

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)

**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.

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(Exact Name of Registrant as Specified in Its Charter)

Delaware
(State or Other Jurisdiction of Incorporation)

13-4063515
(I.R.S. Employer Identification No.)

110 East 59th Street, New York, NY
(Address of Principal Executive Offices)

10022
(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

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

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 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.

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 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

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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. (BGC Partners, L.P.), 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 intended to identify 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;

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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

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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

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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

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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.

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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

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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, Citidel, 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,

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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, Citidel, 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 tr