ESPEED INC
Form 10-Q
August 23, 2007
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the quarterly period ended June 30, 2007

OR

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

Commission File Number: 0-28191

eSpeed®, Inc.

(Exact name of registrant as specified in its charter)

Delaware **(State or other jurisdiction of** **incorporation or organization)**	**13-4063515** **(I.R.S. Employer** **Identification No.)**
110 East 59th Street, New York, NY	**10022**

(Address of principal executive offices) **(Zip Code)**

(212) 610-2200

(Registrant s telephone number, including area code)

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ¨ Accelerated filer x Non-accelerated filer ¨

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

As of August 22, 2007, the registrant had 36,454,680 shares of Class A common stock, $0.01 par value, and 20,497,800 shares of Class B common stock, $0.01 par value, outstanding.

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PART I FINANCIAL INFORMATION

ITEM 1. Financial Statements

eSpeed, Inc. and Subsidiaries

CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION (unaudited)

(in thousands, except per share data)

	June 30, 2007	December 31, 2006
Assets		
Cash and cash equivalents	$ 3,624	$ 21,838
Reverse repurchase agreements with related parties (Note 9)	184,897	166,009
Total cash and cash equivalents	188,521	187,847
Marketable securities	2,357	
Fixed assets, net	53,064	57,443
Investments	9,012	7,780
Goodwill	12,184	12,184
Other intangible assets, net	5,981	6,949
Receivable from related parties (Note 10)	10,371	7,145
Other assets	12,732	13,725
Total assets	$ 294,222	$ 293,073
Liabilities and Stockholders Equity		
Current liabilities:		
Payable to related parties (Note 10)	$ 6,666	$ 7,751
Accounts payable and accrued liabilities	30,613	24,129
Total current liabilities	37,279	31,880
Deferred revenue	7,477	8,114
Total liabilities	44,756	39,994
Commitments and contingencies (Note 7)		
Stockholders equity:		
Class A common stock, par value $0.01 per share; 200,000 shares authorized; 36,455 and 36,407 shares issued and outstanding at June 30, 2007 and December 31, 2006, respectively	365	364
Class B common stock, par value $0.01 per share; 100,000 shares authorized; 20,498 shares issued and outstanding at June 30, 2007 and December 31, 2006, convertible to Class A common stock	205	205
Additional paid-in capital	301,741	299,682
Treasury stock, at cost: 6,502 shares of Class A common stock at June 30, 2007 and December 31, 2006	(62,597)	(62,597)
Retained earnings	9,728	15,425
Accumulated other comprehensive income	24	
Total stockholders equity	249,466	253,079

Total liabilities and stockholders equity	$ 294,222	$ 293,073

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

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eSpeed, Inc. and Subsidiaries

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (unaudited)

(in thousands, except per share data)

	Three Months Ended June 30, 2007	2006 Restated Note 19
Revenues:		
Transaction revenues		
Fully electronic transactions with related parties (Note 10)	$ 15,721	$ 15,704
Fully electronic transactions with unrelated parties	300	1,601
Total fully electronic transactions	16,021	17,305
Voice-assisted brokerage transactions with related parties (Note 10)	6,805	6,648
Screen-assisted open outcry transactions with related parties (Note 10)	2,070	1,438
Total transaction revenues	24,896	25,391
Software Solutions fees from related parties (Note 10)	8,746	7,878
Software Solutions and licensing fees from unrelated parties	2,778	3,572
Interest income	2,537	2,093
Total revenues	38,957	38,934
Expenses:		
Compensation and employee benefits	15,046	12,372
Occupancy and equipment:		
Amortization of software development costs and other intangible assets	4,846	5,492
Other occupancy and equipment	9,029	11,646
Administrative fees to related parties (Note 10)	3,464	3,670
Professional and consulting fees	4,111	2,225
Impairment of long-lived assets	4,010	
Communications and client networks	2,185	2,000
Marketing	230	265
Acquisition related costs	3,707	
Other expenses	2,433	1,915
Total operating expenses	49,061	39,585
Loss before income taxes	(10,104)	(651)
Income tax benefit	(3,782)	(347)
Net loss	$ (6,322)	$ (304)
Per share data:		
Basic loss per share	$ (0.13)	$ (0.01)
Diluted loss per share	$ (0.13)	$ (0.01)
Basic weighted average shares of common stock outstanding	50,448	50,142

Diluted weighted average shares of common stock outstanding	50,448	50,142

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

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eSpeed, Inc. and Subsidiaries

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (unaudited)

(in thousands, except per share data)

	Six Months Ended June 30, 2007	2006 Restated Note 19
Revenues:		
Transaction revenues		
Fully electronic transactions with related parties (Note 10)	$ 32,161	$ 31,385
Fully electronic transactions with unrelated parties	1,806	2,639
Total fully electronic transactions	33,967	34,024
Voice-assisted brokerage transactions with related parties (Note 10)	13,779	13,903
Screen-assisted open outcry transactions with related parties (Note 10)	3,802	2,864
Total transaction revenues	51,548	50,791
Software Solutions fees from related parties (Note 10)	17,691	15,450
Software Solutions and licensing fees from unrelated parties	6,342	7,371
Insurance recovery from related parties (Note 3)		3,500
Interest income	5,010	4,455
Total revenues	80,591	81,567
Expenses:		
Compensation and employee benefits	29,212	26,230
Occupancy and equipment:		
Amortization of software development costs and other intangible assets	10,371	12,387
Other occupancy and equipment	18,406	20,279
Administrative fees to related parties (Note 10)	6,985	7,097
Professional and consulting fees	7,006	4,135
Impairment of long-lived assets	4,010	
Communications and client networks	4,288	4,027
Marketing	456	597
Amortization of non-employee securities		19
Acquisition related costs	3,707	
Other expenses	4,872	3,960
Total operating expenses	89,313	78,731
(Loss) income before income taxes	(8,722)	2,836
Income tax (benefit) provision	(3,236)	1,095
Net (loss) income	$ (5,486)	$ 1,741
Per share data:		
Basic (loss) earnings per share	$ (0.11)	$ 0.03

Diluted (loss) earnings per share	$	(0.11)	$	0.03
Basic weighted average shares of common stock outstanding		50,435		50,207
Diluted weighted average shares of common stock outstanding		50,435		51,150

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

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eSpeed, Inc. & Subsidiaries

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (unaudited)

(in thousands)

	Six Months Ended June 30, 2007	2006 Restated Note 19
Cash flows from operating activities:		
Net (loss) income	$ (5,486)	$ 1,741
Adjustments to reconcile net (loss) income to net cash provided by operating activities:		
Depreciation and amortization	16,342	18,723
Impairment of capitalized software costs	4,010	
Gain on insurance recovery from related parties (Note 3)		(3,500)
Equity in net loss of unconsolidated investments	103	(45)
Deferred income tax expense	(3,481)	(538)
Stock-based compensation	1,698	1,082
Tax benefit from stock-based compensation	44	93
Excess tax benefit from stock-based compensation	(49)	(39)
Recognition of deferred revenue	(2,359)	(1,849)
Changes in operating assets and liabilities:		
Receivable from related parties (Note 10)	(3,226)	(4,676)
Other assets	(834)	(7,230)
Payable to related parties (Note 10)	(1,085)	(3,489)
Accounts payable and accrued liabilities	10,279	7,510
Deferred revenue	1,722	1,578
Net cash provided by operating activities	17,678	9,361
Cash flows used in investing activities:		
Purchase of fixed assets	(3,222)	(4,668)
Purchase of marketable securities	(2,334)	
Capitalization of software development costs	(11,600)	(8,300)
Insurance proceeds from related parties (Note 3)		3,500
Capitalization of patent defense and registration costs	(766)	(575)
Decrease in restricted cash	1,827	
Purchase of investment	(750)	
Net cash used in investing activities	(16,845)	(10,043)
Cash flows (used in) provided by financing activities:		
Repurchase of Class A common stock	(373)	
Proceeds from exercises of stock options	165	369
Excess tax benefit from stock-based compensation	49	39
Net cash (used in) provided by financing activities	(159)	408
Net increase (decrease) in cash and cash equivalents	674	(274)
Cash and cash equivalents at beginning of period	21,838	37,070

Reverse repurchase agreements with related parties at beginning of period (Note 9)	166,009	141,365
Total cash and cash equivalents at beginning of period	187,847	178,435
Cash and cash equivalents at end of period	3,624	37,495
Reverse repurchase agreements with related parties at end of period (Note 9)	184,897	140,666
Total cash and cash equivalents at end of period	$ 188,521	$ 178,161
Supplemental cash information		
Cash paid for income taxes	$ 35	$ 99

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

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eSpeed, Inc. and Subsidiaries

Notes to Condensed Consolidated Financial Statements

(unaudited)

1. Organization and Basis of Presentation

eSpeed, Inc. (eSpeed or the Company) primarily engages in the business of operating interactive electronic marketplaces designed to enable market participants to trade financial and non-financial products.

The Company commenced operations on March 10, 1999 and is a subsidiary of Cantor Fitzgerald, L.P. (Cantor). The Company is a Delaware corporation that was incorporated on June 3, 1999. In December 1999, the Company completed its initial public offering.

The Company s Condensed Consolidated Financial Statements have been prepared in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP). In the Company s opinion, these Condensed Consolidated Financial Statements include all normal recurring adjustments that the Company believes are necessary to fairly state its financial position, operating results and cash flows. These Condensed Consolidated Financial Statements include the Company s accounts and all subsidiaries in which the Company has more than a 50% equity ownership. See Note 8, for Investments Accounted under the equity method.

It is recommended that these Condensed Consolidated Financial Statements be read in conjunction with the audited consolidated financial statements included in the Company s Annual Report on Form 10-K/A for the year ended December 31, 2006. Pursuant to the rules and regulations of the Securities and Exchange Commission (the SEC), certain information and footnote disclosures, including significant accounting policies, normally included in fiscal year financial statements prepared in accordance with U.S. GAAP have been condensed or omitted. The Consolidated Statement of Financial Condition at December 31, 2006, as restated, was derived from the audited financial statements. The results of operations for any interim period are not necessarily indicative of results for the full year.

2. Summary of Significant Accounting Policies

Use of Estimates: The preparation of these Condensed Consolidated Financial Statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Management believes that the estimates utilized in preparing the financial statements are reasonable and prudent. Estimates, by their nature, are based on judgment and available information. Accordingly, actual results could differ from the estimates included in these Condensed Consolidated Financial Statements.

Marketable Securities: The Company accounts for investments in marketable securities in accordance with the provisions of Statement of Financial Accounting Standards (SFAS) No. 115, Accounting for Certain Investments in Debt and Equity Securities. The Company has evaluated its investment policies and determined that all of its investment securities are to be classified as available-for-sale. Available-for-sale securities are reported at fair value, with the unrealized gains and losses reported as a component of accumulated other comprehensive income (loss). Realized gains and losses and declines in value deemed to be other-than-temporary will be recognized based on the specific identification method in the period in which they occur.

Recent Accounting Pronouncements:

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

At the FIN 48 adoption date of January 1, 2007, the Company had $1.7 million of unrecognized tax benefits, all of which would affect the Company s effective tax rate if recognized. The Company recorded a cumulative effect adjustment of $0.2 million as a decrease to its January 1, 2007 retained earnings for the accrued interest expense on the unrecognized tax benefit. The Company recognizes interest and penalties related to uncertain tax positions as an accrued expense. At June 30, 2007, the Company had $1.7 million of unrecognized tax benefits. During the second quarter of 2007, the Company expensed less than $0.1 million of interest expense related to the unrecognized tax benefit. As of June 30, 2007, the Company had approximately $0.3 million of accrued interest related to uncertain tax positions. The Company files income tax returns in the U.S. federal jurisdiction and various states, local and foreign jurisdictions. The Company, with few exceptions, is no longer subject to U.S. federal, state/local or non-U.S. income tax examination by tax authorities for years prior to 2003, 1999 and 2000, respectively.

SFAS No. 157: In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements (SFAS 157). SFAS 157 defines fair value, establishes a framework for measuring fair value in U.S. GAAP, and expands disclosures about fair value measurements. SFAS 157 applies under other accounting pronouncements that require or permit fair value measurements. SFAS 157 is effective for fiscal years beginning after November 15, 2007. The Company is currently evaluating the impact of adopting SFAS 157.

SFAS No. 159: In February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Liabilities (SFAS 159). SFAS 159 provides companies with an option to report selected financial assets and liabilities at fair value, and establishes presentation and disclosure requirements designed to facilitate comparisons between companies that choose different measurement attributes for similar types of assets and liabilities. SFAS 159 is effective for fiscal years beginning after November 15, 2007. The Company is currently evaluating the impact of adopting SFAS 159.

3. September 11 Events

Our previous headquarters were in the World Trade Center. As a result of the terrorist attack on September 11, 2001, our offices in the World Trade Center were destroyed. At that time, Cantor maintained property and casualty insurance policies with third party insurers and, under its Administrative Services Agreement (ASA) with Cantor, the Company was entitled to property and casualty insurance coverage of up to $40.0 million. Cantor received insurance payments related to the September 11 events totaling $45.0 million in 2001 and an additional $21.0 million in 2003. Pursuant to the ASA, the Company received $20.5 million of these insurance proceeds from Cantor in 2001, $3.5 million in 2006 and $1.7 million in 2005. These proceeds were recognized as income in the accompanying Consolidated Statements of Income under the caption Insurance recovery from related parties . The lag in timing between Cantor s receipt of insurance proceeds in 2003 and the Company s related receipts in 2005 and 2006 was a result of the need to analyze and determine the allocable amounts of such proceeds among Cantor and its related entities pursuant to the ASA. As a result of the September 11 events, Company fixed assets with a book value of approximately $17.8 million were destroyed. Accordingly, the Company recorded gains related to the receipt of insurance proceeds of $2.7 million in 2001, $3.5 million in 2006 and $1.7 million in 2005. As the Company completes the move into its new global headquarters during 2007, it is nearing the end of the replacement of the destroyed assets.

4. Fixed Assets, Net

Fixed assets, net as of June 30, 2007 and December 31, 2006 consisted of the following:

	June 30, 2007	December 31, 2006
	(in thousands)	
Computer and communication equipment	$ 49,372	$ 53,305
Software, including software development costs	99,670	96,036
Leasehold improvements and other fixed assets	5,671	4,887
	154,713	154,228
Less: accumulated depreciation and amortization	(101,649)	(96,785)

Fixed assets, net	$ 53,064	$ 57,443

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Depreciation expense was $3.1 million and $3.2 million for the three months ended June 30, 2007 and 2006, respectively. Depreciation expense was $6.0 million and $6.3 million for the six months ended June 30, 2007 and 2006, respectively. Depreciation is included in the accompanying Condensed Consolidated Statements of Operations under the caption Other occupancy and equipment .

In accordance with the provisions of Statement of Position 98-1, Accounting for the Costs of Computer Software Developed or Obtained for Internal Use (SOP 98-1), the Company capitalizes qualifying computer software costs incurred during the application development stage and amortizes them over their estimated useful life of three years on a straight-line basis. During the three months ended June 30, 2007 and 2006, software development costs totaling $5.4 million and $4.1 million, respectively, were capitalized. During the six months ended June 30, 2007 and 2006, software development costs totaling $11.6 and $8.3 million, respectively, were capitalized. For the three months ended June 30, 2007 and 2006, the Company s Condensed Consolidated Statements of Operations included $4.4 million and $3.7 million, respectively, in relation to the amortization of software development costs. For the six months ended June 30, 2007 and 2006, the Company s Condensed Consolidated Statements of Operations included $8.7 million and $8.8 million, respectively, in relation to the amortization of software development costs. The amortization of software development costs for the three and six months ended June 30, 2006 included approximately $0 and $1.2 million of accelerated amortization due to the anticipated early retirement of certain of the Company s internally developed software which was replaced in the second quarter of 2006. There was no accelerated amortization for the three and six months ended June 30, 2007.

Impairment charges of $4.0 million were recorded during the six months ended June 30, 2007 primarily related to discarded software development. Impairment charges related to fixed assets are recorded under the caption Impairment of long-lived assets in the accompanying Consolidated Statements of Operations.

5. Other Intangible Assets, Net

Other intangible assets, net as of June 30, 2007 and December 31, 2006 consisted of the following:

	June 30, 2007			December 31, 2006		
		Accumulated			Accumulated	
	Gross	Amortization	Net	Gross	Amortization	Net
			(in thousands)			
Patents, including capitalized legal costs	$ 31,737	$ (28,553)	$ 3,184	$ 30,970	$ (27,102)	$ 3,868
Acquired intangibles:						
Existing technology	2,832	(1,535)	1,297	2,832	(1,251)	1,581
Customer contracts	412	(412)		412	(412)	
Total intangible assets subject to amortization	$ 34,981	$ (30,500)	$ 4,481	$ 34,214	$ (28,765)	$ 5,449
Horizon license	1,500		1,500	1,500		1,500
Total other intangible assets	$ 36,481	$ (30,500)	$ 5,981	$ 35,714	$ (28,765)	$ 6,949

During the three months ended June 30, 2007 and 2006, the Company recorded intangible amortization expense of $0.5 million and $1.8 million, respectively, which is included under the caption Amortization of software development costs and other intangible assets in the accompanying Condensed Consolidated Statements of Operations. During the six months ended June 30, 2007 and 2006, the Company recorded intangible amortization expense of $1.7 and $3.6 million, respectively, under the caption Amortization of software development costs and other intangible assets in the accompanying Condensed Consolidated Statements of Operations. The estimated aggregate amortization expense for the remainder of 2007 and each of the next four fiscal years is as follows: $1.1 million in 2007, $1.6 million in 2008, $1.1 million in 2009, $0.2 million in 2010 and $0.1 million in 2011.

Patents

Wagner Patent: In April 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 Wagner Patent expired on February 20, 2007.

The Company purchased the Wagner Patent from ETS for an initial payment of $1.75 million in cash and 24,334 shares of the Company s Class A common stock valued at $0.5 million. In order to perfect and defend the Company s rights under the Wagner Patent, the Company incurred substantial legal costs. As of June 30, 2007 and December 31, 2006, the Company had capitalized approximately $21.1 million of related legal costs. The carrying value of the Wagner Patent, including such legal costs, was zero and $0.6 million at June 30, 2007 and December 31, 2006, respectively. The Company recorded amortization expense of zero and $1.1 million for the three months ended June 30, 2007 and 2006, respectively. The Company recorded amortization expense of $0.6 million and $2.2 million for the six months ended June 30, 2007 and 2006, respectively.

During the three months ended June 30, 2007 and 2006, the Company recognized revenue from the Wagner Patent of zero and $1.4 million, respectively, which was included in Software Solutions and licensing fees from unrelated parties in the accompanying Condensed Consolidated Statements of Operations. Additionally, the Company recognized fully electronic transactions revenue from the Wagner Patent of zero and $1.4 million for the three months ended June 30, 2007 and 2006, respectively. During the six months ended June 30, 2007 and 2006, the Company recognized revenue from the Wagner Patent of $1.8 million and $5.0 million, respectively, which was included in Software Solutions and licensing fees from unrelated parties in the accompanying Condensed Consolidated Statements of Operations. Additionally, the Company recognized fully electronic transactions revenue from the Wagner Patent of $1.3 million and $2.3 million for the six months ended June 30, 2007 and 2006, respectively. As of February 20, 2007, the Company no longer receives revenues from this Patent.

Lawrence Patent: In August 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 Lawrence Patent expires in 2014.

The Company purchased the Lawrence Patent for $0.9 million payable over three years, and warrants to purchase 15,000 shares of the Company s Class A common stock at an exercise price of $16.08, which were valued at approximately $0.2 million. The warrants expire on August 6, 2011. During the second quarter of 2005, the Company entered into an Amendment Agreement to amend the Purchase Agreement related to the Lawrence Patent. Pursuant to the Amendment Agreement, the Company will be required to pay $0.5 million over four years. Additional payments are contingent upon the generation of related revenues. The carrying value of the Lawrence Patent was $1.0 million and $1.1 million at June 30, 2007 and December 31, 2006, respectively.

Automated Auction Protocol Processor Patent: In May 2003, US Patent No. 6,560,580 (the 580 Patent) was issued to Cantor for an Automated Auction Protocol Processor. The Company is the exclusive licensee of the 580 Patent, which expires in 2016. Under the Amended and Restated Joint Services Agreement between the Company and Cantor, the Company is responsible for bearing the costs associated with enforcing its rights under this Patent.

Other: The Company has incurred costs in connection with various patent applications. The Company capitalized $0.8 million and $0.6 million of such legal costs for the six months ended June 30, 2007 and 2006, respectively. The carrying value of the capitalized costs related to patent applications was $2.2 million and $2.1 million at June 30, 2007 and December 31, 2006, respectively.

Acquired Intangible Assets

In connection with the acquisition of ITSEcco Holdings Limited and its subsidiaries (Ecco) in October 2004, the Company recorded $3.2 million of purchased intangibles. The purchased intangibles consist of $2.8 million in existing technology and $0.4 million of customer contracts, which are amortized on a straight-line basis over their estimated useful lives of five years and two years, respectively. The customer contracts were fully amortized in 2006. The carrying value of the existing technology was $1.3 million and $1.6 million as of June 30, 2007 and December 31, 2006, respectively.

Horizon License

In February 2006, in conjunction with Cantor s acquisition of IDT Horizon GT, Inc., a Delaware Corporation (Horizon), the Company entered into a software license agreement (the Horizon License) with Horizon, pursuant to which Horizon granted the Company a perpetual, fully paid-up, non-transferable (except to affiliates of the Company) license of Horizon s GovREPO software, a multi-currency, multi-entity, multi-portfolio, collateral management and trading system for fixed income securities. Management has estimated the fair value of the Horizon

License at $1.5 million. The Horizon License permits the Company to use the software worldwide in connection with the processing of trades in the Company s product offerings, provided that the software may not be used

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for the processing of the business of any other person, firm or entity. The Horizon License provides that, in the event Cantor sells the Horizon business, Cantor will pay the Company an amount equal to 23% of the total consideration received in connection with such sale, up to a maximum of $1.5 million. Due to the perpetual nature of the Horizon License, it will not be amortized, but rather will be tested for impairment at least annually pursuant to the requirements of SFAS No. 142, Goodwill and Other Intangible Assets. The Company treated the $1.5 million payment for the Horizon License as a deemed dividend to Cantor. In consideration for the Horizon License and support services to be provided under the Horizon License, the Company issued to Horizon a warrant to acquire 312,937 shares of Class A common stock of the Company, which warrant was not transferred to Cantor. The warrant has a five-year term and is immediately exercisable at an exercise price equal to $8.87.

6. Other Supplementary Balance Sheet Information

Marketable Securities

Marketable securities at June 30, 2007 were $2.4 million, of which all were equity securities. These marketable securities were classified as available-for-sale, and were reported at fair value with the accumulated unrealized income included under the caption Accumulated other comprehensive income in the accompanying Condensed Consolidated Statements of Financial Condition. The Company did not own marketable securities at December 31, 2006. On an ongoing basis, the Company evaluates its investment in equity securities to determine if a decline in fair value is other-than-temporary. If a decline in fair value is determined to be other-than-temporary, an impairment charge will be included within the Company s Condensed Consolidated Statements of Operations, and a new cost basis in the investment will be established.

Other Assets

Other assets at June 30, 2007 and December 31, 2006 consisted of the following:

	June 30, 2007	December 31, 2006
	(in thousands)	
Licensing fees and other receivables	$ 6,954	$ 8,157
Pre-paid expenses	3,365	3,140
Restricted cash	302	2,129
Deferred tax asset	1,519	
Other assets	592	299
	$ 12,732	$ 13,725

Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities at June 30, 2007 and December 31, 2006 consisted of the following:

	June 30, 2007	December 31, 2006
	(in thousands)	
Deferred revenue	$ 1,284	$ 1,748
Current income tax payable	1,084	964
Deferred tax liability		1,963
Other taxes payable	1,510	2,564
Accrued professional fees	11,330	6,193
Accrued compensation	5,417	435
Bank overdraft	815	1,763
Other accrued liabilities	9,173	8,499
	$ 30,613	$ 24,129

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7. Commitments and Contingencies
Commitments

There have been no significant changes in commitments from the matters described in the Notes to the Company s audited Consolidated Financial Statements included in the Company s Annual Report on Form 10-K/A for the year ended December 31, 2006.

Legal Matters

In the ordinary course of business, various legal actions are brought and are pending against the Company. In some of these actions, substantial amounts are claimed. The Company is also involved, from time to time, in other reviews, investigations and proceedings by governmental and self-regulatory agencies (both formal and informal) regarding the Company s business. Any of such actions may result in judgments, settlements, fines, penalties, injunctions or other relief.

Legal reserves are established in accordance with SFAS No. 5, Accounting for Contingencies, when a legal liability is both probable and reasonably estimable. Once established, reserves are adjusted when there is more information available or when an event occurs requiring a change. At June 30, 2007, there were no legal contingencies for which the Company can estimate a possible loss or a range of losses.

In June 2003, we filed a patent infringement suit against BrokerTec USA, LLC, BrokerTec Global, LLC, its parent, ICAP, PLC, Garban, LLC, its technology provider, OM Technology, and its parent company, OM AB (collectively, BrokerTec), in the United States District Court for the District of Delaware. The suit centers on BrokerTec s and Garban s alleged infringement of the 580 Patent issued on May 6, 2003, which expires in 2016, with respect to which we are the exclusive licensee. The 580 Patent covers a system and methods for auction-based trading of specialized items such as fixed income instruments. In a pre-trial ruling on February 7, 2005, the Court ruled that the BrokerTec ETN did not infringe our 580 Patent. On February 22, 2005, the jury found that the Garban GTN did infringe our 580 Patent, but that there was a deficiency in the application which led to the 580 Patent. In Post-Trial Findings of Fact and Conclusions of Law dated February 22, 2006, the Court found that the 580 Patent was unenforceable due to inequitable conduct, but denied the defendants request for an award of attorneys fees. Final judgment was entered on April 3, 2006. By notice dated April 27, 2006, we appealed to the U.S. Court of Appeals for the Federal Circuit. Briefing of the appeal was completed on October 20, 2006. Oral arguments were held on January 8, 2007. On March 20, 2007, the Court of Appeals affirmed the District Court. A combined petition for rehearing and rehearing en banc was denied on May 23, 2007. The mandate of the Court of Appeals was issued on May 30, 2007.

In August 2004, Trading Technologies International, Inc. (TT) commenced an action in the United States District Court, Northern District of Illinois, Eastern Division, against us. In its complaint, TT alleged that the Company infringed U.S. Patent No. 6,766,304, which was issued on July 20, 2004, and U.S. Patent 6,772,132, which was issued on August 3, 2004. TT later added eSpeed International, EccoWare Ltd., and Ecco LLC as defendants in a second amended complaint. On January 5, 2006, we answered TT s second amended complaint in which we denied the infringement allegations and we filed an amended counterclaim seeking a declaration that the patents in suit are invalid, we do not make, use or sell any product that infringes any claims of the patents in suit, the patents in suit are unenforceable because of inequitable conduct before the U.S. Patent and Trademark Office during the prosecution of the patents, and the patents are unenforceable due to TT s patent misuse. The Court consolidated for certain discovery and Markman hearing purposes the case with other patent infringement cases brought by TT against other defendants. A Markman hearing was held on August 16-18, 2006. On October 31, 2006, the Court issued a ruling on claim construction, which provides the meanings of the various terms in dispute in the asserted patents. In that ruling, the Court found that we correctly defined several of the patents key terms. The Court s ruling supports our consistent position that eSpeed and Ecco s products fall outside the scope of TT s patents. In February 2007, the Court denied TT s motion for clarification and reconsideration of the Markman decision and reconfirmed its October 31, 2006 ruling. On June 20, 2007, the Court granted eSpeed s motion for partial summary judgment on TT s claims of infringement covering the Dual Dynamic, eSpeedometer and modified eSpeedometer versions of eSpeed s and Ecco s products. As a result, the remaining products at issue in the case are the versions of the eSpeed and Ecco products that have not been on the market since approximately year end 2004. TT has moved for reconsideration of the June 20, 2007 summary judgment ruling. Expert discovery and some limited fact discovery is ongoing, and a trial date has been set for September 10, 2007. If TT ultimately prevails, we may be required to pay TT damages and/or certain costs and expenses, and we may be forced to modify or withdraw certain products from the market. Both parties have requested attorneys fees from the other party, which may be awarded by the Court in exceptional cases. We are unable to estimate a possible loss or range of losses in connection with this matter.

In addition to the matters discussed above, we are involved in other legal proceedings that have arisen in the ordinary course of business. None of the currently pending matters are expected to have a material adverse impact on our financial position but may be material to our results of operations or cash flows in a given period.

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8. Investments

Investments as of June 30, 2007 and December 31, 2006 consisted of the following:

	June 30, 2007	December 31, 2006
	(in thousands)	
Freedom International Brokerage	$ 7,049	$ 7,043
EIP Holdings	778	734
Aqua Securities	1,183	
Tradespark	2	3
Total Investments	$ 9,012	$ 7,780

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. In April 2001, the Company contributed 310,769 shares of its Class A common stock, valued at approximately $7.0 million, to the LP as a limited partner, which entitles the Company to 75.0% of the LP s capital interest in Freedom. The Company shares in 15.0% 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 is allocated all of the LP s cumulative losses and 85.0% of the cumulative profits. The LP exchanged the 414,357 shares for a 66.7% interest in Freedom.

The Company has also entered into a technology services agreement with Freedom pursuant to which the Company provides the technology infrastructure for the transactional and technology related elements of the Freedom marketplace as well as certain other services in exchange for specified percentages of transaction revenues from the marketplace. In general, if a transaction is fully electronic, the Company receives 65% of the aggregate transaction revenues and Freedom receives 35% of the transaction revenues. For a period of four years beginning on July 1, 2006, Freedom may deduct the amount of its brokerage commissions (up to a 45% payout) from gross electronic transaction services revenue prior to the 65%/35% split between the Company and Freedom. If Freedom provides voice-assisted brokerage services with respect to a transaction, then the Company receives 35% of the revenues and Freedom receives 65% of the revenues.

For the three months ended June 30, 2007 and 2006, the Company s share of Freedom s net income was approximately $2,000 and $8,000, respectively, and is included under the caption Other expenses in the accompanying Condensed Consolidated Statements of Operations. For the six months ended June 30, 2007 and 2006, the Company s share of Freedom s net income was approximately $10,000 and $24,000 respectively, and is included under the caption Other expenses in the accompanying Condensed Consolidated Statements of Operations.

Tradespark: The Company has a 15% investment in EIP Holdings, LLC (EIP Holdings), which in turn has a 99.5% investment in TradeSpark, L.P. (TradeSpark), a voice brokerage business in certain energy products. Cantor has an 85% investment in EIP Holdings. The Company s net income from its investment in TradeSpark, through both direct and indirect investments, totaled approximately $29,000, and $15,000 for the three months ended June 30, 2007 and 2006, respectively, and is included under the caption Other expenses in the accompanying Condensed Consolidated Statements of Operations. The Company s net income from its investment in TradeSpark, through both direct and indirect investments, totaled approximately $43,000, and $21,000 for the six months ended June 30, 2007 and 2006, respectively, and is included under the caption Other expenses in the accompanying Condensed Consolidated Statements of Operations.

Aqua Securities: In January 2007, the Company announced the formation of Aqua Equities (Aqua), an alternative electronic trading platform which will offer new pools of block liquidity to the global equities markets. Aqua is 51% owned by Cantor and 49% owned by the Company. Both companies collectively have contributed financial, professional, and technology assets to the new venture, which will include all of the Company s former equities order routing business. In April 2007, the Company received certain NASD approvals. In June 2007, the Company contributed to Aqua $750,000 cash and technology assets with a net book value of approximately $600,000. For the three and six months ended June 30, 2007 and 2006, the Company s share of Aqua s net loss was approximately $152,000 and $0, respectively, and is included under the caption Other expenses in the accompanying Condensed Consolidated Statements of Operations.

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9. Reverse Repurchase Agreements

Cash and cash equivalents at June 30, 2007 and December 31, 2006 included $184.9 million and $166.0 million, respectively, of reverse repurchase agreements with Cantor. The Company enters into reverse repurchase agreements with Cantor as short-term investments as part of its overall cash management strategy. The Company s reverse repurchase agreements mature on a next day basis. Interest rates for the reverse repurchase agreements are reset daily and approximate market rates, which are based on the Fed Funds Rate and the quality of the underlying collateral.

Reverse repurchase agreements are accounted for as collateralized financing transactions and are recorded at fair value, approximated by the contractual amount for which the securities can be resold, including accrued interest. It is the Company s policy to require collateral with a market value equal to or in excess of the principal amount deposited. All collateral is held in third-party custodial accounts. The value and eligibility of the collateral deposited are determined daily by the third-party custodian, and the Company may require Cantor to deposit additional collateral or return amounts deposited when appropriate. Under the terms of these agreements, the securities collateralizing the reverse repurchase agreements are not permitted to be resold or repledged. Cash and collateral for each reverse repurchase agreement are settled daily. Of the $184.9 million held in reverse repurchase agreements at June 30, 2007, $84.8 million is fully collateralized by U.S. government securities, and $100.0 million is fully collateralized by eligible equity securities. The fair value of such collateral at June 30, 2007 and December 31, 2006 totaled $203.8 million and $177.5 million, respectively.

10. Related Party Transactions

A significant amount of the Company s revenues, expenses, assets and cash flows is dependent on related party transactions with Cantor, BGC Partners, L.P. (BGC), Freedom, and CO2e.com, LLC (CO2e).

Joint Services Agreement

Under the Amended and Restated Joint Services Agreement, dated October 1, 2005 (the JSA), with Cantor, as well as under services agreements with Freedom and CO2e, the Company owns and operates the electronic trading systems and is responsible for providing electronic brokerage services, and Cantor and BGC, Freedom and CO2e provide voice-assisted brokerage services, clearance, settlement and other fulfillment and related services, such as credit and risk management services, oversight of customer suitability and regulatory compliance, sales positioning of products and other services customary to brokerage operations. The Company s agreement with Cantor provides for a perpetual term and may not be unilaterally modified by the Company

Revenue Sharing Arrangements

Under the JSA, as well as under services agreements with BGC, Freedom and CO2e, the Company owns and operates the electronic trading systems and is responsible for providing electronic brokerage services, and BGC, Freedom, and CO2e provide voice-assisted brokerage services, fulfillment services, such as clearance and settlement, and related services, such as credit risk management services, oversight of customer suitability and regulatory compliance, sales positioning of products and other services customary to marketplace intermediary operations. In general, for fully electronic transactions in U.S. Treasuries, the Company receives 65% of the transaction revenues and Cantor, BGC or Freedom receives 35% of the transaction revenues. For a four-year period beginning on July 1, 2006, the 65%/35% revenue share between eSpeed and Freedom is paid on net transaction revenues, which are calculated after deductions of all electronic business-related broker commission payments (up to a 45% broker payout). With respect to other fully electronic transactions, the following provisions are discussed below.

With respect to foreign exchange transactions, the 65%/35% revenue share between eSpeed and Cantor shall be paid after the payment of any revenue share amount to certain participants on the FX platform and after payment of fees relating to clearance, settlement and fulfillment services provided by Cantor. Such clearing and settlement fees shall be shared 65%/35% in the event that the average cost of such services exceeds the average costs associated with clearing and settling cash transactions in U.S. Treasuries.

The Company agreed to divide revenue with Cantor with respect to European Government Bonds (EGBs) traded electronically as follows: (i) the first $1.5 million of gross revenues from EGBs traded electronically shall be shared 65% to eSpeed and 35% to Cantor, (ii) from July 1, 2005 through June 30, 2009, net revenues for EGBs derived from gross revenues in excess of $1.5 million shall be shared 50% to eSpeed and 50% to Cantor, and (iii) after June 30, 2009, net revenues from EGBs derived from gross revenues in excess of $1.5 million shall then be shared 65% to eSpeed and 35% to Cantor. Net revenues shall be calculated after deduction of all electronic business-related broker payouts, commissions and other related compensation expenses, which payouts, commissions and compensation expenses shall not exceed 50% of EGB electronic revenues.

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The Company has agreed to divide revenue between the Company and Cantor with respect to all products other than benchmark U.S. Treasury securities, spot foreign exchange or EGBs which become electronically traded in the future as follows: the Company may receive no less than 50% of the net revenues for such products for a period of four years from the date a customer enters an order on the eSpeed system for such products, or four years from the date of the amendment in the case of products which are currently voice-assisted for BGC customers. At the end of such four-year period, the revenue share shall revert to a payment to eSpeed of 65% of the net revenues for such products. Net revenues shall be calculated after deduction of all electronic business-related broker payouts, commissions and other related compensation expenses, which payouts, commissions and compensation expenses shall not exceed 50% of such electronic revenues.

With respect to the equity order routing business conducted for Cantor, eSpeed and Cantor each have traditionally received 50% of the revenues, after deduction of specified marketing, sales and other costs and fees. In addition, any eSpeed equity order routing business that was not conducted for Cantor was treated as a fully electronic transaction, in which the Company would receive 65% of the revenues of any such business and Cantor will receive 35% of such revenues. Upon completion of the planned spin-off of the equities business in connection with the Aqua Equities (Aqua) transaction, the Company will be entitled to a 49% interest in the new entity and Cantor will be entitled to a 51% interest. The Aqua entity will also be authorized to receive clearing and administrative services from Cantor and technology infrastructure services from eSpeed at cost. Aqua will also be authorized to pay sales commissions to brokers of Cantor, BGC or other brokers who participate in the sales process.

CO2e is to share with the Company 50% of the fully electronic revenues. With respect to (i) certain network access facilities services agreements and (ii) other circumstances in which Cantor refers network access facility services business to the Company, 60% of net revenues from such business would be paid to Cantor and 40% of such revenues would be paid to the Company. This revenue sharing arrangement will be made after deduction of all sales commissions, marketing, helpdesk, clearing and direct third party costs, including circuits and maintenance. With respect to private labeling of the eSpeed system to Cantor, the net revenues between eSpeed and Cantor with respect to such privately labeled businesses shall be shared 50% to eSpeed and 50% to Cantor for a period of four years from the date such customer begins trading. Thereafter, net revenues shall be shared 65% to the Company and 35% to Cantor. Net revenues shall be calculated after deduction of all electronic business-related broker payouts, commissions and other related compensation expenses, which payouts, commissions and compensation expenses shall not exceed 50% of such electronic revenues.

The Company is authorized to pay directly to BGC or Cantor brokers up to 10% of gross revenues on increased electronic trading on the eSpeed system by customers of such brokers in certain products. These payments are intended to provide incentive to voice brokers to encourage additional electronic trading on the eSpeed system by their customers and are solely in the discretion of management.

Effective October 1, 2005, the Company amended the Company s arrangement with Cantor with respect to Cantor s Gaming Businesses to allow Cantor to provide their own Gaming Development Services. With that, former eSpeed technical personnel who had been primarily engaged in providing Gaming Development services for Cantor s Gaming Businesses were hired directly by Cantor. Consequently, the payment provisions in the JSA were amended to provide the Company a 12.5% share of the Gaming Transaction Revenues. In exchange for such revenue share, the Company will provide to Cantor all Gaming-related Ancillary IT services consistent with the Ancillary IT services as is currently provided by eSpeed, and all reasonable replacement Ancillary IT. Further, Cantor will reimburse eSpeed for 100% of all direct costs expended by eSpeed for additional items requested by Cantor, in writing, which are solely dedicated to Cantor s Gaming Business. eSpeed shall also provide to Cantor access to its business and property, including property, technology, software, and hardware in order to engage in development with respect to the Gaming Business.

In December 2005, the Company entered into an agreement with BGC to provide the technology and support for the first integrated voice and electronic U.S. Dollar repo trading platform for the primary dealer community. The Company and BGC will split gross revenues generated by the new platform 50%/50% after a deduction of total broker compensation associated with the extra commission paid to BGC brokers up to a cap of 50% of gross revenues.

In July 2006, the Company and Cantor entered into an agreement whereby the Company will provide Ecco products to Cantor and BGC free of charge until December 31, 2007 and the Company will provide to Cantor new features and customized development work that it requests in writing with respect to Ecco products and Cantor will pay the Company for the cost of the development of those new features. Additionally, the Company is authorized to enter into an agreement with Cantor to provide a commission for third-party sales by a Cantor or BGC salesperson equal to the equivalent amount that would be paid if the salesperson was a salesperson of eSpeed.

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In general, for voice-assisted brokerage transactions, the Company receives 7% of the transaction revenues, in the case of BGC transactions, and 35% of the transaction revenues, in the case of Freedom transactions. For CO2e, the Company receives 20% of the transaction revenues. For screen-assisted open outcry brokerage transactions, the Company receives 2.5% of the transaction revenues in the case of BGC transactions, and for CO2e, the Company receives 20% of the transaction revenues.

Under various services agreements, the Company has agreed to provide Cantor, BGC, Freedom and CO2e 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, BGC and Freedom and actual direct (compensation) and indirect costs (rent, maintenance, equipment and communications) of providing such services, and receives payment on a monthly basis. The indirect costs are generally determined using headcount as the basis for such change. These services are provided to CO2e and to Cantor with respect to its Gaming Business at no additional cost other than the revenue sharing arrangement set forth above. Also, in connection with Cantor s Gaming Business, the Company has agreed to provide additional items such as hardware, machinery, personnel, communications lines and similar dedicated items to Cantor at its written request in exchange for payment by Cantor of all of the direct costs for such items.

Under the terms of the JSA, the Company has agreed with Cantor to certain arrangements, including commission structures, pursuant to which Cantor and its affiliates participate in certain eSpeed marketplaces by posting quotations for their accounts and by acting as principal on trades. Such activity is intended, among other things, to assist these parties in managing their proprietary positions, and to facilitate transactions, add liquidity, increase commissions and attract additional order flow to the eSpeed system and revenue to both eSpeed and Cantor and its affiliates.

Administrative Services Agreement

Under an Administrative Services Agreement (as defined below), Cantor provides various administrative services to eSpeed, including accounting, tax, legal, human resources and facilities management. The Company is required to reimburse Cantor for the cost of providing such services. The costs represent the direct (compensation) and indirect costs (rent, maintenance, equipment and communications), of providing these services. The indirect costs are generally determined using headcount as the basis for such change. The Administrative Services Agreement renews automatically for successive one-year terms unless cancelled upon six months prior notice by either eSpeed or Cantor. eSpeed incurred administrative fees for such services during the three months ended June 30, 2007 and 2006 totaling $3.5 million and $3.7 million, respectively. eSpeed incurred administrative fees for such services during the six months ended June 30, 2007 and 2006, totaling $7.0 million and $7.1 million. Cantor is also authorized to provide these administrative services to the Aqua business.

The services provided under both the JSA and the Administrative Services Agreement are related party services because Cantor controls eSpeed. 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 eSpeed did not obtain such services from Cantor. Management believes that the allocation of such costs are reasonable.

Other Transactions

At June 30, 2007, the Company had $184.9 million of reverse repurchase agreements with Cantor (see Note 9, Reverse Repurchase Agreements, for more information regarding these arrangements).

In February 2006, a subsidiary of Cantor acquired all of the assets of Horizon. Immediately prior to the closing of the acquisition, the Company entered into the Horizon License. In consideration for the Horizon License and support services to be provided under the Horizon License, the Company issued to Horizon a warrant, which warrant was not transferred to Cantor (see Note 5, Other Intangible Assets, Net, for more information regarding this transaction).

eSpeed s parent, Cantor, has granted certain eSpeed employees, including Paul Saltzman, the Company s Chief Operating Officer, awards of partnership units in Cantor with a notional value of $1.1 million. Such partnership units entitle the employee to participate in quarterly distributions of income by Cantor and receive post-termination payments equal to the notional value of the award in four equal installments on the first, second, third and fourth anniversaries of the employee s termination, provided that the employee has not engaged in any competitive activity with the Company or its affiliates prior to the date each payment is due.

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Mr. Saltzman s entitlement to such post-termination payments vests in six equal annual installments beginning July 1, 2007, provided that as of each such anniversary date Mr. Saltzman is still employed by the Company or one of its affiliates and has not breached this agreement. The other partnership units were fully vested on date of grant. See Note 11, Stock-Based Compensation, for information regarding the accounting for these partnership units.

On August 10, 2006, the Company entered into a Sponsored Research Agreement with a researcher and a U.S. university in which the Company agreed to pay $100,000 per year for five years in exchange for research and certain patent rights. In October 2006, the Company agreed with Cantor and BGC that they would pay 75% of all payments made by the Company in connection with the Sponsored Research Agreement, and that to the extent, if any, that eSpeed makes any charitable contributions to the university, Cantor and BGC will make a proportional charitable contribution. In exchange for this agreement, the Company will retain a nonexclusive license to all patents and patent applications resulting from the Sponsored Research Agreement within the field of fully electronic financial services, BGC will have a license to the patents and patent applications in all financial services fields other than fully electronic, and Cantor will have patent rights to all other patents and patent applications. The Company further agreed that, in the event that the Company or Cantor grants a license to such technology in the field of fully electronic financial services, the Company and Cantor will each receive 50% of all revenue from any such license.

In January 2007, the Company announced the formation of Aqua Equities (Aqua), an alternative electronic trading platform which offers new pools of block liquidity to the global equities markets. Aqua is 51% owned by Cantor and 49% owned by the Company. Both companies collectively have contributed financial, professional, and technology assets to the new venture, which will include all of the Company s former equities order routing business. See Note 8, Investments, for information regarding the accounting.

11. Stock-Based Compensation

The Company has adopted the eSpeed, Inc. 1999 Long-Term Incentive Plan, as amended in 2003 (the LT Plan), which provides for awards in the form of 1) incentive stock options and 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 the Company s Class A common stock. The total number of shares of stock that may be subject to outstanding awards, determined immediately after the grant of any award, shall not exceed the greater of 18.5 million shares, or such number that equals 30% of the total number of shares of all classes of the Company s common stock outstanding at the effective time of such grant. The maximum term of the options which have been granted is 10 years from the date of grant. 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.

Restricted Stock Units

A summary of the activity associated with restricted stock units for the six months ended June 30, 2007 is as follows:

	Restricted Stock Units	Weighted Average Grant Date Fair Value