

STIFEL FINANCIAL CORP  
Form 10-Q  
November 10, 2014  
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**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 September 30, 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: 001-09305**

**STIFEL FINANCIAL CORP.**

**(Exact name of registrant as specified in its charter)**

**Delaware** **43-1273600**  
**(State or other jurisdiction of** **(I.R.S. Employer**  
**incorporation or organization)** **Identification No.)**  
**501 N. Broadway, St. Louis, Missouri 63102-2188**  
**(Address of principal executive offices and zip code)**  
**(314) 342-2000**  
**(Registrant's telephone number, including area code)**

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 (the Exchange Act) 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 during the preceding 12 months (or for 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 (as defined in Rule 12b-2 of the Exchange Act).

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

The number of shares outstanding of the registrant's common stock, \$0.15 par value per share, as of the close of business on October 31, 2014, was 66,010,498.

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**Table of Contents****PART I FINANCIAL INFORMATION****ITEM 1. FINANCIAL STATEMENTS****STIFEL FINANCIAL CORP.****Consolidated Statements of Financial Condition**

<i>(in thousands)</i>	<b>September 30, 2014 (Unaudited)</b>	December 31, 2013
<b>Assets</b>		
Cash and cash equivalents	<b>\$ 535,118</b>	\$ 716,560
Restricted cash		4,268
Cash segregated for regulatory purposes	<b>39</b>	35
Receivables:		
Brokerage clients, net	<b>549,597</b>	530,402
Brokers, dealers, and clearing organizations	<b>651,428</b>	381,122
Securities purchased under agreements to resell	<b>125,513</b>	225,075
Financial instruments owned, at fair value (includes securities pledged of \$492,986 and \$686,997, respectively)	<b>951,854</b>	801,494
Available-for-sale securities, at fair value	<b>1,527,747</b>	1,756,253
Held-to-maturity securities, at amortized cost	<b>1,199,364</b>	1,312,115
Loans held for sale	<b>104,277</b>	109,110
Bank loans, net of allowance	<b>1,867,177</b>	1,404,353
Investments, at fair value	<b>209,131</b>	217,228
Fixed assets, net	<b>126,007</b>	106,446
Goodwill	<b>762,305</b>	727,336
Intangible assets, net	<b>41,797</b>	49,889
Loans and advances to financial advisors and other employees, net	<b>186,582</b>	184,458
Deferred tax assets, net	<b>234,173</b>	243,554
Other assets	<b>254,008</b>	239,172
<b>Total Assets</b>	<b>\$ 9,326,117</b>	\$ 9,008,870

*See accompanying Notes to Consolidated Financial Statements.*

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## STIFEL FINANCIAL CORP.

## Consolidated Statements of Financial Condition (continued)

<i>(in thousands, except share and per share amounts)</i>	September 30, 2014 (Unaudited)	December 31, 2013
<b>Liabilities and Shareholders Equity</b>		
Short-term borrowings from banks	\$ 49,800	\$ 55,700
Payables:		
Brokerage clients	319,253	318,942
Brokers, dealers, and clearing organizations	79,111	58,135
Drafts	58,589	74,710
Securities sold under agreements to repurchase	143,814	263,809
Bank deposits	4,552,522	4,663,323
Financial instruments sold, but not yet purchased, at fair value	613,023	481,214
Accrued compensation	286,572	337,589
Accounts payable and accrued expenses	277,384	285,968
Senior notes	625,000	325,000
Debentures to Stifel Financial Capital Trusts	82,500	82,500
	<b>7,087,568</b>	6,946,890
Liabilities subordinated to claims of general creditors		3,131
Shareholders Equity:		
Preferred stock \$1 par value; authorized 3,000,000 shares; none issued		
Common stock \$0.15 par value; authorized 97,000,000 shares; issued 65,994,630 and 63,744,074 shares, respectively	9,861	9,562
Additional paid-in-capital	1,593,721	1,544,143
Retained earnings	672,540	540,238
Accumulated other comprehensive income	(37,573)	(35,030)
	<b>2,238,549</b>	2,058,913
Treasury stock, at cost, 0 and 1,330 shares, respectively		(64)
	<b>2,238,549</b>	2,058,849
<b>Total Liabilities and Shareholders Equity</b>	<b>\$ 9,326,117</b>	<b>\$ 9,008,870</b>

*See accompanying Notes to Consolidated Financial Statements.*

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## STIFEL FINANCIAL CORP.

## Consolidated Statements of Operations

(Unaudited)

<i>(in thousands, except per share amounts)</i>	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
<b>Revenues:</b>				
Commissions	\$ 151,621	\$ 145,837	\$ 463,749	\$ 446,498
Principal transactions	109,378	122,583	361,515	341,153
Investment banking	120,147	92,851	393,966	289,199
Asset management and service fees	96,638	76,710	280,039	221,711
Interest	52,096	39,130	141,035	101,829
Other income	4,803	13,063	18,745	45,269
Total revenues	534,683	490,174	1,659,049	1,445,659
Interest expense	11,228	11,535	28,701	34,738
Net revenues	523,455	478,639	1,630,348	1,410,921
<b>Non-interest expenses:</b>				
Compensation and benefits	331,440	326,020	1,033,478	958,179
Occupancy and equipment rental	41,611	41,288	125,110	116,090
Communications and office supplies	27,464	26,122	78,151	74,034
Commissions and floor brokerage	9,971	10,150	28,247	28,777
Other operating expenses	47,203	44,051	143,945	126,600
Total non-interest expenses	457,689	447,631	1,408,931	1,303,680
<b>Income from continuing operations before income tax expense</b>	<b>65,766</b>	<b>31,008</b>	<b>221,417</b>	<b>107,241</b>
Provision for income taxes	25,673	(43,921)	87,774	(13,541)
<b>Income from continuing operations</b>	<b>40,093</b>	<b>74,929</b>	<b>133,643</b>	<b>120,782</b>
<b>Discontinued operations:</b>				
Loss from discontinued operations, net of tax	(190)	(5,239)	(2,757)	(7,037)
<b>Net income</b>	<b>\$ 39,903</b>	<b>\$ 69,690</b>	<b>\$ 130,886</b>	<b>\$ 113,745</b>
<b>Earnings per basic common share:</b>				
Income from continuing operations	\$ 0.60	\$ 1.16	\$ 2.01	\$ 1.91

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Loss from discontinued operations		(0.08)	<b>(0.04)</b>	(0.11)
Earnings per basic common share	<b>\$ 0.60</b>	\$ 1.08	<b>\$ 1.97</b>	\$ 1.80
<b>Earnings per diluted common share:</b>				
Income from continuing operations	<b>\$ 0.52</b>	\$ 1.00	<b>\$ 1.76</b>	\$ 1.66
Loss from discontinued operations		(0.07)	<b>(0.04)</b>	(0.10)
Earnings per diluted common share	<b>\$ 0.52</b>	\$ 0.93	<b>\$ 1.72</b>	\$ 1.56
<b>Weighted average number of common shares outstanding:</b>				
Basic	<b>66,691</b>	64,706	<b>66,344</b>	63,133
Diluted	<b>76,681</b>	75,191	<b>76,011</b>	72,851

*See accompanying Notes to Consolidated Financial Statements.*

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## STIFEL FINANCIAL CORP.

## Consolidated Statements of Comprehensive Income

(Unaudited)

<i>(in thousands)</i>	Three Months Ended		Nine Months Ended	
	September 30, 2014	2013	September 30, 2014	2013
Net income	\$ 39,903	\$ 69,690	\$ 130,886	\$ 113,745
Other comprehensive income/(loss) <sup>(1)</sup> :				
Changes in unrealized gains/(losses) on available-for-sale securities <sup>(2)</sup>	(3,884)	(8,160)	1,683	(48,158)
Changes in unrealized gains on cash flow hedging instruments <sup>(3)</sup>	1,108	473	2,094	5,420
Foreign currency translation adjustment	(8,388)	2,669	(6,320)	1,393
	(11,164)	(5,018)	(2,543)	(41,345)
Comprehensive income	\$ 28,739	\$ 64,672	\$ 128,343	\$ 72,400

(1) Net of taxes of \$7.0 million and \$3.1 million for the three months ended September 30, 2014 and 2013, respectively. Net of taxes of \$1.6 million and \$25.8 million for the nine months ended September 30, 2014 and 2013, respectively.

(2) Amounts are net of reclassifications to earnings of realized gains of \$0.7 million and \$0.2 million for the three months ended September 30, 2014 and 2013, respectively. Amounts are net of reclassifications to earnings of realized gains of \$1.9 million and \$1.1 million for the nine months ended September 30, 2014 and 2013, respectively.

(3) Amounts are net of reclassifications to earnings of losses of \$1.5 million and \$2.1 million for the three months ended September 30, 2014 and 2013, respectively. Amounts are net of reclassifications to earnings of losses of \$4.7 million and \$6.7 million for the nine months ended September 30, 2014 and 2013, respectively.

*See accompanying Notes to Consolidated Financial Statements.*



**Table of Contents****STIFEL FINANCIAL CORP.****Consolidated Statements of Cash Flows****(Unaudited)**

<i>(in thousands)</i>	<b>Nine Months Ended September 30,</b>	
	<b>2014</b>	<b>2013</b>
<b>Cash Flows from Operating Activities:</b>		
Net income	<b>\$ 130,886</b>	\$ 113,745
Adjustments to reconcile net income to net cash provided by/(used in) operating activities:		
Depreciation and amortization	<b>21,727</b>	25,162
Amortization of loans and advances to financial advisors and other employees	<b>49,285</b>	48,368
Amortization of premium on investment portfolio	<b>4,385</b>	5,568
Provision for loan losses and allowance for loans and advances to financial advisors and other employees	<b>6,832</b>	6,395
Amortization of intangible assets	<b>9,762</b>	4,145
Deferred income taxes	<b>17,111</b>	(70,687)
Excess tax benefits from stock-based compensation	<b>(18,220)</b>	(10,446)
Stock-based compensation	<b>70,852</b>	124,835
(Gains)/losses on investments	<b>(894)</b>	11,636
Other, net	<b>1,990</b>	23,792
Decrease/(increase) in operating assets, net of assets acquired:		
Cash segregated for regulatory purposes and restricted cash	<b>4,264</b>	127,993
Receivables:		
Brokerage clients	<b>(19,195)</b>	(35,741)
Brokers, dealers, and clearing organizations	<b>(263,745)</b>	(197,148)
Securities purchased under agreements to resell	<b>99,562</b>	(9,487)
Loans originated as held for sale	<b>(811,711)</b>	(1,069,168)
Proceeds from mortgages held for sale	<b>808,882</b>	1,197,539
Financial instruments owned, including those pledged	<b>(139,012)</b>	23,895
Loans and advances to financial advisors and other employees	<b>(51,492)</b>	(59,751)
Other assets	<b>42,768</b>	37,855
Increase/(decrease) in operating liabilities, net of liabilities assumed:		
Payables:		
Brokerage clients	<b>311</b>	38,363
Brokers, dealers, and clearing organizations	<b>35,297</b>	23,379