

BGC Partners, Inc.
Form 10-Q
August 08, 2011
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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, 2011

OR

.. **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

Commission File Number: 0-28191

BGC Partners, Inc.

(Exact name of registrant as specified in its charter)

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Delaware (State or other jurisdiction of incorporation or organization)	13-4063515 (I.R.S. Employer Identification No.)
499 Park Avenue, New York, NY (Address of principal executive offices)	10022 (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. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

Large accelerated filer <input type="checkbox"/>	Accelerated filer <input checked="" type="checkbox"/>
Non-accelerated filer <input type="checkbox"/> (Do not check if a smaller reporting company)	Smaller reporting company <input type="checkbox"/>

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

On August 2, 2011, the registrant had 88,245,112 shares of Class A common stock, \$0.01 par value, and 34,848,107 shares of Class B common stock, \$0.01 par value, outstanding.

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SPECIAL NOTE ON FORWARD-LOOKING INFORMATION

This Form 10-Q contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Such statements are based upon current expectations that involve risks and uncertainties. Any statements contained herein that are not statements of historical fact may be deemed to be forward-looking statements. For example, words such as may, will, should, estimates, predicts, potential, continue, strategy, believes, anticipates, plans, e similar expressions are intended to identify forward-looking statements.

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

pricing and commissions and market position with respect to any of our products and services and those of our competitors;

the effect of industry concentration and reorganization, reduction of customers and consolidation;

liquidity, regulatory and clearing capital requirements and the impact of credit market events;

market conditions, including trading volume and volatility, and potential deterioration of the equity and debt capital markets;

our relationships with Cantor Fitzgerald, L.P. (Cantor) and its affiliates, including Cantor Fitzgerald & Co. (CF&Co), any related conflicts of interest, competition for and retention of brokers and other managers and key employees, support for liquidity and capital and other relationships, including Cantor s holding of our 8.75% convertible notes, CF&Co s acting as our sales agent under our controlled equity or other future offerings, and CF&Co s acting as our financial advisor in connection with one or more business combination or other transactions;

economic or geopolitical conditions or uncertainties;

extensive regulation of our businesses, changes in regulations relating to the financial services and other industries, and risks relating to compliance matters, including regulatory examinations, inspections, investigations and enforcement actions, and any resulting costs, fines, penalties, sanctions, enhanced oversight, increased financial and capital requirements, and changes to or restrictions or limitations on specific activities, operations, compensatory arrangements, and growth opportunities, including acquisitions, hiring, and new business, products, or services;

factors related to specific transactions or series of transactions, including credit, performance and unmatched principal risk, counterparty failure, and the impact of fraud and unauthorized trading;

costs and expenses of developing, maintaining and protecting our intellectual property, as well as employment and other litigation and their related costs, including judgments or settlements paid or received;

certain financial risks, including the possibility of future losses and negative cash flows from operations, potential liquidity and other risks relating to our ability to obtain financing or refinancing of existing debt on terms acceptable to us, if at all, and risks of the resulting leverage, including potentially causing a reduction in our credit ratings and/or the associated outlooks given by the rating

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agencies to those credit ratings, as well as interest and currency rate fluctuations;

our ability to enter new markets or develop new products, trading desks, marketplaces or services and to induce customers to use these products, trading desks, marketplaces or services and to secure and maintain market share;

our ability to enter into marketing and strategic alliances and business combination or other transactions in the financial services and other industries, including acquisitions, dispositions, reorganizations, partnering opportunities and joint ventures, and the integration of any completed transaction;

our ability to hire and retain personnel;

our ability to expand the use of technology for hybrid and fully electronic trading;

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our ability to effectively manage any growth that may be achieved, while ensuring compliance with all applicable regulatory requirements;

our ability to identify and remediate any material weaknesses in our internal controls that could affect our ability to prepare financial statements and reports in a timely manner, control our policies, procedures, operations and assets, and assess and manage our operational, regulatory, and financial risks;

the effectiveness of our risk management policies and procedures, and the impact of unexpected market moves and similar events;

the fact that the prices at which shares of our Class A common stock are sold in one or more of our controlled equity offerings or in other offerings or other transactions may vary significantly, and purchasers of shares in such offerings or transactions, as well as existing stockholders, may suffer significant dilution if the price they paid for their shares is higher than the price paid by other purchasers in such offerings or transactions;

our ability to meet expectations with respect to payments of dividends and distributions and repurchases of shares of our Class A common stock and purchases of limited partnership interests of BGC Holdings, L.P. (BGC Holdings), or other equity interests in our subsidiaries, including from Cantor, our executive officers, other employees, partners, and others, and the net proceeds to be realized by us from offerings of our shares of Class A common stock;

the effect on the market for and trading price of our Class A common stock of various offerings and other transactions, including our controlled equity and other offerings of our Class A common stock and convertible securities, our repurchase of shares of our Class A common stock and purchases of BGC Holdings limited partnership interests or other equity interests in our subsidiaries, our payment of dividends on our Class A common stock and distributions on BGC Holdings limited partnership interests, convertible arbitrage, hedging, and other transactions engaged in by holders of our 4.50% convertible notes and counterparties to our capped call transactions, and resales of shares of our Class A common stock acquired from us or Cantor, including pursuant to our employee benefit plans, conversion of our 8.75% convertible notes and 4.50% convertible notes, and distributions from Cantor pursuant to Cantor's distribution rights obligations; and

the risk factors described in our latest Annual Report on Form 10-K and any updates to those risk factors or new risk factors contained in our subsequent Quarterly Reports on Form 10-Q and Current Reports on Form 8-K filed with the Securities and Exchange Commission (SEC).

The foregoing risks and uncertainties, as well as those risks and uncertainties set forth in this Quarterly Report on Form 10-Q, may cause actual results to differ materially from the forward-looking statements. Information in this Form 10-Q is given as of the date of filing the Form 10-Q with the SEC, and future events or circumstances could differ significantly from such information. We do not undertake to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

WHERE YOU CAN FIND MORE INFORMATION

Our Internet website address is www.bgcpartners.com. Through our Internet website, we make available, free of charge, the following documents as soon as reasonably practicable after they are electronically filed with, or furnished to, the SEC: our Annual Reports on Form 10-K; our proxy statements for our annual and special stockholder meetings; our Quarterly Reports on Form 10-Q; our Current Reports on Form 8-K; Forms 3, 4 and 5 and Schedules 13D filed on behalf of Cantor, our directors and our executive officers; and amendments to those documents. In addition, our Internet website is the primary location for press releases regarding our business, including our quarterly and year-end financial results.

Table of Contents**PART I FINANCIAL INFORMATION****ITEM 1. FINANCIAL STATEMENTS****BGC PARTNERS, INC.****CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION****(in thousands, except per share data)****(unaudited)**

	June 30, 2011	December 31, 2010
Assets		
Cash and cash equivalents	\$ 286,239	\$ 364,104
Cash segregated under regulatory requirements	3,610	2,398
Loan receivables from related parties	980	980
Securities owned	12,831	11,096
Marketable securities	2,276	4,600
Receivables from broker-dealers, clearing organizations, customers and related broker-dealers	839,575	474,269
Accrued commissions receivable, net	180,348	132,885
Loans, forgivable loans and other receivables from employees and partners	176,574	151,328
Fixed assets, net	132,336	133,428
Investments	22,982	25,107
Goodwill	83,564	82,853
Other intangible assets, net	12,456	13,603
Receivables from related parties	6,573	4,958
Other assets	69,064	68,705
Total assets	\$ 1,829,408	\$ 1,470,314
Liabilities, Redeemable Partnership Interest, and Equity		
Accrued compensation	\$ 153,653	\$ 155,538
Payables to broker-dealers, clearing organizations, customers and related broker-dealers	779,453	429,477
Payables to related parties	7,686	10,262
Accounts payable, accrued and other liabilities	246,608	256,023
Deferred revenue	3,610	4,714
Notes payable and collateralized borrowings	186,490	189,258
Total liabilities	1,377,500	1,045,272
Redeemable partnership interest	94,723	93,186
Equity		
Stockholders' equity:		
Class A common stock, par value \$0.01 per share; 500,000 shares authorized; 103,906 and 88,192 shares issued at June 30, 2011 and December 31, 2010, respectively; and 85,955 and 70,256 shares outstanding at June 30, 2011 and December 31, 2010, respectively	1,039	881
Class B common stock, par value \$0.01 per share; 100,000 shares authorized; 34,848 and 25,848 shares issued and outstanding at June 30, 2011 and December 31, 2010, respectively, convertible into Class A common stock	348	258
Additional paid-in capital	423,167	366,827
Contingent Class A common stock	3,171	3,171
Treasury stock, at cost: 17,951 and 17,936 shares of Class A common stock at June 30, 2011 and December 31, 2010, respectively	(109,753)	(109,627)

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Retained deficit	(39,422)	(23,616)
Accumulated other comprehensive income (loss)	278	(977)
Total stockholders' equity	278,828	236,917
Noncontrolling interest in subsidiaries	78,357	94,939
Total equity	357,185	331,856
Total liabilities, redeemable partnership interest, and equity	\$ 1,829,408	\$ 1,470,314

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

Table of Contents**BGC PARTNERS, INC.****CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS****(in thousands, except per share data)****(unaudited)**

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
Revenues:				
Commissions	\$ 239,132	\$ 213,863	\$ 483,846	\$ 435,896
Principal transactions	102,007	99,606	200,116	202,734
Fees from related parties	16,206	16,436	31,641	32,362
Market data	4,598	4,444	9,174	8,831
Software solutions	2,257	1,760	4,390	3,512
Interest income	954	781	2,360	1,453
Other revenues	803	506	1,114	1,508
Losses on equity investments	(1,399)	(1,692)	(3,060)	(3,441)
Total revenues	364,558	335,704	729,581	682,855
Expenses:				
Compensation and employee benefits	218,729	207,558	427,698	479,246
Allocations of net income to limited partnership units and founding/working partner units	9,237	5,163	18,437	5,163
Total compensation and employee benefits	227,966	212,721	446,135	484,409
Occupancy and equipment	35,740	28,249	65,026	56,377
Fees to related parties	3,018	3,338	5,619	7,372
Professional and consulting fees	15,211	10,016	28,552	20,085
Communications	21,801	18,468	43,131	37,536
Selling and promotion	19,443	16,227	39,629	32,144
Commissions and floor brokerage	6,932	4,916	13,027	9,803
Interest expense	4,768	3,596	9,163	6,507
Other expenses	6,199	20,652	31,280	25,041
Total expenses	341,078	318,183	681,562	679,274
Income from operations before income taxes	23,480	17,521	48,019	3,581
Provision for income taxes	6,031	4,710	13,432	