With Pride & Honor

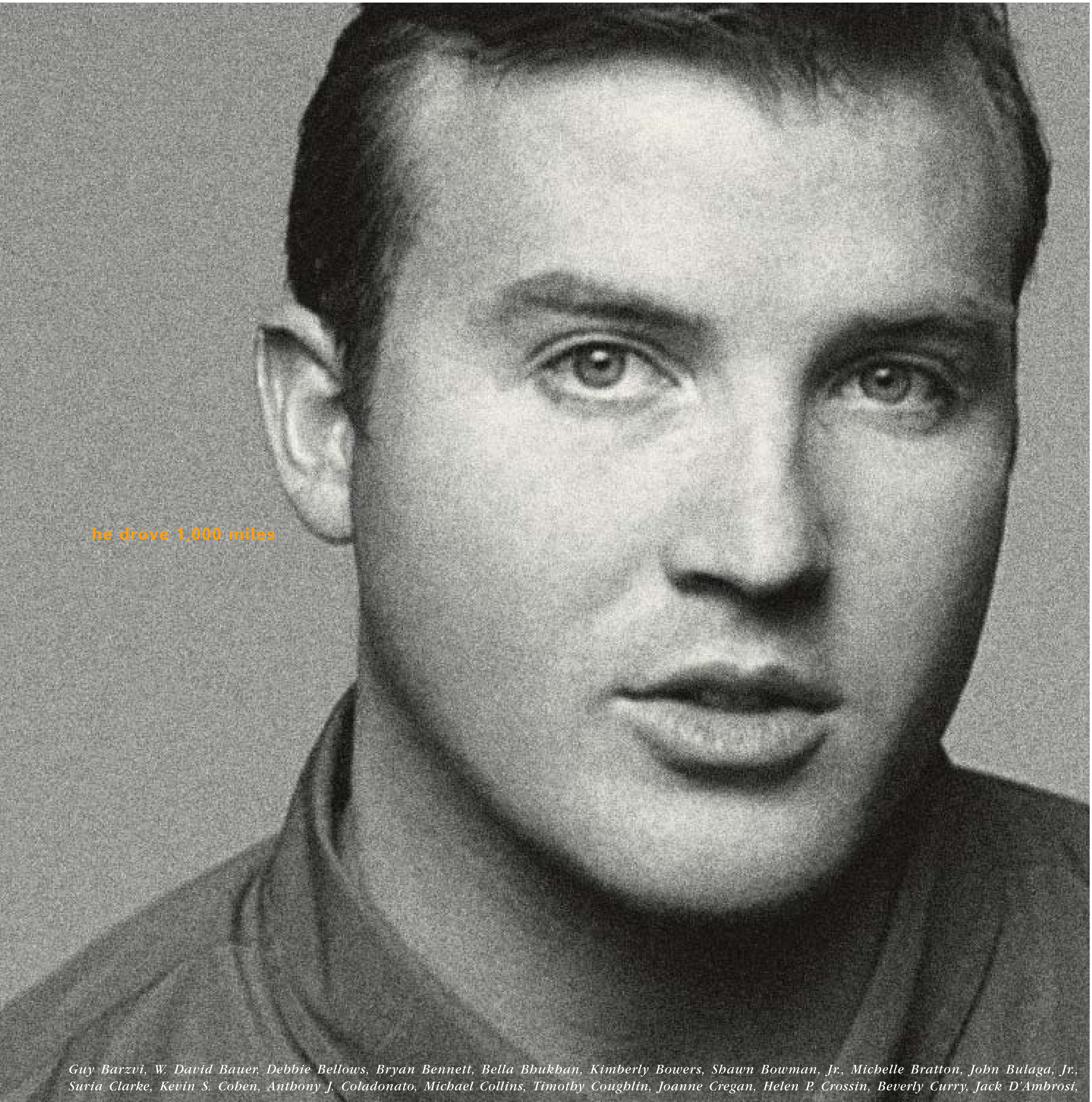
A story of one company's determination and commitment

2001 Annual Report

eSpeed®

This is the story of one company's values, pride and honor. A story of growth and rebuilding in the face of devastating loss. A story of one company's expression of commitment.

Paul Acquaviva, Donald L. Adams, Lee Adler, Alok Agarwal, Joanne Ahladiotis, Christopher Allingham, Frank Thomas Aquilino, Michael Asher, Paul Barbaro, Stephen Bunin, Milton Bustillo, Brian Cachia, Sandra Campbell, James Carson, Catherine Chirls, Abul K. Chowdhury, Frances Cilente, Gregory Clark,


he drove 1,000 miles
Guy Barzvi, W. David Bauer, Debbie Bellows, Bryan Bennett, Bella Bhukhan, Kimberly Bowers, Shawn Bowman, Jr., Michelle Bratton, John Bulaga, Jr.,
Suria Clarke, Kevin S. Cohen, Anthony J. Coladonato, Michael Collins, Timothy Coughlin, Joanne Cregan, Helen P. Crossin, Beverly Curry, Jack D'Ambrosi,

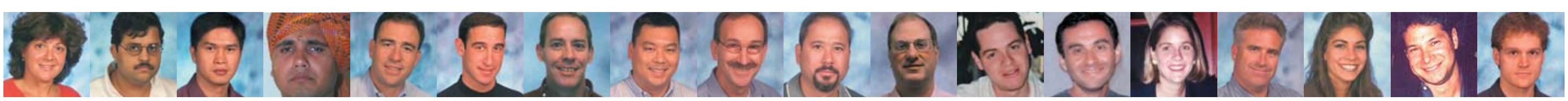
Paul De Cola, Azucena de la Torre, Anna DeBin, Monique Dejesus, Robert Eaton, Lisa Egan, Albert Elmarry, William Fallon, Shannon Fava, Judy Fernandez, Laura Gilly, Michael Gogliormella, Jeffrey Goldflam, John Grazioso, Timothy J. Hargrave, Joseph Hasson, Brian Hennessey, Marcia Hoffman, Stephen G. Hoffman,

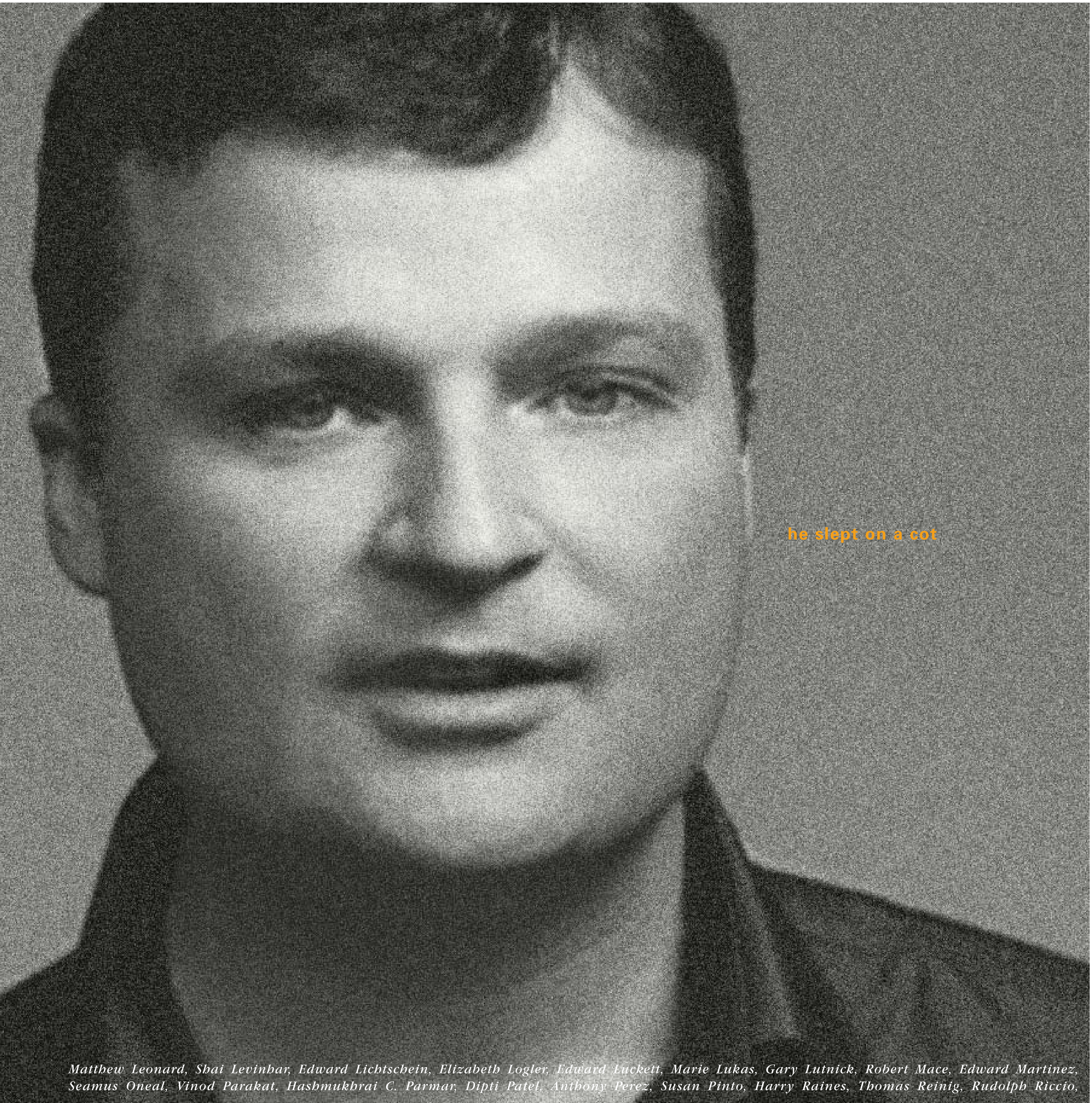
The same unyielding commitment from our employees that created growth and success for our Company in early 2001 has contributed to our employees' will to succeed following September 11th. eSpeed, as a company and as a group of individuals, made a decision to rebuild and move forward following the tragic events of that Tuesday morning, and we are doing just that.

Stephen Fogel, Arlene Fried, Deanna Galante, Giovanna Gambale, Douglas B. Gardner, William A. Gardner, Suzanne Geraty, Joseph Giaccone, Ronald Gilligan, Michael Horn, Zuhtu Ibis, Daniel Ilkanayev, Paul Innella, Aram Iskenderian, Aleksandr Ivantsov, Hweidar Jian, Joon Koo Kang, Sheldon Kanter, Glenn Kirwin,

One of the proudest moments in our Company's history came only 47 hours after the complete destruction of our headquarters at the World Trade Center. Despite the tremendous loss of life and infrastructure, our global team of employees worked around the clock to get eSpeed up and running in time for the reopening of the bond market on September 13th. Our platform handled significant US Treasury trading volumes that day. But perhaps even more meaningful, we expressed a commitment to our customers and partners, and reaffirmed a dedication and commitment to one another.

Karen Klitzman, Shekhar Kumar, Kui Fai Kwok, Ganesh Ladkat, Michael LaForte, Nicholas Lassman, Eugen G. Lazar, Gary Lee, Richard Lee, Jorge L. Leon, Stephen Masi, Marcello Matricciano, Kaaria W. Mbaya, Alok Mehta, Diarelia Mena, Dennis Moroney, Brian Murphy, Michelle Nelson, Troy Nilsen, Brian Nuñez,




he slept on a cot
Matthew Leonard, Shai Levinhar, Edward Lichtschein, Elizabeth Logler, Edward Luckett, Marie Lukas, Gary Lutnick, Robert Mace, Edward Martinez,
Seamus Oneal, Vinod Parakat, Hashmukhrai C. Parmar, Dipti Patel, Anthony Perez, Susan Pinto, Harry Raines, Thomas Reinig, Rudolph Riccio,

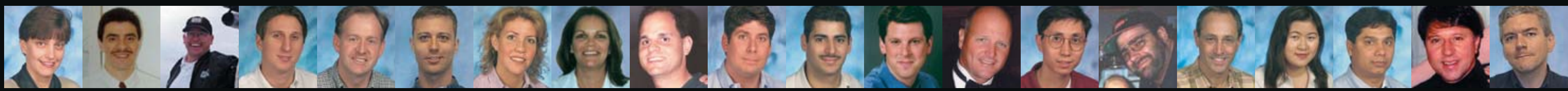

IT IS WITH GREAT PRIDE AND HONOR
THAT WE REMEMBER, STAND TOGETHER &
COMMIT TO REBUILDING.

–THE eSpeed TEAM

Gregory Richards, Stephen L. Roach, Donald Robertson, Gregory Rodriguez, Sheryl Rosenbaum, Christina Ryook, Joseph Sacerdote, Wayne J. Saloman, James Sands, Jr., Corina Stan, Andrew Stergiopoulos, Timothy Stout, William Sugra, Kristine Swearson, Joann Tabeek, William Tselepis, Jonathan Uman, Ivan Vale,

9.11.01

Maria T. Santillan, Rafael Santos, Scott Schertzer, Jayesh Shah, Khalid Shahid, Gary Shamay, Joseph Shea, David Silver, Marianne Simone, Karl Smith, Sushil Solanki, Frederick Varacchi, Alfred Vukosa, James Walsh, Weibin Wang, Brian Warner, David T. Weiss, Ssu-Hui Wen, Peter M. West, Whitfield West, Edward York



Chapter One:

A Solid Foundation

Howard W. Lutnick

focus

Every hour we operate is a testament to the lives of those who built our business. Today, eSpeed stands as a memorial to those people, and we are committed to preserving their memory and helping their families.

Dear Shareholders, Colleagues and Friends, The year 2001 will be remembered for a single day, September 11th. In one tragic moment our lives were changed forever. As we write this, we realize that day also marks the introduction for many to our Company, eSpeed. Many reached out and helped us immediately, and we continue to feel the heartwarming embrace of people from all nations. > > > > > > We've had the strength to stay focused. It's important to remember we were always strong, thanks to the exceptional team of dedicated employees who were so tragically taken from us on September 11th. We are proud of our Company's response to the unprecedented challenges we have endured. The hard work of our survivors has been nothing short of heroic. Yet, this would not have been possible without the groundwork laid in previous years that protected the future of our Company. Every hour we operate is a testament to the lives of those who built our business. Today and forever, eSpeed stands as a memorial to those people, and as we move forward, rebuilding and growing our business, we are committed to preserving their memory and helping their families. > > > > > > When we look back to the beginning of 2001 it seems to be a different time, filled with friends we will never see again. So it is very uplifting to find continuity, to see the plans we made together, our hopes and dreams, come to fruition. The vision we shared prevails today: to provide the world with a better way to trade. Since 1996, when our platform was developed and our private network was built, we have set the standard for electronic marketplaces—true multiple buyer/multiple seller, neutral marketplaces—and have maintained that standard against all odds. > > > > > > We remain proud that over the course of the year—despite everything—eSpeed has risen on a continuous arc of success. We were on track before September 11th and we now continue to move the Company forward once again on that same track. In fact, in 2001, our revenues grew steadily, regularly exceeding expectations. And we posted our first profit in the fourth quarter. eSpeed is beyond a business success story. Its employees are true business heroes. > > > > > > The strong management in place before the disaster had put in place a four-tiered strategy: promote the migration from voice trading to fully electronic systems; form partnerships to combine eSpeed's technological leadership with existing pools of liquidity; license our Software Solutions; and expand our intellectual property base. In 2001, we delivered on this strategy. > > > > > > In January, we joined forces with Canada's largest fixed income marketplace, Freedom International, to power its electronic trading operations. Under this arrangement, Freedom, which was owned by Canada's six largest investment dealers, gave eSpeed 65 percent of electronic trading revenues and 35 percent of voice-traded transaction proceeds. This venture powered eSpeed's entrance into Canada with partners who are the largest liquidity providers in that country. > > > > > > In March, we added access to the futures markets by entering into a distribution arrangement with EasyScreen. > > > > > > The initial phase of our European market penetration strategy, to be the leading fixed-income trading platform in Europe, was realized in July when Deutsche Bank agreed to connect its electronic market-making engines to the eSpeed® system. The agreement significantly increased our penetration while bolstering our relationship with one of the largest trading banks in the world. > > > > > > The Software Solutions side of our operations also received an early boost in February when The Federal Home Loan Bank, the world's fourth largest issuer of short-term securities, entered into an agreement to license our auction software. This deal showcased the flexibility and adaptability of our system, and once again demonstrated that our scalability and capacity to trade multiple products, in any type of market, established eSpeed as the dominant electronic trading platform for fixed income products. > > > > > > eSpeed also advanced its holdings with two key intellectual property acquisitions, the Wagner and Lawrence Patents, in April and August, respectively. The Wagner Patent covers electronic trading of futures contracts in the US. It forms the cornerstone for electronic futures trading, and greatly increases our ability to leverage our platform and produce licensing fees. The Lawrence Patent encompasses the electronic trading of financial instruments via auction. > > > > > > Both important patent acquisitions give eSpeed an immediate competitive advantage in the futures and wholesale municipal bond markets as well as bring additional efficiencies by enabling potential buyers to electronically place bids securely and anonymously. > > > > > > Unlocking the value of our intellectual property has continued in 2002, with our recent arrangement with ICE to license our Wagner Patent. This agreement yields an annual base royalty of at least $2 million per year for five years plus running royalties. We anticipate that this is just the beginning of eSpeed's unique intellectual property opportunities. > > > > > > By the end of summer we were really feeling the momentum: we had consolidated our intellectual property portfolio, formed new strategic partnerships, entered into several licensing agreements, and watched our earnings increase towards profitability. > > > > > > > > > > > > > > > > >

"The support shown by our employees in offices across the United States, Europe and Asia was truly inspiring. They kept us up and running, they kept us moving forward, they kept us here."

Daniel LaVecchia, *Executive Managing Director & Director of US Operations*

Chapter Two:

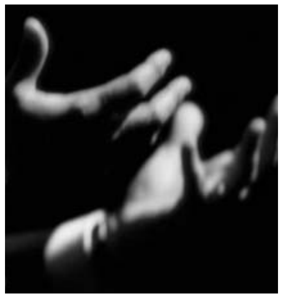
Strength and Fortitude

resiliency

As the lion's share of fixed income securities trades on eSpeed, it was imperative that we be there when the market reopened. Only 47 hours after the complete destruction of our global headquarters and an unfathomable loss of life, we were up and running in time to reopen the US Treasury market.

Our global platform gets tested every day. It has for years. We switch the transaction processing and other functions between our hubs during trading hours as a matter of course. With over two hundred billion dollars in daily transactions at stake, that kind of test can only be performed when you have the utmost confidence in your technology. Companies—especially those like eSpeed that the world relies on—plan for disasters. But no one could have anticipated the tremendous loss that our people, our platform and our Company would suffer this past September. It was all too unthinkable. > > > > > > Since technology is at the core of our business, we recognized early on in order to deliver on our commitment to customers, fully redundant systems would have to be more than a luxury. They would have to be a necessity. In this regard, we must acknowledge the vision and foresight of Fred Varacchi, our late President, for fully implementing this strategy. He recognized the importance of full redundancy and scalability for the eSpeed® system, and took it upon his team to initiate a concurrent computing backup system that would keep our customers and the Treasury market running no matter what. Fred and his team's foresight and preparation would contribute to a Herculean effort several years later that brought the Treasury market back to its feet in less than two days. > > > > > > Symbolically, the US Treasury market carries a weight that only the stock markets can match. The bond market is an expression of faith in the global financial system and faith in the future. In a very real sense, our government and governments around the world rely on bonds. As the lion's share of fixed income securities trades on eSpeed, it was imperative that we be there when the market reopened. We had to be there for our customers. The airports were closed, the stock market was closed, the bridges in and out of Manhattan were closed, but the bond market opened. The financial system was still standing. We lost our building. We lost our people. We did not lose our dedication to each other or our commitment to our Company. > > > > > > Only 47 hours after the complete destruction of our global headquarters and an unfathomable loss of life, we were up and running in time to reopen the US Treasury market on September 13th. Our systems were never down in Europe and Asia. Our systems were never down in Canada. Within hours, we managed to shift our operations to London and connected to our backup hub in New Jersey. That makes it sound easy, but of course the reality at the time was very different. > > > > > > We were able to reopen our electronic doors in the US because all of our remaining employees, from New York to London to Japan, took it upon themselves to spring into action. Being a global company with global technology, we were able to lean on each other and our employees in offices around the world to step in and save the day, and help us to rebuild and recover. > > > > > > No matter where in the world our surviving team members were located, they had a unified purpose: to go forward in honor of everyone they had lost. >

LEE M. AMAITIS



perseverance

Throughout the Company, at our darkest hour, everyone worked their hardest. It was as much a test for eSpeed as it was for us individually.

It takes people to connect systems together. Our people worked under tremendous strain after the attack. Obviously pressure to perform was enormous and the emotional grief indescribable. Machines and software can be reliable, and ours are, but perseverance is a human quality that has grown within our Company. > > > > > > Hours after the attack, driven by a combination of common sense and common desire, our New York team assembled and recreated an operational data center in Rochelle Park, New Jersey. Instinctively they worked to save the business. For days they took turns sleeping on cots in the facility while they pulled together with our outside offices and rebuilt and restored our infrastructure. > > > > > > Our London office, being five hours ahead, was already operating when the planes hit. Lee M. Amaitis, our Global Chief Operating Officer and his team were immediately in contact with their colleagues in New York, saw what was happening, and sprang into action. The drive and resolve demonstrated by our entire European staff was amazing. In no time, they assessed what needed to be done and heroically facilitated the opening of the US markets, all while keeping their European markets running at full capacity. London became our headquarters and worked around the clock to run our US business. > > > > > > Throughout the Company, at our darkest hour, everyone worked their hardest. We discovered the strength and courage they possessed. It was as much a test for eSpeed as it was for us individually and all those we lost. > > > > > > At 8 a.m. on Thursday, September 13th, we showed the world that we meant every word we had ever said about our robustness and reliability. We used to think that resilience described our technology. Thankfully, we have come to learn, it describes our staff as well. Closing our doors was never an option for this team. >

"On Thursday morning, September 13th, in a miraculous show of commitment and perseverance, we were fully operational in time for the opening of the US Treasury market. We proved that our technology was fully redundant and would stand up to any test put before it."

Joseph Noviello, *Executive Vice President & Chief Information Officer*

support

You really learn who your friends are in a crisis. We discovered that we have many true friends.

It takes a lot for a business to survive. This may sound very simplistic, but the most important thing to have is customers. To create a market you need market participants. We could not have come back on our own. > > > > > > The bond market is the largest market in the world and we rely on our customers. They instantly returned to us without hesitation. Why? In one word: commitment. Traders at Wall Street firms wanted us to succeed because of the longstanding relationships we've built with them individually, and because they trust the dedication of our team and the performance of our system. > > > > > > You really learn who your friends are in a crisis. We discovered that we have many true friends. Among them are our business partners: law firms like Skadden, Arps, Slate, Meagher & Flom who supplied pro bono counsel to our families, UBS Warburg and Morgan Lewis & Bockius who offered us work space immediately, and Cisco Systems and Microsoft who sent in equipment as well as their employees to unload shipments of computers on the lawn of our technology center. > > > > > > Countless individuals dropped everything and offered us assistance. In particular we would like to thank our outside board members Richard Breeden, Larry Carter, John Dalton and William Moran. > > > > > > There are literally hundreds if not thousands of people who helped us when we needed it most. Their support will never be forgotten, and although it is impossible to mention everyone here, please accept our deepest heartfelt thanks. >

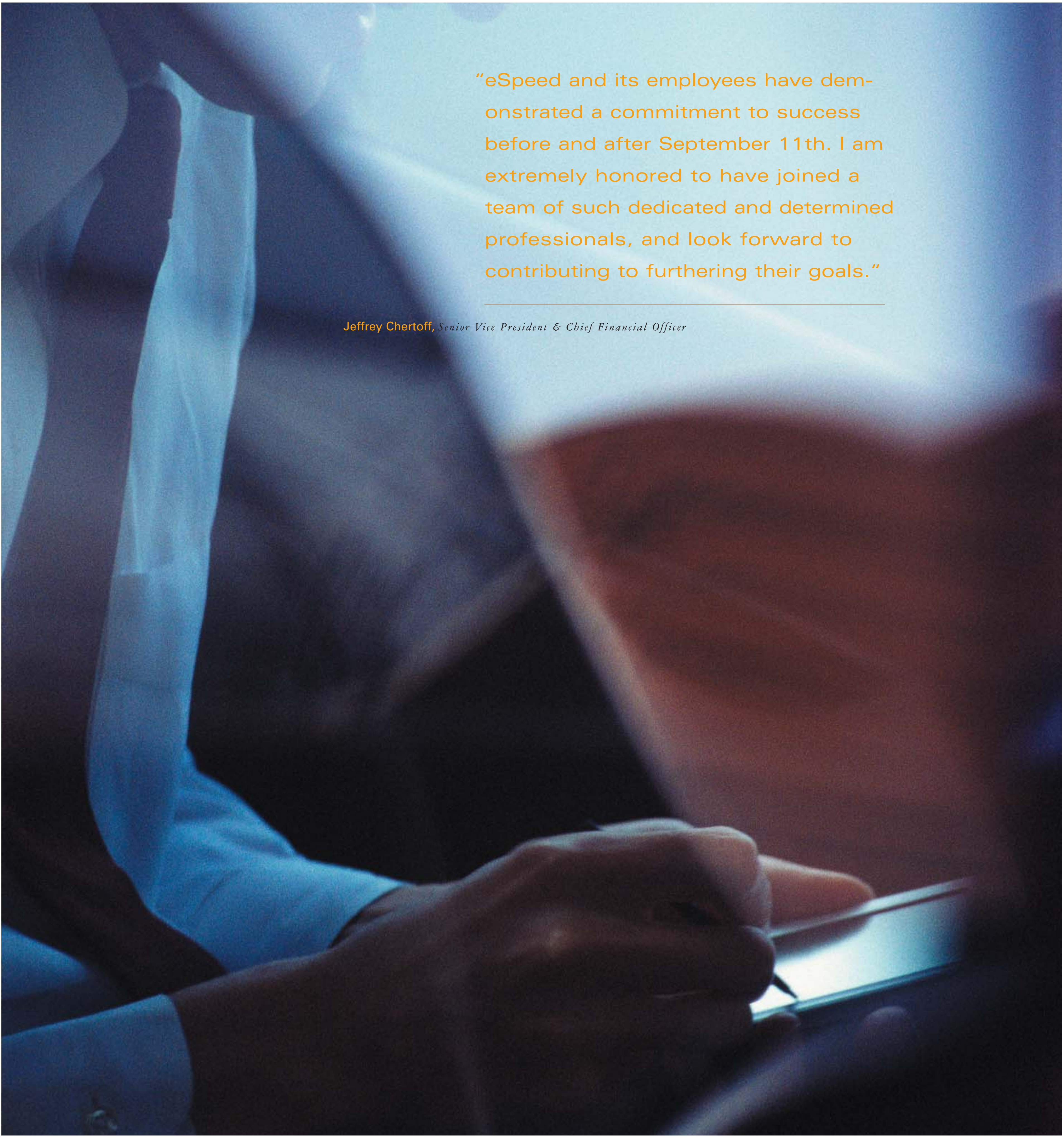
"We are all working together to continue to execute the vision this Company was founded and built upon. It's a commitment from all of us and we intend to see it through."

Stephen Merkel, *Executive Vice President, General Counsel & Secretary*

performance

Ending the year with our first profitable quarter was a great signal of hope for the future.

eSpeed remains the dominant trading platform for fixed income, globally. We enjoy extraordinary market position across benchmark securities, a position we maintain in large part due to our ability to reopen on September 13th. Ending the year with our first profitable quarter was a great signal of hope for the future. > > > > > > In 2001, our revenue increased 34 percent to $122.3 million. We ended the year with a net operating loss of only $2.6 million, or ($0.05) a share. This compares to a loss of $27 million or ($0.52) per share in 2000 and reflects a steady increase in earnings over the four quarters. On a GAAP basis, the Company reported a net loss of $18.3 million, or ($0.34) for the full year 2001 compared to a net loss of $59.1 million, or ($1.15) per share for the full year 2000. > > > > > > Since our business changed fundamentally following September 11th, we feel our positive final quarter is the best measurement of our performance. For the fourth quarter 2001, we reported operating income of $4.5 million, or $0.08 per share, compared to a net operating loss of $5.2 million, or ($0.10) per share in the same period in 2000. On a GAAP basis over that period, we reported income of $7.8 million or $0.14 per share compared to a net loss of $5.2 million, or ($0.10) per share in the same period last year. We ended in a strong position. Going forward, we are seeing excellent results in 2002. > > > > > > We also saw a substantial increase in our electronic volume. Fully electronic revenue grew 43 percent to $75.4 million. This reflects continuing validation of our business model that encourages migration from voice to electronic environments. > > > > > > Despite the events of September 11th, eSpeed still has substantial voice revenues. This is a result of the growth in TradeSpark's transactional volume, the strong performance of Cantor Fitzgerald's European voice brokerage business over our eSpeed® system and our entry into the Canadian capital markets. > > > > > > TradeSpark picked up momentum on October 1st when eSpeed began to receive a full 35 percent of its voice-assisted revenue, bringing it in line with Freedom International. The Enron collapse has served to highlight the benefits of our approach to the US energy markets—providing a truly neutral multilateral exchange—and this has helped propel TradeSpark to the forefront. > > > > > > Our belief that Software Solutions would be a strong driver of future growth was evidenced by the 47 percent jump in revenue from the previous year to $18.2 million. As Software Solutions works to leverage our existing infrastructure—which is built and paid for—there are tremendous margins to be gained from the broad range of products we are able to create and offer. > > > > > > September 11th interrupted the rollout of some of our new software products and forced us to focus on rebuilding our foundation. With this foundation now strongly in place, eSpeed is back on track and rolling out new products with our globally integrated development team. Recently, we've modified our software to concentrate on fully electronic trading. We also see a vast spectrum of opportunities to license our intellectual property to more financial institutions, international markets and energy trading companies. > > > > > > We're proud of how quickly we have returned to stability. And we did it without jeopardizing our cash reserves, which grew in the final quarter by $10.8 million, ending the year with cash and cash equivalents of $159.9 million. >



"eSpeed and its employees have demonstrated a commitment to success before and after September 11th. I am extremely honored to have joined a team of such dedicated and determined professionals, and look forward to contributing to furthering their goals."

Jeffrey Chertoff, *Senior Vice President & Chief Financial Officer*

commitment

We've never been more driven and focused than we are today.

It is overwhelming, to say the least, to think about the employees and friends we've lost. But when we talk about our business, we've never been more driven and focused than we are today. This is a feeling that persists all the way through the ranks of this Company. This unfortunate experience has only strengthened our resolve. > > > > > > We are committed to our stated growth initiatives, which include continued conversion from voice to fully electronic transactions, continued growth in our intellectual property and Software Solutions business, new product and technology enhancements, rolling out additional instruments, building new vertical markets, leveraging our infrastructure, and teaming up with additional market makers and exchanges. These strategic factors will continue to drive eSpeed's growth and will provide significant opportunities for our Company and our shareholders. > > > > > > Commitment to shareholder value and growth are the best ways we can think of to honor those employees we lost and to help take care of the families of those friends and colleagues. Simply put, they are part of us. Everyone who is with eSpeed today feels that way. > > > > > > We are honored to have worked with so many wonderful people who created such a resilient and vibrant company. We promise to make them, and you, proud. >

Yours sincerely,

Howard W. Lutnick,
Chairman, CEO and President

Lee M. Amaitis,
Global Chief Operating Officer

In Conclusion:

Financial Statements

selected financial data

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 years ended December 31, 2001 and December 31, 2000 and for the period from March 10, 1999 (date of commencement of operations) to December 31, 1999. 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 24 of this Report and with our consolidated financial statements and the notes thereto beginning on page 38 of this Report.

Statement of Operations Data:
(in thousands, except per share data)

	For the year ended December 31, 2001	*For the year ended December 31, 2000*	*For the period from March 10, 1999 (date of commencement of operations) to December 31, 1999*
Total revenues	**$124,969**	$ 91,027	$ 34,661
Expenses:			
Compensation and employee benefits	**53,437**	53,963	21,502
Occupancy and equipment	**29,549**	21,561	10,293
Professional and consulting fees	**10,568**	13,036	5,149
Communications and client networks	**8,109**	4,589	3,355
Marketing	**4,356**	8,285	—
Administrative fees paid to related parties	**9,798**	6,524	1,662
Non-cash business partner securities(1)	**1,223**	32,041	—
Options granted to Cantor employees(2)	**—**	—	2,850
Loss on unconsolidated investments(3)	**3,833**	—	—
Provision for September 11 Events, net(4)	**13,323**	—	—
Other	**8,569**	9,684	2,649
Total expenses	**142,765**	149,683	47,460
Loss before (benefit) provision for income taxes	**(17,796)**	(58,656)	(12,799)
Income tax (benefit) provision	**531**	406	(212)
Net loss	**$ (18,327)**	$ (59,062)	$ (12,587)

(continued)

Statement of Operations Data: *(in thousands, except per share data)*	*For the year ended December 31, 2001*	*For the year ended December 31, 2000*	*For the period from March 10, 1999 (date of commencement of operations) to December 31, 1999*
Basic and diluted net loss per share	**$ (0.34)**	$ (1.15)	$ (0.28)
Weighted average shares of common stock outstanding	**54,297**	51,483	44,495

Statement of Financial Condition: *(in thousands)*	*December 31, 2001*	*December 31, 2000*	*December 31, 1999*
Cash and cash equivalents	**$159,899**	$122,164	$134,846
Total assets	**203,099**	155,122	144,327
Total liabilities	**29,917**	22,864	8,815
Total stockholders' equity	**173,182**	132,258	135,512

(1) See Note 7 to the consolidated financial statements on page 48.
(2) See Note 11 to the consolidated financial statements on page 53.
(3) See Note 7 to the consolidated financial statements on page 48.
(4) See Note 2 to the consolidated financial statements on page 46.

management's discussion

and analysis of financial condition and results of operations

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. > > > > > > On September 11, 2001, our principal place of business at One World Trade Center was destroyed and, as a result, we lost 180 employees and Cantor and TradeSpark lost 478 employees. Through implementation of our business recovery plan, we immediately relocated our surviving employees to various locations in the New York metropolitan area. Our operating proprietary software was unharmed. > > > > > > As of December 31, 2001, we had an accumulated deficit of $91.3 million. This deficit primarily resulted from expenditures on our technology and infrastructure incurred in building our revenue base, from non-cash charges incurred in connection with the issuance of business partner securities and from provisions for the September 11 Events. In spite of the September 11 Events, for the quarter ended December 31, 2001, we recorded net income for the first time. We expect that we will continue to generate net income from operations. However, in light of the rapidly changing nature of our business, the fact that our 1999 operations began on March 10, 1999 and the September 11 Events, 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 an Amended and Restated Joint Services Agreement with Cantor under which we and Cantor have agreed to collaborate to provide brokerage and related services to clients in multiple electronic markets for transactions in securities and other products. Under the Amended and Restated Joint Services Agreement, as currently in effect, 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 or other 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 services agreements with TradeSpark and Freedom pursuant to which we provide the technology infrastructure for the transactional and technology related elements of the TradeSpark and Freedom marketplaces, as well as certain other services, in exchange for specified percentages of transaction revenues from the marketplaces. If a transaction is fully electronic, we receive 65% of the aggregate transaction revenues and TradeSpark or Freedom receives 35% of the transaction revenues. In general, if TradeSpark or Freedom provides voice-assisted brokerage services with respect to a transaction, then we receive 35% of the revenues and TradeSpark or Freedom receives 65% of the revenues. > > > > > > We have pursued 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, 2001. As a result of the September 11 Events and the resulting loss of voice brokers, Cantor's U.S. operations were reduced, including the trading by it of certain U.S. financial products. Cantor also sold the assets of its municipal bond business in the first quarter of 2002 after that business ceased operations on September 11, 2001, but acquired a 25% special interest in Municipal Partners LLC, the newly formed entity that owns the assets. We have entered into a services agreement with Municipal Partners pursuant to which we receive a percentage of the revenues for all electronic transactions made by Municipal Partners over our eSpeed® system. Cantor has not yet fully determined which financial product marketplaces it will re-enter. In addition, Cantor's business product development activity has been greatly reduced due to the September 11 Events. If Cantor determines not to re-enter its affected businesses, exits additional businesses or does not continue to develop new products or enter into new businesses, we will likely be adversely affected. >

Critical Accounting Policies and Estimates Management's Discussion and Analysis of Financial Condition and Results of Operations is based upon our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires us to make estimates and judgments which affect the reported amounts of assets, liabilities, revenues and expenses and the related disclosures of contingent assets and liabilities. Actual results may differ from our estimates as a result of the occurrence of future events or changes in conditions which affect our judgments or estimates. > > > > > > We believe that the following critical accounting policies affect our more significant judgments and estimates used in the preparation of our consolidated financial statements.

Provision for September 11 Events: We have recorded an expense in the year ended December 31, 2001 for the costs which we have incurred, are committed to incur, or reasonably expect to incur, and for assets which were destroyed or impaired as a result of the September 11 Events. In our judgment, such costs are properly recorded in the same period as the September 11 Events, even if disbursement will not occur until future periods. > > > > > > Due to the extent of the loss of life and the destruction of assets, the effect of the September 11 Events required us to make estimates and judgments in an uncertain environment. In addition to any changes in our business strategy which resulted from the destruction, factors which ultimately determine the costs directly related to September 11th include the degree and speed with which we, Cantor and TradeSpark, rebuild our damaged businesses. > > > > > > The provision includes estimates of the costs of external professionals who are performing the duties of employees who were lost on September 11th. These costs will ultimately depend on the length of time such external professionals are utilized. > > > > > > We have also estimated the direct costs of hiring new employees to perform the duties of those lost. Such costs may include both recruitment fees and up-front payment of bonuses as an inducement to attract qualified employees to critical positions. The payment of such inducements can vary significantly depending on the timing of the recruitment and the qualifications of the new employee. > > > > > > As a direct result of the loss of certain Cantor employees on September 11th, certain Cantor businesses which formerly used the functionality of our eSpeed® system have ceased operations. We had internally developed, and were internally developing, enhancements to our electronic trading systems to facilitate the use of our eSpeed® system for many products. In some instances, we had purchased functionality developed and owned by third parties. As a result of the September 11 Events, the future usage of some of our internally developed or externally purchased software is uncertain. We have included a charge for the carrying value of those assets related to functionality which we do not believe will be used in the future. The charge for such write-offs is dependent on the accuracy of our assumptions as to which businesses will not be revived. > > > > > > We will also incur costs related to our departure from certain businesses or physical locations, directly as a result of the September 11 Events. Such costs include our estimates of our share of the expenses of closing two offices in Europe, severance payments to employees and other costs.

Insurance Coverage: We have insurance coverage for both property and casualty losses and for business interruption through our Administrative Services Agreement with Cantor. > > > > > > Under the property and casualty coverage, we expect to be reimbursed through Cantor for the greater of fair value or replacement costs for assets lost as a result of the September 11 Events. For assets not replaced, we have estimated that fair value will approximate carrying value and, as such, the reimbursement will have no effect on our net income. Although a final settlement with the insurance company for the claim has not occurred, we have used our judgment in determining the amount by which replacement costs have exceeded fair value, and such excess has been recognized as a gain on replacement of fixed assets. > > > > > > The business interruption claim has also not been settled. We have not recorded any revenue which might be realized as a result of such insurance since the recovery is not readily determinable at this time.

Related Party Transactions: As described in the notes to our consolidated financial statements, we share revenues with Cantor, TradeSpark and Freedom. In addition, we provide technology support services to Cantor, TradeSpark and Freedom, and Cantor provides administrative services to us. > > > > > > Since Cantor holds a controlling interest in us, and holds a significant interest in TradeSpark and Freedom, such transactions among and between us and Cantor, TradeSpark and Freedom are on a basis which might not be replicated if such service or revenue sharing arrangements were between, or among, unrelated parties. > > > > > > We recognize software solution fees from related parties based on the allocated portion of our costs of providing services to our related parties. Such allocation of costs requires us to make judgments as to the equitable distribution of such costs. In addition, we receive administrative services from Cantor, for which we pay a fee based on Cantor's good faith determination of an equitable allocation of the costs of providing such services. There is no assurance that we could realize such revenues, or obtain services at such costs, if we had to replicate such arrangements with unrelated parties.

Patents: During the year ended December 31, 2001, we acquired two patents that we believe play critical roles in the electronic trading of certain financial instruments. The original cost has been reflected as an asset in our Statement of Financial Condition. In order to perfect and defend our rights under the patents, we have incurred substantial legal costs. We have capitalized such legal costs, thereby increasing the carrying value of the patents. > > > > > > In our judgment, the patents are enforceable and provide competitive advantages in the relevant electronic marketplaces. We believe the inherent value of the patents exceeds their carrying value. However, if the rights afforded us under the patents are not enforced or if the patents do not provide the competitive advantages which we anticipated at the time of purchase, we may have to write-down the patents, and such charges could be substantial.

Capitalized Software Costs: We capitalize the direct costs of employees who are engaged in creating software for internal use. This treatment requires us to estimate the portion of the employees' efforts which directly produce new software or provide additional functionality to existing software. > > > > > > In our judgment, these employee-related costs represent valuable software. However, if the costs incurred to produce the software are deemed to exceed the benefit which the software provides, we may have to write-down the capitalized software costs, and such charge could be substantial.

Equity Instruments: We enter into transactions in which we issue certain equity instruments whose value, in part, is dependent on the value of our publicly traded Class A common stock. Such instruments include options and warrants to purchase shares of our Class A common stock as well as convertible preferred shares. The preferred shares are convertible into either shares of our Class A common stock or warrants to purchase shares of our Class A common stock. > > > > > > The value of equity instruments issued establishes either the basis of assets acquired in exchange for the instruments, or an expense which is, or will be, recognized in conjunction with the issuance. > > > > > > We utilize judgment in establishing the fair value of these equity instruments in the absence of a ready market for such instruments. Options and warrants are valued using an option pricing model which requires us to make assumptions as to future interest rates, price volatility of our Class A common stock, future dividends and expected life of the option or warrant being valued. We believe that our assumptions used in the valuation of the instruments are reasonable. However, changes in the assumptions could result in differing valuation of the options, warrants or preferred shares which, in turn, would change the basis of assets acquired or expense recognized. >

Results of Operations For the years ended December 31, 2001 and 2000

Revenues *(in thousands)*

	Year ended December 31, 2001	*Percentage of total revenues*	*Year ended December 31, 2000*	*Percentage of total revenues*
Transaction revenues with related parties:				
Fully electronic transactions	**$ 75,430**	60.4%	$52,693	57.9%
Voice-assisted brokerage transactions	**22,553**	18.1	15,144	16.6
Screen-assisted open outcry transactions	**385**	0.3	2,450	2.7
Total transaction revenues with related parties	**98,368**	78.8	70,287	77.2
Software solution fees from related parties	**16,283**	13.0	12,333	13.5
Software solution fees from unrelated parties	**1,962**	1.6	66	0.1
Gain on replacement of assets	**2,680**	2.1	—	0.0
Interest income from related parties	**5,676**	4.5	8,341	9.2
Total revenues	**$124,969**	100.0%	$91,027	100.0%

Transaction revenues with related parties: Under the Amended and Restated Joint Services Agreement between us and Cantor and services agreements between us and TradeSpark and between us and Freedom, we own and operate the electronic trading system and are responsible for providing electronic brokerage services, and Cantor, TradeSpark or Freedom 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. In general, for fully electronic transactions, we receive 65% of the transaction revenues and Cantor, TradeSpark or Freedom receives 35% of the transaction revenues. In general, for voice-assisted brokerage transactions, we receive 7% of the transaction revenues in the case of Cantor transactions, and 35% of the transaction revenues in the case of TradeSpark and Freedom transactions. In addition, we receive 25% of the net revenues from Cantor's gaming businesses. > > > > > > For the year ended December 31, 2001, we earned $98.4 million in transaction revenues with related parties, a 40% increase over transaction revenues with related parties of $70.3 million for the year ended December 31, 2000. The growth in these revenues was attributable to the rollout of electronic marketplaces and an increase in the number of clients electronically trading through our eSpeed®

system. > > > > > > As a result of the September 11 Events, the United States government bond markets were closed on September 11th and September 12th. By the time the United States government bond markets reopened on September 13th, we had re-established global connectivity of our electronic trading system. Our transaction revenues for the three months after the September 11 Events represented 23% of our total transaction revenues for the 2001 calendar year. In addition, our transaction revenues from fully electronic transactions as a percent of total transaction revenues remained almost unchanged when comparing the three months after September 11th (77%) to the nine months ended September 30, 2001 (75%). > > > > > > Our revenues are currently highly dependent on transaction volumes 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. In addition, a significant amount of our revenues is currently received in connection with our relationship with Cantor. Consequently, our revenues have been negatively affected by the effect of the September 11 Events on Cantor and may be negatively affected in the future if Cantor's business continues to suffer due to the September 11 Events or otherwise.

Software solution fees from related parties: Under various services agreements, we provide Cantor, TradeSpark and Freedom 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, and provision and/or implementation of existing electronic applications systems, including improvements and upgrades thereto, and use of the related intellectual property rights. In general, we charge Cantor, TradeSpark and Freedom the actual direct and indirect costs, including overhead, of providing such services and receive payment on a monthly basis; provided, however, in exchange for a 25% share of the net revenues from Cantor's gaming businesses, we are obligated to spend, and do not otherwise get reimbursed for, the first $750,000 of costs for providing technology support and development services in connection with such gaming businesses. > > > > > > Software solution fees from related parties for the year ended December 31, 2001 were $16.3 million as compared to software solution fees from related parties for the year ended December 31, 2000 of $12.3 million, an increase of 32%. Software solution fees from related parties increased primarily as a result of an increase in support provided to Cantor as well as support provided to TradeSpark and Freedom through September 11th. However, as a result of the September 11 Events, there has been and will continue to be a reduction in demand for our support services from Cantor and TradeSpark due to the loss of their voice brokers and therefore a decrease in our software solution fees from related parties.

Software solution fees from unrelated parties: We receive fees from certain of our clients for providing online access to their customers through the use of our electronic trading platform. Such fees are deferred and recognized as revenues ratably over the term of the licensing agreement. We also receive software solution fees from unrelated parties by charging our clients for additional connections to our system to help protect them from possible business interruptions. > > > > > > Software solution fees from unrelated parties for the year ended December 31, 2001 were $2.0 million as compared with $0.1 million for the year ended December 31, 2000. We anticipate that as we license our software to additional market participants, our revenues from software solution fees from unrelated parties will grow.

Gain on replacement of assets: Our assets in the World Trade Center were destroyed as a result of the September 11 Events. We believe most, if not all, of such assets were covered by insurance policies which provide for reimbursement for replacement cost if such destroyed assets are replaced. To the extent that replacement cost exceeds the carrying value of such replaced equipment, the excess results in gains. For the year ended December 31, 2001, we recognized $2.7 million of such gains. We expect to recognize additional gains as we continue to replace destroyed equipment, however, the amount of such additional gains cannot be readily determined at this time but is limited to the remaining amount of our insurance coverage.

Interest income from related parties: For the year ended December 31, 2001, we generated interest income from overnight reverse repurchase agreements with a related party of $5.7 million as compared to interest income of $8.3 million for the year ended December 31, 2000. The reduction in interest income was principally as a result of a reduction in weighted average interest rates on overnight reverse repurchase agreements from 6.3% in 2000 to 3.9% in 2001, offset in part by interest on the proceeds of our follow-on public offering in March 2001.

Expenses (in thousands)

	Year ended December 31, 2001	*Percentage of total expenses*	*Year ended December 31, 2000*	*Percentage of total expenses*
Compensation and employee benefits	**$ 53,437**	37.4%	$ 53,963	36.1%
Occupancy and equipment	**29,549**	20.7	21,561	14.4
Professional and consulting fees	**10,568**	7.4	13,036	8.7
Communications and client networks	**8,109**	5.7	4,589	3.1
Marketing	**4,356**	3.1	8,285	5.5
Administrative fees paid to related parties	**9,798**	6.9	6,524	4.4
Non-cash business partner securities	**1,223**	0.9	32,041	21.4
Loss on unconsolidated investments	**3,833**	2.7	—	—
Provision for September 11 Events, net	**13,323**	9.3	—	—
Other	**8,569**	5.9	9,684	6.4
Total expenses	**$142,765**	100.0%	$149,683	100.0%

Compensation and employee benefits: At December 31, 2001, we had 312 professionals. Immediately prior to the September 11 Events, we had 492 professionals as compared to 493 at December 31, 2000. For the year ended December 31, 2001, our compensation costs were $53.4 million as compared to compensation costs of $54.0 million for the year ended December 31, 2000. Our quarterly compensation costs after the September 11 Events reflected a 50% reduction as compared to the three months ended September 30, 2001. We expect our compensation costs to rise as we reorganize our remaining staff. > > > > > > Substantially all of our employees are full time employees located predominately in the New York metropolitan area and London. Compensation costs include salaries, bonus accruals, payroll taxes and costs of employer-provided benefits for our employees. Cantor intends to distribute 25% of its distributable profits for five years on behalf of the families of those employees lost on September 11th. From such distributions, Cantor will provide 10 years of health care benefits to those families. We will not be charged for such payments on behalf of the families as Cantor is assuming such costs. Our future compensation costs are uncertain and are dependent upon the degree and speed with which we and Cantor replace our lost employees and businesses.

Occupancy and equipment: Occupancy and equipment costs were $29.5 million for the year ended December 31, 2001, an increase of 37% as compared to occupancy and equipment costs of $21.6 million for the year ended December 31, 2000. The net increase in occupancy and equipment costs was due to the expansion of space needed to accommodate our additional operations and an increase in the number of our locations, including our new concurrent computing center in New Jersey, offset in part by reduced rent expense following the destruction of our One World Trade Center headquarters. Occupancy and equipment costs do not reflect the write-off of destroyed assets as we anticipate that our insurance coverage will fully compensate us for such write-offs. **> > > > > >** Occupancy expenditures primarily consist of the rent and facilities costs of our offices in the New York metropolitan area and our offices in London and Tokyo. While the September 11 Events resulted in a decline in occupancy and equipment costs due to a decrease in both space and equipment, we anticipate that such costs will increase in the future in connection with a new lease for our corporate headquarters. Although we also believe that equipment costs will increase in the future as we replace lost equipment, we anticipate that such equipment costs will remain below those incurred prior to the September 11 Events.

Professional and consulting fees: Professional and consulting fees were $10.6 million for the year ended December 31, 2001 as compared to professional and consulting fees of $13.0 million for the year ended December 31, 2000, a decrease of 19%, primarily related to a decrease in contract personnel costs prior to September 11th. **> > > > > >** The costs of professionals and consultants utilized to temporarily replace employees lost as a result of the September 11 Events are included in "Provision for September 11 Events" and, as a result, do not affect this expense caption.

Communications and client networks: Communications costs were $8.1 million for the year ended December 31, 2001 as compared to $4.6 million for the year ended December 31, 2000, a 77% increase. Communication costs include the costs of local and wide area network infrastructure, the cost of establishing the client network linking clients to us, data and telephone lines, data and telephone usage, and other related costs. The increase in costs was attributable to the expansion of our globally managed digital network. While such costs decreased in the quarter following the September 11 Events as a result of the destruction of our One World Trade Center headquarters, we anticipate that expenditures for communications and client networks will increase in the future.

Marketing: We incurred marketing expenses of $4.3 million for the year ended December 31, 2001, a 47% decrease as compared to marketing expenses of $8.3 million for the year ended December 31, 2000. Marketing expenses were higher in 2000 due to the implementation of our marketing program in that year. In addition, marketing expenditures sharply declined in the quarter following the September 11 Events. We expect that non-advertising marketing expenses in 2002 will remain at the same level as in 2001. We are considering whether to advertise, and any advertising may increase these expenses significantly.

Administrative fees paid to related parties: Under an Administrative Services Agreement, Cantor provides various administrative services to us, including accounting, tax, legal and facilities management, for which we reimburse Cantor for the direct and indirect costs of providing such services. Administrative fees paid to related parties amounted to $9.8 million for the year ended December 31, 2001, a 50% increase over the $6.5 million of such fees for the year ended

December 31, 2000. Overall, administrative fees increased as we expanded our business, however such fees declined in the three months following the September 11 Events as compared to the three months ended September 30, 2001. > > > > > > Administrative fees paid to related parties are dependent upon both the costs incurred by Cantor, and the portion of Cantor's administrative services which are utilized by us. Due to the effect of the September 11 Events on both us and Cantor, the level of administrative fees in the future cannot be reasonably determined at this time.

Non-cash business partner securities: We enter into strategic alliances with other industry participants in order to expand our business and to enter into new marketplaces. As part of these strategic alliances, we have issued warrants and convertible preferred stock. These securities do not require cash outlays and do not represent a use of our assets. The expense related to these issuances is based on the value of the securities being issued and the structure of the transaction. We believe period to period comparisons are not meaningful as these transactions do not recur on a regular basis. Note 7 of our consolidated financial statements contains further details regarding the issuance by us of non-cash business partner securities.

Loss on unconsolidated investments: In the third quarter of 2001, we wrote off our investments in QV Trading Systems and Visible Markets, each of which ceased operations during that period. We recognized a loss of $3.8 million related to such write-offs.

Provision for September 11 Events: As described in note 2 of our consolidated financial statements, we have recorded an expense of $13.3 million in the year ended December 31, 2001 to reflect our estimate of the costs incurred as a direct result of the September 11 Events. Of these costs, $6.2 million represent write-offs of software development costs and goodwill and, as such, do not require cash outlays. We anticipate that our business interruption insurance may result in a recovery of these costs in future periods; however, the amount of such recovery is not readily determinable at this time.

Other: Other expenses consist primarily of recruitment fees, travel, promotional and entertainment expenditures. For the year ended December 31, 2001, other expenses were $8.6 million, a decrease of 12% as compared to other expenses of $9.7 million for the year ended December 31, 2000. The decrease resulted primarily from the decrease in recruitment fees. We anticipate that other expenses will not increase because, although we expect to incur additional recruitment fees due to the September 11 Events, such costs were estimated and included in the "Provision for September 11 Events."

Net loss: Excluding non-cash charges for business partner securities, losses on unconsolidated investments and the Provision for September 11 Events, our net loss was $0.05 million for the year ended December 31, 2001 as compared to a net loss of $27.0 million for the year ended December 31, 2000. Including the above non-cash charges, we incurred a net loss of $18.3 million for the year ended December 31, 2001 as compared to net losses of $59.1 million for the year ended December 31, 2000. Other than the non-cash charges, the losses primarily resulted from expenditures on our technology and infrastructure incurred in building our revenue base. In light of the rapidly changing nature of our business and the September 11 Events, 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. > > > > > > > > > > > > > > > > >

Results of Operations For the year ended December 31, 2000 and the period from March 10, 1999 through December 31, 1999

Revenues (in thousands)

	Year ended December 31, 2000	Percentage of total revenues	Period from March 10, 1999 (date of commencement of operations) to December 31, 1999	Percentage of total revenues
Transaction revenues with related parties:				
Fully electronic transactions	$52,693	57.9%	$ 6,552	18.9%
Voice-assisted brokerage transactions	15,144	16.6	11,777	34.0
Screen-assisted open outcry transactions	2,450	2.7	3,525	10.2
Total transaction revenues with related parties	70,287	77.2	21,854	63.1
Software solution fees from related parties	12,333	13.6	12,459	35.9
Software solution fees from unrelated parties	66	—	—	—
Interest income from related parties	8,341	9.2	348	1.0
Total revenues	$91,027	100.0%	$34,661	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 rollout of electronic marketplaces and an increase in the number of clients electronically trading through our eSpeed® system, as well as the fact that we operated for a full 12-month period in 2000.

Software solution fees from related parties: Software solution fees from related parties for the year ended December 31, 2000 were $12.3 million. This compares with software solution fees from related parties for the period from March 10, 1999 to December 31, 1999 of $12.5 million. For the year ended December 31, 2000, such fees decreased as a result of a decrease in traditional brokerage support and the migration to fully electronic transactions. As a percentage of revenues, software solution fees from related parties 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.

Software solution fees from unrelated parties: Software solution fees from unrelated parties for the year ended December 31, 2000 were $0.1 million. We had no such fees for the period from March 10, 1999 to December 31, 1999.

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.

Expenses *(in thousands)*

	Year ended December 31, 2000	Percentage of total expenses	Period from March 10, 1999 (date of commencement of operations) to December 31, 1999	Percentage of total expenses
Compensation and employee benefits	$ 53,963	36.1%	$21,502	45.3%
Occupancy and equipment	21,561	14.4	10,293	21.7
Professional and consulting fees	13,036	8.7	5,149	10.8
Communications and client networks	4,589	3.1	3,355	7.1
Marketing	8,285	5.5	—	—
Administrative fees paid to related parties	6,524	4.4	1,662	3.5
Options granted to Cantor employees	—	—	2,850	6.0
Non-cash business partner securities	32,041	21.4	—	—
Other	9,684	6.4	2,649	5.6
Total expenses	$149,683	100.0%	$47,460	100.0%

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.

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. 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.

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.

Marketing: 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.

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.

Non-cash business partner securities: We enter into strategic alliances with other industry participants in order to expand our business and to enter into new marketplaces. As part of these strategic alliances, we have issued warrants and convertible preferred stock. These securities do not require cash outlays and do not represent a use of our assets. The expense related to these issuances is based on the value of the securities being issued and the structure of the transaction. We believe period-to-period comparisons are not meaningful as these transactions do not recur on a regular basis. Note 7 of our consolidated financial statements in this Report and on Form 10-K contains further details regarding the issuance by us of non-cash business partner securities.

Other: 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 265.5%, 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. > > > > > > > > > > > > > >

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) through December 31, 2001. Results of any period are not necessarily indicative of results for a full year.

	2001 Quarter Ended			
	March 31	*June 30*	*September 30*	*December 31*
Total revenues	**$31,887,574**	**$34,079,474**	**$ 28,191,333**	**$30,810,433**
Total expenses	**34,080,038**	**34,892,678**	**50,912,728**	**22,879,322**
Income (loss) before provision for income taxes	**(2,192,464)**	**(813,204)**	**(22,721,395)**	**7,931,111**
Income tax provision	**99,999**	**158,001**	**129,000**	**144,000**
Net income (loss)	**$ (2,292,463)**	**$ (971,205)**	**$(22,850,395)**	**$ 7,787,111**
Net income (loss) per share	**$ (0.04)**	**$ (0.02)**	**$ (0.42)**	**$ 0.14**

	2000 Quarter Ended			
	March 31	*June 30*	*September 30*	*December 31*
Total revenues	$19,174,426	$ 22,501,762	$22,491,596	$26,859,257
Total expenses	24,007,842	61,421,404	32,340,267	31,913,388
Loss before benefit for income taxes	(4,833,416)	(38,919,642)	(9,848,671)	(5,054,131)
Income tax provision	92,500	107,500	88,125	118,000
Net loss	$ (4,925,916)	$(39,027,142)	$ (9,936,796)	$ (5,172,131)
Net loss per share	$ (0.10)	$ (0.76)	$ (0.19)	$ (0.10)

	March 10 through March 26	1999 Quarter Ended June 25	September 24	December 31
Total revenues	$ 1,921,433	$ 10,165,641	$10,715,113	$11,858,793
Total expenses	2,459,941	12,918,274	14,209,620	17,871,947
Loss before provision for income taxes	(538,508)	(2,752,633)	(3,494,507)	(6,013,154)
Income tax benefit	(13,470)	(68,849)	(89,488)	(40,082)
Net loss	$ (525,038)	$ (2,683,784)	$ (3,405,019)	$ (5,973,072)
Net loss per share	$ (0.01)	$ (0.06)	$ (0.08)	$ (0.13)

Seasonality The financial markets in which we operate are generally affected by seasonality. Traditionally, the financial markets around the world experience lower volume during the summer and at the end of the year due to a general slowdown in the business environment and, therefore, transaction volume levels may decrease during those periods. However, because of volatility in global markets caused by global unrest, the September 11 Events and general global economic problems, 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 2001. >

Liquidity and Capital Resources At December 31, 2001, we had cash and cash equivalents of $159.9 million. We generated cash of $3.4 million in our operating activities, consisting of net income after non-cash items of $5.2 million offset in part by a $1.8 million increase in net operating liabilities. We also used net cash of $11.8 million resulting from $32.3 million of purchases of fixed assets and intangible assets, capitalization of software developments costs and patent defense costs, and purchases of investments offset by $20.5 million of insurance proceeds resulting from destruction of our fixed assets at One World Trade Center. As of December 31, 2001, we had repurchased 24,600 shares of our Class A common stock for a total of $221,892 under the repurchase plan authorized by our board of directors. Our board has authorized the repurchase of up to $40 million of our outstanding Class A common stock. In addition, we generated net cash proceeds of $46.2 million from issuances of our Class A common stock. > > > > > > Our operating cash flows consist of transaction revenues from related parties and software solution fees from related and unrelated parties, various fees paid to or costs reimbursed to Cantor, other costs paid directly by us and interest income from related parties. 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 Amended and Restated Joint Services Agreement, remits the gross amount owed to us. In addition, we have entered into similar services agreements with TradeSpark and Freedom. Under the Administrative Services Agreement, the Amended and Restated Joint Services Agreement and the services agreements with TradeSpark and Freedom, any net receivable or payable is settled at the discretion of the parties. > > > > > > 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 growth in our operating expenses for the foreseeable future and that our operating expenses will be a material use of our cash resources. Our insurance proceeds should mitigate our capital expenditures for the near term. > > > > > > 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, 2001, we had invested $157.3 million of our cash in securities purchased under reverse repurchase 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. >

consolidated statements of financial condition

as of December 31, 2001 and December 31, 2000

	December 31, 2001	December 31, 2000
Assets		
Cash	**$ 2,567,932**	$ 161,463
Reverse repurchase agreements with related parties	**157,330,676**	122,002,249
Total cash and cash equivalents	**159,898,608**	122,163,712
Fixed assets, net	**19,137,269**	23,441,365
Investments	**11,732,863**	5,833,679
Intangible assets, net	**9,122,491**	—
Other assets	**3,207,832**	3,683,507
Total assets	**$203,099,063**	$155,122,263
Liabilities and Stockholders' Equity		
Liabilities:		
Payable to related parties, net	**$ 6,822,163**	$ 11,370,248
Accounts payable and accrued liabilities	**23,095,092**	11,494,262
Total liabilities	**29,917,255**	22,864,510
Stockholders' Equity:		
Preferred stock, par value $.01 per share; 50,000,000 shares authorized, 8,000,750 and 8,000,000 shares issued and outstanding	**80,008**	80,000
Class A common stock, par value $.01 per share; 200,000,000 shares authorized; 26,590,668 and 16,342,202 shares issued	**265,906**	163,422
Class B common stock, par value $.01 per share; 100,000,000 shares authorized; 28,354,737 and 35,520,480 shares issued and outstanding	**283,547**	355,205
Additional paid-in capital	**266,791,989**	205,908,024
Subscription receivable	**—**	(1,250,000)
Unamortized expense of business partner securities	**(2,691,900)**	—
Treasury stock, 24,600 shares of Class A common stock at cost	**(221,892)**	—
Accumulated deficit	**(91,325,850)**	(72,998,898)
Total stockholders' equity	**173,181,808**	132,257,753
Total liabilities and stockholders' equity	**$203,099,063**	$155,122,263

See notes to consolidated financial statements.

consolidated statements of operations

For the years ended December 31, 2001 and 2000 and for the period from March 10, 1999 (date of commencement of operations) to December 31, 1999

	For the year ended December 31, 2001	For the year ended December 31, 2000	For the period ended December 31, 1999
Revenues:			
Transaction revenues with related parties			
Fully electronic transactions	**$ 75,429,874**	$ 52,692,703	$ 6,551,897
Voice-assisted brokerage transactions	**22,553,037**	15,144,343	11,777,306
Screen-assisted open outcry transactions	**385,115**	2,450,333	3,524,399
Total transaction revenues with related parties	**98,368,026**	70,287,379	21,853,602
Software solution fees from related parties	**16,283,305**	12,333,222	12,459,574
Software solution fees from unrelated parties	**1,961,589**	65,625	—
Gain on replacement of fixed assets	**2,680,000**	—	—
Interest income from related parties	**5,675,894**	8,340,815	347,804
Total revenues	**124,968,814**	91,027,041	34,660,980
Expenses:			
Compensation and employee benefits	**53,437,250**	53,963,239	21,502,326
Occupancy and equipment	**29,549,068**	21,560,535	10,292,349
Professional and consulting fees	**10,568,007**	13,036,494	5,148,796
Communications and client networks	**8,108,618**	4,588,626	3,355,070
Marketing	**4,355,661**	8,285,385	—
Administrative fees paid to related parties	**9,797,996**	6,524,341	1,662,058
Non-cash business partner securities	**1,222,631**	32,040,505	—
Options granted to Cantor employees	**—**	—	2,850,073
Loss on unconsolidated investments	**3,833,679**	—	—
Provision for September 11 Events, net	**13,323,189**	—	—
Other	**8,568,667**	9,683,776	2,649,110
Total expenses	**142,764,766**	149,682,901	47,459,782
Loss before provision (benefit) for income taxes	**(17,795,952)**	(58,655,860)	(12,798,802)
Provision (benefit) for income taxes:			
Federal	**—**	—	—
State and local	**531,000**	406,125	(211,889)
Total tax provision (benefit)	**531,000**	406,125	(211,889)
Net loss	**$ (18,326,952)**	$(59,061,985)	$(12,586,913)
Share and per share data:			
Basic and diluted net loss per share	**$ (.34)**	$ (1.15)	$ (.28)
Weighted average shares of common stock outstanding	**54,296,811**	51,482,505	44,495,000

See notes to consolidated financial statements.

consolidated statements of stockholders' equity

For the years ended December 31, 2001 and 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	Unamortized Expense of Business Partner Securities	Treasury Stock	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)
Issuance of options	—	—	—	2,850,073	—	—	—	—	2,850,073
Issuance of warrant	—	—	—	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	—	—	2,155,000	—	—	—	—	2,235,200
Issuance of Class A common stock (56,748 shares)	—	567	—	2,599,433	(1,250,000)	—	—	(1,350,000)	
Purchase of Class A common stock from related party (789,071 shares)	—	—	—	—	—	—	(25,000,000)	—	(25,000,000)
Sale of Class A common stock (issuance and sale of 789,071 new shares and sale of 789,071 shares from treasury stock)	—	7,891	—	24,992,109	—	—	25,000,000	—	50,000,000
Issuance of warrants	—	—	—	29,805,305	—	—	—	—	29,805,305
Costs of issuance of securities	—	—	—	(1,604,028)	—	—	—	—	(1,604,028)
Issuance of Class A common stock under the ESPP (16,863 shares)	—	169	—	371,279	—	—	—	—	371,448
Net loss	—	—	—	—	—	—	—	(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

(continued)

	Preferred Stock	Common Stock Class A	Common Stock Class B	Additional Paid-In Capital	Subscription Receivable	Unamortized Expense of Business Partner Securities	Treasury Stock	Accumulated Deficit	Total Stockholders' Equity
Conversions of Class B common stock to Class A common stock (7,165,743 shares)	$ —	$ 71,658	$ (71,658)	$ —	$ —	$ —	$ —	$ —	$ —
Secondary public offering of Class A common stock (2,500,000 shares)	—	25,000	—	47,725,000	—	—	—	—	47,750,000
Issuance of Class A common stock (548,096 shares)	—	5,480	—	11,920,106	—	—	—	—	11,925,586
Issuance of warrants	—	—	—	3,786,000	—	(3,589,000)	—	—	197,000
Issuance of preferred stock (750 shares)	8	—	—	110,917	—	—	—	—	110,925
Amortization of and charges for warrants	—	—	—	214,606	—	897,100	—	—	1,111,706
Issuance of Class A common stock under the ESPP (44,168 shares)	—	442	—	588,678	—	—	—	—	589,120
Issuance of Class A common stock from exercises of options (18,833 shares)	—	188	—	414,110	—	—	—	—	414,298
Cancellation of subscription receivable (28,374 shares)	—	(284)	—	(1,249,716)	1,250,000				
Treasury stock repurchase (24,600 shares), at cost	—	—	—	—	—	—	(221,892)	—	(221,892)
Costs of issuance of securities	—	—	—	(2,625,736)	—	—	—	—	(2,625,736)
Net loss	—	—	—	—	—	—	—	(18,326,952)	(18,326,952)
Balance, December 31, 2001	**$80,008**	**$265,706**	**$283,547**	**$266,791,989**	**$ —**	**$(2,691,900)**	**$ (221,892)**	**$(91,325,850)**	**$173,181,808**

See notes to consolidated financial statements.

consolidated statements of cash flows

For the years ended December 31, 2001 and 2000 and for the period from March 10, 1999 (date of commencement of operations) to December 31, 1999

	For the year ended December 31, 2001	For the year ended December 31, 2000	For the period ended December 31, 1999
Cash flows from operating activities:			
Net loss	**$ (18,326,952)**	$ (59,061,985)	$ (12,586,913)
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	**5,975,471**	6,098,754	3,086,555
Issuance of non-cash business partner securities	**1,222,631**	32,040,505	—
Issuance of stock options	**—**	—	2,850,073
Equity in net (gains) losses of certain unconsolidated investments	**147,838**	—	—
Loss on unconsolidated investments	**3,833,679**	—	—
Non-cash issuance of securities under employee benefit plans	**440,679**	—	—
Gain on replacement of fixed assets	**(2,680,000)**	—	—
Provision for September 11 Events, net	**13,323,189**	—	—
(Increase) decrease in operating assets:			
Other assets	**475,675**	(3,672,012)	1,190,728
Increase (decrease) in operating liabilities:			
Payable to related parties, net	**(4,548,085)**	4,626,319	6,743,929
Accounts payable and accrued liabilities	**3,762,327**	9,422,915	(1,046,137)
Net cash provided by (used in) operating activities	**3,626,452**	(10,545,504)	238,235
Cash flows from investing activities:			
Purchases of fixed assets	**(12,901,831)**	(11,043,479)	(2,717,462)
Capitalization of software development costs	**(7,358,226)**	(9,026,568)	(2,468,605)
Purchase of patents	**(2,650,000)**	—	—
Capitalization of patent defense costs	**(6,283,142)**	—	—
Insurance claim proceeds resulting from destruction of fixed assets	**20,476,420**	—	—
Purchases of investments	**(2,909,786)**	(5,833,679)	—
Cash payment for TreasuryConnect LLC	**(170,781)**	—	—
Net cash used in investing activities	**(11,797,346)**	(25,903,726)	(5,186,067)

(continued)

	For the year ended December 31, 2001	For the year ended December 31, 2000	For the period ended December 31, 1999
Cash flows from financing activities:			
Proceeds from issuances of securities	**$ 47,750,000**	$ 50,000,000	$143,990,000
Purchase of issued securities from a related party	**—**	(25,000,000)	—
Treasury stock repurchase	**(221,892)**	—	—
Proceeds from issuance of securities under the ESPP	**589,120**	371,448	—
Proceeds from exercises of options	**414,298**		—
Payments for issuance related expenses	**(2,625,736)**	(1,604,028)	(4,396,646)
Proceeds from capital contributions	**—**	—	200,000
Cash provided by financing activities	**45,905,790**	23,767,420	139,793,354
Net increase (decrease) in cash and cash equivalents	**37,734,896**	(12,681,810)	134,845,522
Cash and cash equivalents, beginning of period	**122,163,712**	134,845,522	—
Cash and cash equivalents, end of period	**$159,898,608**	$122,163,712	$134,845,522
Supplemental disclosure of non-cash activities:			
Issuance of Class A common stock in exchange for investment	**$ 6,970,907**		
Issuance of Class A common stock in exchange for intangible asset	**$ 500,000**		
Issuance of warrants in exchange for intangible asset	**$ 197,000**		
Cancellation of subscription receivable	**$ 1,250,000**		
Acquisition of TreasuryConnect:			
Fixed assets	**$ 1,000,000**		
Goodwill	**3,184,773**		
Total fair value of assets	**4,184,773**		
Less issuance of Class A common stock	**(4,013,992)**		
Cash paid	**$ 170,781**		
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.

notes

to consolidated financial statements

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 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 9). > > > > > > 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 accounting principles generally accepted in the United States of America 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.

Software Solution Fees: Pursuant to various services agreements, the Company recognizes fees from related parties in amounts generally 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. In addition, 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 fees from unrelated parties 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: Investments include debt and equity instruments. The Company has both the ability and the intent to hold its debt investments to maturity and, as such, carries such investments at cost. The Company accounts for its equity 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.

Intangible Assets: Intangible assets consist primarily of purchased patents. The costs incurred in filing and defending patents are capitalized when management believes such costs serve to enhance the value of the patent. Capitalized costs related to issued patents are amortized over a period not to exceed 17 years or the remaining life of the patent, whichever is shorter, using the straight-line method.

Net Loss per Share: The Company computes net loss per common share by dividing net loss for the year by the weighted average number of common shares outstanding for the period.

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: On July 20, 2001, the Financial Accounting Standards Board (FASB) issued Statement of Accounting Standards No. 141, "Business Combinations" (SFAS 141), and SFAS No. 142, "Goodwill and Other Intangible Assets" (SFAS 142). SFAS 141 requires that the purchase method of accounting be used for all business combinations initiated after June 30, 2001. As a result, the pooling-of-interests method will be prohibited. SFAS 142 changes the accounting for goodwill from the amortization method to an impairment-only approach. Thus, amortization of goodwill, including goodwill recorded in past business combinations, will cease upon adoption of this Statement, which for the Company will be January 1, 2002. The adoption of SFAS 141 and 142 will not have a material impact on the business, results of operations or financial condition of the Company.

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

2 | *September 11 Events*

On September 11, 2001, the Company's principal place of business at One World Trade Center was destroyed and, in connection therewith, the Company lost 180 employees and Cantor and TradeSpark lost an aggregate of 478 employees (the September 11 Events). > > > > > > Through the implementation of its business recovery plan, the Company immediately relocated its surviving employees to various locations in the New York metropolitan area. The United States government bond markets were closed on September 11, 2001 and September 12, 2001. By the time the United States government bond markets reopened on September 13, 2001, the Company had re-established global connectivity of its eSpeed® system. The Company's operating proprietary software was unharmed. > > > > > > As a result of the September 11 Events, fixed assets with a net book value of $17,796,420 were destroyed. The Company has recovered these losses through its $40,000,000 of property insurance and, as such, has not recorded a net loss related to the destruction of its fixed assets. The Company's property insurance also covers full replacement cost of the assets actually replaced. As a result, the Company has recorded a gain on replacement of fixed assets through December 31, 2001 of $2,680,000, representing the excess of replacement cost over the book value of fixed assets destroyed. As of December 31, 2001, the Company had received $20,476,420 of insurance proceeds to cover the net book value of the fixed assets that were destroyed plus the actual cost of the assets replaced. > > > > > > The Company has recognized a net provision of $13,323,189 for non-property damage related to the September 11 Events. Such provision includes the incremental costs associated with substituting external professionals for deceased employees, write-off of software development costs, write-off of goodwill and costs associated with the Company's restructuring, including costs associated with the closing of two offices, as a result of the September 11 Events, less refunds received for marketing campaigns which were cancelled after the September 11 Events. The write-off related to software development consists of costs that previously were capitalized but have now been written off because the software being developed related to aspects of the Company's business that were adversely affected by the September 11 Events. The write-off of goodwill relates to goodwill associated with the acquisition of TreasuryConnect LLC. The Company hopes to recover a significant portion or all of these costs through its $25,000,000 of business interruption insurance coverage. However, the Company cannot currently estimate the amount or timing of any such recovery and, accordingly, no business interruption insurance recoveries have been recorded at this time. > > > > > > The following table summarizes the provision related to the September 11 Events:

Description	*Amount*
Accruals	
Professional and consulting fees	$ 2,227,000
Recruitment	2,961,563
Restructuring	2,315,778
Other	1,550,308
	9,054,649
Asset Write-Offs	
Software development costs	2,299,913
Goodwill	3,184,773
	5,484,686
Less: Receipt for cancelled marketing campaign	(1,216,146)
Provision for September 11 Events, net	$13,323,189

At December 31, 2001, the accrual balance relating to September 11 Events was $7,362,672. These amounts are expected to be paid within the next 12 months. > > > > > > The Company has undertaken an assessment of losses and costs other than those described above that it expects to incur in relation to the September 11 Events, including loss of business. After such losses and costs are estimable, the Company intends to submit insurance claims for such losses and costs pursuant to its business interruption insurance coverage. The Company expects that a significant portion or all of these losses and costs will be recovered by insurance proceeds. > > > > > > The Company paid a full year discretionary bonus to the estates of its deceased employees, and has included such amount in compensation expense in the consolidated statement of operations for the year ended December 31, 2001. The families of the Company's deceased employees will also receive a share of Cantor's partnership profits for the next five years to pay for, among other things, 10 years of healthcare coverage. These costs will be borne by Cantor and not by the Company. > > > > > > > > > > > > > > > > > >

3 | *Fixed Assets*

Fixed assets consist of the following:

	December 31, 2001	*December 31, 2000*
Computer and communication equipment	**$ 10,021,646**	$19,920,077
Software, including software development costs	**18,870,472**	12,038,930
Leasehold improvements and other fixed assets	**474,525**	422,396
	29,366,645	32,381,403
Less accumulated depreciation and amortization	**(10,229,376)**	(8,940,038)
Fixed assets, net	**$ 19,137,269**	$23,441,365

As a result of the September 11 Events, fixed assets with a net book value of $17,796,420 were destroyed and $2,299,913 of software development costs were written off. >

4 | *Intangible Assets*

On April 3, 2001, the Company purchased the exclusive rights to United States Patent No. 4,903,201 (the Wagner Patent) dealing with the process and operation of electronic futures trading systems that include, but are not limited to, energy futures, interest rate futures, single stock futures and equity index futures. The Company purchased the Wagner Patent from Electronic Trading Systems Corporation for an initial payment of $1,750,000 in cash and 24,334 shares of the Company's Class A common stock valued at $500,000. The patent expires in 2007. Additional payments are contingent upon the generation of patent-related revenues. The Company has capitalized approximately $6,300,000 of legal costs associated with acquisition and defense of the Wagner Patent. > > > > > > On August 7, 2001, the Company purchased the exclusive rights to United States Patent No. 5,915,209 (the Lawrence Patent) covering electronic auctions of fixed income securities. The patent expires in 2014. The Company purchased the Lawrence Patent for $900,000 payable over three years, and 15,000 warrants to purchase the Company's Class A common stock at an exercise price of $16.08, which were valued at $197,000. The warrants expire on August 6, 2011. Additional payments are contingent upon the generation of patent-related revenues. > > > >

5 | *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 $51,200,000, 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, 2001 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. > > > > > > > > > > > > > > >

6 | *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 2016 as follows:

For the Year Ending December 31:	
2002	$ 1,212,488
2003	1,212,488
2004	1,212,488
2005	1,240,339
2006	1,240,339
Thereafter	10,978,045
Total	$17,096,187

In 2002, Cantor obtained office space in New York in which Cantor and the Company will conduct operations. The commitments listed above do not include payments for such office space as the Company's allocation of such office space had not been fully determined. > > > > > > Rental expense under the above and under all other operating leases for the years ended December 31, 2001 and 2000 and the period from March 10, 1999 to December 31, 1999 was $10,988,614, $7,341,614 and $3,783,303, respectively.

Legal Matters: In the ordinary course of business, the Company and Cantor are defendants or co-defendants in various litigation matters. For certain pending litigation matters or supplemental allegations surrounding Cantor's limited partnership agreement, Cantor has agreed to indemnify the Company with respect to any liabilities the Company may incur as a result of such lawsuits or allegations. Although there can be no assurances, the Company believes, based on information currently available and consultation with counsel, that the ultimate resolution of these legal proceedings will not have a material adverse effect on its financial condition or results of operations.

Risk and Uncertainties: The majority of the Company's revenues consist of transaction fees earned from Cantor based on fixed percentages of certain commissions paid to Cantor. Consequently, any reductions in the amounts of such commissions paid to Cantor could have a material adverse effect on the Company's most significant source of revenues. In addition, the Company's and Cantor's revenues could vary based on the transaction volumes of financial markets around the world. >

7 | *Acquisitions, Investments and 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 were not 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 would invest $2,500,000 in at least four entities (the Qualified Verticals) formed by the Company and Cantor within 12 months of the Closing. In June 2001, the initial agreed upon period was extended by the parties to a period not to exceed two years. Investment by Williams and Dynegy was 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 and 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. TradeSpark, the first Qualified Vertical, was established in September 2000. 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) if they invest in the Qualified Verticals. 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. > > > > > > 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 and 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 and Dynegy, and this part of the transaction will have no resulting effect on the Company's result 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 5,500,000 shares of Series A Redeemable Convertible Preferred Stock (Series A Preferred Stock) and 2,500,000 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 8,000,000 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. In 2000, the Company 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 six-year period from date of issuance, 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. No such additional non-cash charges were recognized during the years ended December 31, 2001 and 2000. 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. > > > > > > For the year ended December 31, 2001, the Company's share of TradeSpark's losses was $211,706.

Freedom: The Company and Cantor formed a limited partnership (the LP) to acquire an interest in Freedom International Brokerage (Freedom), a Canadian government securities broker-dealer and Nova Scotia unlimited liability company. On April 4, 2001, the Company contributed 310,769 shares of its Class A common stock, valued at $6,970,907, to the LP as a limited partner, which entitles the Company to 75% of the LP's capital interest in Freedom. The Company shares in 15% of the LP's cumulative profits but not in cumulative losses. Cantor contributed 103,588 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 exchanged the 414,357 shares for a 66.7% interest in Freedom. In addition, the Company issued fully vested, non-forfeitable warrants to purchase 400,000 shares of its Class A common stock at an exercise price per share of $21.31 to provide incentives over the three-year period ending April 2004 to the other Freedom owner participants to migrate to the Company's fully electronic platform. The warrants were valued using a modified Black-Scholes pricing model and assumptions as to risk-free interest rate, expected life and expected volatility of 6%, five years and 50%, respectively. The Company recorded additional paid-in capital of $3,589,000, representing the value of the warrants, and $897,100 as a non-cash charge for the twelve months ended December 31, 2001. The remaining unamortized balance of $2,691,900 will be recognized as an expense ratably through April 2004. 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 receives 65% of all electronic transaction services revenues and Freedom receives 35% of such revenues. The Company also receives 35% of revenues derived from Freedom's 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. 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 in this transaction based on the anticipated benefits to be realized and the structure of the profit and loss arrangement. > > > > > > For the year ended December 31, 2001, the net income of the LP was $425,787. The Company's share of that income was $63,868.

TreasuryConnect: On May 25, 2001, the Company acquired all the interests in TreasuryConnect LLC, a company that operated an electronic trade communication and execution platform for OTC derivatives, in exchange for 188,009 shares of the Company's Class A common stock, valued at $4,013,992 and cash of $170,781. The net assets acquired consisted of $1,000,000 of fixed assets, primarily related to software. The remaining portion of the purchase price was allocated to goodwill. The Company's consolidated financial statements include the operating results, which were immaterial during 2001, of TreasuryConnect LLC from the date of acquisition. As a result of the September 11 Events, the Company wrote off the goodwill associated with the acquisition.

Loss on Unconsolidated Investments: On September 7, 2001, the Company wrote off its investments in QV Trading Systems and Visible Markets, each of which ceased operations in the third quarter of 2001. The Company recognized a loss of $3,833,679 related to the write-offs.

Deutsche Bank: On July 30, 2001, the Company entered into an agreement to form a business partner relationship with Deutsche Bank, AG (Deutsche Bank), whereby Deutsche Bank will channel its electronic market-making engines and liquidity for specified European fixed-income products using the Company's electronic trading platform. In connection with the agreement, Deutsche Bank purchased 750 shares of Series C Redeemable Convertible Preferred Stock (Series C Preferred) of the Company at its par value of $0.01 per share. Each share of the Series C Preferred is convertible at the option of Deutsche Bank into 10 shares of the Company's Class A common stock at any time during the five years ending July 31, 2006. The Company has recognized a non-cash charge of $110,925, representing the fair value of such Class A common stock into which the Series C Preferred may be converted, if none of the future conditions are met. Such value in excess of the cash proceeds was given as an inducement to Deutsche Bank to enter into the agreement. > > > > > > At the end of each year of the five-year agreement in which Deutsche Bank fulfills its liquidity and market-making obligations for specified products, 150 shares of Series C

Preferred will automatically convert into warrants to purchase 150,000 shares of the Company's Class A common stock at an exercise price of $14.79 per share. If all conditions are met and all of the shares of preferred stock are converted, the total non-cash charge could aggregate $3,330,000 over the next five years. The Company will recognize the contingent non-cash charges on a straight-line basis over the five-year period as conditions are satisfied. For the year ended December 31, 2001, the Company has recognized a non-cash charge of $214,606 for the conditions that had been satisfied to date. > > > > > > At the end of the five-year period, to the extent that Deutsche Bank does not fulfill its obligations under the agreement and Series C Preferred shares remain outstanding, the Company has the option to redeem each share of the Series C Preferred outstanding in exchange for 10 shares of the Company's Class A common stock. > > > > > > >

8 | *Related Party Transactions*

All of the Company's Reverse Repurchase Agreements are 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, 2001 and 2000 totaled $159,941,811 and $122,620,469, respectively. > > > > > > Investments in TradeSpark and the limited partnership that invested in Freedom are accounted for using the equity method. The carrying value of such related party investments approximated $8,800,000 and $2,800,000 at December 31, 2001 and December 31, 2000, respectively, and is included in Investments in the Consolidated Statements of Financial Condition. > > > > > > Under the Amended and Restated Joint Services Agreement between the Company and Cantor and services agreements between the Company and TradeSpark and the Company and Freedom, the Company owns and operates the electronic trading system and is responsible for providing electronic brokerage services, and Cantor, TradeSpark or Freedom 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. In general, for fully electronic transactions, the Company receives 65% of the transaction revenues and Cantor, TradeSpark or Freedom receives 35% of the transaction revenues. In general, for voice-assisted brokerage transactions, the Company receives 7% of the transaction revenues, in the case of Cantor transactions, and 35% of the transaction revenues, in the case of TradeSpark or Freedom transactions. In addition, the Company receives 25% of the net revenues from Cantor's gaming businesses. > > > > > > Under those services agreements, the Company has agreed to provide Cantor, TradeSpark and Freedom 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, and provision and/or implementation of existing electronic applications systems, including improvements and upgrades thereto, and use of the related intellectual property rights. In general, the Company charges Cantor, TradeSpark and Freedom the actual direct and indirect costs, including overhead, of providing such services and receives payment on a monthly basis. In exchange for a 25% share of the net revenues from Cantor's gaming businesses, the Company is obligated to spend and does not get reimbursed for the first $750,000 each quarter of the costs of providing support and development services for such gaming businesses. > > > > > > 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 years ended December 31, 2001, December 31, 2000 and for the period ended December 31, 1999 totaling $9,797,996, $6,524,341 and $1,662,058, respectively. > > > > > > The services provided under both the Amended and Restated Joint Services Agreement and the Administrative Services Agreement are not the result of arm's-length negotiations because Cantor controls the Company. As a result, the amounts charged for services under these agreements may be higher or lower than amounts that would be charged by third parties if the Company did not obtain such services from Cantor. >

9 | *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 of $4,396,646, net of underwriting discounts. 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. This stock issuance has been treated as an issuance on behalf of Cantor, 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. The Company also issued an additional 28,374 shares of Class A common stock to certain employees of the acquired business in exchange for promissory notes, which was recorded as a subscription receivable. The promissory notes and the related issued shares were terminated and cancelled effective December 1, 2001. > > > > > > In September 2000, the Company issued 8,000,000 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. > > > > > > During the years ended December 31, 2001 and 2000, the Company sold 44,168 and 16,863 shares of Class A common stock, respectively, pursuant to the Company's Employee Stock Purchase Plan as discussed in Note 12. > > > > > > During the year ended December 31, 2001, the Company issued 18,833 shares of Class A common stock related to the exercise of employee options which are more fully discussed in Note 11. > > > > > > On March 13, 2001, the Company and selling stockholders, including CFS, completed a secondary offering of 7,135,000 shares of the Company's Class A common stock to the public at $20 per share. Of the Class A common stock offered, 2,500,000 shares were sold by the Company, and 4,635,000 shares were sold by the selling stockholders, principally CFS. Proceeds to the Company, net of underwriting discounts, but before offering expenses of $1,940,127, totaled $47,750,000. On April 11, 2001, CFS sold an additional 250,000 shares of Class A common stock in connection with the exercise of the underwriters' over-allotment option. > > > > > > As more fully discussed in Note 7, in 2001 the Company issued shares of its Class A common stock in an acquisition and in business partner transactions. The Company issued 310,769 shares of its Class A common stock in the formation of a limited partnership and 188,009 shares of its Class A common stock in the acquisition of all of the interests in TreasuryConnect LLC. Additionally, the Company issued 750 shares of Redeemable Convertible Preferred Stock as part of an agreement with Deutsche Bank, AG. > > > > > > On August 7, 2001, the Company issued 24,334 shares as part of its acquisition of the Wagner Patent, which is more fully discussed in Note 4. > > > > > > On September 10, 2001, the Company's board of directors authorized the repurchase of $40,000,000 of outstanding Class A common stock. As of December 31, 2001, the Company has purchased 24,600 shares for a total of $221,892 under this repurchase plan. >

10 | *Long-Term Incentive Plan*

The Company has adopted the eSpeed, Inc. 1999 Long-Term Incentive Plan, as amended and restated (the LT Plan) which provides for awards in the form of 1) either incentive stock options or non-qualified stock options; 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 Class A 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. > > > > > > During 2001, the Company issued 10,934 shares of restricted Class A common stock valued at $220,247 to certain employees under the LT Plan. The Company recognized the entire value of $220,247 of compensation expense in the current year as the Company elected to fully vest the shares after the September 11 Events. > > > >

11 | *Options and Warrants*

Issued in Connection with the Long-Term Incentive Plan: During the years ended December 31, 2001 and 2000, respectively, the Company issued 3,653,816 and 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. > > > > > > Concurrent with the Offering, the Company also 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 the 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 expenses which have been charged against additional paid-in capital. > > > > > > 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. > > > > > > As a result of the September 11 Events, the Company fully vested all options for deceased employees of the Company, Cantor and TradeSpark. In addition, the expiration date of options was extended to the fifth anniversary of the option grant date. The extension of the expiration date did not result in additional compensation expense for the year ended December 31, 2001 as the original grant price of the options was higher than the Company's stock price on the date of modification. > > > > > > Pursuant to guidelines contained in APB 25, the Company records no expense for options issued to employees. The weighted average grant date fair values of employee stock options granted were $3.23, $16.90 and $13.29 for the years ended December 31, 2001 and 2000 and the period ended December 31, 1999, respectively. The following table represents the effect of the Company's net loss and net loss per common share 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:

Year	*Increase in net loss*	*Increase in net loss per common share*
2001	$11,807,858	$0.21
2000	28,738,843	0.56
1999	6,642,591	0.15

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 following table presents the assumptions that were used in the Black-Scholes model for the years ended December 31, 2001 and 2000 and for the period ended December 31, 1999:

Year	*Risk-free interest rate*	*Expected life*	*Expected volatility*	*Dividends*
2001	3.25%	3 to 8 years	80%	None
2000	5.25%	2 to 8 years	80%	None
1999	6.00%	3 to 8 years	55%	None

Issued in Connection with Acquisitions, Investments and Business Partner Securities: In June 2000, the Company issued 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. > > > > > > As discussed in Note 4, on August 7, 2001, the Company issued 15,000 warrants to purchase the Company's Class A common stock as part of its purchase of a patent. The warrants expire on August 6, 2011 and the estimated fair value of the warrants issued was $197,000. > > > > > > As discussed in Note 7, the Company issued 400,000 warrants to purchase the Company's Class A common stock as part of the formation of the limited partnership to acquire Freedom. > > > > > > The following table summarizes changes in all of the Company's stock options and warrants from March 10, 1999 (date of commencement of operations) to December 31, 2001.

	Options and Warrants				
	eSpeed and Cantor employee options	Warrants and other options	Total	Weighted average exercise price	Expiration dates
Granted	6,517,765	135,000	6,652,765	$22.00	12/2004–12/2009
Exercised	—	—	—	—	—
Canceled	(24,900)	—	(24,900)	22.00	—
Balance, December 31, 1999	6,492,865	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	9,970,717	1,468,332	11,439,049	23.62	12/2004–12/2010
Granted	**3,653,816**	**415,000**	**4,068,816**	6.45	1/2010–10/2011
Exercised	**(18,833)**	**—**	**(18,833)**	22.00	—
Canceled/Expired	**(378,371)**	**—**	**(281,310)**	18.25	—
Balance, December 31, 2001	**13,227,329**	**1,883,332**	**15,110,661**	$19.76	12/2004–10/2011

The following table provides further details relating to all of the Company's stock options and warrants outstanding as of December 31, 2001.

Range of exercise prices	*Number outstanding*	*Weighted average exercise price*	*Weighted average remaining contractual life (in years)*	*Number exercisable*	*Weighted average exercise price*
$ 5.10 to $ 8.97	3,358,557	$ 5.11	9.8	—	—
13.88 to 20.50	2,238,115	16.39	7.0	1,148,737	$16.30
21.00 to 31.19	8,773,113	23.76	6.3	4,754,473	22.32
31.63 to 47.25	689,366	40.35	6.6	364,965	38.41
50.38 to 77.00	51,510	57.24	6.1	34,110	56.41
	15,110,661	$19.76	7.2	6,302,285	$22.34

12 | *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, 2001, the Company issued 44,168 shares to employees at an average price of $13.33 per share. During the year ended December 31, 2000, the Company issued 16,863 shares to employees at an average price of $21.99 per share. In October 2001, the Company suspended the ESPP. >

13 | *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 2002 and 2001, the Company contributed 28,241 and 14,050 shares of its Class A common stock relating to employee contributions to the eSpeed Stock Fund for the year ended December 31, 2001 and 2000, respectively. The administration of the Plan is performed by CFLP. The Company pays its proportionate share of such administrative costs under the Administrative Services Agreement. >

14 | *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, 2001, eSpeed Government Securities, Inc.'s liquid capital of $65,789,445 was in excess of minimum requirements by $65,764,445. > > > > > > 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, 2001, eSpeed Securities, Inc. had net capital of $6,922,754, which was $6,607,062 in excess of its required net capital, and eSpeed Securities, Inc.'s net capital ratio was 0.68 to 1. > > > > > > > > > > > > > > > > > >

15 | *Segment and Geographic Data Tables*

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.

Product Information: The Company currently markets its services through three products; eSpeed Markets℠, an integrated electronic trading marketplace; eSpeed Software Solutions℠, in which the Company recognizes fees from technology support services and licensing fees; and eSpeed Online℠, which provides e-commerce businesses with online access to wholesale market participants. Revenues from eSpeed Markets℠ and eSpeed Online℠ are included in transaction revenues and eSpeed Markets℠ comprises the majority of those revenues.

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, 2001	For the year ended December 31, 2000	For the period from March 10, 1999 to December 31, 1999
Transaction Revenues:			
Europe	**$20,657,534**	$13,214,668	$ 5,392,923
Asia	**2,653,378**	1,397,154	450,457
Total Non-Americas	**23,310,912**	14,611,822	5,843,380
Americas	**75,057,114**	55,675,557	16,010,222
Total	**$98,368,026**	$70,287,379	$21,853,602

	December 31, 2001	December 31, 2000	December 31, 1999
Average long-lived assets:			
Europe	**$ 3,737,700**	$ 2,225,886	$ 2,257,914
Asia	**434,809**	791,570	925,790
Total Non-Americas	**4,172,509**	3,017,456	3,183,704
Americas	**19,031,755**	13,736,827	5,236,613
Total	**$23,204,264**	$16,754,283	$ 8,420,317

independent auditors' report

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, 2001 and 2000, and the related statements of operations, cash flows and stockholders' equity for the years ended December 31, 2001 and 2000, and for the period from March 10, 1999 (date of commencement of operations) to December 31, 1999. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated 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 consolidated financial position of the Company at December 31, 2001 and 2000, and the consolidated results of its operations and its cash flows for the years ended December 31, 2001 and 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.

Deloitte & Touche LLP

March 20, 2002

New York, New York

market

for the registrant's common equity and related stockholder matters

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 March 15, 2002, the high and low sales prices for our Class A common stock, as reported by Nasdaq®, were as follows:

	High	*Low*
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	34.75	13.63
Second Quarter	28.23	16.25
Third Quarter	19.94	7.44
Fourth Quarter	9.00	4.60
2002 First Quarter (through March 15, 2002)	**$12.21**	**$7.91**

On March 15, 2002, the last reported closing price of our Class A common stock on the Nasdaq National Market was $11.55 and there were 819 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. > > > > > >

Use of Proceeds of Initial Public Offering The effective date of our registration statement (Registration No. 333-87475) filed on Form S-1 relating to our initial public offering of Class A common stock was December 9, 1999. In our initial public offering, we sold 7,000,000 shares of Class A common stock at a price of $22.00 per share and Cantor Fitzgerald Securities, the selling stockholder, sold 3,350,000 shares of Class A common stock at a price of $22.00 per share.

Our initial public offering was managed on behalf of the underwriters by Warburg Dillon Read LLC, Hambrecht & Quist, Thomas Weisel Partners LLC and Cantor Fitzgerald & Co. The offering commenced on December 10, 1999 and closed on December 15, 1999. Proceeds to us from our initial public offering, after deduction of the underwriting discounts and commissions of approximately $10.0 million and offering costs of $4.4 million, totaled approximately $139.6 million. Of the $139.6 million raised, approximately $8.9 million has been used to fund investments in various entities, approximately $45.5 million has been used to acquire fixed assets and to pay for the development of capitalized software, approximately $8.9 million has been used to purchase intangible assets and pay for the defense of patents, and approximately $8.2 million has been used for other working capital purposes. The remaining $68.1 million has been invested in reverse repurchase agreements which are fully collateralized by U.S. Government Securities held in a custodial account at a third-party bank. > > > > > > Of the amount of proceeds spent through December 31, 2001, approximately $18.0 million has been paid to Cantor under the Administrative Services Agreement between Cantor and us. >

This Annual Report, including the Letter to Shareholders, 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 various factors that are discussed under "Risk Factors" and elsewhere in our Form 10-K filed with the Securities and Exchange Commission.

corporate information

eSpeed management and offices

Board of Directors

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

Lee M. Amaitis
Global Chief Operating Officer
eSpeed, Inc.

Stephen M. Merkel
Executive Vice President,
General Counsel & Secretary
eSpeed, Inc.

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

Richard C. Breeden
Chairman
Richard C. Breeden & Co.

Larry R. Carter
Senior Vice President &
Chief Financial Officer
Cisco Systems

William J. Moran
Executive Vice President &
General Auditor
JP Morgan Chase & Co.

John H. Dalton
Former Secretary of the Navy
President
IPG Photonics

Executive Management

Howard W. Lutnick
Chairman of the Board,
Chief Executive Officer & President

Lee M. Amaitis
Global Chief Operating Officer

Jeffrey M. Chertoff
Senior Vice President &
Chief Financial Officer

Stephen M. Merkel
Executive Vice President,
General Counsel & Secretary

Joseph C. Noviello
Executive Vice President &
Chief Information Officer

Corporate Headquarters
135 East 57th Street
New York, NY 10022
Tel: +1 212 938 5000

International Headquarters
eSpeed International Limited
One America Square
London EC3N 2LS
United Kingdom
Tel: +44 207 894 7000

Investor Relations and Requests for Annual Report on Form 10-K
Contact:
Investor Relations
eSpeed, Inc.
135 East 57th Street
New York, NY 10022
Tel: +1 212 807 5140
www.espeed.com

Copies of the Company's Annual Report on Form 10-K, 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 +1 212 807 5140 or by writing Investor Relations at the Company's address above.

Independent Auditors
Deloitte & Touche LLP
2 World Financial Center
New York, NY 10281-1414
www.us.deloitte.com

Transfer Agent
American Stock Transfer
& Trust Company
40 Wall Street
New York, NY 10005

Web Address
www.espeed.com

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This is the story of one company's values, pride and honor. A story of growth and rebuilding in the face of devastating loss. A story of one company's expression of commitment.

Paul Acquaviva, Donald L. Adams, Lee Adler, Alok Agarwal, Joanne Ahladiotis, Christopher Allingham, Frank Thomas Aquilino, Michael Asher, Paul Barbaro, Stephen Bunin, Milton Bustillo, Brian Cachia, Sandra Campbell, James Carson, Catherine Chirls, Abul K. Chowdhury, Frances Cilente, Gregory Clark,