses(5)	11,246	8,289	9,896	8,219	6,334
Total operating expenses	197,980	157,066	149,810	124,277	103,383
(Loss) income before income taxes	(38,765)	7,617	2,024	41,022	52,432
(Benefit) provision for income taxes	(6,267)	2,965	490	16,036	16,059
Net income	$ (32,498)	$ 4,652	$ 1,534	$ 24,986	$ 36,372
Per share data:					
Basic earnings per share	$ (0.64)	$ 0.09	$ 0.03	$ 0.45	$ 0.66
Diluted earnings per share	$ (0.64)	$ 0.09	$ 0.03	$ 0.44	$ 0.63
Basic weighted average shares of common stock outstanding	50,466	50,214	51,349	54,978	55,345
Diluted weighted average shares of common stock outstanding	50,466	51,258	52,066	56,318	57,499
Cash and cash equivalents	$ 97,857	$ 187,847	$ 178,435	$ 209,688	$ 228,500
Total assets	283,972	293,073	280,934	310,092	297,602
Total liabilities	50,101	39,994	37,188	41,726	26,901
Total stockholders equity	233,871	253,079	243,746	268,366	270,701

(1) Compensation costs for 2007 were $73.2 million compared with $52.8 million for 2006. The $20.4 million or 38.6% increase in compensation costs resulted from higher salaries and benefits, headcount growth, severance payments and the expense related to the acceleration of unvested, and the granting of fully vested, stock options and restricted stock units.

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(2) Professional and consulting fees were $17.4 million for 2007 compared with $9.5 million for 2006, an increase of $7.9 million, or 83.2%. The increase was primarily the result of on-going litigation costs as well as increased consulting and audit expenses.

(3) On October 10, 2007, a jury rendered a verdict that eSpeed and ECCO willfully infringed the patents in suit, and the eSpeed did not invalidate the patents. As such, we have accrued a loss contingency of $3.5 million for 2007. (For more information, see Note 8, Commitment and Contingencies, of the Consolidated Financial Statements).

(4) During 2007, we recorded $6.6 million of acquisition-related costs, which were primarily related to the merger, an increase of $4.6 million, compared with $2.0 million of acquisition-related costs we recorded in 2006. These costs primarily included legal, advisory and other related expenses.

(5) Other expenses consist primarily of insurance costs, recruiting, travel, net losses from our equity investments, promotional and entertainment expenditures. For 2007, other expenses were $11.2 million, an increase of $2.9 million, or 34.9%, compared with other expenses of $8.3 million for the comparable period in 2006. This increase was primarily due to higher recruiting fees and equity losses in Aqua.

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ITEM 7. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Introduction

This discussion summarizes the significant factors affecting our results of operations and financial condition during the year ended December 31, 2007, 2006 and 2005, respectively. This discussion is provided to increase the understanding of, and should be read in conjunction with, our Consolidated Financial Statements and the accompanying Notes thereto included elsewhere in this Report.

Discussion of Forward-Looking Statements

The information in this report contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Such statements are based upon current expectations that involve risks and uncertainties. Any statements contained herein that are not statements of historical fact may be deemed to be forward-looking statements. For example, words such as may, will, should, estimates, predicts, potential, continue, strategy, believes, anticipate intends and similar expressions are intended to identify forward-looking statements.

eSpeed and BGC Partners, Cantor, BGC U.S., BGC Global and BGC Holdings have entered into a definitive Agreement and Plan of Merger, dated as of May 29, 2007, as amended as of November 5, 2007 and February 1, 2008, pursuant to which BGC Partners will be merged with and into the Company. The merger was recommended by the Special Committee. To acquire BGC Partners, the Company has agreed to issue in the merger an aggregate of 133,860,000 shares of Combined Company common stock and rights to acquire shares of Combined Company common stock. Of these shares and rights to acquire shares, it is expected that 56,000,000 will be in the form of Combined Company Class B common stock or rights to acquire Combined Company Class B common stock, and the remaining 77,860,000 will be in the form of Combined Company Class A common stock or rights to acquire Combined Company Class A common stock. Current stockholders of the Company will hold the same number and class of shares of Combined Company common stock that they held in the Company prior to the merger. Following the completion of the merger, it is expected that the Combined Company Class A common stock will trade on the NASDAQ Global Market under the symbol BGCP. To obtain the required approval of the merger agreement by eSpeed s stockholders, we held a Special Meeting at which our stockholders adopted the merger agreement and the transactions contemplated thereby.

This Annual Report on Form 10-K reflects the business and financial condition of eSpeed, Inc. on a stand-alone basis, prior to the completion of the merger. Where appropriate or instructive, certain sections of this report refer to the Combined Company after completion of the merger. The merger is subject to the closing conditions set forth in the merger agreement. For further information regarding the merger, you are referred to the Merger Proxy Statement.

The actual results of eSpeed, BGC Partners or the Combined Company in the merger (we , our , or the Combined Company) and the outcome and timing of certain events may differ significantly from the expectations discussed in the forward-looking statements. Factors that might cause or contribute to such a discrepancy for eSpeed, BGC and/or the Combined Company include, but are not limited to, our relationship with Cantor and its affiliates and any related conflicts of interests, competition for and retention of brokers and other managers and key employees, pricing and commissions and market position with respect to any of our products, and that of our respective competitors, the effect of industry concentration and consolidation, and market conditions, including trading volume and volatility, as well as economic or geopolitical conditions or uncertainties. Results may also be impacted by the extensive regulation of our respective businesses and risks relating to compliance matters, as well as factors related to specific transactions or series of transactions, including credit, performance and unmatched principal risk as well as counterparty failure. Factors may also include the costs and expenses of developing, maintaining and protecting intellectual property, including judgments or settlements paid or received in connection with intellectual property or employment or other litigation and their related costs, and certain financial risks, including the possibility of future losses and negative cash flow from operations, risks of obtaining financing and risks of the resulting leverage, as well as interest and currency rate fluctuations.

Discrepancies may also result from such factors as the ability to enter new markets or develop new products, trading desks, marketplaces or services and to induce customers to use these products, trading desks, marketplaces or services, to secure and maintain market share, to enter into marketing and strategic alliances, and other transactions, including acquisitions, dispositions, reorganizations, partnering opportunities, and joint ventures, and the integration of any completed transactions, to hire new personnel, to expand the use of technology for screen-assisted, voice-assisted and fully electronic trading and to effectively manage any growth that may be achieved. Results are also subject to risks relating to the proposed merger and separation of the BGC Partners businesses and the relationship between the various entities, financial reporting, accounting and internal control factors, including identification of material weaknesses in our internal controls, our ability to prepare historical and pro forma financial statements and reports in a timely manner, and other factors, including those that are discussed under Risk Factors in this Annual Report on Form 10-K.

We believe that all forward-looking statements are based upon reasonable assumptions when made. However, we caution that it is impossible to predict actual results or outcomes or the effects of risks, uncertainties or other factors on anticipated results or outcomes and that accordingly you should not place undue reliance on these statements. Forward-looking statements speak only as of the date when made and we undertake no obligation to update these statements in light of subsequent events or developments.

Overview

eSpeed is a leader in developing and deploying electronic marketplaces and related trading technology that offer traders access to some of the most efficient, innovative and neutral financial markets in the world. We operate multiple buyer, multiple seller real-time electronic marketplaces for the global capital markets, including the world s largest government bond markets, the world s largest foreign exchange markets, and other financial marketplaces, which may be accessed through fully electronic transactions for some products or through an integrated hybrid voice-assisted network accessed by voice brokers. Our suite of marketplace tools provides end-to-end transaction solutions for the purchase and sale of financial products over our global private network or via the Internet. Our neutral platform, reliable network, straight-through processing and proven solutions make us a trusted source for fully electronic and integrated hybrid voice-assisted trading at some of the world s largest fixed income and foreign exchange trading firms, major exchanges and leading equities trading firms in the world.

During 2007, we became aware that certain revenues and expenses related to a portion of the development of related party software covered under the Company s Joint Service Agreement the (JSA) with Cantor required restatement. The Company had accounted for certain fees paid by related parties for software development as revenue in the period when the cash was received. The Company concluded that some of these paid fees should have been deferred and recognized ratably over the future period which such software will be used to provide services to Cantor. The restatement correction reduced revenue from current periods, thereby creating a deferred revenue liability. The restatement also corrected the amortization expense that was recorded in connection with the determination of the period of benefit provided by the developed software.

As a result of the restatement discussed above, a material weakness existed in our internal control over financial reporting with respect to controls over the proper application of generally accepted accounting principles for certain revenues and expenses related to a portion of the development of related party software covered under the JSA.

We have worked diligently to remediate the material weakness by implementing a new critical accounting policy, recruiting additional qualified staff and expanding existing procedures and controls such as formal communication procedures with appropriate computer software development managers. As such, as of December 31, 2007, the material weakness described above has been remediated.

Management Review of 2007 and Outlook for the Future

eSpeed strives for consistent growth and profitability while positioning the company for future success. With our pending merger with BGC Partners, we are making major efforts towards meeting this objective.

Over the last three years, BGC Partners growth has been an increasing revenue contributor to eSpeed. eSpeed s technology has supported BGC Partners growth in hybrid and electronic trading. We believe the merger will benefit our customers as we streamline product development and improve our technology, service and execution. Our stockholders will have a stake in a much larger and faster growing company. The Combined Company is expected to have higher earnings and cash flow than eSpeed on a standalone basis, and should have greater opportunities, advantages and synergies than either company by itself. Finally, our employee-owners will have a major equity stake in the Combined Company, which we believe will result in enhanced employee retention.

For eSpeed, 2007 was a transitional year. We increased our technology investment in our hybrid voice-assisted and fully electronic businesses and recognized significant acquisition and stock-based compensation expenses. We also opened a new data center in the northeastern United States, investing in new and redundant capital assets to better service the Combined Company. Additionally, the Wagner Patent expired on February 20, 2007, and we therefore no longer receive revenue related to this patent. The 2007 financials were also impacted by substantial litigation costs in connection with an ongoing patent infringement arrangements.

MARKETPLACES

U.S. Treasuries

We consider the trading of U.S. Treasury securities to be both a foundation for our company and an area for incremental growth. We believe that our volume growth in U.S. Treasuries is the result of solid customer relationships, our proprietary technology, the continuation of fixed price arrangements with our largest customers, and the impact of trading incentives at marginally lower commissions contained in many of our tailored pricing arrangements. Our fully electronic revenue per transaction declined during 2007 due to a continued increase in trading volumes among those customers with fixed components to their pricing contracts.

We believe that we remain well positioned to participate in the projected growth in the overall U.S. Treasury market primarily as a result of the increasing use of computer-assisted trading by participants in the market. We expect U.S. Treasury volumes to continue to grow as traders utilize computers to augment and implement their trading strategies.

Hybrid Voice and Screen-Assisted Products

Our integrated hybrid voice-assisted model provides us significant long-term opportunities, both in terms of fully electronic transaction volumes and for increased revenues across our product offerings. Historically, new markets have initially tended to trade by voice alone, often with the help of an inter-dealer broker. As volumes increase and the structure and characteristics of a market standardize over time, the potential to leverage technology and create new hybrid and fully electronic traded products increases, thereby allowing eSpeed, and, in the future, the Combined Company, to generate greater revenues. The combined volumes for hybrid voice and screen-assisted products increased by 25.8% in 2007, compared to 2006.

eSpeed has taken an active role in transitioning voice brokered products to a hybrid model. For example, during 2007 we launched a fully electronic BGC Partners-branded European credit default swaps and foreign exchange options trading platform marketed as BGC Trader . Further, the Belgian Debt Agency formally recognized BGC Partners as a designated electronic platform after consultation with the banks that are the Primary Dealers in Belgian Government Securities. Commencing in March 2008, the Belgian Primary Dealers will be able to officially meet their obligations on the BGC Partners platform powered by eSpeed. There is uncertainty, however, regarding the pace at which individual markets or financial instruments migrate from voice-only to hybrid and eventually to fully electronic trading.

Other Products and Investments

With our existing relationships, technology, network and prime location on trader desktops, we have the ability to extend our product-line beyond U.S. Treasuries and hybrid voice and screen-assisted markets. During 2007, we continued to develop and foster the growth of our other products, and announced the formation and our investment in two new business initiatives, Aqua and ELX.

Foreign Exchange We offer a trading platform that provides foreign exchange spot traders with what we believe is a better way to trade. However, we continue to encounter difficulties sustaining price support from market-makers. Accordingly, we are making strategic adjustments that include the deployment of a complementary second platform targeted at major institutions and market-makers. We believe that this new platform, combined with our experienced sales team and the continued growth in algorithmic trading and desktop traders, has us well positioned to capitalize on this opportunity.

Futures Our futures business is comprised of an order routing service that offers customers access to the futures markets over the eSpeed network, and the ECCO front-end trading software product that provides sophisticated trading tools such as automated spreading. We continue to focus on improving the structure and scalability of our current business, as well as investing in new product offerings and services. Enhancements to the ECCO product suite, such as faster links to the CME and Eurex exchanges, allow us to offer customers market leading automated spreading capabilities for the largest global futures exchanges.

Aqua In January 2007, we announced the formation of Aqua Securities, LP, an alternative electronic trading platform offering new pools of block liquidity to the global equities markets. Aqua is 51% owned by Cantor and 49% owned by eSpeed. Concurrent with this announcement, Kevin Foley relinquished his role as President of eSpeed, to lead this initiative as President and CEO of Aqua. During 2007, both companies collectively contributed financial, professional, and technology assets to the new venture, including eSpeed s former equities order routing business. (For more information, see Note 9, Investments, of the accompanying Consolidated Financial Statements).

On December 27, 2007, we and 11 other leading financial institutions announced the establishment of a fully-electronic futures exchange, ELX. Through a subsidiary, we will hold approximately a 25% interest in the exchange s operating limited partnership, ESX LP, and its holding company general partner, ESX LLC.

EARNINGS SUMMARY

Our net loss for 2007 was approximately $32.5 million or $0.64 per diluted share compared with net income of approximately $4.7 million or $0.09 per diluted share in 2006. Total revenues for 2007 were $159.2 million, a $5.5 million decrease compared to $164.7 million in 2006. The Wagner Patent, which contributed 2006 fully electronic revenues from unrelated parties and Software Solutions and licensing fees from unrelated parties of $6.2 million and $11.7 million, respectively, expired on February 20, 2007. As such, the Wagner Patent only contributed 2007 fully electronic revenues from unrelated parties and Software Solutions and licensing fees from unrelated parties of $1.3 million and $1.6 million, respectively. The Company no longer receives revenues from this patent. Additionally, in 2006 we received non-recurring gains from September 11th -related replacement insurance and government grant income from related parties of $3.5 million and $3.1 million respectively.

These results were offset by continued growth in our hybrid voice and screen-assisted businesses. Software Solutions fees from related parties were higher due to an increase in rates charged as well as additional demand for our support services from Cantor and BGC.

Total expenses for 2007 were approximately $198.0 million, a $40.9 million increase compared to $157.1 million in 2006. This increase was primarily due to increased compensation expenses due to growth in additional stock-based compensation charges due to the acceleration of unvested, and the granting of fully vested, stock options and restricted stock units in anticipation of the merger. The additional increase was primarily a result of merger-related acquisition expenses, ongoing litigation costs and a related $3.5 million loss contingency. (For more information, see Note 8, Commitment and Contingencies, of the Consolidated Financial Statements).

OUTLOOK

As we look to 2008 and beyond as a Combined Company, we will work towards the following goals:

- Improving Combined Company pre-tax margins by growing revenues and controlling expense levels.

- Leveraging our strong customer relationships to further grow our existing products and market share.

- Delivering innovative technology to further the evolution of new hybrid and fully electronic traded products.

- Continuing to globalize our footprint by accretively acquiring companies or teams in new markets and product areas.

- Developing the technology platform to launch and support ELX s fully-electronic futures exchange.

Critical Accounting Policies and Estimates

The following discussion is based upon our Consolidated Financial Statements and the accompanying Notes thereto, which have been prepared in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP). The preparation of these Consolidated Financial Statements requires us to make estimates and assumptions which affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. We regularly evaluate our estimates and assumptions related to stock-based compensation expense, goodwill and purchased intangible assets valuations, strategic investments, deferred income tax asset valuation allowances, restructuring costs, litigation and other loss contingencies. We base our estimates and assumptions on current facts, historical experience and various other factors that we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities and the accrual of costs and expenses that are not readily apparent from other sources. The actual results experienced by us may differ materially and adversely from our estimates. To the extent there are material differences between our estimates and the actual results, our future results of operations will be affected.

We believe that the following critical accounting policies affect our more significant estimates and judgments used in the preparation of our Consolidated Financial Statements and the accompanying Notes thereto.

Related party transactions

We share revenues with Cantor, BGC Partners, Freedom and CO2e.com, LLC (CO2e). In addition, we provide technology support services to Cantor, BGC, Freedom and CO2e, and Cantor provides administrative services to us.

Since Cantor holds a controlling interest in us, and holds a significant interest in BGC and Freedom, such transactions among and between us and Cantor, BGC Partners, Freedom and CO2e are on a basis that might not be replicated if such services or revenue sharing arrangements were between, or among, unrelated parties.

We recognize Software Solutions fees from related parties based on the allocated portion of our costs of providing services to our related parties. Such allocation of costs requires us to make estimates and judgments as to the equitable distribution of such costs. In addition, we receive administrative services from Cantor, for which we pay a fee based on Cantor s good faith determination of an equitable allocation of the costs of providing such services. There is no assurance that we could realize such revenues or obtain services, at such costs, if we had to replicate such arrangements with unrelated parties.

Related Party Software Development Services Revenue Recognition

We receive Software Solutions fees for the development of related party computer software. Upfront fees are deferred and recognized ratably over the future period during which such software will be used to provide services to the related party.

Patents

Intangible assets consist of purchased patents, costs incurred in connection with the filing and registration of patents and the costs to defend and enforce our rights under patents. Capitalized costs related to the filing of patents are generally amortized on a straight-line basis over a period not to exceed three years. The costs of acquired patents are amortized over a period not to exceed 17 years or the remaining life of the patent, whichever is shorter, using the straight-line method. The costs to defend and enforce our rights under these patents consist primarily of external litigation costs related to the pursuit of patent infringement lawsuits by us, and consist of fees for outside attorneys, technology experts and litigation support services. These costs are capitalized when such costs serve to enhance the value of the related patent, and are amortized over the remaining life of such patent. Should it be determined that the capitalized costs no longer serve to enhance the value of the related patent, such as a situation in which our patent is held to be invalid, these capitalized costs would be expensed in the period in which such determination was made. We believe the inherent value of the patents exceeds their carrying value. However, if the rights afforded us under the patents are not enforced or the patents do not provide the competitive advantages that we anticipated at the time of purchase, we may have to write-down the patents, and such charges could be substantial. See Note 5, Goodwill and Other Intangible Assets, and Note 8, Commitments and Contingencies, of the accompanying Notes to Consolidated Financial Statements for further discussion.

Goodwill and Indefinite Lived Intangible Assets

We review goodwill and indefinite lived intangible assets for impairment annually in the fourth quarter and whenever events or changes in circumstances indicate the carrying value of an asset may not be recoverable in accordance with Statement of Financial Accounting Standards (SFAS) No. 142, Goodwill and Other Intangible Assets. Goodwill is the excess of the purchase price over the fair value of identifiable net assets acquired in business combinations accounted for as a purchase. Goodwill is no longer amortized, but instead is subject to periodic testing for impairment. Goodwill impairment is determined using a two-step approach. The first step of the goodwill test compares the fair value of a reporting unit with its carrying amount, including goodwill. The second step of the goodwill impairment test compares the implied fair value of the reporting unit s goodwill with the carrying amount of that goodwill. If the carrying amount of the reporting unit s goodwill exceeds the implied fair value of that goodwill, an impairment loss is recognized in an amount equal to that difference. Determining the fair value of goodwill assets is judgmental in nature and involves the use of significant estimates and assumptions. We base our fair value estimates on assumptions we believe to be reasonable but are unpredictable and inherently uncertain. Actual future results may differ from those estimates.

Impairment of Long Lived Assets

We review long-lived assets, such as property, plant, and equipment, and definite lived intangible assets subject to amortization, for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable in accordance with SFAS No. 144, Accounting for the Impairment or Disposal of Long Lived Assets (SFAS 144). Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of the asset exceeds its estimated future cash flows, an impairment charge is recognized by the amount by which the carrying amount of the asset exceeds the fair value of the assets. We recognized impairment charges for long-lived assets of $4.8 million, $1.9 million and $2.4 million for the year ended December 31, 2007, 2006 and 2005, respectively. See Note 4, Fixed Assets, and Note 5, Goodwill and Other Intangible Assets, of the accompanying Notes to the Consolidated Financial Statements for more information regarding these impairment charges.

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Fixed Assets

We carry fixed assets at cost net of accumulated depreciation. Fixed assets, principally composed of computers, communication equipment and software, are depreciated over their estimated economic useful lives (generally three to seven years) using the straight-line method. Internal and external direct costs of application development and of obtaining software for internal use are capitalized and amortized over their estimated economic useful life (generally three years) on a straight-line basis. Leasehold improvements are amortized over their estimated economic useful lives, or the remaining lease term, whichever is shorter. Routine repairs and maintenance are expensed as incurred.

Income Taxes

SFAS No. 109, Accounting for Income Taxes, establishes financial accounting and reporting standards for the effect of income taxes. The objectives of accounting for income taxes are to recognize the amount of taxes payable or refundable for the current year and deferred tax liabilities and assets for the future tax consequences of events that have been recognized in an entity s financial statements or tax returns. Estimates and judgment are required in assessing the future tax consequences of events that have been recognized in our financial statements or tax returns.

FIN No. 48: In July 2006, the FASB issued interpretation No. 48, Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109 (FIN 48). FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. The provisions of FIN 48 were effective for the Company on January 1, 2007.

At the FIN 48 adoption date of January 1, 2007, the Company had $1.7 million of unrecognized tax benefits, all of which would affect the Company s effective tax rate if recognized. The Company recorded a cumulative effect adjustment of $0.2 million as a decrease to its January 1, 2007 retained earnings for the accrued interest expense on the unrecognized tax benefit. The Company recognizes interest and penalties related to uncertain tax positions as an accrued expense. At December 31, 2007, the Company had $1.7 million of unrecognized tax benefits. During the first twelve months of 2007, the Company expensed less than $0.2 million of interest expense related to the unrecognized tax benefit. As of December 31, 2007, the Company had approximately $0.4 million of accrued interest related to uncertain tax positions. The Company files income tax returns in the U.S. federal jurisdiction and various states, local and foreign jurisdictions. The Company, with few exceptions, is no longer subject to U.S. federal, state/local or non-U.S. income tax examination by tax authorities for years prior to 2003, 1999 and 2000, respectively.

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RESULTS OF OPERATIONS

Revenues

The following table sets forth certain Consolidated Statements of Income data expressed as a percentage of net revenue for the periods indicated:

	Year Ended December 31, 2007	Percentage of Total Revenue	Year Ended December 31, 2006	Percentage of Total Revenue	Year Ended December 31, 2005	Percentage of Total Revenue
			(in thousands)			
Transaction revenues						
Fully electronic transactions with related parties	$ 63,941	40.2%	$ 62,084	37.7%	$ 74,669	49.2%
Fully electronic transactions with unrelated parties	2,395	1.5%	6,937	4.2%		
Total fully electronic transactions	66,336	41.7%	69,021	41.9%	74,669	49.2%
Voice-assisted brokerage transactions with related parties	27,822	17.4%	26,043	15.8%	25,192	16.6%
Screen-assisted open outcry transactions with related parties	7,887	5.0%	5,675	3.4%	2,863	1.9%
Total transaction revenues	102,045	64.1%	100,739	61.2%	102,724	67.7%
Software Solutions fees from related parties,	36,414	22.9%	30,822	18.7%	24,709	16.3%
Software Solutions and licensing fees from unrelated parties	10,983	6.9%	16,981	10.3%	15,534	10.2%
Insurance recovery from related parties			3,500	2.1%	1,692	1.1%
Grant income			3,100	1.9%		
Gain on sale of investments					1,015	0.7%
Interest income,	9,773	6.1%	9,541	5.8%	6,160	4.1%
Total revenues	$ 159,215	100.0%	$ 164,683	100.0%	$ 151,834	100.0%

Revenues Comparison of the years ended December 31, 2007 and 2006

Total transaction revenues

Total transaction revenues for 2007 were $102.0 million compared with $100.7 million in 2006. There were 251 trading days in 2007 and 250 trading days in 2006. Fully-electronic, voice-assisted, and screen-assisted volumes transacted increased by $23,135 billion (approximately $23.1 trillion), or 23.6%, to $121,050 billion (approximately $121.0 trillion) for 2007 from $97,915 billion (approximately $97.9 trillion) for 2006. During 2007, fully electronic, voice-assisted and screen-assisted transaction revenues contributed 65.0%, 27.3% and 7.7% of our total transaction revenues, respectively, compared with 68.5%, 25.9% and 5.6% respectively, in 2006.

Fully electronic transaction revenues with related parties for 2007 were $63.9 million, a $1.8 million or 2.9% increase from $62.1 million in 2006. This increase was primarily the result of higher trading volumes on the eSpeed system. Total Fully Electronic volume on the eSpeed platform in 2007 was $50.9 trillion compared with $42.2 trillion for 2006.

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For the year ended December 31, 2007, fully electronic transaction revenues with unrelated parties were $2.4 million**,** of which $1.3 million was related to the Wagner Patent. The Wagner Patent expired on February 20, 2007.

Voice-assisted brokerage revenues with related parties for 2007 were $27.8 million, an increase of 6.9% from $26.0 million in 2006. This increase was due to BGC s investment and expansion in the voice brokerage business.

Screen-assisted open outcry revenues with related parties for 2007 were $7.9 million, an increase of 38.6% from $5.7 million in 2006. The increase was also due to BGC s investment and expansion in the voice brokerage business.

Our revenues are highly dependent on transaction volume in the global financial product trading markets. Accordingly, among other things, equity and interest rate market volatility, economic and political conditions in the United States and elsewhere in the world, concerns over inflation, institutional and consumer confidence levels, the availability of cash for investment by mutual funds and other wholesale and retail investors, fluctuating interest and exchange rates and legislative and regulatory changes and currency values may have an impact on our volume of transactions. In addition, a significant amount of our revenues is currently received in connection with our relationship with related parties, primarily Cantor.

Software Solutions fees from related parties

Software Solutions fees from related parties for 2007 were $36.4 million compared with $30.8 million in 2006, an increase of 18.2%. This increase resulted from an increase in demand for our support services due to the growth of both the Cantor and BGC businesses.

Software Solutions and licensing fees from unrelated parties

Software Solutions and licensing fees from unrelated parties for 2007 were $11.0 million compared with $17.0 million in 2006, a decrease of $6.0 million or 35.3%. This decrease was primarily due to the expiration of the Wagner Patent on February 20, 2007. Wagner Patent related revenues were $1.6 million in 2007 as compared with $11.7 million in 2006. This decrease was partially offset by growth in ECCO revenue and other licenses. While we have some uncertainty regarding our licensing fee revenues, we have a broad intellectual property patent portfolio that we believe will be valuable in the future. See Note 5, Goodwill and Other Intangible Assets, of the accompanying Notes to Consolidated Financial Statements for further discussion.

Insurance recovery from related parties

In 2006, we recognized a gain of $3.5 million for insurance proceeds received from Cantor related to the September 11 Events. See Note 3, September 11 Events, of the accompanying Notes to Consolidated Financial Statements for a more detailed discussion of the insurance proceeds received. We do not expect to receive additional insurance proceeds.

Grant income

During the fourth quarter of 2006, we recognized grant income of $3.1 million related to WTC Business Recovery from Disproportionate Loss Program and the World Trade Center Job Creation and Retention Program as we met all the various thresholds established in the grant agreements. We do not expect to receive additional income from this grant.

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Interest income

For 2007, the blended weighted average interest rate that we earned on overnight reverse repurchase agreements and money market Treasury funds was 5.3 % compared with 5.2% in 2006. As a result of the increase in the weighted average interest rate and average balances between years, we generated interest income of $9.8 million for 2007 compared with $9.5 million for 2006, an increase of 3.2%. Additionally, for the year ended December 31, 2007, interest income relating to the Cantor loan was approximately $1.5 million.

Revenues Comparison of the years ended December 31, 2006 and 2005

Total transaction revenues

Total transaction revenues for 2006 were $100.7 million compared with $102.7 million in 2005. There were 250 trading days in both years. Fully-electronic, voice-assisted, and screen-assisted volumes transacted increased by $28,371 billion (approximately $28.4 trillion), or 40.8%, to $97,915 billion (approximately $97.9 trillion) for 2006 from $69,544 billion (approximately $69.5 trillion) for 2005. During 2006, fully electronic, voice-assisted and screen-assisted transaction revenues contributed 68.5%, 25.9% and 5.6% of our total transaction revenues, respectively, compared with 72.7%, 24.5% and 2.8% respectively, in 2005.

Fully electronic transaction revenues with related parties for 2006 were $62.1 million, a $12.6 million or 16.9% decrease from $74.7 million in 2005. This decrease was primarily the result of our customers continued transition to fixed fee pricing from a variable fee commission model. This decline was partially offset by higher trading volumes on the eSpeed platform of $42.2 trillion for 2006.

For the year ended December 31, 2006, fully electronic transaction revenues with unrelated parties were $6.9 million, of which $6.2 million related to Wagner Patent transactions. The Wagner Patent expired on February 20, 2007.

Voice-assisted brokerage revenues with related parties for 2006 were $26.0 million, an increase of 3.2% from $25.2 million in 2005. This increase was primarily due to BGC s investment and expansion in the voice brokerage business partially offset by the effects of desk consolidations following the Maxcor acquisitions.

Screen-assisted open outcry revenues with related parties for 2006 were $5.7 million, an increase of 96.6% from $2.9 million in 2005. The increase was primarily due to BGC s investment and expansion in the voice brokerage business and BGC s trading desks migrating to screen-assisted open outcry from voice only desks.

Software Solutions fees from related parties

Software Solutions fees from related parties for 2006 were $30.8 million compared with $24.7 million in 2005, an increase of 24.7%. This increase resulted from an increase in demand for our support services due to the growth of both the Cantor and BGC businesses.

Software Solutions and licensing fees from unrelated parties

Software Solutions and licensing fees from unrelated parties for 2006 were $17.0 million compared with $15.5 million in 2005, an increase of 9.7%. This increase was primarily due to additional Wagner Patent fees as we earned revenues of approximately $11.7 million in 2006 as compared with $10.0 million in 2005. The Wagner Patent expired on February 20, 2007. While we have some uncertainty regarding our licensing fee revenues, we have a broad intellectual property patent portfolio that we believe will be valuable in the future. See Note 5, Goodwill and Other Intangible Assets, of the accompanying Notes to Consolidated Financial Statements for further discussion.

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Insurance recovery from related parties

In 2006, we recognized a gain of $3.5 million for insurance proceeds received from Cantor related to the September 11 Events. See Note 3, September 11 Events, of the accompanying Notes to Consolidated Financial Statements for a more detailed discussion of the insurance proceeds received. In 2005, we recognized a gain of $1.7 million for insurance proceeds received from Cantor related to the September 11 Events.

Grant income

During the fourth quarter of 2006, we recognized grant income of $3.1 million related to WTC Business Recovery from Disproportionate Loss Program and the World Trade Center Job Creation and Retention Program as we met all the various thresholds established in the grant agreements.

Gain on sale of investments

During 2005, we sold the secured convertible bond issued by EasyScreen PLC. As a result, we recorded a pre-tax gain of $1.0 million. There were no gains on sale of investments in 2006.

Interest income

For 2006, the blended weighted average interest rate that we earned on overnight reverse repurchase agreements and money market Treasury funds was 5.2% compared with 3.3% in 2005. As a result of the increase in the weighted average interest rate and average balances between years, we generated interest income of $9.5 million for 2006 compared with $6.2 million for 2005, an increase of 54.9%.

Expenses

The following table sets forth certain Consolidated Statements of Income data, expressed as a percentage of total expenses for the periods indicated:

	Year Ended December 31, 2007	Percentage of Total Expenses	Year Ended December 31, 2006	Percentage of Total Expenses	Year Ended December 31, 2005	Percentage of Total Expenses
			(in thousands)			
Compensation and employee benefits	$ 73,218	37.0%	$ 52,765	33.6%	$ 50,633	33.8%
Amortization of software development costs and other intangible assets	20,331	10.2%	23,811	15.2%	20,093	13.4%
Other occupancy and equipment	37,067	18.7%	37,280	23.7%	30,678	20.5%
Administrative fees to related parties	13,824	7.0%	12,598	8.0%	13,938	9.3%
Professional and consulting fees	17,361	8.8%	9,464	6.0%	8,788	5.9%
Impairment of long-lived assets	4,757	2.4%	1,861	1.2%	2,386	1.6%
Communications and client networks	9,117	4.6%	8,101	5.2%	8,157	5.4%
Marketing	918	0.5%	852	0.5%	1,596	1.1%
Amortization of non-employee securities		0.0%	19	0.0%	318	0.2%
Provision for loss contingency	3,500	1.8%		0.0%		0.0%
Acquisition related costs	6,641	3.3%	2,026	1.3%	3,327	2.2%
Other	11,246	5.7%	8,289	5.3%	9,896	6.6%
Total operating expenses	$ 197,980	100.0%	$ 157,066	100.0%	$ 149,810	100.0%

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Expenses Comparison of the years ended December 31, 2007 and 2006

Compensation and employee benefits

Compensation costs for 2007 were $73.2 million compared with $52.8 million for 2006. The $20.4 million or 38.6% increase in compensation costs resulted from higher salaries and benefits, headcount growth, severance payments and the expense related to the acceleration of unvested, and the granting of fully vested, stock options and restricted stock units.

Substantially all of our employees are full-time employees located predominately in the New York metropolitan area and London. Compensation costs include salaries, bonuses, stock based compensation, payroll taxes and costs of employer-provided benefits for our employees.

Amortization of software development costs and other intangibles

Amortization of software development costs and other intangibles was $20.3 million for 2007, a decrease of $3.5 million, or 14.7%, compared with $23.8 million in 2006. The decrease was primarily related to the Wagner Patent expiration on February 20, 2007. During 2007, we recorded Wagner Patent amortization of approximately $0.6 million compared with $4.8 million in 2006.

Other occupancy and equipment costs

Occupancy and equipment costs were $37.1 million for 2007, a $0.2 million or 0.6% decrease compared with $37.3 million for 2006. The 2007 expenses associated with our new northeast data center offset a one-time cost associated with the relocation of our London offices in 2006.

Occupancy expenditures primarily consisted of the rent and facilities costs of our offices in the New York metropolitan area and London. During the first quarter of 2005, we relocated employees to our new global headquarters at 110 E. 59th Street in New York s midtown Manhattan, and during the first half of 2006, we relocated our London employees to our new offices located in the Canary Wharf section of London.

Administrative fees to related parties

Under the Administrative Services Agreement, Cantor provides various administrative services to us, including accounting, tax, legal, human resources and facilities management, for which we reimburse Cantor for the direct and indirect costs of providing such services.

Administrative fees to related parties were $13.8 million for 2007, an increase of $1.2 million, or 9.5%, compared with $12.6 million in 2006. Administrative fees to related parties are dependent upon both the costs incurred by Cantor and the portion of Cantor s administrative services that is utilized by us.

Professional and consulting fees

Professional and consulting fees were $17.4 million for 2007 compared with $9.5 million for 2006, an increase of $7.9 million, or 83.2%. This increase was primarily the result of on-going litigation costs as well as increased consulting and audit expenses.

Impairment of long-lived assets

Impairment charges were $4.8 million for 2007 compared with $1.9 million for 2006, an increase of $2.9 million, or 152.6%. In 2007 and 2006, we incurred impairment charges primarily related to discarded software development and fixed assets no longer in service. For further discussion, see Note 4, Fixed Assets, and Note 5, Goodwill and Other Intangible Assets, of the accompanying Notes to Consolidated Financial Statements.

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Communications and client networks

Communications costs were $9.1 million for 2007 compared with $8.1 million in 2006, an increase of $1.0 million or 12.3%. In 2007, we incurred additional costs related to the opening of our new northeast data center and increased circuit costs for our private client network.

Communications and client networks costs include the costs of local and wide area network infrastructure, the cost of establishing the client network linking clients to us, data and telephone lines, data and telephone usage and other related costs. We anticipate expenditures for communications and client networks may increase in the near future as we continue to connect additional customers to our network.

Provision for loss contingency

On October 10, 2007, a jury rendered a verdict that eSpeed and ECCO willfully infringed the patents in suit, and that eSpeed did not invalidate the patents. As such, we have accrued a loss contingency of $3.5 million for 2007. (For more information, see Note 8, Commitment and Contingencies, of the Consolidated Financial Statements).

Acquisition- related costs

During 2007, we recorded $6.6 million of acquisition-related costs, which were primarily related to the merger, an increase of $4.6 million, compared with $2.0 million of acquisition-related costs we recorded in 2006. These costs primarily included legal, advisory and other related expenses.

Other expenses

Other expenses consist primarily of insurance costs, recruiting, travel, net losses from our equity investments, promotional and entertainment expenditures. For 2007, other expenses were $11.2 million, an increase of $2.9 million, or 34.9%, compared with other expenses of $8.3 million for the comparable period in 2006. This increase was primarily due to higher recruiting fees and equity losses in Aqua.

Income taxes

During 2007, we recorded an income tax benefit of $6.3 million corresponding to a 16.1% effective tax rate, compared with an income tax provision of $3.0 million corresponding to a 38.9% effective tax rate in 2006. Our consolidated effective tax rate can vary from period to period depending on, among other factors, permanent differences and the geographic and business mix of our earnings.

Expenses Comparison of the years ended December 31, 2006 and 2005

Compensation and employee benefits

Compensation costs for 2006 were $52.8 million compared with $50.6 million for 2005. The $2.2 million or 4.4% increase in compensation costs resulted from higher salaries and benefits. Additionally, with the adoption of SFAS No. 123R, Share-Based Payment on January 1, 2006, we recognized approximately $0.6 million of SFAS 123R expense in 2006.

Amortization of software development costs and other intangibles

Amortization of software development costs and other intangibles was $23.8 million for 2006, an increase of $3.7 million, or 18.4%, compared with $20.1 million in 2005. This increase was related to accelerated amortization of $1.2 million due to the anticipated early retirement of certain of our internally developed software which was replaced in the second quarter of 2006, continued investment in software development activities during the prior 12 months and an increase in the amortization of software development. During the years ended December 31, 2006 and 2005, we recorded Wagner Patent and defense costs amortization of approximately $4.8 million. Our Wagner Patent and defense costs were fully amortized in the first quarter of 2007.

Other occupancy and equipment costs

Occupancy and equipment costs were $37.3 million for 2006, a $6.6 million or 21.5% increase compared with $30.7 million for 2005. The increase was $3.8 million in rent primarily attributable to the relocation of our London offices, and $2.7 million related to increased depreciation and computer expense from information technology equipment and fixed asset purchases as we continued to invest in our technical platform to support the growth of our fully-electronic businesses and our affiliated voice brokers.

Occupancy expenditures primarily consisted of the rent and facilities costs of our offices in the New York metropolitan area and London. During the first quarter of 2005, we relocated employees to our new global headquarters at 110 E. 59th Street in New York s midtown Manhattan, and during the first half of 2006, we relocated our London employees to our new offices located in the Canary Wharf section of London.

Administrative fees to related parties

Under the Administrative Services Agreement, Cantor provides various administrative services to us, including accounting, tax, legal, human resources and facilities management, for which we reimburse Cantor for the direct and indirect costs of providing such services. Administrative fees to related parties are dependent upon both the costs incurred by Cantor and the portion of Cantor s administrative services that is utilized by us. Administrative fees to related parties amounted to $12.6 million for 2006, a decrease of $1.3 million, or 9.4%, compared with $13.9 million in 2005.

Professional and consulting fees

Professional and consulting fees were $9.5 million for 2006 compared with $8.8 million for 2005, an increase of $0.7 million, or 7.7%. This increase was primarily the result of increase in technology consulting expenses during the second half of 2006.

Impairment of long-lived assets

Impairment charges were $1.9 million for 2006 compared with $2.4 million for 2005, a decrease of $0.5 million, or 20.8%. In 2006 and 2005, we incurred impairment charges primarily related to discarded software development and fixed assets no longer in service. For further discussion, see Note 4, Fixed Assets, and Note 5, Goodwill and Other Intangible Assets, of the accompanying Notes to Consolidated Financial Statements.

Communications and client networks

Communications costs were $8.1 million for 2006 compared with $8.2 million in 2005. We anticipate expenditures for communications and client networks may increase in the future as we continue to connect additional customers to our network.

Amortization of business partner and non-employee securities

We enter into strategic alliances with other industry participants in order to expand our business and to enter into new marketplaces. As part of these strategic alliances, we have issued warrants and convertible preferred stock. These securities do not require cash outlays and do not represent a use of our assets. The expense related to

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these issuances is based on the value of the securities being issued and the structure of the transaction. Generally, this expense is amortized over the term of the related agreement.

Charges in relation to the amortization of business partner and non-employee securities were $19,000 for 2006 compared with $0.3 million in 2005. The decrease resulted from non-employee options that became fully amortized at the end of the first quarter of 2006.

Acquisition- related costs

During 2006, we recorded $2.0 million of acquisition-related costs with respect to a potential acquisition that we determined not to pursue further at that time. During the comparable period in 2005, we recorded $3.3 million of acquisition-related costs. These costs primarily included legal, advisory and other related expenses.

Other expenses

Other expenses consist primarily of insurance costs, travel, promotional and entertainment expenditures. For 2006, other expenses were $8.3 million, a decrease of $1.6 million, or 16.2%, compared with other expenses of $9.9 million for the comparable period in 2005. This decrease was principally due to lower travel and entertainment related expenses and a collection of a fully reserved receivable of $0.7 million related to a legal settlement with Municipal Partners.

Income taxes

During 2006, we recorded an income tax provision of $3.0 million corresponding to a 38.9% effective tax rate, compared with an income tax provision of $0.4 million corresponding to a 24.2% effective tax rate in 2005. Our consolidated effective tax rate can vary from period to period depending on, among other factors, permanent differences and the geographic and business mix of our earnings.

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Market Summary

The following table provides certain volume and transaction count information on the eSpeed system for the periods indicated:

	Quarterly Market Activity for the Quarters Ended		Yearly Market Activity for the Years Ended	
	December 31, 2007	December 31, 2006	December 31, 2007	December 31, 2006
Volume (in billions)				
Fully Electronic Volume Excluding New Products*	$ 11,364	$ 9,813	$ 46,143	$ 38,385
Fully Electronic Volume New Products*	1,335	1,335	4,806	3,783
Total Fully Electronic Volume	12,699	11,148	50,949	42,168
Voice Assisted Volume	9,769	7,933	39,357	32,860
Screen Assisted Volume	7,503	6,111	30,744	22,887
Total Volume	$ 29,971	$ 25,192	$ 121,050	$ 97,915
Transaction Count				
Fully Electronic Transactions Excluding New Products	2,810,937	1,764,930	9,283,253	7,459,514
Fully Electronic Transactions New Products	125,631	142,239	552,107	552,899
Total Fully Electronic Transactions	2,936,568	1,907,169	9,835,360	8,012,413
Voice Assisted Transactions	202,500	177,789	829,690	792,159
Screen Assisted Transactions	116,826	62,977	443,012	268,894
Total Transactions	3,255,894	2,147,935	11,108,062	9,073,466
Trading Days	62	62	251	250
U.S. Primary Dealer Treasury Volume (in billions)				
U.S. Treasury Volume	$ 35,044	$ 30,742	$ 141,994	$ 131,410
Average Daily U.S. Treasury Volume	$ 565	$ 496	$ 566	$ 526

* New Products are defined as Foreign Exchange, Interest Rate Swaps, Repos, Futures, and Credit Default Swaps.

Reported volumes and transaction counts include transactions by Cantor and its affiliates that participate in certain of our marketplaces by posting quotations for their accounts and by acting as principal on trades. While the principal participation may vary widely from product to product and may be significant for any given product or period, in no case does the principal participation by Cantor and its affiliates exceed 10% of any of the reported volume or transaction counts, except as otherwise noted. Such activity is intended, among other things, to assist these affiliates in managing their proprietary positions, and to facilitate transactions, add liquidity, increase commissions and attract additional order flow to the eSpeed system and revenue to both us and Cantor and its affiliates.

Quarterly Market Activity

Fully electronic volume on our system, excluding new products, was $11.4 trillion for the quarter ended December 31, 2007, up 16.3% from $9.8 trillion for the quarter ended December 31, 2006. Our combined voice-assisted and screen-assisted volume for the quarter ended December 31, 2007 was $17.3 trillion, an increase of 23.6% from $14.0 trillion for the quarter ended December 31, 2006.

Fully electronic volume on our system for new products, which we define as foreign exchange, interest rate swaps, futures and repos, was $1.3 trillion for the quarter ended December 31, 2007, flat versus the $1.3 trillion for the quarter ended December 31, 2006.

Yearly Market Activity

Fully electronic volume on our system, excluding new products, was $46.1 trillion for the year ended December 31, 2007, up 20.1% from $38.4 trillion for the year ended December 31, 2006. Our combined voice-assisted and screen-assisted volume for the year ended December 31, 2007 was $70.1 trillion, an increase of 25.9% from $55.7 trillion for the year ended December 31, 2006.

Fully electronic volume on our system for new products was $4.8 trillion for year ended December 31, 2007, up 26.3% against the $3.8 trillion for the year ended December 31, 2006.

SEASONALITY

The financial markets in which we operate are generally affected by seasonality. Traditionally, the financial markets around the world experience lower volume during the summer and at the end of the year due to a general slowdown in the business environment and, therefore, transaction volume levels may decrease during those periods. The timing of the holidays generally contributes to a slowdown in transaction volume.

LIQUIDITY AND CAPITAL RESOURCES

Our principal source of liquidity is our operating cash flow. This cash-generating capability is one of our strengths and provides us with substantial financial flexibility in meeting operating, investing and financing needs. At December 31, 2007, we had cash and cash equivalents of $97.9 million, a decrease of $89.9 million compared with $187.8 million at December 31, 2006. This decrease in cash was primarily related to the Secured Promissory Note and Pledge Agreement dated July 26, 2007 (the Secured Loan,) with Cantor in which we agreed to lend Cantor up to $100 million on a secured basis from time to time, which would result in a reduction of our cash and cash equivalents and increase our Secured Loan receivable from Cantor. At December 31, 2007, the outstanding balance was $65 million. As of March 14, 2008, the outstanding balance of the Secured Loan was $0.

Operating Activities

During the year ended December 31, 2007, our operating activities provided cash of $16.6 million compared with $36.8 million during the comparable period in 2006. For the year ended December 31, 2007 compared with the year ended December 31, 2006, we recorded a net loss of $32.5 million versus $4.7 million in net income for the comparable period in 2006. For the year ended December 31, 2007 compared with the year ended December 31, 2006, depreciation and amortization expenses decreased by approximately $5.0 million as a result of the expiration of the Wagner Patent on February 20, 2007, and accelerated amortization in 2006 due to the early retirement of certain internally developed software. Stock-based compensation increased by $10.5 million due to the acceleration of unvested, and granting of fully vested, stock options and restricted stock units. The $1.9 million decrease in the recognition of deferred revenue for the year ended December 31, 2007 as compared with the year ended December 31, 2006 was a result of recognizing income related to the WTC Business Recovery from Disproportionate Loss Program and the World Trade Center Job Creation and Retention Program during the fourth quarter of 2006. Also during 2007, we impaired long-lived assets of approximately $4.8 million versus $1.9 million during 2006.

These changes were partially offset by the increase in accounts payable and accrued liabilities of $5.0 million, which was primarily due to increased expenses and the timing of payments to vendors. Other assets for the year ended December 31, 2007 as compared with the year ended December 31, 2006 decreased primarily due to cash payments for receivables related to the licensing of the Wagner Patent which were outstanding in the prior year and a decrease in restricted cash of $1.8 million, partially offset by $4.4 million of deferred income taxes. Operating cash flows consist of transaction revenues and Software Solutions fees from related and unrelated parties, licensing fees from unrelated parties, various fees paid to or costs reimbursed to Cantor, other costs paid directly by us and interest income. In its capacity as a fulfillment service provider, Cantor processes and settles transactions and, as such, collects and pays the funds necessary to clear transactions with the counterparty. In doing so, Cantor receives our portion of the transaction fee and, in accordance with the JSA, remits the amount owed to us. In addition, we have entered into similar services agreements with BGC, Freedom and CO2e. Under the Administrative Services Agreement, the Joint Services Agreement and the services agreements with Cantor, BGC, Freedom, and CO2e, any net receivable or payable is settled monthly.

Investing Activities

During the year ended December 31, 2007, we used cash in investing activities of approximately $106.8 million compared with $28.2 million during the comparable period in 2006. The increase was primarily related to the secured loan to Cantor of $65.0 million, an increase of $4.0 million in software development costs which were capitalized, a $3.9 million increase in fixed assets purchases, the purchase of $2.4 million available-for-sale marketable securities, and an investment in Aqua of $1.4 million. These increases were offset by the return of $1.8 million of restricted cash during the year ended December 31, 2007. Additionally, during the year ended December 31, 2006, we received $3.5 million in insurance proceeds related to the replacement of fixed assets lost in the September 11 Events (see Note 3, September 11 Events, of the accompanying Notes to Condensed Consolidated Financial Statements for more information regarding the September 11 Events).

As part of our overall cash strategy, we currently enter into reverse repurchase agreements with Cantor and its affiliates as short-term investments. As an alternative to this policy of investing our cash in reverse repurchase agreements with Cantor, on July 26, 2007 we entered into the Secured Loan with Cantor in which we agreed to lend to Cantor up to $100,000,000 on a secured basis from time to time. The Secured Loan is guaranteed by a pledge of eSpeed Class A or Class B Common Stock owned by Cantor equal to 125% or the outstanding Secured Loan amount, as determined on a next day basis. The Secured Loan will bear interest at the market rate for equity repurchase agreements plus 0.25% and is payable on demand. The interest rate of the Secured Loan on December 31, 2007 was 3.75%. The outstanding balance, if any, would result in a reduction of our cash and cash equivalents and an increase in our Secured Loan receivable from Cantor. As of March 14, 2008, the outstanding balance of the Secured Loan was $0.

Financing Activities

During 2007, our financing activities were approximately $0.1 million compared with cash provided by financing activities of $0.8 million in the comparable period in 2006. During the year ended December 31, 2007, we made no Class A common stock repurchases under our repurchase plan approved by our Board of Directors. However, we did make cash payments related to purchases of our Class A common stock from the year ended December 31, 2006. These outflows were offset by cash proceeds generated from the exercise of employee stock options. Our Board of Directors has authorized the repurchase of up to $100 million of our outstanding Class A common stock, of which $58.2 million remained available for repurchase as of December 31, 2007. In the future, we may continue to repurchase shares opportunistically.

We anticipate, based on management s experience, the pending merger and current industry trends, that our existing cash resources will be sufficient to meet our anticipated working capital and capital expenditure requirements for at least the next 12 months. However, we believe that there are a number of capital intensive opportunities for us to improve our growth and strategic position, including, among other things, acquisitions, strategic alliances and joint ventures potentially involving all types and combinations of equity, debt, acquisition, recapitalization and reorganization alternatives. As a result, we may need to raise additional funds to:

- increase the regulatory net capital necessary to support our operations;
- support growth in our business;
- develop new or enhanced services and products;
- respond to competitive pressures;
- acquire complementary technologies and businesses; and
- respond to unanticipated requirements.

We cannot assure you that we will be able to obtain additional financing when needed on terms that are acceptable, if at all. We are continually considering such options, including the possibility of additional repurchases of our Class A common stock, and their effect on our liquidity and capital resources.

AGGREGATE CONTRACTUAL OBLIGATIONS

As of December 31, 2007, our significant contractual obligations amounted to $71.6 million, consisting of the following payments:

Contractual Obligations	2008	2009	2010	2011	2012	2013 and thereafter
Leases(1)	$ 5,060	$ 5,072	$ 5,076	$ 5,018	$ 5,113	$ 46,276

(1) Operating lease obligations were to Cantor, principally related to office space.

As of December 31, 2007, we did not have any long-term debt.

OFF-BALANCE SHEET ARRANGEMENTS

As of December 31, 2007, we did not have any off-balance sheet arrangements, as defined in Item 303(a)(4)(ii) of Regulation S-K.

RECENT ACCOUNTING PRONOUNCEMENTS

In February 2006, the FASB issued SFAS No. 155, Accounting for Certain Hybrid Financial Instruments an Amendment of FASB Statements No. 133 and 140 (SFAS 155). SFAS 155 allows financial instruments that contain an embedded derivative and that otherwise would require bifurcation to be accounted for as a whole on a fair value basis, at the holders election. SFAS 155 also clarifies and amends certain other provisions of SFAS No. 133 and SFAS No. 140. SFAS 155 is effective for all financial instruments acquired or issued in fiscal years beginning after September 15, 2006. The adoption of SFAS 155 did not have a material impact on our financial condition, results of operations or cash flows.

In July 2006, the FASB issued interpretation No. 48, Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109 (FIN 48). FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. The provisions of FIN 48 were effective for the Company on January 1, 2007.

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On January 1, 2007, the FIN 48 adoption date, the Company had $1.7 million of unrecognized tax benefits, all of which would affect the Company s effective tax rate if recognized. The Company recorded a cumulative effect adjustment of $0.2 million as a decrease to its January 1, 2007 retained earnings for the accrued interest expense on the unrecognized tax benefit. The Company recognizes interest and penalties related to uncertain tax positions as an accrued expense. At December 31, 2007, the Company had $1.7 million of unrecognized tax benefits. During the first twelve months of 2007, the Company expensed less than $0.2 million of interest expense related to the unrecognized tax benefit. As of December 31, 2007, the Company had approximately $0.4 million of accrued interest related to uncertain tax positions. The Company files income tax returns in the U.S. federal jurisdiction and various states, local and foreign jurisdictions. The Company, with few exceptions, is no longer subject to U.S. federal, state/local or non-U.S. income tax examination by tax authorities for years prior to 2003, 1999 and 2000, respectively.

In September 2006, the SEC staff issued Staff Accounting Bulletin No. 108 (SAB 108). Due to diversity in practice among registrants, SAB 108 expresses SEC staff views regarding the process which misstatements in financial statements are evaluated for purposes of determining whether financial statement restatement is necessary. We adopted SAB 108 in the fourth quarter of 2006, and SAB 108 did not have a material impact on our consolidated financial condition, results of operations or cash flows.

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements (SFAS 157). SFAS 157 defines fair value, establishes a framework for measuring fair value in Generally Accepted Accounting Principles (GAAP), and expands disclosures about fair value measurements. SFAS 157 applies under other accounting pronouncements that require or permit fair value measurements and is effective for fiscal years beginning after November 15, 2007. We do not expect the adoption of SFAS 157 to have a material impact on our financial condition, results of operations or cash flows.

In February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Liabilities (SFAS 159). SFAS 159 provides companies with an option to report selected financial assets and liabilities at fair value, and establishes presentation and disclosure requirements designed to facilitate comparisons between companies that choose different measurement attributes for similar types of assets and liabilities. SFAS 159 is effective for fiscal years beginning after November 15, 2007. We do not expect the adoption of SFAS 159 to have a material impact on our financial condition, results of operations, or cash flows.

In December 2007, the FASB issued SFAS No. 141(R), Business Combinations (SFAS 141(R)). SFAS 141(R) replaces SFAS 141, Business Combinations. SFAS 141(R) retains the fundamental requirements in SFAS 141 that the acquisition method of accounting be used for all business combinations and for an acquirer to be identified for each business combination. SFAS 141(R) amends the recognition provisions for assets and liabilities acquired in a business combination, including those arising from contractual and noncontractual contingencies. SFAS 141(R) also amends the recognition criteria for contingent consideration. SFAS 141(R) is effective for the Company January 1, 2009. Early adoption is not permitted. The Company is currently evaluating the potential impact of adopting SFAS 141(R) on its condensed Combined Financial Statements.

In December 2007, the FASB issued SFAS No. 160, Noncontrolling Interests in Consolidated Financial Statements an amendment of ARB No. 51 (SFAS 160). SFAS 160 amends ARB 51 to establish accounting and reporting standards for the non-controlling interest in a subsidiary, a parent s ownership interest in a subsidiary and for the deconsolidation of a subsidiary. It clarifies that a noncontrolling interest in a subsidiary is an ownership interest in the consolidated entity that should be reported as equity in the consolidated financial statements. SFAS 160 also requires consolidated net income to be reported at amounts that include the amounts attributable to both the parent and the noncontrolling interest. It also required disclosure, on the face of the consolidated statement of income, of the amounts of consolidated net income attributable to the parent and to the noncontrolling interest. SFAS 160 will provide more transparent reporting of the net income attributable to the noncontrolling interest. SFAS 160 is effective for the Company as of January 1, 2009. Early adoption is not permitted. The Company is currently evaluating the potential impact of adopting SFAS 160.

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In December 2007, the SEC staff issued Staff Accounting Bulletin No. 110 (SAB 110). This SAB expresses the views of the staff regarding the use of a simplified method, as discussed in SAB 107, in developing an estimate of expected term of plain vanilla share options in accordance with SFAS 123R. In particular, the staff indicated in SAB 107 that it will accept a company s election to use the simplified method, regardless of whether the company has sufficient information to make more refined estimates of expected term. In SAB 110, the staff expressed an opinion that it will continue to accept, under certain circumstances, the use of simplified method beyond December 31, 2007.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

As of December 31, 2007, we had invested $59.8 million of our cash in securities purchased under reverse repurchase agreements which are fully collateralized by eligible fixed income securities, both of which are held in a third-party custodial account. These reverse repurchase agreements have an overnight maturity and, as such, are highly liquid.

We generally do not use derivative financial instruments, derivative commodity instruments or other market risk sensitive instruments, positions or transactions. Accordingly, we believe that we are not subject to any material risks arising from changes in interest rates, commodity prices, equity prices or other market changes that affect market risk sensitive instruments. Our policy is to invest our cash in a manner that provides us with an appropriate level of liquidity.

We are a global business, have operations in North America, Europe and Asia, and are therefore exposed to currency exchange rate fluctuations between the U.S. Dollar and the Canadian Dollar, British Pound Sterling, Euro, Hong Kong Dollar and Japanese Yen. Significant downward movements in the U.S. Dollar against currencies in which we pay expenses may have an adverse impact on our financial results if we do not have an equivalent amount of revenue denominated in the same currency. Management has presently decided not to engage in derivative financial instruments as a means of hedging this risk.

We estimate that a hypothetical 10.0% adverse change in foreign exchange rates would have resulted in a decrease in net income in our international operations of $1.0 million for the year ended December 31, 2007.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA
eSpeed, Inc. and Subsidiaries

Consolidated Financial Statements for the years ended December 31, 2007, 2006 and 2005

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of eSpeed, Inc.:

We have audited the accompanying consolidated statements of financial condition of eSpeed, Inc. and subsidiaries (the Company) as of December 31, 2007 and 2006, and the related consolidated statements of operations, cash flows and stockholders equity for each of the three years in the period ended December 31, 2007. These financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of eSpeed, Inc. and subsidiaries as of December 31, 2007 and 2006, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2007, in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company s internal control over financial reporting as of December 31, 2007, based on the criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 14, 2008 expressed an unqualified opinion on the Company s internal control over financial reporting.

/s/ Deloitte & Touche LLP

New York, New York

March 14, 2008

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eSpeed, Inc. and Subsidiaries

CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

(in thousands, except share and per share data)

	December 31, 2007	December 31, 2006
Assets		
Cash and cash equivalents	$ 38,051	$ 21,838
Reverse repurchase agreements with related parties (Note 10)	59,806	166,009
Total cash and cash equivalents	97,857	187,847
Secured loan receivable from related party	65,000	
Marketable securities	2,353	
Fixed assets, net (Note 4)	61,257	57,443
Investments	9,415	7,780
Goodwill	12,184	12,184
Other intangible assets, net	5,578	6,949
Receivable from related parties (Note 11)	17,612	7,145
Other assets	12,716	13,725
Total assets	$ 283,972	$ 293,073
Liabilities and Stockholders Equity		
Current liabilities:		
Payable to related parties (Note 11)	$ 10,154	$ 7,751
Accounts payable and accrued liabilities	33,095	24,129
Total current liabilities	43,249	31,880
Deferred revenue	6,852	8,114
Total liabilities	50,101	39,994
Commitments and contingencies (Note 8)		
Stockholders Equity:		
Class A common stock, par value $0.01 per share; 200,000 shares authorized; 36,796 and 36,407 shares issued at December 31, 2007 and 2006, respectively; and 30,294 and 29,905 shares outstanding at December 31, 2007 and 2006, respectively,	368	364
Class B common stock, par value $0.01 per share; 100,000 shares authorized; and 20,498 shares issued and outstanding at December 31, 2007 and 2006, respectively, convertible to Class A common stock	205	205
Additional paid-in capital	313,238	299,682
Treasury stock, at cost: 6,502 shares of Class A common stock at December 31, 2007 and 2006, respectively	(62,597)	(62,597)
Accumulated other comprehensive loss	(61)	
Retained earnings (accumulated deficit)	(17,282)	15,425
Total stockholders equity	233,871	253,079
Total liabilities and stockholders equity	$ 283,972	$ 293,073

The accompanying Notes to Consolidated Financial Statements are an integral part of these financial statements.

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eSpeed, Inc. and Subsidiaries

CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands, except per share data)

	Year Ended December 31,		
	2007	2006	2005
Revenues:			
Transaction revenues			
Fully electronic transactions with related parties (Note 11)	$ 63,941	$ 62,084	$ 74,669
Fully electronic transactions with unrelated parties	2,395	6,937	
Total fully electronic transactions	66,336	69,021	74,669
Voice-assisted brokerage transactions with related parties (Note 11)	27,822	26,043	25,192
Screen-assisted open outcry transactions with related parties (Note 11)	7,887	5,675	2,863
Total transaction revenues	102,045	100,739	102,724
Software Solutions fees from related parties (Note 11)	36,414	30,822	24,709
Software Solutions and licensing fees from unrelated parties	10,983	16,981	15,534
Insurance recovery from related parties (Note 3)		3,500	1,692
Grant income		3,100	
Gain on sale of investments			1,015
Interest income	9,773	9,541	6,160
Total revenues	159,215	164,683	151,834
Expenses:			
Compensation and employee benefits	73,218	52,765	50,633
Occupancy and equipment:			
Amortization of software development costs and other intangible assets	20,331	23,811	20,093
Other occupancy and equipment	37,067	37,280	30,678
Professional and consulting fees	17,361	9,464	8,788
Provision for loss contingency	3,500		
Impairment of long-lived assets	4,757	1,861	2,386
Communications and client networks	9,117	8,101	8,157
Marketing	918	852	1,596
Administrative fees to related parties (Note 11)	13,824	12,598	13,938
Amortization of business partner and non-employee securities		19	318
Acquisition-related costs	6,641	2,026	3,327
Other expenses	11,246	8,289	9,896
Total operating expenses	197,980	157,066	149,810
(Loss) income before income taxes	(38,765)	7,617	2,024
Income tax (benefit)/provision	(6,267)	2,965	490
Net (loss) income	$ (32,498)	$ 4,652	$ 1,534
Per share data:			
Basic (loss) earnings per share	$ (0.64)	$ 0.09	$ 0.03
Diluted (loss) earnings per share	$ (0.64)	$ 0.09	$ 0.03

Basic weighted average shares of common stock outstanding	50,466	50,214	51,349
Diluted weighted average shares of common stock outstanding	50,466	51,258	52,066

The accompanying Notes to Consolidated Financial Statements are an integral part of these financial statements.

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eSpeed, Inc. & Subsidiaries

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

	Year Ended December 31,		
	2007	**2006**	**2005**
Cash flows from operating activities:			
Net (loss) income	$ (32,498)	$ 4,652	$ 1,534
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	31,482	36,465	31,044
Gain on insurance recovery from related parties (Note 3)		(3,500)	
Stock-based compensation	12,930	2,418	2,219
Impairment of long lived assets	4,757	1,861	2,386
Equity in net loss (income) of unconsolidated investments	862	(38)	142
Loss on disposal of property		127	
Gain on sale of investments			(1,015)
Deferred income tax (benefit) expense	(6,406)	(33)	199
Tax benefit from stock option and warrant exercises	284	305	116
Excess tax benefit from stock-based compensation	(158)	(11)	
Deferred compensation plan expense		138	250
Recognition of deferred revenue	(5,412)	(7,292)	(2,984)
Changes in operating assets and liabilities:			
Receivable from related parties (Note 11)	(10,467)	(2,773)	(2,706)
Other assets	3,625	(5,141)	(1,126)
Payable to related parties (Note 11)	2,403	163	475
Accounts payable and accrued expenses	11,092	6,057	(6,526)
Deferred revenue	4,150	3,397	3,676
Net cash provided by operating activities	16,644	36,795	27,683
Cash flows from investing activities:			
Secured loan to related party	(185,000)		
Payments of secured loan by related party	120,000		
Purchase of fixed assets	(17,258)	(13,241)	(15,360)
Capitalized software development costs	(21,053)	(17,213)	(18,840)
Capitalized patent defense and registration costs	(1,504)	(1,270)	(1,837)
Decrease in restricted cash	1,827		
Investment in Aqua	(1,363)		
Insurance recovery from related parties (Note 3)		3,500	
Purchase of marketable securities	(2,414)		
Proceeds from sale of investment			5,840
Net cash used in investing activities	(106,765)	(28,224)	(30,197)
Cash flows from financing activities:			
Repurchase of Class A common stock	(373)	(93)	(29,197)
Proceeds from exercises of stock options and warrants	810	1,346	458
Excess tax benefit from stock-based compensation	158	11	
Cancellation of restricted stock units in satisfaction of withholding tax requirements	(464)	(423)	
Net cash provided by (used in) financing activities	131	841	(28,739)

Net (decrease) increase in cash and cash equivalents	(89,990)	9,412	(31,253)
Cash and cash equivalents at beginning of period	21,838	37,070	19,884
Reverse repurchase agreements with related parties at beginning of period (Note 10)	166,009	141,365	189,804
Total cash and cash equivalents at beginning of period	187,847	178,435	209,688
Cash and cash equivalents at end of period	38,051	21,838	37,070
Reverse repurchase agreements with related parties at end of period (Note 10)	59,806	166,009	141,365
Cash and cash equivalents at end of period	$ 97,857	$ 187,847	$ 178,435
Supplemental cash information:			
Contribution of net fixed assets to related party	$ 1,134		
Cash paid for income taxes	122	$ 2,131	$ 206
Deemed dividend to Cantor (Note 5)		1,500	

The accompanying Notes to Consolidated Financial Statements are an integral part of these financial statements.

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eSpeed, Inc. & Subsidiaries

Consolidated Statements of Stockholders Equity

For the Years Ended December 31, 2007, 2006 and 2005

(in thousands, except share amounts)

	Class A Common Stock	Class B Common Stock	Additional Paid-in Capital	Unearned Stock-based Compensation	Treasury Stock	Retained Earnings (Accumulated Deficit)	Accumulated Other Comprehensive Loss	Total Stockholders Equity
Balance, January 1, 2005	**$ 343**	**$ 221**	**$ 294,115**	**$ (3,080)**	**$ (33,972)**	**$ 10,739**	**$**	**$ 268,366**
Issuance of Class A common stock from exercises of options and warrants 89,852 shares			458					458
Tax benefit from stock option and warrant exercises			116					116
Amortization of business partner and non-employee securities								