

SECURITIES AND EXCHANGE COMMISSION

FORM 10-Q

Quarterly report pursuant to sections 13 or 15(d)

Filing Date: **1995-06-13** | Period of Report: **1995-04-30**
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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.: **95546830**
SIC: **6211** Security brokers, dealers & flotation companies

Business Address
50 N FRONT ST
MEMPHIS TN 38103
9015244100

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 April 30, 1995

Commission file number 1-9015

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

TENNESSEE
(State or other jurisdiction of
incorporation or organization)

62-1153850
(IRS Employer Identification No.)

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

38103
(Zip Code)

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 April 30, 1995
13,442,875

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PART I FINANCIAL INFORMATION

CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

MORGAN KEEGAN, INC. and Subsidiaries

<TABLE>

	April 30 1995 (unaudited)	July 31 1994
	(in thousands)	
<S>	<C>	<C>
ASSETS		
Cash	\$ 12,938	\$ 12,854
Securities segregated for regulatory purposes, at market	180,400	35,701
Deposits with clearing organizations and others	7,305	2,591
Receivable from brokers and dealers and clearing organizations	46,167	29,945
Receivable from customers	261,325	236,764
Securities purchased under agreements to resell	248,025	62,811
Securities owned, at market	147,400	167,568
Memberships in exchanges, at cost (market value- \$2,202,000 at 4-30-95; \$2,310,000 at 7-31-94)	719	678
Furniture, equipment and leasehold improvements, (less allowances for depreciation and amortization \$10,904,000 at 4-30-95; \$12,296,000 at 7-31-94)	11,867	9,353
Other assets	20,492	12,744
	\$936,638	\$571,009
LIABILITIES AND STOCKHOLDERS' EQUITY		
Short-term borrowings	\$ 84,169	\$ 16,500
Commercial paper	7,385	10,593
Payable to brokers and dealers and clearing organizations	11,068	13,581
Payable to customers	370,764	241,141
Customer drafts payable	14,325	10,950
Securities sold under agreements to repurchase	221,748	61,849
Securities sold, not yet purchased, at market	59,043	35,985
Other liabilities	34,967	55,045
	803,469	445,644
Stockholders' equity		
Common Stock; par value \$.625 per share:		

Authorized 100,000,000 shares; 13,442,875 shares issued and outstanding at 4-30-95; 13,704,011 at 7-31-94	8,402	8,565
Additional paid-in capital		5,522
Retained earnings	124,767	111,278
	133,169	125,365
	\$936,638	\$571,009

</TABLE>

[FN]

See accompanying notes.

CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)

MORGAN KEEGAN, INC. and Subsidiaries

<TABLE>

	Three Months Ended April 30		Nine Months Ended April 30	
	(in thousands, except per share amounts)			
	1995	1994	1995	1994
	<C>	<C>	<C>	<C>
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REVENUES				
Commissions	\$10,916	\$12,418	\$31,780	\$36,848
Principal transactions	19,870	18,807	62,868	70,819
Investment banking	5,672	14,865	30,908	36,144
Interest	10,519	6,731	27,423	18,500
Other	3,170	3,473	8,641	11,773
TOTAL	50,147	56,294	161,620	174,084
EXPENSES				
Compensation	25,251	30,902	83,387	94,170
Floor brokerage and clearance	1,026	971	2,822	2,896
Communications	3,961	3,548	11,605	10,085
Travel and promotional	1,292	1,229	4,043	4,284
Occupancy and equipment costs	2,294	1,973	6,821	6,172
Interest	6,915	4,481	18,107	10,910
Taxes, other than income taxes	1,766	1,704	4,750	4,050
Other operating expenses	682	829	2,617	2,817
	43,187	45,637	134,152	135,384
INCOME BEFORE INCOME TAXES	6,960	10,657	27,468	38,700
INCOME TAX EXPENSE	2,600	4,000	10,400	14,800
NET INCOME	\$ 4,360	\$ 6,657	\$17,068	\$23,900
NET INCOME PER SHARE	\$ 0.32	\$ 0.45	\$ 1.26	\$ 1.63
DIVIDENDS PER SHARE	\$ 0.08	\$ 0.07	\$ 0.24	\$ 0.21

</TABLE>

[FN]

See accompanying notes.

CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)
MORGAN KEEGAN, INC. and Subsidiaries

<TABLE>

	Nine Months Ended April 30	
	1995	1994
	(in thousands)	
<S>	<C>	<C>
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Income	\$17,068	\$23,900
Adjustments to reconcile net income to cash (used for) provided by operating activities:		
Depreciation and amortization	2,437	2,481
Deferred income taxes	90	90
Amortization of restricted stock	1,110	720
	20,705	27,191
(Increase) decrease in operating assets:		
Receivable from brokers and dealers and clearing organizations	(16,222)	(1,112)
Deposits with clearing organizations and others	(4,714)	(128)
Receivable from customers	(24,561)	(77,852)
Securities segregated for regulatory purposes	(144,699)	5,400
Securities purchased under agreements to resell	(185,214)	22,806
Securities owned	20,168	(26,195)
Other assets	(7,838)	(4,349)
Increase (decrease) in operating liabilities:		
Payable to brokers and dealers and clearing organizations	(2,513)	(1,007)
Payable to customers	129,623	36,509
Customer drafts payable	3,375	2,694
Securities sold under agreements to repurchase	159,899	32,607
Securities sold, not yet purchased	23,058	3,105
Other liabilities	(20,078)	2,516
	(69,716)	(5,006)
Cash (used for) provided by operating activities	(49,011)	22,185

CASH FLOWS FROM FINANCING ACTIVITIES

Commercial paper	(3,208)	(901)
Issuance of Common Stock	2,209	6,423
Retirement of Common Stock	(9,348)	(8,248)
Dividends paid	(3,235)	(3,053)
Short-term borrowings	67,669	(15,005)
Cash provided by (used for) financing activities	54,087	(20,784)

CASH FLOWS FROM INVESTING ACTIVITIES

Payments for furniture, equipment and leasehold improvements	(4,951)	(3,199)
Membership in exchanges	(41)	
Cash used for investing activities	(4,992)	(3,199)
Increase (decrease) in Cash	84	(1,798)
Cash at Beginning of Period	12,854	14,859
Cash at End of Period	\$12,938	\$13,061

</TABLE>

[FN]

Income tax payments were approximately \$11,818,000 and \$17,502,000 for the nine month period ending April 30, 1995 and 1994, respectively. Interest payments were approximately \$18,085,000 and \$10,827,000 for the same periods, respectively.

See accompanying notes.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

MORGAN KEEGAN, INC. and Subsidiaries

April 30, 1995

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 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 nine months ended April 30, 1995, are not necessarily indicative of the results that may be expected for the year ending July 31, 1995. For further information, refer to the financial statements and notes hereto included in the Registrant's annual report on Form 10-K for the year ended July 31, 1994.

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. At April 30, 1995, M.K. & Co. had net capital of \$81,671,499 which was 30% of its aggregate debit balances and \$76,293,818 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.

NOTE D - SUBSEQUENT EVENT

On May 17, 1995, the Board of Directors approved a three-for-two split to be effected as a stock dividend to be distributed on June 9, 1995, to the shareholders of record June 1, 1995. All earnings per share data will be restated in the Registrant's fourth quarter and annual report to give effect to the stock split.

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 and also provides investment advisory services. While M.K. & Co. regularly participates in the trading of some derivative securities for its customers, this trading is not a major portion of M.K. & Co.'s business. 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 control costs.

Results of Operations

Revenues decreased during the third quarter \$6,147,000 or 10.9% below the third quarter of fiscal 1994. An increase of \$3,788,000 in interest income reduced the effect of the \$9,193,000 decrease in investment banking revenues in the current quarter. Investment banking activity was very strong in the previous year; yet, while this activity has been slower in the current year, it appears to be rebounding with renewed interest by investors in equity offerings in the early stages of the fourth quarter of the current year.

Operating expenses decreased \$2,450,000 or 5.4% below the quarter from \$45,637,000 in the previous year to \$43,187,000 in the current year. Employee compensation decreased approximately \$5,651,000 while interest expense increased approximately \$2,434,000. These changes correspond with the fact revenues have decreased and interest rates have increased in the current year. Other expenses remained relatively comparable between the quarters.

Net income for the quarter was approximately \$4,360,000 or \$.32 per share compared to \$6,657,000 or \$.45 for the second quarter of fiscal 1994.

Total revenues were approximately \$161,620,000 for the nine months ended April 30, 1995 compared to \$174,084,000 for the nine months ended April 30, 1994. Interest income increased by 48.2% over the previous year while decreases in commissions (13.8%), principal transactions (11.2%), and investment banking (14.5%) resulted in the overall decrease. These decreases are attributable to increases in short-term interest rates in the current year which have created uncertainty in the equity and fixed income markets.

Operating expenses decreased during the first nine months of fiscal 1995 by approximately \$1,232,000 from \$134,384,000 in the previous year to \$135,152,000. Compensation expense decreased approximately \$10,783,000 corresponding with the 7.2% decrease in revenues. Interest expense has increased approximately \$7,197,000 as a result of higher interest rates and the Registrant's broker/dealer subsidiary carrying more inventory

MANAGEMENT'S DISCUSSION & ANALYSIS

OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

MORGAN KEEGAN, INC. and Subsidiaries

Results of Operations (continued)

throughout the year. Communications expenses have increased approximately \$1,520,000 as a result of continued efforts to enhance the branch communications network.

Year-to-date net income was \$1.26 per share for fiscal 1995 compared to \$1.63 per share for the same period of fiscal 1994.

Liquidity and Capital Resources

High liquidity is reflected in the Registrant's statement of financial condition with approximately 96% 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 nine months ended April 30, 1995, cash flows from operating activities decreased \$49,011,000 compared to a \$22,185,000 increase in the same period of fiscal 1994. This change was primarily a result of the Registrant's brokerage subsidiary carrying higher reverse repurchase agreement balances and regulatory deposits.

Cash flow from financing activities increased by \$54,087,000 for the nine months ended April 30, 1995, compared to a \$20,784,000 decrease for the nine month period ended April 30, 1994. This increase is related to the increase in short-term borrowings used to finance higher inventory levels throughout the period.

Investing activities resulted in a \$4,951,000 decrease in cash flows for the current period compared to a \$3,199,000 decrease in the previous fiscal year. This decrease is a result of the Registrant's continued commitment to enhance broker/dealer subsidiary's branch communication network. The Registrant has no material commitment for capital expenditures.

At April 30, 1995, the Registrant's broker/dealer subsidiary, which is regulated under the SEC's uniform net capital rule, had net capital of \$81,671,499 which was \$76,293,818 in excess of the 2% net capital requirement. During the quarter, the Registrant declared and paid cash dividends of \$0.08 per share on the shares outstanding.

Also during the quarter, the Registrant continued to its previously authorized stock repurchase program by buying 292,700 shares for \$4,329,836. The total repurchased for the year is 686,800 shares at a cost of \$9,348,179.

Subsequent to the end of the quarter, the Registrant's board of directors declared a three-for-two stock split to be effected as a stock dividend. This stock split was to reflect management's optimistic outlook and to make the Registrant's stock more attractive to institutional investors.

PART II OTHER INFORMATION

MORGAN KEEGAN, INC. and Subsidiaries

Item 1. Legal proceedings

On February 2, 1995, the Court in MDL #863 (described previously

in SEC 10-Q and 10-K filings) gave preliminary approval to the settlement of the class action lawsuits and related claims in MDL #863, in which Morgan Keegan and Company, Inc. (the Company) was one of several named Defendants. The MDL Court established an April 14, 1995, deadline for class members to request exclusion from this settlement. While bondholders who have opted out of the settlement may continue to assert significant claims, management is of the opinion that this settlement will receive final approval of the MDL Court on July 31, 1995, and further, that all remaining potential claims are subject to meritorious defenses, and that such claims and the Company's portion of the class settlement will have no material adverse effective on the Company's results of operations or financial condition.

In addition to the matters described above, the Registrant is subject to various claims incidental to its securities business. While the ultimate resolution of pending litigation and claims 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 such lawsuits and claims, and that liability, if any, resulting from all litigation will have no material adverse effect on the Registrant's consolidated financial condition.

Item 2. Changes in Securities

None

Item 3. Defaults upon Senior Securities

None

Item 4. Submission of Matters to a Vote of Security Holders

None

Item 5. Other Information

None

Item 6. Exhibits and Reports on Form 8-K

a. Exhibits

1. Computation of Earnings per Share

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 June 14, 1995 /S/ Joseph C. Weller
Joseph C. Weller
EVP, CFO, Sec.-Treas.

PART II OTHER INFORMATION (Continued)

MORGAN KEEGAN, INC. and Subsidiaries

Item 6. Exhibit a.1.

COMPUTATION OF EARNINGS PER SHARE

<TABLE>

	Three Months Ended April 30		Nine Months Ended April 30	
	1995	1994	1995	1994
<S>	<C>	<C>	<C>	<C>
PRIMARY				
Average shares outstanding	13,608,875	14,674,987	13,566,872	14,620,728
Net effect of dilutive stock options based on the treasury stock method using average market price.	48,621	26,026	31,084	45,525
TOTAL	13,657,496	14,701,013	13,597,956	14,666,253
Net Income	\$ 4,360,211	\$ 6,657,150	\$17,068,163	\$23,899,652
Per Share Amount	\$ 0.32	\$ 0.45	\$ 1.26	\$ 1.63

FULLY DILUTED

Average shares outstanding	13,608,875	14,674,987	13,566,872	14,620,728
Net effect of dilutive stock options based on the treasury stock method using the quarter end market price,if higher than average market price.	48,621	26,026	31,084	45,525
TOTAL	13,657,496	14,701,013	13,597,956	14,666,253
Net Income	\$ 4,360,211	\$ 6,657,150	\$17,068,163	\$23,899,652
Per Share Amount	\$ 0.32	\$ 0.45	\$ 1.26	\$ 1.63

</TABLE>

WARNING: THE EDGAR SYSTEM ENCOUNTERED ERROR(S) WHILE PROCESSING THIS SCHEDULE.

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This schedule contain summary financial information extracted from the Morgan Keegan, Inc. Form 10-Q for the period ended April 30, 1995 and is qualified in its entirety by reference to such financial statements.

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