

STIFEL FINANCIAL CORP
Form 10-Q
November 09, 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 September 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 November 1, 2016, was 66,253,838.

STIFEL FINANCIAL CORP.

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PART I – FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

STIFEL FINANCIAL CORP.

Consolidated Statements of Financial Condition

(in thousands)	September 30, 2016 (Unaudited)	December 31, 2015
Assets		
Cash and cash equivalents	\$675,057	\$811,019
Cash segregated for regulatory purposes	166	227,727
Receivables:		
Brokerage clients, net	1,443,492	1,599,218
Brokers, dealers, and clearing organizations	548,470	601,831
Securities purchased under agreements to resell	297,827	160,423
Financial instruments owned, at fair value	1,148,785	749,443
Available-for-sale securities, at fair value	3,145,267	1,629,907
Held-to-maturity securities, at amortized cost	2,241,203	1,855,399
Loans held for sale, at lower of cost or market	217,316	189,921
Bank loans, net	4,956,676	3,143,515
Investments, at fair value	153,595	181,017
Fixed assets, net	173,874	181,966
Goodwill	989,126	915,602
Intangible assets, net	92,638	63,177
Loans and advances to financial advisors and other employees, net	407,233	401,293
Deferred tax assets, net	254,587	285,127
Other assets	459,596	329,466
Total Assets	\$17,204,908	\$13,326,051

See accompanying Notes to Consolidated Financial Statements.

STIFEL FINANCIAL CORP.

Consolidated Statements of Financial Condition (continued)

	September 30, 2016 (Unaudited)	December 31, 2015
(in thousands, except share and per share amounts)		
Liabilities and Shareholders' Equity		
Payables:		
Brokerage clients	\$931,358	\$1,000,422
Brokers, dealers, and clearing organizations	464,617	438,031
Drafts	59,909	183,857
Securities sold under agreements to repurchase	261,734	278,674
Bank deposits	9,885,441	6,638,356
Financial instruments sold, but not yet purchased, at fair value	665,757	521,744
Accrued compensation	242,714	363,791
Accounts payable and accrued expenses	404,208	349,040
Federal Home Loan Bank advances	500,000	148,000
Borrowings	234,200	89,084
Senior notes	795,780	740,136
Debentures to Stifel Financial Capital Trusts	67,500	82,500
Total liabilities	14,513,218	10,833,635
Shareholders' Equity:		
Preferred stock - \$1 par value; authorized 3,000,000 shares; 6,000 issued	150,000	—
Common stock - \$0.15 par value; authorized 97,000,000 shares; issued 69,507,842		
shares, respectively	10,426	10,426
Additional paid-in-capital	1,824,066	1,820,772
Retained earnings	852,422	805,685
Accumulated other comprehensive loss	(34,119)	(39,533)
	2,802,795	2,597,350
Treasury stock, at cost, 3,286,400 and 2,483,071 shares, respectively	(111,105)	(104,934)
Total Shareholders' Equity	2,691,690	2,492,416
Total Liabilities and Shareholders' Equity	\$17,204,908	\$13,326,051

See accompanying Notes to Consolidated Financial Statements.

STIFEL FINANCIAL CORP.

Consolidated Statements of Operations

(Unaudited)

(in thousands, except per share amounts)	Three Months Ended		Nine Months	
	September 30,		Ended September 30,	
	2016	2015	2016	2015
Revenues:				
Commissions	\$ 171,272	\$ 194,083	\$ 551,306	\$ 562,249
Principal transactions	117,002	95,593	364,376	281,794
Investment banking	144,799	118,753	378,582	400,302
Asset management and service fees	144,206	130,636	433,305	364,442
Interest	74,881	43,376	203,488	129,964
Other income	9,209	18,930	33,804	44,471
Total revenues	661,369	601,371	1,964,861	1,783,222
Interest expense	19,383	9,796	50,756	32,914
Net revenues	641,986	591,575	1,914,105	1,750,308
Non-interest expenses:				
Compensation and benefits	434,236	404,205	1,305,372	1,169,896
Occupancy and equipment rental	62,453	53,282	178,455	145,798
Communications and office supplies	31,182	35,678	105,268	96,026
Commissions and floor brokerage	10,777	12,430	34,653	31,623
Other operating expenses	75,356	63,632	202,669	176,480
Total non-interest expenses	614,004	569,227	1,826,417	1,619,823
Income from operations before income tax expense	27,982	22,348	87,688	130,485
Provision for income taxes	10,168	5,169	33,048	49,321
Net income	17,814	17,179	54,640	81,164
Preferred dividends	1,563	-	1,563	-
Net income available to common shareholders	\$ 16,251	\$ 17,179	\$ 53,077	\$ 81,164
Earnings per common share:				
Basic	\$0.24	\$0.25	\$0.79	\$1.18
Diluted	\$0.21	\$0.22	\$0.69	\$1.04
Weighted-average number of common shares outstanding:				
Basic	66,482	69,633	66,950	68,675
Diluted	77,544	79,759	76,612	78,326

See accompanying Notes to Consolidated Financial Statements.

STIFEL FINANCIAL CORP.

Consolidated Statements of Comprehensive Income

(Unaudited)

(in thousands)	Three Months		Nine Months	
	Ended September 30, 2016	2015	Ended September 30, 2016	2015
Net income	\$17,814	\$17,179	\$54,640	\$81,164
Other comprehensive income/(loss), net of tax: ¹				
Changes in unrealized gains/(losses) on available-for-sale securities ²	4,494	(1,827)	14,915	1,770
Amortization of losses of securities transferred to held-to-maturity from available-for-sale	1,633	1,216	2,942	3,491
Changes in unrealized gains/(losses) on cash flow hedging instruments ³	4,279	(289)	(4,128)	199
Foreign currency translation adjustment	(1,036)	(2,935)	(8,315)	(1,620)
Total other comprehensive income/(loss), net of tax	9,370	(3,835)	5,414	3,840
Comprehensive income	\$27,184	\$13,344	\$60,054	\$85,004

⁽¹⁾Net of tax expense of \$5.8 million and \$2.4 million for the three months ended September 30, 2016 and 2015, respectively. Net of tax expense of \$3.4 million and tax expense of \$2.4 million for the nine months ended September 30, 2016 and 2015, respectively.

⁽²⁾There were no reclassifications to earnings during the three and nine months ended September 30, 2016. Amounts are net of reclassifications to earnings of realized gains of \$0.2 million and \$2.1 million for the three and nine months ended September 30, 2015, respectively.

⁽³⁾Amounts are net of reclassifications to earnings of losses of \$1.4 million and \$0.9 million for the three months ended September 30, 2016 and 2015, respectively. Amounts are net of reclassifications to earnings of losses of \$4.3 million and \$3.1 million for the nine months ended September 30, 2016 and 2015, respectively.

See accompanying Notes to Consolidated Financial Statements.

STIFEL FINANCIAL CORP.

Consolidated Statements of Cash Flows

(Unaudited)

(in thousands)	Nine Months Ended September 30,	
	2016	2015
Cash Flows From Operating Activities:		
Net income	\$54,640	\$81,164
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation and amortization	31,928	27,386
Amortization of loans and advances to financial advisors and other employees	53,046	50,529
Amortization of premium on investment portfolio	8,561	2,557
Provision for loan losses and allowance for loans and advances to financial advisors and other employees	11,402	5,509
Amortization of intangible assets	10,558	5,952
Deferred income taxes	26,448	