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PIPER JAFFRAY COMPANIES
Form 10-Q
May 04, 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 March 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 No. 001-31720

PIPER JAFFRAY COMPANIES

(Exact Name of Registrant as specified in its Charter)

DELAWARE

(State or Other Jurisdiction of Incorporation or Organization)

800 Nicollet Mall, Suite 1000

Minneapolis, Minnesota

(Address of Principal Executive Offices)

30-0168701

(IRS Employer Identification No.)

55402

(Zip Code)

(612) 303-6000

(Registrant's Telephone Number, Including Area Code)

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, 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 (Do not check if a smaller reporting company)

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 }p

As of April 30, 2018, the registrant had 15,198,317 shares of Common Stock outstanding.

Piper Jaffray Companies
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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS.

Piper Jaffray Companies

Consolidated Statements of Financial Condition

	March 31, 2018	December 31, 2017
	(Unaudited)	
(Amounts in thousands, except share data)		
Assets		
Cash and cash equivalents	\$27,642	\$33,793
Receivables from brokers, dealers and clearing organizations	46,302	145,394
Financial instruments and other inventory positions owned	529,943	663,330
Financial instruments and other inventory positions owned and pledged as collateral	503,860	720,047
Total financial instruments and other inventory positions owned	1,033,803	1,383,377
Fixed assets (net of accumulated depreciation and amortization of \$58,059 and \$55,944, respectively)	24,787	25,179
Goodwill	81,855	81,855
Intangible assets (net of accumulated amortization of \$88,032 and \$85,417, respectively)	20,219	22,834
Investments	169,739	176,212
Net deferred income tax assets	95,595	101,205
Other assets	77,424	54,834
Total assets	\$1,577,366	\$2,024,683
Liabilities and Shareholders' Equity		
Short-term financing	\$186,254	\$289,937
Senior notes	125,000	125,000
Payables to brokers, dealers and clearing organizations	33,582	19,392
Financial instruments and other inventory positions sold, but not yet purchased	320,469	399,227
Accrued compensation	127,351	400,092
Other liabilities and accrued expenses	49,703	49,800
Total liabilities	842,359	1,283,448
Shareholders' equity:		
Common stock, \$0.01 par value:		
Shares authorized: 100,000,000 at March 31, 2018 and December 31, 2017;		
Shares issued: 19,513,856 at March 31, 2018 and 19,512,914 at December 31, 2017;		
Shares outstanding: 13,298,825 at March 31, 2018 and 12,911,149 at December 31, 2017	195	195
Additional paid-in capital	802,566	791,970
Retained earnings (1)	152,701	176,270
Less common stock held in treasury, at cost: 6,215,031 at March 31, 2018 and 6,601,765 shares at December 31, 2017	(266,720)	(273,824)
Accumulated other comprehensive loss	(750)	(1,279)
Total common shareholders' equity	687,992	693,332
Noncontrolling interests	47,015	47,903
Total shareholders' equity	735,007	741,235

Total liabilities and shareholders' equity	\$1,577,366	\$2,024,683
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(1) Includes the cumulative effect adjustment upon adoption of ASU 2014-09, as amended. See Note 2 for further discussion.

See Notes to the Consolidated Financial Statements

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Consolidated Statements of Operations
(Unaudited)

(Amounts in thousands, except per share data)	Three Months Ended	
	March 31, 2018	2017
Revenues:		
Investment banking	\$120,841	\$132,250
Institutional brokerage	27,645	39,136
Asset management	12,589	16,007
Interest	10,413	7,719
Investment income	2,912	10,375
Total revenues	174,400	205,487
Interest expense	5,338	4,958
Net revenues	169,062	200,529
Non-interest expenses:		
Compensation and benefits	115,170	134,378
Outside services	8,939	10,328
Occupancy and equipment	8,578	8,462
Communications	8,626	7,616
Marketing and business development	7,299	7,547
Deal-related expenses	5,051	—
Trade execution and clearance	2,163	1,811
Intangible asset amortization	2,615	3,822
Back office conversion costs	—	866
Other operating expenses	2,583	2,890
Total non-interest expenses	161,024	177,720
Income before income tax benefit	8,038	22,809
Income tax benefit	(2,581)	(395)
Net income	10,619	23,204
Net income applicable to noncontrolling interests	16	2,929
Net income applicable to Piper Jaffray Companies	\$10,603	\$20,275
Net income applicable to Piper Jaffray Companies' common shareholders	\$6,435	\$16,828
Earnings per common share		
Basic	\$0.47	\$1.33
Diluted	\$0.47	\$1.31

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Dividends declared per common share	\$2.00	\$0.31
Weighted average number of common shares outstanding		
Basic	13,096	12,594
Diluted	13,382	12,922

See Notes to the Consolidated Financial Statements

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Piper Jaffray Companies

Consolidated Statements of Comprehensive Income

(Unaudited)

(Amounts in thousands)	Three Months Ended March 31,	
	2018	2017
Net income	\$10,619	\$23,204
Other comprehensive income, net of tax:		
Foreign currency translation adjustment	529	223
Comprehensive income	11,148	23,427
Comprehensive income applicable to noncontrolling interests	16	2,929
Comprehensive income applicable to Piper Jaffray Companies	\$11,132	\$20,498

See Notes to the Consolidated Financial Statements

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Consolidated Statements of Cash Flows
(Unaudited)

	Three Months Ended March 31,	
(Dollars in thousands)	2018	2017
Operating Activities:		
Net income	\$ 10,619	\$ 23,204
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization of fixed assets	2,003	1,703
Deferred income taxes	5,610	13,916
Stock-based compensation	8,970	4,676
Amortization of intangible assets	2,615	3,822
Amortization of forgivable loans	1,298	1,820
Decrease/(increase) in operating assets:		
Receivables:		
Customers	—	8,428
Brokers, dealers and clearing organizations	99,092	18,444
Securities purchased under agreements to resell	—	(71,423)
Net financial instruments and other inventory positions owned	270,816	145,860
Investments	6,473	8,382
Other assets	(23,256)	(14,170)
Increase/(decrease) in operating liabilities:		
Payables:		
Customers	—	12,242
Brokers, dealers and clearing organizations	14,190	163,221
Securities sold under agreements to repurchase	—	(480)
Accrued compensation	(247,363)	(153,843)
Other liabilities and accrued expenses	(4,619)	(1,993)
Net cash provided by operating activities	146,448	163,809
Investing Activities:		
Purchases of fixed assets, net	(1,560)	(1,756)
Net cash used in investing activities	(1,560)	(1,756)

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Piper Jaffray Companies

Consolidated Statements of Cash Flows – Continued

(Unaudited)

(Dollars in thousands)	Three Months Ended	
	March 31, 2018	2017
Financing Activities:		
Decrease in short-term financing	\$(103,683)	\$(121,686)
Payment of cash dividend	(30,375)	(4,746)
Decrease in noncontrolling interests	(904)	(16,154)
Repurchase of common stock	(16,797)	(19,788)
Proceeds from stock option exercises	—	1,703
Net cash used in financing activities	(151,759)	(160,671)
Currency adjustment:		
Effect of exchange rate changes on cash	720	145
Net increase/(decrease) in cash, cash equivalents and restricted cash (1)	(6,151)	1,527
Cash, cash equivalents and restricted cash at beginning of period (1)	33,793	70,374
Cash, cash equivalents and restricted cash at end of period (1)	\$27,642	\$71,901
Supplemental disclosure of cash flow information –		
Cash paid during the period for:		
Interest	\$5,615	\$4,464
Income taxes	\$12,474	\$7,710

(1) Upon adoption of ASU 2016-18, restricted cash includes cash and cash equivalents previously segregated for regulatory purposes. See Note 2 for further discussion.

See Notes to the Consolidated Financial Statements

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