

BGC Partners, Inc.
Form 10-Q
August 09, 2010
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the Quarterly Period Ended June 30, 2010

OR

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

Commission File Number: 0-28191

BGC Partners, Inc.

(Exact name of registrant as specified in its charter)

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Delaware (State or other jurisdiction of incorporation or organization)	13-4063515 (I.R.S. Employer Identification No.)
499 Park Avenue, New York, NY (Address of principal executive offices)	10022 (Zip Code)
(212) 610-2200 (Registrant's telephone number, including area code)	

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

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

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

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

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

On August 3, 2010, the registrant had 64,994,286 shares of Class A common stock, \$0.01 par value, and 25,848,107 shares of Class B common stock, \$0.01 par value, outstanding.

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SPECIAL NOTE ON FORWARD-LOOKING INFORMATION

This Form 10-Q contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the Securities Act), and Section 21E of the Securities Exchange Act of 1934, as amended (the Exchange Act). 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, strategies, believes, anticipates, plans, expects, intends and similar expressions are intended to identify forward-looking statements.

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

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

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

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

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

our relationship with Cantor Fitzgerald, L.P. (Cantor) and its affiliates, including Cantor Fitzgerald & Co., and any related conflicts of interest, competition for and retention of brokers and other managers and key employees, support for liquidity and capital and other relationships, including Cantor 's holding of our convertible notes and Cantor Fitzgerald & Co. 's acting as our sales agent under our controlled equity offering or other future offerings;

economic or geopolitical conditions or uncertainties;

extensive regulation of our businesses, changes in regulations relating to the financial services industry, and risks relating to compliance matters, including regulatory examinations, investigations and enforcement actions;

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

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

certain financial risks, including the possibility of future losses and negative cash flow from operations, potential liquidity and other risks relating to the ability to obtain financing or refinancing of existing debt and risks of the resulting leverage, as well as interest and currency rate fluctuations;

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

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our ability 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;

our ability to hire new personnel;

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

our ability to effectively manage any growth that may be achieved;

our ability to identify any material weaknesses in our internal controls that could affect our ability to prepare financial statements and reports in a timely manner;

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

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

the risk factors described in our Annual Report on Form 10-K for the year ended December 31, 2009, our Quarterly Report on Form 10-Q for the quarter ended March 31, 2010, and this Quarterly Report on Form 10-Q for the quarter ended June 30, 2010, each as filed with the Securities and Exchange Commission (the SEC), and any updates to those risk factors or new risk factors contained in our subsequent Quarterly Reports on Form 10-Q or Current Reports on Form 8-K filed with the SEC.

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

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WHERE YOU CAN FIND MORE INFORMATION

Our Internet website address is *www.bgcpartners.com*. Through our Internet website, we make available, free of charge, the following reports as soon as reasonably practicable after they are electronically filed with, or furnished to, the SEC: our annual reports on Form 10-K; our proxy statements for our annual and special stockholder meetings; our quarterly reports on Form 10-Q; our current reports on Form 8-K; Forms 3, 4 and 5 and Schedules 13D filed on behalf of Cantor, our directors and our executive officers; and amendments to those filings.

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

	June 30, 2010	December 31, 2009
Assets		
Cash and cash equivalents	\$ 341,410	\$ 469,301
Cash segregated under regulatory requirements	2,547	2,200
Loan receivables from related parties	980	980
Securities owned	1,587	2,553
Marketable securities	3,693	1,510
Securities borrowed	32,926	
Receivables from brokers, dealers, clearing organizations, customers and related broker-dealers	589,162	413,980
Accrued commissions receivable, net	140,917	108,495
Loans, forgivable loans and other receivables from employees and partners	138,213	138,113
Fixed assets, net	134,379	132,966
Investments	21,018	23,173
Goodwill	76,663	77,118
Other intangible assets, net	12,297	13,912
Receivables from related parties	12,850	14,459
Other assets	57,307	65,789
Total assets	\$ 1,565,949	\$ 1,464,549
Liabilities, Redeemable Partnership Interest, and Equity		
Accrued compensation	\$ 171,036	\$ 143,283
Securities sold, not yet purchased		11
Payables to brokers, dealers, clearing organizations, customers and related broker-dealers	580,286	385,345
Payables to related parties	8,103	64,169
Accounts payable, accrued and other liabilities	222,221	256,452
Deferred revenue	8,235	9,805
Notes payable and collateralized borrowings	164,672	167,586
Total liabilities	1,154,553	1,026,651
Redeemable partnership interest	96,490	103,820
Equity		
Stockholders' equity:		
Class A common stock, par value \$0.01 per share; 500,000 shares authorized; 81,354 and 70,661 shares issued at June 30, 2010 and December 31, 2009, respectively; and 63,889 and 56,124 shares outstanding at June 30, 2010 and December 31, 2009, respectively	814	707
Class B common stock, par value \$0.01 per share; 100,000 shares authorized; 25,848 and 26,448 shares issued and outstanding at June 30, 2010 and December 31, 2009, respectively, convertible into Class A common stock	258	264
Additional paid-in capital	328,147	292,881
Treasury stock, at cost: 17,465 and 14,537 shares of Class A common stock at June 30, 2010 and December 31, 2009, respectively	(107,127)	(89,756)
Retained deficit	(15,610)	(2,171)

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Accumulated other comprehensive loss	(4,912)	(36)
Total stockholders' equity	201,570	201,889
Noncontrolling interest in subsidiaries	113,336	132,189
Total equity	314,906	334,078
Total liabilities, redeemable partnership interest, and equity	\$ 1,565,949	\$ 1,464,549

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

Table of Contents**BGC PARTNERS, INC.****CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**

(in thousands, except per share data)

(unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
Revenues:				
Commissions	\$ 213,863	\$ 164,305	\$ 435,896	\$ 336,585
Principal transactions	99,606	106,438	202,734	197,699
Fees from related parties	16,436	13,232	32,362	28,156
Market data	4,444	4,402	8,831	8,864
Software solutions	1,760	2,770	3,512	4,268
Interest income	781	702	1,453	2,014
Other revenues	506	2,139	1,508	2,459
Losses on equity investments	(1,692)	(1,852)	(3,441)	(3,995)
Total revenues	335,704	292,136	682,855	576,050
Expenses:				
Compensation and employee benefits	207,558	180,591	479,246	356,428
Allocation of net income to limited partnership units and founding/working partner units	5,163	6,190	5,163	11,269
Total compensation and employee benefits	212,721	186,781	484,409	367,697
Occupancy and equipment	28,249	27,522	56,377	53,346
Fees to related parties	3,338	2,929	7,372	7,264
Professional and consulting fees	10,016	7,305	20,085	14,789
Communications	18,468	15,646	37,536	30,970
Selling and promotion	16,227	12,751	32,144	27,755
Commissions and floor brokerage	4,916	4,075	9,803	7,750
Interest expense	3,596	2,512	6,507	4,909
Other expenses	20,652	10,990	25,041	18,620
Total expenses	318,183	270,511	679,274	533,100
Income from continuing operations before income taxes	17,521	21,625	3,581	42,950
Provision for income taxes	4,710	6,944	1,723	13,975
Consolidated net income	\$ 12,811	\$ 14,681	\$ 1,858	\$ 28,975
Less: Net income (loss) attributable to noncontrolling interest in subsidiaries	5,413	6,613	(1,329)	12,827
Net income available to common stockholders	\$ 7,398	\$ 8,068	\$ 3,187	\$ 16,148
Per share data:				
<i>Basic earnings per share</i>				
Net income available to common stockholders	\$ 7,398	\$ 8,068	\$ 3,187	\$ 16,148
Basic earnings per share	\$ 0.09	\$ 0.10	\$ 0.04	\$ 0.20

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Basic weighted average shares of common stock outstanding	84,473	78,929	83,667	79,745
<i>Fully diluted earnings per share</i>				
Net income for fully diluted shares	\$ 19,567	\$ 21,120	\$ 8,632	\$ 41,012
Fully diluted earnings per share	\$ 0.09	\$ 0.10	\$ 0.04	\$ 0.20
Fully diluted weighted average shares of common stock outstanding	226,495	211,074	224,949	205,678
Dividends declared per share of common stock	\$ 0.14	\$ 0.09	\$ 0.20	\$ 0.13
Dividends declared and paid per share of common stock	\$ 0.14	\$ 0.09	\$ 0.20	\$ 0.13

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

Table of Contents**BGC PARTNERS, INC.****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS****(in thousands)****(unaudited)**

	Six Months Ended June 30,	
	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES:		
Consolidated net income	\$ 1,858	\$ 28,975
Adjustments to reconcile consolidated net income to net cash (used in) provided by operating activities:		
Allocations of net income to limited partnership units and founding/working partner units	5,163	11,269
Fixed asset depreciation and intangible asset amortization	25,537	26,285
Employee loan amortization	18,545	15,178
Stock-based compensation	14,069	7,859
Losses on equity investments	3,441	3,995
Deferred tax benefit	(3,521)	(4,594)
Recognition of deferred revenue	(2,466)	(7,016)
Other	834	788
(Increase) decrease in operating assets:		
Cash segregated under regulatory requirements	(347)	2,916
Reverse repurchase agreements with related parties		125,153
Securities borrowed	(32,926)	(54,116)
Securities owned	922	(626,767)
Receivables from brokers, dealers, clearing organizations, customers and related broker-dealers	(183,265)	(415,235)
Accrued commissions receivable, net	(36,890)	378
Receivables from related parties	1,619	138
Loans, forgivable loans and other receivables from employees and partners	(20,066)	(37,844)
Other assets	3,816	5,502
Increase (decrease) in operating liabilities:		
Securities sold, not yet purchased	(11)	(321)
Payables to brokers, dealers, clearing organizations, customers and related broker-dealers	202,766	1,073,943
Accrued compensation	44,526	18,676
Deferred revenue	914	5,189
Accounts payable, accrued and other liabilities	(19,342)	12,674
Payables to related parties	(56,066)	18,006
Net cash (used in) provided by operating activities	(30,890)	211,031

Table of Contents**BGC PARTNERS, INC.****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)**

(in thousands)

(unaudited)

	Six Months Ended June 30,	
	2010	2009
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of fixed assets	(19,610)	(11,277)
Purchases of marketable securities	(3,002)	
Capitalization of software development costs	(8,344)	(8,979)
Capitalization of patent defense and registration costs	(440)	(757)
Investment in Liquidez, net of cash acquired		(5,140)
Investment in unconsolidated entities	(862)	(3,949)
Net cash used in investing activities	(32,258)	(30,102)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Collateralized borrowings	(2,914)	
Repurchase of Class A common stock	(17,371)	(7,911)
Proceeds from offering of Class A common stock, net	17,792	
Redemption of limited partnership interests	(28,901)	
Cancellation of restricted stock units in satisfaction of withholding tax requirements	(1,725)	
Earnings distributions to limited partnership interests in BGC Holdings	(8,122)	(17,073)
Dividends to stockholders	(16,625)	(10,416)
Net cash used in financing activities	(57,866)	(35,400)
Effect of exchange rate changes on cash	(6,877)	(686)
Net (decrease) increase in cash and cash equivalents	(127,891)	144,843
Cash and cash equivalents at beginning of period	469,301	204,930
Cash and cash equivalents at end of period	\$ 341,410	\$ 349,773
Supplemental cash information:		
Cash paid during the period for taxes	\$ 16,144	\$ 10,379
Cash paid during the period for interest	\$ 5,172	\$ 4,909
Supplemental non-cash information:		
Conversion of Class B common stock into Class A common stock	\$ 6	\$ 10

The accompanying Notes to the unaudited Condensed Consolidated Financial Statements are an integral

part of these financial statements.

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BGC PARTNERS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

For the Year Ended December 31, 2009

(in thousands, except share amounts)

(audited)

	BGC Partners, Inc. Stockholders					Accumulated Other Comprehensive Income (Loss)	Noncontrolling Interest in Subsidiaries	Total
	Class A Common Stock	Class B Common Stock	Additional Paid-in Capital	Treasury Stock	Retained Earnings (Deficit)			
Balance, January 1, 2009	\$ 617	\$ 301	\$ 271,161	\$(81,845)	\$ 1,958	\$ (3,942)	\$ 152,952	\$ 341,202
Repurchase of Class A common stock, 4,023,959 shares				(7,911)				(7,911)
Conversion of Class B common stock to Class A common stock, 3,700,000 shares	37	(37)						
Stock-based compensation	8		12,126					12,134
Issuance of Class A common stock upon exchange of founding/working partner units, 4,438,765 shares	44		9,606				2,550	12,200
Cantor purchase of redeemed founding/working partners units from BGC Holdings							195	195
Re-allocation of equity due to additional investment by founding/working partners							(11,434)	(11,434)
Dividends to stockholders					(24,171)			(24,171)
Earnings distributions to limited partnership interests in BGC Holdings							(32,700)	(32,700)
Other	1		(12)		17		(26)	(20)
Comprehensive income:								
Consolidated net income					20,025		20,788	40,813
Other comprehensive income, net of tax								
Change in cumulative translation adjustment						3,013	165	3,178
Unrealized gain (loss) on securities available for sale						893	(301)	592
Comprehensive income					20,025	3,906	20,652	44,583