

BGC Partners, Inc.
Form 10-Q
November 08, 2018

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the Quarterly Period Ended September 30, 2018

OR

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

Commission File Numbers: 0-28191

BGC Partners, Inc.

(Exact name of registrant as specified in its charter)

Delaware	13-4063515
(State or other jurisdiction of	(I.R.S. Employer
incorporation or organization)	Identification No.)

499 Park Avenue, New York, NY	10022
(Address of principal executive offices)	(Zip Code)

(212) 610-2200

(Registrant's telephone number, including area code)

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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 every Interactive Data File required to be submitted 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 such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company or an “emerging growth company”. See the definitions of “large accelerated filer,” “accelerated filer,” “smaller reporting company” and “emerging growth company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer	Accelerated filer
Non-accelerated filer	Smaller reporting company
Emerging growth company	

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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 6, 2018, the registrant had 295,198,541 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.

BGC PARTNERS, INC.

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SIGNATURES



SPECIAL NOTE ON FORWARD-LOOKING INFORMATION

This Quarterly Report on Form 10-Q (“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,” “possible,” “potential,” “continue,” “strategy,” “believes,” “anticipates,” “plans,” “expects,” “intends,” 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, the factors set forth below and may impact either or both of our operating segments:

- market conditions, including trading volume and volatility, potential deterioration of equity and debt capital markets and markets for commercial real estate and related services, and our ability to access the capital markets;
- pricing, commissions and fees, 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;
- our relationships and transactions with Cantor Fitzgerald, L.P. and its affiliates, which we refer to as “Cantor,” including Cantor Fitzgerald & Co., which we refer to as “CF&Co,” and Cantor Commercial Real Estate Company, L.P., which we refer to as “CCRE,” as well as those with our publicly traded subsidiary, Newmark Group, Inc., which owns our Real Estate Services business and which we refer to as “Newmark,” any related conflicts of interest or litigation, any impact of Cantor’s results on our credit ratings and associated outlooks, any loans to or from us, Newmark or Cantor, the Berkeley Point Acquisition (defined below) from and our investment in Real Estate LP (defined below) with CCRE, CF&Co’s acting as our sales agent or underwriter under our controlled equity or other offerings, Cantor’s holdings of our debt securities, CF&Co’s acting as a market maker in our debt securities, CF&Co’s acting as our financial advisor in connection with potential business combinations, dispositions, or other transactions, our participation in various investments, stock loans or cash management vehicles placed by or recommended by CF&Co, and any services provided by or to or other arrangements with CCRE;
- risks associated with the integration of acquired businesses with our other businesses;
- economic or geopolitical conditions or uncertainties, the actions of governments or central banks, including uncertainty regarding the nature, timing and consequences of the U.K. exit from the European Union following the referendum and related rulings, including potential reduction in investment in the U.K., and the pursuit of trade or other related policies by the U.S. and/or other countries, and the impact of terrorist acts, acts of war or other violence or political unrest, as well as natural disasters or weather-related or similar events, including recent hurricanes as well as power failures, communication and transportation disruptions, and other interruptions of utilities or other essential services
- the effect on our businesses, our clients, the markets in which we operate, and the economy in general of recent changes in the U.S. and foreign tax and other laws, potential policy and regulatory changes from the new government in Mexico, possible shutdowns of the U.S. government, sequestrations, uncertainties regarding the debt ceiling and the federal budget, and other potential political policies and impasses;
- the effect on our businesses of worldwide governmental debt issuances, austerity programs, increases or decreases in deficits, and other changes to monetary policy, and potential political impasses or regulatory requirements, including increased capital requirements for banks and other institutions or changes in legislation, regulations and priorities;
- extensive regulation of our businesses and customers, changes in regulations relating to financial services companies, commercial real estate and other industries, and risks relating to compliance matters, including regulatory examinations, inspections, investigations and enforcement actions, and any resulting costs, increased financial and capital requirements, enhanced oversight, fines, penalties, sanctions, and changes to or restrictions or limitations on specific activities, operations, compensatory arrangements, and growth opportunities, including acquisitions, hiring,

and new businesses, products, or services;

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

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risks related to changes in our relationships with the Government Sponsored Enterprises (“GSEs”) and Housing and Urban Development (“HUD”), changes in prevailing interest rates and the risk of loss in connection with loan defaults;

risks related to changes in the future of the GSEs, including changes in the terms of applicable conservatorships and changes in their origination capacities;

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 and the impact thereof on our financial results and cash flows in any given period;

certain financial risks, including the possibility of future losses, reduced cash flows from operations, increased leverage and the need for short- or long-term borrowings, including from Cantor, the ability of us or Newmark to refinance our respective indebtedness, or other sources of cash relating to acquisitions, dispositions, or other matters, potential liquidity and other risks relating to our ability to obtain additional 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 the associated outlooks and increased borrowing costs, including as a result of the Berkeley Point Acquisition (defined below), as well as interest rate and foreign currency exchange rate fluctuations;

risks associated with the temporary or longer-term investment of our available cash, including defaults or impairments on our investments, stock loans or cash management vehicles and collectability of loan balances owed to us by partners, employees, or others;

our ability to enter new markets or develop new products, trading desks, marketplaces, or services for existing or new customers and to induce such 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 combinations or other transactions in the financial services, real estate, and other industries, including acquisitions, tender offers, dispositions, reorganizations, partnering opportunities and joint ventures, and our ability to maintain or develop relationships with independently owned offices in our Real Estate Services business and our ability to grow in other geographic regions, including the Berkeley Point Acquisition and the Separation (defined below), the Newmark IPO (defined below) and our proposed spin-off of shares of Newmark owned by us, the anticipated benefits of any such transactions, relationships or growth and the future impact of any such transactions, relationships or growth on our other businesses and our financial results for current or future periods, the integration of any completed acquisitions and the use of proceeds of any completed dispositions, and the value of and any hedging entered into in connection with consideration received or to be received in connection with such dispositions and any transfers thereof;

the timing of the spin-off of the shares we own in Newmark to our stockholders and whether the distribution will occur at all;

limitations on Newmark’s ability to enter into certain transactions in order to preserve the tax-free treatment of the spin-off;

our estimates or determinations of potential value with respect to various assets or portions of our businesses, including with respect to the accuracy of the assumptions or the valuation models or multiples used;

our ability to hire and retain personnel, including brokers, salespeople, managers, and other professionals;

our ability to expand the use of technology for hybrid and fully electronic trading in our product and service offerings;

our ability to effectively manage any growth that may be achieved, while ensuring compliance with all applicable financial reporting, internal control, legal compliance, and regulatory requirements;

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

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

information technology risks, including capacity constraints, failures, or disruptions in our systems or those of the clients, counterparties, exchanges, clearing facilities, or other parties with which we interact, including cybersecurity risks and incidents, compliance with regulations requiring data minimization and protection and preservation of records of access and transfers of data, privacy risk and exposure to potential liability and regulatory focus;

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 or the price of shares in Newmark that we own may vary significantly, and purchasers of shares in such offerings or other 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 or redemptions of limited partnership interests of BGC Holdings, L.P., which we refer to as “BGC Holdings,” or other equity interests in us or any of our other subsidiaries, including Newmark and its 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 effect on the market for and trading price of our Class A common stock and Newmark’s Class A common stock and of various offerings and other transactions, including our controlled equity and other offerings of our Class A common stock and convertible or exchangeable securities, the Separation, the Newmark IPO and the proposed spin-off of shares of Newmark owned by us, our repurchases of shares of our Class A common stock and purchases of BGC Holdings limited partnership interests or other equity interests in us or in our subsidiaries, including Newmark and its subsidiaries, any exchanges by Cantor of shares of our Class A common stock for shares of our Class B common stock, any exchanges or redemptions of limited partnership units and issuances of shares of Class A common stock in connection therewith, including in partnership restructurings, 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 outstanding debt or other securities, share sales and stock pledge, stock loan, and other financing transactions by holders of our shares (including by Cantor or others), including of shares acquired pursuant to our employee benefit plans, unit exchanges and redemptions, partnership restructurings, acquisitions, conversions of our Class B common stock and our other convertible securities, stock pledge, stock loan, or other financing transactions, and distributions from Cantor pursuant to Cantor’s distribution rights obligations and other distributions to Cantor partners, including deferred distribution rights shares.

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 and events to differ materially from the forward-looking statements. The information included herein is given as of the filing date of this Form 10-Q with the Securities and Exchange Commission (the “SEC”), and future results or events could differ significantly from these forward-looking statements. The Company does 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

We file annual, quarterly and current reports, proxy statements and other information with the SEC. These filings are available to the public from the SEC's website at www.sec.gov.

Our website address is www.bgcpartners.com. Through our 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 with respect to our securities filed on behalf of Cantor, CF Group Management, Inc. ("CFGM"), our directors and our executive officers; and amendments to those documents. Our website also contains additional information with respect to our industry and businesses. The information contained on, or that may be accessed through, our website is not part of, and is not incorporated into, this Quarterly Report on Form 10-Q.

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, 2018	December 31, 2017
Assets		
Cash and cash equivalents	\$ 364,399	\$ 634,333
Restricted cash	260,592	—
Cash segregated under regulatory requirements	150,427	162,457
Securities owned	75,911	33,007
Marketable securities	152,485	208,176
Loans held for sale, at fair value	1,132,665	362,635
Receivables from broker-dealers, clearing organizations, customers and related broker-dealers	2,770,378	745,402
Mortgage servicing rights, net	405,241	392,626
Accrued commissions and other receivables, net	885,597	620,039
Loans, forgivable loans and other receivables from employees and partners, net	466,919	335,734
Fixed assets, net	216,131	189,347
Investments	164,892	141,788
Goodwill	979,627	945,582
Other intangible assets, net	293,980	311,021
Receivables from related parties	6,864	3,739
Other assets	406,188	343,826
Total assets	\$ 8,732,296	\$ 5,429,712
Liabilities, Redeemable Partnership Interest, and Equity		
Short-term borrowings	\$ 4,995	\$ 6,046
Short-term borrowings from related parties	80,000	—
Repurchase agreements	198	—
Securities loaned	66,318	202,343
Warehouse notes payable	1,131,792	360,440
Accrued compensation	545,004	432,733
Payables to broker-dealers, clearing organizations, customers and related broker-dealers	2,505,198	607,580
Payables to related parties	67,816	40,988
Accounts payable, accrued and other liabilities	1,067,516	942,917
Notes payable and other borrowings	1,323,030	1,650,509
Total liabilities	6,791,867	4,243,556
Commitments, contingencies and guarantees (Note 23)		
Redeemable partnership interest	50,270	46,415
Equity		

Stockholders' equity:

Class A common stock, par value \$0.01 per share; 750,000 shares authorized;

343,690 and 306,218 shares issued at September 30, 2018 and December 31, 2017,

respectively; and 293,512 and 256,968 shares outstanding at September 30, 2018 and

December 31, 2017, respectively 3,438 3,063

Class B common stock, par value \$0.01 per share; 150,000 shares authorized;

34,848 shares issued and outstanding at September 30, 2018 and December 31, 2017,

convertible into Class A common stock 348 348

Additional paid-in capital 2,116,514 1,763,371

Contingent Class A common stock 35,734 40,472

Treasury stock, at cost: 50,178 and 49,250 shares of Class A common stock at September 30, 2018

and December 31, 2017, respectively (313,427) (303,873)

Retained deficit (798,717) (859,009)

Accumulated other comprehensive income (loss) (21,553) (10,486)

Total stockholders' equity 1,022,337 633,886

Noncontrolling interest in subsidiaries 867,822 505,855

Total equity 1,890,159 1,139,741

Total liabilities, redeemable partnership interest, and equity \$ 8,732,296 \$ 5,429,712

The accompanying Notes to the unaudited Condensed Consolidated Financial Statements

are an integral part of these financial statements.

BGC PARTNERS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands, except per share data)

(unaudited)

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2018	2017	2018	2017
Revenues:				
Commissions	\$671,318	\$582,106	\$1,998,237	\$1,704,998
Principal transactions	73,360	75,766	250,266	241,869
Gains from mortgage banking activities/originations, net	51,972	45,455	132,764	164,263
Real estate management and other services	101,881	60,798	305,880	163,017
Servicing fees	34,948	29,057	96,207	80,729
Fees from related parties	7,128	7,173	19,989	20,129
Data, software and post-trade	16,547	13,776	47,016	40,185
Interest income	15,946	11,726	37,060	40,909
Other revenues	4,154	1,171	6,557	3,023
Total revenues	977,254	827,028	2,893,976	2,459,122
Expenses:				
Compensation and employee benefits	517,865	495,145	1,576,706	1,438,129
Allocations of net income and grant of exchangeability to				
limited partnership units and FPU's	67,919	48,446	239,696	161,876
Total compensation and employee benefits	585,784	543,591	1,816,402	1,600,005
Occupancy and equipment	58,193	51,962	165,405	153,102
Fees to related parties	9,743	4,380	27,394	