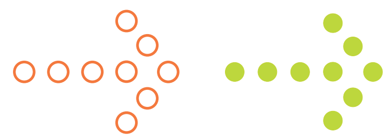

2000

eSpeed® annual report

what we do

> > > > > > eSpeed is the electronic trading subsidiary of Cantor Fitzgerald. We build and power marketplaces and offer software solutions to all market participants. We offer the most robust, large-scale, instantaneous and reliable transaction processing trading engines. Slashing costs and increasing efficiency from initial transaction through to the back office. With our trading technology and experience, we help our customers grow their profits in any size market. If an electronic marketplace doesn’t exist, we can help build it. Or we can license our trading software to our customers to enable them to build their own marketplaces. eSpeed—Faster. Smarter. Better Trading Technology.

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>>>>>> In the table below, we provide you with our selected historical financial data. We have prepared this statement of operations and statement of financial condition data using our consolidated financial statements for the period from March 10, 1999 to December 31, 1999 and the year ended December 31, 2000. The consolidated financial statements for these periods were audited by Deloitte & Touche LLP, independent auditors. The following selected financial data should be read in conjunction with Management's Discussion and Analysis of Financial Condition and Results of Operations beginning on page 34 of this Report and with our consolidated financial statements and the notes thereto beginning on page 44 of this Report.

	For the period from March 10, 1999 to December 31, 1999	*For the year ended December 31, 2000*
	(in thousands, except per share data)	
Statement of Operations Data:		
Total revenues[1]	$ 34,661	**$ 91,027**
Expenses:		
Compensation and employee benefits	21,502	**53,963**
Occupancy and equipment	10,293	**21,561**
Professional and consulting fees	5,149	**13,036**
Communications and client networks	3,355	**4,589**
Marketing	—	**8,285**
Administrative fees paid to affiliates	1,662	**6,524**
Non-cash business partner securities[2]	—	**32,041**
Options granted to Cantor employees[3]	2,850	—
Other	2,649	**9,684**
Total operating expenses[1]	47,460	**149,683**
Loss before (benefit) provision for income taxes	(12,799)	**(58,656)**
Income tax (benefit) provision	(212)	**406**
Net loss	(12,587)	**(59,062)**
Basic and diluted net loss per share	$ (0.28)	**$ (1.15)**
Weighted average shares of common stock outstanding	44,495	**51,483**

(continued)

	December 31, 2000
	(in thousands)
Statement of Financial Condition:	
Cash and cash equivalents	**$122,164**
Total assets	**155,122**
Total liabilities	**22,864**
Total stockholders' equity	**132,258**

(1) As restated; see Note 15 to the financial statements.

(2) Includes (i) warrants to purchase 666,666 shares of our Class A common stock at an exercise price of $35.20 per share issued by us to each of Dynegy and Williams, as a result of which we recorded a non-cash charge against earnings of $29,805,305 to reflect the value of the warrants; and (ii) 8,000,000 shares of convertible preferred stock issued by us in connection with our investment in TradeSpark, as a result of which we recorded a non-cash charge against earnings of $2,235,200 to reflect the value of 80,000 shares of our Class A common stock issuable upon conversion of the preferred stock if none of certain revenue targets are met.

(3) Represents a one-time, non-cash charge due to option grants we made to Cantor employees and a consultant exercisable at our initial public offering price of $22.00 per share.

>>>>>> The following discussion contains forward-looking statements that involve risks and uncertainties. Our actual results could differ materially from those anticipated in these forward-looking statements as a result of certain factors. The following discussion is qualified in its entirety by, and should be read in conjunction with, the more detailed information and our financial statements and the notes thereto appearing elsewhere in this Annual Report.

As discussed in Note 15 to the financial statements, the Company has restated its financial statements for the year ended December 31, 2000 and for the period from March 10, 1999 to December 31, 1999. The accompanying discussion and analysis gives effect to that restatement.

Overview

>>>>>> We were incorporated on June 3, 1999 as a Delaware corporation. Prior to our initial public offering, we were a wholly-owned subsidiary of, and we conducted our operations as a division of, Cantor Fitzgerald Securities, which in turn is a 99.5%-owned subsidiary of Cantor Fitzgerald, L.P. We commenced operations as a division of Cantor on March 10, 1999, the date the first fully electronic transaction using our eSpeed℠ system was executed. Cantor has been developing systems to promote fully electronic marketplaces since the early 1990s. Since January 1996, Cantor has used our eSpeed℠ system internally to conduct electronic trading. In September 1999, our board of directors changed our fiscal year end from the last Friday of March to December 31.

Concurrent with our initial public offering in December 1999, Cantor contributed to us, and we acquired from Cantor, certain of our assets. These assets primarily consist of proprietary software, network distribution systems, technologies and other related contractual rights that comprise our eSpeed℠ system.

As of December 31, 2000, we had an accumulated deficit of $73.0 million. This loss primarily resulted from expenditures on our technology and infrastructure incurred in building our revenue base and from non-cash charges incurred in connection with the issuance of business partner securities. We expect that we will continue to incur losses and generate negative cash flow from operations for at least the first half of 2001 as we continue to develop our systems and infrastructure and expand our brand recognition and client base through increased marketing efforts. In light of the rapidly changing nature of our business and the fact that our 1999 operations began on March 10, 1999, we believe that period-to-period comparisons of our operating results will not necessarily be meaningful and should not be relied upon as an indication of future performance.

We operate interactive electronic marketplaces and license customized real-time software solutions to our clients. In general, we receive transaction fees based on a percentage of the face value of products traded through our system. Products may be traded on a fully electronic basis, electronically through a voice broker, or via open outcry with prices

displayed on data screens. We receive different fees for these different system utilizations. Additionally, we receive revenues from licensing software and providing technology support.

We have entered into a Joint Services Agreement with Cantor under which we and Cantor agreed to collaborate to provide brokerage and related services to clients in multiple electronic markets for transactions in securities and other products. Under the Joint Services Agreement, we are responsible for providing electronic brokerage services, and Cantor provides voice-assisted brokerage services, fulfillment services, such as clearance and settlement, and related services, such as credit risk management services, oversight of client suitability and regulatory compliance, sales positioning of products and other services customary to marketplace intermediary operations. Under this agreement, we and Cantor share revenues derived from transactions effected in the marketplaces in which we collaborate and other specified markets. The portion of the transaction revenues that we and Cantor receive are based on several factors, including whether: (1) the marketplace is one in which we collaborate with Cantor; (2) the transaction is fully electronic or Cantor provides voice-assisted brokerage services; (3) the product traded is a financial product; and (4) the product is traded on the Cantor Exchange℠. The percentage of the transaction revenues we receive ranges from 2.5% to 65%. However, in general, for fully electronic transactions, we receive 65% of the transaction revenues and Cantor receives 35% of the transaction revenues; for voice-assisted brokerage transactions, Cantor receives 93% of the transaction revenues and we receive 7% of the transaction revenues. In addition, if the transactions relate to a gaming business, we receive 25% of the net trading revenues. We have agreed to provide to Cantor technology support services at cost.

We have also entered into a services agreement with TradeSpark pursuant to which we provide the technology infrastructure for the transactional and technology related elements of the TradeSpark energy marketplace as well as certain other services in exchange for specified percentages of transaction revenues from the marketplace. If a transaction is fully electronic, we receive 65% of the aggregate transaction revenues and TradeSpark receives 35% of the transaction revenues. In general, if TradeSpark provides voice-assisted brokerage services with respect to a transaction, then we receive 35% of the revenues and TradeSpark receives 65% of the revenues.

We are pursuing an aggressive strategy to convert most of Cantor's financial marketplace products to our eSpeed℠ system and, with the assistance of Cantor, to continue to create new markets and convert new clients to our eSpeed℠ system. The process of converting these marketplaces includes modifying existing trading systems to allow for transactions to be entered directly from a client location, signing an agreement with the client, installing the hardware and software at the client location and establishing communication lines between us and the client. Other than Cantor, no client of ours accounted for more than 10% of our transaction revenues from our date of inception through December 31, 2000.

Results of Operations

> > > > > > For the period from March 10, 1999 through December 31, 1999 and the year ended December 31, 2000.

	Period from March 10, 1999 (date of commencement of operations) to December 31, 1999	Percentage of total revenues	Year ended December 31, 2000	Percentage of total revenues
	(in thousands)		(in thousands)	
Revenues				
Transaction revenues with related parties:				
Fully electronic transactions	$ 6,552	18.9%	**$52,693**	57.9%
Voice-assisted brokerage transactions	11,777	34.0	**15,144**	16.6
Screen-assisted open outcry transactions	3,525	10.2	**2,450**	2.7
Total transaction revenues from related parties	21,854	63.1	**70,287**	77.2
System services fees from related parties and licensing fees	12,459	35.9	**12,399**	13.6
Interest income from related parties	348	1.0	**8,341**	9.2
Total revenues	$34,661	100.0%	**$91,027**	100.0%

> > > > > > *Transaction Revenues With Related Parties* For the year ended December 31, 2000, we earned $70.3 million in transaction revenues with related parties, a 222% increase over transaction revenues of $21.9 million for the period from March 10, 1999 to December 31, 1999. The growth in these revenues was attributable to the continued roll out of electronic marketplaces and an increase in the number of clients electronically trading through our eSpeed[SM] system, as well as the fact that we operated for a full 12-month period in 2000. As of December 31, 2000, we had converted 43 product marketplaces to our eSpeed[SM] system.

Our revenues are currently highly dependent on transaction volume in the fixed income markets globally. Accordingly, among other things, equity 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 may have an impact on our volume of transactions. It is anticipated that as new marketplaces are converted to our eSpeed[SM] system, more of our income will be generated from marketplaces around the world.

> > > > > > *System Services Fees From Related Parties and Licensing Fees* System services fees from related parties and licensing fees for the year ended December 31, 2000 were $12.4 million. This compares with system services fees for the period from March 10, 1999 to December 31, 1999 of $12.5 million. We had no licensing fees in 1999. For the year ended December 31, 2000, system services fees decreased as a result of a decrease in traditional brokerage support and the migration to fully electronic transactions. As a percentage of revenues, system services and licensing fees decreased from 35.9% for the period from March 10, 1999 to December 31, 1999 to 13.6% for the year ended December 31, 2000 as a result of our increased transaction revenues. We anticipate that as we license our software to additional market participants, our revenues from system services and licensing fees will grow.

> > > > > > *Interest Income From Related Parties* For the year ended December 31, 2000, we generated interest income from overnight reverse repurchase agreements with a related party of $8.3 million, at a weighted average interest rate of 6.3%, as compared to interest income of $0.3 million for the period from March 10, 1999 to December 31, 1999. This increase primarily reflects the fact that we received the net proceeds from our initial public offering on December 15, 1999.

	Period from March 10, 1999 (date of commencement of operations) to December 31, 1999	*Year ended December 31, 2000*
	(in thousands)	*(in thousands)*
Expenses		
Compensation and employee benefits	$21,502	**$ 53,963**
Occupancy and equipment	10,293	**21,561**
Professional and consulting fees	5,149	**13,036**
Communications and client networks	3,355	**4,589**
Marketing	—	**8,285**
Administrative fees paid to related parties	1,662	**6,524**
Options granted to Cantor employees	2,850	**—**
Non-cash business partner securities	—	**32,041**
Other	2,649	**9,684**
Total operating expenses	$47,460	**$149,683**

> > > > > > *Compensation and Employee Benefits* At December 31, 2000, we had 493 professionals as compared to 331 professionals at December 31, 1999. For the year ended December 31, 2000, our compensation costs were $54.0 million as compared to compensation costs of $21.5 million for the period from March 10, 1999 to December 31, 1999, a 151.0% increase, principally due to our increased number of employees. We continue to believe that we have established a core level of personnel to develop new electronic marketplaces and maintain the existing infrastructure we have established. Accordingly, while we will continue to add personnel, we estimate our compensation costs will increase at more modest rates.

> > > > > > *Occupancy and Equipment* Occupancy and equipment costs were $21.6 million for the year ended December 31, 2000 as compared to occupancy and equipment costs of $10.3 million for the period from March 10, 1999 to December 31, 1999, an increase of 109.5%. The increase in occupancy and equipment costs was due to the expansion of space needed to accommodate our additional personnel and an increase in the number of our international locations. Our equipment expenses should increase as we continue to invest in technology and related equipment. Occupancy expenditures are comprised principally of the rent and facilities costs of our New York and London offices.

> > > > > > *Professional and Consulting Fees* Professional and consulting fees were $13.0 million for the year ended December 31, 2000 as compared to professional and consulting fees of $5.1 million for the period from March 10, 1999 to December 31, 1999, an increase of 153.2%, due to an increase in our strategic investment activities and expenses incurred in connection with technology development. Our professional and consulting fees will likely increase in the foreseeable future.

> > > > > > *Communications and Client Networks* Communications costs were $4.6 million for the year ended December 31, 2000 as compared to $3.4 million for the period from March 10, 1999 to December 31, 1999, an increase of 36.8%. Communications costs increased in 2000, primarily due to the longer period of operations of our business in 2000. We expect such costs to increase as we continue to expand into new marketplaces and geographic locations and establish additional communication links with clients.

> > > > > > *Marketing Expenses* We incurred marketing expenses of $8.3 million for the year ended December 31, 2000 as compared to nominal marketing expenses during the period from March 10, 1999 to December 31, 1999. The increase in marketing expenses was due to the implementation of our marketing program in 2000. Although we do not anticipate that our marketing expenses will significantly change over the foreseeable future with respect to our current operations, they may increase as we expand the scope of our business.

> > > > > > *Administrative Fees Paid to Related Parties* Administrative fees paid to related parties amounted to $6.5 million for the year ended December 31, 2000 as compared to administrative fees of $1.7 million for the period from March 10, 1999 to December 31, 1999, an increase of 292.5%. Administrative fees increased as we expanded our business. As we continue to expand our business, administrative fees will likely also increase.

> > > > > > *Non-cash Business Partner Securities* As a result of the issuance by us of warrants to purchase 666,666 shares of our Class A common stock to each of Dynegy and Williams, we recorded a non-cash charge against earnings of $29.8 million to reflect the value of the warrants.

In conjunction with our investment in TradeSpark, we issued 5.5 million shares of our Series A Redeemable Convertible Preferred Stock and 2.5 million shares of our Series B Redeemable Convertible Preferred Stock. If certain revenue targets are met, the preferred stock is convertible at the holders' option into warrants to purchase up to 8 million shares of our Class A common stock. To the extent that the revenue targets are not met, each share of preferred stock is convertible into 1/100th of a share of our Class A common stock. As a result of our issuance of the preferred stock, we recorded a non-cash charge against earnings of $2.2 million to reflect the value of 80,000 shares of our Class A common stock issuable

upon conversion of the preferred stock if none of the targets are met. We will recognize additional non-cash charges related to the issuance of these business partner warrants and will take such charges if and when they are converted over the next six years.

We have agreed to issue warrants to purchase 400,000 shares of our Class A common stock in connection with the Freedom transaction. We currently expect to record a non-cash charge of approximately $3.6 million over three years, representing the value of the warrants, upon the closing of the transaction, which we anticipate will occur in the first quarter of 2001.

> > > > > > *Other Expenses* Other expenses consist primarily of recruitment fees, travel, promotional and entertainment expenditures. For the year ended December 31, 2000, other expenses were $9.7 million as compared to other expenses of $2.6 million for the period from March 10, 1999 to December 31, 1999, an increase of 265.0%, primarily due to an increase in recruitment fees.

Net Loss

> > > > > > Excluding non-cash charges for business partner securities, our net loss was $27.0 million for the year ended December 31, 2000 as compared to a net loss of $12.6 million for the period from March 10, 1999 to December 31, 1999. Including the non-cash charges, we incurred a net loss of $59.1 million for the year ended December 31, 2000 as compared to a net loss of $12.6 million for the period from March 10, 1999 to December 31, 1999. Other than the non-cash charges, the losses primarily resulted from expenditures on our technology and infrastructure incurred in building our revenue base. We expect that we will continue to incur losses and generate negative cash flow from operations for at least the first half of 2001 as we continue to develop our systems and infrastructure and expand our brand recognition and client base through increased marketing efforts. In light of the rapidly changing nature of our business and our limited operating history, we believe that period-to-period comparisons of our operating results will not necessarily be meaningful and should not be relied upon as an indication of future performance.

Quarterly Results of Operations

> > > > > > The following table sets forth, by quarter, statement of operations data for the period from March 10, 1999 (date of commencement of operations) to December 31, 2000. Results of any period are not necessarily indicative of results for a full year. The table gives effect to the restatement of the financial statements as discussed in Note 15 to the financial statements. See Note 16 to the financial statements for a reconciliation of total revenue and expense amounts as restated with the corresponding amounts previously reported.

	1999				2000			
	March 10 to	Quarter ended			Quarter ended			
	March 26	June 25	September 24	December 31	March 31	June 30	September 30	December 31
	(in thousands)							
Revenues:								
Transaction revenues with related parties:								
Fully electronic transactions	$ 50	$ 749	$ 1,684	$ 4,069	**$ 9,426**	**$ 13,256**	**$13,107**	**$16,904**
Voice-assisted brokerage transactions	665	3,900	3,817	3,395	**3,861**	**3,370**	**3,481**	**4,432**
Screen-assisted open outcry transactions	380	1,377	1,075	693	**883**	**689**	**487**	**391**
Total transaction revenues with related parties	1,095	6,026	6,576	8,157	**14,170**	**17,315**	**17,075**	**21,727**
System services fees from related parties and licensing fees	826	4,139	4,139	3,355	**3,161**	**3,101**	**3,101**	**3,036**
Interest income from related parties	—	—	—	348	**1,843**	**2,086**	**2,316**	**2,096**
Total revenues	1,921	10,165	10,715	11,860	**19,174**	**22,502**	**22,492**	**26,859**
Expenses:								
Compensation and employee benefits	1,268	6,403	7,034	6,797	**11,338**	**14,440**	**14,004**	**14,181**
Occupancy and equipment	676	2,855	3,102	3,660	**4,700**	**4,956**	**5,790**	**6,115**
Professional and consulting fees	186	1,596	1,833	1,534	**2,458**	**3,300**	**2,815**	**4,463**
Communications and client networks	221	1,103	1,122	909	**840**	**1,010**	**1,209**	**1,530**
Marketing	—	—	—	—	**1,129**	**3,670**	**2,106**	**1,380**
Administrative fees paid to related parties	94	461	511	596	**1,604**	**1,708**	**1,527**	**1,685**
Non-cash business partner securities	—	—	—	—	**—**	**29,805**	**2,236**	**—**
Options granted to Cantor employees	—	—	—	2,850	**—**	**—**	**—**	**—**
Other	15	500	607	1,527	**1,938**	**2,533**	**2,654**	**2,559**
Total expenses	2,460	12,918	14,209	17,873	**24,007**	**61,422**	**32,341**	**31,913**
Loss before benefit for income taxes	$ (539)	$(2,753)	$ (3,494)	$ (6,013)	**$ (4,833)**	**$(38,920)**	**$ (9,849)**	**$ (5,054)**

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. However, because of volatility in global markets caused by the uncertainty of the outcome of the U.S. presidential election, as well as policy changes from the Federal Reserve Bank of the United States, the anticipated year-end slowdown did not occur as dramatically in 2000.

Liquidity and Capital Resources

> > > > > > At December 31, 2000, we had cash and cash equivalents of $122.2 million. We used cash of $10.6 million in our operating activities, consisting of net loss after non-cash items of $21.0 million offset in part by a $10.4 million increase in net operating liabilities. We also used net cash of $2.1 million resulting from $25.9 million of purchases of fixed assets and investments, reduced by net proceeds from issuances of our Class A common stock.

Our operating cash flows consist of transaction revenues and system services fees, various fees paid to or costs reimbursed to Cantor, other costs paid directly by us and investment 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 Joint Services Agreement, remits the gross amount owed to us. In addition, we have entered into a similar services agreement with TradeSpark and expect to enter into a services agreement with Freedom upon the closing of that transaction. Under the Administrative Services Agreement and the Joint Services Agreement, any net receivable or payable is settled monthly, at the discretion of the parties.

Although we have no material commitments for capital expenditures, we anticipate that we will experience an increase in our capital expenditures and lease commitments consistent with our anticipated growth in operations, infrastructure and personnel. We currently anticipate that we will continue to experience significant growth in our operating expenses for the foreseeable future and that our operating expenses will be a material use of our cash resources.

Under the current operating structure, our cash flows from operations and our other cash resources should be sufficient to fund our current working capital and current capital expenditure requirements for at least the next 12 months. However, we believe that there are a significant number of capital intensive opportunities for us to maximize our growth and strategic position, including, among other things, strategic alliances and joint ventures potentially involving all types and combinations of equity, debt, acquisition, recapitalization and reorganization alternatives. We are continually considering such options and their effect on our liquidity and capital resources.

Quantitative and Qualitative Disclosures About Market Risk

>>>>>> At December 31, 2000, we had invested $122.0 million of our cash in securities purchased under reverse agreements which are fully collateralized by U.S. Government securities held in a custodial account at The Chase Manhattan Bank. 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, foreign currency exchange 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 the appropriate level of liquidity to enable us to meet our current obligations, primarily accounts payable, capital expenditures and payroll, recognizing that we do not currently have outside bank funding.

As of December 31, 2000 and December 31, 1999

	December 31, 2000	December 31, 1999
Assets		
Cash	**$ 161,463**	$ 201,001
Reverse repurchase agreements with related parties	**122,002,249**	134,644,521
Total cash and cash equivalents	**122,163,712**	134,845,522
Fixed assets, net	**23,441,365**	9,470,072
Investments	**5,833,679**	—
Other assets	**3,683,507**	11,495
Total assets	**$155,122,263**	$144,327,089
Liabilities and Stockholders' Equity		
Liabilities:		
Payable to related parties, net	**$ 11,370,248**	$ 6,743,929
Accounts payable and accrued liabilities	**11,494,262**	2,071,347
Total liabilities	**22,864,510**	8,815,276
Stockholders' Equity:		
Preferred stock, par value $.01 per share; 50,000,000 shares authorized, 8,000,000 and no shares issued and outstanding	**80,000**	—
Class A common stock, par value $.01 per share; 200,000,000 shares authorized; 16,342,202 and 10,350,000 shares issued and outstanding	**163,422**	103,500
Class B common stock, par value $.01 per share; 100,000,000 shares authorized; 35,520,480 and 40,650,000 shares issued and outstanding	**355,205**	406,500
Additional paid-in capital	**205,908,024**	147,588,726
Subscription receivable	**(1,250,000)**	—
Accumulated deficit	**(72,998,898)**	(12,586,913)
Total stockholders' equity	**132,257,753**	135,511,813
Total liabilities and stockholders' equity	**$155,122,263**	$144,327,089

See notes to consolidated financial statements.

For the year ended December 31, 2000 and for the period from March 10, 1999 (date of commencement of operations) to December 31, 1999

	Preferred Stock	Common Stock Class A	Common Stock Class B	Additional Paid-In Capital	Subscription Receivable	Accumulated Deficit	Total Stockholders' Equity
Balance, March 10, 1999	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Capital contribution (100 shares)	—	—	1	199,999	—	—	200,000
Non-cash capital contribution (43,990,900 shares)	—	—	439,999	5,015,300	—	—	5,455,299
Conversion of Class B common stock to Class A common stock (3,350,000 shares)	—	33,500	(33,500)	—	—	—	—
Initial public offering of Class A common stock (7,000,000 shares)	—	70,000	—	143,920,000	—	—	143,990,000
Costs of initial public offering	—	—	—	(5,749,481)	—	—	(5,749,481)
Issuances of options	—	—	—	2,850,073	—	—	2,850,073
Issuances of warrants	—	—	—	1,352,835	—	—	1,352,835
Net loss	—	—	—	—	—	(12,586,913)	(12,586,913)
Balance, December 31, 1999	—	103,500	406,500	147,588,726	—	(12,586,913)	135,511,813
Conversions of Class B common stock to Class A common stock (5,129,520 shares)	—	51,295	(51,295)	—	—	—	—
Issuance of Preferred Stock (8,000,000 shares)	80,000	—	—	2,155,200	—	—	2,235,200
Issuance of Class A common stock (56,748 shares) (as restated)	—	567	—	2,599,433	(1,250,000)	(1,350,000)	—
Purchase of Class A common stock from related party (789,071 shares)	—	(7,891)	—	(24,992,109)	—	—	(25,000,000)
Issuance of Class A common stock (1,578,142 shares)	—	15,782	—	49,984,218	—	—	50,000,000
Issuances of warrants	—	—	—	29,805,305	—	—	29,805,305
Costs of issuance of securities	—	—	—	(1,604,028)	—	—	(1,604,028)
Issuances of Class A common stock under the ESPP (16,863 shares)	—	169	—	371,279	—	—	371,448
Net loss (as restated)	—	—	—	—	—	(59,061,985)	(59,061,985)
Balance, December 31, 2000	$80,000	$163,422	$355,205	$205,908,024	$(1,250,000)	$(72,998,898)	$132,257,753

See notes to consolidated financial statements.

For the year ended December 31, 2000 and the period from March 10, 1999 (date of commencement of operations) to December 31, 1999

	For the year ended December 31, 2000	For the period from March 10, 1999 to December 31, 1999
	(as restated, see Note 15)	(as restated, see Note 15)
Revenues:		
Transaction revenues with related parties:		
Fully electronic transactions	**$ 52,692,703**	$ 6,551,897
Voice-assisted brokerage transactions	**15,144,343**	11,777,306
Screen-assisted open outcry transactions	**2,450,333**	3,524,399
Total transaction revenues with related parties	**70,287,379**	21,853,602
System services from related parties and licensing fees	**12,398,847**	12,459,574
Interest income from related parties	**8,340,815**	347,804
Total revenues	**91,027,041**	34,660,980
Expenses:		
Compensation and employee benefits	**53,963,239**	21,502,326
Occupancy and equipment	**21,560,535**	10,292,349
Professional and consulting fees	**13,036,494**	5,148,796
Communications and client networks	**4,588,626**	3,355,070
Marketing	**8,285,385**	—
Administrative fees paid to related parties	**6,524,341**	1,662,058
Non-cash business partner securities	**32,040,505**	—
Options granted to Cantor employees	**—**	2,850,073
Other	**9,683,776**	2,649,110
Total expenses	**149,682,901**	47,459,782
Loss before provision (benefit) for income taxes	**(58,655,860)**	(12,798,802)

(continued)

	For the year ended December 31, 2000	For the period from March 10, 1999 to December 31, 1999
	(as restated, see Note 15)	*(as restated, see Note 15)*
Provision (benefit) for income taxes:		
Federal	**—**	—
State and local	**406,125**	(211,889)
Total tax provision (benefit)	**406,125**	(211,889)
Net loss	**$ (59,061,985)**	$(12,586,913)
Share and per share data:		
Basic and diluted net loss per share	**$ (1.15)**	$ (.28)
Weighted average shares of common stock outstanding	**51,482,505**	44,495,000

See notes to consolidated financial statements.

Consolidated Statements of Cash Flows

For the year ended December 31, 2000 and for the period from March 10, 1999 (date of commencement of operations) to December 31, 1999

	For the year ended December 31, 2000	For the period from March 10, 1999 to December 31, 1999
	(as restated, see Note 15)	(as restated, see Note 15)
Cash flows from operating activities:		
Net loss	**$ (59,061,985)**	$ (12,586,913)
Non-cash items included in net loss:		
Depreciation and amortization	**6,098,754**	3,086,555
Issuances of non-cash business partner securities	**32,040,505**	—
Issuances of stock options	**—**	2,850,073
(Increase) decrease in operating assets:		
Other assets	**(3,672,012)**	1,190,728
Increase (decrease) in operating liabilities:		
Payable to related parties, net	**4,626,319**	6,743,929
Accounts payable and accrued liabilities	**9,422,915**	(1,046,137)
Net cash (used in) provided by operating activities	**(10,545,504)**	238,235
Cash flows from investing activities:		
Purchases of fixed assets	**(11,043,479)**	(2,717,462)
Capitalization of software development costs	**(9,026,568)**	(2,468,605)
Purchases of investments	**(5,833,679)**	—
Net cash used in investing activities	**(25,903,726)**	(5,186,067)

(continued)

	For the year ended December 31, 2000	For the period from March 10, 1999 to December 31, 1999
	(as restated, see Note 15)	(as restated, see Note 15)
Cash flows from financing activities:		
Proceeds from issuances of securities	**50,000,000**	143,990,000
Purchase of issued securities from a related party	**(25,000,000)**	—
Proceeds from issuance of securities under the ESPP	**371,448**	—
Payments for issuance related expenses	**(1,604,028)**	(4,396,646)
Proceeds from capital contributions	**—**	200,000
Net cash provided by financing activities	**23,767,420**	139,793,354
Net (decrease) increase in cash and cash equivalents	**(12,681,810)**	134,845,522
Cash and cash equivalents, beginning of period	**134,845,522**	—
Cash and cash equivalents, end of period	**$122,163,712**	$134,845,522

Supplemental disclosure of non-cash financing activities:

Effective March 10, 1999, the Company received an initial capital contribution as follows:	
Fixed assets	$ 7,370,560
Prepaid expenses	1,202,223
Accrued compensation and benefits	(1,490,836)
Accounts payable and accrued expenses	(1,626,648)
Total non-cash capital contributed	$ 5,455,299

See notes to consolidated financial statements.

Note 1.

summary of significant accounting policies

> > > > > > *Basis of Presentation:* eSpeed, Inc. (eSpeed or, together with its wholly-owned subsidiaries, the Company) primarily engages in the business of operating interactive business-to-business vertical electronic marketplaces designed to enable market participants to trade financial and non-financial products more efficiently and at a lower cost than traditional trading environments permit. All significant intercompany balances and transactions have been eliminated in consolidation.

> > > > > > The Company is a majority owned subsidiary of Cantor Fitzgerald Securities (CFS), which in turn is a 99.5%-owned subsidiary of Cantor Fitzgerald, L.P. (CFLP or, together with its subsidiaries, Cantor). eSpeed commenced operations on March 10, 1999 as a division of CFS. eSpeed is a Delaware corporation that was incorporated on June 3, 1999. In December 1999, the Company completed its initial public offering (the Offering) (see Note 6).

The accompanying financial statements include activities of the Company while operating as a division of CFS from March 10, 1999 to the Offering.

> > > > > > *Use of Estimates:* The preparation of the consolidated financial statements in conformity with generally accepted accounting principles (GAAP) requires management to make estimates and assumptions that affect the reported amounts of the assets and liabilities, revenues and expenses, and the disclosure of contingent assets and liabilities in the consolidated financial statements. Management believes that the estimates utilized in preparing the consolidated financial statements are reasonable and prudent. Estimates, by their nature, are based on judgment and available information. As such, actual results could differ from the estimates included in these consolidated financial statements.

> > > > > > *Transaction Revenues:* Securities transactions and the related transaction revenues are recorded on a trade date basis.

> > > > > > *System Services Fees:* Pursuant to two services agreements, the Company recognizes system services fees from related parties in amounts equal to its actual direct and indirect costs, including overhead, of providing such services at the time when such services are performed. For specific technology support functions that are both utilized by the Company and provided to related parties, the Company allocates the actual costs of providing such support functions based on the relative usage of such support services by each party.

> > > > > > *Licensing Fees:* Certain clients of the Company provide online access to their customers through use of the Company's electronic trading platform. The Company receives up-front and/or periodic licensing and maintenance fees for the use of its platform. Such fees are deferred and recognized as revenue ratably over the term of the licensing agreement.

> > > > > > *Cash and Cash Equivalents:* The Company considers all highly liquid investments with original maturity dates of 90 days or less at the date of acquisition to be cash equivalents. Cash equivalents consist of securities purchased under agreements to resell (Reverse Repurchase Agreements). It is the policy of the Company to obtain possession of the collateral with a market value equal to or in excess of the principal amount deposited. Collateral is valued daily and the Company may require counter-parties to deposit additional collateral or return amounts deposited when appropriate.

> > > > > > *Fixed Assets:* Fixed assets, principally computer and communication equipment and software, are depreciated over their estimated economic useful lives (generally three to five years) using an accelerated 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 of 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.

> > > > > > *Investments:* The Company accounts for its investments in entities at historical cost when the Company does not have significant influence in the investee. Investments in which the Company does have significant influence are accounted for using the equity method. The Company does not maintain trading inventory of marketable equity securities.

> > > > > > *Stock Based Compensation:* Awards to employees of options to purchase the common stock of the Company are accounted for under Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees," and related interpretations. No expense is recognized for awards under non-compensatory plans. Options and warrants granted to non-employees are accounted for under the Financial Accounting Standards Board's Statement of Financial Accounting Standards (SFAS) No. 123, "Accounting for Stock-Based Compensation," where the options or warrants granted are recognized based on the fair value of the options or warrants at the time of the grant.

> > > > > > *New Accounting Pronouncements:* In June 1998, the Financial Accounting Standards Board issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," which establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities. The statement, as amended, is effective for fiscal years beginning after June 15, 2000. On January 1, 2001, the Company adopted SFAS No. 133 and amendments. The adoption did not have a material impact on the Company's financial statements.

> > > > > > *Reclassifications:* Certain reclassifications have been made to prior year balances in order to conform to the current year presentation.

Note 2.
fixed assets

> > > > > > Fixed assets consist of the following:

	December 31, 2000	December 31, 1999
Computer and communication equipment	**$19,920,077**	$ 9,544,265
Software, including software development costs	**12,038,930**	3,012,362
Leasehold improvements and other fixed assets	**422,396**	—
	32,381,403	12,556,627
Less accumulated depreciation and amortization	**(8,940,038)**	(3,086,555)
Fixed assets, net	**$23,441,365**	$ 9,470,072

Note 3.
income taxes

> > > > > > Through December 9, 1999, the Company operated as a division of CFS, which is a New York partnership. Under applicable federal and state income tax laws, the taxable income or loss of a partnership is allocated to each partner based upon such partner's ownership interest. CFS is, however, subject to the Unincorporated Business Tax (UBT) of the City of New York, and the benefit for income taxes represents a reduction in UBT. The loss generated by the Company while it operated as a division of CFS was used as a reduction of the taxable income of CFS and, as such, the Company was reimbursed for such tax benefit.

Since the commencement date of the Offering, December 10, 1999, the Company has been subject to income tax as a corporation. Net operating losses (NOLs) from that date, approximating $27,200,000, will be available on a carry forward basis to offset future operating income of the Company. However, a valuation allowance has been recorded at December 31, 2000 to offset the full amount of the NOLs as realization of this deferred tax benefit is dependent upon generating sufficient taxable income prior to the expiration of the NOLs.

Note 4.
commitments and contingencies

> > > > > > *Leases:* Under an administrative services agreement, eSpeed is obligated to Cantor for minimum rental payments under Cantor's various non-cancelable leases with third parties, principally for office space and computer equipment, expiring at various dates through 2014 as follows:

For the Year Ending December 31:	
2001	$ 5,083,188
2002	5,142,996
2003	5,040,930
2004	4,775,042
2005	4,090,313
Thereafter	26,427,293
Total	$50,559,762

Rental expense under the above and under all other operating leases amounted to $7,341,614 and $3,738,303 for the year ended December 31, 2000 and for the period ended December 31, 1999, respectively.

> > > > > > *Legal Matters:* In February 1998, Market Data Corporation contracted with Chicago Board Brokerage (a company controlled by the Chicago Board of Trade and Prebon Yamane) to provide the technology for an electronic trading system to compete with Cantor's United States Treasury brokerage business. Market Data Corporation is controlled by Iris Cantor and Rodney Fisher, her nephew-in-law. Iris Cantor, a company under the control of Iris Cantor referred to herein as Cantor Fitzgerald Incorporated (CFI) and Rodney Fisher are limited partners of CFLP.

In April 1998, CFLP filed a complaint in the Delaware Court of Chancery against Market Data Corporation, Iris Cantor, CFI, Rodney Fisher and Chicago Board Brokerage seeking an injunction and other remedies. The complaint alleges that Iris Cantor, CFI and Rodney Fisher violated certain duties, including fiduciary duties under Cantor's partnership agreement, due to their competition with CFLP with respect to the electronic trading system mentioned above. CFLP believes Market Data Corporation's technology for electronic trading systems would be of substantial assistance to competitors in the wholesale market if provided to them. The complaint further alleges that Market Data Corporation and Chicago Board Brokerage tortiously interfered with CFLP's partnership agreement and aided and abetted Iris Cantor's, CFI's and Rodney Fisher's breaches of fiduciary duty. Iris Cantor, CFI and Rodney Fisher counterclaimed seeking, among other things, (1) to reform agreements they have with CFLP and (2) a declaration that CFLP breached the implied covenant of good faith and fair dealing. Cantor has agreed to indemnify the Company for any liabilities that are incurred with respect to any current or future litigation involving Market Data Corporation, Iris Cantor, CFI or Rodney Fisher.

CFLP settled its dispute with Chicago Board Brokerage in April 1999, and Chicago Board Brokerage subsequently announced it was disbanding its operations. On March 13, 2000, the Delaware Court of Chancery ruled in favor of CFLP, finding that Iris Cantor, CFI and Rodney Fisher had breached the Partnership Agreement of CFLP, and that Market Data Corporation had aided and abetted that breach. The court awarded CFLP declaratory judgment relief and court costs and attorneys' fees. The defendants moved for re-argument with respect to the award of fees and costs. A hearing on issues relating to CFLP's final relief took place on June 14, 2000. The parties are awaiting the entry by the Court of a final declaratory judgment and/or award of monetary damages.

Two related actions are pending in New York. In a case pending in the Supreme Court of New York, plaintiff CFLP alleges, among other things, that defendants Market Data Corporation, CFI, Iris Cantor and Rodney Fisher misused confidential information of CFLP in connection with the above-mentioned provision of technology to Chicago Board Brokerage. In a case pending in the United States District Court for the Southern District of New York, CFI and Iris Cantor allege, among other things, that certain senior officers of CFLP breached fiduciary duties they owed to CFI. The allegations in this lawsuit relate to several of the same events underlying the court proceedings in Delaware.

Neither of these two cases had been pursued prior to the March 13, 2000 decision in the court proceedings in Delaware. On May 15, 2000, the senior officers of CFLP who are defendants in the federal action in New York moved to dismiss the complaint against them on several grounds, including, among other things, that the March 13, 2000 decision from the Delaware Court of Chancery prevents Iris Cantor and CFI from relitigating matters that were adjudicated against them in Delaware. Iris Cantor and CFI filed papers opposing the motion to dismiss on June 5, 2000, and the defendants filed a reply on June 15, 2000. On February 7, 2001, the court granted the motion to dismiss CFI's complaint.

On May 16, 2000, CFI filed an action in Delaware Superior Court, New Castle County, against CFLP and CF Group Management, Inc. (CFGM) seeking payment of $40 million allegedly due pursuant to a settlement agreement in an earlier litigation between the parties. The complaint alleges that CFI is entitled to a one-time $40 million payment upon "an initial public offering of CFLP or of a successor to a material portion of the assets and business of CFLP..." CFI alleges that the Company's initial public offering on December 10, 1999 triggered the payment obligation under the settlement agreement. On September 26, 2000, CFLP and CFGM filed an answer denying liability.

On June 12, 2000, CFLP and CFGM filed a lawsuit in the Delaware Court of Chancery against Iris Cantor, CFI and Rodney Fisher, seeking a declaratory judgment that an Offer to Exchange, dated May 8, 2000 (the Exchange Offer), pursuant to which certain partnership units in CFLP could be exchanged for "e-units" that are entitled to receive distributions of the Company's stock from CFLP on certain future dates subject to certain conditions, did not breach any fiduciary duty or otherwise violate Delaware law. On July 18, 2000, CFI, Iris Cantor and Rodney Fisher filed their respective answers, affirmative defenses, counterclaims and third-party claims, in which they claim that certain special conditions imposed upon them in connection with the Exchange Offer and not upon other partners effectively precluded their participation in the Exchange Offer, violated the Partnership Agreement of CFLP and constituted a breach of fiduciary duty, and that accepting those conditions would conflict with their fiduciary duties to Market Data Corporation. CFI, Iris Cantor and Rodney Fisher claim that CFGM and Howard Lutnick, the Chairman and Chief Executive Officer of the Company and sole shareholder of CFGM, the Managing General Partner of CFLP, breached their fiduciary duties and engaged in self-dealing in allegedly structuring the formation of the Company, the transfer of assets to the Company, the receipt of stock options, salaries and other compensation by Howard Lutnick and other Company executives from the Company, and the initial public offering of the Company's shares. They further allege that CFGM and Howard Lutnick converted Partnership assets (CFLP's technology assets) and intend to migrate CFLP's brokerage business to the Company without sharing the value of the Company with CFI, Iris Cantor and Rodney Fisher. Rodney Fisher also contends that the Company, which he has named as a third-party defendant, aided and abetted these alleged breaches of fiduciary duties. Among other things, CFI, Iris Cantor and Rodney Fisher have requested the removal of CFGM as the managing general partner of CFLP, a declaration that CFGM

and Howard Lutnick have breached their fiduciary duties to CFI, Iris Cantor and Rodney Fisher and have breached the settlement agreement in an earlier litigation and the partnership agreement of CFLP, a declaration that the Exchange Offer and all or certain of the amendments to the partnership agreement are null and void, unspecified damages and a constructive trust on any proceeds derived from the challenged conduct. On September 15, 2000, CFLP, CFGM, Howard Lutnick and the Company responded to the counterclaims by answering certain counterclaims and moving for dismissal and for judgment on the pleadings with respect to the counterclaims. A hearing on those motions has been scheduled for March 15, 2001.

Although the Company does not expect to incur any losses with respect to the pending lawsuits or supplemental allegations surrounding Cantor's partnership agreement, Cantor has agreed to indemnify the Company with respect to any liabilities the Company incurs as a result of such lawsuits or allegations.

Although the ultimate outcome of these actions cannot be ascertained at this time and the results of legal proceedings cannot be predicted with certainty, it is the opinion of management that the resolution of these matters will not have a material adverse effect on the financial condition or results of operations of the Company.

> > > > > > *Risks and Uncertainties:* The majority of the Company's revenues consist of fees earned in connection with its interactive electronic business-to-business vertical marketplaces. Revenues for these services are transaction based. As a result, the Company's revenues could vary based on the transaction volume of markets around the world.

Note 5.

related party transactions

> > > > > > During the year ended December 31, 2000 and the period ended December 31, 1999, all of the Company's Reverse Repurchase Agreements were transacted on an overnight basis with CFS. Under the terms of these agreements, the securities collateralizing the Reverse Repurchase Agreements are held under a custodial arrangement with a third party bank and are permitted to be sold or repledged. The fair value of such collateral at December 31, 2000 and 1999 totaled $122,620,469 and $138,162,421, respectively. At December 31, 2000 and 1999, Reverse Repurchase Agreements totaled $122,002,249 and $134,644,521, respectively.

Under a Joint Services Agreement between the Company and Cantor, the Company owns and operates the electronic trading system and is responsible for providing electronic brokerage services, and Cantor provides voice-assisted brokerage services, fulfillment services, such as clearance and settlement, and related services, such as credit risk management services, overnight of client suitability and regulatory compliance, sales positioning of products and other services customary to marketplace intermediary operations.

Under the Joint Services Agreement, the Company and Cantor share revenues derived from transactions effected in the marketplaces in which they collaborate and other specified

markets. The portion and recipient of the transaction revenues are based on several factors, including whether: (1) the marketplace is one in which the Company collaborates with Cantor; (2) the transaction is fully electronic or Cantor provides voice-assisted brokerage services; (3) the product traded is a financial product; and (4) the product is traded on the Cantor Exchange. In general, the Company earns 65% of the transaction revenues for fully electronic transactions, and Cantor receives 35% of the transaction revenues and Cantor earns 93% of the transaction revenues for voice-assisted brokerage transactions and the Company receives 7% of the transaction revenues. In addition, if the transactions relate to a gaming business, the Company receives 25% of the net trading revenues.

Pursuant to a perpetual technology Services Agreement between the Company and TradeSpark, the Company provides the technology infrastructure for the transactional and technology related elements of the TradeSpark marketplace as well as certain other services to TradeSpark. If a transaction is fully electronic, the Company earns 65% of the aggregate transaction revenues and TradeSpark receives 35% of the transaction revenues. In general, if TradeSpark provides voice-assisted brokerage services with respect to a transaction, then the Company receives 35% of the associated aggregate transaction revenues.

The Company's revenues from transactions in which Cantor or TradeSpark collaborates with the Company under the Joint Services Agreement and the Services Agreement during the year ended December 31, 2000 and the period ended December 31, 1999 totaled $70,287,379 and $21,853,602, respectively.

Under two services agreements, the Company has agreed to provide Cantor and TradeSpark technology support services, including systems administration, internal network support, support and procurement for desktops of end-user equipment, operations and disaster recovery services, voice and data communications, support and development of systems for clearance and settlement services, systems support for brokers, electronic applications systems and network support for Cantor's unrelated dealer businesses with respect to which the Company will not collaborate with Cantor, and provision and/or implementation of existing electronic applications systems, including improvements and upgrades thereto, and use of the related intellectual property rights, having potential application in a gaming business. The Company charges Cantor and TradeSpark the actual direct and indirect costs, including overhead, of providing such services and receives payment on a monthly basis. System services fees received during the year ended December 31, 2000 and the period ended December 31, 1999 totaled $12,333,222 and $12,459,574, respectively.

Pursuant to guidance contained in the Financial Accounting Standards Board's Emerging Issues Task Force No. 99-19, the Company's fully electronic transactions are reflected net of the fulfillment services fees that are paid to related parties. Fully electronic transactions are reflected as transactions with related parties because they are implemented pursuant to services agreements entered into with related parties (see Note 15).

Under an Administrative Services Agreement, Cantor provides various administrative services to the Company, including accounting, tax, legal and facilities management. The Company is required to reimburse Cantor for the cost of providing such services. The costs represent the direct and indirect costs of providing such services and are determined based upon the time incurred by the individual performing such services. Management believes that this allocation methodology is reasonable. The Administrative Services Agreement has a three-year term which will renew automatically for successive one-year terms unless cancelled upon six months' prior notice by either the Company or Cantor. The Company incurred administrative fees for such services during the year ended December 31, 2000 and the period ended December 31, 1999 totaling $6,524,341 and $1,662,058, respectively.

Note 6.
capitalization

> > > > > > The rights of holders of shares of Class A and Class B common stock are substantially identical, except that holders of Class B common stock are entitled to 10 votes per share, while holders of Class A common stock are entitled to one vote per share. Additionally, each share of Class B common stock is convertible at any time, at the option of the holder, into one share of Class A common stock. The Company initially issued 100 shares of Class B common stock to Cantor in exchange for a cash contribution of $200,000.

Prior to the Offering, Cantor contributed net assets of $5,455,299. This contribution included fixed assets with a net book value of $7,370,560 and prepaid expenses of $1,202,223, and the assumption of liabilities consisting of accrued compensation, accounts payable and other liabilities of $3,117,484. In exchange for the contribution of net assets, the Company issued to Cantor 43,999,900 shares of Class B common stock. Immediately thereafter, Cantor converted 3,350,000 shares of Class B common stock into Class A common stock and sold them in the Offering.

In the Offering, 10,350,000 shares of Class A common stock were sold at $22 per share, of which 7,000,000 shares were sold by the Company, raising approximately $144,000,000 in proceeds before Offering expenses. The remaining shares were sold by CFS.

In June 2000, the Company sold 1,578,142 shares of Class A common stock to minority investors for consideration of $50,000,000, as discussed in Note 7. In connection with this transaction, one half of the shares sold by the Company were purchased from Cantor for $25,000,000.

In July 2000, in conjunction with the acquisition by Cantor of a municipal bond brokerage business, the Company issued 28,374 shares of Class A common stock to the shareholders of the acquired business. The Company also granted an additional 28,374 shares of Class A common stock to certain employees of the acquired business in exchange for promissory notes, both as discussed in Note 7.

During the year ended December 31, 2000, the Company sold 16,863 shares of Class A common stock pursuant to the Company's Employee Stock Purchase Plan as discussed in Note 10.

In September 2000, the Company issued 8 million shares of Redeemable Convertible Preferred Stock (the Preferred Stock) to business partners in conjunction with an investment in the TradeSpark Qualified Vertical. As more fully described in Note 7, if certain conditions are met, the Preferred Stock is convertible at the option of the holder into warrants to purchase the Company's Class A common stock. To the extent the conditions are not met, the Company may either redeem the Preferred Stock or convert the Preferred Stock into 1/100th of a share of the Company's Class A common stock.

Note 7.

business partner transactions

> > > > > > Williams and Dynegy: In June 2000, the Company sold to The Williams Companies, Inc. (Williams) and Dynegy, Inc. (Dynegy) one Unit each consisting of (i) 789,071 shares (the Shares) of the Company's Class A common stock and (ii) warrants (the Warrants) exercisable for the purchase of up to 666,666 shares of Class A common stock, for an aggregate purchase price for each Unit of $25,000,000. The Warrants have a per share exercise price of $35.20, a ten year term and are exercisable during the last 4½ years of the term, subject to acceleration under certain prescribed circumstances intended to provide incentives to Williams and Dynegy to invest in four Qualified Verticals as described below. The Shares will not be transferable prior to the first anniversary of the Closing. The Company recorded a non-cash charge of $29,805,305 at the time of the Closing to reflect the value of the Warrants.

Each of Williams and Dynegy agreed that, subject to the satisfaction of certain conditions, it will invest $2,500,000 in at least four entities (the Qualified Verticals) to be formed by the Company and Cantor within 12 months of the Closing (subject to extension for a period not to exceed six months under certain prescribed circumstances, the Investment Period). Investment by Williams and Dynegy is contingent upon the Company and Cantor offering seven qualified verticals for investment. If the Company and Cantor fail to provide seven qualified vertical markets for Williams and Dynegy to invest in, there will be no additional investment by Williams and Dynegy and they will continue to hold fully vested warrants. To the extent that either Williams or Dynegy does not invest in at least four Qualified Verticals, such entity will be required to make a $2,500,000 payment to the Company for each investment not made. It is expected that each Qualified Vertical will be jointly owned by industry market participants, the Company and Cantor and will establish a new vertical electronic and telephonic marketplace with the Company in which such Qualified Vertical will broker and possibly clear transactions for the industry market participants and other clients. TradeSpark, the first Qualified Vertical, was established in September 2000. Products that may be traded on other Qualified Verticals include natural gas liquids, petrochemicals, crude oil and bandwidth. Each of Williams and Dynegy will not necessarily invest in the same Qualified Verticals as the other. In connection with up to four additional Qualified Verticals, Williams and, subject

to certain limitations, Dynegy, will be entitled to invest $25,000,000 in shares of the Company's Class A common stock (the Additional Investment Right). Such right provides for investment at a 10% discount to the average trading price for the 10 trading days preceding the date of such party's investment in such new Qualified Vertical, or, under certain circumstances, the public announcement of the formation of such Qualified Vertical. The Additional Investment Right was approved by stockholders at the Company's 2000 Annual Meeting of Stockholders on October 26, 2000. Any shares of Class A common stock purchased pursuant to the Additional Investment Right will not be transferable prior to the first anniversary of issuance.

The Company entered into an agreement with Cantor providing that, if and when an Additional Investment Right is exercised by Williams or Dynegy, the Company will purchase from Cantor half the number of shares purchased by Williams or Dynegy. The purchase price to be paid to Cantor by the Company will be the same purchase price per share as is paid by Williams and Dynegy at the time. Accordingly, the purchase of any shares by the Company from Cantor will be simultaneous with the sale of an equal number of shares by the Company to Williams or Dynegy, and this part of the transaction will have no resulting effect on the Company's results of operations or total outstanding common stock.

> > > > > > *TradeSpark:* On September 25, 2000, the Company and Cantor, in conjunction with Williams and other participants in the energy market, formed TradeSpark to operate a wholesale electronic and telephonic marketplace in North America for natural gas, electricity, coal, emissions allowances, and weather financial products.

The Company invested $2,000,000 for a 5% interest in TradeSpark and Cantor invested $4,250,000 and contributed certain assets in exchange for a 28.33% interest. The remaining 66.67% interest was purchased by energy industry market participants (EIPs). The Company has also entered into a technology services agreement with TradeSpark pursuant to which the Company provides the technology infrastructure for the transactional and technology related elements of the TradeSpark marketplace as well as certain other services in exchange for specified percentages of transaction revenues from the marketplace.

In order to provide incentives to the EIPs to trade on the TradeSpark electronic marketplace, the Company issued 5.5 million shares of Series A Redeemable Convertible Preferred Stock (Series A Preferred Stock) and 2.5 million shares of Series B Redeemable Convertible Preferred Stock (Series B Preferred Stock) to a limited liability company newly-formed by the EIPs. Upon the satisfaction of certain revenue thresholds and other conditions, principally related to the volume of transactions executed through the TradeSpark marketplace, the Series A Preferred Stock and Series B Preferred Stock are convertible into Series A and B Warrants, respectively, to collectively purchase up to 8 million shares of the Company's Class A common stock at an exercise price of $27.94 per share. To the extent that the conditions to full conversion are not satisfied, each share of unconverted Series A and B Preferred Stock may be redeemed at the Company's option, or may be

converted into 1/100th of a share of the Company's Class A common stock. The Company has recognized a non-cash charge of $2,235,200, equal to the fair value of the 80,000 shares of Class A common stock issuable upon conversion of the preferred stock, if none of the conditions are met. The Company will recognize additional non-cash charges related to the issuance of these shares of preferred stock if and when they are converted over the next six years, which non-cash charges could aggregate $53,644,800 if all conditions (including but not limited to TradeSpark total transaction revenues of at least $250,000,000) are met and all shares of preferred stock are converted. The fair value of the Preferred Stock was estimated based on the value of the warrants into which the Preferred Stock would be converted (assuming full conversion), discounted for liquidity, hedging, and dilution issues. The warrants were valued using a modified Black-Scholes pricing model and assumptions as to risk-free interest rate, expected life and range of expected volatility of 6.3%, 10 years, and 32% to 55%, respectively.

> > > > > > *Municipal Partners:* On July 21, 2000, Municipal Partners, Inc. (MPI) sold its U.S. municipal bond brokerage business and certain other assets to Cantor Fitzgerald Partners (CFP), an affiliate of the Company, in exchange for a payment by CFP of $1,500,000 and the issuance by the Company of 28,374 shares of the Company's Class A common stock having a value of $1,350,000. Pursuant to MPI's request, the Company's Class A common stock was issued directly to the shareholders of MPI, all but one of whom became employees of CFP in connection with the transaction. Although the purchased business and assets are owned by CFP, the Company is entitled to receive 65% of the revenues, if any, generated from fully electronic municipal bond brokerage transactions. The Company issued its Class A common stock in order to share in the potential future municipal bond brokerage revenues from this business and to assist CFP in its purchase of MPI. This stock issuance has been treated as an issuance on behalf of CFP, and the value of the stock issued has been reflected as a direct charge to accumulated deficit in the Company's statement of financial condition.

In addition, in order to provide incentives to promote the use of the eSpeed℠ trading platform in connection with the purchased business, eSpeed granted an aggregate of 28,374 restricted shares of its Class A common stock to certain employees of MPI in exchange for interest-bearing promissory notes that are due July 21, 2010 (the Pledged Shares). The promissory notes are reflected in the consolidated statement of financial condition as Subscription Receivable within stockholders' equity. The Pledged Shares may be redeemed, at the option of eSpeed, by cancellation of the related note(s) if eSpeed does not receive $3,000,000 in electronic transaction revenues generated by Cantor's municipal bond brokerage business for any consecutive 12-month period within three years of July 21, 2000 (the Performance Target).

The Company will record a charge to earnings in any future quarter if the stock price is greater than the stock price at the time of the transaction. If the Performance Target is met in

any consecutive 12-month period, the Company will measure the stock issuance at that time, and adjust the cumulative charge to earnings accordingly. If after three years the Performance Target is not met, the Company will cancel the promissory notes and any cumulative charges will be reversed into current earnings. As of December 31, 2000, the stock price of the Company was lower than the price at the time of issuance; accordingly, no charge was recognized in connection with this transaction.

Note 8.
long-term incentive plan

> > > > > > The Company has adopted the eSpeed, Inc. 1999 Long-Term Incentive Plan (the LT Plan) which provides for awards in the form of 1) either incentive stock options or non-qualified stock options (NQSOs); 2) stock appreciation rights; 3) restricted or deferred stock; 4) dividend equivalents; 5) bonus shares and awards in lieu of obligations to pay cash compensation; and 6) other awards, the value of which is based in whole or in part upon the value of eSpeed's common stock.

The Compensation Committee of the Board of Directors administers the LT Plan and is generally empowered to determine award recipients, and the terms and conditions of those awards. Awards may be granted to directors, officers, employees, consultants and service providers of the Company and its affiliates.

Note 9.
options and warrants

> > > > > > During the year ended December 31, 2000, the Company issued 3,770,312 options to employees pursuant to the LT Plan. The exercise prices for the options equaled or exceeded the value of the Company's Class A common stock on the date of each award. The options generally vest ratably over four or five years from the grant date.

Concurrent with the Offering, the Company issued 6,227,445 options to employees and outside directors of the Company, of which 500,000 were immediately exercisable. At the time of the grant, the remaining options were originally scheduled to vest as follows: 3,915,000 spread ratably over the five successive anniversaries of the Offering, 1,752,445 spread ratably over the four successive anniversaries of the Offering, and 60,000 spread ratably over the three successive six month anniversaries of the Offering.

On October 19, 2000, the option terms were amended so that, effective on the first anniversary of the Offering, future vesting occurs ratably on a quarterly basis. This amendment had no financial impact as the market value of the Company's Class A common stock was below the exercise price of all outstanding options at that date.

The weighted average grant date fair values of employee stock options granted were $16.90 and $13.29 for the year ended December 31, 2000 and the period ended December 31, 1999, respectively. Had the Company accounted for the options in its stock-based compensation plan based on the fair value of awards at grant date in a manner consistent with the methodology of SFAS 123, the Company's net loss and loss per common share would have increased by $28,738,843 and $0.56, and $6,642,591 and $0.15, for the year ended December 31, 2000 and the period ended December 31, 1999, respectively.

Concurrent with the Offering, the Company issued 290,320 options to Cantor employees and a consultant. The estimated fair value of the options at the time of the Offering resulted in a one-time non-cash charge to the Company of $2,850,073 in the period ended December 31, 1999. The business purpose for issuing the options was to compensate the individuals who assisted the Company in its formation and the completion of its initial public offering.

The Company issued 135,000 warrants to a consultant in connection with the Offering. The grant date estimated fair value of $1,352,835 has been recorded both as an increase to additional paid-in capital and as an increase in Offering costs which have been charged against additional paid-in capital.

The fair value of the above options and warrants was estimated using a modified Black-Scholes option-pricing model. The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options that have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions including the expected stock price volatility. Because the Company's stock options have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate, in management's opinion, the existing models do not necessarily provide a reliable single measure of the fair value of the stock options or warrants. The assumptions which were used in the Black-Scholes model for the year ended December 31, 2000 and the period ended December 31, 1999 included risk-free interest rates of 5.25% and 6.0%, expected lives ranging from two to eight years and three to eight years, and expected volatility of 80% and 55%, respectively. There were no assumed dividends.

In June 2000, the Company sold 1,333,332 warrants to purchase Class A common stock to business partners as discussed in Note 7. The warrants expire in June 2010 and are generally exercisable beginning December 2004. The estimated fair value of the warrants at the time of issuance resulted in a one-time non-cash charge to the Company of $29,805,305. The fair value of the warrants was estimated using a modified Black-Scholes pricing model and assumptions as to risk-free interest rate, expected life, and expected volatility of 7.4%, 10 years, and 48%, respectively.

The following table summarizes changes in options and warrants from March 10, 1999 (date of commencement of operations) to December 31, 2000.

	eSpeed Employee Options	*Cantor Employee & Consultant Options*	*Warrants*	*Total*	*Weighted Average Exercise Price*	*Expiration Dates*
Granted	6,227,445	290,320	135,000	6,652,765	$22.00	12/2004–12/2009
Exercised	—	—	—	—	—	—
Canceled	(24,900)	—	—	(24,900)	$22.00	—
Balance, December 31, 1999	6,202,545	290,320	135,000	6,627,865	$22.00	12/2004–12/2009
Granted	3,770,312	—	1,333,332	5,103,644	$25.76	2/2010–12/2010
Exercised	—	—	—	—	—	—
Canceled	(292,460)	—	—	(292,460)	$24.38	—
Balance, December 31, 2000	9,680,397	290,320	1,468,332	11,439,049	$23.62	12/2004–12/2010

The following table provides further details relating to the Company's stock options and warrants outstanding as of December 31, 2000.

	Options & Warrants Outstanding			*Options & Warrants Exercisable*	
Range of Exercise Prices	*Number Outstanding*	*Weighted Average Exercise Price*	*Weighted Average Remaining Contractual Life (in years)*	*Number Exercisable*	*Weighted Average Exercise Price*
10.00 to 19.99	2,220,510	$16.29	9.9	—	—
20.00 to 29.99	7,049,483	22.22	8.3	2,145,657	$22.00
30.00 to 39.99	1,662,606	32.91	9.4	—	—
40.00 to 49.99	448,110	43.19	9.5	—	—
50.00 to 59.99	44,894	55.01	9.2	—	—
60.00 to 69.99	11,346	62.93	9.2	—	—
70.00 to 77.00	2,100	74.80	9.2	—	—
	11,439,049	23.62	8.8	2,145,657	22.00

Note 10.
stock purchase plan

> > > > > > The Company has adopted a qualified Employee Stock Purchase Plan to permit eligible employees to purchase shares of eSpeed common stock at a discount. At the end of each quarterly purchase period, as defined, accumulated payroll deductions are used to purchase stock at a price determined by a Stock Purchase Plan Administrative Committee, which will generally not be less than 85% of the lowest market price at various defined dates during the purchase period. The Company has reserved 425,000 shares of Class A common stock for issuance under the Stock Purchase Plan. During the year ended December 31, 2000, the Company issued 16,863 shares to employees at an average price of $21.99. In 2001, the Company issued 13,601 shares of Class A common stock at a price of $13.33 per share in consideration of amounts withheld in the fourth quarter.

Note 11.
deferred compensation plan

> > > > > > Employees of the Company are eligible to participate in the eSpeed Inc. Deferral Plan for Employees of Cantor Fitzgerald, L.P. and its Affiliates (the Plan), whereby eligible employees may elect to defer a portion of their salaries by directing the Company to contribute to the Plan.

The Plan is available to all employees of the Company meeting certain eligibility requirements and is subject to the provisions of the Employee Retirement Income Security Act of 1974. Employee contributions are directed to one or more investment funds, one of which, beginning in 2000, invests in the Company's Class A common stock (the eSpeed Stock Fund). The Company will match contributions to the eSpeed Stock Fund annually with up to $3,000 of the Company's Class A common stock per participant. In 2001, the Company will contribute 13,764 shares of its Class A common stock relating to employee contributions to the eSpeed Stock Fund for the year ended December 31, 2000. The administration of the Plan is performed by CFLP. The Company pays its proportionate share of such administrative costs under the Administrative Services Agreement.

Note 12.
regulatory capital requirements

> > > > > > Through its subsidiary, eSpeed Government Securities, Inc., the Company is subject to Securities and Exchange Commission (SEC) broker-dealer regulation under Section 15C of the Securities Exchange Act of 1934, which requires the maintenance of minimum liquid capital, as defined. At December 31, 2000, eSpeed Government Securities, Inc.'s liquid capital of $28,944,299 was in excess of minimum requirements by $28,919,299.

Additionally, the Company's subsidiary, eSpeed Securities, Inc., is subject to SEC broker-dealer regulation under Rule 17a-5 of the Securities Exchange Act of 1934 which requires the

maintenance of minimum net capital and requires that the ratio of aggregate indebtedness to net capital, both as defined, shall not exceed 15 to 1. At December 31, 2000, eSpeed Securities, Inc. had net capital of $3,723,330, which was $3,552,207 in excess of its required net capital, and eSpeed Securities, Inc.'s net capital ratio was 0.69 to 1.

Note 13.

segment and geographic data

> > > > > > *Segment Information:* The Company currently operates its business in one segment, that of operating interactive electronic business-to-business vertical marketplaces for the trading of financial and non-financial products, licensing software, and providing technology support services to Cantor and other related parties.

> > > > > > *Geographic Information:* The Company operates in the Americas, Europe and Asia. Revenue attribution for purposes of preparing geographic data is principally based upon the marketplace where the financial product is traded, which, as a result of regulatory jurisdiction constraints in most circumstances, is also representative of the location of the client generating the transaction resulting in commissionable revenue. The information that follows, in management's judgment, provides a reasonable representation of the activities of each region as of and for the periods indicated.

	For the year ended December 31, 2000	*For the period from March 10, 1999 to December 31, 1999*
	(restated)	*(restated)*
Transactions Revenues:		
Europe	**$13,214,668**	$ 5,392,923
Asia	**1,397,154**	450,457
Total Non-Americas	**14,611,822**	5,843,380
Americas	**55,675,557**	16,010,222
Total	**$70,287,379**	$21,853,602

	December 31, 2000	*December 31, 1999*
Average long-lived assets:		
Europe	**$ 2,225,886**	$ 2,257,914
Asia	**791,570**	925,790
Total Non-Americas	**3,017,456**	3,183,704
Americas	**13,736,827**	5,236,613
Total	**$16,754,283**	$ 8,420,317

Note 14.

subsequent event

> > > > > > On January 29, 2001, the Company and Cantor agreed to form a limited partnership (the LP) to acquire an interest in Freedom International Brokerage (Freedom), a Canadian government securities broker-dealer. The Company

has agreed to contribute 310,770 shares of its Class A common stock to the LP as a limited partner, which entitles the Company to 75% of the LP's capital interest in Freedom. The Company will share in 15% of the LP's cumulative profits but not in cumulative losses. Cantor agreed to contribute 103,589 shares of the Company's Class A common stock as the general partner. Cantor will be allocated all of the LP's cumulative losses or 85% of the cumulative profits. The LP will exchange the 414,359 shares for a 66.7% interest in Freedom. In addition, the Company will issue warrants to purchase 400,000 shares of its Class A common stock to provide incentives to the other Freedom owner participants to migrate to the Company's fully electronic platform. Accordingly, the Company currently expects to record a non-cash charge of approximately $3,600,000 over three years, representing the value of the warrants. To the extent necessary to protect the Company from any allocation of losses, Cantor is required to provide future capital contributions to the LP up to an amount that would make Cantor's total contribution equal to the Company's initial investment in the LP.

The Company will be entitled to receive 65% of the electronic transaction services revenues generated by Freedom and Freedom will receive 35% of the revenues. The Company will also receive 35% of Freedom's revenues derived from all voice-assisted transactions, other miscellaneous transactions and the sale of market data or other information.

The Company entered into this transaction principally to expand its business in Canadian fixed-income, foreign exchange and other capital markets products and to leverage its opportunities to transact business with the six leading Canadian financial institutions that are participants in Freedom. Freedom is a Nova Scotia unlimited liability company. The Company believes that Freedom may experience significant short-term losses as the voice brokerage business of Freedom is converted to a fully electronic marketplace. Accordingly, the Company was willing to accept a reduced profits interest in order to avoid recognizing potentially significant short-term losses prior to the anticipated achievement by Freedom of profitability. The Company determined the appropriate number of shares and warrants to be issued by it in this transaction based on the anticipated benefits to be realized by it and the structure of the profit and loss arrangement.

Note 15.
restatement

> > > > > > The Company has restated its consolidated financial statements for the year ended December 31, 2000 and the period from March 10, 1999 to December 31, 1999 to revise its presentation of fully electronic transaction revenues and its method of accounting for its stock issuance to the shareholders of MPI.

The restated financial statements reflect, pursuant to guidance contained in the Financial Accounting Standards Board's Emerging Issues Task Force No. 99-19, the Company's fully electronic transactions net of the fulfillment services fees that are paid to related parties. Fully electronic transactions are reflected as transactions with related parties because they are implemented pursuant to services agreements entered into with related parties. The effect of this restatement is to eliminate fulfillment services fee expenses of $27,903,849 and $3,527,945 for the year ended December 31, 2000 and the period from March 10, 1999 to December 31, 1999, respectively, and to reduce the Company's fully electronic transaction revenues in each of those periods by an equal amount. This change in presentation has and will have no effect on the Company's net loss, net income, earnings per share or cash flows for any prior or future period.

In addition, the financial statements have been restated to present the shares issued by the Company to the shareholders of MPI in connection with CFP's acquisition of the business of MPI as a stock issuance rather than as a non-cash business partner securities expense of the Company for the year ended December 31, 2000 due to the related party nature of the transaction. The impact of this change reduced the Company's net loss for the year ended December 31, 2000 by $1,350,000 ($0.02 per share) but had no effect on stockholders' equity of the Company at December 31, 2000.

The following table summarizes the impact of the restatement on the Company's statement of operations:

	December 31, 2000		*December 31, 1999*	
	As previously reported	*As restated*	*As previously reported*	*As restated*
Fully electronic transaction revenues	**$ 80,596,552**	**$ 52,692,703**	$ 10,079,842	$ 6,551,897
Total revenues	**118,930,890**	**91,027,041**	38,188,925	34,660,980
Fulfillment services fees expense	**27,903,849**	**—**	3,527,945	—
Non-cash business partner securities expense	**33,390,505**	**32,040,505**	—	—
Total expenses	**178,936,750**	**149,682,901**	50,987,727	47,459,782
Net loss	**(60,411,985)**	**(59,061,985)**	(12,586,913)	(12,586,913)
Net loss per share	**(1.17)**	**(1.15)**	(.28)	(.28)

Note 16.

quarterly information (unaudited)

> > > > > > The following table reflects the unaudited quarterly results of operations of the Company for 2000 and 1999 and gives effect to the restatement described in Note 15:

	2000 Quarter Ended							
	March 31		*June 30*		*September 30*		*December 31*	
	As previously reported	*As restated*	*As previously reported*	*As restated*	*As previously reported*	*As restated*	*As previously reported*	*As restated*
Total revenues	$24,250,227	$19,174,426	$ 29,658,717	$ 22,501,762	$ 29,373,596	$22,491,596	$35,648,350	$26,859,257
Total expenses	29,083,643	24,007,842	68,578,359	61,421,404	40,572,267	32,340,267	40,702,481	31,913,388
Loss before provision for income taxes	(4,833,416)	(4,833,416)	(38,919,642)	(38,919,642)	(11,198,671)	(9,848,671)	(5,054,131)	5,054,131)
Income tax provision	92,500	92,500	107,500	107,500	88,125	88,125	118,000	118,000
Net loss	$ (4,925,916)	$ (4,925,916)	$(39,027,142)	$(39,027,142)	$(11,286,796)	$ (9,936,796)	$ (5,172,131)	$ (5,172,131)
Net loss per share	$ (0.10)	$ (0.10)	$ (0.76)	$ (0.76)	$ (0.22)	$ (0.19)	$ (0.10)	$ (0.10)

	1999 Quarter Ended							
	March 10 through 26		*June 25*		*September 24*		*December 31*	
	As previously reported	*As restated*	*As previously reported*	*As restated*	*As previously reported*	*As restated*	*As previously reported*	*As restated*
Total revenues	$ 1,948,250	$ 1,921,433	$ 10,569,356	$ 10,165,641	$ 11,621,863	$10,715,113	$14,049,456	$11,858,793
Total expenses	2,486,758	2,459,941	13,321,989	12,918,274	15,116,370	14,209,620	20,062,610	17,871,947
Loss before provision for income taxes	(538,508)	(538,508)	(2,752,633)	(2,752,633)	(3,494,507)	(3,494,507)	(6,013,154)	(6,013,154)
Income tax benefit	(13,470)	(13,470)	(68,849)	(68,849)	(89,488)	(89,488)	(40,082)	(40,082)
Net loss	$ (525,038)	$ (525,038)	$ (2,683,784)	$ (2,683,784)	$ (3,405,019)	$ (3,405,019)	$ (5,973,072)	$ (5,973,072)
Net loss per share	$ (0.01)	$ (0.01)	$ (0.06)	$ (0.06)	$ (0.08)	$ (0.08)	$ (0.13)	$ (0.13)

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, 2000 and 1999, and the related statements of operations, cash flows and changes in stockholders' equity for the year ended December 31, 2000 and for the period from March 10, 1999 (date of commencement of operations) to December 31, 1999. 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 auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit 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 the Company at December 31, 2000 and 1999, and the results of its operations and its cash flows for the year ended December 31, 2000 and for the period from March 10, 1999 (date of commencement of operations) to December 31, 1999, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 15, the accompanying consolidated financial statements have been restated.

Deloitte & Touche LLP

February 14, 2001
(June 15, 2001 as to Note 15)
New York, New York

> > > > > > *Price Range of Class A Common Stock* Our Class A common stock was initially offered to the public on December 10, 1999 at $22.00 per share. It has traded since that date on the Nasdaq National Market® under the symbol "ESPD." Through February 28, 2001, the high and low sales prices for our Class A common stock, as reported by Nasdaq®, were as follows:

	High	*Low*
1999		
Fourth Quarter (beginning December 10)	$ 63.75	$ 30.00
2000		
First Quarter	89.88	36.50
Second Quarter	61.48	22.00
Third Quarter	49.25	20.00
Fourth Quarter	30.00	13.25
2001		
First Quarter (through February 28, 2001)	**34.75**	**13.63**

On February 28, 2001, the last reported closing price of our Class A common stock on the Nasdaq National Market was $25.1875 and there were approximately 482 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 paid a cash dividend on our common stock and we do not expect to pay any cash dividends on our common stock in the foreseeable future.

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, 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.

Board of Directors

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Chairman of the Board,
Chief Executive Officer &
President
eSpeed, Inc.

Lee Amaitis
Chief Operating Officer
eSpeed, Inc.

Joseph Noviello
Executive Vice President &
Chief Information Officer
eSpeed, Inc.

Stephen M. Merkel
Senior Vice President,
General Counsel
eSpeed, Inc.

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Chief Executive Officer &
President
Equivest Finance, Inc.

Larry R. Carter
Chief Financial Officer,
Senior Vice President &
Corporate Secretary
Cisco Systems, Inc.

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Copies of the Company's Annual Report on Form 10-K/a, along with news releases, other recent SEC filings and general stock information are available without charge at www.espeed.com, by calling Investor Relations at 212 701 1943 or by writing Investor Relations at the Company's address above.

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