

FIRST ALBANY COMPANIES INC
Form 10-Q
August 04, 2006

UNITED STATES
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 June 30, 2006

- 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 number 014140

FIRST ALBANY COMPANIES INC.

(Exact name of registrant as specified in its charter)

New York

(State or other jurisdiction of incorporation or organization)

677 Broadway, Albany, New York

(Address of principal executive offices)

22-2655804

(I.R.S. Employer Identification No.)

12207

(Zip Code)

Registrant's telephone number, including area code

(518) 447-8500

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 is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large Accelerated Filer

Accelerated Filer

Non-accelerated Filer

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

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

16,520,609 shares of Common Stock were outstanding as of the close of business on July 31, 2006

FIRST ALBANY COMPANIES INC. AND SUBSIDIARIES

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FIRST ALBANY COMPANIES INC.

CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

(Unaudited)

Item 1. Financial Statements

<i>(In thousands of dollars)</i>	June 30	December 31
As of	2006	2005
Assets		
Cash	\$ 4,497	\$ 1,926
Cash and securities segregated for regulatory purposes	5,800	7,100
Securities purchased under agreement to resell	22,335	27,824
Receivables from:		
Brokers, dealers and clearing agencies	11,554	36,221
Customers	2,440	5,346
Others	9,721	7,015
Securities owned	279,663	265,794
Investments	38,331	52,497
Office equipment and leasehold improvements, net	5,343	10,304
Intangible assets	26,949	25,990
Other assets	3,612	3,524
Total assets	\$ 410,245	\$ 443,541
<i>Liabilities and Stockholders Equity</i>		
Liabilities		
Short-term bank loans	\$ 152,950	\$ 150,075
Payables to:		
Brokers, dealers and clearing agencies	41,531	50,595
Customers	4,079	3,263
Others	11,428	14,099
Securities sold, but not yet purchased	61,170	52,445
Accounts payable	3,575	6,696
Accrued compensation	30,482	25,414
Accrued expenses	8,671	8,960
Notes payable	14,204	30,027
Obligations under capitalized leases	4,855	5,564

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Total liabilities	332,945	347,138
<i>Commitments and Contingencies</i>		
Temporary capital	104	3,374
Subordinated debt	4,424	5,307
Stockholders' Equity		
Preferred stock; \$1.00 par value; authorized 500,000 shares; none issued		
Common stock; \$.01 par value; authorized 50,000,000 shares; issued 17,607,827 and 17,129,649 respectively	176	171
Additional paid-in capital	148,123	158,470
Unearned compensation	-	(13,882)
Deferred compensation	2,596	3,448
Accumulated deficit	(75,017)	(56,624)
Treasury stock, at cost (1,065,418 shares and 808,820 shares respectively)	(3,106)	(3,861)
Total Stockholders' Equity	72,772	87,722
Total Liabilities and Stockholders' Equity	\$ 410,245	\$ 443,541

The accompanying notes are an integral part
of these consolidated financial statements

FIRST ALBANY COMPANIES INC.

CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

(Unaudited)

	Three Months Ended		Six Months Ended	
	June 30		June 30	
<i>(In thousands of dollars except for per share amounts and shares outstanding)</i>	2006	2005	2006	2005
<i>Revenues:</i>				
Commissions	\$ 3,323	\$ 4,614	\$ 6,920	\$ 9,185
Principal transactions	17,967	17,774	35,333	30,938
Investment banking	18,340	9,770	29,704	17,976
Investment gains (losses)	1,196	(2,847)	(4,947)	(6,645)
Interest	3,578	4,186	6,620	7,446
Fees and other	870	2,181	1,488	2,917
Total revenues	45,274	35,678	75,118	61,817
Interest expense	4,219	3,138	8,517	5,517
Net revenues	41,055	32,540	66,601	56,300
<i>Expenses (excluding interest):</i>				
Compensation and benefits	33,943	24,743	60,807	49,126
Clearing, settlement and brokerage costs	1,778	3,019	3,486	4,692
Communications and data processing	3,044	3,163	6,023	6,355
Occupancy and depreciation	2,333	2,665	5,199	5,111
Selling	1,290	1,565	2,744	3,102
Other	2,601	1,497	4,438	3,122
Total expenses (excluding interest)	44,989	36,652	82,697	71,508
Income (loss) before income taxes	(3,934)	(4,112)	(16,096)	(15,208)
Income tax (benefit) expense	-	(1,800)	-	(6,604)
Income (loss) from continuing operations	(3,934)	(2,312)	(16,096)	(8,604)
Income (loss) from discontinued operations, (net of taxes) (see Discontinued Operations note)	(2,240)	(1,042)	(2,723)	(1,646)
Income (loss) before cumulative effect of change in accounting principle	(6,174)	(3,354)	(18,819)	(10,250)

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Cumulative effect of accounting change, (net of taxes \$0 in 2006) (see Benefit Plans note)	-	-	427	-
Net loss	\$ (6,174)	\$ (3,354)	\$ (18,392)	\$ (10,250)
Per share data:				
Basic earnings:				
Continued operations	\$ (0.26)	\$ (0.17)	\$ (1.05)	\$ (0.64)
Discontinued operations	(0.14)	(0.07)	(0.18)	(0.12)
Cumulative effect of accounting change	-	-	0.03	-
Net loss	\$ (0.40)	\$ (0.24)	\$ (1.20)	\$ (0.76)
Diluted earnings:				
Continued operations	\$ (0.26)	\$ (0.17)	\$ (1.05)	\$ (0.64)
Discontinued operations	(0.14)	(0.07)	(0.18)	(0.12)
Cumulative effect of accounting change	-	-	0.03	-
Net loss	\$ (0.40)	\$ (0.24)	\$ (1.20)	\$ (0.76)
Weighted average common and common equivalent shares outstanding:				
Basic	15,402,424	13,869,064	15,390,043	13,562,878
Dilutive	15,402,424	13,869,064	15,390,043	13,562,878

The accompanying notes are an integral part
of these consolidated financial statements.

FIRST ALBANY COMPANIES INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

	Six Months Ended	
	2006	2005
<i>Cash flows from operating activities:</i>		
Net loss	\$ (18,392)	\$ (10,250)
<i>Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:</i>		
Depreciation and amortization	1,261	1,498
Amortization of warrants	498	100

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Deferred compensation	186	(206)
Deferred income taxes	-	(7,335)
Unrealized investment (gains)/loss	15,129	9,165
Realized (gains) losses on sale of investments	(10,182)	(2,520)
(Gain) loss on sale of fixed assets, including termination of office lease	(20)	4
Services provided in exchange for common stock	3,536	5,350
<i>Changes in operating assets and liabilities:</i>		
Cash and securities segregated for regulatory purposes	1,300	(8,300)
Securities purchased under agreement to resell	5,489	(13,861)
Securities owned, net	(5,144)	(27,156)
Other assets	(88)	436
Net payables to brokers, dealers and clearing agencies	15,603	51,351
Net payable to customers	3,722	6,765
Net payables to others	(2,936)	254
Accounts payable and accrued expenses	1,744	(24,939)
Net cash provided by (used in) operating activities	11,706	(19,644)
<i>Cash flows from investing activities:</i>		
Acquisition of Descap Securities (see Temporary Capital note)	(3,270)	-
Purchases of office equipment and leasehold improvements	(2,409)	(411)
Sale of office equipment and leasehold improvements	5,051	-
Purchase of Noddings	-	(125)
Purchases of investments	(2,174)	(982)
Proceeds from sale of investments	12,752	7,575
Net cash provided by (used in) investing activities	9,950	6,057
<i>Cash flows from financing activities:</i>		
Proceeds (payments) of short-term bank loans, net	2,875	9,275
Proceeds of notes payable	9,025	306
Payments of notes payable	(25,346)	(4,595)
Payments of obligations under capitalized leases	(906)	(713)
Proceeds from obligations under capitalized leases	-	219
Proceeds from subordinated debt	159	1,612
Payments on subordinated debt	(1,288)	-
Proceeds from issuance of common stock under stock option plans	55	265
Payments for purchases of treasury stock	(334)	(186)
Net (decrease) increase in drafts payable	(3,325)	8,876
Dividends paid	-	(833)
Net cash provided by (used in) financing activities	(19,085)	14,226
Increase (decrease) in cash	2,571	639
Cash at beginning of the period	1,926	1,285

Cash at the end of the period	\$	4,497	\$	1,924
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Non-Cash Investing and Financing Activities

In the first six months of 2006 and 2005, the Company entered into capital leases for office equipment and leasehold improvements for approximately \$0.2 million and \$1.9 million, respectively.

In the first six months of 2006 and 2005, the Company acquired \$0.2 million and \$1.1 million, respectively, in office equipment and leasehold improvements where the obligation related to this acquisition is included in accounts payable.

During the first six months of 2006 and 2005, Intangible assets increased \$1.0 million and \$2.2 million, respectively, due to additional consideration payable at June 30, 2006 and June 30, 2005 to the Sellers of Descap Securities, Inc. Up to 75% of this payable may be satisfied with the Company's stock.

During the first six months of 2006, the Company converted \$0.2 million compensation to subordinated debt.

The accompanying notes are an integral part
of these consolidated financial statements.

FIRST ALBANY COMPANIES INC.

NOTES TO CONDENSED CONSOLIDATED 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 statement 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 accounting principles generally accepted in the United States of America have been omitted. These unaudited condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes for the year ended December 31, 2005.

2. Comprehensive Income

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

3. Earnings Per Common Share

Basic earnings per share are computed based upon weighted-average shares outstanding. Dilutive earnings per share is computed consistently with basic while giving effect to all dilutive potential common shares that were outstanding during the period. The weighted-average shares outstanding were calculated as follows:

Three Months Ended

Six Months Ended

June 30

June 30

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	2006	2005	2006	2005
Weighted average shares for basic earnings per share	15,402,424	13,869,064	15,390,043	
Effect of dilutive common equivalent shares	-	-	-	13,562,878