

HFF, Inc.
Form 10-Q
November 09, 2015
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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 September 30, 2015

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: 001-33280

HFF, Inc.

(Exact name of registrant as specified in its charter)

Delaware
(State of Incorporation)

51-0610340
(I.R.S. Employer

Identification No.)

One Oxford Centre

301 Grant Street, Suite 1100

Pittsburgh, Pennsylvania
(Address of Principal Executive Offices)

15219
(Zip code)

(412) 281-8714

(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 No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted 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 and post such files). Yes No

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Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer

Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company)

Smaller Reporting Company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

Number of shares of Class A common stock, par value \$0.01 per share, of the registrant outstanding as of October 30, 2015 was 37,835,667 shares.

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HFF, INC. AND SUBSIDIARIES

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FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q contains forward-looking statements, which reflect our current views with respect to, among other things, our operations and financial performance. You can identify these forward-looking statements by the use of words such as outlook, believes, expects, potential, continues, may, will, should, approximately, predicts, intends, plans, estimates, anticipates or the negative version of these words or other comparable words. Such forward-looking statements are subject to various risks and uncertainties. Accordingly, there are or will be important factors that could cause actual outcomes or results to differ materially from those indicated in these statements. We believe these factors include, but are not limited to, those described under the caption Risk Factors in our Annual Report on Form 10-K and this Quarterly Report on Form 10-Q. These factors should not be construed as exhaustive and should be read in conjunction with the other cautionary statements that are included in this Quarterly Report on Form 10-Q. We undertake no obligation to publicly update or review any forward-looking statement, whether as a result of new information, future developments or otherwise.

SPECIAL NOTE REGARDING THE REGISTRANT

In connection with our initial public offering in February 2007, we effected a reorganization of our business into a holding company holding the partnership interests in Holliday Fenoglio Fowler, L.P. and HFF Securities L.P. (together, the Operating Partnerships), held through the wholly owned subsidiary HFF Partnership Holdings, LLC, a Delaware limited liability company, and all of the outstanding shares of Holliday GP Corp. (Holliday GP), the sole general partner of each of the Operating Partnerships. The transactions that occurred in connection with the initial public offering and reorganization are referred to as the Reorganization Transactions.

Unless the context otherwise requires, references to (1) HFF Holdings refer solely to HFF Holdings LLC, a Delaware limited liability company that was previously the holding company for our consolidated subsidiaries, and not to any of its subsidiaries, (2) HFF LP refer to Holliday Fenoglio Fowler, L.P., a Texas limited partnership, (3) HFF Securities refer to HFF Securities L.P., a Delaware limited partnership and registered broker-dealer, (4) Holliday GP refer to Holliday GP Corp., a Delaware corporation and the general partner of HFF LP and HFF Securities, (5) HoldCo LLC refer to HFF Partnership Holdings LLC, a Delaware limited liability company and a wholly-owned subsidiary of HFF, Inc., and (6) Holdings Sub refer to HFF LP Acquisition LLC, a Delaware limited liability company and wholly-owned subsidiary of HFF Holdings (together, the Holdings Affiliates). Our business operations are conducted by HFF LP and HFF Securities, which are sometimes referred to in this Quarterly Report on Form 10-Q as the Operating Partnerships. Also, except where specifically noted, references in this Quarterly Report on Form 10-Q to the Company, we or us mean HFF, Inc., a Delaware corporation and its consolidated subsidiaries, after giving effect to the Reorganization Transactions.

Table of Contents**PART I. FINANCIAL INFORMATION****Item 1. Financial Statements**

HFF, Inc.

Consolidated Balance Sheets

*(Dollars in Thousands)**(Current period unaudited)*

	September 30, 2015	December 31, 2014
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 178,563	\$ 232,053
Accounts receivable	3,769	1,462
Receivable from affiliate	4	2
Mortgage notes receivable	85,715	185,128
Prepaid taxes	853	729
Prepaid expenses and other current assets	5,563	3,281
Deferred tax asset, net	8,244	5,955
Total current assets, net	282,711	428,610
Property and equipment, net	12,469	10,173
Deferred tax asset, net	125,512	140,095
Goodwill	3,712	3,712
Intangible assets, net	27,221	20,647
Other noncurrent assets	2,391	1,015
Total Assets	\$ 454,016	\$ 604,252
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Current portion of long-term debt	\$ 467	\$ 337
Warehouse line of credit	85,715	185,128
Accrued compensation and related taxes	45,090	51,335
Accounts payable	2,384	2,087
Payable under tax receivable agreement	10,796	10,789
Other current liabilities	12,296	37,031
Total current liabilities	156,748	286,707
Deferred rent credit	8,426	7,304
Payable under the tax receivable agreement, less current portion	110,395	123,367
Long-term debt, less current portion	523	429

Total liabilities	276,092	417,807
Stockholders' equity:		
Class A common stock, par value \$0.01 per share, 175,000,000 authorized; 38,351,367 and 38,125,363 shares issued, respectively; 37,835,667 and 37,677,981 shares outstanding, respectively	383	381
Treasury stock, 515,700 and 447,382 shares at cost, respectively	(11,418)	(9,042)
Additional paid-in-capital	114,800	101,148
Retained earnings	74,159	93,958
Total equity	177,924	186,445
Total liabilities and stockholders' equity	\$ 454,016	\$ 604,252

See accompanying notes to the consolidated financial statements.

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HFF, Inc.

Consolidated Statements of Income

*(Dollars in Thousands, except per share data)**(Unaudited)*

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2015	2014	2015	2014
Revenues				
Capital markets services revenue	\$ 109,841	\$ 110,786	\$ 322,119	\$ 279,506
Interest on mortgage notes receivable	3,226	1,213	9,044	2,346
Other	618	612	1,785	1,577
	113,685	112,611	332,948	283,429
Expenses				
Cost of services	63,549	63,761	189,270	163,178
Personnel	10,722	11,268	35,753	36,343
Occupancy	3,258	2,454	8,991	7,137
Travel and entertainment	2,755	2,414	10,086	8,485
Supplies, research, and printing	2,067	1,556	5,531	4,576
Insurance	544	512	1,716	1,527
Professional fees	1,323	929	4,096	3,267
Depreciation and amortization	2,323	1,966	6,604	5,902
Interest on warehouse line of credit	1,511	638	4,527	1,252
Other operating	1,767	1,330	5,571	4,155
	89,819	86,828	272,145	235,822
Operating income	23,866	25,783	60,803	47,607
Interest and other income, net	7,989	4,144	23,006	10,295
Interest expense	(13)	(16)	(35)	(32)
(Increase) decrease in payable under the tax receivable agreement	1,052	299	2,143	800
Income before income taxes	32,894	30,210	85,917	58,670
Income tax expense	13,638	12,184	36,078	24,329
Net income	\$ 19,256	\$ 18,026	\$ 49,839	\$ 34,341
Earnings per share Basic and Diluted				
Income available to HFF, Inc. common stockholders Basic	\$ 0.51	\$ 0.48	\$ 1.31	\$ 0.91

Income available to HFF, Inc. common stockholders	Diluted	\$	0.50	\$	0.47	\$	1.30	\$	0.91
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See accompanying notes to the consolidated financial statements.

Table of Contents**HFF, Inc.****Consolidated Statements of Stockholders Equity***(Dollars in Thousands, except share data)**(Unaudited)*

	Common Stock		Treasury Stock		Additional Paid in Capital	Retained Earnings	Total Equity
	Shares	Amount	Shares	Amount			
Stockholders equity, December 31, 2014	37,677,981	\$ 381	447,382	\$ (9,042)	\$ 101,148	\$ 93,958	\$ 186,445
Stock compensation and other, net					11,414		11,414
Excess tax benefits from share-based award activities					314		314
Issuance of Class A common stock, net	226,004	2			107		109
Repurchase of Class A common stock	(68,318)		68,318	(2,376)			(2,376)
Dividends paid					1,817	(69,638)	(67,821)
Net income						49,839	49,839
Stockholders equity, September 30, 2015	37,835,667	\$ 383	515,700	\$ (11,418)	\$ 114,800	\$ 74,159	\$ 177,924
	Common Stock		Treasury Stock		Additional Paid in Capital	Retained Earnings	Total Equity
	Shares	Amount	Shares	Amount			
Stockholders equity, December 31, 2013	37,248,416	\$ 372	250,380	\$ (2,760)	\$ 76,097	\$ 101,865	\$ 175,574
Stock compensation and other, net					21,476		21,476
Excess tax benefits from share-based award activities					971		971
Issuance of Class A common stock, net	625,532	9			(9)		
Repurchase of Class A common stock	(197,002)		197,002	(6,282)			(6,282)
Dividends paid					1,027	(69,193)	(68,166)
Net income						34,341	34,341
	37,676,946	\$ 381	447,382	\$ (9,042)	\$ 99,562	\$ 67,013	\$ 157,914

Stockholders' equity,
September 30, 2014

See accompanying notes to the consolidated financial statements.

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HFF, Inc.

Consolidated Statements of Cash Flows

*(Dollars in Thousands)**(Unaudited)*

	Nine Months Ended September 30,	
	2015	2014
Operating activities		
Net income	\$ 49,839	\$ 34,341
Adjustments to reconcile net income to net cash provided by operating activities:		
Stock based compensation	6,394	8,242
Excess tax benefits from share-based award activities	(314)	(971)
Deferred taxes	12,294	13,410
(Decrease) increase in payable under the tax receivable agreement	(2,143)	(800)
Depreciation and amortization:		
Property and equipment	1,782	1,556
Intangibles	4,822	4,347
Gain on sale or disposition of assets, net	(12,133)	(3,636)
Mortgage service rights assumed	(3,152)	(3,023)
Proceeds from sale of mortgage servicing rights	3,891	1,590
Increase (decrease) in cash from changes in:		
Accounts receivable	(2,307)	(2,600)
Receivable from affiliates	(2)	(2)
Payable under the tax receivable agreement	(10,822)	(10,660)
Mortgage notes receivable	99,413	(96,260)
Net borrowings on warehouse line of credit	(99,413)	96,260
Prepaid taxes, prepaid expenses and other current assets	(2,406)	(1,036)
Other noncurrent assets	(1,376)	(566)
Accrued compensation and related taxes	(1,225)	