# 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

**PIPER JAFFRAY COMPANIES INC**

CIK:**78778**| IRS No.: **411233380** | State of Incorp.:**DE** | Fiscal Year End: **0930**
Type: **10-Q** | Act: **34** | File No.: **001-07421** | Film No.: **94527988**
SIC: **6211** Security brokers, dealers & flotation companies

Mailing Address
*222 SOUTH 9TH STREET*
*MINNEAPOLIS MN 55402*

Business Address
*222 S NINTH ST*
*PIPER JAFFRAY TOWER*
*MINNEAPOLIS MN 55402*
*6123426000*

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington D.C. 20549

# FORM 10-Q

QUARTERLY REPORT UNDER SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

For Quarter Ended March 31, 1994
Commission file number 1-7421

PIPER JAFFRAY COMPANIES INC.
(Exact name of Registrant as specified in its charter)

| | |
|---|---|
| Delaware | 41-1233380 |
| (State or other jurisdiction of incorporation or organization) | (I.R.S. Employer Identification No.) |

| | |
|---|---|
| Piper Jaffray Tower, 222 South 9th Street, Minneapolis, Minnesota | 55402 |
| (Address of principal executive offices) | (Zip Code) |

Registrant's telephone number, including area code:
(612) 342-6000

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 March 31, 1994, 17,450,629 shares of the Registrant's common stock were issued and outstanding.

PIPER JAFFRAY COMPANIES INC.

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PART I. FINANCIAL INFORMATION
Item 1. Financial Statements

PIPER JAFFRAY COMPANIES INC.

CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION
(In Thousands)

| | March 31, 1994 (Unaudited) | Sept. 30, 1993 |
|---|---|---|
| ASSETS | | |
| Cash | $ 32,298 | $ 19,884 |
| Receivable from other brokers and dealers | 26,097 | 31,425 |
| Receivable from customers | 359,956 | 335,830 |
| Trading securities owned, at market | 60,826 | 77,766 |
| Office equipment and leasehold improvements, at cost, less accumulated depreciation of $40,071 and $36,863, respectively | 23,952 | 17,842 |
| Deferred income tax asset | 1,263 | - |
| Other assets | 38,855 | 52,399 |
| | $ 543,247 | $ 535,146 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| Short-term borrowings | $ 71,071 | $ 45,554 |
| Checks and drafts payable | 43,146 | 38,683 |

| | | |
|---|---|---|
| Payable to other brokers and dealers | 75,101 | 90,393 |
| Payable to customers | 101,818 | 73,600 |
| Trading securities sold but not yet purchased, at market | 14,352 | 18,187 |
| Employee compensation | 52,269 | 74,856 |
| Federal and state income taxes | 688 | 3,462 |
| Deferred income taxes | | 911 |
| Other accounts payable and accrued expenses | 16,914 | 31,588 |
| | 375,359 | 377,234 |
| Shareholders' equity: | | |
| Common stock, $1 par value; authorized 40,000,000 shares; 17,521,272 and 17,530,872 shares issued, respectively | 17,521 | 17,531 |
| Additional paid-in capital | 7,242 | 6,829 |
| Retained earnings | 144,275 | 133,552 |
| Less treasury stock, at cost; 70,643 shares | (1,150) | - |
| | 167,888 | 157,912 |
| | $ 543,247 | $ 535,146 |

See accompanying notes to consolidated financial statements.

PIPER JAFFRAY COMPANIES INC.

CONSOLIDATED STATEMENTS OF INCOME
(In Thousands, Except Per Share Amounts)
(Unaudited)

| | Three Months Ended March 31, | | Six Months Ended March 31, | |
|---|---|---|---|---|
| | 1994 | 1993 | 1994 | 1993 |
| REVENUES | | | | |
| Commissions | $42,031 | $31,794 | $79,784 | $60,542 |
| Profits on principal transactions | 24,807 | 24,197 | 50,719 | 47,457 |
| Investment banking | 14,778 | 34,692 | 35,440 | 57,000 |
| Asset management fees | 13,438 | 9,646 | 26,826 | 17,709 |
| Interest | 5,629 | 4,588 | 11,188 | 9,313 |
| Other income | 2,150 | 3,211 | 5,064 | 6,009 |
| Total revenues | 102,833 | 108,128 | 209,021 | 198,030 |
| EXPENSES | | | | |

| | | | | |
|---|---|---|---|---|
| Employee compensation | 64,757 | 68,877 | 131,093 | 123,878 |
| Floor brokerage and clearance | 1,971 | 1,796 | 3,789 | 3,206 |
| Interest | 1,543 | 1,124 | 2,819 | 2,663 |
| Occupancy and equipment | 6,876 | 5,752 | 13,312 | 11,617 |
| Communications | 3,870 | 3,011 | 7,168 | 5,344 |
| Travel and promotional | 3,910 | 3,251 | 7,588 | 6,087 |
| Other operating expenses | 8,874 | 5,948 | 15,593 | 11,985 |
| Total expenses | 91,801 | 89,759 | 181,362 | 164,780 |
| Income before income taxes | 11,032 | 18,369 | 27,659 | 33,250 |
| Income taxes | 4,136 | 7,182 | 10,787 | 13,134 |
| Net income | $6,896 | $11,187 | $16,872 | $20,116 |
| Net income per common and common equivalent share (primary and fully diluted) | $ .38 | $ .63 | $ .93 | $ 1.14 |
| Weighted average number of common and common equivalent shares outstanding | 18,139 | 17,666 | 18,196 | 17,688 |
| Dividends per share | $ .175 | $ .125 | $ .35 | $ .25 |

See accompanying notes to consolidated financial statements.

PIPER JAFFRAY COMPANIES INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS
(In Thousands)

(Unaudited)

| | Six Months Ended March 31, 1994 | 1993 |
|---|---|---|
| Operating activities: | | |

| | | |
|---|---|---|
| Net income | $ 16,872 | $ 20,116 |
| Adjustments to reconcile net income to net cash used by operating activities: | | |
| Depreciation and amortization | 3,208 | 2,443 |
| Deferred income taxes | (2,174) | 47 |
| (Increase) decrease in: | | |
| Net receivable from customers | 4,092 | (30,033) |
| Net trading securities | 13,105 | 34,929 |
| Other | (1,196) | 1,642 |
| Increase (decrease) in: | | |
| Net payable to other brokers and dealers | (9,964) | (16,321) |
| Checks and drafts payable | 4,463 | (648) |
| Employee compensation | (22,587) | (11,957) |
| Federal and state income taxes payable | (2,774) | (1,629) |
| Net cash provided by (used in) operating activities | 3,045 | (1,411) |
| Financing activities: | | |
| Increase in short-term borrowings | 25,517 | 21,498 |
| Net common stock issued | 789 | 1,343 |
| Treasury shares repurchased | (1,536) | |
| Dividends paid | (6,149) | (4,280) |
| Net cash provided by financing activities | 18,621 | 18,561 |
| Net cash used for purchase of office equipment and leasehold improvements | (9,252) | (5,102) |
| Increase in cash | 12,414 | 12,048 |
| Cash at beginning of period | 19,884 | 14,017 |
| Cash at end of period | $ 32,298 | $ 26,065 |

Supplemental disclosure of cash flow information
Cash paid during the six months ended for:

| | | |
|---|---|---|
| Interest | $ 2,705 | $ 2,625 |
| Income taxes | $ 15,735 | $ 14,456 |

See accompanying notes to consolidated financial statements.

PIPER JAFFRAY COMPANIES INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Six Months Ended March 31, 1994

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying consolidated financial statements of Piper Jaffray Companies Inc. and its subsidiaries ("the Company") have been prepared in conformity with generally accepted accounting principles and should be read in conjunction with the Company's Annual Report for the year ended September 30, 1993. The results of operations for the six months ended March 31, 1994, are not necessarily indicative of the results to be expected for the year ending September 30, 1994.

The consolidated statement of financial condition as of March 31, 1994 and the other consolidated financial information for the periods ended March 31, 1994 and 1993, is unaudited, but management of the Company believes that all adjustments (consisting only of normal recurring accruals) necessary for a fair statement of the results of operations for the periods have been included.

Net income per common and common equivalent share is calculated by dividing net income by the weighted average number of common shares and common share equivalents outstanding, which includes the dilutive effect of all outstanding stock options. Prior to the quarter ended March 31, 1993, the dilutive effect of common share equivalents was not material.

All share and per share amounts have been restated to reflect the two-for-one stock split declared November 9, 1993.

2. NET CAPITAL REQUIREMENTS

(In thousands)

At March 31, 1994, the Company's broker-dealer subsidiary's net capital under applicable regulations was $77,844 or 21% of aggregate debit balances and $70,436 in excess of the minimum required net capital.

3. CONTINGENCIES

See Part II, Item 1. "Legal Proceedings".

4. TREASURY STOCK

During the quarter ended March 31, 1994, 93,500 shares of the Company's common stock were repurchased by the Company pursuant to the Board of Directors' 1992 authorization to repurchase up to 400,000 shares to satisfy employee benefit plan obligations.

| | | |
|---|---|---|
| Common shares authorized for repurchase in 1992 | | 400,000 |
| Common shares repurchased - fiscal years: | | |
| 1992 | 201,000 | |
| 1993 | 0 | |
| 1994 | 93,500 | |
| | | 294,500 |
| Common shares available at March 31, 1994, for repurchase pursuant to 1992 authorization | | 105,500 |
| Total common shares repurchased | | 294,500 |
| Treasury shares reissued - fiscal years: | | |
| 1992 | 6,262 | |
| 1993 | 194,738 | |
| 1994 | 22,857 | |
| | | 223,857 |
| Treasury shares outstanding at March 31, 1994 | | 70,643 |

On April 20, 1994, the Board of Directors authorized the repurchase of an additional 500,000 shares of the Company's common stock.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

This discussion should be read in conjunction with Management's Financial Discussion contained in the Company's Annual Report for the year ended September 30, 1993.

OPERATIONS

The Company's revenues for the six months ended March 31, 1994 increased 6% over the first half of fiscal year 1993 to $209.0

million. Net income for the first six months was $16.9 million, a decrease of 16% compared to the same period of the prior fiscal year. Net income per share for the first six months was $0.93 compared to $1.14 a year earlier. Revenues for the quarter ended March 31, 1994 were $102.8 million, a 5% decrease from the same period a year ago. Net income was $6.9 million for the quarter ended March 31, 1994, down 38% from the same period of the prior fiscal year. Net income per share for the quarter ended March 31, 1994 was $0.38, a decrease of 40% from the same period of the prior fiscal year.

Second quarter and six month comparisons were affected by fewer and smaller proprietary fund offerings by the Company's asset management subsidiary, Piper Capital Management Incorporated, than for the comparable periods a year ago and by lower fixed income capital markets revenues and earnings because of the volatile bond market during the last half of the quarter and completion of the refunding cycle for public issuers. In addition, earnings were impacted by certain additional reserves as well as losses from the Hercules joint venture.

Increases in commission revenues and asset management fees during the quarter ended and six months ended March 31, 1994 offset the decrease in underwriting revenues during the same periods. Mutual fund commissions for the six months ended March 31, 1994 were up $8.7 million, or 46%, as compared to the same period of the prior fiscal year. Asset management fees for the three months ended March 31, 1994 were up $3.8 million, or 39% from the first quarter of fiscal year 1993. Assets under management by Piper Capital Management as of March 31, 1994 increased by 24% to $12.9 billion as compared to March 31, 1993.

Employee compensation, including broker compensation and employee incentives, decreased by $4.1 million, or 6% as compared to the second quarter of fiscal 1993, in line with revenues. Expenses for the three months ended March 31, 1994 and for the six months ended March 31, 1994 increased by 2% and 10%, respectively, over the same periods last year. These expenses include investments the Company has made in future growth opportunities, primarily through the addition of new employees, which have not yet been matched by a proportionate increase in productivity.

LIQUIDITY AND CAPITAL RESOURCES

The Company has a liquid balance sheet. Most of the Company's assets consist of cash and assets readily convertible into cash. Management believes that existing capital, funds from operations and current credit lines will be sufficient to finance the

Company's business. The fluctuations in cash flows from financing activities are directly related to operating activities due to the liquid nature of the Company's balance sheet.

In the normal course of business, the Company's customer, trading and correspondent clearance activities involve the execution, settlement and financing of various securities transactions. These activities may expose the Company to off-balance sheet risk in the event the other party to the transaction is unable to fulfill its contractual obligations. The Company utilizes financial futures contracts to a limited extent to hedge fixed income inventories against market interest rate fluctuations. Such transactions are subject to the same controls as all trading for the Company's own account. The Company currently does not enter into repurchase agreements, but may do so in the future to facilitate hedging in a volatile interest rate environment. The Company does not, and has no plans to, enter into interest rate swaps or foreign currency contracts for hedging or speculative purposes.

The Company's financing and customer securities activities involve the Company using securities as collateral. In the event the counterparty does not meet its contractual obligation to return securities used as collateral or customers do not deposit additional securities or cash for margin when required, the Company may be exposed to the risk of reacquiring the securities or selling the securities at unfavorable market prices in order to satisfy its obligations to its customers or counterparties. The Company controls this risk, consistent with general securities industry practices, by monitoring the market value of securities pledged or used as collateral on a daily basis and requiring adjustments in the event of excess market exposure.

The Company sells securities not yet purchased (short sales) for its own account. The establishment of short positions exposes the Company to off-balance sheet risk in the event prices increase, as the Company may be obligated to acquire the securities at unfavorable market prices.

The Company intends to continue to repurchase shares of its common stock periodically, as market conditions warrant, to satisfy obligations to present and future employee benefit plans. See Note 4 to the consolidated financial statements.

There are no additional known trends or uncertainties which would cause a material change in the Company's capital structure. There were no material commitments for capital expenditures as of March 31, 1994.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

The Company is involved in various lawsuits or threatened lawsuits incidental to the securities business. Some of these actions are described in more detail below.

Piper Jaffray has been named as one of many defendants in two lawsuits separately filed in the United States District Court for the District of Utah resulting from Piper Jaffray's dealings with Bonneville Pacific Corporation ("BPCO"). Other defendants include BPCO's attorneys, accountants, lenders and other investment bankers. BPCO is currently in Chapter 11 reorganization proceedings in Utah.

The plaintiffs in the first-filed lawsuit originally brought their complaint as a purported class action relating to the $63.25 million offering of convertible subordinated debentures of BPCO in August 1989, for which Piper Jaffray was a co-managing underwriter in a syndicate led by Kidder, Peabody & Co., and secondary trading in BPCO's Common Stock from August 1989 through the inception of BPCO's bankruptcy proceeding in January 1992. The plaintiffs in their complaint alleged violations of federal and state securities laws, common law fraud and negligent misrepresentation. On March 14, 1994, the plaintiffs filed a motion to amend their complaint seeking leave to add additional parties and claims. The proposed amended complaint seeks to add claims under the Racketeer Influenced and Corrupt Organizations Act ("RICO") and to expand the class period, under a common law fraud theory, to include the $22.5 million initial public offering of BPCO's Common Stock in August 1986, for which Piper Jaffray acted as the sole underwriter, and the $31 million secondary offering of BPCO's Common Stock in August 1987, for which Piper Jaffray acted as co-managing underwriter. In addition to actual damages, the proposed amended complaint also seeks treble damages under RICO, punitive damages, interest, costs and attorneys' fees. On April 29, 1994, motions to dismiss brought by Piper Jaffray and the other underwriter defendants with respect to the plaintiffs' claims of violations of Section 10(b) of the Securities Exchange Act of 1934 and Rule 10b-5 promulgated thereunder, conspiracy, aiding and abetting, common-law fraud and negligent misrepresentation were granted. The judge in the case certified to the Utah Supreme Court issues related to the plaintiffs' claims under the Utah Uniform Securities Act and further denied plaintiffs' March 14, 1994 motion for leave to file an amended complaint as premature. The plaintiffs were given leave to amend all dismissed claims except the conspiracy and aiding and abetting claims under Section 10(b), which were dismissed with prejudice. Plaintiffs have not yet served a proposed new complaint. At present, the only claims pending against Piper Jaffray in this action are brought under Section 11 of the Securities Act of 1933.

The second lawsuit was brought by the BPCO bankruptcy trustee. The most recent amendment to the complaint filed on January 13, 1994 asserts conspiracy, RICO, common law fraud, breach of fiduciary duty and similar theories arising out of the activities of BPCO from approximately 1984 through the inception of its bankruptcy proceeding. While creditor claims in the BPCO bankruptcy aggregate in excess of $100 million, the amended complaint does not specify or articulate theories of damage that would enable a quantification of the plaintiff's damage claims at this time. The plaintiff seeks actual damages, treble damages under RICO, punitive damages, interest, costs and attorneys' fees. Piper Jaffray and other defendants have made a motion to dismiss the complaint which is currently pending.

Management of the Company intends to defend both actions vigorously and believes that it has meritorious defenses to the claims being asserted.

Although it is impossible to predict the outcome of the outstanding litigation, in the opinion of management of the Company, after consultation with counsel, the resolution of all the various lawsuits and claims will have no material adverse effect on the consolidated financial statements.

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits
11 - Statement Regarding Computation of Per Share Earnings.

(b) Reports on Form 8-K

The Company was not required to file any reports on Form 8-K to the Securities and Exchange Commission during the quarter ended March 31, 1994.

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.

PIPER JAFFRAY COMPANIES INC.

(Registrant)

Dated May 9, 1994 /s/ Charles N. Hayssen
CHARLES N. HAYSSEN
Chief Financial Officer
and Managing Director

Dated May 9, 1994 /s/ William H. Ellis
WILLIAM H. ELLIS
President and Chief Operating Officer

PIPER JAFFRAY COMPANIES INC.

INDEX OF EXHIBITS TO QUARTERLY REPORT ON FORM 10Q

Exhibit 11 Statement Regarding Computation of Per Share Earnings

Exhibit 11

PIPER JAFFRAY COMPANIES INC.

STATEMENT RE: COMPUTATION OF PER SHARE EARNINGS
(In Thousands, Except Per Share Amounts)
(Unaudited)

| | Three Months Ended March 31 | | Six Months Ended March 31 | |
|---|---|---|---|---|
| | 1994 | 1993 | 1994 | 1993 |
| PRIMARY NET INCOME PER SHARE: | | | | |
| Net income | $ 6,896 | $ 11,187 | $16,872 | $ 20,116 |
| Average number of common and common equivalent shares outstanding: | | | | |
| Average common shares outstanding | 17,544 | 17,104 | 17,549 | 17,102 |
| Dilutive effect of CSE's: | | | | |
| Book value plan options | 338 | 330 | 354 | 332 |
| Executive incentive stock options | 257 | 222 | 292 | 220 |
| | 18,139 | 17,656 | 18,195 | 17,654 |
| Primary net income per share | $ .38 | $ .63 | $ .93 | $ 1.14 |
| NET INCOME PER SHARE ASSUMING FULL DILUTION: | | | | |
| Net income | $ 6,896 | $ 11,187 | $16,872 | $20,116 |
| Average number of common and common equivalent shares outstanding: | | | | |
| Average common shares outstanding | 17,544 | 17,104 | 17,549 | 17,102 |
| Dilutive effect of CSE's: | | | | |
| Book value plan options | 338 | 336 | 355 | 348 |
| Executive incentive stock options | 257 | 226 | 292 | 238 |
| | 18,139 | 17,666 | 18,196 | 17,688 |

| | | | | |
|---|---|---|---|---|
| Fully diluted net income per share | $ .38 | $ .63 | $ .93 | $ 1.14 |