

SECURITIES AND EXCHANGE COMMISSION

FORM 10-Q

Quarterly report pursuant to sections 13 or 15(d)

Filing Date: **1994-05-13** | Period of Report: **1994-03-31**
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FILER

INTER REGIONAL FINANCIAL GROUP INC

CIK: **50916** | IRS No.: **411228350** | State of Incorporation: **DE** | Fiscal Year End: **1231**
Type: **10-Q** | Act: **34** | File No.: **001-08186** | Film No.: **94528071**
SIC: **6211** Security brokers, dealers & flotation companies

Business Address
DAIN BOSWORTH PLAZA
60 SOUTH SIXTH ST
MINNEAPOLIS MN 55402
6123717750

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarter ended March 31, 1994

or

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

Commission file number 1-8186

Inter-Regional Financial Group, Inc.
(Exact name of registrant as specified in its charter)

DELAWARE
(State or other jurisdiction
of incorporation of organization)

41-1228350
(IRS Employer
Identification
Number)

Dain Bosworth Plaza, 60 South Sixth Street
Minneapolis, Minnesota
(Address of principal executive offices)

55402-4422
(Zip Code)

Registrant's telephone number, including area code (612) 371-7750

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

As of April 30, 1994, the Company had 8,192,608 shares of common

stock outstanding.

INTER-REGIONAL FINANCIAL GROUP, INC. AND SUBSIDIARIES
REPORT ON FORM 10-Q FOR THE QUARTER ENDED MARCH 31, 1994

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PART I - FINANCIAL INFORMATION

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ITEM 1. FINANCIAL STATEMENTS

INTER-REGIONAL FINANCIAL GROUP, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(In thousands)

<CAPTION>

March 31, December 31,
1994 1993

(Unaudited)

<S>

<C>

<C>

Assets:

Cash and cash equivalents.....	\$20,895	\$14,047
Cash and short-term investments segregated for regulatory purposes...	526,005	581,005
Receivable from customers.....	598,579	531,636
Receivable from brokers and dealers....	202,175	178,448
Securities purchased under agreements to resell.....	163,544	111,887
Trading securities owned, at market....	398,618	271,378
Equipment, leasehold improvements and buildings, net.....	26,616	24,720
Other receivables.....	46,204	40,744
Deferred income taxes.....	18,995	18,995
Other assets.....	13,045	13,162
	-----	-----
	\$2,014,676	\$1,786,022
	=====	=====

Liabilities and Shareholders' Equity:

Liabilities:

Short-term borrowings.....	\$127,037	\$ 123,973
Drafts payable.....	40,983	32,041
Payable to customers.....	924,438	866,144
Payable to brokers and dealers.....	211,281	250,594
Securities sold under repurchase agreements.....	144,027	83,978
Trading securities sold, but not yet purchased, at market.....	234,643	72,218
Accrued compensation.....	44,861	83,458
Other accrued expenses and accounts payable.....	64,817	63,776
Accrued income taxes.....	13,266	9,991
Subordinated and other debt.....	21,829	22,166
	-----	-----
	1,827,182	1,608,339
	-----	-----

Shareholders' equity:

Common stock.....	1,023	1,016
Additional paid-in capital.....	73,759	73,475
Retained earnings.....	112,712	103,192
	-----	-----
	187,494	177,683
	-----	-----
	\$2,014,676	\$1,786,022
	=====	=====

<FN>
See accompanying notes to consolidated financial statements.
</TABLE>

<TABLE>
INTER-REGIONAL FINANCIAL GROUP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited, in thousands, except per-share amounts)

<CAPTION>

	Three Months Ended March 31,	
	1994	1993
<S>	<C>	<C>
Revenues:		
Commissions.....	\$39,128	\$ 35,446
Principal transactions.....	35,789	36,785
Investment banking and underwriting..	27,878	24,547
Interest.....	15,255	12,413
Asset management.....	4,077	2,905
Correspondent clearing.....	3,181	2,785
Other.....	5,763	3,890
	-----	-----
Total revenues.....	131,071	118,771
Interest expense.....	(7,392)	(6,427)
	-----	-----
Net revenues.....	123,679	112,344
	-----	-----
Expenses excluding interest:		
Compensation and benefits.....	78,724	70,797
Communications.....	8,550	6,940
Occupancy and equipment rental.....	6,698	5,957
Travel and promotional.....	4,226	3,028
Floor brokerage and clearing fees....	2,245	2,075
Other.....	7,176	7,200
	-----	-----
Total expenses excluding interest.....	107,619	95,997
	-----	-----
Earnings:		
Earnings before income taxes.....	16,060	16,347
Income tax expense.....	(5,889)	(6,212)
	-----	-----
Net earnings.....	\$10,171	\$ 10,135
	=====	=====
Earnings per common and common equivalent share:		
Primary and fully diluted.....	\$ 1.20	\$ 1.22
	=====	=====

<FN>

See accompanying notes to consolidated financial statements.

</TABLE>

<TABLE>

INTER-REGIONAL FINANCIAL GROUP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited, in thousands)

<CAPTION>

Three Months Ended March 31,
1994 1993

<S>	<C>	<C>
Cash flows from operating activities:		
Net earnings.....	\$10,171	\$10,135
Adjustments to reconcile earnings to cash provided (used) by operating activities:		
Depreciation and amortization.....	1,778	1,191
Deferred income taxes.....	(1,222)	(899)
Other non-cash items.....	2,434	2,941
Cash and short-term investments segregated for regulatory purposes.....	55,000	17,910
Net receivable from/payable to brokers and dealers.....	(63,040)	(42,386)
Securities purchased under agreements to resell	(51,657)	(109,855)
Net trading securities owned and trading securities sold, but not yet purchased.....	35,185	(217,565)
Short-term borrowings and drafts payable of securities companies...	12,006	79,486
Net payable to customers.....	(8,649)	(26,616)
Securities sold under repurchase agreements.....	60,049	301,926
Accrued compensation.....	(38,597)	(22,739)
Other.....	(3,123)	(968)
	-----	-----
Cash provided (used) by operating activities.....	10,335	(7,439)
	-----	-----
Cash flows from financing activities:		
Proceeds from:		
Issuance of common stock.....	291	164
Subordinated and other debt.....	237	3,000
Payments for:		
Dividends on common stock.....	(651)	(324)
Subordinated and other debt.....	(574)	(311)
Revolving credit agreement, net....	—	(5,450)
	-----	-----
Cash (used) by financing activities.....	(697)	(2,921)
	-----	-----
Cash flows from investing activities:		
Proceeds from investment dividends and sales.....	481	1,147
Payments for equipment, leasehold		

improvements and other.....	(3,271)	(2,354)
	-----	-----
Cash (used) for investing activities.....	(2,790)	(1,207)
	-----	-----
Increase/(decrease) in cash and cash equivalents.....	6,848	(11,567)
Cash and cash equivalents:		
At beginning of period.....	14,047	34,461
	-----	-----
At end of period.....	\$20,895	\$22,894
	=====	=====

Income tax payments totaled \$2,615,000 and \$716,000 and interest payments totaled \$7,664,000 and \$5,693,000 during the three months ended March 31, 1994 and 1993, respectively.

<FN>

See accompanying notes to consolidated financial statements.

</TABLE>

INTER-REGIONAL FINANCIAL GROUP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

A. Condensed Consolidated Financial Statements

The accompanying unaudited interim consolidated financial statements have been prepared in accordance with the instructions for Form 10-Q and do not include all the information and footnotes required by generally accepted accounting principles for complete financial statements and should be read in conjunction with the consolidated financial statements and related notes included in the Company's Annual Report on Form 10-K for the year ended December 31, 1993. In the opinion of management, all adjustments necessary for a fair presentation of such interim consolidated financial statements have been included. All such adjustments are of a normal recurring nature. The results of operations for the three-month period ended March 31, 1994 are not necessarily indicative of results expected for subsequent periods.

Certain prior year amounts in the financial statements have been reclassified to conform to the 1994 presentation.

B. Lease Commitment

During the first quarter of 1994, Rauscher Pierce Refsnes entered into an operating lease for new headquarters space in

Dallas, Texas. The lease commences during the fourth quarter of 1995 and the minimum rental commitments are as follows: 1995 - \$0; 1996 - \$1,294,000; 1997 - \$1,340,000; 1998 - \$1,340,000; 1999 - \$1,340,000; thereafter \$9,892,000.

Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

This discussion should be read in conjunction with Item 7 (Management's Discussion and Analysis) of the Company's Annual Report on Form 10-K for the year ended December 31, 1993.

Summary

Consolidated net revenues (revenues less interest expense) increased \$11.3 million over first quarter of 1993. The Company's commission, principal transaction and investment banking and underwriting businesses benefited early in the quarter, along with the rest of the securities industry, from relatively strong financial markets, low interest rates, high securities prices and increased levels of municipal and corporate underwritings. In the latter part of the quarter, however, rising interest rates led to falling bond prices and as a result, lower trading revenues and sales of fixed income products.

Results of Operations:

<TABLE>

<CAPTION>

(Unaudited, in thousands)	Three Months Ended March 31,	
	1994	1993
<S>	<C>	<C>
Net revenues:		
Dain Bosworth Incorporated.....	\$80,641	\$70,312
Rauscher Pierce Refsnes, Inc.....	42,378	41,825
Corporate, other and eliminations..	660	207
	-----	-----
	\$123,679	\$112,344
	=====	=====
Earnings (Loss) before income taxes:		
Dain Bosworth Incorporated.....	\$11,412	\$10,603
Rauscher Pierce Refsnes, Inc.....	5,058	7,031
Corporate, other and eliminations..	(410)	(1,287)
	-----	-----
	\$16,060	\$16,347
	=====	=====

</TABLE>

Commission revenues rose \$3.7 million in the first quarter

of 1994 over the first quarter of 1993 due principally to increased sales of mutual fund and exchange listed securities to individual and institutional investors made through a sales force that was 9 percent larger than in the prior year period.

The \$1.0 million decline in principal transaction revenues from the 1993 first quarter primarily resulted from lower fixed income trading revenues at Dain Bosworth and Rauscher Pierce Refsnes due to volatile bond market conditions late in the 1994 first quarter and decreased demand for fixed income products. If the volatility in the bond markets continues, principal transaction revenues will likely continue to decline from 1993 levels.

Investment banking and underwriting revenues increased \$3.3 million during the quarter over prior year levels as corporate clients of Dain Bosworth and Rauscher Pierce Refsnes issued greater quantities of corporate equity and debt securities. First quarter 1994 investment banking and underwriting revenues that were generated from municipal clients approximated those generated in the first quarter of 1993. While revenues recognized as a result of municipal refunding transactions declined significantly from levels experienced in the third and fourth quarters of 1993, such revenues increased slightly during the 1994 first quarter over the 1993 first quarter. The Company anticipates that revenues derived from municipal refundings will decline over the remainder of 1994.

Net interest income increased \$1.9 million during the first quarter over prior year levels chiefly as a result of increased margin debit and credit balances with net interest spreads remaining basically the same, larger volumes of stock borrow and stock loan transactions and increased fixed income inventories.

Asset management revenue increased \$1.2 million from the 1993 first quarter due primarily to increased assets in managed account programs at Dain Bosworth and Rauscher Pierce Refsnes as well as increased money market fund balances managed by Insight Investment Management.

During first quarter 1994, compensation and benefits expense increased \$7.9 million due largely to increased commissions, incentive compensation and related benefits that rose in conjunction with increased operating revenues. Also, the 1994 increase was partially the result of a 10 percent increase in the average number of employees.

Expenses other than compensation and benefits increased \$3.7 million for the quarter due primarily to increased usage of communications and market data and clearing services which are

partially volume driven, increased travel costs associated with the generation of new business, increased operating costs at the Company's Minneapolis headquarters due to expansion and the addition of four operating office locations from first quarter 1993 levels.

LIQUIDITY AND CAPITAL RESOURCES

As described in Note K to the Consolidated Financial Statements of the Company's 1993 Annual Report on Form 10-K, Regional Operations Group, Dain Bosworth and Rauscher Pierce Refsnes must comply with certain regulations of the Securities and Exchange Commission and The New York Stock Exchange, Inc., measuring capitalization and liquidity. All three broker-dealers continue to operate above minimum net capital standards. At March 31, 1994, net capital was \$43.9 million at Regional Operations Group, which was 6.7 percent of aggregate debit balances and \$30.8 million in excess of the 5 percent requirement. At March 31, 1994, Dain Bosworth and Rauscher Pierce Refsnes had net capital of \$27.2 million and \$11.5 million, respectively, in excess of the \$1 million requirement.

On April 27, 1994, the Company's Board of Directors announced that it would double the regular quarterly cash dividend paid on the Company's common stock from \$.08 per share to \$.16 per share beginning with the dividend paid during the 1994 second quarter. The determination of future cash dividends, if any, to be declared and paid will depend on the Company's future financial condition, earnings and available funds. On the same date, the Company's Board of Directors authorized a plan to repurchase up to 400,000 shares of the Company's common stock. Purchases of the common stock will be made from time to time at prevailing prices in the open market, by block purchases, or in privately negotiated transactions. The repurchased shares will be used for the Company's employee stock option and other benefit plans, or for corporate purposes.

PART II - OTHER INFORMATION

Item 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits

Exhibit 11 - Computation of Net Earnings Per Share

(b) Reports on Form 8-K

One report on Form 8-K was filed during the quarter ended March 31, 1994:

Items Reported

Item 5 - Other Events (Election of two additional outside directors and election of John C. Appel as President and Chief Operating Officer of Dain Bosworth Incorporated)

Item 7 - Financial Statements & Exhibits

Exhibit 4(a) - First Amendment to Credit Agreement dated November 30, 1993.

Exhibit 4(b) - Third Amendment to Term Loan Agreement dated November 30, 1993.

Exhibit 28 - Press release regarding the election of John C. Appel as President and Chief Operating Officer of Dain Bosworth Incorporated.

Date of Report - February 1, 1994.

Financial Statements Filed - None.

SIGNATURE

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.

INTER-REGIONAL FINANCIAL GROUP, INC.
Registrant

Date: May 6, 1994 By Daniel J. Reuss

Daniel J. Reuss
Senior Vice President, Controller
and Treasurer (Principal
Financial and Accounting Officer)

INTER-REGIONAL FINANCIAL GROUP, INC. AND SUBSIDIARIES
INDEX OF EXHIBITS TO QUARTERLY REPORT ON FORM 10-Q
FOR QUARTER ENDED MARCH 31, 1994

Exhibit 11 - Computation of Net Earnings Per Share

Filed herewith.

EXHIBIT 11

<TABLE>

INTER-REGIONAL FINANCIAL GROUP, INC.

COMPUTATION OF NET EARNINGS PER SHARE

(Unaudited, amounts in thousands, except per-share data)

<CAPTION>

	Three Months Ended March 31,	
	1994	1993
<S>	<C>	<C>
PRIMARY EARNINGS PER SHARE:		
Net earnings.....	\$10,171	\$10,135
	=====	=====
Average number of common and common equivalent shares outstanding:		
Average common shares outstanding.	8,149	8,099
Incentive stock options.....	356	235
	-----	-----
	8,505	8,334
	=====	=====
Primary earnings per share.....	\$ 1.20	\$ 1.22
	=====	=====
EARNINGS PER SHARE ASSUMING FULL DILUTION:		
Net earnings.....	\$10,171	\$10,135
	=====	=====
Average number of common and common equivalent shares outstanding:		
Average common shares outstanding...	8,149	8,099
Incentive stock options.....	356	241
	-----	-----
	8,505	8,340
	=====	=====
Fully diluted earnings per share:.....	\$ 1.20	\$ 1.22
	=====	=====

</TABLE>