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PIPER JAFFRAY COMPANIES  
Form 10-Q  
November 05, 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 September 30, 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 every Interactive Data File required to be submitted 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 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  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

As of October 31, 2018, the registrant had 14,827,021 shares of Common Stock outstanding.

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## PART I. FINANCIAL INFORMATION

## ITEM 1. FINANCIAL STATEMENTS.

## Piper Jaffray Companies

## Consolidated Statements of Financial Condition

	September 30, 2018	December 31, 2017
	(Unaudited)	
(Amounts in thousands, except share data)		
Assets		
Cash and cash equivalents	\$ 68,774	\$ 33,793
Receivables from brokers, dealers and clearing organizations	174,065	145,394
Financial instruments and other inventory positions owned	635,893	663,330
Financial instruments and other inventory positions owned and pledged as collateral	162,227	720,047
Total financial instruments and other inventory positions owned	798,120	1,383,377
Fixed assets (net of accumulated depreciation and amortization of \$61,897 and \$55,944, respectively)	31,267	25,179
Goodwill	81,855	81,855
Intangible assets (net of accumulated amortization of \$93,262 and \$85,417, respectively)	14,989	22,834
Investments	152,380	176,212
Net deferred income tax assets	103,287	101,205
Other assets	68,699	54,834
Total assets	\$ 1,493,436	\$ 2,024,683
Liabilities and Shareholders' Equity		
Short-term financing	\$ 49,957	\$ 289,937
Senior notes	125,000	125,000
Payables to brokers, dealers and clearing organizations	6,371	19,392
Financial instruments and other inventory positions sold, but not yet purchased	254,585	399,227
Accrued compensation	252,448	400,092
Other liabilities and accrued expenses	57,660	49,800
Total liabilities	746,021	1,283,448
Shareholders' equity:		
Common stock, \$0.01 par value:		
Shares authorized: 100,000,000 at September 30, 2018 and December 31, 2017;		
Shares issued: 19,517,285 at September 30, 2018 and 19,512,914 at December 31, 2017;		
Shares outstanding: 13,366,703 at September 30, 2018 and 12,911,149 at December 31, 2017	195	195
Additional paid-in capital	801,417	791,970
Retained earnings (1)	169,894	176,270
Less common stock held in treasury, at cost: 6,150,582 shares at September 30, 2018 and 6,601,765 shares at December 31, 2017	(270,046)	(273,824)
Accumulated other comprehensive loss	(1,249)	(1,279)
Total common shareholders' equity	700,211	693,332
Noncontrolling interests	47,204	47,903

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Total shareholders' equity	747,415	741,235
Total liabilities and shareholders' equity	\$ 1,493,436	\$ 2,024,683

(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		Nine Months Ended	
	September 30, 2018	2017	September 30, 2018	2017
Revenues:				
Investment banking	\$ 166,458	\$ 190,482	\$ 411,203	\$ 461,260
Institutional brokerage	31,738	34,873	92,415	111,083
Asset management	13,377	12,818	38,706	44,011
Interest	6,592	7,164	25,183	22,649
Investment income/(loss)	3,068	(422 )	6,706	15,406
Total revenues	221,233	244,915	574,213	654,409
Interest expense	3,705	4,348	14,142	15,568
Net revenues	217,528	240,567	560,071	638,841
Non-interest expenses:				
Compensation and benefits	139,151	169,469	369,895	438,161
Outside services	9,521	7,495	29,024	27,612
Occupancy and equipment	8,967	8,127	26,476	24,846
Communications	7,561	7,136	24,112	22,025
Marketing and business development	6,718	6,683	21,702	22,512
Deal-related expenses	7,671	—	18,888	—
Trade execution and clearance	2,049	2,125	6,240	5,864
Restructuring costs	—	—	3,770	—
Goodwill impairment	—	114,363	—	114,363
Intangible asset amortization	2,615	3,822	7,845	11,466
Back office conversion costs	—	1,293	—	3,027
Other operating expenses	3,640	2,290	9,187	8,525
Total non-interest expenses	187,893	322,803	517,139	678,401
Income/(loss) before income tax expense/(benefit)	29,635	(82,236 )	42,932	(39,560 )
Income tax expense/(benefit)	7,365	(31,423 )	5,351	(26,912 )
Net income/(loss)	22,270	(50,813 )	37,581	(12,648 )
Net income/(loss) applicable to noncontrolling interests	247	(1,100 )	(1,271 )	3,217
Net income/(loss) applicable to Piper Jaffray Companies	\$ 22,023	\$ (49,713 )	\$ 38,852	\$ (15,865 )
Net income/(loss) applicable to Piper Jaffray Companies' common shareholders	\$ 19,377	\$ (50,415 ) <sub>(1)</sub>	\$ 33,650	\$ (18,106 ) <sub>(1)</sub>
Earnings/(loss) per common share				

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Basic	\$1.45	\$(3.91 )	\$2.54	\$(1.42 )
Diluted	\$1.43	\$(3.91 ) <sup>(2)</sup>	\$2.50	\$(1.42 ) <sup>(2)</sup>
Dividends declared per common share	\$0.38	\$0.31	\$2.75	\$0.94
Weighted average number of common shares outstanding				
Basic	13,343	12,898	13,248	12,774
Diluted	13,508	12,975	<sup>(2)</sup> 13,444	12,945 <sup>(2)</sup>

(1) No allocation of undistributed income was made due to loss position. See Note 14.

(2) Earnings per diluted common share is calculated using the basic weighted average number of common shares outstanding for periods in which a loss is incurred.

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		Nine Months Ended	
	September 30, 2018	September 30, 2017	September 30, 2018	September 30, 2017
Net income/(loss)	\$22,270	\$(50,813)	\$37,581	\$(12,648)
Other comprehensive income/(loss), net of tax:				
Foreign currency translation adjustment	(102 )	142	30	1,137
Comprehensive income/(loss)	22,168	(50,671 )	37,611	(11,511 )
Comprehensive income/(loss) applicable to noncontrolling interests	247	(1,100 )	(1,271 )	3,217
Comprehensive income/(loss) applicable to Piper Jaffray Companies	\$21,921	\$(49,571)	\$38,882	\$(14,728)

See Notes to the Consolidated Financial Statements



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Consolidated Statements of Cash Flows  
(Unaudited)

	Nine Months Ended September 30,	
(Dollars in thousands)	2018	2017
Operating Activities:		
Net income/(loss)	\$37,581	\$(12,648)
Adjustments to reconcile net income/(loss) to net cash provided by operating activities:		
Depreciation and amortization of fixed assets	6,199	5,343
Deferred income taxes	(2,082 )	(47,984 )
Stock-based compensation	32,046	26,459
Goodwill impairment	—	114,363
Amortization of intangible assets	7,845	11,466
Amortization of forgivable loans	3,789	5,207
Decrease/(increase) in operating assets:		
Receivables:		
Customers	—	31,917
Brokers, dealers and clearing organizations	(28,671 )	131,850
Securities purchased under agreements to resell	—	159,697
Net financial instruments and other inventory positions owned	440,615	18,021
Investments	23,832	(11,470 )
Other assets	(17,439 )	7,185
Increase/(decrease) in operating liabilities:		
Payables:		
Customers	—	(29,352 )
Brokers, dealers and clearing organizations	(13,021 )	13,423
Securities sold under agreements to repurchase	—	(15,046 )
Accrued compensation	(134,470)	4,666
Other liabilities and accrued expenses	4,178	7,864
Net cash provided by operating activities	360,402	420,961
Investing Activities:		
Purchases of fixed assets, net	(12,329 )	(4,310 )
Net cash used in investing activities	(12,329 )	(4,310 )

Continued on next page

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Piper Jaffray Companies

Consolidated Statements of Cash Flows – Continued

(Unaudited)

(Dollars in thousands)	Nine Months Ended	
	September 30, 2018	2017
Financing Activities:		
Decrease in short-term financing	\$(239,980)	\$(342,035)
Repayment of senior notes	—	(50,000 )
Payment of cash dividend	(41,631 )	(14,217 )
Increase/(decrease) in noncontrolling interests	572	(11,714 )
Repurchase of common stock	(31,664 )	(25,065 )
Proceeds from stock option exercises	—	1,703
Net cash used in financing activities	(312,703 )	(441,328 )
Currency adjustment:		
Effect of exchange rate changes on cash	(389 )	1,235
Net increase/(decrease) in cash, cash equivalents and restricted cash (1)	34,981	(23,442 )
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)	\$68,774	\$46,932
Supplemental disclosure of cash flow information –		
Cash paid during the period for:		
Interest	\$14,586	\$15,397
Income taxes	\$16,638	\$7,781

(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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 Notes to the Consolidated Financial Statements  
 (Unaudited)

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Piper Jaffray Companies

Notes to the Consolidated Financial Statements

(Unaudited)

Note 1 Organization and Basis of Presentation

Organization

Piper Jaffray Companies is the parent company of Piper Jaffray & Co. ("Piper Jaffray"), a securities broker dealer and investment banking firm; Piper Jaffray Ltd., a firm providing securities brokerage and mergers and acquisitions services in Europe; Piper Jaffray Finance LLC, which facilitates corporate debt underwriting in conjunction with affiliated credit vehicles; Advisory Research, Inc. ("ARI"), which provides asset management services to separately managed accounts, closed-end and open-end funds and partnerships; Piper Jaffray Investment Group Inc. and PJC Capital Management LLC, which consist of entities providing alternative asset management services; Piper Jaffray Financial Products Inc. and Piper Jaffray Financial Products II Inc., entities that facilitate derivative transactions; and other immaterial subsidiaries.

Effective August 7, 2017, Piper Jaffray transitioned from a self clearing securities broker dealer to a fully disclosed clearing model. Pershing LLC ("Pershing") is Piper Jaffray's clearing broker dealer responsible for the clearance and settlement of firm and customer cash and security transactions.

Piper Jaffray Companies and its subsidiaries (collectively, the "Company") operate in two reporting segments: Capital Markets and Asset Management. A summary of the activities of each of the Company's business segments is as follows:

Capital Markets

The Capital Markets segment provides investment banking services and institutional sales, trading and research services. Investment banking services include financial advisory services, management of and participation in underwritings and public finance activities. Revenues are generated through the receipt of advisory and financing fees. Institutional sales, trading and research services focus on the trading of equity and fixed income products with institutions, government and non-profit entities. Revenues are generated through commissions and sales credits earned on equity and fixed income institutional sales activities, net interest revenues on trading securities held in inventory, and profits and losses from trading these securities. Also, the Company generates revenue through strategic trading and investing activities, which focus on investments in municipal bonds, U.S. government agency securities, and merchant banking activities involving equity investments in late stage private companies. The Company has created alternative asset management funds in merchant banking, energy and senior living in order to invest firm capital and to manage capital from outside investors. The Company receives management and performance fees for managing these funds.

Asset Management

The Asset Management segment provides traditional asset management services with product offerings in master limited partnerships and equity securities to institutions and individuals. Revenues are generated in the form of management and performance fees. Revenues are also generated through investments in the partnerships and funds that the Company manages.

Basis of Presentation

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The accompanying consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles ("U.S. GAAP") for interim financial information and the rules and regulations of the Securities and Exchange Commission ("SEC"). Pursuant to this guidance, certain information and disclosures have been omitted that are included within complete annual financial statements. Except as disclosed herein, there have been no material changes in the information reported in the financial statements and related disclosures in the Company's Annual Report on Form 10-K for the year ended December 31, 2017.

The consolidated financial statements include the accounts of Piper Jaffray Companies, its wholly owned subsidiaries, and all other entities in which the Company has a controlling financial interest. Noncontrolling interests represent equity interests in consolidated entities that are not attributable, either directly or indirectly, to Piper Jaffray Companies. Noncontrolling interests include the minority equity holders' proportionate share of the equity in the Company's alternative asset management funds. All material intercompany balances have been eliminated.

Management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the