

BGC Partners, Inc.
Form 10-Q
November 08, 2012
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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 September 30, 2012

OR

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

Commission File Numbers: 0-28191, 1-35591

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 November 2, 2012, the registrant had 117,096,496 shares of Class A common stock, \$0.01 par value, and 34,848,107 shares of Class B common stock, \$0.01 par value, outstanding.

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BGC PARTNERS, INC.

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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, which we refer to as the Securities Act, and Section 21E of the Securities Exchange Act of 1934, as amended, which we refer to as 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, strategy, 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, regulatory and clearing capital requirements and the impact of credit market events;

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

our relationships with Cantor Fitzgerald, L.P., which we refer to as Cantor and its affiliates, including Cantor Fitzgerald & Co., which we refer to as CF&Co, any related conflicts of interest, competition for and retention of brokers and other managers and key employees, any impact of Cantor's results on our credit ratings and/or the associated outlooks, support for liquidity and capital and other relationships, including Cantor's holding of our 8.75% Convertible Notes, CF&Co's acting as our sales agent under our controlled equity or other offerings, and CF&Co's acting as our financial advisor in connection with one or more business combinations or other transactions;

economic or geopolitical conditions or uncertainties;

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

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

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

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certain financial risks, including the possibility of future losses and negative cash flows from operations, an increased need for short-term or long-term borrowings or other sources of cash, related to acquisitions or other matters, potential liquidity and other risks relating to our ability to obtain financing or refinancing of existing debt on terms acceptable to us, if at all, and risks of the resulting leverage, including potentially causing a reduction in our credit ratings and/or the associated outlooks given by the rating agencies to those credit ratings, increased borrowing costs, as well as interest and currency rate fluctuations;

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

our ability to enter into marketing and strategic alliances and business combination or other transactions in the financial services, real estate and other industries, including acquisitions, dispositions, reorganizations, partnering opportunities and joint ventures and to meet our financial reporting obligations with respect thereto, and the integration of any completed acquisition and the use of proceeds of any completed obligations;

our ability to hire and retain 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, while ensuring compliance with all applicable regulatory requirements;

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

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

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

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

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

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

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

WHERE YOU CAN FIND MORE INFORMATION

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

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

	September 30, 2012	December 31, 2011
Assets		
Cash and cash equivalents	\$ 313,307	\$ 369,713
Cash segregated under regulatory requirements	6,286	2,968
Securities owned	32,303	16,282
Marketable securities		1,238
Receivables from broker-dealers, clearing organizations, customers and related broker-dealers	763,863	192,053
Accrued commissions receivable, net	249,870	222,293
Loans, forgivable loans and other receivables from employees and partners, net	210,214	192,658
Fixed assets, net	140,781	136,068
Investments	29,469	20,367
Goodwill	142,156	141,142
Other intangible assets, net	21,125	16,994
Receivables from related parties	6,400	5,754
Other assets	107,202	87,655
Total assets	\$ 2,022,976	\$ 1,405,185
Liabilities, Redeemable Partnership Interest, and Equity		
Short-term borrowings	\$	\$ 13,600
Accrued compensation	127,265	143,800
Payables to broker-dealers, clearing organizations, customers and related broker-dealers	686,164	144,683
Payables to related parties	43,846	19,667
Accounts payable, accrued and other liabilities	246,596	250,552
Notes payable and collateralized borrowings	296,532	181,916
Notes payable to related parties	150,000	150,000
Total liabilities	1,550,403	904,218
Redeemable partnership interest	76,962	86,269
Equity		
Stockholders' equity:		
Class A common stock, par value \$0.01 per share; 500,000 shares authorized; 133,035 and 115,217 shares issued at September 30, 2012 and December 31, 2011, respectively; and 114,993 and 97,220 shares outstanding at September 30, 2012 and December 31, 2011, respectively	1,330	1,152
Class B common stock, par value \$0.01 per share; 100,000 shares authorized; 34,848 shares issued and outstanding at September 30, 2012 and December 31, 2011, convertible into Class A common stock	348	348
Additional paid-in capital	546,228	489,369
Contingent Class A common stock	16,050	20,133
Treasury stock, at cost: 18,042 and 17,997 shares of Class A common stock at September 30, 2012 and December 31, 2011, respectively	(110,090)	(109,870)
Retained deficit	(143,314)	(80,726)

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Accumulated other comprehensive loss	(4,809)	(3,752)
Total stockholders' equity	305,743	316,654
Noncontrolling interest in subsidiaries	89,868	98,044
Total equity	395,611	414,698
Total liabilities, redeemable partnership interest, and equity	\$ 2,022,976	\$ 1,405,185

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 September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Revenues:				
Commissions	\$ 303,124	\$ 261,496	\$ 883,642	\$ 745,342
Principal transactions	76,417	94,997	259,848	295,113
Real estate management services	33,953		66,519	
Fees from related parties	13,102	15,220	39,143	46,861
Market data	4,166	4,556	13,120	13,730
Software solutions	2,485	2,328	7,421	6,718
Interest income	1,397	1,730	5,135	4,090
Other revenues	8,668	1,283	18,091	2,397
Losses on equity investments	(2,995)	(1,675)	(8,103)	(4,735)
Total revenues	440,317	379,935	1,284,816	1,109,516
Expenses:				
Compensation and employee benefits	288,669	253,879	843,567	681,577
Allocations of net income to limited partnership units and founding/working partner units	56		7,945	18,437
Total compensation and employee benefits	288,725	253,879	851,512	700,014
Occupancy and equipment	40,010	29,943	115,331	94,969
Fees to related parties	2,837	3,297	9,525	8,916
Professional and consulting fees	18,062	19,625	56,896	48,177
Communications	22,863	21,508	66,223	64,639
Selling and promotion	22,153	19,507	65,112	59,136
Commissions and floor brokerage	5,675	6,539	17,188	19,566
Interest expense	9,758	6,754	24,894	15,917
Other expenses	26,622	23,365	51,161	54,645