

RAYMOND JAMES FINANCIAL INC
Form 10-Q
February 09, 2010

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, 2009

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.

123,738,794 shares of Common Stock as of February 4, 2010

RAYMOND JAMES FINANCIAL, INC. AND SUBSIDIARIES

Form 10-Q for the Quarter Ended December 31, 2009

INDEX

	PAGE
PART I. FINANCIAL INFORMATION	
Item 1. Financial Statements (unaudited)	
Condensed Consolidated Statements of Financial Condition as of December 31, 2009 and September 30, 2009 (unaudited)	3
Condensed Consolidated Statements of Income and Comprehensive Income for the three months ended December 31, 2009 and December 31, 2008 (unaudited)	4
Condensed Consolidated Statements of Cash Flows for the three months ended December 31, 2009 and December 31, 2008 (unaudited)	5
Notes to Condensed Consolidated Financial Statements (unaudited)	7
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	38
Item 3. Quantitative and Qualitative Disclosures About Market Risk	60
Item 4. Controls and Procedures	66
PART II. OTHER INFORMATION	
Item 1. Legal Proceedings	66
Item 1A. Risk Factors	66
Item 2. Unregistered Sales of Equity Securities and Use of Proceeds	67
Item 3. Defaults Upon Senior Securities	67
Item 5. Other Information	67
Item 6. Exhibits	68
Signatures	69

PART I FINANCIAL INFORMATION

Item 1. FINANCIAL STATEMENTS

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

	December 31, 2009	September 30, 2009
(\$ in 000's)		
Assets		
Cash and Cash Equivalents	\$ 1,018,585	\$ 2,306,085
Assets Segregated Pursuant to Regulations and Other Segregated Assets	1,977,995	2,310,261
Securities Purchased under Agreements to Resell and Other Collateralized Financings	352,268	2,306,186
Financial Instruments, at Fair Value:		
Trading Instruments	362,942	431,445
Available for Sale Securities	488,997	509,073
Private Equity and Other Investments	296,056	291,389
Receivables:		
Brokerage Clients, Net	1,538,470	1,463,136
Stock Borrowed	635,670	416,964
Bank Loans, Net	6,452,530	6,593,973
Brokers-Dealers and Clearing Organizations	35,788	38,610
Other	436,283	540,035
Deposits with Clearing Organizations	79,668	83,799
Prepaid Expenses and Other Assets	322,998	260,427
Investments in Real Estate Partnerships - Held by Variable Interest Entities	276,335	270,139
Property and Equipment, Net	182,999	186,232
Deferred Income Taxes, Net	171,836	156,399
Goodwill	62,575	62,575
Total Assets	\$ 14,691,995	\$ 18,226,728
Liabilities And Equity		
Trading Instruments Sold but Not Yet Purchased, at Fair Value	\$ 91,493	\$ 93,376
Securities Sold Under Agreements to Repurchase	22,733	102,758
Payables:		
Brokerage Clients	3,143,549	3,789,870
Stock Loaned	1,009,278	490,240
Bank Deposits	7,007,069	9,423,387
Brokers-Dealers and Clearing Organizations	158,698	157,032
Trade and Other	229,067	177,769
Other Borrowings	51,027	980,000

Accrued Compensation, Commissions and Benefits	222,889	330,879
Loans Payable Related to Investments by Variable Interest Entities in Real Estate Partnerships	81,821	89,244
Corporate Debt	358,282	359,034
Total Liabilities	12,375,906	15,993,589
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 127,858,633 at December 31, 2009 and 127,039,672 at September 30, 2009	1,229	1,227
Shares Exchangeable into Common Stock; 249,013 at December 31, 2009 and 249,168 at September 30, 2009	3,196	3,198
Additional Paid-In Capital	435,788	416,662
Retained Earnings	1,766,808	1,737,591
Treasury Stock, at Cost, 4,123,419 Common Shares at December 31, 2009 and 3,975,136 Common Shares at September 30, 2009	(88,235)	(84,412)
Accumulated Other Comprehensive Income	(25,607)	(41,803)
Total Equity Attributable to Raymond James Financial, Inc.	2,093,179	2,032,463
Noncontrolling Interests	222,910	200,676
Total Equity	2,316,089	2,233,139
Total Liabilities and Equity	\$ 14,691,995	\$ 18,226,728

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

RAYMOND JAMES FINANCIAL, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME (Unaudited)
(in 000's, except per share amounts)

	Three Months Ended	
	December 31, 2009	December 31, 2008
Revenues:		
Securities Commissions and Fees	\$ 469,151	\$ 418,225
Investment Banking	25,718	20,733
Investment Advisory Fees	43,975	44,435
Interest	91,372	143,612
Net Trading Profits	11,637	9,175
Financial Service Fees	36,782	33,135
Other	24,034	26,518
Total Revenues	702,669	695,833
Interest Expense	15,702	31,891
Net Revenues	686,967	663,942
Non-Interest Expenses:		
Compensation, Commissions and Benefits	471,079	419,254
Communications and Information Processing	28,074	35,223
Occupancy and Equipment Costs	26,715	26,435
Clearance and Floor Brokerage	8,502	8,588
Business Development	19,881	24,724
Investment Advisory Fees	9,103	9,722
Bank Loan Loss Provision	22,835	24,870
Other	33,665	18,469
Total Non-Interest Expenses	619,854	567,285
Income Before Provision for Income Taxes and Noncontrolling Interests	67,113	96,657
Provision for Income Taxes	26,485	40,571
Net Income Before Noncontrolling Interests	40,628	56,086
Net Loss Attributable to Noncontrolling Interests	(2,275)	(5,007)
Net Income Attributable to Raymond James Financial, Inc.	\$ 42,903	\$ 61,093
Net Income per Common Share-Basic	\$ 0.35	\$ 0.50
Net Income per Common Share-Diluted	\$ 0.35	\$ 0.50
Weighted Average Common Shares Outstanding-Basic	118,763	116,307
Weighted Average Common and Common Equivalent Shares Outstanding-Diluted	118,983	116,559
Dividends Paid per Common Share	\$ 0.11	\$ 0.11

Net Income Attributable to Raymond James Financial, Inc.	\$ 42,903	\$ 61,093
Other Comprehensive Income, Net of Tax:		
Change in Unrealized Loss on Available for Sale Securities and Non-Credit Portion of Other-Than-Temporary Impairment Losses	13,223	(53,387)
Change in Currency Translations	2,973	(19,810)
Total Comprehensive Income (Loss)	\$ 59,099	\$ (12,104)
Other-Than-Temporary Impairment:		
Total Other-than-Temporary Impairment Losses	\$ (15,520)	\$ (571)
Portion of Losses recognized in Other Comprehensive Income (Before Taxes)	12,521	-
Net Impairment Losses Recognized in Other Revenue	\$ (2,999)	\$ (571)

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

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

(Unaudited)

(in 000's)

(continued on next page)

	Three Months Ended	
	December	December
	31,	31,
	2009	2008
Cash Flows From Operating Activities:		
Net Income Before Noncontrolling Interests	\$ 40,628	\$ 56,086
Adjustments to Reconcile Net Income to Net		
Cash Provided by (Used in) Operating Activities:		
Depreciation and Amortization	11,758	8,345
Deferred Income Taxes	(23,070)	(16,423)
Premium and Discount Amortization on Available for		
Sale Securities		
and Unrealized/Realized Gain on Other Investments	360	(1,192)
Other-than-Temporary Impairment on Available for	2,999	571
Sale Securities		
Impairment of and Loss on Sale of Property and	(22)	6,197
Equipment		
Gain on Sale of Loans Held for Sale and	(505)	(49)
Securitized		
Provision for Loan Loss, Legal Proceedings, Bad	37,635	30,153
Debts and Other Accruals		
Stock-Based Compensation Expense	12,901	2,769
(Gain) Loss on Company-Owned Life Insurance	(3,864)	13,505
(Increase) Decrease in Operating Assets:		
Assets Segregated Pursuant to Regulations and Other	332,266	(342,333)
Segregated Assets		
Receivables:		
Brokerage Clients, Net	(75,029)	539,995
Stock Borrowed	(218,706)	117,544
Brokers-Dealers and Clearing Organizations	2,822	113,650
Other	101,904	(16,320)
Securities Purchased Under Agreements to Resell and		
Other Collateralized		
Financings, Net of Securities Sold Under Agreements	(126,107)	(68,953)
to Repurchase		
Trading Instruments, Net	29,808	13,243
Proceeds from Sale of Loans Held for Sale	13,039	3,540
Proceeds from Sale of SBA Loan Securitized	93,913	-
Origination of Loans Held for Sale	(119,584)	(3,217)
Excess Tax Benefits from Stock-Based Payment	457	(3,754)
Arrangements		
Prepaid Expenses and Other Assets	(45,038)	97,614

Increase (Decrease) in Operating Liabilities:

Payables:

Brokerage Clients	(646,321)	144,496
Stock Loaned	519,038	(146,685)
Brokers-Dealers and Clearing Organizations	1,666	(198,043)
Trade and Other	(9,875)	(13,989)
Accrued Compensation, Commissions and Benefits	(107,096)	(115,086)
Income Taxes Payable	35,032	52,171

Net Cash (Used in) Provided by Operating Activities (138,991) 273,835

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

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

(Unaudited)

(in 000's)

(continued)

	Three Months Ended	
	December 31, 2009	December 31, 2008
Cash Flows from Investing Activities:		
Additions to Property and Equipment, Net	(5,827)	(15,138)
Decrease (Increase) in Loans, Net	177,759	(624,960)
Purchases of Private Equity and Other Investments, Net	(5,069)	(1,703)
Investments in Company-Owned Life Insurance	(8,819)	(8,836)
Investments in Real Estate Partnerships-Held by Variable Interest Entities	(6,196)	(24,761)
Repayments of Loans by Investor Members of Variable Interest Entities Related to Investments in Real Estate Partnerships	251	783
Decrease (Increase) in Securities Purchased Under Agreements to Resell, Net Available for Sale Securities Maturations and Repayments	2,000,000	(345,000)
	37,975	24,907
Net Cash Provided by (Used in) Investing Activities	2,190,074	(994,708)
Cash Flows from Financing Activities:		
Proceeds from Borrowed Funds, Net	1,027	-
Repayments of Borrowings, Net	(930,752)	(2,050,946)
Proceeds from Borrowed Funds Related to Company-Owned Life Insurance	-	38,120
Proceeds from Borrowed Funds Related to Investments by Variable Interest Entities in Real Estate Partnerships	1,090	1,260
Repayments of Borrowed Funds Related to Investments by Variable Interest Entities in Real Estate Partnerships	(8,513)	(9,130)
Proceeds from Capital Contributed to Variable Interest Entities Related to Investments in Real Estate Partnerships	25,917	10,685
Exercise of Stock Options and Employee Stock Purchases	5,309	4,135
(Decrease) Increase in Bank Deposits	(2,416,318)	18,525
Purchase of Treasury Stock	(3,321)	(4,462)
Dividends on Common Stock	(13,687)	(13,365)
Excess Tax Benefits from Stock-Based Payment Arrangements	(457)	3,754

Net Cash Used in Financing Activities	(3,339,705)	(2,001,424)
---------------------------------------	-------------	-------------

Currency Adjustment:

Effect of Exchange Rate Changes on Cash	1,122	(4,214)
---	-------	---------

Net Decrease in Cash and Cash Equivalents	(1,287,500)	(2,726,511)
---	-------------	-------------

Cash and Cash Equivalents at Beginning of Year	2,306,085	3,207,493
--	-----------	-----------

Cash and Cash Equivalents at End of Period	\$ 1,018,585	\$ 480,982
--	--------------	------------

Supplemental Disclosures of Cash Flow Information:

Cash Paid for Interest	\$ 6,472	\$ 33,601
------------------------	----------	-----------

Cash Paid for Income Taxes	\$ 8,972	\$ 1,197
----------------------------	----------	----------

Loans Charged-off, Net	\$ 23,943	\$ 6,885
------------------------	-----------	----------

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

RAYMOND JAMES FINANCIAL, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
December 31, 2009

NOTE 1 - BASIS OF PRESENTATION:

The accompanying unaudited condensed consolidated financial statements include the accounts of Raymond James Financial, Inc. ("RJF") and its consolidated subsidiaries that are generally controlled through a majority voting interest. RJF is a holding company headquartered in Florida whose subsidiaries are engaged in various financial service businesses; as used herein, the terms "our", "we" or "us" refer to RJF and/or one or more of its subsidiaries. In addition, we consolidate any variable interest entities ("VIEs") in which we are the primary beneficiary. Additional information on these VIEs is provided in Note 7 of these Notes to Condensed Consolidated Financial Statements. 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 generally accepted accounting principles in the United States of America ("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.

Subsequent events have been evaluated for either recognition in these interim financial statements, or for disclosure purposes herein as appropriate, through February 8, 2010, which is the date the unaudited condensed consolidated financial statements were issued.

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, 2009, as filed with the United States of America ("U.S.") Securities and Exchange Commission (the "2009 Form 10-K"). To prepare 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 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 consolidated financial statements.

Reclassifications and Update of Significant Accounting Policies

Prior to October 1, 2009, we reported minority interest within mezzanine equity on our consolidated statements of financial condition and in minority interest in earnings of subsidiaries in our computation of net income. As a result of the implementation of new Financial Accounting Standards Board ("FASB") guidance, we now present noncontrolling interests within shareholders' equity, separately from our equity. We have reclassified certain amounts previously reported in prior financial statements to retrospectively reflect noncontrolling interest within shareholders' equity and to allocate net income (loss) between noncontrolling and our own interests.

We implemented new FASB guidance regarding the computation of earnings per share which impacted the prior period computations. See Note 17 of these Notes to Condensed Consolidated Financial Statements for discussion of the change in method and its impact on prior periods.

Certain other prior period amounts have been reclassified to conform to the current presentation.

A summary of our significant accounting policies is included in Note 1 on pages 77 – 88 of our 2009 Form 10-K. New FASB guidance related to the valuation of Private Equity Investments and the application of certain pronouncements applicable to nonfinancial assets and liabilities that are not measured at fair value on a recurring basis are discussed in Note 3 of these Notes to Condensed Consolidated Financial Statements. These two changes, together with the changes in minority interests and earnings per share discussed previously, are the only changes in significant accounting policies implemented since the year-end September 30, 2009.

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 not held for resale 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 78 of our 2009 Form 10-K.

The following are financial instruments that are cash and cash equivalents or other investment balances which are readily convertible into cash as of December 31, 2009 and September 30, 2009:

	December 31, 2009	September 30, 2009
	(in 000's)	
Cash and Cash Equivalents:		
Cash in banks	\$ 1,002,460	\$ 1,085,202
U. S. Treasury securities(1)	236	1,206,914
Money market investments	15,889	13,969
Total cash and cash equivalents	1,018,585	2,306,085
Cash and securities segregated pursuant to federal regulations and other segregated assets (2)		
	1,977,995	2,310,261
Deposits with clearing organizations(3)	79,668	83,799
	\$ 3,076,248	\$ 4,700,145

(1) Consists of U.S. Treasury Securities with maturities of 90 days or less. The balance at September 30, 2009 included \$1.2 billion in U.S. Treasury Securities purchased as part of the transactions associated with the point-in-time regulatory balance sheet composition requirements of RJ Bank. See Note 21 on page 127 of our 2009 Form 10-K for discussion of the September 30, 2009 point-in-time test.