

STIFEL FINANCIAL CORP  
Form 10-Q  
August 08, 2016

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, 2016

OR

☐ Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934  
For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number: 001-09305

STIFEL FINANCIAL CORP.

(Exact name of registrant as specified in its charter)

Delaware 43-1273600  
(State or other jurisdiction of (I.R.S. Employer  
incorporation or organization) Identification No.)  
501 N. Broadway, St. Louis, Missouri 63102-2188

(Address of principal executive offices and zip code)

(314) 342-2000

(Registrant's telephone number, including area code)

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Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 ("the Exchange Act") during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company (as defined in Rule 12b-2 of the Exchange Act).

Large accelerated filer ☒

Accelerated filer ☐

☐

Non-accelerated filer ☐ (Do not check if smaller reporting company) Smaller reporting company ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

The number of shares outstanding of the registrant's common stock, \$0.15 par value per share, as of the close of business on August 1, 2016, was 66,209,775.

STIFEL FINANCIAL CORP.

Form 10-Q

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## PART I – FINANCIAL INFORMATION

## ITEM 1. FINANCIAL STATEMENTS

## STIFEL FINANCIAL CORP.

## Consolidated Statements of Financial Condition

	June 30, 2016 (Unaudited)	December 31, 2015
(in thousands)		
<b>Assets</b>		
Cash and cash equivalents	\$364,101	\$811,019
Cash segregated for regulatory purposes	60,132	227,727
Receivables:		
Brokerage clients, net	1,387,716	1,599,218
Brokers, dealers, and clearing organizations	533,264	601,831
Securities purchased under agreements to resell	293,766	160,423
Financial instruments owned, at fair value	1,086,446	749,443
Available-for-sale securities, at fair value	2,466,706	1,629,907
Held-to-maturity securities, at amortized cost	2,119,888	1,855,399
Loans held for sale, at lower of cost or market	250,725	189,921
Bank loans, net	4,170,858	3,143,515
Investments, at fair value	156,198	181,017
Fixed assets, net	176,439	181,966
Goodwill	975,921	915,602
Intangible assets, net	95,188	63,177
Assets held for sale	148,606	-
Loans and advances to financial advisors and other employees, net	414,573	401,293
Deferred tax assets, net	229,383	285,127
Other assets	455,692	329,466
<b>Total Assets</b>	<b>\$15,385,602</b>	<b>\$13,326,051</b>

See accompanying Notes to Consolidated Financial Statements.

## STIFEL FINANCIAL CORP.

## Consolidated Statements of Financial Condition (continued)

	June 30, 2016 (Unaudited)	December 31, 2015
(in thousands, except share and per share amounts)		
<b>Liabilities and Shareholders' Equity</b>		
<b>Payables:</b>		
Brokerage clients	\$898,193	\$1,000,422
Brokers, dealers, and clearing organizations	440,939	438,031
Drafts	56,914	183,857
Securities sold under agreements to repurchase	317,002	278,674
Bank deposits	7,881,219	6,638,356
Financial instruments sold, but not yet purchased, at fair value	615,662	521,744
Accrued compensation	176,913	363,791
Accounts payable and accrued expenses	362,628	349,040
Liabilities related to assets held for sale	136,825	—
Federal Home Loan Bank advances	865,000	148,000
Borrowings	335,157	89,084
Senior notes	740,785	740,136
Debentures to Stifel Financial Capital Trusts	67,500	82,500
<b>Total liabilities</b>	<b>12,894,737</b>	<b>10,833,635</b>
<b>Shareholders' Equity:</b>		
Preferred stock - \$1 par value; authorized 3,000,000 shares; none issued	—	—
Common stock - \$0.15 par value; authorized 97,000,000 shares; issued 69,507,842 and 69,507,842 shares, respectively	10,426	10,426
Additional paid-in-capital	1,805,258	1,820,772
Retained earnings	819,929	805,685
Accumulated other comprehensive loss	(43,489 )	(39,533 )
	2,592,124	2,597,350
Treasury stock, at cost, 2,927,455 and 2,483,071 shares, respectively	(101,259 )	(104,934 )
<b>Total Shareholders' Equity</b>	<b>2,490,865</b>	<b>2,492,416</b>
<b>Total Liabilities and Shareholders' Equity</b>	<b>\$15,385,602</b>	<b>\$13,326,051</b>

See accompanying Notes to Consolidated Financial Statements.

## STIFEL FINANCIAL CORP.

## Consolidated Statements of Operations

(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
(in thousands, except per share amounts)	2016	2015	2016	2015
<b>Revenues:</b>				
Commissions	\$182,104	\$183,771	\$380,034	\$364,073
Principal transactions	126,426	85,542	247,374	186,275
Investment banking	133,125	161,007	233,783	285,568
Asset management and service fees	144,567	119,936	289,099	233,805
Interest	65,780	43,852	128,607	86,588
Other income	17,405	13,741	24,595	25,541
Total revenues	669,407	607,849	1,303,492	1,181,850
Interest expense	17,262	10,098	31,373	23,117
Net revenues	652,145	597,751	1,272,119	1,158,733
<b>Non-interest expenses:</b>				
Compensation and benefits	460,023	409,998	871,136	765,691
Occupancy and equipment rental	58,746	48,346	116,002	92,516
Communications and office supplies	37,426	31,114	74,086	60,348
Commissions and floor brokerage	12,145	9,124	23,876	19,193
Other operating expenses	68,012	61,098	127,313	112,848
Total non-interest expenses	636,352	559,680	1,212,413	1,050,596
Income from operations before income tax expense	15,793	38,071	59,706	108,137
Provision for income taxes	6,022	17,183	22,880	44,152
Net income	\$9,771	\$20,888	\$36,826	\$63,985
<b>Earnings per common share:</b>				
Basic	\$0.15	\$0.31	\$0.55	\$0.94
Diluted	\$0.13	\$0.27	\$0.48	\$0.82
<b>Weighted-average number of common shares outstanding:</b>				
Basic	66,792	68,370	67,186	68,189
Diluted	75,982	77,856	76,084	77,624

See accompanying Notes to Consolidated Financial Statements.

## STIFEL FINANCIAL CORP.

## Consolidated Statements of Comprehensive Income

(Unaudited)

(in thousands)	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Net income	\$9,771	\$20,888	\$36,826	\$63,985
Other comprehensive income/(loss), net of tax: <sup>1</sup>				
Changes in unrealized gains/(losses) on available-for-sale securities <sup>2</sup>	11,449	(3,349 )	10,421	3,597
Amortization of losses of securities transferred to held-to-maturity from available-for-sale	800	1,545	1,309	2,276
Changes in unrealized gains/(losses) on cash flow hedging instruments <sup>3</sup>	(3,427 )	713	(8,407 )	487
Foreign currency translation adjustment	(5,093 )	5,293	(7,279 )	1,315
Total other comprehensive income/(loss), net of tax	3,729	4,202	(3,956 )	7,675
Comprehensive income	\$13,500	\$25,090	\$32,870	\$71,660

<sup>(1)</sup>Net of tax expense of \$2.3 million \$2.6 million for the three months ended June 30, 2016 and 2015, respectively. Net of tax benefit of \$2.5 million and tax expense of \$4.8 million for the six months ended June 30, 2016 and 2015, respectively.

<sup>(2)</sup>There were no reclassifications to earnings during the three and six months ended June 30, 2016. Amounts are net of reclassifications to earnings of realized gains of \$1.9 million and \$1.9 million for the three and six months ended June 30, 2015, respectively.

<sup>(3)</sup>Amounts are net of reclassifications to earnings of losses of \$1.5 million and \$1.0 million for the three months ended June 30, 2016 and 2015, respectively. Amounts are net of reclassifications to earnings of losses of \$2.9 million and \$2.2 million for the six months ended June 30, 2016 and 2015, respectively.

See accompanying Notes to Consolidated Financial Statements.

## STIFEL FINANCIAL CORP.

## Consolidated Statements of Cash Flows

(Unaudited)

(in thousands)	Six Months Ended June 30,	
	2016	2015
<b>Cash Flows From Operating Activities:</b>		
Net income	\$36,826	\$63,985
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation and amortization	21,604	14,899
Amortization of loans and advances to financial advisors and other employees	33,079	28,692
Amortization of premium on investment portfolio	4,655	2,222
Provision for loan losses and allowance for loans and advances to financial advisors and other employees	6,579	4,393
Amortization of intangible assets	8,008	3,673
Deferred income taxes	54,651	16,797
Excess tax benefits/(tax deficit) from stock-based compensation	5,197	(12,454)
Stock-based compensation	94,349	