

BGC Partners, Inc.  
Form 10-Q  
May 12, 2008  
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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 March 31, 2008

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

**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)

**eSpeed, Inc., 110 East 59th Street, New York, NY 10022**  
(Former name or former address, if changed since last report.)

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

Large accelerated filer  Accelerated filer   
Non-accelerated filer  Smaller Reporting Company   
(Do not check if a smaller reporting company)

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

As of May 6, 2008, the registrant had 41,079,037 shares of Class A common stock, \$0.01 par value, and 31,848,107 shares of Class B common stock, \$0.01 par value, outstanding. On April 1, 2008, the registrant completed a merger and changed its name to BGC Partners, Inc.

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BGC Partners, Inc. and Subsidiaries (formerly eSpeed, Inc.)

Quarterly Report on Form 10-Q

The Registrant, formerly eSpeed, Inc., was merged to form BGC Partners, Inc. on April 1, 2008

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**Table of Contents****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)

	March 31, 2008	December 31, 2007
<b>Assets</b>		
Cash and cash equivalents	\$ 17,555	\$ 38,051
Reverse repurchase agreements with related parties (Note 8)	1,240	59,806
Total cash and cash equivalents	18,795	97,857
Loan receivable from related party	115,000	65,000
Securities owned, at fair value	2,267	2,353
Fixed assets, net	60,627	61,257
Investments	26,944	9,415
Goodwill	12,184	12,184
Other intangible assets, net	5,523	5,578
Receivable from related parties (Note 9)	40,395	17,612
Other assets	19,242	12,716
Total assets	\$ 300,977	\$ 283,972
<b>Liabilities and Stockholders' Equity</b>		
<b>Current liabilities:</b>		
Payable to related parties (Note 9)	\$ 11,838	\$ 10,154
Accounts payable and accrued liabilities	35,340	33,095
Total current liabilities	47,178	43,249
Deferred revenue	18,674	6,852
Total liabilities	65,852	50,101
<b>Commitments and contingencies (Note 6)</b>		
<b>Stockholders' equity:</b>		
Class A common stock, par value \$0.01 per share; 200,000 shares authorized; 37,960 and 36,796 shares issued at March 31, 2008 and December 31, 2007, respectively, and 31,458 and 30,294 shares outstanding at March 31, 2008 and December 31, 2007, respectively	380	368
Class B common stock, par value \$0.01 per share; 100,000 shares authorized; 19,498 and 20,498 shares issued and outstanding at March 31, 2008 and December 31, 2007, respectively, convertible to Class A common stock	195	205
Additional paid-in capital	314,955	313,238
Treasury stock, at cost: 6,502 shares of Class A common stock at March 31, 2008 and December 31, 2007	(62,597)	(62,597)
Accumulated other comprehensive loss		(61)
Accumulated deficit	(17,808)	(17,282)
Total stockholders' equity	235,125	233,871

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Total liabilities and stockholders' equity

\$ 300,977

\$ 283,972

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

**Table of Contents****eSpeed, Inc. and Subsidiaries****CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (unaudited)****(in thousands, except per share data)**

	<b>Three Months Ended March 31,</b>	
	<b>2008</b>	<b>2007</b>
<b>Revenues:</b>		
Transaction revenues:		
Fully electronic transactions with related parties (Note 9)	\$ 13,506	\$ 16,440
Fully electronic transactions with unrelated parties		1,506
Total fully electronic transactions	13,506	17,946
Voice-assisted brokerage transactions with related parties (Note 9)	8,212	6,974
Screen-assisted open outcry transactions with related parties (Note 9)	2,313	1,732
Total transaction revenues	24,031	26,652
Software Solutions fees from related parties (Note 9)	12,969	8,945
Software Solutions and licensing fees from unrelated parties	2,083	3,564
Interest income	1,643	2,473
Total revenues	40,726	41,634
<b>Expenses:</b>		
Compensation and employee benefits	14,256	14,166
Occupancy and equipment:		
Amortization of software development costs and other intangible assets	4,190	5,525
Other occupancy and equipment	10,091	9,377
Administrative fees to related parties (Note 9)	3,445	3,521
Professional and consulting fees	2,187	2,895
Communications and client networks	2,840	2,103
Marketing		226
Other expenses	4,227	2,439
Total operating expenses	41,236	40,252
(Loss) income before income taxes	(510)	1,382
Income tax (benefit) provision	(55)	546
Net (loss) income	(455)	\$ 836
<b>Per share data:</b>		
Basic (loss) income per share	\$ (0.01)	\$ 0.02
Diluted (loss) income per share	\$ (0.01)	\$ 0.02
Basic weighted average shares of common stock outstanding	50,825	50,423
Diluted weighted average shares of common stock outstanding	50,825	51,441

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



**Table of Contents****eSpeed, Inc. & Subsidiaries****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (unaudited)**

(in thousands)

	<b>Three months ended March 31,</b>	
	<b>2008</b>	<b>2007</b>
<b>Cash flows from operating activities:</b>		
Net (loss) income	\$ (455)	\$ 836
Adjustments to reconcile net (loss) income to net cash (used in) provided by operating activities:		
Depreciation and amortization	7,823	8,423
Equity in net loss (income) of unconsolidated investments	1,785	(22)
Unrealized loss from securities owned, at fair value	86	
Deferred income tax expense	(78)	517
Stock-based compensation	809	794
Tax benefit from stock-based compensation	78	22
Excess tax benefit from stock-based compensation	(13)	(14)
Recognition of deferred revenue	(2,611)	(1,152)
Changes in operating assets and liabilities:		
Receivable from related parties (Note 9)	(22,783)	58
Other assets	(6,759)	193
Payable to related parties (Note 9)	1,684	2,355
Accounts payable and accrued liabilities	(2,327)	887
Deferred revenue	671	828
Net cash (used in) provided by operating activities	(22,090)	13,725
<b>Cash flows used in investing activities:</b>		
Unsecured loan to related party (Note 9)	(115,000)	
Secured loan to related party (Note 9)	65,000	
Purchase of fixed assets	(2,464)	(1,205)
Purchase of marketable securities		(2,229)
Capitalization of software development costs	(4,155)	(6,197)
Capitalization of patent defense and registration costs	(520)	(435)
Decrease in restricted cash	302	1,322
Investments	(980)	
Net cash used in investing activities	(57,817)	(8,744)
<b>Cash flows provided by (used in) financing activities:</b>		
Repurchase of Class A common stock		(373)
Proceeds from exercises of stock options	1,105	95
Excess tax benefit from stock-based compensation	13	14
Cancellation of restricted stock units in satisfaction of withholding tax requirements	(273)	
Net cash provided by (used in) financing activities	845	(264)
Net (decrease) increase in cash and cash equivalents	(79,062)	4,717
Cash and cash equivalents at beginning of period	38,051	21,838
Reverse repurchase agreements with related parties at beginning of period (Note 8)	59,806	166,009



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Total cash and cash equivalents at beginning of period	97,857	187,847
Cash and cash equivalents at end of period	17,555	5,333
Reverse repurchase agreements with related parties at end of period (Note 8)	1,240	187,231
<b>Total cash and cash equivalents at end of period</b>	<b>18,795</b>	<b>\$ 192,564</b>
Supplemental cash information		
Cash paid for income taxes	\$ 323	\$ 35
Supplemental non-cash information		
Conversion of Class B common stock into Class A common stock	10	
Investment in unconsolidated entity	18,333	

*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 ( U.S. GAAP ). These Condensed Consolidated Financial Statements include the Company's accounts and all subsidiaries in which the Company has more than a 50% equity ownership. Intercompany balances and transactions have been eliminated in consolidation.

On April 1, 2008, BGC Partners, LLC merged (the merger ) pursuant to the Agreement and Plan of Merger with and into eSpeed, Inc. which was renamed BGC Partners, Inc. ( BGC Partners, BGC or the Combined Company ). (See Note 16, Subsequent Events, for additional information.)

These Condensed Consolidated Financial Statements reflect the business and financial condition of eSpeed, Inc. on a stand-alone basis, prior to the completion of the merger.

**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 Condensed Consolidated 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.

**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.

On January 1, 2007, the FIN 48 adoption date, 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 March 31, 2008 and December 31, 2007, the Company had \$1.7 million, respectively of unrecognized tax benefits. During the three months ended March 31, 2008 and 2007, the Company expensed less than \$0.1 million, respectively, of interest expense related to the unrecognized tax benefit. As of March 31, 2008 and December 31, 2007, the Company had approximately \$0.4 million, respectively 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.



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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 and is effective for fiscal years beginning after November 15, 2007. The adoption of SFAS No. 157 did not have a material impact on our financial condition, results of operations or cash flows. The Company has categorized securities owned as Level 1, since their fair value are based on unadjusted quoted prices from active markets.

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 with changes in fair value reported in earnings; 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. Upon the adoption of SFAS 159 on January 1, 2008, the Company reclassified its securities owned from available-for-sale to trading securities. As a result, the related unrealized loss of \$61,000 was reclassified from accumulated other comprehensive loss to beginning accumulated deficit, as a cumulative effect adjustment.

SFAS No. 160: In December 2007 the FASB issued SFAS No. 160 Noncontrolling Interests in Consolidated Financial Statements an amendment of ARB No. 51 ( SFAS 160 ). SFAS 160 amends ARB 51 to establish accounting and reporting standards for the non-controlling interest in a subsidiary, a parent s ownership interest in a subsidiary and for the deconsolidation of a subsidiary. It clarifies that a noncontrolling interest in a subsidiary is an ownership interest in the consolidated entity that should be reported as equity in the consolidated financial statements. SFAS 160 also requires consolidated net income to be reported at amounts that include the amounts attributable to both the parent and the noncontrolling interest. It also required disclosure, on the face of the consolidated statement of operations, of the amounts of consolidated net income attributable to the parent and to the noncontrolling interest. SFAS 160 will provide more transparent reporting of the net income attributable to the noncontrolling interest. SFAS 160 is effective for the Company as of January 1, 2009. Early adoption is not permitted. The Company is currently evaluating the potential impact of adopting SFAS 160.

SFAS No. 141 (R): In December 2007, the FASB issued SFAS No. 141(R), Business Combinations ( SFAS 141(R) ). SFAS 141(R) replaced SFAS 141, Business Combinations. SFAS 141(R) retains the fundamental requirements in SFAS 141 that the acquisition method of accounting be used for all business combinations and for an acquirer to be identified for each business combination. SFAS 141(R) amends the recognition provisions for assets and liabilities acquired in a business combination, including those arising from contractual and noncontractual contingencies. SFAS 141(R) is effective for the Company January 1, 2009. Early adoption is not permitted. The Company is currently evaluating the potential impact of adopting SFAS 141(R).

SFAS No. 161: In March 2008, the FASB issued SFAS No. 161, Disclosures about Derivative Instruments and Hedging Activities ( SFAS 161 ). SFAS 161 requires enhanced disclosures about an entity s derivative and hedging activities and thereby improves the transparency of financial reporting. Entities are required to provide enhance disclosures about (a) how and why an entity uses derivative instruments, (b) how derivative instruments and related hedged items are accounted for under Statement 133 and its related interpretations, and (c) how derivative instruments and related hedged items affect an entity s financial position, financial performance, and cash flow. SFAS 161 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008, with early adoption encouraged. SFAS 161 encourages, but does not require, comparative disclosures for earlier periods at initial adoption. The Company is currently evaluating the potential impact of adopting SFAS 161.

**3. Fixed Assets, Net**

Fixed assets, net as of March 31, 2008 and December 31, 2007 consisted of the following:

	March 31, 2008	December 31, 2007
	(in thousands)	
Computer and communication equipment	\$ 63,358	\$ 62,663
Software, including software development costs	113,862	110,842
Leasehold improvements and other fixed assets	8,308	7,735
	185,528	181,240

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Less: accumulated depreciation and amortization	(124,901)	(119,983)
Fixed assets, net	\$ 60,627	\$ 61,257

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Depreciation expense was \$3.1 million and \$2.9 million for the three months ended March 31, 2008 and 2007, 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. For the three months ended March 31, 2008 and 2007, software development costs totaling \$2.9 million and \$6.2 million, respectively, were capitalized. For the three months ended March 31, 2008 and 2007, the Company's Condensed Consolidated Statements of Operations included \$4.1 million and \$4.1 million, respectively, in relation to the amortization of software development costs.

**4. Other Intangible Assets, Net**

Other intangible assets, net as of March 31, 2008 and December 31, 2007 consisted of the following:

	March 31, 2008			December 31, 2007		
	Gross	Accumulated Amortization	Net (in thousands)	Gross	Accumulated Amortization	Net
Patents, including capitalized legal costs	\$ 32,995	\$ (29,845)	\$ 3,150	\$ 32,474	\$ (29,411)	\$ 3,063
Acquired intangibles:						
Existing technology	2,832	(1,959)	873	2,832	(1,817)	1,015
Customer contracts	412	(412)		412	(412)	
<b>Total intangible assets subject to amortization</b>	<b>\$ 36,239</b>	<b>\$ (32,216)</b>	<b>\$ 4,023</b>	<b>\$ 35,718</b>	<b>\$ (31,640)</b>	<b>\$ 4,078</b>
Horizon license	1,500		1,500	1,500		1,500
<b>Total other intangible assets</b>	<b>\$ 37,739</b>	<b>\$ (32,216)</b>	<b>\$ 5,523</b>	<b>\$ 37,218</b>	<b>\$ (31,640)</b>	<b>\$ 5,578</b>

During the three months ended March 31, 2008 and 2007, the Company recorded intangible amortization expense of \$0.6 million and \$1.2 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.

The estimated aggregate amortization expense for the remainder of 2008 and each of the next four fiscal years is as follows: \$1.5 million in 2008, \$1.6 million in 2009, \$0.4 million in 2010, \$0.2 million in 2011, and \$0.3 million thereafter.

**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 March 31, 2008 and December 31, 2007, the Company had capitalized approximately \$21.1 million of related legal costs. The carrying value of the Wagner Patent, including such legal costs, was \$0 at March 31, 2008 and December 31, 2007, respectively. The Company recorded amortization expense of \$0.0 and \$0.6 million for the three months ended March 31, 2008 and 2007, respectively.

During the three months ended March 31, 2008 and 2007, the Company recognized revenue from the Wagner Patent of \$0 and \$1.8 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 \$0.0 and \$1.3

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million for the three months ended March 31, 2008 and 2007, 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.

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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 \$0.9 million at both March 31, 2008 and December 31, 2007.

**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 (which terminated upon closing of the merger), the Company was responsible for bearing the costs associated with enforcing its rights under the 580 Patent.

**Other:** The Company has incurred costs in connection with various patent applications. The Company capitalized \$0.5 million and \$0.4 million of such legal costs for the three months ended March 31, 2008 and 2007, respectively. The carrying value of the capitalized costs related to patent applications was \$2.2 million and \$2.1 million at March 31, 2008 and December 31, 2007, 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 \$0.9 million and \$1.0 million as of March 31, 2008 and December 31, 2007, 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 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.

## 5. Other Supplementary Balance Sheet Information

### Other Assets

Other assets at March 31, 2008 and December 31, 2007 consisted of the following:

	March 31, 2008	December 31, 2007
	(in thousands)	
Licensing fees and other receivables	\$ 5,726	\$ 3,244
Pre-paid expenses	6,856	3,488
Restricted cash		302
Income tax receivable	1,118	817
Deferred tax asset	4,521	4,443



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Other assets	1,021	422
	\$ 19,242	\$ 12,716

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Accounts payable and accrued liabilities at March 31, 2008 and December 31, 2007 consisted of the following:

	March 31, 2008	December 31, 2007
	(in thousands)	
Deferred revenue	\$ 5,352	\$ 780
Current income tax payable		77
Other taxes payable	4,437	3,906
Accrued professional fees	6,104	7,981
Accrued compensation	4,994	3,960
Bank overdraft	1,006	1,308
Loss contingency	3,500	3,500
Other accrued liabilities	9,947	11,583
	\$ 35,340	\$ 33,095

**6. 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 for the year ended December 31, 2007.

**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. Other than what is discussed below, at March 31, 2008 there were no material legal contingencies for which the Company can estimate a possible loss or a range of losses.

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 we infringed U.S. Patent No. 6,766,304, which issued on July 20, 2004, and U.S. Patent 6,772,132, which issued on August 3, 2004. TT later added eSpeed International and EccoWare 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 the Company 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 our 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 Trading Technologies patents. In February 2007, the Court denied TT's motion for clarification and reconsideration of the Markman decision and reconfirmed its October 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 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 in the U.S. since roughly the end of 2004. TT moved for reconsideration of that summary judgment ruling which the court denied. The trial began on September 10, 2007 and

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ended on October 4, 2007. On October 10, 2007 a jury rendered a verdict that eSpeed and Ecco willfully infringed. The jury awarded damages in the amount of \$3.5 million. On January 3, 2008, the court granted eSpeed's motion for directed verdict on willfulness, finding that eSpeed's infringement was not willful as a matter of law, and denied eSpeed's general motions for directed verdict and for new trial. On February 6, 2008, eSpeed's remittitur motion was conditionally granted and on February 12, 2008, TT accepted the remittitur, which reduces the jury's verdict to \$2.5 million plus interest. Additionally, TT's motion for pre-judgment interest was granted and

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interest was set at the prime rate, compounded monthly. Presently pending before the Court is eSpeed's motion that the patents are unenforceable because of TT's inequitable conduct. A hearing was held on April 3-4, 2008. The judgment entered by the Court on February 12, 2008 is subject to appeal by both parties. If TT ultimately prevails in the litigation, 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.

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.

**7. Investments**

Investments as of March 31, 2008 and December 31, 2007 consisted of the following:

	March 31, 2008	December 31, 2007
	(in thousands)	
Freedom International Brokerage	\$ 7,066	\$ 7,064
Aqua	1,582	1,529
EIP Holdings	828	819
ELX	17,465	
Tradespark	3	3
Total Investments	\$ 26,944	\$ 9,415

**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 March 31, 2008 and 2007, the Company's share of Freedom's net income was approximately \$2,000 and \$7,000, respectively, and is included under the caption "Other expenses" in the accompanying Condensed Consolidated Statements of Operations.

**Aqua:** In January 2007, the Company announced the formation of Aqua Securities, LP ("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 included all of the Company's former equities order routing business. In June 2007, the Company contributed to Aqua \$0.7 million cash and technology assets with a net book value of approximately \$0.6 million. During the fourth quarter of 2007, Aqua received certain FINRA approvals and the Company further contributed to Aqua \$0.6 million cash and technology assets with a net book value of approximately \$0.5 million. In January 2008 and April 2008, the Company further contributed to Aqua \$980,000 and \$882,000 in cash, respectively.

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For the three months ended March 31, 2008 and 2007, the Company's share of Aqua's net loss was approximately \$927,000 and \$0.0, respectively, and is included under the caption "Other expenses" in the accompanying Condensed Consolidated Statements of Operations.

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**EIP Holdings/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 \$9,000, and \$15,000 for the three months ended March 31, 2008 and 2007, respectively, and is included under the caption Other expenses in the accompanying Condensed Consolidated Statements of Operations.

**ELX:** On December 21, 2007, the Company and 11 other leading financial institutions announced the formation of a limited partnership that will establish a fully-electronic futures exchange. The Company will hold approximately 25% interest in the exchange's operating limited partnership, ELX Futures, L.P. and its holding company general partner, ELX Futures Holdings, LLC (combined ELX ). Assuming eSpeed maintains its present ownership percentage, it will be entitled to approximately 25% of distributions from each entity. eSpeed has also entered into a technology services agreement with ELX pursuant to which the Company will provide a software technology license, monthly maintenance support and other technology services as requested by ELX. In conjunction with this transaction, the Company recorded an investment and deferred revenue of approximately \$18.3 million in January 2008. The deferred revenue is being amortized over the license agreement term of four years. In addition, the Company will receive approximately \$1.1 million per month for providing maintenance services to support the trading platform. For the three months ended March 31, 2008, approximately \$4.4 million was recognized in income and is included under the caption Software Solutions from related parties in the accompanying Condensed Consolidated Statements of Operations.

For the three months ended March 31, 2008 and 2007, the Company's share of ELX's net loss was approximately \$0.9 million and \$0.0 respectively, and is included under the caption Other expenses in the accompanying Condensed Consolidated Statements of Operations.

### **8. Reverse Repurchase Agreements**

Cash and cash equivalents at March 31, 2008 and December 31, 2007, included \$1.2 million and \$59.8 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 Federal 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. As of March 31, 2008, the \$1.2 million held in reverse repurchase agreements are fully collateralized by U.S. government securities. The fair value of such collateral at March 31, 2008 and December 31, 2007 totaled \$1.3 million and \$61.0 million, respectively.

### **9. Related Party Transactions**

A significant amount of the Company's revenues, expenses, assets, liabilities and cash flows are dependent on related party transactions with Cantor, BGC, Freedom, and CO2e.com, LLC ( CO2e ). For the year ended December 31, 2007, approximately 45.6% of the Company's revenues are attributable to Cantor and 35.4% are attributable to BGC.

### **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

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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. The JSA was terminated upon closing of the merger on April 1, 2008. (See Note 16, Subsequent Events, for additional information.)

**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 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 foreign exchange 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.

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 our 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. With the completion of the spin-off of the equities business in connection with the Aqua transaction, the Company is entitled to a 49% interest in the new entity and Cantor will be entitled to a 51% interest, based on FINRA approval. The Aqua entity is also authorized to receive clearing and administrative services from Cantor and technology infrastructure services from eSpeed at cost. Aqua is also 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 parties, 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.





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The Company is authorized to pay directly to BGC or Cantor brokers up to 10% of gross revenues on increased electronic trading on our 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 our eSpeed system by their customers and are solely in the discretion of our management. In addition, BGC is authorized to pay directly to eSpeed sales personnel or to eSpeed or its affiliate's discretionary payments of commissions generated by eSpeed sales personnel. These payments are intended to provide incentive to eSpeed sales personnel to encourage additional voice brokered and hybrid trading.

Effective October 1, 2005, the Company amended its 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 our 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 our ECCO product 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.

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 the 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 by using headcount as the basis for such charges. 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.

**Table of Contents****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 by using headcount as the basis for such charges. 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 March 31, 2008 and 2007 totaling \$3.4 million and \$3.5 million, respectively. Cantor is also authorized to provide these administrative services to the Aqua business. The Administrative Services Agreement was terminated upon closing of the merger on April 1, 2008. (See Note 16, Subsequent Events, for additional information.)

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*

eSpeed currently enters into reverse repurchase agreements with Cantor and its affiliates as short-term investments as part of its overall cash management strategy. At March 31, 2008, the Company had \$1.2 million of reverse repurchase agreements (see Note 8, Reverse Repurchase Agreements, for more information regarding these arrangements). As an alternative to its policy of investing its cash in reverse repurchase agreements with Cantor, on July 26, 2007, eSpeed entered into a Secured Promissory Note and Pledge Agreement (the "Secured Loan") with Cantor in which eSpeed agreed to lend to Cantor up to \$100 million (the "Secured Loan Amount") on a secured basis from time to time. The Secured Loan is guaranteed by a pledge of eSpeed Class A or Class B Common Stock owned by Cantor equal to 125% of the outstanding Secured Loan amount, as determined on a next day basis. The Secured Loan bears interest at the market rate for equity repurchase agreements plus 0.25% and is payable on demand. The Secured Loan was approved by eSpeed's Audit Committee. At March 31, 2008 and December 31, 2007, the outstanding balance of the Secured Loan was \$0 and \$65 million, respectively. For the three months end March 31, 2008, Cantor paid eSpeed interest income of approximately \$0.1 million. For the year ended December 31, 2007, Cantor paid eSpeed interest income of approximately \$1.5 million.

On March 31, 2008, prior to the close of the merger with BGC, eSpeed entered into a 3.875% Promissory Note agreement, whereby eSpeed agreed to lend BGC Holdings, L.P. the principal sum of \$115 million. The cash was used for regulatory and other business reasons, in order to establish the post-merger capital structure desired by the parties in a manner that permits certain regulated subsidiaries of BGC Partners to maintain required regulatory capital. An aggregate of \$115 million was borrowed, all of which was repaid in full on April 4, 2008.

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 4, Other Intangible Assets, Net, for more information regarding this transaction).

In July 2006, the Company and Cantor entered into an agreement whereby the Company will provide to Cantor new features for the Ecco product and Cantor will pay the Company for the cost 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 salesperson as if the salesperson was a salesperson of the Company.

eSpeed's parent, Cantor, granted certain eSpeed employees awards of partnership units in Cantor with a notional value of \$1.0 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. The partnership units were fully vested on date of grant (See Note 10, 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 Cantor and BGC would pay 75% of all payments to be 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



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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 Securities Holdings, 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 7, Investments, for information regarding the accounting).

On December 21, 2007, the Company and 11 other leading financial institutions announced the establishment of a fully-electronic futures exchange. Through a subsidiary, the Company will hold approximately a 25% interest in the exchange's operating limited partnership, ELX L.P, and its holding company general partner, ELX LLC. (See Note 7, Investments, for information regarding the accounting).

**10. 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.

In connection with the merger, the LT Plan was superseded by a new Participation Plan. (See Note 16, Subsequent Events, for additional information.)

**Restricted Stock Units**

A summary of the activity associated with restricted stock units for the three months ended March 31, 2008, is as follows:

	<b>Restricted Stock Units</b>	<b>Weighted Average Grant Date Fair Value</b>	<b>Weighted Average Remaining Contractual Term (Years)</b>
Balance December 31, 2007	342,325	\$ 9.79	
Granted			
Vested	(20,737)	11.36	
Forfeited	(1,273)	11.71	
Balance March 31, 2008	320,315	\$ 9.68	9.61

Restricted stock units (RSUs) granted to employees in December 2007 vest over a three-year period, with 33.3% vesting on each anniversary date. During the three months ended March 31, 2008, no restricted stock units were granted to employees. Restricted stock units received by each non-employee director for their appointment or initial election to the Board of Directors vest equally on each of the first two anniversaries of the grant date, provided that the non-employee director is a member of the Board of Directors at the opening of business on such date. During the three months ended March 31, 2008, no restricted stock units were granted to non-employee directors. The fair value of the restricted stock units is determined on the date of grant based on the market value of Class A common stock, and is recognized, net of the effect of estimated



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forfeitures, over the vesting period. The Company uses historical data, including historical forfeitures and turnover rates, to estimate expected forfeiture rates. In December 2007, the Board of Directors accelerated the vesting of the majority of the outstanding RSUs. Therefore, at March 31, 2008, there was approximately \$2.3 million of total unrecognized compensation expense related to unvested restricted stock units granted under the LT Plan. Total compensation expense related to the restricted stock units before associated income taxes was approximately \$ 0.2 million and \$0.4 million for the three months ended March 31, 2008 and March 31, 2007, respectively.

**Stock Options**

A summary of the activity associated with stock options for the three months ended March 31, 2008, is as follows:

	Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value
Balance December 31, 2007	15,526,899	\$ 14.63		
Granted				
Exercised	(135,525)	8.15		
Forfeited	(28,999)	13.10		
Balance March 31, 2008	15,362,375	14.69	4.9	\$ 19,608,859
Options exercisable at March 31, 2008	15,337,892	\$ 14.70	4.9	\$ 19,528,800

During the three months ended March 31, 2008, the Company did not grant any stock options. The aggregate intrinsic value is calculated as the difference between the exercise price of the underlying awards and the quoted price of the Company's Class A common stock for the 6.0 million options that were in-the-money at March 31, 2008. During the three months ended March 31, 2008 and 2007, the aggregate intrinsic value of options exercised was \$0.5 million and \$0.1 million, respectively, determined as of the date of option exercise. The exercise prices for these options equaled the closing price of the Company's Class A common stock on the date of grant of each option. The options generally vest ratably and on a quarterly basis over four years from the grant date. In December 2007, the Board of Directors accelerated the vesting of the majority of outstanding stock options. Therefore, at March 31, 2008, there was approximately \$8,000 of total unrecognized compensation expense related to unvested stock options granted under the LT Plan. Total compensation expense related to employee stock options before associated income taxes was approximately \$3,500 and \$0.4 million for the three months ended March 31, 2008 and 2007, respectively.

The fair value of each stock option award granted is estimated as of the date of grant using a Black-Scholes option pricing model. Expected volatilities are estimated using historical volatility of the Company's Class A common stock over a preceding period commensurate with the expected term of the options. The expected term of the options represents the period of time that options granted are expected to be outstanding. For options granted subsequent to the adoption of SFAS 123R, the expected term of options granted is derived from the simplified method allowed by Staff Accounting Bulletin No. 107 because the Company's historical share option exercise experience does not provide a reasonable basis upon which to estimate the expected term. The risk-free interest rate for the expected term of the options is based on the U.S. Treasury zero-coupon yield curve in effect at the time of grant. The expected dividend yield was assumed to be zero in the option pricing formula since the Company did not pay dividends. In addition, the Company uses historical data, including historical forfeitures and employee turnover rates, to estimate expected forfeiture rates. The estimated forfeiture rate used for the three months ended March 31, 2008 and 2007, was immaterial. Groups of award recipients that have different exercise behavior are considered separately for valuation purposes.

**Partnership Units**

eSpeed's parent, Cantor, has granted certain eSpeed employees, awards of partnership units in Cantor with a notional value of \$1.0 million. There were two new grants during the three months ended March 31, 2008 and none for the year ended December 31, 2007. 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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The partnership unit awards are accounted for as liability awards under SFAS 123R. The fair value of the liability awards at March 31, 2008, was approximately \$0.4 million. For the awards that are not fully vested at grant date, the

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Company will recognize non-cash compensation expense for the fair value of the awards as the awards are amortized over the stated vesting periods. For the awards that are fully vested on the date of grant, the Company will recognize non-cash compensation expense at grant date for the fair value of the awards. The liability incurred for such awards will be re-measured at the end of every reporting period, and accordingly, any changes in the fair value of such liability will be recorded by the Company as a non-cash compensation expense. In addition, the quarterly distributions on such units will be included in the Company's compensation expense as a non-cash charge. For the three months ended March 31, 2008 and 2007, the Company recognized a non-cash charge of \$0.05 million and \$0.1 million, respectively, related to the partnership units in Cantor. None of the costs of the various benefits provided under the partnership units in Cantor has been or will be paid by eSpeed; however, eSpeed records a non-cash charge included in the accompanying Condensed Consolidated Statements of Operations under the caption

Compensation and employee benefits, for the amounts that have been or will be paid to the employees by Cantor, with an offsetting amount credited to additional paid-in capital reflecting amounts deemed contributed by Cantor.

**Business Partner Warrants**

A summary of the activity associated with business partner warrants for the three months ended March 31, 2008, is as follows:

	Warrants	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (Years)
Balance December 31, 2007	1,986,269	\$ 27.04	
Granted			
Exercised			
Forfeited			
Balance March 31, 2008	1,986,269	\$ 27.04	3.2

There was no expense related to the business partner warrants during the three months ended March 31, 2008 and 2007, respectively.

**11. Comprehensive (Loss) Income**

The components of comprehensive (loss) income were as follows:

	Three Months Ended March 31, 2008      2007 (in thousands)	
Net (loss) income	\$ (455)	\$ 836
Change in available-for-sale-securities (See Note 2)		(20)
Comprehensive (loss) income	\$ (455)	\$ 816

**12. 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. As of March 31, 2008, Cantor held 99.8% of the Company's outstanding Class B common stock. The remaining 0.2% of the Company's Class B common stock was owned by CF Group Management, Inc., the managing general partner of Cantor.



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During the three months ended March 31, 2008 and 2007, the Company issued approximately 136,000 and 19,000 shares, respectively, of Class A common stock related to the exercise of employee stock options.

The Company's Board of Directors has authorized the repurchase of up to \$100 million of outstanding Class A common stock. During the three months ended March 31, 2008 and 2007, the Company repurchased no shares of the Company's Class A common stock under this plan. At March 31, 2008, the Company has approximately \$58.2 million remaining from its \$100 million buyback authorization.

**Table of Contents****13. Earnings Per Share**

Basic earnings per share ( EPS ) is computed by dividing net income by the weighted-average shares outstanding. Diluted EPS reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or restrictions lapsed, resulting in the issuance of common shares that would then share in the earnings of the Company.

The following is a reconciliation of the basic and diluted (loss) earnings per share computations:

	Three Months Ended March 31,	
	2008	2007
	(in thousands, except per share data)	
Net (loss) income	\$ (455)	\$ 836
Shares of common stock and common stock equivalents		
Weighted average shares used in basic computation	50,825	50,423
Diluted effected of:		
Stock options		867
Restricted stock units		151
Business partner warrants		
Weighted average shares used in diluted computation	50,825	51,441
(Loss) earnings per share		
Basic	\$ (0.01)	\$ 0.02
Diluted	\$ (0.01)	\$ 0.02

For the three months ended March 31, 2008 and 2007 approximately 9.4 million and 16.4 million securities, respectively, were not included in the computation of diluted earnings per share because their effect would have been anti-dilutive.

**14. Regulatory Capital Requirements**

Through its subsidiary, eSpeed Brokerage, Inc., formerly known as eSpeed Government Securities, Inc., the Company is subject to the Uniform Net Capital Rule 15c3-1 under the Securities Exchange Act of 1934, as amended, 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 March 31, 2008, eSpeed Brokerage, Inc. had net capital of \$128,900, which was \$108,500 in excess of its required net capital.

At March 31, 2008, the Company's regulated subsidiary has no third party restrictions on its ability to transfer net assets to its parent company, eSpeed, except for its net capital requirements, of \$20,400. This amount was deemed immaterial per the requirements of SEC Rule 5-04 of Regulation S-X.

The regulatory requirements referred to above may restrict the Company's ability to withdraw capital from its regulated subsidiaries.

**15. Segment and Geographic Information**

**Segment and product information:** The Company currently operates its business in one segment, that of operating interactive electronic marketplaces for the trading of financial products, licensing software, and providing technology support services to Cantor and other related and unrelated parties. Revenues from these products comprise the majority of the Company's revenues.

**Geographic information:** The Company operates in the Americas (primarily in the U.S.), 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 at the dates and for the periods indicated.

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Transaction revenues by geographic area were as follows:

	Three Months Ended March 31, 2008                      2007 (in thousands)	
Transaction revenues:		
Europe	\$ 8,401	\$ 7,624
Asia	1,187	976
Total Non Americas	9,588	8,600
Americas	14,443	18,052
Total	\$ 24,031	\$ 26,652

Assets by geographic area were as follows:

	March 31, 2008	December 31, 2007 (in thousands)
Total assets:		
Europe	\$ 45,812	\$ 26,619
Asia	3,151	2,240
Total Non Americas	48,963	28,859
Americas	252,014	255,113
Total	\$ 300,977	\$ 283,972

**16. Subsequent Events**

On April 1, 2008, BGC Partners, LLC, merged pursuant to the Agreement and Plan of Merger, with and into eSpeed, Inc. Upon closing of the merger, eSpeed, Inc. was renamed BGC Partners, Inc. (the Combined Company).

The following are some of the key elements of the merger:

In the merger, an aggregate of 133,860,000 shares of common stock and rights to acquire shares of the Combined Company were issued. Of these shares, 56,000,000 were in the form of Class B common stock or rights to acquire Class B common stock, and the remaining 77,860,000 shares and rights to acquire shares were in the form of Class A common stock or rights to acquire Class A common stock. Stockholders of eSpeed hold the same number and class of shares of the Combined Company's common stock that they held in eSpeed prior to the merger. As such, the Combined Company had approximately 73 million shares of Class A and Class B common stock outstanding upon closing of the merger. The Combined Company's Class A common stock trades on the NASDAQ Global Market under the symbol BGCP.

Upon closing of the merger, certain related-party agreements terminated, including the JSA and the CO2e services agreements. Under these agreements, which were in effect until completion of the merger, eSpeed was entitled to receive a portion of Cantor's, BGC's and CO2e's revenues as fees for providing electronic brokerage services, voice-assisted brokerage services, fulfillment services and related services such as credit risk management, oversight of customer suitability and regulatory compliance, sales position of products and other services customary to marketplace intermediary operations.

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Upon closing of the merger, various administrative agreements that had been in place between the Combined Company and Cantor were replaced with a new administrative agreement. Under the new administrative agreement, the parties will provide administrative and other support services to each other. Such support services include allocations for occupancy of office space, utilization of fixed assets and accounting, operations, human resources, legal, risk, credit, tax, facilities management, insurance procurement, promotional and marketing, and other miscellaneous services to which the parties reasonably agree.

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In connection with the merger, the Combined Company adopted an amended and restated Long-Term Incentive Plan (the Plan), which superseded the eSpeed's LT Plan. The purpose of the Plan is to advance the interests of the Combined Company and its stockholders by providing a means to attract, retain, motivate and reward directors, officers, employees and consultants of and service providers to the Combined Company and its affiliates and to enable such persons to acquire or increase a proprietary interest in the Combined Company, thereby promoting a closer identity of interests between such persons and the Combined Company's stockholders. Pursuant to the Plan, 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 40 million shares, or such number that equals 15% of the total number of shares of all classes of the Combined Company's common stock outstanding at the effective time of such grant, provided that the aggregate number of shares of common stock delivered pursuant to the exercise or settlement of awards granted under the Plan shall not exceed 60 million shares.

On April 1, 2008, the Combined Company, issued approximately 2.2 million restricted stock units to certain employees and others who provide services to the Combined Company. Approximately 1.0 million of these RSUs, with an aggregate estimated fair value of \$7.9 million, vest over a two-year period, with 50% vesting in August 2008 and 2009. Approximately 1.2 million of these RSUs, with an aggregate estimated fair value of \$11.9 million, vest over a three-year period, with 33.3% vesting in December 2008, 2009 and 2010.

### **ITEM 2. Management's Discussion and Analysis of Financial Condition and Results of Operations**

eSpeed, Inc. will be referred to as eSpeed and, together with its subsidiaries, as the Company, we, us or our.

#### **Discussion of Forward-Looking Statements**

The information in this report 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, anticipate, intends and similar expressions are intended to identify forward-looking statements.

On April 1, 2008, BGC Partners, LLC merged pursuant to the Agreement and Plan of Merger with and into eSpeed, Inc. (eSpeed) which was renamed BGC Partners, Inc. (BGC Partners, BGC or the Combined Company). In the merger, an aggregate of 133,860,000 shares of common stock and rights to acquire shares of eSpeed, were issued. Of these shares, 56,000,000 were in the form of Class B common stock or rights to acquire Class B common stock, and the remaining 77,860,000 shares and rights to acquire shares were in the form of Class A common stock or rights to acquire Class A common stock. Stockholders of eSpeed hold the same number and class of shares of the eSpeed, common stock that they held in eSpeed prior to the merger. BGC's Class A common stock trades on the NASDAQ Global Market under the symbol BGCP.

This Quarterly Report on Form 10-Q reflects the business and financial condition of eSpeed, on a stand-alone basis, prior to the completion of the merger. Where appropriate or instructive, certain sections of this report refer to the Combined Company after completion of the merger. For further information regarding the merger, you are referred to eSpeed's Definitive Proxy Statement filed with the Securities and Exchange Commission on February 11, 2008 (the Merger Proxy Statement).

The actual results of eSpeed, BGC Partners or the Combined Company following the merger and the outcome and timing of certain events may differ significantly from the expectations discussed in the forward-looking statements. Factors that might cause or contribute to such a discrepancy for eSpeed, BGC and/or the Combined Company include, but are not limited to, our relationship with Cantor and its affiliates and any related conflicts of interests, competition for and retention of brokers and other managers and key employees, pricing and commissions and market position with respect to any of our products, and that of our respective competitors, the effect of industry concentration and consolidation, and market conditions, including trading volume and volatility, as well as economic or geopolitical conditions or uncertainties. Results may also be impacted by the extensive regulation of our respective businesses and risks relating to compliance matters, as well as factors related to specific transactions or series of transactions, including credit, performance and unmatched principal risk as well as counterparty failure. Factors may also include the costs and expenses of developing, maintaining and protecting intellectual property, including judgments or settlements paid or received in connection with intellectual property or employment or other litigation and their related costs, and certain financial risks, including the possibility of future losses and negative cash flow from operations, risks of obtaining financing and risks of the resulting leverage, as well as interest and currency rate fluctuations. Our ability to meet expectations with respect to payment of dividends, if any, will depend from period to period on our business and financial condition, our available cash, accounting or other charges and other factors relating to our business and financial condition and needs at the time.



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Discrepancies may also result from such factors as the ability to enter new markets or develop new products, trading desks, marketplaces or services and to induce customers to use these products, trading desks, marketplaces or services, to secure and maintain market share, to enter into marketing and strategic alliances, and other transactions, including acquisitions, dispositions, reorganizations, partnering opportunities, and joint ventures, and the integration of any completed transactions, to hire new personnel, to expand the use of technology for screen-assisted, voice-assisted and fully electronic trading and to effectively manage any growth that may be achieved. Results are also subject to risks relating to the merger and separation of BGC Partners' businesses and the relationship between the various entities, financial reporting, accounting and internal control factors, including identification of material weaknesses in our internal controls, our ability to prepare historical and pro forma financial statements and reports in a timely manner, and other factors, including those that are discussed under "Risk Factors" in our Annual Report on Form 10-K.

We believe that all forward-looking statements are based upon reasonable assumptions when made. However, we caution that it is impossible to predict actual results or outcomes or the effects of risks, uncertainties or other factors on anticipated results or outcomes and that accordingly you should not place undue reliance on these statements. Forward-looking statements speak only as of the date when made and we undertake no obligation to update these statements in light of subsequent events or developments.

### ***Overview***

eSpeed is a leader in developing and deploying electronic marketplaces and related trading technology that offer traders access to some of the most efficient, innovative and neutral financial markets in the world. We operate multiple buyer, multiple seller real-time electronic marketplaces for the global capital markets, including the world's largest government bond markets, the world's largest foreign exchange markets, and other financial marketplaces, which may be accessed through fully electronic transactions for some products or through an integrated hybrid voice-assisted network accessed by voice brokers. Our suite of marketplace tools provides end-to-end transaction solutions for the purchase and sale of financial products over our global private network or via the Internet. Our neutral platform, reliable network, straight-through processing and proven solutions make us a trusted source for fully electronic and integrated hybrid voice-assisted trading at some of the world's largest fixed income and foreign exchange trading firms, major exchanges and leading equities trading firms.

### **Management First Quarter Review and Outlook for the Future**

eSpeed strives for consistent growth and profitability while positioning the company for future success. With our merger with BGC Partners, we are making major efforts towards meeting this objective.

Over the last three years, BGC Partners' growth has been an increasing revenue contributor to eSpeed and eSpeed's technology has supported BGC Partners' growth in hybrid and electronic trading. We believe the merger will benefit our customers as we streamline product development and improve our technology, service and execution. With the closing of the merger on April 1, 2008, our stockholders now have a stake in a much larger and faster growing company. The Combined Company has higher earnings and cash flow than eSpeed on a standalone basis, and we expect it to have greater opportunities, advantages and synergies than either company by itself. Finally, our employee-owners have a major equity stake in the Combined Company, which we believe will result in enhanced employee retention.

## **MARKETPLACES**

### **U.S. Treasuries**

We consider the trading of U.S. Treasury securities to be both a foundation for our company and an area for incremental growth. We believe that our volume growth in U.S. Treasuries is the result of solid customer relationships, our proprietary technology, the continuation of fixed price arrangements with our largest customers, and the impact of trading incentives at marginally lower commissions contained in many of our tailored pricing arrangements. We believe that we remain well positioned to participate in the projected growth in the overall U.S. Treasury market primarily as a result of the increasing use of computer-assisted trading by participants in the market. We expect U.S. Treasury volumes to continue to grow as traders utilize computers to augment and implement their trading strategies.

### **Hybrid Voice and Screen-Assisted Products**

Our integrated hybrid voice-assisted model provides us significant long-term opportunities, both in terms of fully electronic transaction volumes and for increased revenues across our product offerings. Historically, new markets have





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initially tended to trade by voice alone, often with the help of an inter-dealer broker. As volumes increase and the structure and characteristics of a market standardize over time, the potential to leverage technology and create new hybrid and fully electronic traded products increases, thereby allowing eSpeed, and, in the future, the Combined Company, to generate greater revenues.

eSpeed has taken an active role in transitioning voice brokered products to a hybrid model. For example, during 2007 we launched a fully electronic BGC Partners-branded European credit default swaps and foreign exchange options trading platform marketed as BGC Trader. Further, the Belgian Debt Agency formally recognized BGC Partners as a designated electronic platform after consultation with the banks that are the Primary Dealers in Belgian Government Securities. Commencing in March 2008, the Belgian Primary Dealers are now able to officially meet their obligations on the BGC Partners platform powered by eSpeed. There is uncertainty, however, regarding the pace at which individual markets or financial instruments migrate from voice-only to hybrid and eventually to fully electronic trading.

**Other Products and Investments**

With our existing relationships, technology, network and prime location on trader desktops, we have the ability to extend our product-line beyond U.S. Treasuries and hybrid voice and screen-assisted markets. We continue to develop and foster the growth of our other products, as well as develop two newer business initiatives, Aqua and ELX, in which we hold an equity interest.

*Foreign Exchange* We offer a trading platform that provides foreign exchange spot traders with what we believe is a better way to trade. However, we continue to encounter difficulties sustaining price support from market-makers. Accordingly, we are making strategic adjustments that include the deployment of a complementary second platform targeted at major institutions and market-makers. We believe that this new platform, combined with our experienced sales team and the continued growth in algorithmic trading and desktop traders, has us well positioned to grow our foreign exchange business.

*Futures* Our futures business is comprised of an order routing service that offers customers access to the futures markets over the eSpeed network, and the ECCO front-end trading software product that provides sophisticated trading tools such as automated spreading. We continue to focus on improving the structure and scalability of our current business, as well as investing in new product offerings and services. Enhancements to the ECCO product suite, such as faster links to the CME and Eurex exchanges, allow us to offer customers market leading automated spreading capabilities for the largest global futures exchanges.

*Aqua* In January 2007, we announced the formation of Aqua Securities, LP, an alternative electronic trading platform offering new pools of block liquidity to the global equities markets. Aqua is 51% owned by Cantor and 49% owned by eSpeed. Concurrent with this announcement, Kevin Foley relinquished his role as President of eSpeed, to lead this initiative as President and CEO of Aqua. During 2007, both companies collectively contributed financial, professional, and technology assets to the new venture, including eSpeed's former equities order routing business. (For more information, see Note 7, Investments, of the accompanying Condensed Consolidated Financial Statements).

On December 21, 2007, we and 11 other leading financial institutions announced the establishment of a fully-electronic futures exchange, ELX. Through a subsidiary, we will hold approximately a 25% interest in the exchange's operating limited partnership, ELX Futures L.P., and its holding company general partner, ELX Futures Holdings LLC. (For more information, see Note 7, Investments, of the accompanying Condensed Consolidated Financial Statements).

**EARNINGS SUMMARY**

For the first quarter of 2008, we had total revenues, total operating expenses, and a net (loss) income of \$40.7 million, \$41.2 million and (\$0.5) million, respectively, compared with the first quarter of 2007 of \$41.6 million, \$40.3 million and \$0.8 million, respectively. The changes in revenue were principally a result of a decrease in fully electronic transactions with related parties and interest income. These decreases in revenue during the first quarter of 2008 were offset by first quarter 2008 revenue increases from voice-assisted and screen-assisted transactions with related parties and Software Solutions and licensing fees from unrelated parties. Total operating expenses increased during the first quarter of 2008 primarily as a result of increased compensation, other occupancy and communication costs as well as recording our share of net losses from Aqua and ELX, respectively. This increase was partially offset by lower amortization costs from a smaller asset base due to assets impaired during 2007, and the expiration of the Wagner Patent in the first quarter of 2007, and reduced professional and consulting fees.

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As we continue in 2008 and beyond as a Combined Company, we will work towards the following goals:

Improving Combined Company pre-tax margins by growing revenues and controlling expense levels.

Leveraging our strong customer relationships to further grow our existing products and market share.

Delivering innovative technology to further the evolution of new hybrid and fully electronic traded products.

Continuing to globalize our footprint by accretively acquiring companies or teams in new markets and product areas.

Developing the technology platform to launch and support ELX's fully-electronic futures exchange.

**Critical Accounting Policies and Estimates**

During the three months ended March 31, 2008, there were no changes in our policies regarding the use of estimates and other critical accounting policies ( See Management's Discussion and Analysis of Financial Condition and Results of Operations, found in our Annual Report on Form 10-K for the year ended December 31, 2007, for additional information relating to our use of estimates and other critical accounting policies).

**Results of Operations****Revenues for the Three Months Ended March 31, 2008 Compared with the Three Months Ended March 31, 2007.**

	Three Months Ended March 31, 2008	Percentage of Total Revenues	Three Months Ended March 31, 2007	Percentage of Total Revenues
	(in thousands)			
<b>Transaction revenues</b>				
Fully electronic transactions with related parties	\$ 13,506	33.2%	\$ 16,440	39.5%
Fully electronic transactions with unrelated parties		0.0%	1,506	3.6%
Total fully electronic transaction revenues	13,506	33.2%	17,946	43.1%
Voice-assisted brokerage transactions with related parties	8,212	20.2%	6,974	16.8%
Screen-assisted open outcry transactions with related parties	2,313	5.7%	1,732	4.2%
<b>Total transaction revenues</b>	<b>24,031</b>	<b>59.1%</b>	<b>26,652</b>	<b>64.0%</b>
Software Solutions fees from related parties	12,969	31.8%	8,945	21.5%
Software Solutions and licensing fees from unrelated parties	2,083	5.1%	3,564	8.6%
Interest income	1,643	4.0%	2,473	5.9%
<b>Total revenues</b>	<b>\$ 40,726</b>	<b>100.0%</b>	<b>\$ 41,634</b>	<b>100.0%</b>

*Total transaction revenues*

Total transaction revenues for the three months ended March 31, 2008 were \$24.0 million compared with \$26.7 million during the three months ended March 31, 2007. There were 61 trading days in the three-month period ended March 31, 2008 and 62 trading days in the three-month

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period ended March 31, 2007. Total volumes transacted increased by \$6,949 billion (approximately \$6.9 trillion), or 23.5%, to \$36,543 billion (approximately \$36.5 trillion) for the three months ended March 31, 2008 from \$29,594 billion (approximately \$29.6 trillion) for the three months ended March 31, 2007. During the three months ended March 31, 2008, fully electronic, voice-assisted and screen-assisted transaction revenues contributed 56.2%, 34.2% and 9.6% of our total transaction revenues, respectively, compared with 67.3%, 26.2% and 6.5% respectively, for three months ended March 31, 2007.

Fully electronic transaction revenues with related parties for the three months ended March 31, 2008 decreased to \$13.5 million from \$16.4 million during the comparable period in 2007. Certain long-term U.S. Treasury fixed fee agreements were renewed in connection with the formation of ELX, and concurrently with the Company entering into a technology services agreement with ELX.

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Fully electronic transaction revenues with unrelated parties relate to transactions that are neither cleared nor transacted by Cantor. For the three months ended March 31, 2008, there were no fully electronic transaction revenues with unrelated parties, as compared with \$1.5 million during the comparable period in 2007. These revenues primarily related to Wagner Patent transactions. The Wagner Patent expired on February 20, 2007.

Voice-assisted brokerage transaction revenues with related parties for the three months ended March 31, 2008 were \$8.2 million compared with \$7.0 million for the three months ended March 31, 2007. Screen-assisted open outcry transaction revenues with related parties for the three months ended March 31, 2008 were \$2.3 million, an increase of \$0.6 million during the comparable period in 2007. The increase was primarily due to the growth of BGC's voice brokerage business and market volatility which drives more market volume.

Our revenues are highly dependent on transaction volume in the global financial product trading markets. Accordingly, among other things, equity and interest rate 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 and currency values 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 related parties, primarily Cantor.

*Software Solutions fees from related parties*

Software Solutions fees from related parties for the three months ended March 31, 2008 were \$13.0 million compared with \$8.9 million during the comparable period in 2007. This increase was primarily due to technology services and the software license provided to ELX, in conjunction with the technology services agreement, which commenced in January 2008.

*Software Solutions and licensing fees from unrelated parties*

Software Solutions and licensing fees from unrelated parties for the three months ended March 31, 2008 were \$2.1 million compared with \$3.6 million during the comparable period in 2007. The decrease is primarily due to the Wagner Patent transactions, which Patent expired on February 20, 2007.

*Interest income*

During the three months ended March 31, 2008, the blended weighted average interest rate that we earned on overnight reverse repurchase agreements and money market Treasury funds was 3.5% compared with 5.46% during the comparable period in 2007. As a result of the decrease in the weighted average interest rate and lower average cash balances between periods, we generated interest income of \$1.6 million for the three months ended March 31, 2008 compared with \$2.5 million for the comparable period in 2007. Additionally, for the three months ended March 31, 2008, interest income relating to the Cantor loan was approximately \$81,500.

*Expenses for the Three Months Ended March 31, 2008 Compared with the Three Months Ended March 31, 2007.*

	Three Months Ended March 31, 2008	Percentage of Total Expenses	Three Months Ended March 31, 2007	Percentage of Total Expenses
	(in thousands)			
Compensation and employee benefits	\$ 14,256	34.6%	\$ 14,166	35.2%
Amortization of software development costs and other intangible assets	4,190	10.2%	5,525	13.7%
Other occupancy and equipment	10,091	24.4%	9,377	23.3%
Administrative fees to related parties	3,445	8.4%	3,521	8.7%
Professional and consulting fees	2,187	5.3%	2,895	7.2%
Communications and client networks	2,840	6.9%	2,103	5.2%
Marketing			226	0.6%
Other expenses	4,227	10.2%	2,439	6.1%
Total operating expenses	\$ 41,236	100%	\$ 40,252	100.0%



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### *Compensation and employee benefits*

Compensation costs for the three months ended March 31, 2008 were \$14.3 million compared with \$14.2 million during the comparable period in 2007. The \$0.1 million, or 0.7%, increase in compensation costs resulted from annual pay increases, additional headcount and stock-based compensation expense. Substantially all of our employees are full-time employees located predominately in the New York metropolitan area and London. Compensation costs include salaries, bonuses, payroll taxes and costs of employer-provided benefits for our employees.

### *Amortization of software development costs and other intangible assets*

Amortization of software development costs and other intangible assets was \$4.2 million for the three months ended March 31, 2008, a decrease of \$1.3 million, or 23.6%, compared with \$5.5 million during the comparable period in 2007. This decrease was the result of a smaller asset base due to assets impaired during 2007, and the expiration of the Wagner Patent in the first quarter of 2007

### *Other occupancy and equipment*

Other occupancy and equipment costs were \$10.1 million for the three months ended March 31, 2008, a \$0.7 million, or 7.4%, increase compared with \$9.4 million for the comparable period in 2007. The increase was attributable to the cost to operate our new northeast data center opened in late 2007.

### *Administrative fees to related parties*

Under an Administrative Services Agreement, Cantor provides various administrative services to us, including accounting, tax, legal, human resources and facilities management, for which we reimburse Cantor for the direct and indirect costs of providing such services.

Administrative fees to related parties slightly decreased to \$3.4 million for the three months ended March 31, 2008 compared with \$3.5 million for the comparable period in 2007. Administrative fees to related parties are dependent upon both the costs incurred by Cantor and the amount of Cantor's administrative services that is utilized by us.

### *Professional and consulting fees*

Professional and consulting fees were \$2.2 million for the three months ended March 31, 2008 compared with \$2.9 million for the comparable period in 2007, a decrease of 24.1%. This decrease was primarily the result of reduced legal expenses incurred in connection with an ongoing patent litigation, slightly offset by increased audit expenses.

### *Communications and client networks*

Communications and client networks costs were \$2.8 million for the three months ended March 31, 2008 compared with \$2.1 million for the comparable period in 2007. In the first quarter of 2008 we incurred additional ongoing costs related to the opening of our new northeast data center and increased circuit costs for our private client network.

Communications and client networks 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. We anticipate expenditures for communications and client networks may increase in the near future as we continue to connect additional customers to our network.

### *Other expenses*

Other expenses consist primarily of insurance costs, recruiting, travel, net losses or income from our equity investments, promotional and entertainment expenditures. For the three months ended March 31, 2008, other expenses were \$4.2 million, an increase of approximately \$1.8 million, or 75%, compared with other expenses of \$2.4 million for the comparable period in 2007. The increase was primarily due to equity losses in Aqua and ELX, which were \$0 for the three months ending March 31, 2007.

### *Income taxes*

During the three months ended March 31, 2008, we recorded an income tax benefit of \$0.1 million compared with an income tax expense of \$0.5 million during the three months ended March 31, 2007. Our consolidated effective tax rate can vary from period to period depending on,

among other factors, the geographic and business mix of our earnings.



**Table of Contents****Market Summary**

The following table provides certain volume and transaction count information on the eSpeed system for the periods indicated:

	1Q07	2Q07	3Q07	4Q07	1Q08
<b>Volume (in billions)</b>					
Fully Electronic Volume Excluding New Products	\$ 11,809	\$ 10,281	\$ 12,689	\$ 11,364	\$ 13,155
Fully Electronic Volume New Products	1,415	1,066	990	1,335	1,405
Total Fully Electronic Volume	13,224	11,347	13,679	12,699	14,560
Voice-Assisted Volume	8,884	9,820	10,883	9,769	12,967
Screen-Assisted Volume	7,486	7,317	8,438	7,503	9,016
Total Voice/Screen-Assisted Volume	16,370	17,137	19,321	17,272	21,983
Total Volume	\$ 29,594	\$ 28,484	\$ 33,000	\$ 29,971	\$ 36,543
<b>Transaction Count (in thousands)</b>					
Fully Electronic Transactions Excluding New Products	2,062	1,749	2,661	2,811	3,866
Fully Electronic Transactions New Products	144	154	128	126	248
Total Fully Electronic Transactions	2,206	1,903	2,789	2,937	4,114
Voice-Assisted Transactions	201	210	216	202	232
Screen-Assisted Transactions	93	114	119	117	136
Total Voice/Screen-Assisted Volume	294	324	335	319	368