

RAYMOND JAMES FINANCIAL INC

Form 10-Q

August 08, 2012

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 June 30, 2012

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.

138,017,783 shares of common stock as of August 3, 2012

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RAYMOND JAMES FINANCIAL, INC. AND SUBSIDIARIES

Form 10-Q for the quarter ended June 30, 2012

INDEX

	PAGE
PART I.	<u>FINANCIAL INFORMATION</u>
Item 1.	<u>Financial Statements (Unaudited)</u>
	<u>Condensed Consolidated Statements of Financial Condition as of June 30, 2012 and September 30, 2011 (Unaudited)</u> 3
	<u>Condensed Consolidated Statements of Income and Comprehensive Income for the three and nine months ended June 30, 2012 and June 30, 2011 (Unaudited)</u> 4
	<u>Condensed Consolidated Statements of Changes in Shareholders' Equity for the nine months ended June 30, 2012 and June 30, 2011 (Unaudited)</u> 5
	<u>Condensed Consolidated Statements of Cash Flows for the nine months ended June 30, 2012 and June 30, 2011 (Unaudited)</u> 6
	<u>Notes to Condensed Consolidated Financial Statements (Unaudited)</u> 8
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> 104
Item 4.	<u>Controls and Procedures</u> 111
PART II.	<u>OTHER INFORMATION</u>
Item 1.	<u>Legal Proceedings</u> 112
Item 1A.	<u>Risk Factors</u> 113
Item 2.	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u> 114
Item 3.	<u>Defaults upon Senior Securities</u> 115
Item 5.	<u>Other Information</u> 115
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)

	June 30, 2012	September 30, 2011
	(\$ in thousands)	
Assets:		
Cash and cash equivalents	\$1,729,035	\$2,439,695
Assets segregated pursuant to regulations and other segregated assets	2,719,026	3,548,683
Securities purchased under agreements to resell and other collateralized financings	706,713	398,247
Financial instruments, at fair value:		
Trading instruments	908,426	492,771
Available for sale securities	751,637	520,665
Private equity and other investments	565,093	294,356
Receivables:		
Brokerage clients, net	2,186,737	1,716,828
Stock borrowed	206,690	225,561
Bank loans, net	7,838,574	6,547,914
Brokers-dealers and clearing organizations	392,443	96,096
Other	1,054,874	536,364
Deposits with clearing organizations	144,230	91,482
Prepaid expenses and other assets (includes derivative contracts at fair value of \$472.4 million as of June 30, 2012)	966,271	364,264
Investments in real estate partnerships held by consolidated variable interest entities	302,544	320,384
Property and equipment, net	223,560	169,850
Deferred income taxes, net	188,330	171,911
Goodwill	286,372	71,924
Total assets	\$21,170,555	\$18,006,995
Liabilities and equity:		
Trading instruments sold but not yet purchased, at fair value	\$186,894	\$76,150
Securities sold under agreements to repurchase	506,618	188,745
Payables:		
Brokerage clients	4,776,027	4,690,414
Stock loaned	459,860	814,589
Bank deposits	8,277,304	7,739,322
Brokers-dealers and clearing organizations	212,243	111,408
Trade and other (includes derivative contracts at fair value of \$481.2 million as of June 30, 2012)	1,164,260	309,723
Accrued compensation, commissions and benefits	591,120	452,849
Loans payable of consolidated variable interest entities	80,549	99,982
Corporate debt	1,333,971	611,968
Total liabilities	17,588,846	15,095,150
Commitments and contingencies (see Note 14)		

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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 142,541,708 at June 30, 2012 and 130,670,086 at September 30, 2011	1,399	1,271
Additional paid-in capital	998,567	565,135
Retained earnings	2,281,407	2,125,818
Treasury stock, at cost; 5,105,380 common shares at June 30, 2012 and 4,263,029 common shares at September 30, 2011	(118,681	) (95,000 )
Accumulated other comprehensive income	(4,996	) (9,605 )
Total equity attributable to Raymond James Financial, Inc.	3,157,696	2,587,619
Noncontrolling interests	424,013	324,226
Total equity	3,581,709	2,911,845
Total liabilities and equity	\$21,170,555	\$18,006,995

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

3

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Index

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

	Three months ended June 30,		Nine months ended June 30,	
	2012	2011	2012	2011
	(in thousands, except per share amounts)			
Revenues:				
Securities commissions and fees	\$733,180	\$551,337	\$1,803,041	\$1,649,186
Investment banking	72,266	64,518	169,556	186,618
Investment advisory fees	57,887	55,016	165,661	160,069
Interest	121,186	95,832	332,134	297,029
Account and service fees	82,082	71,739	231,947	211,928
Net trading profits	14,544	7,529	36,866	29,097
Other	34,617	22,241	65,227	31,362
Total revenues	1,115,762	868,212	2,804,432	2,565,289
Interest expense	29,554	17,825	63,510	49,016
Net revenues	1,086,208	850,387	2,740,922	2,516,273
Non-interest expenses:				
Compensation, commissions and benefits	736,050	575,726	1,874,563	1,707,197
Communications and information processing	55,282	36,156	136,590	103,681
Occupancy and equipment costs	41,087	27,140	94,255	80,142
Clearance and floor brokerage	11,025	10,277	27,549	29,641
Business development	33,098	24,800	88,319	71,565
Investment sub-advisory fees	7,765	7,703	21,470	22,474
Bank loan loss provision	9,315	8,363	21,925	28,232
Acquisition related expenses	20,955	—	40,559	—
Loss provision for auction rate securities	—	45,000	—	45,000
Other	33,640	34,143	85,151	96,278
Total non-interest expenses	948,217	769,308	2,390,381	2,184,210
Income including noncontrolling interests and before provision for income taxes	137,991	81,079	350,541	332,063
Provision for income taxes	48,520	31,881	134,674	125,992
Net income including noncontrolling interests	89,471	49,198	215,867	206,071
Net income (loss) attributable to noncontrolling interests	13,121	2,412	3,323	(3,355 )
Net income attributable to Raymond James Financial, Inc.	\$76,350	\$46,786	\$212,544	\$209,426
Net income per common share – basic	\$0.55	\$0.37	\$1.61	\$1.66
Net income per common share – diluted	\$0.55	\$0.37	\$1.60	\$1.65
Weighted-average common shares outstanding – basic	135,256	123,238	129,206	122,200
Weighted-average common and common equivalent shares outstanding – diluted	136,657	123,958	130,187	122,689
Net income attributable to Raymond James Financial, Inc.	\$76,350	\$46,786	\$212,544	\$209,426
Other comprehensive income, net of tax: <sup>(1)</sup>	622	(26 )	6,197	6,895

Change in unrealized gain (loss) on available for  
 sale securities and non-credit portion of  
 other-than-temporary impairment losses

Change in currency translations	(8,933	) 998	(1,588	) 10,205
Total comprehensive income	\$68,039	\$47,758	\$217,153	\$226,526

Other-than-temporary impairment:

Total other-than-temporary impairment, net	\$(1,260	) \$(2,680	) \$5,406	\$(4,064	)
Portion of (recoveries) losses recognized in other comprehensive income (before taxes)	(175	) 425	(10,274	) (3,589	)
Net impairment losses recognized in other revenue	\$(1,435	) \$(2,255	) \$(4,868	) \$(7,653	)

(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).

Index

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

	Nine months ended June 30,	
	2012	2011
	(in thousands, except per share amounts)	
Common stock, par value \$.01 per share:		
Balance, beginning of year	\$1,271	\$1,244
Issuance of shares, registered public offering	111	(1) —
Other issuances	17	23 (2)
Balance, end of period	1,399	1,267
Shares exchangeable into common stock:		
Balance, beginning of year	—	3,119
Exchanged	—	(3,119) (2)
Balance, end of period	—	—
Additional paid-in capital:		
Balance, beginning of year	565,135	476,359
Issuance of shares, registered public offering	362,712	(1) —
Employee stock purchases	12,286	7,116
Exercise of stock options and vesting of restricted stock units, net of forfeitures	16,142	32,281
Restricted stock, stock option and restricted stock unit expense	39,287	30,412
Excess tax benefit from share-based payments	2,407	460
Issuance of stock as consideration for acquisition (3)	—	4,011
Other	598	3,281 (2)
Balance, end of period	998,567	553,920
Retained earnings:		
Balance, beginning of year	2,125,818	1,909,865
Net income attributable to Raymond James Financial, Inc.	212,544	209,426
Cash dividends declared	(52,118)	(49,346)
Other	(4,837)	4,370
Balance, end of period	2,281,407	2,074,315
Treasury stock:		
Balance, beginning of year	(95,000)	(81,574)
Purchases/surrenders	(19,211)	(6,662)
Exercise of stock options and vesting of restricted stock units, net of forfeitures	(4,470)	1,991
Issuance of stock as consideration for acquisition	—	4,504
Balance, end of period	(118,681)	(81,741)
Accumulated other comprehensive income: (4)		
Balance, beginning of year	(9,605)	(6,197)
Net unrealized gain on available for sale securities and non-credit portion of other-than-temporary impairment losses (5)	6,197	6,895
Net change in currency transactions	(1,588)	10,205
Balance, end of period	(4,996)	10,903
Total equity attributable to Raymond James Financial, Inc.	\$3,157,696	\$2,558,664
Noncontrolling interests:		
Balance, beginning of year	\$324,226	\$294,052
Net income (loss) attributable to noncontrolling interests	3,323	(3,355)
Capital contributions	33,228	33,576



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Distributions	(6,645 )	(9,541 )
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
Consolidation of private equity partnerships	78,394	—
Other	(8,513 )	(16,003 )
Balance, end of period	424,013	306,575
Total equity	\$3,581,709	\$2,865,239

During the quarter ending March 31, 2012, in a registered public offering, 11,075,000 common shares were issued (1) generating approximately \$363 million in net proceeds (after consideration of the underwriting discount and direct expenses of the offering).

(2) During the quarter ending March 31, 2011, approximately 243,000 exchangeable shares were exchanged for common stock on a one-for-one basis.

(3) In April, 2011, we acquired Howe Barnes, Hofer & Arnett (“Howe Barnes”) by exchanging RJF shares for all issued and outstanding shares of Howe Barnes.

(4) 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.

(5) Net of tax.

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

Index

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

	Nine months ended June 30,	
	2012	2011
	(in thousands)	
Cash flows from operating activities:		
Net income attributable to Raymond James Financial, Inc.	\$212,544	\$209,426
Net income (loss) attributable to noncontrolling interests	3,323	(3,355 )
Net income including noncontrolling interests	215,867	206,071
Adjustments to reconcile net income including noncontrolling interests to net cash provided by operating activities:		
Depreciation and amortization	38,079	30,330
Deferred income taxes	(16,389	) (43,242 )
Premium and discount amortization on available for sale securities and unrealized/realized gain on other investments	(21,222	) (11,758 )
Provisions for loan losses, legal proceedings, bad debts and other accruals	26,679	44,125
Share-based compensation expense	41,774	32,969
Loss provision for auction rate securities	—	45,000
Other	11,469	20,017
Net change in:		
Assets segregated pursuant to regulations and other segregated assets	954,857	934,240
Securities purchased under agreements to resell and other collateralized financings, net of securities sold under agreements to repurchase	(192,771	) (294,113 )
Stock loaned, net of stock borrowed	(328,145	) (35,259 )
Brokerage client receivables and other accounts receivable, net	(316,477	) (244,615 )
Trading instruments, net	(26,886	) 99,634
Prepaid expenses and other assets	5,726	(17,522 )
Brokerage client payables and other accounts payable	(84,289	) 383,015
Accrued compensation, commissions and benefits	(39,591	) 17,034
Purchase and origination of loans held for sale, net of proceeds from sale of securitizations and loans held for sale	(49,893	) (73,999 )
Excess tax benefits from stock-based payment arrangements	(3,001	) (1,772 )
Net cash provided by operating activities	215,787	1,090,155
Cash flows from investing activities:		
Additions to property and equipment	(53,572	) (28,170 )
Increase in loans, net	(1,256,018	) (114,152 )
Redemptions of Federal Home Loan Bank stock, net	20,169	42,811
(Purchases) sales of private equity and other investments, net	(18,887	) 10,503
Acquisition of controlling interest in subsidiary	—	(6,354 )
Purchases of available for sale securities	(249,381	) (2,328 )
Available for sale securities maturations, repayments and redemptions	145,860	92,049
Proceeds from sales of available for sale securities	—	13,767
Investments in real estate partnerships held by consolidated variable interest entities, net of other investing activity	(141	) (12,048 )

Business acquisition, net of cash acquired (see Note 2 for the components of net assets acquired) (1,096,631 ) —

Net cash used in investing activities \$(2,508,601 ) \$(3,922 )

(continued on next page)

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

6

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Index

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

(continued from previous page)

	Nine months ended June 30,	
	2012	2011
	(in thousands)	
Cash flows from financing activities:		
Proceeds from borrowed funds, net	\$ 1,149,275	\$ 249,498
Repayments of borrowed funds, net	(425,598 )	(2,560,493 )
Proceeds from issuance of shares in registered public offering	362,823	—
Repayments of borrowings by consolidated variable interest entities which are real estate partnerships	(23,147 )	(23,679 )
Proceeds from capital contributed to and borrowings of consolidated variable interest entities which are real estate partnerships	30,546	32,912
Purchase of additional equity interest in subsidiary	(4,017 )	—
Exercise of stock options and employee stock purchases	23,416	40,643
Increase (decrease) in bank deposits	537,982	(135,260 )
Purchase of treasury stock	(20,489 )	(6,998 )
Dividends on common stock	(50,655 )	(49,346 )
Excess tax benefits from share-based payment arrangements	3,001	1,772
Net cash provided by (used in) financing activities	1,583,137	(2,450,951 )
Currency adjustment:		
Effect of exchange rate changes on cash	(983 )	1,801
Net decrease in cash and cash equivalents	(710,660 )	(1,362,917 )
Increase in cash resulting from the consolidation of an acquired entity and the acquisition of a controlling interest in a subsidiary	—	18,366
Cash and cash equivalents at beginning of year	2,439,695	2,943,239
Cash and cash equivalents at end of period	\$ 1,729,035	\$ 1,598,688
Supplemental disclosures of cash flow information:		
Cash paid for interest	\$ 51,407	\$ 36,187
Cash paid for income taxes	\$ 123,715	\$ 154,275
Non-cash transfers of loans to other real estate owned	\$ 11,121	\$ 12,157

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

Index

RAYMOND JAMES FINANCIAL, INC. AND SUBSIDIARIES  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
(Unaudited)  
June 30, 2012

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.

On April 2, 2012 (the “Closing Date”) RJF completed its acquisition of all of the issued and outstanding shares of Morgan Keegan & Company, Inc. (a broker-dealer hereinafter referred to as “MK & Co.”) and MK Holding, Inc. and certain of its related affiliates (altogether referred to hereinafter as “Morgan Keegan”) from Regions Financial Corporation (“Regions”). This acquisition expands both our private client wealth management and our capital markets businesses. See Note 17 for information regarding the capital position of MK & Co. as of June 30, 2012 and Note 2 for further discussion of our acquisition of Morgan Keegan.

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.

At March 31, 2012, we implemented new Financial Accounting Standards Board guidance regarding fair value measurement. This new guidance primarily provides for certain additional fair value disclosures. See Note 4 for the additional disclosures required under this new accounting guidance.

8

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Index

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 \$453.5 million and \$231.5 million at June 30, 2012 and September 30, 2011, respectively. The June 30, 2012 outstanding balance includes \$135.7 million of loans made to MK & Co. financial advisors during April 2012 in conjunction with our acquisition of Morgan Keegan (see Note 2 for further discussion of this acquisition) and \$71.4 million of outstanding loans of MK & Co. as of the acquisition date. The related allowance for doubtful accounts balance is \$2.2 million and \$5.9 million at June 30, 2012 and September 30, 2011, respectively. Of the June 30, 2012 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 \$2.8 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 \$32.8 million and \$90.3 million million of revenue previously reported as a component of other revenues for the three and nine months ended June 30, 2011 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.

Index

## NOTE 2 – ACQUISITION OF MORGAN KEEGAN

As of the Closing Date, we applied the acquisition method of accounting to our acquisition of Morgan Keegan (as more fully described in Note 1).

Net assets acquired and consideration paid

The fair value of the assets acquired and liabilities assumed as of the Closing Date are reflected below.

	(in thousands)	
Cash and cash equivalents	\$ 114,466	
Assets segregated pursuant to regulations and other segregated assets	125,200	
Securities purchased under agreements to resell and other collateralized financings	166,604	
Financial instruments, at fair value:		
Trading instruments	504,477	
Available for sale securities	122,309	
Private equity and other investments	245,033	
Receivables:		
Brokerage clients, net	365,567	
Stock borrowed	16,020	
Brokers-dealers and clearing organizations	291,759	
Other	287,417	
Deposits with clearing organizations	51,362	
Prepaid expenses and other assets	443,973	
Property and equipment, net	34,269	
Acquired intangible assets (see detail below)	84,000	
Goodwill	214,448	
Trading instruments sold but not yet purchased, at fair value	(216,094	)
Securities sold under agreements to repurchase	(368,782	)
Payables:		
Brokerage client payables	(372,981	)
Stock loaned	(8,307	)
Brokers-dealers and clearing organizations	(12,171	)
Trade and other	(723,897	)
Accrued compensation, commissions and benefits	(176,585	)
Net assets acquired at fair value	\$ 1,188,087	

The fair value of the consideration paid and the estimated net purchase price are as follows:

	(in thousands)	
Cash paid to Regions on the Closing Date	\$ 1,211,097	
Receivable from Regions as of June 30, 2012 <sup>(1)</sup>	(23,010	)
Estimated net purchase price consideration	\$ 1,188,087	

(1) The estimated outcome of the determination of the final Closing Date tangible book value of Morgan Keegan, as discussed below.

The total cash flow impact during fiscal year 2012 of a use of cash of \$1.1 billion results from the \$1.2 billion cash payment on the Closing Date offset by Morgan Keegan's Closing Date cash balance of \$114 million.





Index

## Preliminary valuation of identified intangible assets

We are in the process of finalizing the valuation of the identifiable intangible assets acquired in the Morgan Keegan acquisition. Based upon our preliminary results, the preliminary values and our estimate of their respective useful lives are as follows:

Identified intangible asset description:	Asset amount (in thousands)	Weighted average useful lives (in yrs)
Customer relationships	\$51,000	11.9
Non-solicitation agreements	11,000	5.0
Developed technology	11,000	5.0
Non-competition agreements	7,000	2.0
Trade names	4,000	1.0
Total identified intangible assets	\$84,000	

Once our final valuation of the identified intangible assets is complete, we will adjust our preliminary estimates accordingly. We utilize the straight-line method of amortization for the acquired intangible assets. Based on our current estimate, amortization expense of \$4 million related to the intangible assets acquired in the Morgan Keegan acquisition is included in other expense in our Condensed Consolidated Statements of Income and Comprehensive Income in the three month and nine month periods ended June 30, 2012.

## Preliminary estimate of goodwill

The remaining consideration, after adjusting for the preliminary estimate of the identified intangible assets and the net assets and liabilities recorded at fair value, was preliminarily determined to be \$214 million, which represents synergies resulting from combining the businesses, and is allocated to goodwill. To the extent that our preliminary value of identified intangible assets changes, there will be an equal and offsetting change to the recorded goodwill.

We elected to write-up to fair value, the tax basis of the acquired assets and liabilities assumed. As a result of this tax election, \$68 million of the net deferred tax asset balance of Morgan Keegan as of the Closing Date is included in our allocation to goodwill. The goodwill arising from this transaction is attributable to our private client group and our capital markets business units. Our valuation process to determine the amount of goodwill to allocate to each respective business unit has not been completed. The portion of goodwill that is amortizable for tax purposes is approximately \$211 million.

## Selected Unaudited Pro forma financial information

The following unaudited pro forma financial information assumes the acquisition had occurred at the beginning of each period presented. Our fiscal year 2012 results of operations include the operations of Morgan Keegan for the period from April 2, 2012 to June 30, 2012. Integration of both equity and fixed income capital markets operations of Morgan Keegan began immediately following the Closing Date which precludes the determination of legacy Morgan Keegan results in those areas. Therefore, the results of the Morgan Keegan business, as acquired, does not exist as a discrete comparable entity within our reporting structure.

Pro forma results have been prepared by adjusting our historical results to include Morgan Keegan's results of operations adjusted for the following: amortization expense related to the estimated intangible assets arising from the acquisition; interest expense to reflect the impact of senior notes issued in March 2012; incremental bonus expense resulting from the bonus agreements made for retention purposes to certain Morgan Keegan financial advisors, incremental compensation expense related to restricted stock units granted to certain executives and key revenue

producers for retention purposes; our acquisition expenses; a \$545 million goodwill impairment charge included in Morgan Keegan's pre-Closing Date financial statements directly resulting from the transaction; and the applicable tax effect of each adjustment described above. The weighted average common shares used in the computation of both pro forma basic and pro forma diluted earnings per share were adjusted to reflect that the issuance of additional RJF shares that occurred in February 2012 had been outstanding for the entirety of each respective period presented.

Index

The unaudited pro forma results presented do not necessarily reflect the results of operations that would have resulted had the acquisition been completed at the beginning of the applicable periods presented, nor does it indicate the results of operations in future periods. Additionally, the unaudited pro forma results do not include the impact of possible business model changes, nor does it consider any potential impacts of current market conditions on revenues, reduction of expenses, asset dispositions, or other factors. The impact of these items could alter the following unaudited pro forma results.

Pro forma results (Unaudited):	Three months ended	Nine months ended	June 30, 2011
	June 30, 2011	June 30, 2012	
	(\$ in thousands except per share amounts)		
Total net revenues	\$1,102,328	\$3,253,924	\$3,334,666
Net income	\$65,457	\$255,647	\$242,603
Net income per share:			
Basic	\$0.48	\$1.86	\$1.77
Diluted	\$0.47	\$1.85	\$1.76

## Other items of significance

Under the terms of the Stock Purchase Agreement (the "SPA"), on the Closing Date RJF paid Regions approximately \$1.2 billion in cash in exchange for the Morgan Keegan shares. This purchase price represented a \$230 million premium over a preliminary estimate of tangible book value at closing of \$970 million. The SPA contemplated that Morgan Keegan would pay a cash dividend of \$250 million to Regions prior to the closing of the transaction. However, the parties subsequently decided to defer payment of the dividend until after the closing, resulting in an increase in the book value of Morgan Keegan and therefore, the purchase price. Following the closing, RJF received a cash dividend in the amount of \$250 million from Morgan Keegan. Subsequent to the closing of the transaction, the parties to the SPA were to determine the final closing date tangible book value; we believe we have an agreement in principle with Regions that it owes us approximately \$23 million. Although definitive documentation has not yet been completed with respect to this matter, we have included this amount in the estimated net purchase price consideration and in other receivables on our June 30, 2012 Condensed Consolidated Statements of Financial Condition. The SPA provided for a potential downward adjustment of the purchase price if certain revenue retention hurdles were not met during the 90 days following closing; such revenue retention hurdles were met as of July 2, 2012 and as a result there will be no downward adjustment of the purchase price related to any revenue retention hurdles.

During April, 2012, RJF made approximately \$136 million of loans to Morgan Keegan financial advisors and issued approximately 1.5 million of restricted stock units to certain key Morgan Keegan revenue producers as part of an employee retention program (see Note 1 for additional information). Concurrent with the execution of the SPA, RJF executed employment agreements with certain key members of the Morgan Keegan management team.

In addition to customary indemnity for breaches of representations and warranties and covenants, the SPA also provides that Regions will indemnify RJF for losses incurred in connection with legal proceedings pending as of the closing date or commenced after the closing date and related to pre-closing matters. With respect to the indemnification pertaining to most breaches of representations and warranties and covenants, there is no indemnification for the first \$9 million of aggregate losses, and thereafter indemnification is subject to a maximum amount equal to 15% of the purchase price. With respect to representations regarding certain fundamental matters and with respect to legal proceedings pending as of the Closing Date, such matters are not subject to any annual indemnification deductible or cap. Indemnification for legal proceedings commenced after the closing is subject to an aggregate annual \$2 million indemnification deductible for three years, after which RJF is entitled to receive the full amount of all such losses incurred in excess of \$2 million.

In our application of the acquisition method of accounting, we recorded an indemnification asset of approximately \$198 million pertaining primarily to legal matters, which is included in other assets, and the related liability is reflected in trade and other payables on our Condensed Consolidated Statements of Financial Condition. See Note 14 for discussion of the Morgan Keegan pre-Closing Date litigation matters.

On January 11, 2012, J.P. Morgan Chase (“JPM Chase”) entered into a commitment letter to provide RJF with a \$900 million bridge financing facility to provide financing of the purchase price. On February 16, 2012, JPM Chase and a number of other lenders executed a \$900 million bridge credit agreement (the “Bridge Financing Agreement”). As a result of the successful completion of certain equity and debt financings during the quarter ended March 31, 2012, RJF terminated the Bridge Financing Agreement on March 10, 2012.

Index

On the Closing Date, certain subsidiaries of RJF (the “Borrowers”) entered into a credit agreement (the “Regions Credit Agreement”) with Regions Bank, an Alabama banking corporation (the “Lender”). See Note 11 for information regarding this borrowing.

One or more of Morgan Keegan’s affiliates are the general partner in private equity funds. As a result of the general partner interest, we are consolidating nine of the funds. Our share (inclusive of any related parties for purposes of this determination) of the ownership interest in the funds we are consolidating ranges from 9% to 100%. As a result of the consolidation, funds with total assets of approximately \$116 million as of the Closing Date were consolidated. The portion of the consolidated funds equity that is attributable to others approximated \$78 million.

## Acquisition related expenses

Acquisition related expenses are recorded in the Condensed Consolidated Statement of Income and Comprehensive Income and include certain incremental expenses arising solely as a result of our acquisition of Morgan Keegan. During the three and nine months ended June 30, 2012, we incurred the following acquisition related expenses:

	Three months ended June 30, 2012 (in thousands)	Nine months ended June 30, 2012
Severance <sup>(1)</sup>	\$13,845	\$17,028
Financial advisory fees	20	7,040
Integration costs	6,544	7,742
Acquisition bridge financing facility fees	—	5,684
Legal	—	2,230
Other	546	835
Total acquisition related expenses	\$20,955	\$40,559

(1) Represents all costs associated with eliminating positions as a result of the Morgan Keegan acquisition, partially offset by the favorable impact arising from the forfeiture of any unvested accrued benefits.

Index**NOTE 3 – 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:

	June 30, 2012	September 30, 2011
	(in thousands)	
Cash and cash equivalents:		
Cash in banks	\$1,724,460	\$2,438,249
Money market investments	4,575	1,446
Total cash and cash equivalents <sup>(1)</sup>	1,729,035	2,439,695
Cash and securities segregated pursuant to federal regulations and other segregated assets <sup>(2)</sup>	2,719,026	3,548,683
Deposits with clearing organizations <sup>(3)</sup>	144,230	91,482
	\$4,592,291	\$6,079,860

The total amounts presented include: 1) Cash and cash equivalents of the parent company of \$251 million as of June 30, 2012 that are not subject to any restrictions. 2) Cash and cash equivalents of \$365 million and \$471 million as of June 30, 2012 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, and are not subject to any restrictions.

Consists of cash 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 (2) maintaining cash or qualified securities in segregated reserve accounts 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 4 – 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.

Index

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

June 30, 2012	Quoted prices in active markets for identical assets (Level 1) <sup>(1)</sup> (in thousands)	Significant other observable inputs (Level 2) <sup>(1)</sup>	Significant unobservable inputs (Level 3)	Netting adjustments <sup>(2)</sup>	Balance as of June 30, 2012
Assets at fair value on a recurring basis:					
Trading instruments:					
Municipal and provincial obligations	\$7	\$336,009	\$—	\$—	\$336,016
Corporate obligations	15,481	50,827	—	—	66,308
Government and agency obligations	9,163	132,811	—	—	141,974
Agency mortgage-backed securities (“MBS”) and collateralized mortgage obligations (“CMOs”)	4,232	239,871	—	—	244,103
Non-agency CMOs and asset-backed securities (“ABS”)	—	5,875	31	—	5,906
Total debt securities	28,883	765,393	31	—	794,307
Derivative contracts	—	141,388	—	(94,564 )	46,824
Equity securities	44,064	2,027	—	—	46,091
Other securities	546	14,759	5,899	—	21,204
Total trading instruments	73,493	923,567	5,930	(94,564 )	908,426
Available for sale securities:					
Agency MBS and CMOs	—	371,905	—	—	371,905
Non-agency CMOs	—	138,760	526	—	139,286
Other securities	12	—	—	—	12
Auction rate securities (“ARS”):					
Municipals	—	—	123,753	<sup>(3)</sup> —	123,753
Preferred securities	—	—	116,681	—	116,681
Total available for sale securities	12	510,665	240,960	—	751,637
Private equity and other investments:					
Private equity investments	—	—	335,237	<sup>(4)</sup> —	335,237
Other investments	222,831	2,897	4,128	—	229,856
Total private equity and other investments	222,831	2,897	339,365	—	565,093
Other assets:					
Derivative contracts	—	472,382	—	—	472,382
Total assets at fair value on a recurring basis	\$296,336	\$1,909,511	\$586,255	\$(94,564 )	\$2,697,538
Assets at fair value on a nonrecurring basis:					
Bank loans, net:					



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Impaired loans <sup>(5)</sup>	\$—	\$54,850	\$34,659	\$—	\$89,509
Loans held for sale <sup>(6)</sup>	—	49,276	—	—	49,276
Total bank loans, net	—	104,126	34,659	—	138,785
Other Real Estate Owned ("OREO" <sup>(7)</sup> )	—	8,132	—	—	8,132
Total assets at fair value on a nonrecurring basis <sup>(8)</sup>	\$—	\$112,258	\$34,659	\$—	\$146,917

(continued on next page)

Index

June 30, 2012	Quoted prices in active markets for identical assets (Level 1) <sup>(1)</sup> (in thousands) (continued from previous page)	Significant other observable inputs (Level 2) <sup>(1)</sup>	Significant unobservable inputs (Level 3)	Netting adjustments <sup>(2)</sup>	Balance as of June 30, 2012
Liabilities at fair value on a recurring basis:					
Trading instruments sold but not yet purchased:					
Municipal and provincial obligations	\$—	\$234	\$—	\$—	\$234
Corporate obligations	32	5,986	—	—	6,018
Government obligations	164,393	2,980	—	—	167,373
Agency MBS and CMOs	277	103	—	—	380
Total debt securities	164,702	9,303	—	—	174,005
Derivative contracts	—	127,375	—	(124,845 )	2,530
Equity securities	10,309	50	—	—	10,359
Total trading instruments sold but not yet purchased	175,011	136,728	—	(124,845 )	186,894
Trade and other payables:					
Derivative contracts	—	481,151	—	—	481,151
Other	—	—	60	—	60
Total trade and other payables	—	481,151	60	—	481,211
Total liabilities at fair value on a recurring basis	\$175,011	\$617,879	\$60	\$(124,845 )	\$668,105

We had no transfers of financial instruments from Level 1 to Level 2 during either the three or nine month periods ended June 30, 2012. We had \$105 thousand and \$541 thousand in transfers of financial instruments from Level 2 to Level 1 during the three and nine month periods ended June 30, 2012, respectively. These transfers were a result of an increase in availability and reliability of the observable inputs utilized in the respective instruments' fair value measurement. Our policy is that the end of each respective quarterly reporting period determines when transfers of financial instruments between levels are recognized.

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.

Includes \$48 million of Jefferson County, Alabama Limited Obligation School Warrants ARS and \$21 million of Jefferson County, Alabama Sewer Revenue Refunding Warrants ARS.

Includes \$230 million in private equity investments of which the weighted-average portion we own is approximately 30%. Effectively, the economics associated with the portions of these investments we do not own become a component of noncontrolling interests on our Condensed Consolidated Statements of Financial Condition, and amounted to approximately \$161 million of that total as of June 30, 2012.

(5)

There was a \$55 million transfer of impaired loans from Level 3 to Level 2 during the nine month period ended June 30, 2012 due to the increase in availability and reliability of the observable inputs utilized in the respective instruments' fair value measurement. Our analysis indicates that comparative sales data is a reasonable estimate of fair value, therefore, more consideration was given to this observable input.

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

Represents the fair value of foreclosed properties which were measured at a fair value subsequent to their initial (7) 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 nine months ended June 30, 2012 (8) resulted in \$13.7 million in additional provision for loan losses, as well as \$1.5 million in other losses during the nine month period.

Index

September 30, 2011	Quoted prices in active markets for identical assets (Level 1) <sup>(1)</sup> (in thousands)	Significant other observable inputs (Level 2) <sup>(1)</sup>	Significant unobservable inputs (Level 3)	Netting adjustments <sup>(2)</sup>	Balance as of September 30, 2011
Assets at fair value on a recurring basis:					
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	<sup>(3)</sup> —	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	<sup>(4)</sup> —	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 assets at fair value on a recurring basis	\$168,951	\$861,889	\$368,211	\$(88,563)	) \$1,310,488
Assets at fair value on a nonrecurring basis:					
Bank loans, net <sup>(5)</sup>	\$—	\$39,621	111,941	<sup>(7)</sup> \$—	\$151,562
OREO <sup>(6)</sup>	—	11,278	—	—	11,278
	\$—	\$50,899	\$111,941	\$—	\$162,840

Total assets at fair value on a  
nonrecurring basis

(continued on next page)

17

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Index

September 30, 2011	Quoted prices in active markets for identical assets (Level 1) <sup>(1)</sup>	Significant other observable inputs (Level 2) <sup>(1)</sup>	Significant unobservable inputs (Level 3)	Netting adjustments <sup>(2)</sup>	Balance as of September 30, 2011
(in thousands)					
(continued from previous page)					
Liabilities at fair value on a recurring basis:					
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
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
Trade and other payables:					
Other liabilities	—	20	40	—	60
Total trade and other payables	\$—	\$20	\$40	\$—	\$60
Total liabilities at fair value on a recurring basis	\$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 September 30, 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 million of Jefferson County, Alabama Limited Obligation School Warrants ARS and \$19 million of Jefferson County, Alabama Sewer Revenue Refunding Warrants ARS.

(4) Includes \$88 million in private equity investments of which the weighted-average portion we own is approximately 20%. Effectively, the economics associated with the portions of these investments we do not own become 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.

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

(6) 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.

(7) At September 30, 2011, Level 3 assets include residential first mortgage nonaccrual loans for which a charge-off had been recorded. See Note 7, pages 110 – 116 of our 2011 Form 10-K.

18

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Index

## 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 June 30, 2012

Level 3 assets at fair value  
(in thousands)

Financial assets	Trading instruments		Available for sale securities				Private equity and other investments		Financial liabilities Payables-trade and other	
	Municipal & provincial obligations	Non-agency CMOs & ABS	Equity securities	Other securities	Non-agency CMOs	ARS – municipals	ARS - preferred securities	Private equity investments	Other investments	Other liabilities
Fair value										
March 31, 2012	\$—	\$34	\$—	\$6,618	\$633	\$71,909	\$102,092	\$181,446	\$2,193	\$(39)
Total gains (losses) for the period:										
Included in earnings	—	—	—	(63)	(157)	(947)	—	20,983	(1)	(21)
Included in other comprehensive income	—	—	—	—	—	(31)	2,209	—	109	—
Purchases and contributions	—	—	—	8,790	56	55,869	66,440	136,828	(2)	—
Sales	—	—	—	(8,903)	—	—	—	—	—	—
Redemptions by issuer	—	—	—	—	—	(3,047)	(54,060)	—	—	—
Distributions	—	(3)	—	(543)	(6)	—	—	(4,020)	(456)	—
Transfers: <sup>(2)</sup>										
Into Level 3	—	—	—	—	—	—	—	—	—	—
Out of Level 3	—	—	—	—	—	—	—	—	—	—
Fair value										
June 30, 2012	\$—	\$31	\$—	\$5,899	\$526	\$123,753	\$116,681	\$335,237	\$4,128	\$(60)
Change in unrealized gains (losses) for the period included in	\$—	\$5	\$—	\$(63)	\$(157)	\$(978)	\$2,209	\$20,983	(1) \$95	\$—



earnings (or  
changes in net  
assets) for  
assets held at  
the end of the  
reporting  
period

(1) Primarily results from valuation adjustments of certain private equity investments. Since we only own a portion of these investments, our share of the net valuation adjustments resulted in a gain of \$2.5 million which is included in net income attributable to RJF (after noncontrolling interests). The noncontrolling interests' share of the net valuation adjustments was a gain of approximately \$18.4 million.

(2) Our policy is that the end of each respective quarterly reporting period determines when transfers of financial instruments between levels are recognized.

(3) Includes private equity investments of approximately \$46 million arising from the Morgan Keegan acquisition and \$90 million of other investments arising from the consolidation of certain of Morgan Keegan's private equity funds (see Note 2 for further information regarding the Morgan Keegan acquisition and the consolidation of some of the private equity funds they sponsor).

Index

Nine months ended June 30, 2012

Level 3 assets at fair value

(in thousands)

Financial assets	Trading instruments				Available for sale securities			Private equity and other investments		Financial liabilities
	Municipal & provincial obligations	Non-agency CMOs & ABS	Equity securities	Other securities	Non-agency CMOs	ARS – municipals	ARS - Preferred securities	Private equity investments	Other investments	Payables-trade and other liabilities
Fair value										
September 30, 2011	\$375	\$50	\$15	\$—	\$851	\$79,524	\$116,524	\$168,785	\$2,087	\$(40 )
Total gains (losses) for the period:										
Included in earnings	89	(3 )	11	(1,222 )	(295 )	(1,487 )	(75 )	29,013	(1) 225	(20 )
Included in other comprehensive income	—	—	—	—	—	(7,499 )	4,870	—	—	—
Purchases and contributions	—	—	16	13,978	2	56,344	66,915	152,090	(4) 2,273	—
Sales	(320 )	—	(16 )	(12,397)	—	—	—	—	(1 )	—
Redemptions by issuer	—	—	—	—	—	(3,172 )	(71,510 )	—	—	—
Distributions	—	(16 )	—	(1,037 )	(32 )	—	—	(14,651 )	(456 )	—
Transfers:										
Into Level 3	—	—	152	6,577	(2) —	43	—	—	—	—
Out of Level 3 <sup>(3)</sup>	(144 )	—	(178 )	—	—	—	(43 )	—	—	—
Fair value										
June 30, 2012	\$—	\$31	\$—	\$5,899	\$526	\$123,753	\$116,681	\$335,237	\$4,128	\$(60 )
Change in unrealized gains (losses) for the period included in earnings (or changes in net assets) for assets held at the end of the reporting	\$—	\$—	\$—	\$(61 )	\$(295)	\$(8,908 )	\$4,870	\$28,909	(1) \$147	\$—

period

(1) Primarily results from valuation adjustments of certain private equity investments. Since we only own a portion of these investments, our share of the net valuation adjustments resulted in a gain of \$5.4 million which is included in net income attributable to RJF (after noncontrolling interests). The noncontrolling interests' share of the net valuation adjustments was a gain of approximately \$23.6 million.

(2) During the nine month period ended June 30, 2012, we transferred certain securities which were previously included in Level 2, non-agency CMOs and ABS.

(3) The transfers out of Level 3 were a result of an increase in availability and reliability of the observable inputs utilized in the respective instruments' fair value measurement. Our policy is that the end of each respective quarterly reporting period determines when transfers of financial instruments between levels are recognized.

(4) Includes private equity investments of approximately \$46 million arising from the Morgan Keegan acquisition and \$90 million of other investments arising from the consolidation of certain of Morgan Keegan's private equity funds (see Note 2 for further information regarding the Morgan Keegan acquisition and the consolidation of some of the private equity funds they sponsor).

20

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Index

Three months ended June 30, 2011

Level 3 assets at fair value

(in thousands)

Financial assets	Trading instruments						Available for sale securities	Private equity and other investments	Prepaid expenses and other assets	Financial liabilities  Payables-trade and other		
	Municipal & provincial obligations	Non- agency CMOs & ABS	Equity securities	Non- agency CMOs	Private equity investments	Other investments					Other assets	Other liabilities
Fair value March 31, 2011	\$5,688	\$3,921	\$1,925	\$800	\$157,046	\$45	\$25	\$ (42 )				
Total gains (losses) for the period:												
Included in earnings	(129 )	570	—	—	8,819	—	—	—				
Included in other comprehensive income	—	—	—	136	—	—	—	—				
Purchases, issues & settlements, net	751	(4,433 )	(578 )	(21 )	1,909	—	—	—				
Transfers:												
Into Level 3	—	—	—	—	—	—	—	—				
Out of Level 3	—	—	—	—	—	—	—	2				
Fair value June 30, 2011	\$6,310	\$58	\$1,347	\$915	\$167,774	\$45	\$25	\$ (40 )				
Change in unrealized gains (losses) for the period included in earnings (or changes in net assets) for assets held at the end of the reporting period	\$(54 )	\$(63 )	\$—	\$—	\$8,819	\$—	\$—	\$ —				

Nine months ended June 30, 2011

Level 3 assets at fair value

(in thousands)

Financial assets	Trading instruments						Available for sale securities	Private equity and other investments	Prepaid expenses and other assets	Financial liabilities  Payables-trade and other	
	Non- agency CMOs & ABS	Equity securities	Non- agency CMOs	Private equity investments	Other investments	Other assets					Other liabilities

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	Municipal & provincial obligations	agency CMOs & ABS	securities	agency CMOs	equity investments	investments	assets	liabilities
Fair value September 30, 2010	\$6,275	\$3,930	\$3,025	\$1,011	\$161,230	\$45	\$25	\$ (46 )
Total gains (losses) for the period:								
Included in earnings	(710 )	1,310	—	121	8,417	—	—	—
Included in other comprehensive income	—	—	—	202	—	—	—	—
Purchases, issues & settlements, net	745	(5,182 )	(1,678 )	(419 )	(1,873 )	—	—	—
Transfers:								
Into Level 3	—	—	—	—	—	—	—	(3 )
Out of Level 3	—	—	—	—	—	—	—	9
Fair value June 30, 2011	\$6,310	\$58	\$1,347	\$915	\$167,774	\$45	\$25	\$ (40 )
Change in unrealized gains (losses) for the period included in earnings (or changes in net assets) for assets held at the end of the reporting period	\$(855 )	\$(190 )	\$—	\$(81 )	\$8,417	\$—	\$—	\$ —

Index

As of June 30, 2012, 12.7% of our assets and 3.8% 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 June 30, 2012 represent 21.7% of our assets measured at fair value, a substantial increase as compared to June 30, 2011 as a result of the purchase of ARS that occurred during the fourth quarter of fiscal year 2011 (see the ARS repurchase discussion in Note 18 on pages 130 – 131 of our 2011 Form 10-K) and as a component of our acquisition of Morgan Keegan (see Note 2 for further information). As of June 30, 2011, 7.6% and 1.5% 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 June 30, 2011 represented 14.5% of our assets measured at fair value.

Gains and losses included in earnings for the period are presented in net trading profits and other revenues in our Condensed Consolidated Statements of Income and Comprehensive Income as follows:

For the three months ended June 30, 2012	Net trading profits (in thousands)	Other revenues
Total (losses) gains for the period included in revenues	\$(63	) \$19,867
Change in unrealized (losses) gains for the period for assets held at the end of the reporting period	\$(58	) \$22,152
For the nine months ended June 30, 2012	Net trading profits (in thousands)	Other revenues
Total (losses) gains for the period included in revenues	\$(1,125	) \$27,361
Change in unrealized (losses) gains for the period for assets held at the end of the reporting period	\$(61	) \$24,723
For the three months ended June 30, 2011	Net trading profits (in thousands)	Other revenues
Total gains for the period included in revenues	\$441	\$8,819
Change in unrealized (losses) gains for the period for assets held at the end of the reporting period	\$(117	) \$8,819
For the nine months ended June 30, 2011	Net trading profits (in thousands)	Other revenues
Total gains for the period included in revenues	\$600	\$8,538
Change in unrealized (losses) gains for the period for assets held at the end of the reporting period	\$(1,045	) \$8,336

Index

## Quantitative information about level 3 fair value measurements

The significant assumptions used in the valuation of level 3 financial instruments are as follows (the table that follows includes the significant majority of the financial instruments we hold that are classified as level 3 measures):

Level 3 financial instrument	Fair value at June 30, 2012 (in thousands)	Valuation technique(s)	Unobservable input	Range (weighted-average)		
Recurring measurements:						
Available for sale securities:						
ARS:						
Municipals	\$53,392	Probability weighted internal scenario model:	Observed trades (in inactive markets) of in-portfolio securities as well as observed trades (in active markets) of other comparable securities	57% of par - 104% of par (67% of par)		
				Scenario 1 - recent trades	70% of par - 94% of par (84% of par)	
				Scenario 2 - scenario of potential outcomes		40% - 50% (45%)
				Weighting assigned to weighted average of scenario 1		
				Weighting assigned to weighted average of scenario 2		
				\$18,843		Recent trades
Comparability adjustments <sup>(b)</sup>	+/-5% of par ( +/-5% of par)					
\$51,518	Discounted cash flow	Average discount rate <sup>(c)</sup>	3.1% - 7.25% (4.93%)			
		Average interest rates applicable to future interest income on the securities <sup>(d)</sup>	.95% - 5.62% (2.78%)			
Preferred securities	\$116,681	Discounted cash flow	Prepayment year <sup>(e)</sup>	2014 - 2039 (2021)		
			Average discount rate <sup>(c)</sup>	3.79% - 5.97% (4.42%)		
			Average interest rates applicable to future interest income on the securities <sup>(d)</sup>	1.84% - 3.35% (2.49%)		
Private equity investments:	\$103,620	Market comparable	Prepayment year <sup>(e)</sup>	2012 - 2021 (2018)		
			EBITDA multiple <sup>(f)</sup>	6.5 - 6.5 (6.5)		

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		companies	Projected EBITDA growth <sup>(g)</sup>	5.2% - 5.2% (5.2%)
\$33,939		Discounted cash flow	Discount rate	15% - 16% (15.5%)
			Terminal growth rate of cash flows	3% - 3% (3%)
			Terminal year	2015 - 2015 (2015)
	\$197,678	Transaction price or other investment-specific events <sup>(h)</sup>	Not meaningful <sup>(h)</sup>	Not meaningful <sup>(h)</sup>
Nonrecurring measurements:				
Impaired loans: residential	\$22,310	Discounted cash flow	Prepayment rate	7 yrs. - 12 yrs. (10.78 yrs.)
Impaired loans: corporate	\$12,349	Appraisal or discounted cash flow <sup>(i)</sup>	Not meaningful <sup>(i)</sup>	Not meaningful <sup>(i)</sup>

The explanations to the footnotes in the above table are on the following page.



Index

Footnote explanations pertaining to the table on the previous page:

Management utilizes an internal model which projects the outcome of various scenarios which management (a) believes market participants are evaluating as likely possible outcomes impacting the value of the security. Values presented represent the range of fair values associated with the various potential scenarios.

(b) Management estimates that market participants apply this range of either discount or premium, as applicable, to the limited observable trade data in order to assess the value of the securities within this portfolio segment.

(c) Represents amounts used when we have determined that market participants would take these discounts into account when pricing the investments.

Future interest rates are projected based upon a forward interest rate curve, plus a spread over such projected base (d) rate that is applicable to each future period for each security within this portfolio segment. The interest rates presented represent the average interest rate over all projected periods for securities within the portfolio segment.

(e) Assumed year of at least a partial redemption of the outstanding security by the issuer.

(f) Represents amounts used when we have determined that market participants would use such multiples when pricing the investments.

(g) Represents the projected growth in earnings before interest, taxes, depreciation and amortization (“EBITDA”) utilized in the valuation as compared to the prior periods reported EBITDA.

(h) Certain direct private equity investments are valued initially at the transaction price until significant transactions or developments indicate that a change in the carrying values of these investments is appropriate.

The valuation techniques used for the impaired corporate loan portfolio as of June 30, 2012 were appraisals less (i) selling costs for the collateral dependent loans, and discounted cash flows for the one remaining impaired loan that is not collateral dependent.

Qualitative disclosure about unobservable inputs

For our recurring fair value measurements categorized within Level 3 of the fair value hierarchy, the sensitivity of the fair value measurement to changes in significant unobservable inputs and interrelationships between those unobservable inputs are described below:

Auction rate securities:

One of the significant unobservable inputs used in the fair value measurement of auction rate securities presented within our available for sale securities portfolio relate to judgments regarding whether the level of observable trading activity is sufficient to conclude markets are active. Where insufficient levels of trading activity are determined to exist as of the reporting date, then management’s assessment of how much weight to apply to trading prices in inactive markets versus management’s own valuation models could significantly impact the valuation conclusion. The valuation of the securities impacted by changes in management’s assessment of market activity levels could be either higher or lower, depending upon the relationship of the inactive trading prices compared to the outcome of management’s internal valuation models.

The future interest rate and maturity assumptions impacting the valuation of the auction rate securities are directly related. As short-term interest rates rise, due to the variable nature of the penalty interest rate provisions imbedded in most of these securities in the event auctions fail to set the security's interest rate, then a penalty rate that is specified in the security increases. These penalty rates are based upon a stated interest rate spread over what is typically a short-term base interest rate index. Management estimates that at some level of increase in short-term interest rates, issuers of the securities will have the economic incentive to refinance (and thus prepay) the securities. Therefore, the short-term interest rate assumption directly impacts the input related to the timing of any projected prepayment. The faster and steeper short-term interest rates rise, the earlier prepayments will likely occur and the higher the fair value of the security.

Index

## Private equity investments:

The significant unobservable inputs used in the fair value measurement of private equity investments included within our other assets relate to the financial performance of the investment entity, and the market's required return on investments from entities in industries in which we hold investments. Significant increases (or decreases) in either our investment entities future economic performance will have a directly proportional impact on the valuation results. The value of our investment moves inversely with the market's expectation of returns from such investments. Should the market require higher returns from industries in which we are invested, all other factors held constant, our investments will decrease in value. Should the market accept lower returns from industries in which we are invested, all other factors held constant, our investments will increase in value.

## 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 June 30, 2012, 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 estimated fair values by level within the fair value hierarchy and the carrying amounts of our financial instruments that are not carried at fair value as of June 30, 2012 are as follows:

June 30, 2012	Quoted prices in active markets for identical assets (Level 1) (in thousands)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total estimated fair value	Carrying amount
Financial assets:					
Bank loans, net <sup>(1)</sup>	\$—	\$—	\$7,752,192	\$7,752,192	\$7,699,850
Financial liabilities:					
Bank deposits	\$—	\$7,963,242	\$323,514	\$8,286,756	\$8,277,304
Corporate debt	\$379,960	\$944,334	\$—	\$1,324,294	\$1,333,971

(1) Excludes all impaired loans and loans held for sale which have been recorded at fair value in the Condensed Consolidated Statement of Financial Condition at June 30, 2012.

The estimated fair values and the carrying amounts of our financial instruments that are not carried at fair value as of September 30, 2011 are as follows:

September 30, 2011	Estimated fair value (in thousands)	Carrying amount
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Financial assets:		
Bank loans, net	\$6,596,439	\$6,547,914
Financial liabilities:		
Bank deposits	\$7,745,607	\$7,739,322
Corporate debt	\$675,509	\$611,968

25

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Index

## NOTE 5 – TRADING INSTRUMENTS AND TRADING INSTRUMENTS SOLD BUT NOT YET PURCHASED

	June 30, 2012		September 30, 2011	
	Trading instruments	Instruments sold but not yet purchased	Trading instruments	Instruments sold but not yet purchased
	(in thousands)			
Municipal and provincial obligations	\$336,016	\$234	\$164,402	\$607
Corporate obligations	66,308	6,018	27,607	5,625
Government and agency obligations	141,974	167,373	36,106	56,472
Agency MBS and CMOs	244,103	380	147,757	159
Non-agency CMOs and ABS	5,906	—	49,119	—
Total debt securities	794,307	174,005	424,991	62,863
Derivative contracts <sup>(1)</sup>	46,824	2,530	38,304	6,588
Equity securities	46,091	10,359	21,197	6,699
Other securities	21,204	—	8,279	—
Total	\$908,426	\$186,894	\$492,771	\$76,150

Represents the derivative contracts held for trading purposes. For the period ended June 30, 2012, does not include all derivative instruments since the derivative contracts arising from Morgan Keegan's business operations are included in other assets and trade and other payables on our Condensed Consolidated Statements of Financial Condition. See Note 12 for further information regarding all of our derivative transactions.

See Note 4 for additional information regarding the fair value of trading instruments and trading instruments sold but not yet purchased.

## NOTE 6 – 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 nine month period ended June 30, 2012. There were proceeds of \$13.8 million from the sale of available for sale securities during the nine month period ended June 30, 2011, which resulted in total losses of \$203 thousand.

During the nine months ended June 30, 2012, ARS with an aggregate par value of approximately \$75 million have been redeemed by their issuer at par; a gain of \$343 thousand for the three and nine month periods ended June 30, 2012 was recorded in our Condensed Consolidated Statements of Income and Comprehensive Income resulting from redemptions of these ARS securities.

Index

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

	Cost basis	Gross unrealized gains	Gross unrealized losses	Fair value
	(in thousands)			
June 30, 2012				
Available for sale securities:				
Agency MBS and CMOs	\$371,879	\$786	\$(760)	) \$371,905
Non-agency CMOs <sup>(1)</sup>	172,933	—	(33,647)	) 139,286
Total RJ Bank available for sale securities	544,812	786	(34,407)	) 511,191
Auction rate securities:				
Municipal obligations <sup>(2)</sup>	131,251	227	(7,725)	) 123,753
Preferred securities	111,811	12,869	(7,999)	) 116,681
Total auction rate securities	243,062	13,096	(15,724)	) 240,434
Other securities	3	9	—	) 12
Total available for sale securities	\$787,877	\$13,891	\$(50,131)	) \$751,637
September 30, 2011				
Available for sale securities:				
Agency MBS and CMOs	\$178,120	\$639	\$(27)	) \$178,732
Non-agency CMOs <sup>(3)</sup>	192,956	—	(47,081)	) 145,875
Total RJ Bank available for sale securities	371,076	639	(47,108)	) 324,607
Auction rate securities:				
Municipal obligations	79,524	—	—	) 79,524
Preferred securities	116,524	—	—	) 116,524
Total auction rate securities	196,048	—	—	) 196,048
Other securities	3	7	—	) 10
Total available for sale securities	\$567,127	\$646	\$(47,108)	) \$520,665

(1) As of June 30, 2012, the non-credit portion of other-than-temporary impairment (“OTTI”) recorded in accumulated other comprehensive income (“AOCI”) was \$27.6 million (before taxes).

(2) As of June 30, 2012, the non-credit portion of OTTI recorded in AOCI was \$7.5 million (before taxes).

(3) As of September 30, 2011, the non-credit portion of OTTI recorded in AOCI was \$37.9 million (before taxes).

See Note 4 for additional information regarding the fair value of available for sale securities.

Index

The contractual maturities, amortized cost, carrying values and current yields for our available for sale securities are as presented below. Since RJ Bank's available for sale securities are backed by mortgages, actual maturities will differ from contractual maturities because borrowers may have the right to prepay obligations without prepayment penalties. Expected maturities of ARS and other securities may differ significantly from contractual maturities, as issuers may have the right to call or prepay obligations with or without call or prepayment penalties.

	June 30, 2012					Total	
	Within one year	After one but within five years	After five but within ten years	After ten years			
	(in thousands)						
Agency MBS & CMOs:							
Amortized cost	\$—	\$79	\$88,963	\$282,837	\$371,879		
Carrying value	—	79	89,105	282,721	371,905		
Weighted-average yield	—	0.38	% 0.51	% 1.01	% 0.89		%
Non-agency CMOs:							
Amortized cost	\$—	\$—	\$—	\$172,933	\$172,933		
Carrying value	—	—	—	139,286	139,286		
Weighted-average yield	—	—	—	3.09	% 3.09		%
Sub-total agency MBS & CMOs and non-agency CMOs:							
Amortized cost	\$—	\$79	\$88,963	\$455,770	\$544,812		
Carrying value	—	79	89,105	422,007	511,191		
Weighted-average yield	—	0.38	% 0.51	% 1.69	% 1.40		%
Auction rate securities:							
Municipal obligations							
Amortized cost	\$—	\$—	\$8,620	\$122,631	\$131,251		
Carrying value	—	—	7,872	115,881	123,753		
Weighted-average yield	—	—	0.47	% 0.73	% 0.71		%
Preferred securities:							
Amortized cost	\$—	\$—	\$—	\$111,811	\$111,811		
Carrying value	—	—	—	116,681	116,681		
Weighted-average yield	—	—	—	0.35	% 0.35		%
Sub-total auction rate securities:							
Amortized cost	\$—	\$—	\$8,620	\$234,442	\$243,062		
Carrying value	—	—	7,872	232,562	240,434		
Weighted-average yield	—	—	0.47	% 0.54	% 0.54		%
Other securities:							
Amortized cost	\$—	\$—	\$—	\$3	\$3		
Carrying value	—	—	—	12	12		

Total available for sale  
securities:

Amortized cost	\$—	\$79	\$97,583	\$690,215	\$787,877	
Carrying value	—	79	96,977	654,581	751,637	
Weighted-average yield	—	0.38	% 0.51	% 1.28	% 1.12	%



Index

The gross unrealized losses and fair value, aggregated by investment category and length of time the individual securities have been in a continuous unrealized loss position, are as follows:

	June 30, 2012		12 months or more		Total	
	Less than 12 months Estimated fair value (in thousands)	Unrealized losses	Estimated fair value	Unrealized losses	Estimated fair value	Unrealized losses
Agency MBS and CMOs	\$165,804	\$(734)	\$12,226	\$(26)	\$178,030	\$(760)
Non-agency CMOs	—	—	139,286	(33,647)	139,286	(33,647)
ARS municipal obligations	86,304	(7,725)	—	—	86,304	(7,725)
ARS preferred securities	91,391	(7,999)	—	—	91,391	(7,999)
Total impaired securities	\$343,499	\$(16,458)	\$151,512	\$(33,673)	\$495,011	\$(50,131)

  

	September 30, 2011		12 months or more		Total	
	Less than 12 months Estimated fair value (in thousands)	Unrealized losses	Estimated fair value	Unrealized losses	Estimated fair value	Unrealized losses
Agency MBS and CMOs	\$23,366	\$(6)	\$17,702	\$(21)	\$41,068	\$(27)
Non-agency CMOs	1,345	(93)	144,530	(46,988)	145,875	(47,081)
Total impaired securities	\$24,711	\$(99)	\$162,232	\$(47,009)	\$186,943	\$(47,108)

The reference point for determining when securities are in a loss position is the reporting period end. As such, it is possible that a security had a fair value that exceeded its amortized cost on other days during the period.

## Agency MBS and CMOs

The Federal National Mortgage Association (“FNMA”), the Federal Home Loan Mortgage Corporation (“FHLMC”), as well as the Government National Mortgage Association (“GNMA”), guarantee the contractual cash flows of the agency MBS and CMOs. At June 30, 2012, of the 14 U.S. government-sponsored enterprise MBS and CMOs in an unrealized loss position, seven were in a continuous unrealized loss position for less than 12 months and seven for 12 months or more. We do not consider these securities other-than-temporarily impaired due to the guarantee provided by FNMA, FHLMC, and GNMA as to the full payment of principal and interest, and the fact that we have the ability and intent to hold these securities to maturity.

## Non-agency CMOs

All individual non-agency securities are evaluated for OTTI on a quarterly basis. Only those non-agency CMOs whose amortized cost basis we do not expect to recover in full are considered to be other than temporarily impaired as we have the ability and intent to hold these securities to maturity. To assess whether the amortized cost basis of non-agency CMOs will be recovered, RJ Bank performs a cash flow analysis for each security. This comprehensive process considers borrower characteristics and the particular attributes of the loans underlying each security. Loan level analysis includes a review of historical default rates, loss severities, liquidations, prepayment speeds and delinquency trends. The historical details, home prices and economic outlook are considered to derive assumptions of default rates, loss severities, delinquencies and prepayment speeds utilized in the discounted cash flow model to project security specific cash flows, which factors in the amount of credit enhancement specific to the security. The difference between the present value of the cash flows expected and the amortized cost basis is the credit loss and is

recorded as OTTI.

The significant assumptions used in the cash flow analysis of non-agency CMOs are as follows:

	June 30, 2012	
	Range	Weighted-average <sup>(1)</sup>
Default rate	0% - 33.8%	12.82%
Loss severity	13.6% - 71.8%	44.72%
Prepayment rate	0% - 19.4%	6.22%

(1) Represents the expected activity for the next twelve months.

29

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## Index

At June 30, 2012, all 25 of the non-agency CMOs were in a continuous unrealized loss position for 12 months or more. As of June 30, 2012 and including subsequent ratings changes, \$33.1 million of the non-agency CMOs were rated investment grade by at least one rating agency, and \$106.2 million were rated less than investment grade, which ranged from Caa to D. Given the comprehensive analysis process utilized, these ratings are not a significant factor in the overall OTTI evaluation process. The unrealized losses at June 30, 2012 were primarily due to the continued interest rate volatility and uncertainty in the markets.

Based on the expected cash flows derived from the model utilized in our analysis, we expect to recover all unrealized losses not already recorded in earnings on our non-agency CMOs. However, it is possible that the underlying loan collateral of these securities will perform worse than current expectations, which may lead to adverse changes in the cash flows expected to be collected on these securities and potential future OTTI losses.

## ARS

As a component of the Morgan Keegan acquisition (see Note 2 for further information), we acquired ARS on the Closing Date which had a fair value of \$122.3 million. Our cost basis in the ARS we hold is the fair value of the securities in the period in which we acquired them (refer to the ARS repurchase discussion in Note 18 on pages 130 – 131 of our 2011 Form 10-K for information regarding the ARS we held prior to the Closing Date). Only those ARS whose amortized cost basis we do not expect to recover in full are considered to be other-than-temporarily impaired as we have the ability and intent to hold these securities to maturity.

Within our municipal ARS holdings, we hold Jefferson County, Alabama Limited Obligation School Warrants ARS (“Jeff Co. Schools ARS”) and Jefferson County, Alabama Sewer Revenue Refunding Warrants ARS (“Jeff Co. Sewers ARS”). During the first quarter of our fiscal year 2012, Jefferson County, Alabama filed a voluntary petition for relief under Chapter 9 of the U.S. Bankruptcy Code in the U.S. District Court for the Northern District of Alabama, this proceeding remains on-going. During the nine months ended June 30, 2012, unrealized losses arose for both the Jeff Co. Schools ARS and the Jeff Co. Sewers ARS based upon a decrease in the fair values of these securities. Based upon the available information as of June 30, 2012, we prepared cash flow forecasts for the purpose of determining the amount of any OTTI related to credit losses. Refer to the discussion below for the amount of OTTI related to credit losses which we determined regarding these two ARS holdings.

Within our ARS preferred securities, we analyze the credit ratings associated with each security as an indicator of potential credit impairment. As of June 30, 2012 and including subsequent ratings changes, all of the ARS preferred securities were rated investment grade by at least one rating agency. Given that these ARS are by their design variable rate securities tied to short-term interest rates, decreases in projected future short-term interest rates have a negative impact on projected cash flows, and potentially a negative impact on the fair value. The unrealized losses at June 30, 2012 were primarily due to a decrease in projected future short-term interest rates, which resulted in a lower fair value. We expect to recover the entire amortized cost basis of the ARS preferred securities we hold. At June 30, 2012, we concluded that none of the OTTI within our portfolio of ARS preferred securities related to credit losses.

## Other-than-temporarily impaired securities

Although there is no intent to sell either our ARS or our non-agency CMOs and it is not more likely than not that we will be required to sell these securities, we do not expect to recover the entire amortized cost basis of certain securities within these portfolios.

Changes in the amount of OTTI related to credit losses recognized in other revenues on available for sale securities are as follows:

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	Three months ended June 30,		Nine months ended June 30,	
	2012	2011	2012	2011
	(in thousands)			
Amount related to credit losses on securities we held at the beginning of the period	\$25,739	\$17,470	\$22,306	\$18,816
Additions to the amount related to credit loss for which an OTTI was not previously recognized	866	—	1,409	240
Decreases to the amount related to credit loss for securities sold during the period	—	—	—	(6,744 )
Additional increases to the amount related to credit loss for which an OTTI was previously recognized	569	2,255	3,459	7,413
Amount related to credit losses on securities we held at the end of the period	\$27,174	\$19,725	\$27,174	\$19,725

30

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Index

With respect to certain non-agency CMO's for the three and nine months ended June 30, 2012 credit losses for which an OTTI was previously recognized were primarily due to high loss severities on individual loan collateral and the expected continuation of high default levels and collateral losses into calendar year 2013.

With respect to the municipal ARS for the three months ended June 30, 2012, credit losses related to securities for which an OTTI was not previously recognized arise from Jeff Co. Schools ARS, and reflect the portion of our amortized cost basis that we do not expect to receive based upon the present value of our most recent projected cash flows for that security. For the three and nine month periods ended June 30, 2012, credit losses related to securities for which an OTTI was previously recognized arise from Jeff Co. Sewers ARS, and reflect the portion of our amortized cost basis that we do not expect to receive.

## NOTE 7 – BANK LOANS, NET

Bank client receivables are comprised of loans originated or purchased by RJ Bank and include commercial and industrial (“C&I”) loans, commercial and residential real estate loans, as well as consumer loans. These receivables are collateralized by first or second mortgages on residential or other real property, other assets of the borrower, or are unsecured.

For a discussion of our accounting policies regarding bank loans and allowances for losses, including the policies regarding loans held for investment, loans held for sale, off-balance sheet loan commitments, nonperforming assets, troubled debt restructurings (“TDRs”), impaired loans, the allowance for loan losses and reserve for unfunded lending commitments, and loan charge-off policies, see Note 1, pages 88 – 92, in our 2011 Form 10-K.

We segregate our loan portfolio into five loan portfolio segments: C&I, commercial real estate (“CRE”), CRE construction, residential mortgage and consumer. These portfolio segments also serve as the portfolio loan classes for purposes of credit analysis, except for residential mortgage loans which are further disaggregated into residential first mortgage and residential home equity classes.

The following table presents the balances for both the held for sale and held for investment loan portfolios as well as the associated percentage of each portfolio segment in RJ Bank's total loan portfolio:

	June 30, 2012		September 30, 2011		
	Balance	%	Balance	%	
	(\$ in thousands)				
Loans held for sale, net <sup>(1)</sup>	\$ 193,063	2	% \$ 102,236	2	%
Loans held for investment:					
C&I loans	5,081,307	63	% 4,100,939	61	%
CRE construction loans	35,417	—	29,087	—	
CRE loans	945,256	12	% 742,889	11	%
Residential mortgage loans	1,717,717	22	% 1,756,486	26	%
Consumer loans	89,653	1	% 7,438	—	
Total loans held for investment	7,869,350		6,636,839		
Net unearned income and deferred expenses	(74,755)	)	(45,417)	)	
Total loans held for investment, net <sup>(1)</sup>	7,794,595		6,591,422		
Total loans held for sale and investment	7,987,658	100	% 6,693,658	100	%
Allowance for loan losses	(149,084)	)	(145,744)	)	

Bank loans, net	\$7,838,574	\$6,547,914
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(1) Net of unearned income and deferred expenses, which includes purchase premiums, purchase discounts, and net deferred origination fees and costs.

RJ Bank purchased or originated \$325.5 million and \$603.4 million of loans held for sale during the three and nine months ended June 30, 2012, respectively and \$83.3 million and \$165.1 million for the three and nine months ended June 30, 2011, respectively. There were proceeds from the sale of held for sale loans of \$37.2 million and \$102.9 million for the three and nine months ended June 30, 2012, respectively, resulting in net gains of \$398 thousand and \$922 thousand, respectively. There were proceeds from the sale of held for sale loans of \$21.1 million and \$72.4 million for the three and nine months ended June 30, 2011, respectively, resulting in net gains of \$74 thousand and \$648 thousand, respectively. These gains were recorded in other revenues on our Condensed Consolidated Statements of Income and Comprehensive Income.

31

---

Index

The following table presents purchases and sales of any loans held for investment by portfolio segment:

	Three months ended June 30,				Nine months ended June 30,			
	2012		2011		2012		2011	
	Purchases	Sales	Purchases	Sales	Purchases	Sales	Purchases	Sales
	(in thousands)							
C&I loans	\$ 146,363	\$ 10,600	\$ 16,500	\$ 38,545	\$ 435,223	<sup>(1)</sup> \$ 42,838	\$ 23,430	\$ 54,424
CRE construction	—	—	—	—	31,074	<sup>(1)</sup> —	—	—
CRE loans	(157)	<sup>(2)</sup> —	4,650	—	121,245	<sup>(1)</sup> —	4,650	—
Residential mortgage loans	1,218	—	145	—	34,322	—	40,568	—
Total	\$ 147,424	\$ 10,600	\$ 21,295	\$ 38,545	\$ 621,864	\$ 42,838	\$ 68,648	\$ 54,424

<sup>(1)</sup> Includes a total of \$367 million for a Canadian loan portfolio purchased during the nine months ended June 30, 2012, which was comprised of \$219 million C&I, \$31 million of CRE construction and \$117 million of CRE loans.

<sup>(2)</sup> Represents discount on unfunded, revolving loan purchase during the three months ended June 30, 2012.

The following table presents the comparative data for nonperforming loans held for investment and total nonperforming assets:

	June 30, 2012	September 30, 2011	
	(\$ in thousands)		
Nonaccrual loans:			
C&I loans	\$ 3,943	\$ 25,685	
CRE loans	9,404	15,842	
Residential mortgage loans:			
First mortgage loans	86,423	90,992	
Home equity loans/lines	126	67	
Total nonaccrual loans	99,896	132,586	
Accruing loans which are 90 days past due:			
Residential mortgage loans:			
First mortgage loans	—	690	
Home equity loans/lines	—	47	
Total accruing loans which are 90 days past due	—	737	
Total nonperforming loans	99,896	133,323	
Real estate owned and other repossessed assets, net:			
CRE	5,133	7,707	
Residential:			
First mortgage	3,924	6,852	
Home equity	—	13	
Total	9,057	14,572	
Total nonperforming assets, net	\$ 108,953	\$ 147,895	
Total nonperforming assets, net as a % of RJ Bank total assets	1.16	% 1.64	%

The table of nonperforming assets above excludes \$12.6 million and \$10.3 million as of June 30, 2012 and September 30, 2011, respectively, of residential TDRs which were returned to accrual status in accordance with our policy.

As of June 30, 2012 and September 30, 2011, RJ Bank had no outstanding commitments on nonperforming loans.

The gross interest income related to the nonperforming loans reflected in the previous table, which would have been recorded had these loans been current in accordance with their original terms, totaled \$1.3 million and \$3.7 million for the three and nine months ended June 30, 2012, respectively and \$1.7 million and \$4.3 million for the three and nine months ended June 30, 2011. The interest income recognized on nonperforming loans was \$430 thousand and \$1.4 million for the three and nine months ended June 30, 2012, respectively and \$279 thousand and \$691 thousand for the three and nine months ended June 30, 2011.



Index

The following table presents an analysis of the payment status of loans held for investment:

	30-59 days	60-89 days	90 days or more	Total past due	Current	Total loans held for investment <sup>(1)</sup>
	(in thousands)					
As of June 30, 2012:						
C&I loans	\$226	\$—	\$—	\$226	\$5,081,081	\$5,081,307
CRE construction loans	—	—	—	—	35,417	35,417
CRE loans	—	—	4,960	4,960	940,296	945,256
Residential mortgage loans:						
First mortgage loans	4,801	2,171	59,060	66,032	1,625,289	1,691,321
Home equity loans/lines	88	—	25	113	26,283	26,396
Consumer loans	—	—	—	—	89,653	89,653
Total loans held for investment, net	\$5,115	\$2,171	\$64,045	\$71,331	\$7,798,019	\$7,869,350
As of September 30, 2011:						
C&I loans	\$—	\$—	\$—	\$—	\$4,100,939	\$4,100,939
CRE construction loans	—	—	—	—	29,087	29,087
CRE loans	—	—	5,053	5,053	737,836	742,889
Residential mortgage loans:						
First mortgage loans	6,400	6,318	61,870	74,588	1,651,181	1,725,769
Home equity loans/lines	88	—	114	202	30,515	30,717
Consumer loans	—	—	—	—	7,438	7,438
Total loans held for investment, net	\$6,488	\$6,318	\$67,037	\$79,843	\$6,556,996	\$6,636,839

(1) Excludes any net unearned income and deferred expenses.

The following table provides a summary of RJ Bank's impaired loans:

	June 30, 2012			September 30, 2011		
	Gross recorded investment	Unpaid principal balance	Allowance for losses	Gross recorded investment	Unpaid principal balance	Allowance for losses
	(in thousands)					
Impaired loans with allowance for loan losses: <sup>(1)</sup>						
C&I loans	\$3,942	\$12,541	\$996	\$25,685	\$26,535	\$8,478
CRE loans	18	27	1	6,122	6,131	1,014
Residential mortgage loans:						
First mortgage loans	80,206	119,473	10,921	83,471	123,202	10,226
Home equity loans/lines	128	128	46	128	128	20
Total	84,294	132,169	11,964	115,406	155,996	19,738
Impaired loans without allowance for loan losses: <sup>(2)</sup>						
CRE loans	9,386	18,440	—	9,720	20,648	—
Residential - first mortgage loans	7,793	13,295	—	6,553	10,158	—
Total	17,179	31,735	—	16,273	30,806	—
Total impaired loans	\$101,473	\$163,904	\$11,964	\$131,679	\$186,802	\$19,738

(1) Impaired loan balances have had reserves established based upon management's analysis.

When the discounted cash flow, collateral value or market value equals or exceeds the carrying value of the loan, (2) then the loan does not require an allowance. These are generally loans in process of foreclosure that have already been adjusted to fair value.

The table above includes \$3.9 million C&I, \$9.4 million CRE, \$26.1 million residential first mortgage and \$128 thousand residential home equity TDRs at June 30, 2012. In addition, the table above includes \$12 million C&I, \$4.7 million CRE, \$23.3 million residential first mortgage and \$128 thousand residential home equity TDRs at September 30, 2011.

33

---

Index

The average balance of the total impaired loans and the related interest income recognized in the Condensed Consolidated Statements of Income and Comprehensive Income are as follows:

	Three months ended June 30,		Nine months ended June 30,	
	2012	2011	2012	2011
	(in thousands)			
Average impaired loan balance:				
C&I loans	\$4,793	\$8,731	\$10,581	\$2,910
CRE loans	9,404	37,862	12,846	43,954
Residential mortgage loans:				
First mortgage loans	88,545	85,008	<sup>(1)</sup> 88,406	84,951 <sup>(1)</sup>
Home equity loans/lines	154	143	141	143
Total	\$102,896	\$131,744	\$111,974	\$131,958
Interest income recognized:				
Residential mortgage loans:				
First mortgage loans	\$291	\$210	<sup>(1)</sup> \$882	\$535 <sup>(1)</sup>
Home equity loans/lines	1	1	3	3
Total	\$292	\$211	\$885	\$538

In order to enhance the comparability of amounts presented, the June 30, 2011 amount includes nonaccrual loans, (1) or related interest income, as applicable, for which a charge-off had been recorded. The amount originally reported for this period did not include such loans.

During the three and nine months ended June 30, 2012 and 2011, RJ Bank granted concessions to borrowers having financial difficulties, for which the resulting modification was deemed a TDR. The concessions granted for first mortgage residential loans were generally interest rate reductions and interest capitalization. The table below presents the impact TDRs which occurred during the respective periods presented had on our condensed consolidated financial statements:

	Number of contracts	Pre-modification outstanding recorded investment	Post-modification outstanding recorded investment
	(\$ in thousands)		
Three months ended June 30, 2012:			
Residential – first mortgage loans	6	\$1,512	\$1,567
Three months ended June 30, 2011:			
Residential – first mortgage loans	1	\$505	\$508
Nine months ended June 30, 2012:			
Residential – first mortgage loans	15	\$4,438	\$4,653
Nine months ended June 30, 2011:			
Residential – first mortgage loans	16	\$5,155	\$5,369

During the three and nine months ended June 30, 2012, there were three and four residential first mortgage TDRs with a recorded investment of \$641 thousand and \$671 thousand, respectively, for which there was a payment default and

for which the respective loan was modified as a TDR within the 12 months prior to the default. During the three and nine months ended June 30, 2011, there were one and two residential first mortgage TDRs with a recorded investment of \$255 thousand thousand and \$425 thousand, respectively, for which there was a payment default and for which the respective loan was modified as a TDR within the 12 months prior to the default.

34

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Index

The credit quality of RJ Bank's loan portfolio is summarized monthly by management using the standard asset classification system utilized by bank regulators for the residential and consumer loan portfolios and internal risk ratings, which correspond to the same standard asset classifications for the corporate loan portfolio. These classifications are divided into three groups: Not Classified (Pass), Special Mention, and Classified or Adverse Rating (Substandard, Doubtful and Loss) and are defined as follows:

Pass – Loans which are well protected by the current net worth and paying capacity of the obligor (or guarantors, if any) or by the fair value, less costs to acquire and sell, of any underlying collateral in a timely manner.

Special Mention – Loans which have potential weaknesses that deserve management's close attention. These loans are not adversely classified and do not expose RJ Bank to sufficient risk to warrant an adverse classification.

Substandard – Loans which are inadequately protected by the current sound worth and paying capacity of the obligor or by the collateral pledged, if any. Loans with this classification are characterized by the distinct possibility that RJ Bank will sustain some loss if the deficiencies are not corrected.

Doubtful – Loans which have all the weaknesses inherent in loans classified as substandard with the added characteristic that the weaknesses make collection or liquidation in full highly questionable and improbable on the basis of currently known facts, conditions and values.

Loss – Loans which are considered by management to be uncollectible and of such little value that their continuance on RJ Bank's books as an asset, without establishment of a specific valuation allowance or charge-off, is not warranted. RJ Bank does not have any loan balances within this classification as in accordance with its accounting policy, loans, or a portion thereof considered to be uncollectible, are charged-off prior to the assignment of this classification.

RJ Bank's credit quality of its held for investment loan portfolio is as follows:

	C&I	CRE construction	CRE	Residential mortgage First mortgage	Home equity	Consumer	Total
	(in thousands)						
As of June 30, 2012:							
Pass	\$4,820,064	\$35,417	\$812,864	\$1,579,375	\$25,891	\$89,653	\$7,363,264
Special mention <sup>(1)</sup>	202,850	—	60,944	23,475	378	—	287,647
Substandard <sup>(1)</sup>	54,451	—	67,003	88,471	127	—	210,052
Doubtful <sup>(1)</sup>	3,942	—	4,445	—	—	—	8,387
Total	\$5,081,307	\$35,417	\$945,256	\$1,691,321	\$26,396	\$89,653	\$7,869,350
As of September 30, 2011:							
Pass	\$3,906,358	\$29,087	\$572,124	\$1,607,327	\$30,319	\$7,438	\$6,152,653
Special mention <sup>(1)</sup>	88,889	—	76,021	23,684	170	—	188,764
Substandard <sup>(1)</sup>	93,658	—	90,058	94,758	228	—	278,702
Doubtful <sup>(1)</sup>	12,034	—	4,686	—	—	—	16,720
Total	\$4,100,939	\$29,087	\$742,889	\$1,725,769	\$30,717	\$7,438	\$6,636,839

(1) Loans classified as special mention, substandard or doubtful are all considered to be "criticized" loans.

The credit quality of RJ Bank's residential first mortgage loan portfolio is additionally assessed utilizing updated loan-to-value ("LTV") ratios. RJ Bank further segregates all of its performing residential first mortgage loan portfolio with higher reserve percentages allocated to the higher LTV loans. Current LTVs are updated using the most recently available information (generally on a quarter lag) and are estimated based on the initial appraisal obtained at the time of origination, adjusted using relevant market indices for housing price changes that have occurred since origination. The value of the homes could vary from actual market values due to change in the condition of the underlying property, variations in housing price changes within metropolitan statistical areas and other factors.

Index

The table below presents the most recently available update of the performing residential first mortgage loan portfolio summarized by current LTV:

	Balance <sup>(1)</sup> (in thousands)
LTV range:	
LTV less than 50%	\$276,031
LTV greater than 50% but less than 80%	424,587
LTV greater than 80% but less than 100%	245,257
LTV greater than 100%, but less than 120%	258,578
LTV greater than 120% but less than 140%	131,098
LTV greater than 140%	52,991
Total	\$1,388,542

(1) Excludes loans that have full repurchase recourse for any delinquent loans.

Changes in the allowance for loan losses of RJ Bank by portfolio segment are as follows:

	Loans held for sale (in thousands)	Loans held for investment C&I	CRE construction	CRE	Residential mortgage	Consumer	Total
Three months ended June 30, 2012:							
Balance at beginning of period:	\$—	\$84,300	\$749	\$26,835	\$32,742	\$52	\$144,678
Provision for loan losses	—	8,509	(244 )	1,072	(207 )	185	9,315
Net charge-offs:							
Charge-offs	—	(2,784 )	—	—	(3,742 )	(58 )	(6,584 )
Recoveries	—	—	—	252	1,529	5	1,786
Net charge-offs	—	(2,784 )	—	252	(2,213 )	(53 )	(4,798 )
Foreign exchange translation adjustment	—	(70 )	(10 )	(31 )	—	—	(111 )
Balance at June 30, 2012	\$—	\$89,955	\$495	\$28,128	\$30,322	\$184	\$149,084
Nine months ended June 30, 2012:							
Balance at beginning of period:	\$5	\$81,267	\$490	\$30,752	\$33,210	\$20	\$145,744
Provision for loan losses	(5 )	16,713	(1) 6	(1) (2,411 )	(1) 7,377	245	21,925
Net charge-offs:							
Charge-offs	—	(8,001 )	—	(1,000 )	(12,328 )	(96 )	(21,425 )
Recoveries	—	—	—	800	2,063	15	2,878
Net charge-offs	—	(8,001 )	—	(200 )	(10,265 )	(81 )	(18,547 )
Foreign exchange translation adjustment	—	(24 )	(1 )	(13 )	—	—	(38 )
	\$—	\$89,955	\$495	\$28,128	\$30,322	\$184	\$149,084

Balance at June 30,  
2012

(1) There were provisions for loan losses recorded during the nine months ended June 30, 2012 of \$3.3 million, \$558 thousand, and \$1.3 million for C&I, CRE construction, and CRE loans, respectively, related to a Canadian loan portfolio RJ Bank purchased during the March, 2012 quarter. These provisions for loan losses resulted from RJ Bank's quarterly assessment of inherent risk in this portfolio.

36

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Index

	Loans held for sale (in thousands)	Loans held for investment			Residential mortgage	Consumer	Total
		C&I	CRE construction	CRE			
Three months ended June 30, 2011:							
Balance at beginning of period:	\$4	\$64,696	\$2,745	\$44,182	\$34,469	\$19	\$146,115
Provision for loan losses	1	9,283	(2,318 )	(5,137 )	6,321	213	8,363
Net charge-offs:							
Charge-offs	—	(370 )	—	(4,082 )	(5,243 )	(215 )	(9,910 )
Recoveries	—	—	—	780	449	3	1,232
Net charge-offs	—	(370 )	—	(3,302 )	(4,794 )	(212 )	(8,678 )
Balance at June 30, 2011	\$5	\$73,609	\$427	\$35,743	\$35,996	\$20	\$145,800
Nine months ended June 30, 2011:							
Balance at beginning of period:	\$23	\$60,464	\$4,473	\$47,771	\$34,297	\$56	\$147,084
Provision for loan losses	(18 )	13,597	(4,046 )	925	17,559	215	28,232
Net charge-offs:							
Charge-offs	—	(452 )	—	(14,012 )	(17,348 )	(255 )	(32,067 )
Recoveries	—	—	—	1,059	1,488	4	2,551
Net charge-offs	—	(452 )	—	(12,953 )	(15,860 )	(251 )	(29,516 )
Balance at June 30, 2011	\$5	\$73,609	\$427	\$35,743	\$35,996	\$20	\$145,800

Index

The following table presents, by loan portfolio segment, RJ Bank's recorded investment and related allowance for loan losses:

	Loans held for sale (in thousands)	Loans held for investment C&I	CRE construction	CRE	Residential mortgage	Consumer	Total	
June 30, 2012:								
Allowance for loan losses:								
Individually evaluated for impairment	\$—	\$996	\$—	\$1	\$3,909	\$—	\$4,906	
Collectively evaluated for impairment	—	88,959	495	28,127	26,413	184	144,178	
Total allowance for loan losses	\$—	\$89,955	\$495	\$28,128	\$30,322	\$184	\$149,084	
Loan category as a % of total recorded investment	2	% 63	% —	% 12	% 22	% 1	% 100	%
Recorded investment: <sup>(1)</sup>								
Individually evaluated for impairment	\$—	\$3,942	\$—	\$9,404	\$26,220	\$—	\$39,566	
Collectively evaluated for impairment	175,548	5,077,365	35,417	935,852	1,691,497	89,653	8,005,332	
Total recorded investment	\$175,548	\$5,081,307	\$35,417	\$945,256	\$1,717,717	\$89,653	\$8,044,898	
September 30, 2011:								
Allowance for loan losses:								
Individually evaluated for impairment	\$—	\$8,478	\$—	\$1,014	\$2,642	\$—	\$12,134	
Collectively evaluated for impairment	5	72,789	490	29,738	30,568	20	133,610	
Total allowance for loan losses	\$5	\$81,267	\$490	\$30,752	\$33,210	\$20	\$145,744	
Loan category as a % of total recorded investment	2	% 61	% —	11	% 26	% —	100	%

Recorded investment: <sup>(1)</sup>							
Individually evaluated for impairment	\$—	\$25,685	\$—	\$15,842	\$23,453	\$—	\$64,980
Collectively evaluated for impairment	92,748	4,075,254	29,087	727,047	1,733,033	7,438	6,664,607
Total recorded investment	\$92,748	\$4,100,939	\$29,087	\$742,889	\$1,756,486	\$7,438	\$6,729,587

(1) Excludes any net unearned income and deferred expenses.

RJ Bank had no recorded investment in loans acquired with deteriorated credit quality as of either June 30, 2012 or September 30, 2011.

The reserve for unfunded lending commitments, included in trade and other payables on our Condensed Consolidated Statements of Financial Condition, was \$10.6 million and \$10.4 million at June 30, 2012 and September 30, 2011, respectively.

Index

## NOTE 8 – VARIABLE INTEREST ENTITIES

A VIE requires consolidation by the entity's primary beneficiary. We evaluate all of the entities in which we are involved to determine if the entity is a VIE and if so, whether we hold a variable interest and are the primary beneficiary.

We hold variable interests in the following VIE's: Raymond James Employee Investment Funds I and II (the "EIF Funds"), a trust fund established for employee retention purposes ("Restricted Stock Trust Fund"), certain low-income housing tax credit funds ("LIHTC Funds"), various other partnerships and limited liability companies ("LLCs") involving real estate ("Other Real Estate Limited Partnerships and LLCs"), certain new market tax credit funds ("NMTC Funds") sponsored by affiliates of Morgan Keegan, and certain funds formed for the purpose of making and managing investments in securities of other entities ("Managed Funds").

Refer to Note 1, pages 94 – 97 in our 2011 Form 10-K for a description of our principal involvement with VIEs and the accounting policies regarding the determinations of whether we are deemed to be the primary beneficiary of any VIEs which we hold a variable interest. As of June 30, 2012, other than the addition of the NMTC VIE's resulting from our acquisition of Morgan Keegan which are discussed below (see note 2 for further information regarding the Morgan Keegan acquisition), there have been no other significant changes in either the nature of our involvement with, or the accounting policies associated with the analysis of, VIEs as described in the 2011 Form 10-K referenced above.

Raymond James Tax Credit Funds, Inc., a wholly owned subsidiary of RJF ("RJTCF"), is the managing member or general partner in LIHTC Funds having one or more investor members or limited partners. These LIHTC Funds are organized as limited partnerships or LLCs for the purpose of investing in a number of project partnerships, which are limited partnerships or LLCs that in turn purchase and develop low-income housing properties qualifying for tax credits.

## VIEs where we are the primary beneficiary

Of the VIEs in which we hold an interest, we have determined that the EIF Funds, the Restricted Stock Trust Fund and certain LIHTC Funds require consolidation in our financial statements as we are deemed the primary beneficiary of those VIEs. The aggregate assets and liabilities of the entities we consolidate are provided in the table below.

	Aggregate assets <sup>(1)</sup> (in thousands)	Aggregate liabilities <sup>(1)</sup>
June 30, 2012:		
LIHTC Funds	\$237,835	\$95,600
Guaranteed LIHTC Fund <sup>(2)</sup>	85,162	1,189
Restricted Stock Trust Fund	15,525	8,553
EIF Funds	14,640	—
Total	\$353,162	\$105,342
September 30, 2011:		
LIHTC Funds	\$257,631	\$121,908
Guaranteed LIHTC Fund <sup>(2)</sup>	87,811	10,424
Restricted Stock Trust Fund	8,099	4,630
EIF Funds	16,223	—
Total	\$369,764	\$136,962

- (1) Aggregate assets and aggregate liabilities differ from the consolidated carrying value of assets and liabilities due to the elimination of intercompany assets and liabilities held by the consolidated VIE.

In connection with one of the multi-investor tax credit funds in which RJTCF is the managing member, RJTCF has (2) provided the investor members with a guaranteed return on their investment in the fund (the “Guaranteed LIHTC Fund”).

Index

The following table presents information about the carrying value of the assets, liabilities and equity of the VIEs which we consolidate and are included within our Condensed Consolidated Statements of Financial Condition. The noncontrolling interests presented in this table represent the portion of these net assets which are not ours.

	June 30, 2012	September 30, 2011
	(in thousands)	
<b>Assets:</b>		
Assets segregated pursuant to regulations and other segregated assets	\$ 13,781	\$ 18,317
Receivables, other	8,056	11,288
Investments in real estate partnerships held by consolidated variable interest entities	302,544	320,384
Trust fund investment in RJF common stock <sup>(1)</sup>	15,525	8,099
Prepaid expenses and other assets	15,774	17,197
Total assets	\$ 355,680	\$ 375,285
<b>Liabilities and equity:</b>		
Loans payable of consolidated variable interest entities <sup>(2)</sup>	\$ 80,549	\$ 99,982
Trade and other payables	2,739	5,353
Intercompany payables	12,500	6,904
Total liabilities	95,788	112,239
RJF Equity	6,095	5,537
Noncontrolling interests	253,797	257,509
Total equity	259,892	263,046
Total liabilities and equity	\$ 355,680	\$ 375,285

(1)Included in treasury stock in our Condensed Consolidated Statements of Financial Condition.

(2)Comprised of several non-recourse loans. We are not contingently liable under any of these loans.

The following table presents information about the net loss of the VIEs which we consolidate and are included within our Condensed Consolidated Statements of Income and Comprehensive Income. The noncontrolling interests presented in this table represent the portion of the net loss from these VIEs which are not ours.

	Three months ended June 30,		Nine months ended June 30,	
	2012	2011	2012	2011
	(in thousands)			
<b>Revenues:</b>				
Interest	\$ 1	\$ —	\$ 3	\$ 1
Other	2,356	3,164	2,909	5,755
Total revenues	2,357	3,164	2,912	5,756
Interest expense	1,177	1,430	3,838	4,563
Net revenues (expense)	1,180	1,734	(926	) 1,193
Non-interest expenses	4,490	3,318	20,678	12,979
Net loss including noncontrolling interests	(3,310	) (1,584	) (21,604	) (11,786
Net loss attributable to noncontrolling interests	(3,377	) (1,238	) (22,162	) (10,866
Net income (loss) attributable to RJF	\$ 67	\$ (346	) \$ 558	\$ (920

Low-income housing tax credit funds

RJTFCF is the managing member or general partner in approximately 76 separate low-income housing tax credit funds having one or more investor members or limited partners. RJTFCF has concluded that it is the primary beneficiary of nine of the 75 non-guaranteed LIHTC Funds it has sponsored and, accordingly, consolidates these funds. Two of the non-guaranteed LIHTC Funds previously consolidated were liquidated during the three month period ended June 30, 2012. In addition, RJTFCF consolidates the one Guaranteed LIHTC Fund it sponsors. See Note 14 for further discussion of the guarantee obligation as well as other RJTFCF commitments.

Index

VIEs where we hold a variable interest but we are not the primary beneficiary

## New market tax credit funds

An affiliate of Morgan Keegan is the managing member of seven NMTC Funds. NMTC Funds are organized as LLC's for the purpose of investing in eligible projects in qualified low-income areas or that serve qualified targeted populations. In return for making a qualified equity investment into the NMTC Fund, the Fund's investor member receives tax credits eligible to apply against their federal tax liability. These new market tax credits are taken by the investor member over a seven year period.

Each of these NMTC Funds have one investor member. We have concluded that in each of these NMTC Funds, the investor member of such funds has significant participating rights over the activities that most significantly impact the economics of the NMTC Fund and, therefore, the affiliate of Morgan Keegan as the managing member of the NMTC Fund does not have the power over such activities. Accordingly, the affiliate of Morgan Keegan is not deemed to be the primary beneficiary of these NMTC Funds and, therefore, they are not consolidated.

## Aggregate assets, liabilities and risk of loss

The aggregate assets, liabilities, and our exposure to loss from those VIEs in which we hold a variable interest, but concluded we are not the primary beneficiary, are provided in the table below.

	June 30, 2012			September 30, 2011		
	Aggregate assets (in thousands)	Aggregate liabilities	Our risk of loss	Aggregate assets	Aggregate liabilities	Our risk of loss
LIHTC Funds	\$1,974,025	\$720,112	\$39,631	\$1,582,764	\$533,311	\$37,733
NMTC Funds	140,670	182	13	—	—	—
Other Real Estate Limited Partnerships and LLCs	31,339	35,512	1,099	39,344	35,467	8,068
Total	\$2,146,034	\$755,806	\$40,743	\$1,622,108	\$568,778	\$45,801

VIEs where we hold a variable interest but we are not required to consolidate

The aggregate assets, liabilities, and our exposure to loss from Managed Funds in which we hold a variable interest are provided in the table below:

	June 30, 2012			September 30, 2011		
	Aggregate assets (in thousands)	Aggregate liabilities	Our risk of loss	Aggregate assets	Aggregate liabilities	Our risk of loss
Managed Funds	\$9,585	\$—	\$403	\$12,813	\$—	\$834



Index

## NOTE 9 – BANK DEPOSITS

Bank deposits include Negotiable Order of Withdrawal (“NOW”) accounts, demand deposits, savings and money market accounts and certificates of deposit. The following table presents a summary of bank deposits including the weighted-average rate:

	June 30, 2012		September 30, 2011		
	Balance	Weighted-average rate <sup>(1)</sup>	Balance	Weighted-average rate <sup>(1)</sup>	
	(\$ in thousands)				
Bank deposits:					
NOW accounts	\$5,360	0.01	% \$4,183	0.01	%
Demand deposits (non-interest-bearing)	24,520	—	21,663	—	
Savings and money market accounts	7,933,362	0.04	% 7,468,136	0.08	%
Certificates of deposit	314,062	2.18	% 245,340	2.37	%
Total bank deposits <sup>(2)</sup>	\$8,277,304	0.12	% \$7,739,322	0.15	%

(1) Weighted-average rate calculation is based on the actual deposit balances at June 30, 2012 and September 30, 2011, respectively.

(2) Bank deposits exclude affiliate deposits of approximately \$354 thousand and \$250 million at June 30, 2012 and September 30, 2011.

RJ Bank’s savings and money market accounts in the table above consist primarily of deposits that are cash balances swept from the investment accounts maintained at our wholly owned broker-dealer subsidiary Raymond James & Associates (“RJ&A”). These balances are held in Federal Deposit Insurance Corporation (“FDIC”) insured bank accounts through the Raymond James Bank Deposit Program (“RJBDP”) administered by RJ&A.

Scheduled maturities of certificates of deposit are as follows:

	June 30, 2012		September 30, 2011	
	Denominations greater than or equal to \$100,000	Denominations less than \$100,000	Denominations greater than or equal to \$100,000	Denominations less than \$100,000
	(in thousands)			
Three months or less	\$4,694	\$10,709	\$7,403	\$7,977
Over three through six months	7,632	6,413	6,408	6,153
Over six through twelve months	7,373	13,103	6,711	15,103
Over one through two years	21,085	23,930	19,567	19,862
Over two through three years	27,210	32,731	10,045	17,286
Over three through four years	33,095	33,731	29,136	36,271
Over four through five years	52,492	39,864	34,349	29,069
Total	\$153,581	\$160,481	\$113,619	\$131,721

Interest expense on deposits is summarized as follows:

	Three months ended		Nine months ended	
	June 30, 2012	2011	June 30, 2012	2011
	(in thousands)			
Certificates of deposit	\$1,669	\$1,589	\$4,790	\$4,718

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Money market, savings and NOW accounts <sup>(1)</sup>	736	1,215	2,195	4,843
Total interest expense on deposits	\$2,405	\$2,804	\$6,985	\$9,561

(1) Interest expense on affiliate deposits for the three month period ended June 30, 2012 was insignificant. For the nine month period ended June 30, 2012, excludes interest expense on affiliate deposits of \$76 thousand.

Index

NOTE 10 – OTHER BORROWINGS

As of June 30, 2012 and September 30, 2011, we had no borrowings outstanding on either secured or unsecured lines of credit, and RJ Bank had no advances outstanding from the Federal Home Loan Bank.

As of June 30, 2012, there were other collateralized financings outstanding in the amount of \$507 million. As of September 30, 2011, there were other collateralized financings outstanding in the amount of \$189 million. These other collateralized financings are included in securities sold under agreements to repurchase on the Condensed Consolidated Statements of Financial Condition. These financings are collateralized by non-customer, RJ&A-owned securities.

Index

## NOTE 11 – CORPORATE DEBT

The following summarizes our corporate debt:

	June 30, 2012 (in thousands)	September 30, 2011
Mortgage notes payable <sup>(1)</sup>	\$50,189	\$52,754
4.25% senior notes, due 2016, net of unamortized discount of \$380 thousand and \$455 thousand at June 30, 2012 and September 30, 2011, respectively <sup>(2)</sup>	249,620	249,545
8.60% senior notes, due 2019, net of unamortized discount of \$36 thousand and \$40 thousand at June 30, 2012 and September 30, 2011, respectively <sup>(3)</sup>	299,964	299,960
5.625% senior notes, due 2024, net of unamortized discount of \$973 thousand at June 30, 2012 <sup>(4)</sup>	249,027	—
6.90% senior notes, due 2042 <sup>(5)</sup>	350,000	—
Other borrowings from banks <sup>(6)</sup>	129,573	—
Other financings <sup>(7)</sup>	5,598	9,709
Total corporate debt	\$ 1,333,971	\$611,968

(1) Mortgage notes payable pertain to mortgage loans on our headquarters office complex. These mortgage loans are secured by land, buildings, and improvements with a net book value of \$57.2 million at June 30, 2012. These mortgage loans bear interest at 5.7% with repayment terms of monthly interest and principal debt service and have a January 2023 maturity.

(2) In April 2011, we sold in a registered underwritten public offering, \$250 million in aggregate principal amount of 4.25% senior notes due April 2016. Interest on these senior notes is payable semi-annually. We may redeem some or all of these senior notes at any time prior to their maturity at a redemption price equal to the greater of (i) 100% of the principal amount of the notes to be redeemed, or (ii) the sum of the present values of the remaining scheduled payments of principal and interest thereon, discounted to the redemption date at a discount rate equal to a designated U.S. Treasury rate, plus 30 basis points, plus accrued and unpaid interest thereon to the redemption date.

(3) In August 2009, we sold in a registered underwritten public offering, \$300 million in aggregate principal amount of 8.60% senior notes due August 2019. Interest on these senior notes is payable semi-annually. We may redeem some or all of these senior notes at any time prior to their maturity, at a redemption price equal to the greater of (i) 100% of the principal amount of the notes redeemed, or (ii) the sum of the present values of the remaining scheduled payments of principal and interest thereon, discounted to the redemption date at a discount rate equal to a designated U.S. Treasury rate, plus 50 basis points, plus accrued and unpaid interest thereon to the redemption date.

(4) In March 2012, we sold in a registered underwritten public offering, \$250 million in aggregate principal amount of 5.625% senior notes due April 2024. Interest on these senior notes is payable semi-annually. We may redeem some or all of these senior notes at any time prior to their maturity, at a redemption price equal to the greater of (i) 100% of the principal amount of the notes redeemed, or (ii) the sum of the present values of the remaining scheduled payments of principal and interest thereon, discounted to the redemption date at a discount rate equal to a designated U.S. Treasury rate, plus 50 basis points, plus accrued and unpaid interest thereon to the redemption date.

(5) In March 2012, we sold in a registered underwritten public offering, \$350 million in aggregate principal amount of 6.90% senior notes due March 2042. Interest on these senior notes is payable quarterly in arrears. On or after

March 15, 2017, we may redeem some or all of the senior notes at any time at the redemption price equal to 100% of the principal amount of the notes being redeemed plus accrued interest thereon to the redemption date.

As of June 30, 2012, is comprised of the Regions Credit Agreement borrowing. On the Closing Date of the Morgan Keegan acquisition (see Note 2 for further information regarding this acquisition), the Borrowers executed the Regions Credit Agreement which provided for a \$200 million loan made by the Lender to the Borrowers and is subject to a guarantee in favor of the Lender provided by RJF. The proceeds from the loan were disbursed to us on the Closing Date for working capital and general corporate purposes. The borrowings are secured by, subject to (6) certain exceptions, all of the Borrowers' personal property, including (i) all present and future ARS owned by any Borrower (the "Pledged ARS"), (ii) all equity interests issued by certain subsidiaries, and (iii) all present and future equity interests and debt securities owned by any Borrower. The loan matures on April 2, 2015 and bears interest at a monthly variable rate equal to LIBOR plus 2.75%. Primarily as a result of redemptions by certain issuers of Pledged ARS during the three months ended June 30, 2012 and the resultant repayments to the Lender, the outstanding principal balance on the Regions Credit Agreement as of June 30, 2012 is \$129.6 million.

This financing balance pertains to term loan financing of Raymond James European Securities, S.A.S. ("RJES"). The term loan bears interest at a variable rate indexed to the Euro Interbank Offered Rate and is secured (7) by certain assets of RJES. The repayment terms include annual principal repayments and a September 2013 maturity.

Index

Our corporate debt as of June 30, 2012, based upon its contractual terms, matures as follows:

	June 30, 2012 (in thousands)
During the three months ending September 30, 2012	\$3,634
Fiscal 2013	6,491
Fiscal 2014	3,860
Fiscal 2015	133,659
Fiscal 2016	253,945
Fiscal 2017 and thereafter	932,382
Total	\$1,333,971

## NOTE 12 – DERIVATIVE FINANCIAL INSTRUMENTS

## Derivatives arising from our fixed income business operations

In our pre-Morgan Keegan acquisition fixed income business, we enter into interest rate swaps and futures contracts either as part of our fixed income business to facilitate customer transactions, to hedge a portion of our trading inventory, or for our own account. We have continued to conduct this business in a substantially similar fashion during the period ending June 30, 2012 (since the Closing Date of the Morgan Keegan acquisition).

The majority of these derivative positions are executed in the over-the-counter market with financial institutions. These positions are recorded at fair value with the related gain or loss and interest recorded in earnings within the Condensed Consolidated Statements of Income and Comprehensive Income. The revenue related to the interest rate contracts includes realized and unrealized gains and losses on derivative instruments. Cash flows related to these fixed income interest rate contracts are included as operating activities (the “trading instruments, net” line) on the Condensed Consolidated Statements of Cash Flows for the period.

None of the derivatives described above are designated as fair value or cash flow hedges.

## Derivatives arising from Morgan Keegan's legacy business operations

Morgan Keegan facilitates derivative transactions through non-broker-dealer subsidiaries, either Morgan Keegan Financial Products, LLC or Morgan Keegan Capital Services, LLC (collectively referred to as the Morgan Keegan swaps subsidiaries or “MKSS”).

Morgan Keegan does not use derivative instruments for trading or hedging purposes. MKSS enters into derivative transactions (primarily interest rate swaps) with customers of MK & Co. For every derivative transaction MKSS enters into with a customer, the respective entity enters into an offsetting transaction with terms that mirror the customer transaction, with a credit support provider who is a third party financial institution. The only difference between the MKSS entities is that they utilize different third party financial institutions to facilitate the mirror transaction. Due to this “pass-through” transaction structure, the transacting Morgan Keegan entity has completely mitigated the market and credit risk related to the derivative contracts. Therefore, the ultimate credit and market risk resides with the third party financial institution. MKSS only has credit risk related to its uncollected fee revenues. Any collateral required to be exchanged under these derivative contracts are administered directly by the customer and the third party financial institution. MKSS does not hold any collateral, or administers any collateral transactions, related to these instruments.

We have recorded the value of each derivative position held at fair value, as either an asset or an offsetting liability, or vice versa in our Condensed Consolidated Statements of Financial Condition, as a component of other assets with the offsetting liability reflected in other liabilities. Fair value is determined using an internal model which includes inputs from independent pricing sources to project future cash flows under each underlying derivative contract. The cash flows are discounted to determine the present value. The derivatives valued using these techniques are classified within Level 2 of the fair value hierarchy (see note 4 for further fair value information). Since any changes in fair value are completely offset by an opposite change in the mirrored transaction position, there is no net impact on our Condensed Consolidated Statements of Income and Comprehensive Income from changes in the fair value of these derivative instruments.

Index

MKSS recognizes revenue on derivative transactions on the transaction date, computed as the present value of the expected cash flows MKSS expects to receive from the third party financial institution over the life of the derivative contract. The derivative revenues from these transactions are included within other revenues on our Condensed Consolidated Statements of Income and Comprehensive Income. Our receivable for uncollected derivative transaction revenues is \$10.4 million at June 30, 2012 and is included in other receivables on our Condensed Consolidated Statements of Financial Condition.

Derivatives arising from RJ Bank's business operations

On February 29, 2012, a Canadian subsidiary of RJ Bank commenced operations as a result of a purchase of substantially all of a foreign bank's Canadian corporate loan portfolio. U.S. subsidiaries of RJ Bank utilize forward foreign exchange contracts to hedge RJ Bank's foreign currency exposure due to its non-U.S. dollar net investment. RJ Bank has entered into three-month forward contracts which are recorded at fair value on the Condensed Consolidated Statements of Financial Condition. The effective portion of the related gain or loss is recorded, net of tax, in shareholders' equity as part of the cumulative translation adjustment component of AOCI with such balance impacting earnings in the event the net investment is sold or substantially liquidated. Gains and losses on the undesignated portions of these derivative instruments as well as amounts representing hedge ineffectiveness are recorded in earnings in the Condensed Consolidated Statements of Income and Comprehensive Income. Hedge effectiveness is assessed using a method that is based on changes in forward rates at each reporting period. The measurement of hedge ineffectiveness is based on the beginning balance of the foreign net investment at the inception of the hedging relationship and performed using the hypothetical derivative method. However, as the terms of the hedging instrument and hypothetical derivative match at inception, there is no expected ineffectiveness to be recorded in earnings. Cash flows related to these derivative contracts are classified within operating activities in the Condensed Consolidated Statements of Cash Flows.

Description of the collateral we hold related to derivative contracts arising from our pre-Morgan Keegan acquisition operations

We elect to net-by-counterparty derivative contracts entered into by our fixed income trading group and RJ Bank's U.S. subsidiaries. Certain of these contracts contain a legally enforceable master netting arrangement that allows for netting of all derivative transactions with each counterparty and, therefore, the fair value of those derivative contracts are netted by counterparty in the Condensed Consolidated Statements of Financial Condition. The credit support annex related to the interest rate swaps and certain forward foreign exchange contracts allow parties to the master agreement to mitigate their credit risk by requiring the party which is out of the money to post collateral. We accept collateral in the form of cash, U.S. Treasury securities, or other marketable securities. As we elect to net-by-counterparty the fair value of derivative contracts, we also net-by-counterparty any cash collateral exchanged as part of the derivative agreement.

This cash collateral is recorded net-by-counterparty at the related fair value. The cash collateral included in the net fair value of all open derivative asset positions aggregates to a net liability of \$7.8 million at June 30, 2012 and \$19 million at September 30, 2011. The cash collateral included in the net fair value of all open derivative liability positions aggregates to a net asset of \$38.8 million and \$37 million at June 30, 2012 and September 30, 2011, respectively. Our maximum loss exposure under these interest rate swap contracts at June 30, 2012 is \$47.5 million.

RJ Bank provides to its U.S. subsidiaries a guarantee of payment in the event of the subsidiaries' default for exposure under the forward foreign exchange contracts. Due to this RJ Bank guarantee and the short-term nature of these derivatives, RJ Bank's U.S. subsidiaries are not required to post collateral and do not receive collateral with respect to certain derivative contracts with the respective counterparties. RJ Bank's maximum loss exposure under these forward foreign exchange contracts at June 30, 2012 is \$8.8 million.





Index

Derivative balances included in our financial statements

See the table below for the notional and fair value amounts of both the asset and liability derivatives.

Asset derivatives						
June 30, 2012			September 30, 2011			
Balance sheet location	Notional amount	Fair value <sup>(1)</sup>	Balance sheet location	Notional amount	Fair value <sup>(1)</sup>	
(in thousands)						
Derivatives not designated as hedging instruments:						
Interest rate contracts <sup>(2)</sup>	Trading instruments	\$2,458,465	\$141,388	Trading instruments	\$2,248,150	\$126,867
Interest rate contracts <sup>(3)</sup>	Other assets	\$2,160,255	\$472,382	Other assets	\$—	\$—

The fair value in this table is presented on a gross basis before netting of cash collateral and before any netting by (1) counterparty according to our legally enforceable master netting arrangements. The fair value in the Condensed Consolidated Statements of Financial Condition is presented net.

(2) These contracts arise from our pre-Morgan Keegan acquisition fixed income operations.

(3) These contracts arise from the legacy Morgan Keegan fixed income business operations.

Liability derivatives						
June 30, 2012			September 30, 2011			
Balance sheet location	Notional amount	Fair value <sup>(1)</sup>	Balance sheet location	Notional amount	Fair value <sup>(1)</sup>	
(in thousands)						
Derivatives designated as hedging instruments:						
Forward foreign exchange contracts	Trade and other payables	\$538,061	\$8,141	Trade and other payables	\$—	\$—
Derivatives not designated as hedging instruments:						
Interest rate contracts <sup>(2)</sup>	Trading instruments sold	\$2,264,182	\$127,375	Trading instruments sold	\$1,722,820	\$112,457
Interest rate contracts <sup>(3)</sup>	Trade and other payables	\$2,160,255	\$472,382	Other liabilities	\$—	\$—
Forward foreign exchange contracts	Trade and other payables	\$41,253	\$628	Trade and other payables	\$—	\$—

The fair value in this table is presented on a gross basis before netting of cash collateral and before any netting by (1) counterparty according to our legally enforceable master netting arrangements. The fair value in the Condensed Consolidated Statements of Financial Condition is presented net.

(2) These contracts arise from our pre-Morgan Keegan acquisition fixed income operations.

(3) These contracts arise from the legacy Morgan Keegan fixed income business operations.

Gains recognized on forward foreign exchange derivatives in AOCI totaled \$2.3 million and \$2.5 million, net of income taxes, for the three and nine month periods ended June 30, 2012. There was no hedge ineffectiveness and no components of derivative gains or losses were excluded from the assessment of hedge effectiveness for the three and nine month periods ended June 30, 2012. We did not enter into any forward foreign exchange derivative contracts during the year ended September 30, 2011.

Index

See the table below for the impact of the derivatives not designated as hedging instruments on the Condensed Consolidated Statements of Income and Comprehensive Income:

		Amount of gain (loss) on derivatives recognized in income			
		Three months ended June 30,		Nine months ended June 30,	
Location of gain (loss) recognized on derivatives in the Condensed Consolidated Statements of Income and Comprehensive Income		2012	2011	2012	2011
(in thousands)					
Derivatives not designated as hedging instruments:					
Interest rate contracts <sup>(1)</sup>	Net trading profits	\$(1,671 )	\$(339 )	\$476	\$3,836
Interest rate contracts <sup>(2)</sup>	Other revenues	\$425	\$—	\$425	\$—
Forward foreign exchange contracts	Other revenues	\$879	\$—	\$966	\$—

(1) These contracts arise from our pre-Morgan Keegan acquisition fixed income operations.

(2) These contracts arise from the legacy Morgan Keegan fixed income business operations.

#### Risks associated with, and our risk mitigation related to, our derivative contracts

We are exposed to credit losses in the event of nonperformance by the counterparties to forward foreign exchange derivative agreements as well as the interest rate contracts associated with our legacy, pre-Morgan Keegan fixed income operations. Where we are subject to credit exposure, we perform a credit evaluation of counterparties prior to entering into derivative transactions and we monitor their credit standings. Currently, we anticipate that all of the counterparties will be able to fully satisfy their obligations under those agreements. For our legacy, pre-Morgan Keegan fixed income operations, we may require collateral in the form of cash deposits from counterparties to support certain of these obligations as established by the credit threshold specified by the agreement and/or as a result of monitoring the credit standing of the counterparties.

We are exposed to interest rate risk related to the interest rate derivative agreements arising from our legacy, pre-Morgan Keegan fixed income operations. We are also exposed to foreign exchange risk related to our forward foreign exchange derivative agreements. We monitor exposure in our derivative agreements daily based on established limits with respect to a number of factors, including interest rate, foreign exchange spot and forward rates, spread, ratio, basis and volatility risks. These exposures are monitored both on a total portfolio basis and separately for each agreement for selected maturity periods.

As described above, we are not exposed to credit loss or interest rate risk in the interest rate derivative agreements associated with our recently acquired Morgan Keegan fixed income operations.

#### NOTE 13 – INCOME TAXES

For further discussion of income tax matters, see Note 1, page 94, and Note 17, pages 126 – 128, in our 2011 Form 10-K.

As of June 30, 2012 and September 30, 2011, our liability for unrecognized tax benefits was \$7 million and \$4.7 million, respectively. The total amount of unrecognized tax benefits that, if recognized, would affect the effective tax rate was \$3.3 million and \$3.8 million at June 30, 2012 and September 30, 2011, respectively. We anticipate that the unrecognized tax benefits will not change significantly over the next twelve months.

We recognize the accrual of interest and penalties related to income tax matters in interest expense and other expense, respectively. As of June 30, 2012 and September 30, 2011, accrued interest and penalties included in the unrecognized tax benefits liability were approximately \$2.3 million and \$1.3 million, respectively.

Index

Our effective tax rate of approximately 38.9% for the three month period ended June 30, 2012 is less than the approximately 40.5% effective tax rate applicable in the prior year quarter. Our effective tax rate in each quarter of the current fiscal year has been relatively constant from quarter to quarter. The primary factor for the decrease in our effective tax rate of 1.6% for the quarter ended June 30, 2012 as compared to the prior year quarter's effective tax rate was the effect in the prior year quarter of our relatively consistent level of non-deductible expenses coupled with the lower pre-tax earnings in the the prior year quarter, a quarter which included the \$45 million pre-tax loss provision for auction rate securities. For the fiscal year-to-date period ended June 30, 2012, our effective tax rate of 38.8% approximates the prior year-to-date effective tax rate of 37.6%.

We file U. S. federal income tax returns as well as returns with various state, local and foreign jurisdictions. With few exceptions, we are generally no longer subject to U.S. federal, state and local, or foreign income tax examination by tax authorities for years prior to fiscal year 2012 for federal tax returns, fiscal year 2007 for state and local tax returns and fiscal year 2006 for foreign tax returns. Certain transactions from our fiscal year 2012 are currently being examined under the Internal Revenue Service ("IRS") Compliance Assurance Program. This program accelerates the examination of key issues in an attempt to resolve them before the tax return is filed. Certain state and local returns are also currently under various stages of audit. Various state audits in process are expected to be completed either in our fiscal year 2012 or our fiscal year 2013.

NOTE 14 – COMMITMENTS, CONTINGENCIES AND GUARANTEES

Commitments and contingencies

Effective June 29, 2012, RJ Bank executed an agreement to purchase approximately \$517 million in securities based loan commitments from Regions Bank, of which approximately \$185 million is outstanding. This purchase, which arose due to the Morgan Keegan acquisition (see Note 2 for further discussion), settled in July 2012.

As of June 30, 2012, RJ Bank had not settled purchases of \$53.1 million in syndicated loans. These loan purchases are expected to be settled within 90 days.

RJ Bank has committed \$2 million to a small business investment company which provides capital and long-term loans to small businesses. As of June 30, 2012, we have invested \$1.3 million of the committed amount and the distributions received have been insignificant.

See Note 18 for additional information regarding RJ Bank's commitments to extend credit and other credit-related off-balance sheet financial instruments such as standby letters of credit and loan purchases.

In the normal course of business we enter into underwriting commitments. As of June 30, 2012, neither RJ&A nor MK & Co. had open transactions involving such commitments. Transactions involving such commitments of RJ Ltd. that were recorded and open at June 30, 2012, were approximately \$32 million in Canadian dollars ("CDN").

We utilize client marginable securities to satisfy deposits with clearing organizations. At June 30, 2012, we had client margin securities valued at \$173.2 million pledged with a clearing organization to meet our requirement of \$111.1 million.

As part of our recruiting efforts, we offer loans to prospective financial advisors and certain key revenue producers primarily for recruiting and/or retention purposes. These commitments are contingent upon certain events occurring, including, but not limited to, the individual joining us and, in most circumstances, require them to meet certain production requirements. As of June 30, 2012 we had made commitments, to either prospects that have accepted our

offer, or recently recruited producers, of approximately \$27 million that have not yet been funded.

We have committed a total of \$91.9 million , in amounts ranging from \$200 thousand to \$13 million, to 53 different independent venture capital or private equity partnerships. In addition, we have a commitment totaling \$38 million to two additional private equity limited partnerships. As of June 30, 2012, we have invested \$95 million of the committed amounts and have received \$63.9 million in distributions. We also control the general partner in eight internally sponsored private equity limited partnerships to which we have committed \$69.7 million. As of June 30, 2012, we have invested \$47.5 million, and have received \$17.9 million in distributions.

Index

RJF has committed to lend to RJTCF, or guarantee obligations in connection with RJTCF's low-income housing development/rehabilitation and syndication activities, aggregating up to \$150 million upon request, subject to certain limitations as well as annual review and renewal. RJTCF borrows in order to invest in partnerships which purchase and develop properties qualifying for tax credits ("Project Partnerships"). These investments in Project Partnerships are then sold to various tax credit funds, which have third-party investors and for which RJTCF serves as the managing member or general partner. RJTCF typically sells these investments within 90 days of their acquisition, and the proceeds from the sales are used to repay RJTCF's borrowings.

RJTCF may make short-term loans or advances to Project Partnerships on behalf of the tax credit funds in which it serves as managing member or general partner. At June 30, 2012, cash funded to invest in either loans or investments in project partnerships was \$45.1 million.

At June 30, 2012, the approximate market values of collateral received that we can repledge were:

	Sources of collateral (in thousands)
Securities purchased under agreements to resell and other collateralized financings	\$517,955
Securities received in securities borrowed vs. cash transactions	205,671
Collateral received for margin loans	1,628,157
Securities received as collateral related to derivative contracts	10,653
Total	\$2,362,436

Certain collateral was repledged. At June 30, 2012, the approximate market values of this portion of collateral and financial instruments that we own and pledged were:

	Uses of collateral and trading securities (in thousands)
Securities sold under agreements to repurchase	\$332,979
Securities delivered in securities loaned vs. cash transactions	454,924
Collateral used for secured loans	176,515
Collateral used for cash loans	16,311
Collateral used for deposits at clearing organizations	169,728
Total	\$1,150,457

As a result of the extensive regulation of the financial services industry, our broker-dealer and investment advisory subsidiaries are subject to regular reviews and inspections by regulatory authorities and self-regulatory organizations, which can result in the imposition of sanctions for regulatory violations, ranging from non-monetary censure to fines and, in serious cases, temporary or permanent suspension from conducting business. In addition, from time to time regulatory agencies and self-regulatory organizations institute investigations into industry practices, which can also result in the imposition of such sanctions.

## Guarantees

RJ Bank provides to its affiliate, Raymond James Capital Services, Inc. ("RJ Cap Services"), on behalf of certain corporate borrowers, a guarantee of payment in the event of the borrower's default for exposure under interest rate swaps entered into with RJ Cap Services. At June 30, 2012, the current exposure under these guarantees was \$18 million, which were underwritten as part of the larger corporate credit relationships. The outstanding interest rate swaps at June 30, 2012 have maturities ranging from March 2013 through April 2019. RJ Bank records an estimated



reserve for its credit risk associated with the guarantee of these client swaps, which was insignificant as of June 30, 2012. The estimated total potential exposure under these guarantees is \$20.2 million at June 30, 2012.

RJ Bank guarantees the forward foreign exchange contract obligations of its U.S. subsidiaries. See Note 12 for additional information regarding these derivatives.

RJF guarantees interest rate swap obligations of RJ Cap Services. See Note 12 for additional information regarding our interest rate swaps.

Index

We have from time to time authorized performance guarantees for the completion of trades with counterparties in Argentina. At June 30, 2012, there were no outstanding performance guarantees in Argentina.

In March 2008, RJF guaranteed an \$8 million letter of credit issued for settlement purposes that was requested by the Capital Markets Board (“CMB”) for our Turkish joint venture. While our Turkish joint venture ceased operations in December 2008, the CMB has not released this letter of credit. The issuing bank has instituted an action seeking payment of its fees on the underlying letter of credit and to confirm that the guarantee remains in effect.

RJF has guaranteed the Borrowers performance under the Regions Credit Agreement. See further discussion in Note 2.

RJF guarantees the existing mortgage debt of RJ&A of approximately \$50.2 million.

RJTFC issues certain guarantees to various third parties related to project partnerships whose interests have been sold to one or more of the funds in which RJTFC is the managing member or general partner. In some instances, RJTFC is not the primary guarantor of these obligations which aggregate to a cumulative maximum obligation of approximately \$1.8 million as of June 30, 2012.

RJF has guaranteed RJTFC’s performance to various third parties on certain obligations arising from RJTFC’s sale and/or transfer of units in one of its fund offerings (“Fund 34”). Under such arrangements, RJTFC has provided either: (1) certain specific performance guarantees including a provision whereby in certain circumstances, RJTFC will refund a portion of the investors’ capital contribution, or (2) a guaranteed return on their investment. Under the performance guarantees, the conditions which would result in a payment by RJTFC under the guarantees have been satisfied, neither RJF nor RJTFC funded any obligations under such guarantees nor do either have any further obligations under such guarantees. Further, based upon its most recent projections and performance of Fund 34, RJTFC does not anticipate that any payments will be made to any of these third parties under the guarantee of the return on investment. The maximum exposure to loss represents the undiscounted future payments due to investors for the return on and of their investment, and approximates \$44 million as of June 30, 2012. Under the guarantee of returns, should the underlying LIHTC project partnerships held by Fund 34 fail to deliver a certain amount of tax credits and other tax benefits over the next ten years, RJTFC is obligated to provide the investor with a specified return. A \$41.6 million financing asset is included in prepaid expenses and other assets, and a related \$41.7 million liability is included in trade and other payables on our Condensed Consolidated Statements of Financial Condition as of June 30, 2012. The maximum exposure to loss under this guarantee represents the undiscounted future payments due to investors for the return on and of their investment, and approximates \$49.9 million at June 30, 2012.

Legal matter contingencies

Pre- Closing Date Morgan Keegan matters (all of which are subject to indemnification by Regions)

In July 2006, MK & Co. and a former MK & Co. analyst were named as defendants in a lawsuit filed by a Canadian insurance and financial services company, Fairfax Financial Holdings, and its American subsidiary in the Circuit Court of Morris County, New Jersey. Plaintiffs made claims under a civil Racketeer Influenced and Corrupt Organizations (“RICO”) statute, for commercial disparagement, tortious interference with contractual relationships, tortious interference with prospective economic advantage and common law conspiracy. Plaintiffs allege that defendants engaged in a multi-year conspiracy to publish and disseminate false and defamatory information about plaintiffs to improperly drive down plaintiff stock price, so that others could profit from short positions. Plaintiffs allege that defendants' actions damaged their reputations and harmed their business relationships. Plaintiffs allege a number of categories of damages they sustained, including lost insurance business, lost financings and increased

financing costs, increased audit fees and directors and officers insurance premiums and lost acquisitions, and have requested monetary damages. These claims were never considered to be meritorious, but some of the claims survived an extended motion practice and discovery process. On May 11, 2012, the trial court ruled that New York law applied to plaintiff's RICO claims, therefore the claims are not subject to treble damages. On June 27, 2012, the trial court dismissed plaintiffs' tortious interference with prospective relations claim, but allowed other claims to go forward. Both the May 11 and June 27 orders are currently being re-heard. A jury trial is currently set to begin on September 10, 2012.

## Index

Certain of the Morgan Keegan entities, along with Regions, have been named in class-action lawsuits filed in federal and state courts on behalf of investors who purchased shares of certain mutual funds in the Regions Morgan Keegan Fund complex (the "Regions Funds") and shareholders of Regions. The Regions Funds were formerly managed by Morgan Asset Management, an entity which was at one time a subsidiary of one of the Morgan Keegan affiliates, but an entity which was not part of our Morgan Keegan acquisition ("MAM") (see further information regarding the Morgan Keegan acquisition in Note 2). The complaints contain various allegations, including claims that the Regions Funds and the defendants misrepresented or failed to disclose material facts relating to the activities of the Funds. No class has been certified. Certain of the shareholders in the Funds and other interested parties have entered into arbitration proceedings and individual civil claims, in lieu of participating in the class action lawsuits.

In March 2009, Morgan Keegan received a Wells Notice from the SEC's Atlanta Regional Office related to ARS indicating that the SEC staff intended to recommend that the SEC take civil action against the firm. On July 21, 2009, the SEC filed a complaint in the United States District Court for the Northern District of Georgia (the "Court") against Morgan Keegan alleging violations of the federal securities laws in connection with ARS that Morgan Keegan underwrote, marketed and sold. On June 28, 2011, the Court granted Morgan Keegan's Motion for Summary Judgment, dismissing the case brought by the SEC. On May 2, 2012, the United States Court of Appeals for the Eleventh Circuit reversed the Court's decision and remanded the case, which is pending. Beginning in February 2009, Morgan Keegan commenced a voluntary program to repurchase ARS that it underwrote and sold to Morgan Keegan customers, and extended that repurchase program on October 1, 2009, to include certain ARS that were sold by Morgan Keegan to its customers but were underwritten by other firms. On July 21, 2009, the Alabama Securities Commission issued a "Show Cause" order to Morgan Keegan arising out of the ARS matter that is the subject of the SEC complaint described above. The order requires Morgan Keegan to show cause why its registration as a broker-dealer should not be suspended or revoked in the State of Alabama and also why it should not be subject to disgorgement, repurchasing all ARS sold to Alabama residents and payment of costs and penalties.

Prior to the Closing Date, Morgan Keegan was involved in other litigation arising in the normal course of its business. On all such matters, RJF is subject to indemnification from Regions pursuant to the terms of the SPA and summarized below.

### Indemnification from Regions

As more fully described in Note 2, the SPA provides that Regions will indemnify RJF for losses incurred in connection with legal proceedings pending as of the closing date or commenced after the closing date and related to pre-closing matters. All of the pre-Closing Date Morgan Keegan matters described above are subject to such indemnification provisions. The range of potential liability of all such matters is not estimable at this time, but any loss arising from such matters, after consideration of the applicable annual deductible, if any, will be borne by Regions. As of June 30, 2012, an indemnification asset of approximately \$198 million is included in other assets, and a liability for potential losses of approximately \$236 million is included within trade and other payables on our Condensed Consolidated Statements of Financial Condition pertaining to the above matters and the related indemnification.

### Other matters

We are a defendant or co-defendant in various lawsuits and arbitrations incidental to our securities business as well as other corporate litigation. We are contesting the allegations in these cases and believe that there are meritorious defenses in each of these lawsuits and arbitrations. In view of the number and diversity of claims against us, the number of jurisdictions in which litigation is pending and the inherent difficulty of predicting the outcome of litigation and other claims, we cannot state with certainty what the eventual outcome of pending litigation or other claims will be. Refer to Note 1, page 93, of our 2011 Form 10-K for a discussion of our criteria for establishing a range of

possible loss related to such matters. Excluding any amounts subject to indemnification from Regions related to pre-Closing Date Morgan Keegan matters discussed above, as of June 30, 2012, management currently estimates the aggregate range of possible loss is from \$0 to an amount of up to \$10 million in excess of the accrued liability (if any) related to these matters. In the opinion of management, based on current available information, review with outside legal counsel, and consideration of the accrued liability amounts provided for in the accompanying condensed consolidated financial statements with respect to these matters, ultimate resolution of these matters will not have a material adverse impact on our financial position or cumulative results of operations. However, resolution of one or more of these matters may have a material effect on the results of operations in any future period, depending upon the ultimate resolution of those matters and upon the level of income for such period.

Index

## NOTE 15 – INTEREST INCOME AND INTEREST EXPENSE

The components of interest income and interest expense are as follows:

	Three months ended June 30,		Nine months ended June 30,	
	2012	2011	2012	2011
	(in thousands)			
<b>Interest income:</b>				
Margin balances	\$ 16,592	\$ 13,341	\$ 43,545	\$ 38,748
Assets segregated pursuant to regulations and other segregated assets	1,734	2,043	6,118	6,118
Bank loans, net of unearned income	83,846	64,824	233,455	205,410
Available for sale securities	2,488	2,382	6,664	8,827
Trading instruments	7,181	5,067	15,322	16,379
Stock loan	2,238	1,420	7,260	4,384
Other	7,107	6,755	19,770	17,163
Total interest income	121,186	95,832	332,134	297,029
<b>Interest expense:</b>				
Brokerage client liabilities	514	829	1,697	2,564
Retail bank deposits	2,405	2,804	6,985	9,561
Trading instrument sold but not yet purchased	839	1,083	1,838	2,984
Stock borrow	504	489	1,456	1,398
Borrowed funds	2,365	804	4,158	3,098
Senior notes	19,125	8,968	39,479	22,014
Interest expense of consolidated VIEs	1,177	1,430	3,838	4,563
Other	2,625	1,418	4,059	2,834
Total interest expense	29,554	17,825	63,510	49,016
Net interest income	91,632	78,007	268,624	248,013
Less: provision for loan losses	(9,315)	(8,363)	(21,925)	(28,232)
Net interest income after provision for loan losses	\$ 82,317	\$ 69,644	\$ 246,699	\$ 219,781

## NOTE 16 – SHARE-BASED COMPENSATION

On February 23, 2012, the 2012 Stock Incentive Plan (the “2012 Plan”) was approved by our shareholders. The 2012 Plan serves as the successor to our 1996 Stock Option Plan for Key Management Personnel, 2007 Stock Option Plan for Independent Contractors, 2002 Incentive Stock Option Plan, Stock Option Plan for Outside Directors, 2005 Restricted Stock Plan and 2007 Stock Bonus Plan (the “Predecessor Plans”). Upon approval of the 2012 Plan by our shareholders, the Predecessor Plans terminated (except with respect to awards previously granted under the Predecessor Plans that remain outstanding). Under the 2012 Plan, we may grant 15.4 million new shares in addition to the shares available for grant under the Predecessor Plans as of February 23, 2012. The 1992 Incentive Stock Option Plan is not a Predecessor Plan and terminated on the date our shareholders approved the 2012 Plan (except with respect to awards previously granted under the 1992 Incentive Stock Option Plan that remain outstanding). The 2012 Plan permits us to grant share-based and cash-based awards designed to be exempt from the limitation on deductible compensation under Section 162(m) of the Internal Revenue Code. In our 2011 Form 10-K, our share-based compensation accounting policies are described in Note 1, page 94. Other information relating to our employee and Board of Director share-based awards are outlined in our 2011 Form 10-K in Note 20, pages 132 – 136, while Note 21, pages 136 – 139, discusses our non-employee share-based awards. For purposes of this report, we have combined our presentation of both our employee and Board of Director share-based awards with our non-employee share-based

awards, both of which are described below.

53

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Index

## Stock option awards

Expense (expense reduction) and income tax benefits related to our stock option awards granted to employees, members of our Board of Directors and independent contractor financial advisors are presented below:

	Three months ended		Nine months ended	
	June 30, 2012	2011	June 30, 2012	2011
	(in thousands)			
Total share-based expense	\$1,247	\$(769)	) \$9,046	\$8,217
Income tax benefits related to share-based expense	(35	) (781	) 1,438	1,215

For the nine months ended June 30, 2012, we realized \$5 thousand of excess tax benefits related to our stock option awards. During the three months ended June 30, 2012, we granted 4,000 stock options to employees and no stock options were granted to our independent contractor financial advisors. During the nine months ended June 30, 2012, we granted 1,680,417 stock options to employees and 46,900 stock options to our independent contractor financial advisors. During the three and nine months ended June 30, 2012, no stock options were granted to outside directors.

Unrecognized pre-tax expense for stock option awards granted to employees, directors and independent contractor financial advisors, net of estimated forfeitures, and the remaining period over which the expense will be recognized as of June 30, 2012 are presented below:

	Unrecognized pre-tax expense	Remaining weighted- average period
	(in thousands)	(in years)
Employees and directors	\$18,234	3.2
Independent contractor financial advisors	799	3.1

The weighted-average grant-date fair value of stock option awards granted to employees for the three and nine months ended June 30, 2012 is \$13.84 and \$9.66, respectively.

The fair value of each option grant awarded to our independent contractor financial advisors is estimated on the date of grant and periodically revalued using the Black-Scholes option pricing model. The weighted-average fair value for unvested options granted to independent contractor financial advisors as of June 30, 2012 is \$12.73.

## Restricted stock awards

During the three months ended June 30, 2012, we granted 1,522,293 restricted stock units to employees. Included in this total are 1,465,330 restricted stock units granted for retention purposes to Morgan Keegan employees (see Note 2 for information regarding the Morgan Keegan acquisition). No restricted stock units were granted to outside directors. During the nine months ended June 30, 2012, we granted 2,703,964 restricted stock units to employees (inclusive of those related to the Morgan Keegan acquisition described above) and 12,000 restricted stock units to outside directors. No restricted stock units were granted to independent contractor financial advisors during the three months ended June 30, 2012. There were 2,586 restricted stock units granted to independent contractor financial advisors during the nine months ended June 30, 2012.

Expense and income tax benefits related to our restricted stock awards granted to employees, members of our Board of Directors and independent contractor financial advisors are presented below:

Three months ended June 30,	Nine months ended June 30,
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	2012	2011	2012	2011
	(in thousands)			
Total share-based expense	\$6,561	\$4,563	\$19,129	\$14,757
Income tax benefits related to share-based expense	2,493	1,734	7,269	5,608

54

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Index

For the nine months ended June 30, 2012, we realized \$1.1 million of excess tax benefits related to our restricted stock awards.

Unrecognized pre-tax expense for restricted stock shares and restricted stock units granted to employees, directors and independent contractor financial advisors, net of estimated forfeitures, and the remaining period over which the expense will be recognized as of June 30, 2012 are presented below:

	Unrecognized pre-tax expense (in thousands)	Remaining weighted- average period (in years)
Employees and directors	\$101,601	3.7
Independent contractor financial advisors	831	1.8

The weighted-average grant-date fair value of restricted stock share and unit awards granted to employees and outside directors for the three and nine months ended June 30, 2012 is \$35.07 and \$32.19, respectively.

The fair value of each restricted stock share awarded to our independent contractor financial advisors is valued on the date of grant and periodically revalued at the current stock price. The weighted-average fair value for unvested restricted stock awards granted to independent contractor financial advisors as of June 30, 2012 is \$34.24.

## Stock bonus awards

During the three months ended June 30, 2012, we granted 1,361 restricted stock units to employees. During the nine months ended June 30, 2012, we granted 595,717 restricted stock units to employees.

Expense and income tax benefits related to our stock bonus awards granted to employees are presented below:

	Three months ended June 30,		Nine months ended June 30,	
	2012	2011	2012	2011
	(in thousands)			
Total share-based expense	\$2,274	\$1,694	\$11,413	\$8,927
Income tax benefits related to share-based expense	864	644	4,337	3,392

For the nine months ended June 30, 2012, we realized \$1.3 million of excess tax benefits related to our stock bonus awards.

Unrecognized pre-tax expense for share-based awards granted to employees, net of estimated forfeitures, and the remaining period over which the expense will be recognized as of June 30, 2012 is \$14.5 million and 2.0 years, respectively. The weighted-average grant-date fair value of restricted stock share and unit awards granted to employees for the three and nine months ended June 30, 2012 is \$35.91 and \$29.60, respectively.

## NOTE 17 – REGULATIONS AND CAPITAL REQUIREMENTS

For a discussion of the various regulations and capital requirements applicable to certain of our businesses and subsidiaries, see Note 22, pages 139 – 141, of our 2011 Form 10-K.

RJF, as a bank holding company, and RJ Bank, are subject to various regulatory capital requirements administered by bank regulators. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional

discretionary actions by regulators that, if undertaken, could have a direct material effect on our and RJ Bank's financial results. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, RJF and RJ Bank must meet specific capital guidelines that involve quantitative measures of our assets, liabilities, and certain off-balance-sheet items as calculated under regulatory accounting practices. RJF's and RJ Bank's capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

Index

Quantitative measures established by regulation to ensure capital adequacy require RJF, as a bank holding company, and RJ Bank to maintain minimum amounts and ratios of total and Tier 1 capital (as defined in the regulations) to risk-weighted assets (as defined), and Tier 1 capital to average assets (as defined). To be categorized as “well capitalized,” RJF must maintain total risk-based, Tier 1 risk-based, and Tier 1 leverage ratios as set forth in the table below.

	Actual		Requirement for capital adequacy purposes		To be well capitalized under prompt corrective action provisions			
	Amount (\$ in thousands)	Ratio	Amount	Ratio	Amount	Ratio		
RJF as of June 30, 2012:								
Total capital (to risk-weighted assets)	\$2,952,167	17.9	% \$1,319,404	8.0	% \$1,649,255	10.0		%
Tier I capital (to risk-weighted assets)	2,788,277	16.9	% 659,947	4.0	% 989,921	6.0		%
Tier I capital (to adjusted assets)	2,788,277	13.7	% 814,095	4.0	% 1,017,619	5.0		%

At current capital levels, RJ Bank was categorized as “well capitalized” under the regulatory framework for prompt corrective action. To be categorized as “well capitalized,” RJ Bank must maintain minimum total risk-based, Tier I risk-based, and Tier I leverage ratios as set forth in the table below. There are no conditions or events since that notification that management believes have changed RJ Bank's category.

	Actual		Requirement for capital adequacy purposes		To be well capitalized under prompt corrective action provisions			
	Amount (\$ in thousands)	Ratio	Amount	Ratio	Amount	Ratio		
RJ Bank as of June 30, 2012:								
Total capital (to risk-weighted assets)	\$1,112,802	12.8	% \$698,482	8.0	% \$873,103	10.0		%
Tier I capital (to risk-weighted assets)	1,003,038	11.5	% 349,241	4.0	% 523,862	6.0		%
Tier I capital (to adjusted assets)	1,003,038	10.9	% 367,068	4.0	% 458,835	5.0		%
RJ Bank as of September 30, 2011:								
Total capital (to risk-weighted assets)	\$1,018,858	13.7	% \$595,165	8.0	% \$743,956	10.0		%
Tier I capital (to risk-weighted assets)	925,212	12.4	% 297,582	4.0	% 446,374	6.0		%
Tier I capital (to adjusted assets)	925,212	10.3	% 360,961	4.0	% 451,202	5.0		%

RJ Bank calculates the Total Capital and Tier I Capital ratios in order to assess its compliance with both regulatory requirements and its internal capital policy in addition to providing a measure of underutilized capital should these ratios become excessive. Capital levels are continually monitored to assess RJ Bank's capital position.

The decrease in RJ Bank's Total and Tier 1 Capital (to risk-weighted assets) ratios at June 30, 2012 compared to September 30, 2011 were primarily due to an increase in risk-weighted assets during the nine month period ended June 30, 2012, resulting from our utilization of low risk-weighted excess cash balances available at September 30, 2011 to fund significant corporate loan growth. The increase in RJ Bank's Tier I Capital (to adjusted assets) ratio at June 30, 2012 compared to September 30, 2011 was primarily due to earnings and a change from using period-end total assets to average total assets in the calculation as a result of RJ Bank's conversion to reporting under the Consolidated Reports of Condition and Income ("Call Report") during the nine month period ended June 30, 2012.

Certain of our broker-dealer subsidiaries are subject to the requirements of the Uniform Net Capital Rule (Rule 15c3-1) under the Securities Exchange Act of 1934.

Index

The net capital position of our wholly owned broker-dealer subsidiary RJ&A is as follows:

	June 30, 2012		September 30, 2011	
	(\$ in thousands)			
Raymond James & Associates, Inc.:				
(Alternative Method elected)				
Net capital as a percent of aggregate debit items	18.92	%	27.02	%
Net capital	\$299,648		\$409,869	
Less: required net capital	(31,681	)	(30,340	)
Excess net capital	\$267,967		\$379,529	

The net capital position of our wholly owned broker-dealer subsidiary Raymond James Financial Services, Inc. is as follows:

	June 30, 2012		September 30, 2011	
	(in thousands)			
Raymond James Financial Services, Inc.:				
(Alternative Method elected)				
Net capital	\$16,006		\$17,829	
Less: required net capital	(250	)	(250	)
Excess net capital	\$15,756		\$17,579	

The net capital position of our wholly owned broker-dealer subsidiary MK & Co. is as follows:

	June 30, 2012 (\$ in thousands)			
Morgan Keegan & Company, Inc.:				
(Alternative Method elected)				
Net capital as a percent of aggregate debit items			56.01	%
Net capital			\$223,404	
Less: required net capital			(8,292	)
Excess net capital			\$215,112	

The risk adjusted capital of our wholly owned broker-dealer subsidiary RJ Ltd., which is headquartered in Canada, is as follows (in Canadian dollars):

	June 30, 2012		September 30, 2011	
	(in thousands)			
Raymond James Ltd.:				
Risk adjusted capital before minimum	\$72,540		\$70,855	
Less: required minimum capital	(250	)	(250	)
Risk adjusted capital	\$72,290		\$70,605	

At June 30, 2012, our other active regulated domestic and international subsidiaries are in compliance with and met all net capital and regulatory requirements.



Index

## NOTE 18 – FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK

For a discussion of our financial instruments with off-balance sheet risk, see Note 23, pages 141 – 143, of our 2011 Form 10-K.

RJ Bank has outstanding at any time a significant number of commitments to extend credit and other credit-related off-balance sheet financial instruments such as standby letters of credit and loan purchases, which then extend over varying periods of time. These arrangements are subject to strict credit control assessments and each customer's credit worthiness is evaluated on a case-by-case basis. Fixed-rate commitments are also subject to market risk resulting from fluctuations in interest rates and RJ Bank's exposure is limited to the replacement value of those commitments. A summary of commitments to extend credit and other credit-related off-balance sheet financial instruments outstanding follows:

	June 30, 2012 (in thousands)
Standby letters of credit	\$ 152,729
Open end consumer lines of credit	123,924
Commercial lines of credit	1,873,140
Unfunded loan commitments	136,273

Because many lending commitments expire without being funded in whole or part, the contract amounts are not estimates of RJ Bank's actual future credit exposure or future liquidity requirements. RJ Bank maintains a reserve to provide for potential losses related to the unfunded lending commitments. See Note 7 for further discussion of this reserve for unfunded lending commitments.

RJ Ltd. is subject to foreign exchange risk primarily due to financial instruments held in U.S. dollars that may be impacted by fluctuation in foreign exchange rates. In order to mitigate this risk, RJ Ltd. enters into forward foreign exchange contracts. The fair value of these contracts is not significant. As of June 30, 2012, forward contracts outstanding to buy and sell U.S. dollars totaled CDN \$5 million and CDN \$3.3 million respectively. RJ Bank is also subject to foreign exchange risk related to their net investment in a Canadian subsidiary. See Note 12 for information regarding how RJ Bank utilizes net investment hedges to mitigate a significant portion of this risk.



Index

## NOTE 19 – EARNINGS PER SHARE

The following table presents the computation of basic and diluted earnings per share:

	Three months ended June 30,		Nine months ended June 30,	
	2012	2011	2012	2011
	(in thousands, except per share amounts)			
Income for basic earnings per common share:				
Net income attributable to RJF	\$76,350	\$46,786	\$212,544	\$209,426
Less allocation of earnings and dividends to participating securities <sup>(1)</sup>	(1,355)	(1,392)	(4,545)	(6,811)
Net income attributable to RJF common shareholders	\$74,995	\$45,394	\$207,999	\$202,615
Income for diluted earnings per common share:				
Net income attributable to RJF	\$76,350	\$46,786	\$212,544	\$209,426
Less allocation of earnings and dividends to participating securities <sup>(1)</sup>	(1,345)	(1,387)	(4,521)	(6,791)
Net income attributable to RJF common shareholders	\$75,005	\$45,399	\$208,023	\$202,635
Common shares:				
Average common shares in basic computation	135,256	123,238	129,206	122,200
Dilutive effect of outstanding stock options and certain restricted stock units	1,401	720	981	489
Average common shares used in diluted computation	136,657	123,958	130,187	122,689
Earnings per common share:				
Basic	\$0.55	\$0.37	\$1.61	\$1.66
Diluted	\$0.55	\$0.37	\$1.60	\$1.65
Stock options and certain restricted stock units excluded from weighted-average diluted common shares because their effect would be antidilutive	1,573	534	2,001	1,035

Represents dividends paid during the period to participating securities plus an allocation of undistributed earnings to participating securities. Participating securities represent unvested restricted stock and certain restricted stock units and amounted to weighted-average shares of 2.4 million and 3.8 million for the three months ended June 30, 2012 and 2011, respectively. Participating securities represent unvested restricted stock and certain restricted stock units and amounted to weighted-average shares of 2.8 million and 4.1 million for the nine months ended June 30, 2012 and 2011, respectively. Dividends paid to participating securities amounted to \$316 thousand and \$486 thousand for the three months ended June 30, 2012 and 2011, respectively. Dividends paid to participating securities amounted to \$1.1 million and \$1.5 million for the nine months ended June 30, 2012 and 2011, respectively. Undistributed earnings are allocated to participating securities based upon their right to share in earnings if all earnings for the period had been distributed.

Dividends per common share declared and paid are as follows:

	Three months ended June 30,	Nine months ended June 30,
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	2012	2011	2012	2011
Dividends per common share - declared	\$0.13	\$0.13	\$0.39	\$0.39
Dividends per common share - paid	\$0.13	\$0.13	\$0.39	\$0.37

## NOTE 20 – SEGMENT ANALYSIS

We currently operate through the following eight business segments: “Private Client Group;” “Capital Markets;” “Asset Management;” RJ Bank; “Emerging Markets;” “Securities Lending;” “Proprietary Capital” and various corporate activities combined in the “Other” segment. The business segments are based upon factors such as the services provided and the distribution channels served and are consistent with how we assess performance and determine how to allocate our resources throughout our subsidiaries. For a further discussion of our business segments, see Note 25, pages 144 – 146, of our 2011 Form 10-K.

Index

Information concerning operations in these segments of business is as follows:

	Three months ended June 30,		Nine months ended June 30,	
	2012	2011	2012	2011
	(in thousands)			
Revenues:				
Private Client Group	\$684,684	\$557,017	\$1,781,068	\$1,633,080
Capital Markets	257,291	162,695	558,582	513,130
Asset Management	60,611	58,458	175,623	169,386
RJ Bank	90,289	67,836	250,841	214,376
Emerging Markets	5,074	14,449	18,253	35,000
Securities Lending	2,324	1,502	7,499	4,731
Proprietary Capital	27,736	13,716	41,599	14,111
Other	2,151	1,286	8,082	8,263
Intersegment eliminations	(14,398 )	(8,747 )	(37,115 )	(26,788 )
Total revenues <sup>(1)</sup>	\$1,115,762	\$868,212	\$2,804,432	\$2,565,289