

STIFEL FINANCIAL CORP
Form 10-Q
November 12, 2013
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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, 2013

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 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, 2013, was 63,573,335.

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STIFEL FINANCIAL CORP.

Form 10-Q

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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>	September 30, 2013 (Unaudited)	December 31, 2012
Assets		
Cash and cash equivalents	\$ 649,244	\$ 403,941
Restricted cash	4,419	4,414
Cash segregated for regulatory purposes	33	128,031
Receivables:		
Brokerage clients, net	523,516	487,761
Brokers, dealers, and clearing organizations	547,636	276,224
Securities purchased under agreements to resell	168,182	158,695
Trading securities owned, at fair value (includes securities pledged of \$648,111 and \$607,586, respectively)	847,652	763,608
Available-for-sale securities, at fair value	1,231,571	1,625,168
Held-to-maturity securities, at amortized cost	1,723,482	708,008
Loans held for sale	75,440	214,531
Bank loans, net of allowance	1,061,150	815,937
Investments, at fair value	233,778	236,434
Fixed assets, net	124,765	141,403
Goodwill	742,654	419,393
Intangible assets, net	28,078	28,967
Loans and advances to financial advisors and other employees, net	189,769	179,284
Deferred tax assets, net	291,566	124,576
Other assets	266,524	249,765
Total Assets	\$ 8,709,459	\$ 6,966,140

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, 2013 (Unaudited)	December 31, 2012
Liabilities and Shareholders Equity		
Short-term borrowings from banks	\$ 133,100	\$ 304,700
Payables:		
Brokerage clients	333,872	295,509
Brokers, dealers, and clearing organizations	205,758	33,211
Drafts	55,151	90,433
Securities sold under agreements to repurchase	255,451	140,346
Bank deposits	4,228,405	3,346,133
Trading securities sold, but not yet purchased, at fair value	495,658	319,742
Securities sold, but not yet purchased, at fair value	28,598	22,966
Accrued compensation	247,168	187,466
Accounts payable and accrued expenses	289,067	259,163
Corporate debt	357,111	383,992
Debentures to Stifel Financial Capital Trusts	82,500	82,500
	6,711,839	5,466,161
Liabilities subordinated to claims of general creditors	3,131	5,318
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 63,573,335 and 54,967,858 shares, respectively	9,536	8,245
Additional paid-in-capital	1,533,849	1,100,137
Retained earnings	493,029	383,970
Accumulated other comprehensive income/(loss)	(36,427)	4,918
	1,999,987	1,497,270
Treasury stock, at cost, 167,748 and 77,577 shares, respectively	(5,498)	(2,505)
Unearned employee stock ownership plan shares, at cost, 0 and 24,405 shares, respectively		(104)
	1,994,489	1,494,661
Total Liabilities and Shareholders Equity	\$ 8,709,459	\$ 6,966,140

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		Nine Months Ended	
	September 30, 2013	2012	September 30, 2013	2012
Revenues:				
Commissions	\$ 145,837	\$ 125,509	\$ 446,498	\$ 370,107
Principal transactions	122,583	102,474	341,153	311,420
Investment banking	92,851	71,743	289,199	208,342
Asset management and service fees	76,710	62,881	221,711	189,010
Interest	39,130	26,360	101,829	78,728
Other income	13,063	31,094	45,269	49,991
Total revenues	490,174	420,061	1,445,659	1,207,598
Interest expense	11,535	5,904	34,738	24,768
Net revenues	478,639	414,157	1,410,921	1,182,830
Non-interest expenses:				
Compensation and benefits	326,020	264,458	958,179	751,992
Occupancy and equipment rental	41,288	32,596	116,090	94,776
Communications and office supplies	26,122	19,561	74,034	60,115
Commissions and floor brokerage	10,150	7,842	28,777	22,339
Other operating expenses	44,051	28,526	126,600	84,212
Total non-interest expenses	447,631	352,983	1,303,680	1,013,434
Income from continuing operations before income tax expense	31,008	61,174	107,241	169,396
Provision for income taxes	(43,921)	23,740	(13,541)	67,384
Income from continuing operations	\$ 74,929	\$ 37,434	\$ 120,782	\$ 102,012
Discontinued operations:				
Income/(loss) from discontinued operations, net of tax	(5,239)	276	(7,037)	(3,393)
Net income	\$ 69,690	\$ 37,710	\$ 113,745	\$ 98,619
Earnings per basic common share				
Income from continuing operations	\$ 1.16	\$ 0.70	\$ 1.91	\$ 1.91
Income/(loss) from discontinued operations	(0.08)		(0.11)	(0.07)
Earnings per basic common share	\$ 1.08	\$ 0.70	\$ 1.80	\$ 1.84

Earnings per diluted common share

Income from continuing operations	\$ 1.00	\$ 0.60	\$ 1.66	\$ 1.62
Income/(loss) from discontinued operations	(0.07)		(0.10)	(0.05)

Earnings per diluted common share	\$ 0.93	\$ 0.60	\$ 1.56	\$ 1.57
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Weighted average number of common shares outstanding:

Basic	64,706	53,601	63,133	53,471
Diluted	75,191	63,054	72,851	62,817

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, 2013	2012	September 30, 2013	2012
Net income	\$ 69,690	\$ 37,710	\$ 113,745	\$ 98,619
Other comprehensive income/(loss):				
Changes in unrealized gains/(losses) on available-for-sale securities ^{(1) (2)}	(8,160)	8,356	(48,158)	12,714
Changes in unrealized gains on cash flow hedging instruments, net of tax ⁽³⁾	473	463	5,420	1,492
Foreign currency translation adjustment, net of tax	2,669	1,049	1,393	1,439
	(5,018)	9,868	(41,345)	15,645
Comprehensive income	\$ 64,672	\$ 47,578	\$ 72,400	\$ 114,264

- (1) Net of taxes of \$5.4 million and \$5.2 million for the three months ended September 30, 2013 and 2012, respectively, and \$29.6 million and \$7.9 million for the nine months ended September 30, 2013 and 2012, respectively
- (2) Amounts are net of reclassifications to earnings of realized gains of \$0.2 million and \$0.4 million for the three months ended September 30, 2013 and 2012, respectively. Amounts are net of reclassifications to earnings of realized gains of \$1.1 million and \$1.6 million for the nine months ended September 30, 2013 and 2012, respectively.
- (3) Amounts are net of reclassifications to earnings of losses of \$2.1 million and \$2.8 million for the three months ended September 30, 2013 and 2012, respectively. Amounts are net of reclassifications to earnings of losses of \$6.7 million and \$9.0 million for the nine months ended September 30, 2013 and 2012, respectively.

See accompanying Notes to Consolidated Financial Statements.

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

<i>(in thousands)</i>	Nine Months Ended September 30,	
	2013	2012
Cash Flows from Operating Activities:		
Net income	\$ 113,745	\$ 98,619
Adjustments to reconcile net income to net cash provided by/(used in) operating activities:		
Depreciation and amortization	25,162	21,958
Amortization of loans and advances to financial advisors and other employees	48,368	42,687
Amortization of premium on investment portfolio	5,568	11,215
Provision for loan losses and allowance for loans and advances to financial advisors and other employees	6,395	1,685
Amortization of intangible assets	4,145	3,713
Deferred income taxes	(70,687)	53,872
Excess tax benefits from stock-based compensation	(10,446)	(14,510)
Stock-based compensation	124,835	29,213
(Gains)/losses on investments	11,636	(29,272)
Other, net	23,792	143
Decrease/(increase) in operating assets, net of assets acquired:		
Cash segregated for regulatory purposes and restricted cash	127,993	292
Receivables:		
Brokerage clients	(35,741)	41,000
Brokers, dealers, and clearing organizations	(197,148)	39,889
Securities purchased under agreements to resell	(9,487)	(66,509)
Loans originated as held for sale	(1,069,168)	(1,156,692)
Proceeds from mortgages held for sale	1,197,539	1,075,487
Trading securities owned, including those pledged	23,895	(271,262)
Loans and advances to financial advisors and other employees	(59,751)	(53,351)
Other assets	37,855	(21,360)
Increase/(decrease) in operating liabilities, net of liabilities assumed:		
Payables:		
Brokerage clients	38,363	84,040