

RAYMOND JAMES FINANCIAL INC
Form 10-Q
February 08, 2012

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark one)

☒ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)
OF
THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended December 31, 2011

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: 1-9109

RAYMOND JAMES FINANCIAL, INC.
(Exact name of registrant as specified in its charter)

Florida
(State or other jurisdiction of incorporation
or organization)

No. 59-1517485
(I.R.S. Employer Identification No.)

880 Carillon Parkway, St. Petersburg, Florida 33716
(Address of principal executive offices) (Zip Code)

(727) 567-1000
(Registrant's telephone number, including area code)

None
(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 ☒ 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 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.

Large accelerated filer ☒ x

Accelerated filer ☐ o

Non-accelerated filer ☐ o

Smaller reporting company ☐ o

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

Yes ☐ o

No ☒ x

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

125,996,881 shares of common stock as of February 3, 2012

RAYMOND JAMES FINANCIAL, INC. AND SUBSIDIARIES

Form 10-Q for the quarter ended December 31, 2011

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PART I FINANCIAL INFORMATION

Item 1. FINANCIAL STATEMENTS

RAYMOND JAMES FINANCIAL, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION
(Unaudited)

	December 31, 2011	September 30, 2011
	(\$ in thousands)	
Assets:		
Cash and cash equivalents	\$ 1,916,954	\$ 2,439,695
Assets segregated pursuant to regulations and other segregated assets	3,505,193	3,548,683
Securities purchased under agreements to resell and other collateralized financings	400,455	398,247
Financial instruments, at fair value:		
Trading instruments	564,441	492,771
Available for sale securities	470,093	520,665
Private equity and other investments	277,769	294,356
Receivables:		
Brokerage clients, net	1,676,589	1,716,828
Stock borrowed	244,368	225,561
Bank loans, net	7,015,204	6,547,914
Brokers-dealers and clearing organizations	64,514	96,096
Other	536,674	536,364
Deposits with clearing organizations	86,498	91,482
Prepaid expenses and other assets	384,572	364,264
Investments in real estate partnerships held by consolidated variable interest entities	316,498	320,384
Property and equipment, net	173,901	169,850
Deferred income taxes, net	185,919	171,911
Goodwill	71,924	71,924
Total assets	\$ 17,891,566	\$ 18,006,995
Liabilities and equity:		
Trading instruments sold but not yet purchased, at fair value	\$ 128,512	\$ 76,150
Securities sold under agreements to repurchase	184,061	188,745
Payables:		
Brokerage clients	4,804,234	4,690,414
Stock loaned	682,823	814,589
Bank deposits	7,704,896	7,739,322
Brokers-dealers and clearing organizations	74,084	111,408
Trade and other	359,899	309,723
Accrued compensation, commissions and benefits	293,002	452,849
Loans payable of consolidated variable interest entities	89,657	99,982
Corporate debt	607,444	611,968

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Total liabilities	14,928,612	15,095,150
Commitments and contingencies (See Note 12)		
Equity		
Preferred stock; \$.10 par value; authorized 10,000,000 shares; issued and outstanding -0- shares	-	-
Common stock; \$.01 par value; authorized 350,000,000 shares; issued 130,778,293 at December 31, 2011 and 130,670,086 at September 30, 2011	1,280	1,271
Additional paid-in capital	586,502	565,135
Retained earnings	2,171,907	2,125,818
Treasury stock, at cost; 4,944,618 common shares at December 31, 2011 and 4,263,029 common shares at September 30, 2011	(112,574)	(95,000)
Accumulated other comprehensive income	(10,446)	(9,605)
Total equity attributable to Raymond James Financial, Inc.	2,636,669	2,587,619
Noncontrolling interests	326,285	324,226
Total equity	2,962,954	2,911,845
Total liabilities and equity	\$17,891,566	\$ 18,006,995

See accompanying Notes to Condensed Consolidated Financial Statements (Unaudited).

RAYMOND JAMES FINANCIAL, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME
(Unaudited)

	Three months ended December 31,	
	2011	2010
	(in thousands, except per share amounts)	
Revenues:		
Securities commissions and fees	\$ 511,334	\$ 534,139
Investment banking	39,336	58,969
Investment advisory fees	53,505	52,411
Interest	102,096	104,386
Account and service fees	74,010	69,285
Net trading profits	9,343	6,322
Other	9,193	4,821
Total revenues	798,817	830,333
Interest expense	16,040	16,504
Net revenues	782,777	813,829
Non-interest expenses:		
Compensation, commissions and benefits	541,622	551,884
Communications and information processing	37,567	31,145
Occupancy and equipment costs	25,937	26,229
Clearance and floor brokerage	7,454	9,917
Business development	27,839	23,945
Investment sub-advisory fees	6,562	6,904
Bank loan loss provision	7,456	11,232
Other	23,692	25,827
Total non-interest expenses	678,129	687,083
Income including noncontrolling interests and before provision for income taxes	104,648	126,746
Provision for income taxes	43,526	48,791
Net income including noncontrolling interests	61,122	77,955
Net loss attributable to noncontrolling interests	(6,203)	(3,768)
Net income attributable to Raymond James Financial, Inc.	\$ 67,325	\$ 81,723
Net income per common share – basic	\$ 0.53	\$ 0.65
Net income per common share – diluted	\$ 0.53	\$ 0.65
Weighted-average common shares outstanding – basic	123,225	121,155
Weighted-average common and common equivalent shares outstanding – diluted	123,712	121,534

Net income attributable to Raymond James Financial, Inc.	\$ 67,325	\$ 81,723
Other comprehensive income, net of tax:(1)		
Change in unrealized (loss) gain on available for sale securities and non-credit portion of other-than-temporary impairment losses	(5,661)	4,897
Change in currency translations	4,820	5,504
Total comprehensive income	\$ 66,484	\$ 92,124
Other-than-temporary impairment:		
Total other-than-temporary impairment, net	\$ (4,187)	\$ 779
Portion of losses (recoveries) recognized in other comprehensive income (before taxes)	2,091	(2,958)
Net impairment losses recognized in other revenue	\$ (2,096)	\$ (2,179)

- (1) The components of other comprehensive income, net of tax, are attributable to Raymond James Financial, Inc. None of the components of other comprehensive income are attributable to noncontrolling interests.

See accompanying Notes to Condensed Consolidated Financial Statements (Unaudited).

RAYMOND JAMES FINANCIAL, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
(Unaudited)

	Three months ended December 31,	
	2011	2010
	(in thousands, except per share amounts)	
Common stock, par value \$.01 per share:		
Balance, beginning of year	\$ 1,271	\$ 1,244
Issued	9	10
Balance, end of period	1,280	1,254
Shares exchangeable into common stock:		
Balance, beginning of year	-	3,119
Exchanged	-	-
Balance, end of period	-	3,119
Additional paid-in capital:		
Balance, beginning of year	565,135	476,359
Employee stock purchases	2,215	1,690
Exercise of stock options and vesting of restricted stock units, net of forfeitures	1,270	13,798
Restricted stock, stock option and restricted stock unit expense	16,907	14,355
Excess tax benefit (deficiency) from share-based payments	1,100	(1,000)
Other	(125)	(1,553)
Balance, end of period	586,502	503,649
Retained earnings:		
Balance, beginning of year	2,125,818	1,909,865
Net income attributable to Raymond James Financial, Inc.	67,325	81,723
Cash dividends declared	(16,399)	(16,387)
Other	(4,837)	4,371
Balance, end of period	2,171,907	1,979,572
Treasury stock:		
Balance, beginning of year	(95,000)	(81,574)
Purchases/Surrenders	(16,784)	(5,265)
Exercise of stock options and vesting of restricted stock units, net of forfeitures	(790)	1,783
Balance, end of period	(112,574)	(85,056)
Accumulated other comprehensive income: (1)		
Balance, beginning of year	(9,605)	(6,197)
Net unrealized (loss) gain on available for sale securities and non-credit portion of other-than-temporary impairment losses (2)	(5,661)	4,897
Net change in currency transactions	4,820	5,504
Balance, end of period	(10,446)	4,204

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Total equity attributable to Raymond James Financial, Inc.	\$ 2,636,669	\$ 2,406,742
Noncontrolling interests:		
Balance, beginning of year	\$ 324,226	\$ 294,052
Net loss attributable to noncontrolling interests	(6,203)	(3,768)
Capital contributions	21,078	14,512
Distributions	(2,493)	-
Deconsolidation of previously consolidated low income housing tax credit funds	-	(6,789)
Consolidation of low income housing tax credit funds not previously consolidated	-	14,635
Other	(10,323)	(1,451)
Balance, end of period	326,285	311,191
Total equity	\$ 2,962,954	\$ 2,717,933

(1) The components of other comprehensive income are attributable to Raymond James Financial, Inc. None of the components of other comprehensive income are attributable to noncontrolling interests.

(2) Net of tax.

See accompanying Notes to Condensed Consolidated Financial Statements (Unaudited).

RAYMOND JAMES FINANCIAL, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	Three months ended December 31,	
	2011	2010
	(in thousands)	
Cash flows from operating activities:		
Net income attributable to Raymond James Financial, Inc.	\$ 67,325	\$ 81,723
Net loss attributable to noncontrolling interests	(6,203)	(3,768)
Net income including noncontrolling interests	61,122	77,955
Adjustments to reconcile net income including noncontrolling interests to net cash provided by operating activities:		
Depreciation and amortization	9,971	9,574
Deferred income taxes	(10,444)	(18,737)
Premium and discount amortization on available for sale securities and unrealized/realized gain on other investments	(1,392)	(484)
Provisions for loan losses, legal proceedings, bad debts and other accruals	6,556	14,793
Share-based compensation expense	17,410	15,832
Other	827	(2,234)
Net change in:		
Assets segregated pursuant to regulations and other segregated assets	43,490	1,363,377
Securities purchased under agreements to resell and other collateralized financings, net of securities sold under agreements to repurchase	(6,892)	(178,118)
Stock loaned, net of stock borrowed	(150,573)	(122,704)
Brokerage client receivables and other accounts receivable, net	69,322	46,147
Trading instruments, net	(6,712)	66,114
Prepaid expenses and other assets	(18,336)	(129)
Brokerage client payables and other accounts payable	141,531	66,780
Accrued compensation, commissions and benefits	(161,374)	(122,556)
Purchase and origination of loans held for sale, net of proceeds from sale of securitizations		
and loans held for sale	(12,822)	(2,868)
Excess tax benefits from stock-based payment arrangements	(1,675)	(293)
Net cash (used in) provided by operating activities	(19,991)	1,212,449
Cash flows from investing activities:		
Additions to property and equipment	(13,647)	(9,500)
Increase in loans, net	(489,970)	(48,760)
Redemptions of Federal Home Loan Bank stock, net	20,228	4,777
Sales (purchases) of private equity and other investments, net	3,845	(8,648)
Purchase of additional equity interest in subsidiary	(4,017)	-
Purchases of available for sale securities	(950)	(1,201)
Available for sale securities maturations, repayments and redemptions	40,029	34,538
Proceeds from sales of available for sale securities	-	11,161
Investments in real estate partnerships held by consolidated variable interest entities, net of other investing activity	174	(4,369)
Net cash used in investing activities	(444,308)	(22,002)
Cash flows from financing activities:		

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Repayments of borrowings, net	(3,848)	(2,527,795)
Repayments of borrowings by consolidated variable interest entities which are real estate partnerships	(11,599)	(11,859)
Proceeds from capital contributed to and borrowings of consolidated variable interest entities which are real estate partnerships	21,078	14,196
Exercise of stock options and employee stock purchases	2,642	17,025
Decrease in bank deposits	(34,426)	(397,322)
Purchase of treasury stock	(17,054)	(5,261)
Dividends on common stock	(16,399)	(16,387)
Excess tax benefits from share-based payment arrangements	1,675	293
Net cash used in financing activities	(57,931)	(2,927,110)
Currency adjustment:		
Effect of exchange rate changes on cash	(511)	(1,693)
Net decrease in cash and cash equivalents	(522,741)	(1,738,356)
Cash and cash equivalents at beginning of year	2,439,695	2,943,239
Cash and cash equivalents at end of period	\$ 1,916,954	\$ 1,204,883
Supplemental disclosures of cash flow information:		
Cash paid for interest	\$ 11,215	\$ 8,787
Cash paid for income taxes	\$ 10,137	\$ 6,688
Non-cash transfers of loans to other real estate owned	\$ 2,651	\$ 6,917

See accompanying Notes to Condensed Consolidated Financial Statements (Unaudited).

RAYMOND JAMES FINANCIAL, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)
December 31, 2011

NOTE 1 – BASIS OF PRESENTATION

Raymond James Financial, Inc. (“RJF”) is a holding company headquartered in Florida whose broker-dealer subsidiaries are engaged in various financial service businesses, including the underwriting, distribution, trading and brokerage of equity and debt securities and the sale of mutual funds and other investment products. In addition, other subsidiaries of RJF provide investment management services for retail and institutional clients, corporate and retail banking, and trust services. As used herein, the terms “we,” “our” or “us” refer to RJF and/or one or more of its subsidiaries.

The accompanying unaudited condensed consolidated financial statements include the accounts of RJF and its consolidated subsidiaries that are generally controlled through a majority voting interest. We consolidate all of our 100% owned subsidiaries. In addition, we consolidate any variable interest entity (“VIE”) in which we are the primary beneficiary. When we do not have a controlling interest in an entity, but we exert significant influence over the entity, we apply the equity method of accounting. All material intercompany balances and transactions have been eliminated in consolidation.

Certain financial information that is normally included in annual financial statements prepared in accordance with United States of America (“U.S.”) generally accepted accounting principles (“GAAP”) but not required for interim reporting purposes has been condensed or omitted. These unaudited condensed consolidated financial statements reflect, in the opinion of management, all adjustments necessary for a fair presentation of the consolidated financial position and results of operations for the interim periods presented.

The nature of our business is such that the results of any interim period are not necessarily indicative of results for a full year. These unaudited condensed consolidated financial statements should be read in conjunction with Management’s Discussion and Analysis and the consolidated financial statements and notes thereto included in our Annual Report on Form 10-K for the year ended September 30, 2011, as filed with the U.S. Securities and Exchange Commission (the “2011 Form 10-K”). To prepare condensed consolidated financial statements in conformity with GAAP, we must make certain estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the condensed consolidated financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates and could have a material impact on the condensed consolidated financial statements.

Update of Significant Accounting Policies

A summary of our significant accounting policies is included in Note 1 on pages 81 - 97 of our 2011 Form 10-K. Other than as discussed below, there have been no significant changes in our significant accounting policies since September 30, 2011.

As more fully described in Note 1, page 87, of our 2011 Form 10-K, we have certain financing receivables that arise from businesses other than our banking business. Specifically, we offer loans to financial advisors and certain key revenue producers, primarily for recruiting and retention purposes, the net balances associated therewith are included within other receivables on our Condensed Consolidated Statements of Financial Condition. The outstanding balance of these loans is \$241.4 million and \$231.5 million at December 31, 2011 and September 30, 2011, respectively. The related allowance for doubtful accounts balance is \$5.4 million and \$5.9 million at December 31, 2011 and September

30, 2011, respectively. Of the December 31, 2011 loan balance referred to above, the portion of the balance associated with financial advisors who are no longer affiliated with us, after consideration of the allowance for doubtful accounts, is approximately \$2.4 million.

Reclassifications

In the fourth quarter of fiscal year 2011, we changed the title of what had been known as “Financial Service Fees” on our Condensed Consolidated Statements of Income and Comprehensive Income to “Account and Service Fees”, to better reflect the nature of the revenues included within the line item description. Additionally, we reclassified certain components of revenue previously included within other revenues into Account and Service Fees. A reclassification of \$27.5 million of revenue previously reported as a component of other revenues for the three months ended December 31, 2010 has been included in Account and Service Fees on the Condensed Consolidated Statements of Income and Comprehensive Income as presented, to conform the prior period to the current period presentation.

Certain other prior period amounts, none of which are material, have been reclassified to conform to the current presentation.

NOTE 2 – CASH AND CASH EQUIVALENTS, ASSETS SEGREGATED PURSUANT TO REGULATIONS, AND DEPOSITS WITH CLEARING ORGANIZATIONS

Our cash equivalents include money market funds or highly liquid investments with original maturities of 90 days or less, other than those used for trading purposes. For further discussion of our accounting policies regarding assets segregated pursuant to regulations and other segregated assets, see Note 1 on page 83 of our 2011 Form 10-K.

Our cash and cash equivalents, assets segregated pursuant to regulations or other segregated assets, and deposits with clearing organization balances are as follows:

	December 31, 2011	September 30, 2011
	(in thousands)	
Cash and cash equivalents:		
Cash in banks	\$ 1,912,945	\$ 2,438,249
Money market investments	4,009	1,446
Total cash and cash equivalents (1)	1,916,954	2,439,695
Cash and securities segregated pursuant to federal regulations and other segregated assets (2)	3,505,193	3,548,683
Deposits with clearing organizations (3)	86,498	91,482
	\$ 5,508,645	\$ 6,079,860

- (1) The total amount presented includes \$470 million and \$471 million of cash and cash equivalents as of December 31, 2011 and September 30, 2011, respectively, which are either on deposit at our wholly owned bank subsidiary Raymond James Bank, FSB (effective February 1, 2012, Raymond James Bank, N.A.) (“RJ Bank”) or are otherwise invested by one of our subsidiaries on behalf of RJF.
- (2) Consists primarily of cash or qualified securities maintained in accordance with Rule 15c3-3 of the Securities Exchange Act of 1934. Raymond James & Associates, Inc., as a broker-dealer carrying client accounts, is subject to requirements related to maintaining cash or qualified securities in a segregated reserve account for the exclusive benefit of its clients. Additionally, Raymond James Ltd. (“RJ Ltd”) is required to hold client Registered Retirement Savings Plan funds in trust.

- (3) Consists of deposits of cash and cash equivalents or other short-term securities held by other clearing organizations or exchanges.

NOTE 3 – FAIR VALUE

For a further discussion of our valuation methodologies for assets, liabilities measured at fair value, and the fair value hierarchy, see Note 1, pages 83 – 87, in our 2011 Form 10-K.

There have been no material changes to our valuation methodologies since our year ended September 30, 2011.

Recurring fair value measurements

Assets and liabilities measured at fair value on a recurring basis are presented below:

December 31, 2011	Quoted prices in active markets for identical assets (Level 1) (1)	Significant other observable inputs (Level 2) (1)	Significant unobservable inputs (Level 3) (in thousands)	Netting adjustments (2)	Balance as of December 31, 2011
Assets:					
Trading instruments:					
Municipal and provincial obligations	\$31	\$ 185,841	\$ 135	\$ -	\$ 186,007
Corporate obligations	3,346	14,311	-	-	17,657
Government and agency obligations	7,238	47,390	-	-	54,628
Agency mortgage-backed securities ("MBS") and collateralized mortgage obligations ("CMOs")	5	180,915	-	-	180,920
Non-agency CMOs and asset-backed securities ("ABS")	-	55,778	37	-	55,815
Total debt securities	10,620	484,235	172	-	495,027
Derivative contracts	-	129,394	-	(90,032)	39,362
Equity securities	16,823	3,681	179	-	20,683
Other securities	1,068	2,666	5,635	-	9,369
Total trading instruments	28,511	619,976	5,986	(90,032)	564,441
Available for sale securities:					
Agency MBS and CMOs	-	162,282	-	-	162,282
Non-agency CMOs	-	133,817	741	-	134,558
Other securities	9	-	-	-	9
Auction rate securities ("ARS"):					
Municipals	-	-	74,707 (3)	-	74,707
Preferred securities	-	-	98,537	-	98,537
Total available for sale securities	9	296,099	173,985	-	470,093
Private equity and other investments:					
Private equity investments	-	-	162,074 (4)	-	162,074
Other investments	113,591	64	2,040	-	115,695
Total private equity and other investments	113,591	64	164,114	-	277,769
Other assets	-	6,513	-	-	6,513
Total	\$142,111	\$ 922,652	\$ 344,085	\$ (90,032)	\$ 1,318,816

Liabilities:

Trading instruments sold but not yet
purchased:

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Municipal and provincial obligations	\$-	\$ 1,103	\$ -	\$ -	\$ 1,103
Corporate obligations	-	2,229	-	-	2,229
Government obligations	92,532	12,405	-	-	104,937
Agency MBS and CMOs	279	-	-	-	279
Total debt securities	92,811	15,737	-	-	108,548
Derivative contracts	-	114,982	-	(105,311)	9,671
Equity securities	10,015	278	-	-	10,293
Total trading instruments sold but not yet purchased	102,826	130,997	-	(105,311)	128,512
Other liabilities	-	-	29	-	29
Total	\$102,826	\$ 130,997	\$ 29	\$ (105,311)	\$ 128,541

- (1) We had no significant transfers of financial instruments between Level 1 and Level 2 during the quarter ended December 31, 2011. Our policy is that the end of each respective quarterly reporting period determines when transfers of financial instruments between levels are recognized.
- (2) We have elected to net derivative receivables and derivative payables and the related cash collateral received and paid when a legally enforceable master netting agreement exists.
- (3) Includes \$49.3 million of Jefferson County, Alabama Limited Obligation School Warrants ARS and \$18.1 million of Jefferson County, Alabama Sewer Revenue Refunding Warrants ARS.
- (4) Includes \$84.9 million in private equity investments of which the weighted-average portion we own is approximately 21%. Effectively, the economics associated with the portion of this investment we do not own becomes a component of noncontrolling interests on our Condensed Consolidated Statements of Financial Condition, and amounted to approximately \$67.1 million of that total as of December 31, 2011.

September 30, 2011	Quoted prices in active markets for identical assets (Level 1) (1)	Significant other observable inputs (Level 2) (1)	Significant unobservable inputs (Level 3) (in thousands)	Netting adjustments (2)	Balance as of September 30, 2011
Assets:					
Trading instruments:					
Municipal and provincial obligations	\$8	\$ 164,019	\$ 375	\$ -	\$ 164,402
Corporate obligations	4,137	23,470	-	-	27,607
Government and agency obligations	22,620	13,486	-	-	36,106
Agency MBS and CMOs	31	147,726	-	-	147,757
Non-agency CMOs and ABS	-	49,069	50	-	49,119
Total debt securities	26,796	397,770	425	-	424,991
Derivative contracts	-	126,867	-	(88,563)	38,304
Equity securities	17,908	3,274	15	-	21,197
Other securities	816	7,463	-	-	8,279
Total trading instruments	45,520	535,374	440	(88,563)	492,771
Available for sale securities:					
Agency MBS and CMOs	-	178,732	-	-	178,732
Non-agency CMOs	-	145,024	851	-	145,875
Other securities	10	-	-	-	10
ARS:					
Municipals	-	-	79,524 (3)	-	79,524
Preferred securities	-	-	116,524	-	116,524
Total available for sale securities	10	323,756	196,899	-	520,665
Private equity and other investments:					
Private equity investments	-	-	168,785 (4)	-	168,785
Other investments	123,421	63	2,087	-	125,571
Total private equity and other investments	123,421	63	170,872	-	294,356
Other assets	-	2,696	-	-	2,696
Total	\$ 168,951	\$ 861,889	\$ 368,211	\$ (88,563)	\$ 1,310,488
Liabilities:					
Trading instruments sold but not yet purchased:					
Municipal and provincial obligations	\$-	\$ 607	\$ -	\$ -	\$ 607
Corporate obligations	-	5,625	-	-	5,625
Government obligations	56,472	-	-	-	56,472
Agency MBS and CMOs	159	-	-	-	159

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Total debt securities	56,631	6,232	-	-	62,863
Derivative contracts	-	112,457	-	(105,869)	6,588
Equity securities	6,488	211	-	-	6,699
Total trading instruments sold but not yet purchased	63,119	118,900	-	(105,869)	76,150
Other liabilities	-	20	40	-	60
Total	\$63,119	\$ 118,920	\$ 40	\$ (105,869)	\$ 76,210

- (1) We had no significant transfers of financial instruments between Level 1 and Level 2 during the period ended December 31, 2011. Our policy is that the end of each respective quarterly reporting period determines when transfers of financial instruments between levels are recognized.
- (2) We have elected to net derivative receivables and derivative payables and the related cash collateral received and paid when a legally enforceable master netting agreement exists.
- (3) Includes \$53.2 million of Jefferson County, Alabama Limited Obligation School Warrants ARS and \$19.2 million of Jefferson County, Alabama Sewer Revenue Refunding Warrants ARS.
- (4) Includes \$87.9 million in private equity investments of which the weighted-average portion we own is approximately 20%. Effectively, the economics associated with the portion of this investment we do not own becomes a component of noncontrolling interests on our Condensed Consolidated Statements of Financial Condition, and amounted to approximately \$70 million of that total as of September 30, 2011.

Changes in Level 3 recurring fair value measurements

The realized and unrealized gains and losses for assets and liabilities within the Level 3 category presented in the tables below may include changes in fair value that were attributable to both observable and unobservable inputs.

Additional information about Level 3 assets and liabilities measured at fair value on a recurring basis is presented below:

Three months ended December 31, 2011

Level 3 assets at fair value

(in thousands)

	Financial assets						Private equity and other investments		Financial liabilities Payables-trade and other	
	Trading instruments			Available for sale securities						
	Municipal & provincial obligations	Non-agency CMOs & ABS	Other securities	Equity securities	Non-agency CMOs	ARS – municipals	ARS - Preferred securities	Private equity investments	Other investments	Other liabilities
Fair value										
September 30, 2011	\$ 375	\$ 50	\$ -	\$ 15	\$ 851	\$ 79,524	\$ 116,524	\$ 168,785	\$ 2,087	\$(40)
Realized/unrealized gains (losses):										
Included in earnings	80	(4)	(942)	(4)	-	(540)	(75)	4	(49)	11
Included in other comprehensive income	-	-	-	-	(93)	(4,670)	(894)	-	-	-
Purchases and contributions	-	-	-	16	-	475	475	2,367	2	-
Sales	(320)	-	-	-	-	-	-	-	-	-
Redemptions by issuer	-	-	-	-	-	(125)	(17,450)	-	-	-
Distributions	-	(9)	-	-	(17)	-	-	(9,082)	-	-
Transfers:										
Into Level 3	-	-	6,577 (1)	152	-	43	-	-	-	-
Out of Level 3	-	-	-	-	-	-	(43)	-	-	-
Fair value										
December 31, 2011	\$ 135	\$ 37	\$ 5,635	\$ 179	\$ 741	\$ 74,707	\$ 98,537	\$ 162,074	\$ 2,040	\$(29)
Change in unrealized gains (losses) related to financial instruments held at	\$(125)	\$214	\$(942)	\$-	\$-	\$(5,131)	\$(894)	\$4	\$(52)	\$-

December 31, 2011

- (1) During the three month period ended December 31, 2011, we transferred certain securities which were previously included in Level 2, non-agency CMOs and ABS.

Three months ended December 31, 2010

Level 3 assets at fair value

(in thousands)

	Financial assets					Financial liabilities		
	Trading instruments		Equity securities	Available for sale securities	Private equity and other investments		Prepaid expenses and other assets	Payables-trade and other
	Municipal & provincial obligations	Non-agency CMOs & ABS			Private equity investments	Other investments	Other assets	Other liabilities
Fair value								
September 30, 2010	\$ 6,275	\$ 3,930	\$ 3,025	\$ 1,011	\$ 161,230	\$ 45	\$ -	\$ (46)
Realized/unrealized gains (losses):								
Included in earnings	(194)	(137)	-	-	75	-	-	-
Included in other comprehensive income	-	-	-	167	-	-	-	-
Purchases, issuances & settlements, net	(5)	(150)	200	(80)	(1,719)	-	-	-
Transfers:								
Into Level 3	-	-	-	-	-	-	25	-
Out of Level 3	-	-	-	-	-	-	-	-
Fair value								
December 31, 2010	\$ 6,076	\$ 3,643	\$ 3,225	\$ 1,098	\$ 159,586	\$ 45	\$ 25	\$ (46)
Change in unrealized gains (losses) related to financial instruments held at								
December 31, 2010	\$(389)	\$52	\$-	\$-	\$(5)	\$ -	\$-	\$ -

As of December 31, 2011, 7.4% of our assets and 0.9% of our liabilities are instruments measured at fair value on a recurring basis. Instruments measured at fair value on a recurring basis categorized as Level 3 as of December 31, 2011 represent 26.1% of our assets measured at fair value, a substantial increase as compared to December 31, 2010 as a result of the repurchase of ARS that primarily occurred during the fourth quarter of fiscal year 2011 (see the ARS repurchase discussion in Note 17 on pages 130 – 131 of our 2011 Form 10-K). As of December 31, 2010, 8.9% and 1.7% of our assets and liabilities, respectively, represented instruments measured at fair value on a recurring basis. Instruments measured at fair value on a recurring basis categorized as Level 3 as of December 31, 2010 represented 13.1% of our assets measured at fair value.

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Gains and losses (realized and unrealized) included in revenues are reported in net trading profits and other revenues in our Condensed Consolidated Statements of Income and Comprehensive Income as follows:

For the three months ended December 31, 2011	Net trading profits (in thousands)	Other revenues (in thousands)
Total losses included in revenues	\$(870)	\$(649)
Change in unrealized losses relating to assets still held at reporting date	(853)	(6,073)
For the three months ended December 31, 2010	Net trading profits (in thousands)	Other revenues (in thousands)
Total (losses) gains included in revenues	\$(331)	\$75
Change in unrealized losses relating to assets still held at reporting date	(337)	(5)

Nonrecurring fair value measurements

Certain assets and liabilities are not measured at fair value on an ongoing basis but are subject to fair value measurement only in certain circumstances; for example, when there is evidence of impairment or in other situations where the lower of cost or fair value method of accounting is applied. Our financial instruments which are measured at fair value on a nonrecurring basis include certain RJ Bank loans that have been deemed impaired and certain loans classified as held for sale. Assets that are not financial instruments but are subject to measurement at fair value on a nonrecurring basis include goodwill and other real estate owned (“OREO”). The table below provides information, by level within the fair value hierarchy, for assets with nonrecurring fair value measurements during the period and still held as of the reporting date.

	Quoted prices in active markets for identical assets (Level 1)	Fair value measurements		
		Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
		(in thousands)		
December 31, 2011:				
Assets at fair value on a nonrecurring basis:				
Bank loans, net (1)	\$-	\$48,888	\$ 96,342	\$145,230
OREO (2)	-	7,456	-	7,456
September 30, 2011:				
Assets at fair value on a nonrecurring basis:				
Bank loans, net (1)	\$-	\$39,621	\$ 111,941	\$151,562
OREO (2)	-	11,278	-	11,278

(1) Includes individual loans classified as held for sale, which were recorded at a fair value lower than cost.

(2) Represents the fair value of foreclosed properties which were measured at a fair value subsequent to their initial classification as OREO. The recorded value in the Condensed Consolidated Statements of Financial Condition is net of the estimated selling costs.

The adjustment to fair value of the nonrecurring fair value measures for the three months ended December 31, 2011 resulted in \$4.6 million in additional provision for loan losses, as well as \$635,000 in other losses during the quarter.

For a discussion of our accounting policies for impairment of loans held for investment, loans held for sale, and OREO, see Note 1, pages 88 – 92 of our 2011 Form 10-K.

Fair value option

The fair value option is an accounting election that allows the reporting entity to apply fair value accounting for certain financial assets and liabilities on an instrument by instrument basis. As of December 31, 2011, we have elected not to choose the fair value option for any of our financial assets or liabilities not already recorded at fair value.

Other fair value disclosures

Many, but not all, of the financial instruments we hold are recorded at fair value in the Condensed Consolidated Statements of Financial Condition. Refer to Note 3, pages 103 – 104, of our 2011 Form 10-K for discussion of the methods and assumptions we apply to the determination of fair value of our financial instruments that are not otherwise recorded at fair value.

The carrying amounts and estimated fair values of our financial instruments that are not carried at fair value are as follows:

	December 31, 2011		September 30, 2011	
	Carrying amount	Estimated fair value	Carrying amount	Estimated fair value
	(in thousands)			
Financial assets:				
Bank loans, net	\$7,015,204	\$7,062,726	\$6,547,914	\$6,596,439
Financial liabilities:				
Bank deposits	7,704,896	7,710,091	7,739,322	7,745,607
Corporate debt	607,444	662,686	611,968	675,509

NOTE 4 – TRADING INSTRUMENTS AND TRADING INSTRUMENTS SOLD BUT NOT YET PURCHASED

	December 31, 2011		September 30, 2011	
	Trading instruments	Instruments sold but not yet purchased (in thousands)	Trading instruments	Instruments sold but not yet purchased
Municipal and provincial obligations	\$ 186,007	\$ 1,103	\$ 164,402	\$ 607
Corporate obligations	17,657	2,229	27,607	5,625
Government and agency obligations	54,628	104,937	36,106	56,472
Agency MBS and CMOs	180,920	279	147,757	159
Non-agency CMOs and ABS	55,815	-	49,119	-
Total debt securities	495,027	108,548	424,991	62,863
Derivative contracts	39,362	9,671	38,304	6,588
Equity securities	20,683	10,293	21,197	6,699
Other securities	9,369	-	8,279	-
Total	\$ 564,441	\$ 128,512	\$ 492,771	\$ 76,150

See Note 3 for additional information regarding the fair value of trading instruments and trading instruments sold but not yet purchased.

NOTE 5 – AVAILABLE FOR SALE SECURITIES

Available for sale securities are comprised of MBS and CMOs owned by RJ Bank, ARS and certain equity securities owned by our non-broker-dealer subsidiaries. Refer to the discussion of our available for sale securities accounting policies, including the fair value determination process, on Note 1 pages 85 – 86 in our 2011 Form 10-K.

There were no proceeds from the sale of available for sale securities during the three month period ended December 31, 2011. There were proceeds of \$11.2 million from the sale of available for sale securities during the three month period ended December 31, 2010, which resulted in total losses of \$411,000.

During the three month period ended December 31, 2011, ARS with an aggregate par value of \$17.6 million were redeemed by their issuer at par; an insignificant gain was recorded in our Condensed Consolidated Statements of Income and Comprehensive Income on the ARS securities which were subject to these redemptions.

The amortized cost and fair values of available for sale securities are as follows:

	Cost basis	Gross unrealized gains (in thousands)	Gross unrealized losses	Fair value
December 31, 2011:				
Available for sale securities:				
Agency MBS and CMOs	\$161,858	\$ 486	\$ (62)	\$162,282
Non-agency CMOs (1)	185,112	-	(50,554)	134,558
Total RJ Bank available for sale securities	346,970	486	(50,616)	296,840
Auction rate securities:				
Municipal obligations(2)	79,377	162	(4,832)	74,707
Preferred securities(3)	99,431	15	(909)	98,537
Total auction rate securities	178,808	177	(5,741)	173,244
Other securities				
	3	6	-	