

RAYMOND JAMES FINANCIAL INC
Form 10-Q
May 09, 2014
Index

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 March 31, 2014

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

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 Accelerated filer

Non-accelerated filer 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

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

141,075,088 shares of common stock as of May 5, 2014

RAYMOND JAMES FINANCIAL, INC. AND SUBSIDIARIES

Form 10-Q for the quarter ended March 31, 2014

INDEX

| | PAGE |
|----------|--|
| PART I. | <u>FINANCIAL INFORMATION</u> |
| Item 1. | <u>Financial Statements (Unaudited)</u> 3 |
| | <u>Condensed Consolidated Statements of Financial Condition as of March 31, 2014 and September 30, 2013 (Unaudited)</u> 3 |
| | <u>Condensed Consolidated Statements of Income and Comprehensive Income for the three and six months ended March 31, 2014 and March 31, 2013 (Unaudited)</u> 5 |
| | <u>Condensed Consolidated Statements of Changes in Shareholders' Equity for the six months ended March 31, 2014 and March 31, 2013 (Unaudited)</u> 6 |
| | <u>Condensed Consolidated Statements of Cash Flows for the six months ended March 31, 2014 and March 31, 2013 (Unaudited)</u> 7 |
| | <u>Notes to Condensed Consolidated Financial Statements (Unaudited)</u> 9 |
| Item 2. | <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u> 62 |
| Item 3. | <u>Quantitative and Qualitative Disclosures about Market Risk</u> 101 |
| Item 4. | <u>Controls and Procedures</u> 109 |
| PART II. | <u>OTHER INFORMATION</u> 109 |
| Item 1. | <u>Legal Proceedings</u> 109 |
| Item 1A. | <u>Risk Factors</u> 110 |
| Item 2. | <u>Unregistered Sales of Equity Securities and Use of Proceeds</u> 111 |
| Item 3. | <u>Defaults upon Senior Securities</u> 111 |
| Item 5. | <u>Other Information</u> 111 |
| Item 6. | <u>Exhibits</u> 116 |
| | <u>Signatures</u> 117 |

Index

PART I FINANCIAL INFORMATION

Item 1. FINANCIAL STATEMENTS

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

| | March 31, 2014 | September 30, 2013 |
|---|----------------|-----------------------|
| | (in thousands) | |
| Assets: | | |
| Cash and cash equivalents | \$2,641,876 | \$2,596,616 |
| Assets segregated pursuant to regulations and other segregated assets | 2,555,155 | 4,064,827 |
| Securities purchased under agreements to resell and other collateralized financings | 637,486 | 709,120 |
| Financial instruments, at fair value: | | |
| Trading instruments | 647,754 | 579,705 |
| Available for sale securities | 646,569 | 698,844 |
| Private equity investments | 191,401 | 216,391 |
| Other investments | 218,192 | 248,512 |
| Derivative instruments associated with offsetting matched book positions | 289,271 | 250,341 |
| Receivables: | | |
| Brokerage clients, net | 1,989,261 | 1,983,340 |
| Stock borrowed | 185,868 | 146,749 |
| Bank loans, net | 10,028,101 | 8,821,201 |
| Brokers-dealers and clearing organizations | 85,086 | 243,101 |
| Loans to financial advisors, net | 417,372 | 409,080 |
| Other | 492,221 | 407,329 |
| Deposits with clearing organizations | 135,554 | 126,405 |
| Prepaid expenses and other assets | 629,390 | 611,425 |
| Investments in real estate partnerships held by consolidated variable interest entities | 258,633 | 272,096 |
| Property and equipment, net | 244,984 | 244,416 |
| Deferred income taxes, net | 216,882 | 195,160 |
| Goodwill and identifiable intangible assets, net | 357,846 | 361,464 |
| Total assets | \$22,868,902 | \$23,186,122 |

(continued on next page)

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

3

IndexRAYMOND JAMES FINANCIAL, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

(Unaudited)

(continued from previous page)

| | March 31, 2014 | September 30, 2013 |
|--|-------------------|-----------------------|
| | (\$ in thousands) | |
| Liabilities and equity: | | |
| Trading instruments sold but not yet purchased, at fair value | \$200,458 | \$220,656 |
| Securities sold under agreements to repurchase | 377,677 | 300,933 |
| Derivative instruments associated with offsetting matched book positions, at fair value | 289,271 | 250,341 |
| Payables: | | |
| Brokerage clients | 4,112,420 | 5,942,843 |
| Stock loaned | 432,223 | 354,377 |
| Bank deposits | 10,414,804 | 9,295,371 |
| Brokers-dealers and clearing organizations | 157,059 | 109,611 |
| Trade and other | 702,013 | 630,344 |
| Other borrowings | 78,517 | 84,076 |
| Accrued compensation, commissions and benefits | 649,895 | 741,787 |
| Loans payable of consolidated variable interest entities | 53,505 | 62,938 |
| Corporate debt | 1,192,699 | 1,194,508 |
| Total liabilities | 18,660,541 | 19,187,785 |
| Commitments and contingencies (see Note 16) | | |
| 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 145,680,145 at March 31, 2014 and 144,559,772 at September 30, 2013 | 1,439 | 1,429 |
| Additional paid-in capital | 1,203,966 | 1,136,298 |
| Retained earnings | 2,810,190 | 2,635,026 |
| Treasury stock, at cost; 5,090,046 common shares at March 31, 2014 and 5,002,666 common shares at September 30, 2013 | (126,057 |) (120,555 |
| Accumulated other comprehensive income | (1,234 |) 10,726 |
| Total equity attributable to Raymond James Financial, Inc. | 3,888,304 | 3,662,924 |
| Noncontrolling interests | 320,057 | 335,413 |
| Total equity | 4,208,361 | 3,998,337 |
| Total liabilities and equity | \$22,868,902 | \$23,186,122 |

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

4

Index

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

| | Three months ended March 31, | | Six months ended March 31, | |
|---|--|-----------|----------------------------|-------------|
| | 2014 | 2013 | 2014 | 2013 |
| | (in thousands, except per share amounts) | | | |
| Revenues: | | | | |
| Securities commissions and fees | \$805,719 | \$764,989 | \$1,587,899 | \$1,503,573 |
| Investment banking | 67,311 | 50,255 | 147,108 | 135,125 |
| Investment advisory fees | 88,096 | 65,503 | 181,510 | 127,573 |
| Interest | 118,393 | 118,032 | 235,486 | 241,158 |
| Account and service fees | 101,024 | 88,400 | 194,598 | 176,851 |
| Net trading profit | 14,842 | 8,128 | 32,993 | 17,467 |
| Other | 9,240 | 74,991 | 33,805 | 106,060 |
| Total revenues | 1,204,625 | 1,170,298 | 2,413,399 | 2,307,807 |
| Interest expense | 25,980 | 27,203 | 51,352 | 55,224 |
| Net revenues | 1,178,645 | 1,143,095 | 2,362,047 | 2,252,583 |
| Non-interest expenses: | | | | |
| Compensation, commissions and benefits | 812,291 | 763,047 | 1,617,236 | 1,525,595 |
| Communications and information processing | 69,503 | 65,018 | 131,357 | 125,384 |
| Occupancy and equipment costs | 39,897 | 38,694 | 79,582 | 78,172 |
| Clearance and floor brokerage | 9,876 | 11,405 | 19,830 | 21,573 |
| Business development | 36,667 | 31,488 | 68,911 | 62,117 |
| Investment sub-advisory fees | 13,798 | 8,410 | 25,597 | 16,460 |
| Bank loan loss provision | 1,979 | 3,737 | 3,615 | 6,660 |
| Acquisition related expenses | — | 20,922 | — | 38,304 |
| Other | 41,635 | 41,071 | 84,108 | 71,848 |
| Total non-interest expenses | 1,025,646 | 983,792 | 2,030,236 | 1,946,113 |
| Income including noncontrolling interests and before provision for income taxes | 152,999 | 159,303 | 331,811 | 306,470 |
| Provision for income taxes | 60,904 | 51,057 | 123,195 | 104,330 |
| Net income including noncontrolling interests | 92,095 | 108,246 | 208,616 | 202,140 |
| Net (loss) income attributable to noncontrolling interests | (12,465) |) 28,286 | (12,577) |) 36,306 |
| Net income attributable to Raymond James Financial, Inc. | \$104,560 | \$79,960 | \$221,193 | \$165,834 |
| Net income per common share – basic | \$0.74 | \$0.57 | \$1.57 | \$1.19 |
| Net income per common share – diluted | \$0.72 | \$0.56 | \$1.54 | \$1.17 |
| Weighted-average common shares outstanding – basic | 139,888 | 137,817 | 139,498 | 137,156 |
| Weighted-average common and common equivalent shares outstanding – diluted | 143,636 | 140,722 | 143,065 | 139,669 |
| Net income attributable to Raymond James Financial, Inc. | \$104,560 | \$79,960 | \$221,193 | \$165,834 |
| Other comprehensive income (loss), net of tax: ⁽¹⁾ | 3,482 | 3,606 | 4,576 | 13,744 |

| | | | | | |
|---|----------|----------|-----------|-----------|---|
| Change in unrealized losses on available for sale securities and non-credit portion of other-than-temporary impairment losses | | | | | |
| Change in currency translations and net investment hedges | (10,261 |) (4,991 |) (16,536 |) (8,677 |) |
| Total comprehensive income | \$97,781 | \$78,575 | \$209,233 | \$170,901 | |
| Other-than-temporary impairment: | | | | | |
| Total other-than-temporary impairment, net | \$2,389 | \$3,364 | \$3,973 | \$6,718 | |
| Portion of pre-tax recoveries recognized in other comprehensive income | (2,389 |) (3,364 |) (4,000 |) (7,103 |) |
| Net impairment losses recognized in other revenue | \$— | \$— | \$(27 |) \$(385 |) |

(1) All components of other comprehensive income, net of tax, are attributable to Raymond James Financial, Inc.

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

Index

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

| | Six months ended March 31, | |
|---|--|-------------|
| | 2014 | 2013 |
| | (in thousands, except per share amounts) | |
| Common stock, par value \$.01 per share: | | |
| Balance, beginning of year | \$1,429 | \$1,404 |
| Other issuances | 10 | 20 |
| Balance, end of period | 1,439 | 1,424 |
| Additional paid-in capital: | | |
| Balance, beginning of year | 1,136,298 | 1,030,288 |
| Employee stock purchases | 10,002 | 8,936 |
| Exercise of stock options and vesting of restricted stock units, net of forfeitures | 12,747 | 30,989 |
| Restricted stock, stock option and restricted stock unit expense | 34,380 | 31,460 |
| Excess tax benefit from share-based payments | 9,877 | 2,512 |
| Other | 662 | 173 |
| Balance, end of period | 1,203,966 | 1,104,358 |
| Retained earnings: | | |
| Balance, beginning of year | 2,635,026 | 2,346,563 |
| Net income attributable to Raymond James Financial, Inc. | 221,193 | 165,834 |
| Cash dividends declared | (45,733 |) (39,027 |
| Other | (296 |) (410 |
| Balance, end of period | 2,810,190 | 2,472,960 |
| Treasury stock: | | |
| Balance, beginning of year | (120,555 |) (118,762 |
| Purchases/surrenders | (2,213 |) (7,841 |
| Exercise of stock options and vesting of restricted stock units, net of forfeitures | (3,289 |) 4,103 |
| Balance, end of period | (126,057 |) (122,500 |
| Accumulated other comprehensive income: ⁽¹⁾ | | |
| Balance, beginning of year | \$10,726 | \$9,447 |
| Net change in unrealized losses on available for sale securities and non-credit portion of other-than-temporary impairment losses, net of tax | 4,575 | 13,744 |
| Net change in currency translations and net investment hedges, net of tax | (16,535 |) (8,677 |
| Balance, end of period | (1,234 |) 14,514 |
| Total equity attributable to Raymond James Financial, Inc. | \$3,888,304 | \$3,470,756 |
| Noncontrolling interests: | | |
| Balance, beginning of year | \$335,413 | \$411,342 |
| Net (loss) income attributable to noncontrolling interests | (12,577 |) 36,306 |
| Capital contributions | 11,682 | 14,767 |
| Distributions | (14,583 |) (34,627 |
| Consolidation of acquired entity ⁽²⁾ | — | 7,592 |
| Other | 122 | 5,748 |

| | | |
|------------------------|-------------|-------------|
| Balance, end of period | 320,057 | 441,128 |
| Total equity | \$4,208,361 | \$3,911,884 |

(1) All components of other comprehensive income, net of tax, are attributable to Raymond James Financial, Inc.

(2) On December 24, 2012, we acquired a 45% interest in ClariVest Asset Management, LLC. See Notes 1 and 3 for discussion.

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

Index

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

| | Six months ended March 31, | |
|--|----------------------------|--------------|
| | 2014 | 2013 |
| | (in thousands) | |
| Cash flows from operating activities: | | |
| Net income attributable to Raymond James Financial, Inc. | \$221,193 | \$165,834 |
| Net (loss) income attributable to noncontrolling interests | (12,577 |) 36,306 |
| Net income including noncontrolling interests | 208,616 | 202,140 |
| Adjustments to reconcile net income including noncontrolling interests to net cash provided by operating activities: | | |
| Depreciation and amortization | 32,444 | 33,011 |
| Deferred income taxes | (23,518 |) (196) |
| Premium and discount amortization on available for sale securities and unrealized/realized gain on other investments | (17,911 |) (70,542) |
| Provisions for loan losses, legal proceedings, bad debts and other accruals | 9,339 | 10,965 |
| Share-based compensation expense | 37,416 | 33,688 |
| Goodwill impairment expense | — | 6,933 |
| Other | 7,571 | 10,180 |
| Net change in: | | |
| Assets segregated pursuant to regulations and other segregated assets | 1,509,672 | (851,231) |
| Securities purchased under agreements to resell and other collateralized financings, net of securities sold under agreements to repurchase | 148,378 | (9,274) |
| Stock loaned, net of stock borrowed | 38,727 | (68,452) |
| (Loans provided to) repayments of loans, to financial advisors, net | (14,100 |) 16,224 |
| Brokerage client receivables and other accounts receivable, net | 80,143 | (113,581) |
| Trading instruments, net | (59,341 |) 84,875 |
| Prepaid expenses and other assets | 82,714 | 39,111 |
| Brokerage client payables and other accounts payable | (1,802,701 |) 867,203 |
| Accrued compensation, commissions and benefits | (92,635 |) (70,863) |
| Proceeds from sales of securitizations and loans held for sale, net of purchases and originations of loans held for sale | (1,844 |) 58,329 |
| Excess tax benefits from share-based payment arrangements | (9,877 |) (2,512) |
| Net cash provided by operating activities | 133,093 | 176,008 |
| Cash flows from investing activities: | | |
| Additions to property and equipment | (31,320 |) (46,933) |
| Increase in bank loans, net | (1,314,264 |) (538,715) |
| Redemptions of Federal Home Loan Bank/Federal Reserve Bank stock, net | 1,389 | 1,067 |
| Proceeds from sales of loans held for investment | 82,991 | 95,988 |
| Sales of private equity and other investments, net | 36,469 | 2,006 |
| Purchases of available for sale securities | (1,305 |) (62,102) |
| Available for sale securities maturations, repayments and redemptions | 69,665 | 62,272 |
| Proceeds from sales of available for sale securities | 370 | 13 |
| Investments in real estate partnerships held by consolidated variable interest entities, net of other investing activity | (4,457 |) 1,575 |

Edgar Filing: RAYMOND JAMES FINANCIAL INC - Form 10-Q

| | | | |
|--|--------------|--------------|---|
| Business acquisition, net of cash acquired | (2,007 |) (6,450 |) |
| Net cash used in investing activities | \$(1,162,469 |) \$(491,279 |) |