RAYMOND JAMES FINANCIAL INC
Form 10-Q
August 08, 2013
Index

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q
(Mark one)
x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2013
or
¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to

Commission File Number: 1-9109

RAYMOND JAMES FINANCIAL, INC.
(Exact name of registrant as specified in its charter)

Florida	No. 59-1517485
(State or other jurisdiction of incorporation or organization)	(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 x 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 x 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 x	Accelerated filer o
Non-accelerated filer o	Smaller reporting company o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes ¨ No x
Indicate the number of shares outstanding of each of the registrant’s classes of common stock, as of the latest practicable date.

139,846,765 shares of common stock as of August 5, 2013

RAYMOND JAMES FINANCIAL, INC. AND SUBSIDIARIES

Form 10-Q for the quarter ended June 30, 2013

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PART I FINANCIAL INFORMATION

Item 1. FINANCIAL STATEMENTS

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

	June 30, 2013	September 30, 2012
	(in thousands)	
Assets:		
Cash and cash equivalents	$2,585,545	$1,980,020
Assets segregated pursuant to regulations and other segregated assets	3,451,414	2,784,199
Securities purchased under agreements to resell and other collateralized financings	578,147	565,016
Financial instruments, at fair value:		
Trading instruments	374,858	804,272
Available for sale securities	723,340	733,874
Private equity investments	217,549	336,927
Other investments	239,386	310,806
Derivative instruments associated with offsetting matched book positions	265,521	458,265
Receivables:		
Brokerage clients, net	2,106,283	2,067,117
Stock borrowed	155,473	200,160
Bank loans, net	8,689,389	7,991,512
Brokers-dealers and clearing organizations	170,616	225,306
Loans to financial advisors, net	424,245	445,497
Other	415,296	427,641
Deposits with clearing organizations	134,687	163,848
Prepaid expenses and other assets	623,427	605,566
Investments in real estate partnerships held by consolidated variable interest entities	275,725	299,611
Property and equipment, net	251,835	231,195
Deferred income taxes, net	168,778	168,187
Goodwill and identifiable intangible assets, net	362,677	361,246
Total assets	$22,214,191	$21,160,265

(continued on next page)

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

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

	June 30, 2013	September 30, 2012
	($ in thousands)	
Liabilities and equity:		
Trading instruments sold but not yet purchased, at fair value	$103,730	$232,436
Securities sold under agreements to repurchase	248,382	348,036
Derivative instruments associated with offsetting matched book positions, at fair value	265,521	458,265
Payables:		
Brokerage clients	5,238,033	4,584,656
Stock loaned	346,558	423,519
Bank deposits	9,130,384	8,599,713
Brokers-dealers and clearing organizations	191,603	103,164
Trade and other	823,207	628,734
Other borrowings	93,700	—
Accrued compensation, commissions and benefits	640,501	690,654
Loans payable of consolidated variable interest entities	62,038	81,713
Corporate debt	1,195,392	1,329,093
Total liabilities	18,339,049	17,479,983
Commitments and contingencies (see Note 16)		
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 144,376,520 at June 30, 2013 and 142,853,667 at September 30, 2012	1,427	1,404
Additional paid-in capital	1,122,234	1,030,288
Retained earnings	2,537,252	2,346,563
Treasury stock, at cost; 5,144,904 common shares at June 30, 2013 and 5,117,049 common shares at September 30, 2012	(123,757)	(118,762)
Accumulated other comprehensive income	7,039	9,447
Total equity attributable to Raymond James Financial, Inc.	3,544,195	3,268,940
Noncontrolling interests	330,947	411,342
Total equity	3,875,142	3,680,282
Total liabilities and equity	$22,214,191	$21,160,265

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

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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,	
	2013	2012	2013	2012
	(in thousands, except per share amounts)			
Revenues:				
Securities commissions and fees	$763,345	$733,180	$2,266,918	$1,803,041
Investment banking	68,057	72,266	203,182	169,556
Investment advisory fees	74,601	57,887	202,174	165,661
Interest	117,376	121,186	358,534	332,134
Account and service fees	90,757	82,082	267,608	231,947
Net trading (loss) profit	(1,456)	14,544	16,011	36,866
Other	25,048	34,617	131,108	65,227
Total revenues	1,137,728	1,115,762	3,445,535	2,804,432
Interest expense	28,192	29,554	83,416	63,510
Net revenues	1,109,536	1,086,208	3,362,119	2,740,922
Non-interest expenses:				
Compensation, commissions and benefits	772,324	736,050	2,297,919	1,874,563
Communications and information processing	67,138	55,282	192,522	136,590
Occupancy and equipment costs	39,323	41,087	117,495	94,255
Clearance and floor brokerage	9,266	11,025	30,839	27,549
Business development	31,737	33,098	93,854	88,319
Investment sub-advisory fees	10,369	7,765	26,829	21,470
Bank loan loss (benefit) provision	(2,142)	9,315	4,518	21,925
Acquisition related expenses	13,449	20,955	51,753	40,559
Other	39,175	33,640	111,023	85,151
Total non-interest expenses	980,639	948,217	2,926,752	2,390,381
Income including noncontrolling interests and before provision for income taxes	128,897	137,991	435,367	350,541
Provision for income taxes	48,192	48,520	152,522	134,674
Net income including noncontrolling interests	80,705	89,471	282,845	215,867
Net (loss) income attributable to noncontrolling interests	(3,157)	13,121	33,149	3,323
Net income attributable to Raymond James Financial, Inc.	$83,862	$76,350	$249,696	$212,544
Net income per common share – basic	$0.60	$0.55	$1.79	$1.61
Net income per common share – diluted	$0.59	$0.55	$1.76	$1.60
Weighted-average common shares outstanding – basic	138,185	135,256	137,493	129,206
Weighted-average common and common equivalent shares outstanding – diluted	141,231	136,657	140,165	130,187
Net income attributable to Raymond James Financial, Inc.	$83,862	$76,350	$249,696	$212,544
Other comprehensive income, net of tax:[1]				
	614	622	14,358	6,197

Change in unrealized losses on available for sale securities and non-credit portion of other-than-temporary impairment losses				
Change in currency translations and net investment hedges	(8,090)	(8,933)	(16,767)	(1,588)
Total comprehensive income	$76,386	$68,039	$247,287	$217,153
Other-than-temporary impairment:				
Total other-than-temporary impairment, net	$(2,852)	$(1,260)	$3,866	$5,406
Portion of pre-tax losses (recoveries) recognized in other comprehensive income	2,814	(175)	(4,289)	(10,274)
Net impairment losses recognized in other revenue	$(38)	$(1,435)	$(423)	$(4,868)

(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).

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

	Nine months ended June 30, 2013	2012	
	(in thousands, except per share amounts)		
Common stock, par value $.01 per share:			
Balance, beginning of year	$1,404	$1,271	
Issuances of shares, registered public offering	—	111	(1)
Other issuances	23	17	
Balance, end of period	1,427	1,399	
Additional paid-in capital:			
Balance, beginning of year	1,030,288	565,135	
Issuances of shares, registered public offering	—	362,712	(1)
Employee stock purchases	14,317	12,286	
Exercise of stock options and vesting of restricted stock units, net of forfeitures	32,741	16,142	
Restricted stock, stock option and restricted stock unit expense	45,788	39,287	
Excess tax benefit from share-based payments	3,442	2,407	
Purchase of additional equity interest in subsidiary	(4,531)	1,225	
Other	189	(627)	
Balance, end of period	1,122,234	998,567	
Retained earnings:			
Balance, beginning of year	2,346,563	2,125,818	
Net income attributable to Raymond James Financial, Inc.	249,696	212,544	
Cash dividends declared	(58,597)	(52,118)	
Other	(410)	(4,837)	
Balance, end of period	2,537,252	2,281,407	
Treasury stock:			
Balance, beginning of year	(118,762)	(95,000)	
Purchases/surrenders	(7,959)	(19,211)	
Exercise of stock options and vesting of restricted stock units, net of forfeitures	2,964	(4,470)	
Balance, end of period	(123,757)	(118,681)	

(continued on next page)

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

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

	Nine months ended June 30,	
	2013	2012
	(in thousands, except per share amounts)	
Accumulated other comprehensive income:[2]		
Balance, beginning of year	$9,447	$(9,605)
Net change in unrealized losses on available for sale securities and non-credit portion of other-than-temporary impairment losses, net of tax	14,358	6,197
Net change in currency translations and net investment hedges, net of tax	(16,766)	(1,588)
Balance, end of period	7,039	(4,996)
Total equity attributable to Raymond James Financial, Inc.	$3,544,195	$3,157,696
Noncontrolling interests:		
Balance, beginning of year	$411,342	$324,226
Net income attributable to noncontrolling interests	33,149	3,323
Capital contributions	27,727	33,228
Distributions	(147,075)	(6,645)
Consolidation of acquired entity [3]	7,592	—
Consolidation of private equity partnerships	—	78,394
Derecognition resulting from acquisition of additional interests	4,126	(665)
Other	(5,914)	(7,848)
Balance, end of period	330,947	424,013
Total equity	$3,875,142	$3,581,709

(1) During the nine months ended June 30, 2012, in a registered public offering, 11,075,000 common shares were issued generating approximately $363 million in net proceeds (after consideration of the underwriting discount and direct expenses of the offering).

(2) 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.

(3) On December 24, 2012, we acquired a 45% interest in ClariVest Asset Management, LLC, see Notes 1 and 3 for discussion.

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

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

	Nine months ended June 30,	
	2013	2012
	(in thousands)	
Cash flows from operating activities:		
Net income attributable to Raymond James Financial, Inc.	$249,696	$212,544
Net income attributable to noncontrolling interests	33,149	3,323
Net income including noncontrolling interests	282,845	215,867
Adjustments to reconcile net income including noncontrolling interests to net cash provided by operating activities:		
Depreciation and amortization	48,890	38,079
Deferred income taxes	(1,537)	(16,389)
Premium and discount amortization on available for sale securities and unrealized/realized gain on other investments	(80,539)	(21,222)
Provisions for loan losses, legal proceedings, bad debts and other accruals	15,607	26,679
Share-based compensation expense	48,468	41,774
Goodwill impairment expense	6,933	—
Other	28,153	15,946
Net change in:		
Assets segregated pursuant to regulations and other segregated assets	(667,215)	954,857
Securities purchased under agreements to resell and other collateralized financings, net of securities sold under agreements to repurchase	(112,785)	(192,771)
Stock loaned, net of stock borrowed	(32,274)	(328,145)
Repayments of loans (loans provided) to financial advisors	9,474	(155,123)
Brokerage client receivables and other accounts receivable, net	29,745	(165,831)
Trading instruments, net	338,794	(26,886)
Prepaid expenses and other assets	(75,880)	5,726
Brokerage client payables and other accounts payable	681,963	(84,289)
Accrued compensation, commissions and benefits	(51,389)	(39,591)
Proceeds from sales of securitizations and loans held for sale, net of purchases and originations of loans held for sale	(52,634)	(49,893)
Excess tax benefits from share-based payment arrangements	(3,442)	(3,001)
Net cash provided by operating activities	413,177	215,787
Cash flows from investing activities:		
Additions to property and equipment	(65,757)	(53,572)
Increase in bank loans, net	(471,409)	(1,256,018)
Redemptions of Federal Home Loan Bank/Federal Reserve Bank stock, net	1,067	20,169
Sales (purchases) of private equity and other investments, net	231,365	(18,887)
Purchases of available for sale securities	(62,102)	(249,381)
Available for sale securities maturations, repayments and redemptions	90,758	145,860
Proceeds from sales of available for sale securities	4,619	—
Investments in real estate partnerships held by consolidated variable interest entities, net of other investing activity	1,585	(141)
Business acquisition, net of cash acquired (see Note 3)	(6,450)	(1,096,631)

Net cash used in investing activities	$(276,324)	$(2,508,601)

(continued on next page)

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

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

	Nine months ended June 30, 2013	2012
	(in thousands)	
Cash flows from financing activities:		
Proceeds from borrowed funds, net	$211,700	$1,149,275
Repayments of borrowed funds, net	(251,966)	(425,598)
Proceeds from issuance of shares in registered public offering	—	362,823
Repayments of borrowings by consolidated variable interest entities which are real estate partnerships	(22,615)	(23,147)
Proceeds from capital contributed to and borrowings of consolidated variable interest entities which are real estate partnerships	23,519	30,546
Purchase of additional equity interest in subsidiary	(553)	(4,017)
Exercise of stock options and employee stock purchases	50,555	23,416
Increase in bank deposits	530,671	537,982
Purchase of treasury stock	(10,581)	(20,489)
Dividends on common stock	(57,002)	(50,655)
Excess tax benefits from share-based payment arrangements	3,442	3,001
Net cash provided by financing activities	477,170	1,583,137
Currency adjustment:		
Effect of exchange rate changes on cash	(8,498)	(983)
Net increase (decrease) in cash and cash equivalents	605,525	(710,660)
Cash and cash equivalents at beginning of year	1,980,020	2,439,695
Cash and cash equivalents at end of period	$2,585,545	$1,729,035
Supplemental disclosures of cash flow information:		
Cash paid for interest	$80,541	$51,407
Cash paid for income taxes	$131,952	$123,715
Non-cash transfers of loans to other real estate owned	$2,188	$11,121

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

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RAYMOND JAMES FINANCIAL, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)
June 30, 2013

NOTE 1 – INTRODUCTION AND BASIS OF PRESENTATION

Description of business

Raymond James Financial, Inc. (“RJF”) is a financial 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.

Basis of presentation

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. Additional information on these VIEs is provided in Note 2 on pages 114 - 117 in the section titled, “Evaluation of VIEs to determine whether consolidation is required” as presented in our Annual Report on Form 10-K for the year ended September 30, 2012, as filed with the United States (“U.S.”) Securities and Exchange Commission (the “2012 Form 10-K”) and in Note 9 herein. 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.

Accounting estimates and assumptions

Certain financial information that is normally included in annual financial statements prepared in accordance with 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 2012 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.

Acquisitions

On December 24, 2012, we completed our acquisition of a 45% interest in ClariVest Asset Management, LLC (“ClariVest”), an acquisition that bolsters our platform in the large-cap strategy space. See Note 3 for additional information.

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 affiliates (collectively referred to hereinafter as “Morgan Keegan”) from Regions Financial Corporation (“Regions”). This acquisition expands both our private client and our capital markets businesses. See Note 3 for further information regarding our acquisition of Morgan Keegan. The results of operations of Morgan Keegan have been included in our results prospectively from April 2, 2012.

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Significant subsidiaries

As of June 30, 2013, our significant subsidiaries, all wholly owned, include: Raymond James & Associates, Inc. (“RJ&A”) a domestic broker-dealer carrying client accounts, Raymond James Financial Services, Inc. (“RJFS”) an introducing domestic broker-dealer, Raymond James Ltd. (“RJ Ltd.”) a broker-dealer headquartered in Canada, Eagle Asset Management, Inc., and Raymond James Bank, N.A. (“RJ Bank”), a national bank. In mid-February 2013, the client accounts of MK & Co. were transferred to RJ&A pursuant to our Morgan Keegan acquisition integration strategy (see Note 3 for additional information regarding the Morgan Keegan acquisition).

NOTE 2 – UPDATE OF SIGNIFICANT ACCOUNTING POLICIES

A summary of our significant accounting policies is included in Note 2 on pages 100 - 117 of our 2012 Form 10-K. There have been no significant changes in our significant accounting policies since September 30, 2012.

Brokerage client receivables, loans to financial advisors and allowance for doubtful accounts

As more fully described in Note 2, page 107, of our 2012 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. We present the outstanding balance of loans to financial advisors on our Condensed Consolidated Statements of Financial Condition, net of their applicable allowances for doubtful accounts. The allowance for doubtful accounts balance associated with all of our loans to financial advisors is $2.8 million and $2.5 million at June 30, 2013 and September 30, 2012, respectively. Of the June 30, 2013 loans to financial advisors, 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 $1.7 million.

Reclassifications

Certain prior period amounts, none of which are material, have been reclassified to conform to the current presentation.

NOTE 3 – ACQUISITIONS

On December 24, 2012, (the “ClariVest Acquisition Date”) we completed our acquisition of a 45% interest in ClariVest, an acquisition that bolsters our platform in the large-cap strategy space. On the ClariVest Acquisition Date, we paid approximately $8.8 million in cash to the sellers for our interest. On the first anniversary of the ClariVest Acquisition Date, a computation based upon the actual earnings of ClariVest during the one year period will be performed and additional consideration may be owed to the sellers within 45 days thereof.

As of the ClariVest Acquisition Date, it managed more than $3.1 billion in client assets and marketed its investment advisory services to corporate and public pension plans, foundations, endowments and Taft-Hartley clients worldwide. As a result of certain protective rights we have under the operating agreement with ClariVest, we are consolidating ClariVest in our financial statements as of the ClariVest Acquisition Date. In addition, a put and call agreement was entered into on the ClariVest Acquisition Date that provides our wholly owned Eagle Asset Management, Inc. subsidiary with various paths to majority ownership in ClariVest, the timing of which would depend upon the financial results of ClariVest’s business and the tenure of existing ClariVest management. The results of operations of ClariVest have been included in our results prospectively since December 24, 2012. For the purposes of certain acquisition related financial reporting requirements, the ClariVest acquisition is not considered to be material to our overall financial condition.

See Note 10 for information regarding the identifiable intangible assets we recorded as a result of the ClariVest acquisition.

Prior year acquisition of Morgan Keegan

On April 2, 2012 RJF completed its acquisition of Morgan Keegan. For a discussion of the significant terms of this acquisition, see Note 3 on pages 118 - 121 in our 2012 Form 10-K.

In February 2013, we successfully completed the transfer of client accounts from MK & Co. to RJ&A and as a result, are now operating all of the retained historical MK & Co. operations under one (the RJ&A) platform.

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Selected Unaudited Pro forma financial information

The following unaudited pro forma financial information assumes the Morgan Keegan acquisition had been completed as of October 1, 2011. 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 identifiable 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.

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 period 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):	Nine months ended June 30, 2012
	($ in thousands except per share amounts)
Total net revenues	$3,253,924
Net income	$255,647
Net income per share:	
Basic	$1.86
Diluted	$1.85

Acquisition related expenses

Acquisition related expenses are recorded in the Condensed Consolidated Statement of Income and Comprehensive Income and include certain incremental expenses arising from our acquisitions. We incurred the following acquisition related expenses:

	Three months ended June 30,		Nine months ended June 30,	
	2013	2012	2013	2012
	(in thousands)			
Severance (1)	$6,742	$13,845	$12,947	$17,028
Integration costs	4,510	4,783	33,852	5,980
Occupancy and equipment costs (2)	2,057	1,761	3,185	1,762
Financial advisory fees	—	20	1,176	7,040
Acquisition bridge financing facility fees	—	—	—	5,684
Legal	—	—	—	2,230
Other	140	546	593	835
Total acquisition related expenses	$13,449	$20,955	$51,753	$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.

(2) Includes lease costs associated with the abandonment of certain facilities resulting from the Morgan Keegan acquisition.

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NOTE 4 – 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 discussion of our accounting policies regarding assets segregated pursuant to regulations and other segregated assets, see Note 2 on page 101 of our 2012 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, 2013	September 30, 2012
	(in thousands)	
Cash and cash equivalents:		
Cash in banks	$2,582,850	$1,973,897
Money market fund investments	2,695	6,123
Total cash and cash equivalents [(1)]	2,585,545	1,980,020
Cash segregated pursuant to federal regulations and other segregated assets [(2)]	3,451,414	2,784,199
Deposits with clearing organizations [(3)]	134,687	163,848
	$6,171,646	$4,928,067

(1) The total amounts presented include cash and cash equivalents of $758 million and $539 million as of June 30, 2013 and September 30, 2012, respectively, which are either held directly by RJF or are otherwise invested by one of our subsidiaries on behalf of RJF, and are available without restrictions.

(2) Consists of cash maintained in accordance with Rule 15c3-3 of the Securities Exchange Act of 1934. RJ&A and MK & Co. (at September 30, 2012), as broker-dealers carrying client accounts, are subject to requirements related to maintaining cash or qualified securities in segregated reserve accounts for the exclusive benefit of their clients. Additionally, 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.

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NOTE 5 – FAIR VALUE

For a discussion of our valuation methodologies for assets, liabilities measured at fair value, and the fair value hierarchy, see Note 2, pages 101 - 107, in our 2012 Form 10-K.

There have been no material changes to our valuation methodologies since our year ended September 30, 2012.

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

June 30, 2013	Quoted prices in active markets for identical assets (Level 1) [1] (in thousands)	Significant other observable inputs (Level 2) [1]	Significant unobservable inputs (Level 3)	Netting adjustments [2]	Balance as of June 30, 2013
Assets at fair value on a recurring basis:					
Trading instruments:					
Municipal and provincial obligations	$32	$106,981	$—	$—	$107,013
Corporate obligations	1,074	29,165	—	—	30,239
Government and agency obligations	9,928	35,413	—	—	45,341
Agency mortgage-backed securities (“MBS”) and collateralized mortgage obligations (“CMOs”)	6,528	78,675	—	—	85,203
Non-agency CMOs and asset-backed securities (“ABS”)	—	19,078	16	—	19,094
Total debt securities	17,562	269,312	16	—	286,890
Derivative contracts	—	99,100	—	(68,240)	30,860
Equity securities	36,021	3,928	34	—	39,983
Other securities	718	10,208	6,199	—	17,125
Total trading instruments	54,301	382,548	6,249	(68,240)	374,858
Available for sale securities:					
Agency MBS and CMOs	—	347,680	—	—	347,680
Non-agency CMOs	—	133,866	262	—	134,128
Auction rate securities (“ARS”):					
Municipals	—	—	132,678 [3]	—	132,678
Preferred securities	—	—	108,854	—	108,854
Total available for sale securities	—	481,546	241,794	—	723,340
Private equity investments	—	—	217,549 [4]	—	217,549
Other investments [5]	233,043	2,315	4,028	—	239,386
Derivative instruments associated with offsetting matched book positions	—	265,521	—	—	265,521
Other assets:					
Derivative contracts	—	2,936	—	—	2,936

All other assets	—	—	15	—	15
Total other assets	—	2,936	15	—	2,951
Total assets at fair value on a recurring basis	$287,344	$1,134,866	$469,635	$(68,240)	$1,823,605
Assets at fair value on a nonrecurring basis: (6)					
Bank loans, net:					
Impaired loans	$—	$34,958	$62,749	$—	$97,707
Loans held for sale(7)	—	138,013	—	—	138,013
Total bank loans, net	—	172,971	62,749	—	235,720
Other real estate owned ("OREO")(8)	—	409	—	—	409
Total assets at fair value on a nonrecurring basis	$—	$173,380	$62,749	$—	$236,129

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June 30, 2013	Quoted prices in active markets for identical assets (Level 1) [1]	Significant other observable inputs (Level 2) [1]	Significant unobservable inputs (Level 3)	Netting adjustments [2]	Balance as of June 30, 2013
	(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	$277	$243	$—	$—	$520
Corporate obligations	203	9,754	—	—	9,957
Government obligations	69,684	6,629	—	—	76,313
Agency MBS and CMOs	151	—	—	—	151
Total debt securities	70,315	16,626	—	—	86,941
Derivative contracts	—	84,482	—	(76,576)	7,906
Equity securities	8,802	81	—	—	8,883
Total trading instruments sold but not yet purchased	79,117	101,189	—	(76,576)	103,730
Derivative instruments associated with offsetting matched book positions	—	265,521	—	—	265,521
Trade and other payables:					
Other liabilities	—	—	5,511 [9]	—	5,511
Total trade and other payables	—	—	5,511	—	5,511
Total liabilities at fair value on a recurring basis	$79,117	$366,710	$5,511	$(76,576)	$374,762

(1) We had $755 thousand in transfers of financial instruments from Level 1 to Level 2 during the three months ended June 30, 2013 and $860 thousand in transfers of financial instruments from Level 1 to Level 2 during the nine months ended June 30, 2013. These transfers were a result of a decrease in availability and reliability of the observable inputs utilized in the respective instruments' fair value measurement. We had $233 thousand in transfers of financial instruments from Level 2 to Level 1 during the three months ended June 30, 2013 and $401 thousand in transfers of financial instruments from Level 2 to Level 1 during the nine months ended June 30, 2013. 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.

(2) Where permitted, 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 $55 million of Jefferson County, Alabama Limited Obligation School Warrants ARS and $25 million of Jefferson County, Alabama Sewer Revenue Refunding Warrants ARS.

(4) Includes $218 million in private equity investments, the weighted-average portion we own is approximately 40%. 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 $62 million of that total as of June 30, 2013.

(5) Other investments include $171 million of financial instruments that are related to MK & Co.'s obligations to perform under certain of its historic deferred compensation plans (see Note 2 page 114, and Note 23 page 170, of our 2012 Form 10-K for further information regarding these plans).

(6) Goodwill fair value measurements are classified within Level 3 of the fair value hierarchy, which are generally determined using unobservable inputs. See Note 10 for additional information regarding the annual impairment analysis and our methods of estimating the fair value of reporting units that have an allocation of goodwill, including the key assumptions.

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

(8) 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.

(9) Primarily comprised of forward commitments to purchase GNMA (as hereinafter defined) MBS arising from our fixed income public finance operations (see Note 16 for additional information regarding these commitments) and to a much lesser extent, other certain commitments.

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September 30, 2012	Quoted prices in active markets for identical assets (Level 1) (1) (in thousands)	Significant other observable inputs (Level 2) (1)	Significant unobservable inputs (Level 3)	Netting adjustments (2)	Balance as of September 30, 2012
Assets at fair value on a recurring basis:					
Trading instruments:					
Municipal and provincial obligations	$7	$346,030	$553	$—	$346,590
Corporate obligations	15,916	70,815	—	—	86,731
Government and agency obligations	10,907	156,492	—	—	167,399
Agency MBS and CMOs	1,085	104,084	—	—	105,169
Non-agency CMOs and ABS	—	1,986	29	—	2,015
Total debt securities	27,915	679,407	582	—	707,904
Derivative contracts	—	144,259	—	(93,259)	51,000
Equity securities	23,626	2,891	6	—	26,523
Other securities	864	12,131	5,850	—	18,845
Total trading instruments	52,405	838,688	6,438	(93,259)	804,272
Available for sale securities:					
Agency MBS and CMOs	—	352,303	—	—	352,303
Non-agency CMOs	—	147,558	249	—	147,807
Other securities	12	—	—	—	12
ARS:					
Municipals	—	—	123,559 (3)	—	123,559
Preferred securities	—	—	110,193	—	110,193
Total available for sale securities	12	499,861	234,001	—	733,874
Private equity investments	—	—	336,927 (4)	—	336,927
Other investments (5)	303,817	2,897	4,092	—	310,806
Derivative instruments associated with offsetting matched book positions	—	458,265	—	—	458,265
Total assets at fair value on a recurring basis	$356,234	$1,799,711	$581,458	$(93,259)	$2,644,144
Assets at fair value on a nonrecurring basis:					
Bank loans, net					
Impaired loans(6)	—	47,409	46,383	—	93,792
Loans held for sale(7)	—	81,093	—	—	81,093
Total bank loans, net	—	128,502	46,383	—	174,885
OREO(8)	—	6,216	—	—	6,216
Total assets at fair value on a nonrecurring basis	$—	$134,718	$46,383	$—	$181,101

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September 30, 2012	Quoted prices in active markets for identical assets (Level 1) (1)	Significant other observable inputs (Level 2) (1)	Significant unobservable inputs (Level 3)	Netting adjustments (2)	Balance as of September 30, 2012
	(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	$—	$212	$—	$—	$212
Corporate obligations	33	12,355	—	—	12,388
Government obligations	199,501	587	—	—	200,088
Agency MBS and CMOs	556	—	—	—	556
Non-agency MBS and CMOs	—	121	—	—	121
Total debt securities	200,090	13,275	—	—	213,365
Derivative contracts	—	128,081	—	(124,979)	3,102
Equity securities	9,636	64	—	—	9,700
Other securities	—	6,269	—	—	6,269
Total trading instruments sold but not yet purchased	209,726	147,689	—	(124,979)	232,436
Derivative instruments associated with offsetting matched book positions	—	458,265	—	—	458,265
Trade and other payables:					
Derivative contracts	—	1,370	—	—	1,370
Other liabilities	—	—	98	—	98
Total trade and other payables	—	1,370	98	—	1,468
Total liabilities at fair value on a recurring basis	$209,726	$607,324	$98	$(124,979)	$692,169

(1) We had no transfers of financial instruments from Level 1 to Level 2 during the year ended September 30, 2012. We had $541 thousand in transfers of financial instruments from Level 2 to Level 1 during the year ended September 30, 2012. 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.

(2) Where permitted, 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 $48 million of Jefferson County, Alabama Limited Obligation School Warrants ARS and $22 million of Jefferson County, Alabama Sewer Revenue Refunding Warrants ARS.

(4) Includes $224 million in private equity investments of which the weighted-average portion we own is approximately 28%. 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 September 30, 2012.

(5) Other investments include $185 million of financial instruments that are related to MK & Co.'s obligations to perform under certain of its deferred compensation plans (see Note 2 page 114, and Note 23, page 170, of our 2012 Form 10-K for further information regarding these plans).

(6) During the year ended September 30, 2012, we initially transferred $55 million of impaired loans from Level 3 to Level 2. The transfer was a result of 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.

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

(8) 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.

The adjustment to fair value of the nonrecurring fair value measures for the nine months ended June 30, 2013 resulted in $5.5 million in additional provision for loan losses and $2.7 million in other losses.

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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, 2013 Level 3 assets at fair value
(in thousands)

	Financial assets									Financial liabilities
	Trading instruments			Available for sale securities			Private equity, other investments and other assets			Payables-trade and other
	Non-agency CMOs & ABS	Equity securities	Other securities	Non-agency CMOs	ARS – municipals	ARS - preferred securities	Private equity investments	Other investments	Other assets	Other liabilities
Fair value March 31, 2013	$17	$21	$5,723	$420	$134,630	$106,019	$397,715	$3,982	$15	$(98)
Total gains (losses) for the period:										
Included in earnings	—	(2)	—	—	356	—	8,210 [1]	616	—	(5,413)
Included in other comprehensive income	—	—	—	(144)	3,206	2,835	—	—	—	—
Purchases and contributions	—	15	1,143	—	—	—	5,561	120	—	—
Sales	—	—	—	—	(4,884)	—	(165,878) [2]	(619)	—	—
Redemptions by issuer	—	—	—	—	(630)	—	—	—	—	—
Distributions	(1)	—	(667)	(14)	—	—	(28,059)	(202)	—	—
Transfers: [3]										
Into Level 3	—	—	—	—	—	—	—	131	—	—
Out of Level 3	—	—	—	—	—	—	—	—	—	—
Fair value June 30, 2013	$16	$34	$6,199	$262	$132,678	$108,854	$217,549	$4,028	$15	$(5,511)
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	$19	$(2)	$—	$—	$3,206	$2,835	$8,210	$616	$—	$(5,451)

period

(1) 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 $7.5 million which is included in net income attributable to RJF (after noncontrolling interests). The noncontrolling interests’ share of the net gain is approximately $737 thousand.

(2) Results from the April 29, 2013 sale of our indirect investment in Albion Medical Holdings, Inc. (“Albion”), the portion of which we owned was $36 million as of March 31, 2013.

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

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Nine months ended June 30, 2013 Level 3 assets at fair value
(in thousands)

	Financial assets										Financial liabilities
	Trading instruments				Available for sale securities			Private equity, other investments and other assets			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 assets	Other liabilities
Fair value September 30, 2012	$553	$29	$6	$5,850	$249	$123,559	$110,193	$336,927	$4,092	$—	$(98)
Total gains (losses) for the period:											
Included in earnings	—	(4)	3	(51)	(335)	388	1,164	74,629 (1)	669	—	(5,413)
Included in other comprehensive income	—	—	—	—	389	14,495	5,484	—	—	—	—
Purchases and contributions	—	—	60	4,352	—	—	25	16,215	120	—	—
Sales	(553)	—	(37)	(2,007)	—	(4,884)	—	(165,878) (2)	(669)	—	—
Redemptions by issuer	—	—	—	—	—	(880)	(8,012)	—	—	—	—
Distributions	—	(9)	—	(1,930)	(41)	—	—	(44,344)	(315)	—	—
Transfers: (3)											
Into Level 3	—	—	2	—	—	—	—	—	131	15	—
Out of Level 3	—	—	—	(15)	—	—	—	—	—	—	—
Fair value June 30, 2013	$—	$16	$34	$6,199	$262	$132,678	$108,854	$217,549	$4,028	$15	$(5,511)
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	$—	$38	$1	$(51)	$(335)	$14,495	$5,484	$9,295	$759	$—	$(5,451)

(1)

Results from valuation adjustments of certain private equity investments and the April 29, 2013 sale of our indirect investment in Albion. Since we only own a portion of these investments, our share of the net valuation adjustments and Albion sale resulted in a gain of $29.6 million which is included in net income attributable to RJF (after noncontrolling interests). The noncontrolling interests' share of the net gain is approximately $45 million.

(2) Results from the April 29, 2013 sale of our indirect investment in Albion, the portion of which we owned was $36 million as of March 31, 2013.

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

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Three months ended June 30, 2012 Level 3 assets at fair value
(in thousands)

Financial assets								Financial liabilities
	Trading instruments		Available for sale securities			Private equity and other investments		Payables-trade and other
	Non-agency CMOs & ABS	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)	9	(21)
Included in other comprehensive income	—	—	—	(31)	2,209	—	109	—
Purchases and contributions	—	8,790	56	55,869	66,440	136,828 (2)	2,273	—
Sales	—	(8,903)	—	—	—	—	—	—
Redemptions by issuer	—	—	—	(3,047)	(54,060)	—	—	—
Distributions	(3)	(543)	(6)	—	—	(4,020)	(456)	—
Transfers: (3)	—	—	—	—	—	—	—	—
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 earnings (or changes in net assets) for assets held at the end of the reporting period	$5	$ (63)	$(157)	$(978)	$2,209	$20,983 (1)	$ 95	$—

(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) 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 Morgan Keegan's private equity funds (see Note 3, pages 118 - 121, of our 2012 Form 10-K for further information regarding the Morgan Keegan acquisition and the consolidation of certain of the private equity funds they sponsor).

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

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Nine months ended June 30, 2012
Level 3 assets at fair value
(in thousands)

Financial assets											Financial liabilities
	Trading instruments				Available for sale securities			Private equity and other investments			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 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 [2]	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 [3]		—	43	—	—	—	—
Out of Level 3 [4]	(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 period	$—	$—	$—	$(61)		$(295)	$(8,908)	$4,870	$28,909 [1]	$147	$ —

(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) 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 Morgan Keegan's private equity funds (see Note 2 for further information regarding the Morgan Keegan acquisition and the consolidation of certain of the private equity funds they sponsor).

(3) 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.

(4) 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.

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As of June 30, 2013, 8.2% of our assets and 2% 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, 2013 represent 25.8% of our assets measured at fair value. In comparison, as of June 30, 2012, 12.7% and 3.8% 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, 2012 represented 21.7% of our assets measured at fair value. The balances of our level 3 assets have decreased compared to June 30, 2012, primarily as a result the sale of Albion in our private equity portfolio (partially offset by valuation increases in that portfolio) and the sale or redemption of a portion of our ARS portfolio. Level 3 instruments as a percentage of total financial instruments increased by 4% as compared to June 30, 2012. Total financial instruments at June 30, 2013, primarily trading instruments, derivative instruments associated with offsetting matched book positions, and other investments which are not level 3 financial instruments decreased as compared to both September 30, 2012 and June 30, 2012, impacting the calculation of Level 3 assets as a percentage of total financial instruments.

Gains and losses included in earnings are presented in net trading (loss) profit and other revenues in our Condensed Consolidated
Statements of Income and Comprehensive Income as follows:

For the three months ended June 30, 2013	Net trading (loss) profit	Other revenues
	(in thousands)	
Total (losses) gains included in revenues	$(2)	$3,769
Change in unrealized gains for assets held at the end of the reporting period	$17	$9,416

For the nine months ended June 30, 2013	Net trading (loss) profit	Other revenues
	(in thousands)	
Total (losses) gains included in revenues	$(52)	$71,102
Change in unrealized (losses) gains for assets held at the end of the reporting period	$(12)	$24,247

For the three months ended June 30, 2012	Net trading (loss) profit	Other revenues
	(in thousands)	
Total (losses) gains included in revenues	$(63)	$19,867
Change in unrealized (losses) gains for assets held at the end of the reporting period	$(58)	$22,152

For the nine months ended June 30, 2012	Net trading (loss) profit	Other revenues
	(in thousands)	
Total (losses) gains included in revenues	$(1,125)	$27,361
Change in unrealized (losses) gains for assets held at the end of the reporting period	$(61)	$24,723

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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, 2013 (in thousands)	Valuation technique(s)	Unobservable input	Range (weighted-average)
Recurring measurements:				
Available for sale securities:				
ARS:				
Municipals	$55,194	Probability weighted internal scenario model:		
		Scenario 1 - recent trades	Observed trades (in inactive markets) of in-portfolio securities as well as observed trades (in active markets) of other comparable securities	81% of par - 81% of par (81% of par)
		Scenario 2 - scenario of potential outcomes	Par value of scenario based possible outcomes[(a)]	70% of par - 99% of par (89% of par)
			Weighting assigned to weighted average of scenario 1	60% - 50% (55%)
			Weighting assigned to weighted average of scenario 2	40% - 50% (45%)
	$25,499	Recent trades	Observed trades (in inactive markets) of in-portfolio securities as well as observed trades of other comparable securities (in inactive markets)	70% of par - 100% of par (76% of par)
			Comparability adjustments[(b)]	+/- 5% of par (+/- 5% of par)
	$51,985	Discounted cash flow	Average discount rate[(c)]	3.7% of par - 6.48% of par (5.07% of par)
			Average interest rates applicable to future interest income on the securities[(d)]	1.18% of par - 7.37% of par (3.47% of par)
			Prepayment year[(e)]	2016 - 2023 (2019)
Preferred securities	$108,854	Discounted cash flow	Average discount rate[(c)]	3.6% - 5.39% (4.62%)
			Average interest rates applicable to future interest income on the securities[(d)]	1.21% - 2.80% (1.91%)
			Prepayment year[(e)]	2013 - 2018 (2017)
Private equity investments:	$37,849	Discounted cash flow	Discount rate	14% - 15% (14%)

			Terminal growth rate of cash flows Terminal year	3% - 3% (3%) 2014 - 2015 (2014)
	$179,700	Transaction price or other investment-specific events[f]	Not meaningful[f]	Not meaningful[f]
Nonrecurring measurements:				
Impaired loans: residential	$32,846	Discounted cash flow	Prepayment rate	0 - 12 yrs. (8.2 yrs.)
Impaired loans: corporate	$29,903	Appraisal, discounted cash flow, or distressed enterprise value[g]	Not meaningful[g]	Not meaningful[g]

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

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Footnote explanations pertaining to the table on the previous page:

(a) Management utilizes an internal model which projects the outcome of various scenarios which management 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.

(d) Future interest rates are projected based upon a forward interest rate curve, plus a spread over such projected base 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) 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.

(g) The valuation techniques used for the impaired corporate loan portfolio as of June 30, 2013 were appraisals less selling costs for the collateral dependent loans, and either discounted cash flows or distressed enterprise value for the remaining impaired loans that are 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 relates 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 embedded 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.

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Private equity investments:

The significant unobservable inputs used in the fair value measurement of private equity investments 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 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, 2013, 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 5, pages 132 - 133, of our 2012 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 are as follows:

	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
June 30, 2013					
Financial assets:					
Bank loans, net[1]	$—	$65,830	$8,465,006	$8,530,836	$8,453,669
Financial liabilities:					
Bank deposits	$—	$8,842,306	$297,353	$9,139,659	$9,130,384
Other borrowings	$—	$93,700	$—	$93,700	$93,700
Corporate debt	$370,580	$950,499	$—	$1,321,079	$1,195,392
September 30, 2012					
Financial assets:					
Bank loans, net[1]	$—	$80,227	$7,803,328	$7,883,555	$7,816,627
Financial liabilities:					
Bank deposits	$—	$8,280,834	$329,966	$8,610,800	$8,599,713

Corporate debt	$384,440	$962,610	$—	$1,347,050	$1,329,093

(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, 2013 and September 30, 2012, respectively.

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NOTE 6 – TRADING INSTRUMENTS AND TRADING INSTRUMENTS SOLD BUT NOT YET PURCHASED

	June 30, 2013		September 30, 2012	
	Trading instruments	Instruments sold but not yet purchased	Trading instruments	Instruments sold but not yet purchased
	(in thousands)			
Municipal and provincial obligations	$107,013	$520	$346,590	$212
Corporate obligations	30,239	9,957	86,731	12,388
Government and agency obligations	45,341	76,313	167,399	200,088
Agency MBS and CMOs	85,203	151	105,169	556
Non-agency CMOs and ABS	19,094	—	2,015	121
Total debt securities	286,890	86,941	707,904	213,365
Derivative contracts (1)	30,860	7,906	51,000	3,102
Equity securities	39,983	8,883	26,523	9,700
Other securities	17,125	—	18,845	6,269
Total	$374,858	$103,730	$804,272	$232,436

(1) Represents the derivative contracts held for trading purposes. As of both June 30, 2013 and September 30, 2012, these balances do not include all derivative instruments since the derivative instruments associated with offsetting matched book positions are included on their own line item on our Condensed Consolidated Statements of Financial Condition. See Note 14 for further information regarding all of our derivative transactions.

See Note 5 for additional information regarding the fair value of trading instruments and trading instruments sold but not yet purchased.

NOTE 7 – AVAILABLE FOR SALE SECURITIES

Available for sale securities are comprised of MBS and CMOs owned by RJ Bank, ARS and for certain prior periods various 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 2 pages 103 - 105 in our 2012 Form 10-K.

During the nine month period ended June 30, 2013, ARS were redeemed by their issuer at par, sold at amounts approximating their par value pursuant to tender offers or sold in market transactions. Altogether, such transactions resulted in proceeds of $13.8 million for the nine month period ended June 30, 2013 and a gain of $355 thousand and $1.6 million for the three and nine month periods ended June 30, 2013, respectively, which is recorded in other revenues on our Condensed Consolidated Statements of Income and Comprehensive Income. During the nine month period ended June 30, 2012, ARS with an aggregate par value of approximately $75 million were 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 on the ARS securities which were subject to these redemptions.

During the nine month period ended June 30, 2013, the other securities, which were equity securities, in our available for sale securities portfolio that had been held by our non-broker-dealer subsidiaries were sold, resulting in $13 thousand in proceeds and an insignificant gain on sale during the nine month period then ended. There were no proceeds from the sale of other available for sale securities during the nine month period ended June 30, 2012.

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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, 2013				
Available for sale securities:				
Agency MBS and CMOs	$347,336	$1,223	$(879)	$347,680
Non-agency CMOs [1]	148,346	82	(14,300)	134,128
Total RJ Bank available for sale securities	495,682	1,305	(15,179)	481,808
Auction rate securities:				
Municipal obligations	125,831	7,789	(942)	132,678
Preferred securities	104,898	3,956	—	108,854
Total auction rate securities	230,729	11,745	(942)	241,532
Total available for sale securities	$726,411	$13,050	$(16,121)	$723,340
September 30, 2012				
Available for sale securities:				
Agency MBS and CMOs	$350,568	$1,938	$(203)	$352,303
Non-agency CMOs [2]	166,339	23	(18,555)	147,807
Total RJ Bank available for sale securities	516,907	1,961	(18,758)	500,110
Auction rate securities:				
Municipal obligations [3]	131,208	813	(8,462)	123,559
Preferred securities [4]	111,721	219	(1,747)	110,193
Total auction rate securities	242,929	1,032	(10,209)	233,752
Other securities	3	9	—	12
Total available for sale securities	$759,839	$3,002	$(28,967)	$733,874

(1) As of June 30, 2013, the non-credit portion of other-than-temporary impairment (“OTTI”) recorded in accumulated other comprehensive income (“AOCI”) was $11.2 million (before taxes).

(2) As of September 30, 2012, the non-credit portion of OTTI recorded in AOCI was $15.5 million (before taxes).

(3) As of September 30, 2012, the non-credit portion of OTTI recorded in AOCI was $7.6 million (before taxes).

(4) As of September 30, 2012, the non-credit portion of OTTI recorded in AOCI was $1.5 million (before taxes).

See Note 5 for additional information regarding the fair value of available for sale securities.

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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, 2013				
	Within one year	After one but within five years	After five but within ten years	After ten years	Total
	($ in thousands)				
Agency MBS & CMOs:					
Amortized cost	$—	$15,064	$59,721	$272,551	$347,336
Carrying value	—	15,107	59,942	272,631	347,680
Weighted-average yield	—	0.32 %	0.41 %	0.92 %	0.80 %
Non-agency CMOs:					
Amortized cost	$—	$—	$—	$148,346	$148,346
Carrying value	—	—	—	134,128	134,128
Weighted-average yield	—	—	—	2.70 %	2.70 %
Sub-total agency MBS & CMOs and non-agency CMOs:					
Amortized cost	$—	$15,064	$59,721	$420,897	$495,682
Carrying value	—	15,107	59,942	406,759	481,808
Weighted-average yield	—	0.32 %	0.41 %	1.50 %	1.33 %
Auction rate securities:					
Municipal obligations					
Amortized cost	$—	$1,925	$1,938	$121,968	$125,831
Carrying value	—	1,875	1,941	128,862	132,678
Weighted-average yield	—	0.23 %	0.33 %	0.53 %	0.52 %
Preferred securities:					
Amortized cost	$—	$—	$—	$104,898	$104,898
Carrying value	—	—	—	108,854	108,854
Weighted-average yield	—	—	—	0.19 %	0.19 %
Sub-total auction rate securities:					
Amortized cost	$—	$1,925	$1,938	$226,866	$230,729
Carrying value	—	1,875	1,941	237,716	241,532
Weighted-average yield	—	0.23 %	0.33 %	0.37 %	0.37 %
Total available for sale securities:					
Amortized cost	$—	$16,989	$61,659	$647,763	$726,411
Carrying value	—	16,982	61,883	644,475	723,340
Weighted-average yield	—	0.31 %	0.41 %	1.08 %	1.01 %

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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, 2013					
	Less than 12 months		12 months or more		Total	
	Estimated fair value	Unrealized losses	Estimated fair value	Unrealized losses	Estimated fair value	Unrealized losses
	(in thousands)					
Agency MBS and CMOs	$95,684	$(382)	$24,007	$(497)	$119,691	$(879)
Non-agency CMOs	5,861	(594)	128,005	(13,706)	133,866	(14,300)
ARS municipal obligations	—	—	28,892	(942)	28,892	(942)
ARS preferred securities	22	—	—	—	22	—
Total	$101,567	$(976)	$180,904	$(15,145)	$282,471	$(16,121)

	September 30, 2012					
	Less than 12 months		12 months or more		Total	
	Estimated fair value	Unrealized losses	Estimated fair value	Unrealized losses	Estimated fair value	Unrealized losses
	(in thousands)					
Agency MBS and CMOs	$43,792	$(193)	$4,362	$(10)	$48,154	$(203)
Non-agency CMOs	—	—	146,591	(18,555)	146,591	(18,555)
ARS municipal obligations	85,526	(8,462)	—	—	85,526	(8,462)
ARS preferred securities	88,197	(1,747)	—	—	88,197	(1,747)
Total	$217,515	$(10,402)	$150,953	$(18,565)	$368,468	$(28,967)

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, 2013, of the 23 of our U.S. government-sponsored enterprise MBS and CMOs in an unrealized loss position, 11 were in a continuous unrealized loss position for less than 12 months and 12 were 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. In addition to historical details, home prices and the economic outlook are considered to derive the assumptions 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, 2013	
	Range	Weighted-average (1)
Default rate	0% - 31.6%	10.31%
Loss severity	0% - 72.1%	41.75%
Prepayment rate	0.1% - 23.8%	8.77%

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

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At June 30, 2013, 22 of the 24 non-agency CMOs were in a continuous unrealized loss position for 12 months or more and two were in a continuous unrealized loss position for less than 12 months. As of June 30, 2013 and including subsequent ratings changes, $12.8 million of the non-agency CMOs were rated investment grade by at least one rating agency, and $121.3 million were rated less than investment grade, which ranged from Ba1 to D. Given the comprehensive analysis process utilized, these ratings are not a significant factor in the overall OTTI evaluation process.

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. As residential mortgage loans are the underlying collateral of these securities, the unrealized losses at June 30, 2013 reflect the lack of liquidity and uncertainty in the markets.

ARS

Our cost basis in the ARS we hold is the fair value of the securities in the period in which we acquired them. 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”). In the prior fiscal year, 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 is on-going.

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, 2013 and including subsequent ratings changes, all of the ARS preferred securities were rated investment grade by at least one rating agency.

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:

	Three months ended June 30,		Nine months ended June 30,	
	2013	2012	2013	2012
	(in thousands)			
Amount related to credit losses on securities we held at the beginning of the period	$27,966	$25,739	$27,581	$22,306
Additions to the amount related to credit loss for which an OTTI was not previously recognized	—	866	—	1,409
Additional increases to the amount related to credit loss for which an OTTI was previously recognized	38	569	423	3,459
Amount related to credit losses on securities we held at the end of the period	$28,004	$27,174	$28,004	$27,174

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NOTE 8 – 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 2 pages 107 – 112 in our 2012 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, 2013		September 30, 2012	
	Balance	%	Balance	%
	($ in thousands)			
Loans held for sale, net[1]	$196,751	2 %	$160,515	2 %
Loans held for investment:				
C&I loans	5,256,595	59 %	5,018,831	61 %
CRE construction loans	60,217	1 %	49,474	1 %
CRE loans	1,146,843	13 %	936,450	11 %
Residential mortgage loans	1,719,947	19 %	1,691,986	21 %
Consumer loans	502,180	6 %	352,495	4 %
Total loans held for investment	8,685,782		8,049,236	
Net unearned income and deferred expenses	(50,751)		(70,698)	
Total loans held for investment, net[1]	8,635,031		7,978,538	