

BGC Partners, Inc.  
Form 10-K  
March 16, 2009  
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**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, 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)

**499 Park Avenue, New York, NY**  
(Address of Principal Executive Offices)

**(212) 610-2200**

(Registrant's telephone number, including area code)

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

**10022**  
(Zip Code)

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

**Title of Each Class**  
**Class A Common Stock, \$0.01 par value**

**Name of Each Exchange on Which Registered**  
**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 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, or a smaller reporting company. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act.

Large Accelerated Filer  Accelerated Filer  Non-accelerated Filer  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

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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, 2008 as reported on NASDAQ, was approximately \$624,782,213.

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 March 10, 2009
Class A Common Stock, par value \$0.01 per share	50,345,871 shares
Class B Common Stock, par value \$0.01 per share	30,148,107 shares

**DOCUMENTS INCORPORATED BY REFERENCE.**

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**BGC Partners, Inc.**

**2008 FORM 10-K ANNUAL REPORT**

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**SPECIAL NOTE ON FORWARD-LOOKING INFORMATION**

This Annual Report on Form 10-K 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 (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, believe, 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:

our relationship with Cantor Fitzgerald, L.P. and its affiliates ( Cantor ) and any related conflicts of interest, competition for and retention of brokers and other managers and key employees, reliance on Cantor for liquidity and capital, and other relationships;

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, 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;

economic or geopolitical conditions or uncertainties;

the extensive regulation of the Company's businesses, changes in regulations relating to the financial services industry, and risks relating to compliance matters;

factors related to specific transactions or series of transactions, including credit, performance and unmatched principal risk, as well as counterparty failure;

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;

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 and risks of the resulting leverage, as well as interest and currency rate fluctuations;

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 and to secure and maintain market share;

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the 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;

the ability to hire new personnel;

the ability to expand the use of technology for our hybrid platform, including screen-assisted, voice-assisted and fully electronic trading;

effectively managing any growth that may be achieved;

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financial reporting, accounting and internal control factors, including identification of any material weaknesses in our internal controls and our ability to prepare historical and pro forma financial statements and reports in a timely manner;

the effectiveness of risk management policies and procedures;

the ability to meet expectations with respect to payments of dividends, distributions and repurchases of our common stock or purchases of BGC Holdings, L.P. ( BGC Holdings ) limited partnership interests or other equity interests in our subsidiaries, including from Cantor, our executive officers, and our employees; and

the risks and other factors described herein under the heading Item 1A Risk Factors in this 10-K and as amended from time to time in our quarterly reports on Form 10-Q.

The foregoing risks and uncertainties, as well as those risks discussed under the headings Item 1A Risk Factors , Item 7 Management s Discussion and Analysis of Financial Condition and Results of Operations and Item 7A Quantitative and Qualitative Disclosures About Market Risk and elsewhere in this Form 10-K, may cause actual results 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 events or circumstances 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**

Our Internet website address is [www.bgcpartners.com](http://www.bgcpartners.com). Through our Internet website, we make available, free of charge, the following reports as soon as reasonably practicable after electronically filing them with, or furnishing them 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 and 13G filed on behalf of Cantor, our directors and our executive officers; and amendments to those reports. In addition, our Internet website address is the primary location for press releases regarding our business, including our quarterly and year-end financials results.

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**PART I**

**ITEM 1. BUSINESS**

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

**Our Business**

BGC Partners is a leading global inter-dealer broker specializing in the brokering of OTC financial instruments and related derivative products. We provide a full range of hybrid execution and other brokerage services to many of the world's largest and most creditworthy banks, broker-dealers, investment banks and investment firms for a broad range of financial products globally. Through our eSpeed and BGCantor Market Data brands, we also offer financial technology solutions, market data, and analytics related to select financial instruments and markets.

Our brokerage services include execution, clearing, processing and other back office services. Our integrated platform is designed to provide flexibility to our customers with regard to price discovery, execution and processing of transactions. Our hybrid platform allows us to participate in markets and generate revenues, regardless of whether a market is voice-brokered or electronic in nature. Our brokerage services cover a broad range of products, including fixed income securities, interest rate swaps, foreign exchange, equity derivatives, credit derivatives, commodities, futures, structured products and other instruments.

We have offices in New York and London, as well as in Beijing (representative office), Chicago, Copenhagen, Hong Kong, Istanbul, Johannesburg, Mexico City, Nyon, Paris, Seoul, Singapore, Sydney, Tokyo and Toronto. As of December 31, 2008, we had 1,289 brokers across 150 desks (up from 483 brokers across 58 desks in October 2004). In 2008, we processed approximately 11.1 million transactions, totaling more than \$121 trillion of notional transactional volume on our hybrid and fully electronic platforms.

**History**

Our voice brokerage business originates from one of the oldest and most established inter-dealer franchises in the financial intermediary industry. Cantor started our inter-dealer brokerage operations in the early 1970s. In August 2004, Cantor announced the restructuring of these operations, renaming it "BGC," in honor of B. Gerald Cantor, Cantor's co-founder and a pioneer in screen brokerage services and fixed income market data products.

eSpeed commenced operations in March 1999 as a division of Cantor Fitzgerald Securities, a subsidiary of Cantor. eSpeed, Inc. became a publicly traded company in December 1999 with a listing on NASDAQ, while Cantor maintained a controlling stake. eSpeed is a leader in developing and deploying electronic marketplaces for some of the largest financial markets in the world. eSpeed is an innovator in its core electronic marketplaces, the government bond markets of the world.

After September 11, 2001, and the loss of a majority of its U.S.-based employees, Cantor's brokerage business operated primarily in Europe until May 2005. In May 2005, we acquired Euro Brokers, a U.S. and international inter-dealer brokerage firm, and have since acquired a number of other entities across the globe to strengthen and expand our business, including:

ETC Pollack, an inter-dealer broker in Paris, in September 2005;

Aurel Leven, an independent inter-dealer broker in France, active in the equities, equity derivatives and fixed income markets, in November 2006;

AS Menkul, an established broker in Turkey, in December 2006;



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Marex Financial's emerging markets equity derivatives business, in August 2007;

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Radix, an OTC energy broker based in Singapore, in March 2008;

In December 2007, we and 11 other leading financial institutions announced the establishment of a fully electronic futures exchange. BGC Partners, through a subsidiary, holds 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 (together "ELX"). Affiliates of Bank of America/Merrill Lynch, Barclays Capital, Citadel, Citigroup, Credit Suisse, Deutsche Bank Securities, GETCO, JPMorgan, PEAK6, and The Royal Bank of Scotland also hold a minority interest in each such entity;

On April 1, 2008, we completed the merger of BGC Partners with and into eSpeed. We believe this combination positions us as one of the few inter-dealer brokers to provide integrated voice and fully electronic services, which we refer to as "hybrid" execution. Prior to the merger, BGC Partners and eSpeed had a relationship through the Joint Services Agreement ("JSA") under which revenue for certain services was shared. We believe that the merger will help us drive efficiencies and align the interests of both firms so that we can better focus eSpeed's technology on supporting BGC Partners' brokerage services;

In August 2008, BGC entered into a purchase agreement to acquire Liquidez Distribuidora de Titulos e Valores Mobiliarios Ltda. ("Liquidez"), a Brazilian financial institution and interdealer broker with offices in Sao Paulo and Rio de Janeiro, for approximately \$15 million. This acquisition would enable BGC to enter the Brazilian economy, which is fast becoming one of the world's major economies, and would provide a platform for further expansion in Brazil and Latin America. The purchase transaction is subject to the approval of the Central Bank of Brazil ("Central Bank"), CMN and the President of the Federative Republic of Brazil. The application for approval, which includes a business plan, was submitted to the Central Bank on November 28, 2008 and is pending approval. The parties are currently discussing certain amendments to the financial terms of the purchase agreement. We expect that the closing of the transaction, if any, would be in the first half of 2009; and

In March 2009, we announced that we were granted preliminary approval by the China Banking Regulatory Commission ("CBRC") to establish a money broking joint venture company with China Credit Trust Co., Ltd. ("CCT"). The joint venture, named China Credit BGC Money Broking Company Limited, will seek final approval later in the year. China Credit BGC will be based in Beijing, China and will be the first broking company of its kind to operate in that city as part of a Chinese government pilot program. Subject to final approval, China Credit BGC plans to provide domestic and international broking services for foreign exchange, bond, money market, and derivatives products. The Company will hold a 33% stake in China Credit BGC, which is the highest percentage shareholding currently permitted to be held by a foreign investor in a Chinese money broker at the present time.

**Overview of our Products and Services**

*Inter-Dealer Brokerage*

We are focused on serving three principal brokerage markets:

traditional, liquid brokerage markets, such as government bonds;

high growth, high margin, and often illiquid markets, such as credit default swaps and equity derivatives; and

targeted local markets throughout the world, such as fixed-income and equities in France.

We believe that the strong long-term growth prospects for these markets, combined with our continued addition of brokers in other markets where we are currently strengthening our position and building scale, provides us with significant opportunities to increase revenues. We also plan to expand into additional product categories and seek to grow our market share in illiquid markets. Due to the complexity of newer and illiquid markets, customers are generally willing to pay a brokerage commission for liquidity and for the ability of experienced brokerage professionals to provide market intelligence and create structuring solutions.



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We provide electronic marketplaces in several financial markets through our eSpeed- and BGC Trader- branded trading platform. These electronic marketplaces include government bond markets (U.S. Treasury securities, European government bonds, and Canadian government securities) foreign exchange options, and European credit default swaps. We believe that eSpeed/BGC Trader is a comprehensive trading platform providing volume, access, speed of execution and ease of use. Our trading platform establishes a direct link between our brokers and customers and occupies valuable real estate on traders' desktop, which is difficult to replicate. We believe that we can leverage our platform to offer fully electronic trading as additional products transition from voice to electronic execution.

We have leveraged our hybrid platform to provide real-time product and pricing information through our BGC Trader application. We also provide straight-through processing to our customers for selected products. Our end-to-end solution includes real-time and auction-based transaction processing, credit and risk management tools and back-end processing and billing systems. Customers can access our trading application through our privately managed global high speed data network, over the internet, or third party communication networks.

The following table identifies the key securities and financial products which we broker:

<b>Products</b>	<b>Description</b>
Agency Bonds	Securities issued or pooled, serviced and, sometimes, guaranteed by government agencies or quasi-governmental agencies to finance their activities ( <i>e.g.</i> , credit support of home mortgages). Examples of such agencies include the Government National Mortgage Association, the Federal National Mortgage Association and Freddie Mac.
Asset-Backed	Securities that represent either an ownership claim in a pool of securities or an obligation that is secured by a pool of securities where these securities are collateralized by hard assets such as automobile loans or credit card receivables.
Asset Swaps	An exchange of two assets. Asset swaps are done most often in order to achieve a more favorable payment stream and typically involve debt obligations.
Basis Swaps	An exchange of cash flows based on the difference between the cash price and the futures price of a given commodity.
Commodity Futures Contract	An agreement to buy or sell a set amount of a commodity at a predetermined price and date. Buyers often use these to avoid the risks associated with the price fluctuations of the product or raw material, while sellers try to lock in a price for their products.
Commodity Swap	A swap where exchanged cash flows are dependent on the price of an underlying commodity. This is usually used to hedge against the price of a commodity.
Convertible Bonds	Debt obligations that can be converted into shares of stock in the issuing company, usually at some pre-announced ratio.
Corporate Bonds	Debt obligations issued by private corporations (includes high yield bonds and convertible bonds).
Credit Derivatives	Contractual agreements entered into between two counterparties under which each agrees that one party will make payment to another party if the underlying security or bond defaults for an agreed upon period based on a notional amount of principal.
Emerging Market Bonds	Securities issued by governments and other issuers (including supranational and corporate bonds) in countries with developing economies.

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<b>Products</b>	<b>Description</b>
Energy Derivatives	Derivative instrument in which the underlying asset is based on energy products such as crude oil, natural gas and electricity, which trade either on an exchange or over-the-counter. Energy derivatives can be options, futures or swap agreements, among others. The value of a derivative will vary based on the changes of the price of the underlying asset.
Equity Derivatives	A class of financial instruments whose value is at least partly derived from one or more underlying equity securities. Market participants generally trade equity derivatives in order to transfer or transform certain risks associated with the underlying securities.
Equity Index Futures	Instruments that call for the delivery of the cash equivalent of a stock index at a specific delivery (or maturity) date for an agreed upon price (the future price) to be paid at contract maturity.
Eurobonds	Securities syndicated and sold internationally that may be issued in a currency other than that of the country of the issuer.
Floating Rate Notes	Debt obligations that have a variable coupon equal to a money market reference rate, like LIBOR or the federal funds rate, plus a spread. The spread generally remains constant and the market reference rate fluctuates.
Foreign Exchange Futures	Instruments that call for the delivery of foreign currency at a specific delivery (or maturity) date for an agreed upon price (the future price) to be paid at contract maturity.
Foreign Exchange Swap/Forwards	A foreign exchange swap is an agreement between two parties to exchange a given amount of one currency for another and, after a specified period of time, to give back the original amounts swapped. The obligation to close the swap is a forward contract.
Global Repurchase Agreements and Reverse Repurchase Agreements	Short-term sales/purchases of securities with a promise to repurchase/sell back the securities at a higher price. Repurchase agreements and reverse repurchase agreements are typically overnight transactions although many transactions are for periods up to one year. These agreements are the preferred method of financing government bonds and agency bonds and investing cash (with government bonds and agency bonds as collateral) that are used by banks and investment banks.
Government Bonds	Debt obligations issued and backed by the issuing government ( <i>i.e.</i> , issued in the country's own currency). Examples include U.S. Treasury bonds, German Bunds, and U.K. Gilts.
High Yield Bonds	Debt obligations that are rated below investment grade on their date of issuance.
Inflation Swaps	Contractual agreements entered into between two counterparties under which one agrees to pay amounts against an underlying interest rate benchmark and the other pays an amount linked to an inflation index, like the Consumer Price Index, for an agreed upon period based on a notional amount of principal.
Interest Rate Futures	Instruments that call for the delivery of interest-bearing securities or interest rate products or their cash equivalent at a specific delivery (or maturity) date for an agreed upon price (the future price) to be paid at contract maturity.
Interest Rate Swaps	Contractual agreements entered into between two counterparties under which each party agrees to make periodic payments to each other for an agreed upon period based on a notional amount of principal and an underlying interest rate benchmark.

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<b>Products</b>	<b>Description</b>
Money Market Products	Full range of interest-bearing, short-term investments with maturities of less than one year, including certificates of deposit and commercial paper.
Mortgage-Backed	Securities that represent either an ownership claim in a pool of mortgages or an obligation that is secured by a pool of mortgages. For example, the Government National Mortgage Association and the Federal National Mortgage Association issue such securities.
Off-The-Run U.S. Treasury Securities	Treasury bonds and notes that were formerly on-the-run benchmarks but have been supplanted by more recently issued securities. When a new on-the-run benchmark is issued, the current on-the-run becomes an off-the-run.
Options on Equity Products (a common type of equity derivative)	Contractual obligations that give the holder the right to buy or sell the cash equivalent of a single equity share or equity index, like the Standard & Poor's 500, at a specified exercise price on or before a specified expiration date. An investor also can buy or sell an option on an equity future or an equity index future.
Options on Foreign Exchange Products	Contractual obligations that give the holder the right to buy or sell a quantity of a foreign currency for a specific amount of domestic currency at a specified exercise price on or before a specified expiration date.
Options on Interest Rate Products	Contractual obligations that give the holder the right to buy or sell interest-bearing debt, such as Treasury notes, at a specified exercise price on or before a specified expiration date (includes bond options).
Sovereign Bonds	Debt obligations issued by a national government.
Supranational Bonds	Debt obligations issued and backed by supranational agencies such as the World Bank or the European Union.
U.S. Treasury Spreads	Financial products ( <i>e.g.</i> , interest rate swaps) that trade in relation to U.S. Treasury on-the-run benchmarks, the most recently issued Treasury securities that are the standard trading instruments in the bond market. A Treasury spread is derived from the price or yield difference between the financial product being traded and the benchmark.
U.S. Treasury Inflation Protection Securities	Debt issued by the U.S. Treasury that offer protection against inflation because their principal and interest payments are linked to inflation.
When-Issued U.S. Treasury Securities	New issues that will be created through the auction process and will become the new on-the-run benchmarks. A when-issued instrument has been authorized and may be traded although it has not yet been issued.

***Market Data***

We also provide our proprietary market data to our customers. BGCantor Market Data is the exclusive source of real-time proprietary pricing and other data we derive for certain U.S. and European securities and derivatives. BGCantor Market Data develops and markets real-time, indicative and historical fixed income, foreign exchange and derivative market data services based on price data from us.

Our G3 product provides real-time graphs of relevant data with respect to the U.S. Treasury cash and futures markets. Distribution channels include Bloomberg, Reuters, CQG, DTN, and eSignal, in addition to direct distribution. Products include data on interest rate swaps, options, U.S. Treasuries, European governmental bonds, credit default swaps, and foreign exchange. We also offer customized and packaged data solutions to meet specific clients' needs.

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### ***Software Solutions***

Through our Software Solutions business, we provide customized screen-based market solutions to both related and unrelated parties. Using Software Solutions, our clients are able to develop a marketplace, trade with their customers, issue debt, trade odd lots, access program trading interfaces and access our network and our intellectual property. We can add advanced functionality to enable our customers to distribute branded products to their customers through online offerings and auctions, including private and reverse auctions, via our trading platform and global network. Through our Kleos Managed Services business, we provide system co-location service to a number of financial firms.

We have signed Software Solutions agreements with a number of U.S. and international enterprises, including the following:

For the World Bank, our trading engine and network connect the World Bank to its dealer customers anonymously through our Internet-based, real-time auction platform. This system was released in June 2003 and has handled over \$20 billion of the World Bank's interest rate swap volume as of December 31, 2008.

The Federal Home Loan Bank is a U.S. government-sponsored enterprise and one of the largest issuers in the global short-term securities market. Our electronic auction-based technology has powered The Federal Home Loan Bank's primary discount note auctions since August 2002.

We also use our technology to offer services such as automated spreading through our eSpeed network front-end trading software.

Our Software Solutions business provides the technology infrastructure for the transactional and technology related elements of Freedom International Brokerage Company's (Freedom) marketplace as well as certain other services in exchange for specified percentages of transaction revenues from the marketplace and will provide software development, software maintenance, customer support, infrastructure, and internal technology services to support ELX's electronic trading platform.

### ***Aqua Business***

In October 2007, we spun off our former eSpeed Equities Direct business to form Aqua, a business owned 51% by Cantor and 49% by BGC Partners, Inc. Aqua's purpose is to bring new block trading liquidity to the global equities markets. At that time, FINRA provided approval for Aqua to operate as an Alternative Trading System and to provide Direct Market Access for institutional block equity buy-side and sell-side firms.

### **Industry Overview**

Wholesale market participants and institutions, such as major banks, investment banks and broker-dealer firms, continue to look to marketplace firms that are able to meet the bulk of their outside trading needs in a broad range of products across geographies. These wholesale market participants continue to display a willingness to pay brokerage commissions to inter-dealer brokers who are able to provide timely and valuable pricing information, strong execution capabilities and the liquidity necessary for such market participants to execute their desired transactions.

Derivatives are increasingly being used to manage risk or to take advantage of the anticipated direction of a market by allowing holders to guard against gains or declines in the price of underlying assets without having to buy or sell the underlying assets. Derivatives are often used to mitigate the risks associated with interest rate movements, equity ownership, changes in the value of foreign currency, credit defaults by large corporate and sovereign debtors and changes in the prices of commodity products. Demand from financial institutions, financial services intermediaries and large corporations has increased volumes in the wholesale derivatives market, thereby increasing the business opportunity for inter-dealer brokers such as us.

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According to the Bank for International Settlements, which we refer to as the BIS, the underlying OTC and exchange-traded derivative markets traditionally served by inter-dealer brokers have experienced compound annual growth rates, which we refer to as CAGR, of approximately 27.4% and 21.1%, respectively, based on notional amounts outstanding from December 31, 2002 through June 30, 2008.

According to the BIS, as of June 30, 2008, the notional amounts outstanding for all OTC derivatives was \$683.7 trillion, up 32.4% compared to \$516.4 trillion in June 2007 and 382.6% from \$141.7 trillion in December 2002, while the notional amounts outstanding for all exchange traded derivatives was \$82.8 trillion on June 30, 2008, up 4.7% from \$79.0 trillion on June 30, 2007 and up 247.3% from \$23.8 trillion on December 31, 2002.

In liquid financial markets, the presence of a large number of market participants and facilitators of liquidity and the availability of pricing reference data and standardized terms allow market participants to trade financial instruments quickly and with minimal price disturbance. In these markets, there is substantial competition, efficient execution and high trading volume. While most of the liquid markets are found on listed exchanges, several liquid products continue to be traded OTC, including U.S. Treasuries and foreign exchange. The primary liquidity provider for such OTC markets is the inter-dealer broker, who acts as an intermediary between major market participants to facilitate transactions.

To the extent the trading of a financial instrument requires customization, the relevant market tends to be more illiquid. Illiquid markets generally have fewer market participants, less price transparency, higher spreads and lower trading volumes. Complex financial instruments that are traded OTC tend to be illiquid and are traded primarily by more sophisticated buyers and sellers. Inter-dealer brokers facilitate trading in less liquid markets by providing price discovery, preserving anonymity in matched principal trades, matching buyers and sellers on a name give-up basis in agency transactions and providing market intelligence to their customers. Name give-up transactions refer to those transactions where the inter-dealer broker acts as an agent and the identity of the two counterparties is disclosed once the trade is completed as opposed to matched principal trades where anonymity is preserved even after the transaction is completed. In both agency and matched principal transactions, customers decide to execute a trade and inter-dealer brokers effectively source the counterparties for those trades. Inter-dealer brokers are particularly helpful in facilitating large or non-standardized transactions due to their in-depth market knowledge and access to potential counterparties.

An illiquid market for a financial instrument may evolve over a period of time into a more liquid one, creating new market opportunities for all participants; however, the evolution of a relatively illiquid market for a financial instrument to a more liquid market is not necessarily inevitable. If a market for a particular financial instrument develops and matures, more buyers and sellers may enter the market, resulting in more transactions (greater liquidity) and increased pricing information. As the market for an illiquid financial instrument evolves into a more liquid market, the characteristics of trading, the preferred mode of execution and the size of commissions that market participants pay and, more specifically, inter-dealer brokers charge, may change. In some instances, pure voice execution may be replaced by hybrid execution services. Hybrid models satisfy customer preferences to trade on a voice, screen-assisted, voice-assisted or, where available, fully electronic basis.

For more liquid markets, such as certain U.S. Treasury and cash foreign exchange products, electronic marketplaces have emerged as the primary means of conducting transactions and creating markets. In an electronic marketplace, substantially all of the participants' actions are facilitated through an electronic medium, such as a private electronic network or over the Internet, which reduces the need for actual face-to-face or voice-to-voice participant interaction to those functions where people provide the greatest value. For many market participants, the establishment of electronic marketplaces has created access to new opportunities, while increasing trading profits, investment returns and market volumes, all while making possible the creation of new financial products and strategies that have further contributed to increased market volumes. These increased trading volumes have in turn driven increased demand for newer, ever-more sophisticated financial technology products.



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Most large exchanges worldwide, including certain exchanges in the U.S., France, Canada, Germany, Japan, Sweden, Switzerland and the U.K., are now partially or completely electronic. Additionally, even in markets for less commoditized products where customers place orders through a voice-broker who implements a transaction electronically, the customers of inter-dealer brokers may benefit from liquidity, pricing, robust interactive trading, post-trade processing and other technology services. Further, we believe that market participants will seek to outsource customized solutions for the electronic distribution of their products to avoid the difficulty and cost of developing and maintaining their own electronic solutions, and to improve the quality and reliability of these solutions.

While some products may evolve from illiquid markets to liquid markets, new products are continually being developed. Historically, as markets evolve and participants look to separate or isolate risks, certain products will tend to exhibit correlations and pricing relationships leading to the development of new derivative products.

The chart below presents the growth of OTC and exchange-traded markets from December 31, 2002 to June 30, 2008.

Source: The BIS, except for CDS source: International Swaps and Derivatives Association.

Over the last five and a half years, all of the above market categories have experienced significant growth, with five out of seven of the above categories experiencing compound annual growth in excess of 30%. We believe that much of this growth has been, and in many cases over the long term will continue to be, driven by the following trends:

increasing volatility in commodity, currency, interest rate, equity and credit markets has led to continued demand for hedging and risk mitigation by market participants, which, in turn, has led to growth in commodity, equity, interest rate and credit derivatives and currency options markets;

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increased allocation of capital for trading and position-taking by banks and hedge funds and the search for yield among global investors led to growth in structured credit and equity products, thereby creating and reinforcing the need for efficient execution. Although recent statements by banks and industry analysts suggest this growth may have slowed dramatically in more recent months, we do not yet know the extent to which this slowing is due to cyclical as opposed to secular trends;

with yields at historical lows, many industrialized countries, including the United States, France, Germany and Italy, have increased their issuance of sovereign debt, taking advantage of low interest rates to help finance growing budget deficits. Because G-20 governments continue to fund financial system rescues and fiscal stimulus packages in order to deal with the global recession, we expect such sovereign debt issuances to increase dramatically through 2009;

strong gross domestic product growth from 2001 through 2008 in key emerging market countries, such as China and India, led to increased demand for basic commodities such as copper, platinum, crude oil, gas and natural gas. While the recent slowdown in the global economy has recently lowered aggregate demand for commodities globally, volatility in these markets remains high by historical standards, all of which has led to higher demand for hedging instruments such as energy and commodity futures and derivatives; and

the continued liberalization of emerging markets, increases in global cross-border trading in goods and services, and the opening and growth of local currency and fixed income markets have led to increased global demand for currency and fixed income hedging instruments as global trade continues to expand.

We have seen levels of volume and volatility in the markets in which we transact increase by varying amounts above their historical averages during the period from July 2007 through May 2008, although after June 1, 2008, we believe that the volumes and volatility of certain markets have exhibited signs of slowing down from previous highs. This reflects the general deceleration of growth experienced in the global rates, credit, and equity markets as subprime mortgage and housing market concerns spread to the broader markets; as investors responded to the Federal Reserve and other central banks lowering key lending rates unexpectedly and by a larger than anticipated amounts; as credit spreads continue to widen; and as hedge funds, proprietary trading operation of banks, and other market players respond to uncertainty in capital markets by curtailing trading in all but the most riskless of asset classes. We cannot predict how long these particular market conditions will last.

As some of our largest customers reduce their staffing levels in many of the markets in which we operate, full-service inter-dealer brokers may see increased opportunity to be the outsourced provider of market intelligence, operational expertise and liquidity to help our clients as these seek to operate in the current uncertain economic climate.

### **Our Market Opportunity**

We believe the financial markets in which we operate present us with the following opportunities to provide value to our customers as an inter-dealer broker, marketplace developer, technology provider and market data supplier:

***Increasing Use of Hedging and Risk Management.*** Inter-dealer brokers work with market participants who trade financial products to hedge risks associated with interest rate movements, equity ownership, fluctuations in the value of foreign currency, credit defaults by large corporate and sovereign debtors and volatility in the commodity markets. These hedging activities account for a growing proportion of the daily trading volume in derivative products. We believe that increasingly broadening familiarity with derivative products and the growing need for hedging and risk management will continue to drive higher trading volumes in financial products we broker including interest rate derivatives, credit derivatives, foreign exchange and listed futures products.

***Introduction of New Products.*** As market participants and their customers strive to mitigate risk, new types of securities and derivatives are introduced which are not immediately ready for more liquid and standardized

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electronic markets. As these require broker-assisted execution, we believe that these new products provide opportunities for inter-dealer brokers to expand their trading volumes and create product niches. We believe that these products generally have higher commissions than more liquid instruments.

***Growth in Algorithmic and Computerized Trading.*** In recent years, computerized trading has seen tremendous growth spurred by increasing liquidity and lower operating costs. As our customers increase their use of computerized trading, volumes should rise on our electronic platform.

***Market Demand for Global Execution and Presence.*** We believe that the continuing globalization of trading and the liberalization of capital markets are propelling growth in trading volumes in products across the globe. In addition, we believe that economic growth in emerging markets such as China and India is fueling demand for inter-dealer brokered currency and fixed income and commodity hedging for customers across the globe. These factors and others are driving the demand for brokerage services in new markets. We believe our presence in multiple financial centers across the globe positions us to capitalize on such demand. We believe our recent acquisitions in France, Turkey and Asia further enhance our market positions.

***Market Demand for Superior Execution.*** Inter-dealer brokers act as important price discovery agents and valuable liquidity providers in both liquid and illiquid markets. The presence of a broker provides customers with market intelligence and aids in the execution process. The flow of information inter-dealer brokers provide to market participants is critical, enhancing liquidity and resulting in improved prices. Furthermore, the combination of hybrid execution with straight-through processing has significantly improved confirmation and settlement processes and has resulted in cost savings for customers. Hence, we expect to see continued demand in the wholesale markets for inter-dealer brokers due to their ability to provide price discovery, liquidity and superior execution.

***Desire for Anonymity.*** Leading financial market participants frequently seek to trade anonymously to reduce market impacts. We expect to see an increasing demand for inter-dealer brokers to provide trade anonymity.

***Increasing Demand for Market Data.*** Demand for reliable, real-time market data is growing as new financial products are introduced and trading volumes increase.

## **Our Competitive Strengths**

We believe that the following principal competitive strengths will help us enhance our position as a leading global inter-dealer broker:

***We are a Leading Inter-Dealer Broker with Specific Strengths in Key Markets.*** BGC Partners and its predecessor firms have provided brokerage services for more than 30 years. We have displayed leadership in a multitude of markets globally, including the markets for certain interest rate derivatives, foreign exchange and credit products, and have been recognized within the industry, including by *Risk* magazine, for our strong presence in interest rate products, including interest rate swaptions, exotic interest rate products, interest rate caps/floors, interest rate swaps and repurchase agreements, including U.S. Treasuries. Over the past couple of years, *Asia Risk* magazine has named BGC Partners as a leading broker in numerous product categories, including interest rate swaps, currency derivatives, equity derivatives and credit derivatives. The *Risk* and *Asia Risk* magazine rankings are based on an annual survey of broker-dealers in the various markets covered by such magazines. We believe the leadership position that we have in these markets and our access to a broad customer base help us to locate the best price and to deliver the best execution for our customers, in both liquid and illiquid markets.

***We Have Strong Core Relationships.*** We believe that our long-standing relationships with some of the world's largest financial institutions enhance our role as a liquidity provider. These relationships provide access to significant pools of liquidity which is a key component of attracting new customers and enhancing our role as a provider of liquidity, price discovery and efficient execution. These strong relationships also allow us to

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participate in growth opportunities as these institutions begin to use newer products for risk management and trading. In addition, we believe these relationships allow us to sell our current and new products to our customers.

***We Have a Full Scale, Hybrid Brokerage Platform.*** Our hybrid platform allows our customers to trade on a voice, screen-assisted, voice-assisted or fully electronic basis, regardless of whether the trade is OTC or exchange-based, and to benefit from the experience and market intelligence of our worldwide brokerage network.

***We Have Proprietary Technology.*** Since 1999, we have heavily invested in creating and maintaining our infrastructure, technology, and innovations in multiple markets. We believe our technology gives us an advantage over other competitors who more often depend on third party vendors to support their functionality. Also, as a result of our merger, our technology capabilities are more closely aligned with our brokerage efforts and will be focused on new and emerging screen based market solutions to support our brokers. Finally, our technology, unlike that of many of our competitors, is almost exclusively designed and developed in-house.

***We Provide Quality Software, Market Data and Analytics Products.*** Our leading position and liquidity in brokerage markets allow us to provide our customers with high quality, market data and analytics products. In addition, our proprietary eSpeed branded software leverages our global infrastructure, software and systems, portfolio of intellectual property and electronic trading expertise to provide customers with electronic marketplaces, exchanges and real-time auctions to enhance securities issuance and to customize trading interfaces. Our ability to offer these products not only helps support our leadership position in several key markets but also provides us with a stable source of non-brokerage revenues.

***We Have Demonstrated the Ability to Identify, Recruit and Retain Key Talent.*** In August 2004, when Cantor announced the restructuring of its inter-dealer brokerage business, we employed approximately 525 brokers. As of December 31, 2008, we had 1,289 brokers across over 150 desks. In a competitive environment, we have demonstrated our ability to successfully develop, attract and retain leading brokers, including through acquisitions of new businesses, in order to expand and enhance our brokerage staff. We believe that our ability to attract talent across the globe will enable us to grow our business and provide our customers with trading execution that is superior to that provided by many of our competitors.

***Our Partnership Structure Creates Long-Term Incentives.*** Our partnership structure is one of the unique strengths of our business. We believe that it provides long-term incentives and is an effective tool in recruiting, motivating and retaining our key employees. Key professionals who are invited to be partners are generally required to make a capital contribution to establish their partnership account. As of the December 31, 2008, BGC Partners had approximately 400 founding and working partners. We believe that the ability to participate in the ongoing success of the enterprise acts as a strong motivator for brokers to perform and aligns their interests with stockholders.

***We Have a Proven Acquisition Track Record.*** The merger of eSpeed and BGC Partners was completed on April 1, 2008. In August 2008, we announced our expected acquisition of Liquidez Distribuidora de Titulos e Valores Mobiliarios Ltda, a Brazilian financial institution and interdealer broker. In March 2008, we acquired Radix, an energy broker based in Singapore. In August 2007, we acquired the emerging markets equities derivatives business of Marex Financial. In December 2006, we acquired AS Menkul, an established broker in Turkey, and, in November 2006, we acquired Aurel Leven, an independent inter-dealer broker in France, active in the equities, equity derivatives and fixed income markets. Finally, in 2005, we acquired Euro Brokers and ETC Pollak, and have integrated these established brokerage companies into our business. These acquisitions allowed us to expand our broker headcount, product offerings, technology capabilities and geographic footprint. They also gave us additional scale to help us compete effectively in a number of products, including U.S. Treasuries, U.S. securities repurchase agreements, U.S. agencies, Eurobonds, interest rate options/swaps, cash markets, emerging market CDS, and commodities. We believe that this ability to successfully identify, acquire and integrate high quality brokerage companies will provide us with the opportunity to strengthen and enhance our franchise and to continue the rebuilding of our U.S. business and expand in local markets around the world.

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***We Have Experienced Senior Management.*** We are led by a core senior management team, each of whom has over 20 years of experience in the inter-dealer broker markets. Mr. Lutnick, who serves as our Chairman and Chief Executive Officer, guided the BGC Division, eSpeed, and Cantor through the aftermath of the events of September 11, 2001, and was instrumental in the initial public offering of eSpeed in 1999. Mr. Lynn, our President, and other members of our management team have presided over the addition of hundreds of new brokers and the expansion and growth of our business in the United States, Europe and Asia. Our senior management team is supported by a highly experienced and qualified team of managers. We believe that our experienced senior management team gives us a competitive advantage in executing our business strategy.

### **Our Strategy**

We seek to enhance our position as a leading global inter-dealer broker by increasing our market share in existing markets and expanding into new markets. We intend to achieve this goal by employing the following strategies:

***Strengthen our Leading Positions in Targeted Traditional, Liquid Markets.*** We intend to strengthen our position as a leading provider of inter-dealer brokerage services, technology infrastructure and market data products in the markets in which we focus. We believe that in these selected markets, we have the scale to continue to be a top participant, and we believe underlying macro fundamentals allow additional room for growth.

***Build and Develop Less Liquid Markets.*** We continue to build and expand in markets for selected emerging asset classes. We believe that our role as a top participant in certain underlying securities will be helpful in building liquidity in the higher growth, higher margin businesses associated with these underlying securities. We intend to leverage our position in traditional markets to build these new businesses. For instance, we recently launched a new credit derivatives platform that is currently being used by over 30 major banks. We expect that our position and relationships we have developed in the cash bond market will help us grow this business. We believe there is a strong cross-selling opportunity as our cash bond market brokers introduce their customers to our new credit derivatives platform.

***Expand in Attractive Markets Where Local Presence and Expertise Are Required.*** We plan to continue to expand into new geographies and build local presence in those markets. We believe that having local presence and expertise in targeted markets will provide us with a competitive advantage over our competitors. BGC Partners established local market presence in continental Europe through its acquisitions of ETC Pollak and Aurel Leven in France and in emerging markets through its acquisitions of AS Menkul in Turkey and the emerging markets equities derivatives business of Marex Financial in the U.K. and South Africa. Additionally, BGC Partners has significantly built out its Asian platform from approximately 51 brokers as of January 2005 to over 300 brokers as of December 31, 2008. BGC Partners has also recently added to its footprint in Asia by opening an office in Seoul, and acquiring Radix Energy in Singapore.

***Leverage Existing Developed Infrastructure to Drive Margins.*** We have made substantial investments in brokers and technology in our targeted markets. We believe that the infrastructure in place is scalable, which provides us an opportunity for margin improvement as brokers increase production and as marketplaces become increasingly electronic. Due to the fixed cost nature of the back office business, each additional transaction executed on our hybrid system adds incremental margin to our business. Our market data offerings, clearing, processing and back office services will provide opportunities for margin improvement as brokers increase production or as trading volumes rise.

***Expand our Broker Workforce Through Acquisitions and Recruitment.*** Since August 2004, we have expanded our broker workforce significantly. As of December 31, 2008, we had 1,289 brokers. We have a proven track record of growing our global network of brokers through business acquisitions and recruiting efforts and believe we are well-positioned to continue to do so. We intend to continue to selectively acquire companies and hire experienced brokers with the goal of further developing our market position in various products, accelerating our growth and enhancing our profitability.

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***Leverage our Proprietary Technology to Pursue New Products, Software Solutions, and Offerings.*** We believe that our ability to develop and build our own technology allows us to be at the forefront of new products and offerings. We also plan to capitalize on our global infrastructure, intellectual property and electronic trading expertise to provide a complete outsourced solution to customers to enable them to access exchanges and electronic markets.

***Grow and Expand our Market Data Services and Analytics Products.*** We intend to further develop our market data services and analytics products by integrating proprietary information generated by our inter-dealer brokerage business into new market data products designed to meet the needs of a greater number of customers. Sophisticated quantitative approaches to risk management as well as customer time sensitivity have created new needs, uses and demands for trading-related data and analytics. We intend to create new value-added services for customers to complement these products, including databases, analytical tools and other services to assist end-users.

## **Customers**

We primarily serve the wholesale inter-dealer market, including many of the world's largest banks that regularly trade in capital markets, brokerage houses, investment firms, and investment banks. Customers using our eSpeed branded products also include, professional trading firms, futures commission merchants and other professional market participants and financial institutions. Our BGCantor Market Data products and services are available through many platforms and are available to a wide variety of capital market participants including banks, investment banks, brokerage firms, asset managers, hedge funds, investment analysts and financial advisors. We also license our intellectual property portfolio and Software Solutions to various financial markets participants.

For the year ended December 31, 2008, our top 10 customers, collectively, accounted for approximately 32.7% of our total revenue on a consolidated basis and our largest customer accounted for approximately 4.4% of our total revenue on a consolidated basis.

## **Sales and Marketing**

Our brokers are the primary marketing and sales resources to our customers. Thus, our sales and marketing program is aimed at enhancing the ability of our brokers to cross-sell effectively in addition to informing our customers about our product and service offerings. We al