

SECURITIES AND EXCHANGE COMMISSION

FORM 10-Q

Quarterly report pursuant to sections 13 or 15(d)

Filing Date: **1994-03-16** | Period of Report: **1994-01-31**
SEC Accession No. **0000729600-94-000001**

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FILER

MORGAN KEEGAN INC

CIK: **729600** | IRS No.: **621153850** | State of Incorpor.: **TN** | Fiscal Year End: **0731**
Type: **10-Q** | Act: **34** | File No.: **001-09015** | Film No.: **94516157**
SIC: **6211** Security brokers, dealers & flotation companies

Business Address
50 N FRONT ST
MEMPHIS TN 38103
9015244100

[TYPE] 10-Q
[TEXT] 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 quarter ended January 31, 1994

Commission file number 1-9015

MORGAN KEEGAN, INC.
(Exact name of registrant as specified in its charter)

TENNESSEE 62-1153830
(State or other jurisdiction of (IRS Employer Identification No.)
incorporation or organization)

50 North Front Street 38103
Memphis, Tennessee (Zip Code)
(Address of principal executive offices)

901-524-4100
(Registrant's telephone number, including area code)

N/A
(Former name, former address and former fiscal year,
if changed since last report)

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 X No

APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY PROCEEDINGS
DURING THE PRECEDING FIVE YEARS

Indicate by check mark whether the Registrant has filed all documents and reports required to be filed by Sections 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court. Yes No

APPLICABLE ONLY TO CORPORATE ISSUERS:

Indicate the number of shares outstanding of each of the issuer's classes of Common Stock, as of the latest practical date.

Class
Common Stock, \$.625 par value

Outstanding at January 31, 1994
14,864,637

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CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

MORGAN KEEGAN, INC. and Subsidiaries
<CAPTION>

	January 31 1994 (Unaudited)	July 31 1993
	(in thousands)	
ASSETS		
<S>	<C>	<C>
Cash	\$ 14,168	\$ 14,859
Securities segregated for regulatory purposes, at market	42,601	38,801
Deposits with clearing organizations and others	2,592	2,464
Receivable from brokers, dealers and clearing organizations	29,200	19,624
Receivable from customers	217,528	156,633
Securities purchased under agreements to resell	84,798	88,638
Securities owned, at market	308,215	189,682
Memberships in exchanges, at cost (market value- \$1,905,000 at 1/31/94; \$1,924,000 at 7/31/93)	678	678
Furniture, equipment and leasehold improvements, (less allowances for depreciation and amortization - \$10,745,000 at 1/31/94; \$10,619,000 at 7/31/93)	8,681	8,159
Other assets	10,646	7,546
	\$719,107	\$527,084

</TABLE>

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<CAPTION>
LIABILITIES AND STOCKHOLDERS' EQUITY

<S>	<C>	<C>
Short-term borrowings	\$ 98,401	\$ 68,105
Commercial paper	9,830	12,457
Payable to brokers, dealers and clearing organizations	16,343	17,500
Payable to customers	238,655	177,208
Customer drafts payable	9,884	7,873

Securities sold under agreements to repurchase	144,066	78,474
Securities sold, not yet purchased, at market	38,568	16,011
Other liabilities	37,221	43,121
	592,968	420,749

Stockholders' equity

Common Stock, par value \$.625 per share:
authorized 25,000,000 shares; 14,864,637
shares issued and outstanding at 1/31/94;

14,271,993 at 7/31/93	9,290	8,920
Additional paid-in capital	18,167	13,941
Retained earnings	98,682	83,474
	126,139	106,335
	\$719,107	\$527,084

<FN>

See accompanying notes.

</TABLE>

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<TABLE>

CCONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)

MORGAN KEEGAN, INC. and Subsidiaries

<CAPTION>

	Three Months Ended		Six Months Ended	
	January 31		January 31	
	(in thousands, except per share amounts)			
	1994	1993	1994	1993
REVENUES				
<S>	<C>	<C>	<C>	<C>
Commissions	\$12,138	\$11,335	\$24,429	\$19,985
Principal transactions	25,930	24,125	52,012	49,637
Investment banking	10,122	6,455	21,280	11,722
Interest	6,337	4,594	11,769	9,175
Other	5,598	2,888	8,299	5,926
	60,125	49,397	117,789	96,445

EXPENSES

Compensation	31,401	25,821	63,267	50,447
Floor brokerage and clearance	1,090	1,219	1,925	2,509
Communications	3,299	3,032	6,537	5,632
Travel and promotional	1,615	899	3,055	1,816
Occupancy and equipment cost	2,234	2,028	4,199	3,815
Interest	3,423	2,556	6,429	5,344
Taxes, other than income taxes	1,570	1,490	2,347	2,277
Other operating expenses	1,183	1,082	1,988	2,127
	45,815	38,127	89,747	73,967

INCOME BEFORE INCOME TAXES	14,310	11,270	28,042	22,478
INCOME TAXES	5,500	4,100	10,800	8,500
NET INCOME	\$ 8,810	\$ 7,170	\$17,242	\$13,978
NET INCOME PER SHARE	\$ 0.60	\$ 0.51	\$ 1.18	\$ 1.00
DIVIDENDS PER SHARE	\$ 0.07	\$ 0.05	\$ 0.14	\$ 0.09

<FN>

See accompanying notes.

</TABLE>

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<TABLE>

CONSOLIDATED STATEMENTS OF CASH FLOWS

MORGAN KEEGAN, INC. and Subsidiaries

<CAPTION>

	Six Months ended January 31	
	1994	1993
	(in thousands)	
CASH FLOWS FROM OPERATING ACTIVITIES		
<S>	<C>	<C>
Net income	\$ 17,242	\$13,978
Non-cash items included in earnings:		
Depreciation and amortization	1,770	1,064
Deferred income taxes	60	60
Amortization of restricted stock	480	330
	19,552	15,432
(Increase) decrease in operating assets:		
Receivable from brokers or dealers and clearing organizations	(9,576)	12,663
Receivable from customers	(60,895)	(24,249)
Securities segregated for regulatory purposes	(3,800)	(7,800)
Deposits with clearing organizations and others	(128)	
Securities purchased under agreements to resell	3,840	(40,214)
Securities owned	(118,533)	29,739
Other assets	(3,160)	(1,223)
Increase (decrease) in operating payables:		
Payable to brokers or dealers and clearing organizations	(1,157)	(1,057)
Payable to customers	61,447	22,285
Customer drafts payable	2,011	3,241
Securities sold under agreements to repurchase	65,592	14,473
Securities sold, not yet purchased	22,557	(1,314)

Other liabilities	(5,900)	(799)
	(47,702)	5,745
Cash (used) provided for operating activities	(28,150)	21,177
CASH FLOWS FROM FINANCING ACTIVITIES		
Net (payments) proceeds from:		
Commercial paper	(2,627)	(1,537)
Issuance of Common Stock	6,423	1,370
Retirement of Common Stock	(2,307)	(394)
Dividends paid	(2,033)	(1,287)
Short-term borrowings	30,296	(16,997)
Cash provided (used) by financing activities	29,752	(18,845)
CASH FLOWS FROM INVESTING ACTIVITIES		
Payments for furniture, equipment and leasehold improvements	(2,293)	(1,410)
(Decrease) increase in cash	(691)	922
Cash at Beginning of Period	14,859	11,359
	\$ 14,168	\$12,281

Income tax payments were \$12,181 and \$10,526 for the six month periods ended January 31, 1994 and 1993, respectively. Interest payments were \$6,323 and \$5,382 for the same periods, respectively.

<FN>

See accompanying notes.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

MORGAN KEEGAN, INC. and Subsidiaries

January 31, 1994

NOTE A - BASIS OF PRESENTATION

The consolidated financial statements include the accounts of Morgan Keegan, Inc. and its wholly owned subsidiaries (collectively referred to as the Registrant). The accompanying unaudited consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the six months ended January 31, 1994 are not necessarily indicative of the results that may be expected for the year ending July 31, 1994. For further information, refer to the financial statements and notes thereto included in the Registrant's annual report on Form 10-K for the year

ended July 31, 1993.

NOTE B - NET CAPITAL REQUIREMENT

As a registered broker/dealer and member of the New York Stock Exchange, the Registrant's brokerage subsidiary, Morgan Keegan & Company, Inc. (M.K. & Co.) is subject to the Securities and Exchange Commission's (SEC) uniform net capital rule. The broker/dealer subsidiary has elected to operate under the alternative method of the rule, which prohibits a broker/dealer from engaging in any securities transactions when its net capital is less than 2% of its aggregate debit balances, as defined, arising from customer transactions. The SEC may also require a member firm to reduce its business and restrict withdrawal of subordinated capital if its net capital is less than 4% of aggregate debit balances, and may prohibit a member firm from expanding its business and declaring cash dividends if its net capital is less than 5% of aggregate debit balances. At January 31, 1994, M.K. & Co. had net capital of \$82,230,669 which was 36% of its aggregate debit balances and \$77,682,515 in excess of the 2% net capital requirement.

NOTE C - INCOME TAXES

The principal reason for the difference between the Registrant's effective tax rate and the federal statutory rate is the non-taxable interest earned on municipal bonds.

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MANAGEMENT'S DISCUSSION & ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS MORGAN KEEGAN, INC. and Subsidiaries

Morgan Keegan, Inc. (The Registrant) operates a full service regional brokerage business through its principal subsidiary, Morgan Keegan & Company, Inc. (M.K. & Co.). M.K. & Co. is involved in the highly competitive business of origination, underwriting, distribution, trading and brokerage of fixed income and equity securities. M.K. & Co. typically does not underwrite high yield securities, and normally is not involved in bridge loan financings or any other ventures that management believes may not be appropriate for its strategic approach. Many highly volatile factors affect revenues, including general market conditions, interest rates, investor sentiment and world affairs, all of which are outside the Registrant's control. However, certain expenses are relatively fixed. As a result, net earnings can vary significantly from quarter to quarter, regardless of management's efforts to

enhance revenues and controls costs.

Results of Operations

The Registrant's second quarter set records for both revenues and earnings, continuing the strong revenue stream which has been in place for the past four quarters. Revenues increased by \$10,728,000 or 21.7% over the second quarter of fiscal 1993. A substantial portion of the increase is attributed to investment banking related revenues which increased in excess of 55%. The Dow Jones Industrial Average continues to hover at record levels, and interest rates have begun to rise slightly; however, due to the number of new issues and strong investor activity, management anticipates continued strong commission levels in the near term future.

Operating expenses increased 20% or \$7,688,000 which is 1.5% less than the increase in revenues for the quarter. Almost three-fourths of the increase relates to employee compensation, which increased \$5,581,000 or 21.6% and is in proportion to the 21.7% increase in revenues. Travel and promotional expenses increased \$716,000 which reflected continuing marketing efforts and work force education and compliance seminars.

Net income for the quarter was \$8,810,000 or \$.60 compared to \$7,170,000 or \$.51 for the second quarter of the prior year. The continuing strong investor activity coupled with the outstanding investment banking results accounted for most of the increase.

Results of Operations - Fiscal Year To Date

Total revenues increased from \$96,445,000 in the prior year to \$117,789,000 in the current period, which represents a 22.1% increase. As was the case with the quarter, a substantial portion of the increase stemmed from investment banking revenue which rose \$9,558,000 or 81.5%. Other increases were more moderate and could be attributed to strong market activity.

Operating expenses of \$89,747,000 represented a 21.3% increase, or \$15,780,000 from the previous years amount of \$73,967,000. The biggest component of the increase was compensation which went up \$12,820,000 and was proportional with the increase in revenues. The increase in travel and promotional of 68.3% was attributed to the marketing and compliance efforts and the decline in clearing and floor brokerage of 23.3% due to some streamlining and expense reduction established in the floor brokerage area.

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MANAGEMENT'S DISCUSSION & ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued) MORGAN KEEGAN, INC. and Subsidiaries

Net income for the first six months was \$1.18 per share compared with \$1.00 per share for fiscal 1993. The 18% increase in profitability is attributed

to the strong investor activity, led by the outstanding performance of the investment banking area.

Liquidity and Capital Resources

High liquidity is reflected in the Registrant's statement of financial condition with approximately 97% of its assets consisting of cash or assets readily convertible to cash. Financing resources include the Registrant's equity capital, commercial paper, repurchase transactions, short-term borrowings, and customer and broker payables. For the six months ended January 31, 1994, cash flows from operating activities decreased \$28,150,000 compared with an increase of \$21,177,000 for the six months ended January 31, 1993. This change was primarily a result of the Registrant's brokerage subsidiary carrying a higher level of inventory.

Cash flows from financing activities increased \$27,849,000 for the six months ended January 31, 1994 compared to a decrease of \$18,845,000 for the first six months of fiscal 1993. The increase in inventory warranted the need for additional short-term borrowings to carry the higher level of inventory.

Investing activities resulted in a \$2,293,000 decrease in cash flows for the current period compared to the \$1,410,000 decrease for the same period in the previous year. This is primarily due to management's continued commitment to upgrade and improve the office communication network. The Registrant has no material commitments for capital expenditures.

At January 31, 1994, the Registrant's broker/dealer subsidiary, which is regulated under the SEC's uniform net capital rule, had net capital of \$82,230,669 which was \$77,682,515 in excess of the 2% net capital requirement. During the quarter, the Registrant declared and paid cash dividends of \$0.07 per share on the shares outstanding.

During the quarter, the Registrant's board of directors approved a stock repurchase program to buy the Registrant's stock on the open market. The board authorized the purchase of up to 1,000,000 shares to be used for general corporate purposes. The corporation repurchased 179,500 shares for \$2,307,313 during the quarter.

Also during the quarter, the Registrant issued 406,914 shares of stock to employees in conjunction with its stock incentive and restricted stock plans.

Item 1. Legal Proceedings

Morgan Keegan & Company, Inc. ("M.K. & Co."), is named as one of many defendants in class action complaints pending in the United States District Court for the Eastern District of Louisiana as part of the multi-district litigation styled In Re Taxable Municipal Bond Securities Litigation, MDL 863 (the "MDL"). The MDL was previously described in prior Form 10-Q and Form 10-K S.E.C. filings. The MDL concerns the underwriting and sale of taxable municipal bonds issued by several issuing authorities during 1986. All bonds which are the subject of the amended complaints, including those issued by the Health, Education and Housing Facility Board of the City of Memphis, Tennessee were rates AAA by Standard and Poor's corporation at the time of their issuance, and maintained such rating through December, 1989. In January, 1990 and thereafter, the Standard and Poor's rating was downgraded and the market price of the bonds has declined.

In the event the litigation is settled, management is of the opinion that such a settlement would not have a material adverse effect on M.K. & Co.'s results of operations or on the financial statements of M.K. & Co., taken as a whole. In the event a settlement is not achieved, management is of the opinion that it has meritorious defenses and has advised its counsel to vigorously defend the lawsuits.

In addition to the matters described above, M.K. & Co. is named in various proceedings incidental to its securities business. While the ultimate resolution of pending litigation cannot be predicted with certainty, based upon the information currently known, management is of the opinion that it has meritorious defenses and has instructed its counsel to vigorously defend the lawsuits.

Item 2. Changes in Securities

None

Item 3. Defaults upon Senior Securities

None

Item 4. Submission of Matters to Vote of Security Holders

On November 23, 1993, at the Registrant's annual meeting of its shareholders 73% of the 14,648,473 shares outstanding at October 1, 1993 were represented by proxy. A quorum was declared present for the conduct of business and the following proposal was voted on:

Proposal: Election of the directors from the following nominees to serve the Registrant for the ensuing year:

Allen B. Morgan, Jr.
William W. Deupree, Jr.

John W. Stokes, Jr.
Kenneth F. Clark, Jr.

Results of vote: 99.8% of the votes cast were in favor of this proposal.

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PART II OTHER INFORMATION (Continued)
MORGAN KEEGAN, INC. and Subsidiaries

Item 5. Other Information

None

Item 6. Exhibits and Reports on Form 8-K

a. Exhibits

1. Computation of Earnings per share

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

MORGAN KEEGAN, INC.
Registrant

Date: March 15, 1994

/S/ Joseph C. Weller
Joseph C. Weller
EVP, CFO, Sec.-Treas.

<TABLE>
PART II OTHER INFORMATION (Continued)
MORGAN KEEGAN, INC. and Subsidiaries

Item 6. Exhibit a.1.

COMPUTATION OF EARNINGS PER SHARE
<CAPTION>

	Three Months Ended		Six Months Ended	
	January 31		January 31	
	1994	1993	1994	1993
<S>	<C>	<C>	<C>	<C>
PRIMARY				
Average shares outstanding	14,706,018	13,973,789	14,619,414	13,954,227
Net effect of dilutive stock options based on the treasury stock method	33,619	53,630	53,311	48,858
TOTAL	14,739,637	14,027,419	14,672,725	14,003,085
Net income	\$8,810,011	\$7,170,243	\$17,242,502	\$13,978,017

Per share amount	\$0.60	\$0.51	\$1.18	\$1.00
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</TABLE>

<TABLE>

<CAPTION>

FULLY DILUTED

<S>	<C>	<C>	<C>	<C>
Average shares outstanding	14,706,018	13,973,789	14,619,414	13,954,227

Net effect of dilutive stock options based on the treasury stock method using the quarter end market price, if higher than average market price	33,619	53,630	53,311	48,858
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TOTAL	14,739,637	14,027,419	14,672,725	14,003,085
-------	------------	------------	------------	------------

Net Income	\$8,810,011	\$7,170,243	\$17,242,502	\$13,978,017
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Per share amount	\$0.60	\$0.51	\$1.18	\$1.00
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