

FIRST ALBANY COMPANIES INC

Form 10-Q

November 09, 2004

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 quarterly period ended September 30, 2004

- or -

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Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the transition period from _____ to _____

Commission file number 0-14140

FIRST ALBANY COMPANIES INC.

(Exact name of registrant as specified in its charter)

New York 22 - 2655804

(State or other jurisdiction of
incorporation or organization) (I.R.S. Employer
Identification No.)

30 South Pearl St., Albany, NY 12207

(Address of principal executive offices) (Zip Code)

(518) 447-8500

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Sections 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 (1) No _____

Indicate by check mark whether the registrant is an accelerated filer (as defined by rule 12b-2 of the Act)

Yes X No _____

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

14,769,937 shares of Common Stock were outstanding as of the close of business on October 29, 2004

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FIRST ALBANY COMPANIES INC. AND SUBSIDIARIES

FORM 10-Q

INDEX

	Page
Part I	
Financial Information	
Item 1.	
Financial Statements	
Condensed Consolidated Statements of Financial Condition at September 30, 2004 (unaudited) and December 31, 2003	3
Condensed Consolidated Statements of Operations for the Three Months and Nine Months Ended September 30, 2004 and September 30, 2003 (unaudited)	4
Consolidated Statement of Changes in Stockholders Equity and Temporary Capital for the Nine Months Ended September 30, 2004 (unaudited)	5
Condensed Consolidated Statements of Cash Flows for the Nine Months Ended September 30, 2004 and September 30, 2003 (unaudited)	6
	4

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Notes to Condensed Consolidated Financial Statements		7-20
Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations	21-32
Item 3.	Quantitative and Qualitative Disclosure About Market Risk	33-34
Item 4.	Controls and Procedures	35
Part II	Other Information	
Item 1.	Legal Proceedings	36
Item 6.	Exhibits and Reports on Form 8-K	37

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FIRST ALBANY COMPANIES INC.

CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

(Unaudited)

Item 1. Financial Statements*(In thousands of dollars)*

As of	September 30, 2004	December 31, 2003
Assets		
Cash	\$ 746	\$ 92
Cash and securities segregated for regulatory purposes	13,400	-
Securities purchased under agreement to resell	61,583	56,261
Receivables from:		
Brokers, dealers and clearing agencies	13,351	12,550
Customers, net	9,593	3,867
Others	5,970	7,149
Securities owned	311,680	239,888
Investments	40,250	55,864
Office equipment and leasehold improvements, net	5,754	6,176
Other assets	42,641	12,500
Total assets	\$ 504,968	\$ 394,347
<i>Liabilities and Stockholders' Equity</i>		
Liabilities		
Short-term bank loans	\$ 165,645	\$ 138,500
Payables to:		
Brokers, dealers and clearing agencies	48,994	20,375
Customers	5,870	5,585
Others	18,611	4,654
Securities sold, but not yet purchased	109,035	58,069
Accounts payable	3,598	3,749
Accrued compensation	20,461	46,693
Accrued expenses	8,949	10,211
Notes payable	32,703	14,422
Deferred tax liability	-	1,751
Obligations under capitalized leases	2,278	3,183
Total liabilities	416,144	307,192

Commitments and Contingencies

Subordinated debt	3,695	3,721
Temporary capital	3,374	-
Stockholders' Equity		
Common stock	154	120
Additional paid-in capital	146,208	109,531
Unearned compensation	(17,074)	(5,229)
Deferred compensation	3,691	2,699
Retained (deficit)	(46,851)	(20,160)
Treasury stock, at cost	(4,373)	(3,527)
Total stockholders' equity	81,755	83,434
Total liabilities and stockholders' equity	\$ 504,968	\$ 394,347

See notes to condensed consolidated financial statements.

FIRST ALBANY COMPANIES INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
<i>(In thousands of dollars except for per share amounts and shares outstanding)</i>	2004	2003	2004	2003
<i>Revenues:</i>				
Commissions	\$ 4,963	\$ 4,510	\$ 16,121	\$ 12,405
Principal transactions	24,601	22,837	69,864	81,421
Investment banking	11,697	8,628	31,155	21,598
Investment gains (losses)	(6,204)	6,356	(2,341)	14,116
Interest income	2,972	1,742	6,895	4,946
Fees and other	663	795	1,794	3,197
Total revenues	38,692	44,868	123,488	137,683
Interest expense	1,809	956	4,120	2,430
Net revenues	36,883	43,912	119,368	135,253
<i>Expenses (excluding interest):</i>				
Compensation and benefits	32,254	27,683	91,916	89,316
Clearing, settlement and brokerage costs	1,396	1,374	4,230	3,761
Communications and data processing	3,587	3,532	11,369	10,564
Occupancy and depreciation	2,417	2,247	6,982	6,766
Selling	1,966	1,642	5,671	5,018
Impairment loss	1,375	-	1,375	-
Restructuring	750	-	750	-
Other	3,589	2,100	9,743	6,427
Total expenses (excluding interest)	47,334	38,578	132,036	121,852
Income (loss) before income taxes	(10,451)	5,334	(12,668)	13,401
Income tax (benefit) expense	(4,458)	2,219	(8,188)	5,300
Income (loss) from continuing operations	(5,993)	3,115	(4,480)	8,101
Income (loss) from discontinued operations,	(378)	(316)	(1,147)	(573)

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net of taxes					
Net income (loss)	\$	(6,371)	\$ 2,799	\$ (5,627)	7,528
Per share data:					
Basic earnings:					
Continued operations	\$	(0.45)	\$ 0.29	\$ (0.37)	0.78
Discontinued operations		(0.03)	(0.03)	(0.09)	(0.06)
Net income (loss)	\$	(0.48)	\$ 0.26	\$ (0.46)	0.72
Diluted earnings:					
Continued operations	\$	(0.45)	\$ 0.25	\$ (0.37)	0.70
Discontinued operations		(0.03)	(0.03)	(0.09)	(0.05)
Net income (loss)	\$	(0.48)	\$ 0.22	\$ (0.46)	0.65
Weighted average common and common					
equivalent shares outstanding:					
Basic		13,148,611	10,607,897	12,275,353	10,438,582
Diluted		13,148,611	12,456,224	12,275,353	11,545,145

See notes to condensed consolidated financial statements.

FIRST ALBANY COMPANIES INC.

CONDENSED STATEMENT OF CHANGES

IN STOCKHOLDERS EQUITY AND TEMPORARY CAPITAL

For the Nine Months Ended September 30, 2004

(In thousands of dollars except for number of shares)

	Temporary Capital	Common Shares	Stock Amount	Additional Paid-In Capital	Unearned Compensation	Deferred Compensation	Retained Earnings (Deficit)	Treasury Stock Shares	Treasury Stock Amount
Balance as of December 31, 2003	\$	-11,995,247	\$120	\$109,531	\$ (5,229)	\$2,699	\$ (20,160)	(541,867)	\$ (3,527)
Amortization of unearned compensation	-	-	-	-	5,237	-	-	-	-
Forfeitures of restricted stock	-	-	-	(1,461)	2,508	-	-(275,435)	(1,047)	
Issuance of restricted stock	-	1,098,918	11	17,552	(16,800)	-	-	102,365	341
Issuance of restricted stock, Descap acquisition	-	270,843	3	2,787	(2,790)	-	-	-	-
Issuance of shares, Descap acquisition	3,374	549,476	5	2,220	-	-	-	-	-
Cash dividends paid	-	-	-	-	-	-	(2,218)	-	-
Options exercised	-	505,654	5	4,824	-	-	-	124,731	601
Options expense recognized	-	-	-	348	-	-	-	-	-
Employee stock trust	-	94,204	1	847	-	992	-	(89,957)	(805)
Employee benefit plans	-	-	-	242	-	-	-	13,017	64
Private placement	-	896,040	9	9,318	-	-	-	-	-
Special dividend - distribution of PLUG	-	-	-	-	-	-	(18,846)	-	-

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Net income									
(loss)	-	-	-	-	-	-	(5,627)	-	-
Balance as of									
September 30,									
2004	\$3,374	15,410,382	\$154	\$146,208	\$(17,074)	\$3,691	\$(46,851)	(667,146)	\$ (4,373)

See notes to condensed consolidated financial statements

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FIRST ALBANY COMPANIES INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

	September 30,	September 30,
<i>(In thousands of dollars)</i>	2004	2003
<i>Cash flows from operating activities:</i>		
Net income (loss)	\$ (5,627)	\$ 7,528
<i>Adjustments to reconcile net income (loss) to net cash (used in) provided by operating activities:</i>		
Depreciation and amortization	2,241	2,193
Deferred compensation	1,034	897
Deferred income taxes	(12,331)	(5,815)
Unrealized investment losses (gains)	11,990	(14,160)
Realized (gain) loss on sale of investments	(9,649)	44
Loss on abandonment of fixed assets	823	12
Services provided in exchange for common stock	8,306	2,097
<i>(Increase) decrease in operating assets:</i>		
Cash and securities segregated under federal regulations	(13,400)	8,900
Securities purchased under agreement to resell	(5,322)	(16,318)
Net receivables from customers	(5,441)	(7,017)
Securities owned, net	16,911	10,170
Other assets	3,469	7,756
<i>Increase (decrease) in operating liabilities:</i>		
Net payables to brokers, dealers and clearing agencies	(6,878)	24,098
Net payables to others	2,598	(682)
Accounts payable and accrued expenses	(29,444)	(19,292)
Income taxes payable, net	-	(3,068)
Net cash (used in) provided by operating activities	\$ (40,720)	\$ (2,657)
<i>Cash flows from investing activities:</i>		
Acquisition of Descap Securities, Inc.	\$ (21,558)	-
Additional cash consideration related to intangible assets	(84)	-
Purchase of furniture, equipment, and leaseholds, net	(1,085)	(452)
Purchase of investments	(5,315)	(1,620)
Proceeds from sale of investments	535	33
Net cash (used in) provided by investing activities	\$ (27,507)	\$ (2,039)

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Cash flows from financing activities:

Net proceeds of short-term bank loans	\$	27,145	\$	7,125
Payments on notes payable		(1,869)		(2,234)
Payments on subordinated debt		(26)		-
Proceeds of notes payable		20,000		8,994
Proceeds from issuance of warrants		-		1,006
Payments of obligations under capitalized leases		(1,539)		(1,285)
Payments for purchases of common stock for treasury		-		(102)
Proceeds from issuance of common stock		13,445		2,924
Net increase (decrease) in drafts payable		13,943		(10,042)
Dividends paid		(2,218)		(1,668)
Net cash provided by (used in) financing activities	\$	68,881	\$	4,718
Increase in cash	\$	654	\$	22
Cash at beginning of the year		92		176
Cash at end of period	\$	746	\$	198

In 2004 the Company entered into capital leases for office and computer equipment totaling approximately \$0.6 million.

Refer to Investments footnote for non-cash investing activity.

See notes to condensed consolidated financial statements

FIRST ALBANY COMPANIES INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

1. Basis of Presentation

In the opinion of management, the accompanying unaudited condensed consolidated financial statements contain all normal, recurring adjustments necessary for a fair presentation of results for such periods. The results for any interim period are not necessarily indicative of those for the full year. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been omitted. These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes for the year ended December 31, 2003.

2. Reclassification

Certain 2003 amounts have been reclassified to conform to the 2004 presentation.

3. Comprehensive Income

The Company has no components of other comprehensive income; therefore comprehensive income equals net income.

4. Earnings Per Common Share

Basic earnings per share have been computed based upon the weighted average number of common shares outstanding. Dilutive earnings per share have been computed based upon the weighted average number of common shares outstanding plus the effect of all potentially dilutive common stock equivalents outstanding during the reporting period.

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2004	2003	2004	2003
Weighted average shares for basic earnings per share	13,148,611	10,607,897	12,275,353	10,438,582
Effect of dilutive common stock equivalents (stock options and stock issuable under employee benefit plans)	-	1,848,327	-	1,106,563
Weighted average shares and dilutive common stock	13,148,611	12,456,224	12,275,353	11,545,145

equivalents for dilutive earnings
per share

For the three months and the nine months ended September 30, 2004, the Company excluded approximately 0.7 million and 1.2 million, respectively, common stock equivalents in its computation of dilutive earnings per share because they were anti-dilutive.

5. *Receivables from and Payables to Brokers, Dealers and Clearing Agencies*

Amounts receivable from brokers, dealers and clearing agencies consisted of the following at:

	September 30,	December 31,
<i>(In thousands of dollars)</i>	2004	2003
Securities borrowed	\$ 915	\$ 6,004
Securities failed-to-deliver	7,969	3,311
Receivable from clearing organizations		