

BGC Partners, Inc.
Form 10-K
March 01, 2019

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

FOR ANNUAL AND TRANSITION REPORTS PURSUANT TO SECTION 13 OR 15(d)

OF THE SECURITIES EXCHANGE ACT OF 1934

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2018

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)

Delaware
(State or Other Jurisdiction of
Incorporation or Organization)

13-4063515
(I.R.S. Employer
Identification No.)

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499 Park Avenue, New York, NY 10022
(Address of Principal Executive Offices) (Zip Code)

(212) 610-2200

(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered
Class A Common Stock, \$0.01 par value	The NASDAQ Stock Market LLC

Securities registered pursuant to Section 12(g) of the Act:

None

(Title of Class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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.

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

The aggregate market value of voting common equity held by non-affiliates of the registrant, based upon the closing price of the Class A common stock on June 30, 2018 as reported on NASDAQ, was approximately \$1,979,431,694.

Indicate the number of shares outstanding of each of the registrant's classes of common stock, as of the latest practicable date.

Class	Outstanding at February 25, 2019
Class A Common Stock, par value \$0.01 per share	291,835,553 shares
Class B Common Stock, par value \$0.01 per share	45,884,380 shares

DOCUMENTS INCORPORATED BY REFERENCE.

Portions of the registrant's definitive proxy statement for its 2019 annual meeting of stockholders are incorporated by reference in Part III of this Annual Report on Form 10-K

BGC Partners, Inc.

2018 FORM 10-K ANNUAL REPORT

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SPECIAL NOTE ON FORWARD-LOOKING INFORMATION

This Annual Report on Form 10-K (this “Form 10-K”) 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:

- market conditions, including trading volume and volatility, potential deterioration of equity and debt capital markets, impact of significant changes in interest rates 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,” 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 or Cantor, 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 and our participation in various investments, stock loans or cash management vehicles placed by or recommended by CF&Co;
- 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 United Kingdom (“U.K.”)’s exit from the European Union (“EU”) following the referendum and related rulings, including potential reduction in investment in the U.K., and the pursuit of trade, border control or other related policies by the U.S. and/or other countries, political and labor unrest in France, the impact of the U.S. government shutdown, 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, 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 changes in interest rates, 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 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;

• the effect on our businesses of the recently completed pro rata distribution (the “Spin-Off”) to our stockholders of all of the shares of common stock of our publicly traded subsidiary, Newmark Group, Inc. (“Newmark”) owned by us as of immediately prior to the effective time of the Spin-Off;

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- 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 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 to refinance our indebtedness, or other sources of cash relating to acquisitions, dispositions, or other matters, potential liquidity and other risks relating to our ability to maintain continued access to credit and availability of financing necessary to support our ongoing business needs, on terms acceptable to us, if at all, and risks associated with the resulting leverage, including potentially causing a reduction in our credit ratings and the associated outlooks and increased borrowing costs 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;
- the impact of the Spin-Off and related transactions, our ability to enter into marketing and strategic alliances and business combinations or other transactions in the financial services and other industries, including acquisitions, tender offers, dispositions, reorganizations, partnering opportunities and joint ventures, , 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;
- 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 cyber-security 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 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 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 of various offerings and other transactions, including our controlled equity and other offerings of our Class A common stock and convertible or exchangeable securities, 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, 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

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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 discussed under the headings "Item 1A—Risk Factors," and "Item 7A—Quantitative and Qualitative Disclosures About Market Risk" and elsewhere in this Form 10-K, 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-K 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 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 business. The information contained on, or that may be accessed through, our website is not part of, and is not incorporated into, this Annual Report on Form 10-K.

PART I

ITEM 1. BUSINESS

Throughout this document, BGC Partners, Inc. is referred to as “BGC” and, together with its subsidiaries, as the “Company,” “BGC Partners,” “we,” “us,” or “our.”

Our Businesses

We are a leading global brokerage and financial technology company servicing the global financial markets through our Financial Services businesses. Through brands including BGC®, GFI®, Sunrise Brokers™, Besso®, Ed. ®, Poten & Partners™ and R.P. Martin™, among others, we specialize in the brokerage of a broad range of products, including fixed income (rates and credit), foreign exchange, equities, energy and commodities, insurance, and futures. We also provide a wide range of services, including trade execution, broker-dealer services, clearing, trade compression, post-trade, information, and other back-office services to a broad range of financial and non-financial institutions. Our integrated platforms are designed to provide flexibility to customers with regard to price discovery, execution and processing of transactions, and enable them to use voice, hybrid, or in many markets, fully electronic brokerage services in connection with transactions executed either over-the-counter (“OTC”) or through an exchange. Through our electronic brands including Fenics®, BGC Trader™, CreditMatch®, Fenics Market Data™, BGC Market Data™, kACE2®, EMBonds®, Capitalab®, Swaptioniser®, CBID® and Lucera®, we offer fully electronic brokerage, financial technology solutions, market data, post-trade services and analytics related to financial instruments and markets.

Until November 30, 2018 (the “Distribution Date”), we operated in two segments, Financial Services and Real Estate Services. For purposes of this 2018 Annual Report on Form 10-K, our Financial Services business is described below and our Real Estate Services business is described at the end of this Item 1 in a section entitled “Newmark Real Estate Services Business (Discontinued Operations).”

On the Distribution Date, we completed our previously announced pro-rata distribution (the “Spin-Off”) to our stockholders of all of the shares of common stock of our publicly traded subsidiary, Newmark Group, Inc. (“Newmark”), which operated our Real Estate Services businesses, owned by us as of immediately prior to the effective time of the Spin-Off. Following the Spin-Off, we ceased to be Newmark’s controlling stockholder, and we and our subsidiaries no longer held any shares of Newmark’s common stock or other equity interests in Newmark or its subsidiaries. Following the Spin-Off, we have been operating our business solely in one segment.

BGC, BGC Partners, BGC Trader, GFI, CreditMatch, Fenics, Fenics.com, Sunrise Brokers, Besso, Ed., Poten & Partners, R. P. Martin, kACE2, EMBonds, Capitalab, Swaptioniser, CBID and Lucera are trademarks/service marks, and/or registered trademarks/service marks of BGC Partners, Inc. and/or its affiliates.

Our customers include many of the world’s largest banks, broker-dealers, investment banks, trading firms, hedge funds, governments, corporations, investment firms, and prior to the Spin-Off, property owners and real estate developers. BGC Partners has dozens of offices globally in major markets including New York and London, as well as in Beijing, Bogotá, Buenos Aires, Chicago, Copenhagen, Dubai, Dublin, Geneva, Hong Kong, Istanbul, Johannesburg, Madrid, Mexico City, Moscow, Nyon, Paris, Rio de Janeiro, Santiago, São Paulo, Seoul, Shanghai, Singapore, Sydney, Tel Aviv, Tokyo and Toronto. Prior to the Spin-Off on November 30, 2018, we had offices in Atlanta, Boston, Charlotte, Dallas, Denver, Houston, Los Angeles, Miami, Philadelphia, San Francisco, Santa Clara, and Washington, D.C.

As of December 31, 2018, we had over 2,600 brokers, salespeople, managers and other front-office personnel across our businesses.

Our History

Our Financial Services business originates from one of the oldest and most established inter-dealer or wholesale brokerage franchises in the financial intermediary industry. Cantor started our wholesale intermediary brokerage operations in 1972. In 1996, Cantor launched its eSpeed system, which revolutionized the way government bonds are traded in the inter-dealer market by providing a fully electronic trading marketplace. eSpeed, Inc. (“eSpeed”) completed an initial public offering in 1999 and began trading on NASDAQ, yet it remained one of Cantor’s controlled subsidiaries. Following eSpeed’s initial public offering, Cantor continued to operate its inter-dealer voice/hybrid brokerage business separately from eSpeed. In August 2004, Cantor announced the reorganization and separation of its inter-dealer voice/hybrid brokerage business into a subsidiary called “BGC,” in honor of B. Gerald Cantor, the pioneer in screen brokerage services and fixed income market data products. In April 2008, BGC and certain other Cantor assets merged with and into eSpeed, and the combined company began operating under the name “BGC Partners, Inc.” In June 2013, BGC sold certain assets relating to its U.S. Treasury benchmark business and the name “eSpeed” to Nasdaq, Inc. (“Nasdaq,” formerly known as “NASDAQ OMX Group, Inc.”) (see “Nasdaq Transaction and Nasdaq Monetization”).

Prior to the events of September 11, 2001, our financial brokerage business was widely recognized as one of the leading full-service wholesale financial brokers in the world, with a rich history of developing innovative technological and financial solutions. After September 11, 2001 and the loss of the majority of our U.S.-based employees, our voice financial brokerage business operated primarily in Europe.

Since the formation of BGC in 2004, we have substantially rebuilt our U.S. presence and have continued to expand our global footprint through the acquisition and integration of established brokerage companies and the hiring of experienced brokers. Through these actions, we have been able to expand our presence in key markets and position our Financial Services business for sustained growth. Since 2015, our Financial Services acquisitions have included those of GFI Group, Inc. (“GFI”), Sunrise Brokers Group, Poten & Partners Group, Inc., Ed Broking Group Limited, Perimeter Markets Inc, Lucera, Micromega Securities Proprietary Limited, and Besso Insurance Group Limited.

Newmark was founded in 1929 with an emphasis on New York-based investor and owner services such as tenant and agency leasing. We acquired Newmark & Company Real Estate, Inc. in 2011, and since the acquisition, Newmark has embarked on a rapid expansion throughout North America across all critical business lines in the real estate services and product sectors.

Newmark IPO, Separation Transaction and Spin-Off.

On December 13, 2017, prior to the Newmark IPO (defined below), pursuant to the Separation and Distribution Agreement (defined below), we transferred substantially all of the assets and liabilities relating to our Real Estate Services business to Newmark. In connection with the Separation (defined below), Newmark assumed certain indebtedness and made a proportional distribution of interests in Newmark Holdings, L.P. (“Newmark Holdings”) to holders of interests in BGC Holdings.

In December 2017, Newmark completed its initial public offering (the “Newmark IPO”) of an aggregate of 23 million shares of its Class A common stock, par value \$0.01 per share (the “Class A common stock”). Prior to the Newmark IPO, Newmark was our wholly owned subsidiary.

On November 30, 2018, we completed our distribution of all of the shares of Class A and Class B common stock, par value \$0.01 per share (the “Class B common stock”) of Newmark held by us to our stockholders as of the close of business on November 23, 2018 through a special pro-rata stock dividend pursuant to which shares of Newmark’s Class A common stock held by BGC were distributed to holders of the Class A common stock of BGC and shares of Newmark’s Class B common stock held by BGC were distributed to holders of the Class B common stock of BGC (which holders of Class B common stock of BGC were Cantor and another entity controlled by our CEO, Howard W. Lutnick). Following the Spin-Off, BGC no longer holds any shares of Newmark.

For more information about these transactions, see Note 1—“Organization and Basis of Presentation” to our consolidated financial statements in Part II, Item 8 of this Annual Report on Form 10-K, “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations – Overview and Business Environment – Newmark IPO, Separation Transaction and Spin-Off” and “Item 7. Management’s Discussion and Analysis of Financial Condition and

Results of Operations – Overview and Business Environment.”

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GFI Transaction

In early 2016, we completed our merger with GFI and now own 100% of GFI's outstanding shares following a tender offer in 2015. GFI is a leading intermediary and provider of trading technologies and support services to the global OTC and listed markets. GFI serves institutional clients in operating electronic and hybrid markets for cash and derivative products across multiple asset classes.

Overview of Our Products and Services

Financial Services (including Fenics)