

RAYMOND JAMES FINANCIAL INC
Form 10-K
November 23, 2011

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

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934
For the fiscal year ended September 30, 2011

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934
For the transition period from to

Commission file number 1-9109

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

Florida
(State or other jurisdiction of
incorporation or organization)

No. 59-1517485
(I.R.S. Employer
Identification No.)

880 Carillon Parkway, St. Petersburg,
Florida
(Address of principal executive offices)

33716
(Zip Code)

Registrant's telephone number, including area code

(727) 567-1000

Securities registered pursuant to Section 12(b) of the Act:

Title of each class
Common Stock, \$.01 Par Value

Name of each exchange on which registered
New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act:

None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the
Exchange Act. Yes No

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 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

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Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (Section 232.405 of this chapter) 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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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 definition of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

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

As of March 31, 2011, the aggregate market value of the registrant's common stock held by non-affiliates of the registrant computed by reference to the price at which the common stock was last sold was \$3,918,665,338.

The number of shares outstanding of the registrant's common stock as of November 21, 2011 was 126,013,143.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the definitive Proxy Statement to be delivered to shareholders in connection with the Annual Meeting of Shareholders to be held February 23, 2012 are incorporated by reference into Part III.

RAYMOND JAMES FINANCIAL, INC.
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PART I

ITEM 1. BUSINESS

Raymond James Financial, Inc. (“RJF”), the parent company of a business established in 1962 and a public company since 1983, is a financial services holding company headquartered in St. Petersburg, Florida whose subsidiaries are engaged in various financial services businesses predominantly in the United States of America (“U.S.”) and Canada. At September 30, 2011, its principal subsidiaries include Raymond James & Associates, Inc. (“RJ&A”), Raymond James Financial Services, Inc. (“RJFS”), Raymond James Financial Services Advisors, Inc. (“RJFSA”), Raymond James Ltd. (“RJ Ltd.”), Eagle Asset Management, Inc. (“Eagle”), and Raymond James Bank, FSB (“RJ Bank”). All of these subsidiaries are wholly owned by RJF. RJF and its subsidiaries are hereinafter collectively referred to as “our,” “we” or “us.”

PRINCIPAL SUBSIDIARIES

Our principal subsidiary, RJ&A, is the largest full service brokerage and investment firm headquartered in the state of Florida and with over 220 locations throughout the U.S., is one of the largest retail brokerage firms in the country. RJ&A is a self-clearing broker-dealer engaged in most aspects of securities distribution, trading, investment banking and asset management. RJ&A also offers financial planning services for individuals and provides clearing services for RJFS, RJFSA, other affiliated entities and several unaffiliated broker-dealers. In addition, RJ&A has ten institutional sales offices in Europe. RJ&A is a member of the New York Stock Exchange Euronext (“NYSE”) and most regional exchanges in the U.S. It is also a member of the Financial Industry Regulatory Authority (“FINRA”) and the Securities Investors Protection Corporation (“SIPC”).

RJFS is one of the largest independent contractor brokerage firms in the U.S., is a member of FINRA and SIPC, but is not a member of any exchanges. Financial advisors affiliated with RJFS may offer their clients all products and services offered through RJ&A including investment advisory products and services which are offered through its affiliated registered investment advisor, RJFSA. Both RJFS and RJFSA clear all of their business on a fully disclosed basis through RJ&A.

RJ Ltd. is our Canadian broker-dealer subsidiary which engages in both retail and institutional distribution and investment banking. RJ Ltd. is a member of the Toronto Stock Exchange (“TSX”) and the Investment Industry Regulatory Organization of Canada (“IIROC”). Its U.S. broker-dealer subsidiary is a member of FINRA and SIPC.

Eagle is a registered investment advisor serving as the discretionary manager for individual and institutional equity and fixed income portfolios and our internally sponsored mutual funds.

RJ Bank purchases and originates corporate loans secured by corporate assets, commercial and industrial (“C&I”) loans, commercial and residential real estate loans, as well as consumer loans, all of which are funded primarily by cash balances swept from the investment accounts of our broker-dealer subsidiaries’ clients.

BUSINESS SEGMENTS

We have eight business segments: “Private Client Group” or “PCG”; “Capital Markets”; “Asset Management”; RJ Bank “Emerging Markets”; “Securities Lending” (formerly named “Stock Loan/Borrow”); “Proprietary Capital” and certain corporate activities combined in the “Other” segment. Our financial information for each of the fiscal years ended September 30, 2011, September 30, 2010, and September 30, 2009 is included in the consolidated financial statements and notes thereto.

PRIVATE CLIENT GROUP

We provide securities transaction and financial planning services to approximately two million client accounts through the branch office systems of RJ&A, RJFS, RJFSA, RJ Ltd. and Raymond James Investment Services Limited ("RJIS"), a joint venture in the United Kingdom. Our financial advisors offer a broad range of investments and services, including both third-party and proprietary products, and a variety of financial planning services. We charge sales commissions or asset-based fees for investment services we provide to our Private Client Group clients based on established schedules. Varying discounts may be given, generally based upon the client's level of business, the trade size, service level provided, and other relevant factors. In fiscal year 2011, the portion of revenues from this segment that we consider recurring include sources such as asset-based fees including mutual fund and annuity trailing commissions, and interest income and represented approximately 61% of the Private Client Group's total revenues. Revenues of this segment are correlated with total client assets under administration. As of September 30, 2011, total client assets under administration amounted to \$256 billion.

The majority of our U.S. financial advisors are also licensed to sell insurance and annuity products through our general insurance agency, Planning Corporation of America (“PCA”), a wholly owned subsidiary of RJ&A. Through the financial advisors of our broker-dealer subsidiaries, PCA provides product and marketing support for a broad range of insurance products, principally fixed and variable annuities, life insurance, disability insurance and long-term care coverage.

Our financial advisors offer a number of professionally managed load mutual funds, as well as a selection of no-load funds. RJ&A and RJFS maintain dealer sales agreements with most major distributors of mutual fund shares sold through broker-dealers.

	Private Client Group securities commissions and fees for the fiscal years ended September 30, (\$ in thousands)							
	2011	% of total	2010	% of total	2009	Total		
Equities	\$276,562	15 %	\$251,820	16 %	\$230,121	18 %		
Fixed income products	60,193	3 %	68,867	4 %	76,144	6 %		
Mutual funds	458,555	25 %	419,262	26 %	296,109	23 %		
Fee-based accounts	685,672	38 %	551,107	35 %	412,638	33 %		
Insurance and annuity products	261,045	15 %	234,474	15 %	202,712	16 %		
New issue sales credits	75,590	4 %	59,841	4 %	45,086	4 %		
Total Private Client Group commissions and fees	\$1,817,617	100 %	\$1,585,371	100 %	\$1,262,810	100 %		

Net interest revenue in the Private Client Group is generated by customer balances, predominantly the earnings on margin loans and assets segregated pursuant to regulations, less interest paid on customer cash balances (“Client Interest Program”). Beginning in September 2009, we began a multi-bank sweep program which generates fee revenue in lieu of interest revenue. See Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” in this report for information regarding our net interest revenues.

Clients' transactions in securities are affected on either a cash or margin basis. RJ&A makes margin loans to clients collateralized by the securities purchased or by other securities owned by the client. Interest is charged to clients on the amount borrowed. The interest rate charged to a client on a margin loan is based on current interest rates and on the size of the loan balance in the client's account.

Typically, broker-dealers utilize bank borrowings and equity capital as the primary sources of funds to finance clients' margin account borrowings. RJ&A's source of funds to finance clients' margin account balances has been cash balances in brokerage clients' accounts, which are funds awaiting investment. In addition, pursuant to written agreements with clients, broker-dealers are permitted by the Securities and Exchange Commission (“SEC”) and FINRA rules to lend client securities in margin accounts to other financial institutions. SEC regulations, however, restrict the use of clients' funds derived from pledging and lending clients' securities, as well as funds awaiting investment, to the financing of margin account balances; to the extent not so used, such funds are required to be deposited in a special segregated account for the benefit of clients. The regulations also require broker-dealers, within designated periods of time, to obtain possession or control of, and to segregate, clients' fully paid and excess margin securities.

No single client accounts for a material percentage of this segment's total business.

RJ&A is a full service broker-dealer that employs financial advisors throughout the U.S. RJ&A's financial advisors work in a traditional branch setting supported by local management and administrative staffs. The number of financial advisors per office ranges from one to 30. RJ&A financial advisors are employees and their compensation includes commission payments and participation in the firm's benefit plans. Experienced financial advisors are hired from a wide variety of competitors. As a part of their agreement to join us we may make loans to financial advisors and to certain key revenue producers, primarily for recruiting and/or retention purposes. In addition, individuals are trained each year to become financial advisors at the Robert A. James National Training Center in St. Petersburg, Florida.

Raymond James Financial Services

RJFS is a broker-dealer that supports independent contractor financial advisors in providing products and services to their Private Client Group clients throughout the U.S. The number of financial advisors in RJFS offices ranges from one to 45. Independent contractors are responsible for all of their direct costs and, accordingly, are paid a larger percentage of commissions. They are permitted to conduct, on a limited basis, certain other approved businesses unrelated to their RJFS activities such as offering insurance products, independent registered investment advisory services and accounting and tax services, among others, with the approval of RJFS management.

The Financial Institutions Division (“FID”) is a subdivision of RJFS. Through FID, RJFS services financial institutions such as banks, thrifts and credit unions, and their clients. RJFS also provides custodial, trading and other services (including access to clients' account information and the services of the Asset Management segment) to unaffiliated independent registered investment advisors through its Investment Advisor Division (“IAD”).

Raymond James Financial Services Advisors

RJFSA is a registered investment advisor that exclusively supports the investment advisory activities of the RJFS financial advisors.

Raymond James Ltd.

RJ Ltd. is a wholly owned self-clearing broker-dealer subsidiary headquartered in Canada with its own operations and information processing personnel. Financial advisors can affiliate with RJ Ltd. either as employees or independent contractors.

Raymond James Investment Services Limited

We are a 75% shareholder of RJIS. This entity operates an independent contractor financial advisor network in the United Kingdom. RJIS also provides custodial and execution services to independent investment advisory firms.

The following table presents a summary of Private Client Group financial advisors as of the end of the fiscal year indicated:

	Independent			
	Employees	contractors	2011 total	2010 total
RJ&A	1,311	-	1,311	1,266
RJFS	-	3,193	3,193	3,237
RJ Ltd.	198	254	452	442
RJIS	-	157	157	145
Total financial advisors	1,509	3,604	5,113	5,090

The following table presents a summary of Private Client Group branch locations as of the end of the fiscal year indicated:

	Independent			
	Traditional	Satellite	contractor	
	branches	offices	branches	2011 total 2010 total

RJ&A	176	45	-	221	211
RJFS	-	568	1,385	1,953	1,975
RJ Ltd.	14	24	79	117	115
RJIS	-	-	67	67	63
Total branch locations	190	637	1,531	2,358	2,364

Raymond James & Associates – Operations and Information Technology

RJ&A's operations personnel are responsible for the execution of orders, processing of securities transactions, custody of client securities, support of client accounts, receipt, identification and delivery of funds and securities, and compliance with certain regulatory and legal requirements for most of our U.S. securities brokerage operations.

The information technology department develops and supports the integrated solutions that provide a differentiated platform for our business. This platform is designed to allow our advisors to spend more time with their clients and enhance and grow their business.

Our business continuity program has been developed to provide reasonable assurance of business continuity in the event of disruptions at our critical facilities. Business departments have developed operational plans for such disruptions, and we have a staff which devotes their full time to monitoring and facilitating those plans. Our business continuity plan continues to be enhanced and tested to allow for continuous business processing in the event of weather-related or other interruptions of operations at the headquarters complex. We have also developed a business continuity plan for our PCG branches in the event these branches are impacted by severe weather. Each branch is assigned a “contingency branch” in another part of the country that allows the impacted branch the ability to communicate through the contingency branch.

In the area of information security, we have developed and implemented a framework of principles, policies and technology to protect the information assets of the firm and its clients. Safeguards are applied to maintain the confidentiality, integrity and availability of information resources.

CAPITAL MARKETS

Capital Markets activities consist primarily of equity and fixed income products and services. No single client accounts for a material percentage of this segment's total business.

Institutional Sales

Institutional sales commissions account for a significant portion of this segment's revenue, which is fueled by a combination of general market activity and the Capital Markets group's ability to identify and promote attractive investment opportunities. Our institutional clients are serviced by institutional equity departments of RJ&A and RJ Ltd.; the RJ&A fixed income department; RJ&A's European offices; Raymond James Financial International, Ltd, an institutional UK broker-dealer headquartered in London, England; and Raymond James European Securities, Inc., a joint venture that is headquartered in Paris, France in which we hold a controlling interest. We charge commissions on equity transactions based on trade size and the amount of business conducted annually with each institution. Fixed income commissions are based on trade size and the characteristics of the specific security involved.

Capital markets commissions
for the fiscal years ended September 30,

	2011	% of total	2010	% of total	2009	% of total
	(\$ in thousands)					
Equity	\$250,188	67	\$222,481	60	\$198,218	53
Fixed income	125,770	33	147,585	40	174,315	47
Total commissions	\$375,958	100	\$370,066	100	\$372,533	100

Over 100 domestic and overseas professionals located in offices in the U.S. and Europe comprise RJ&A's institutional equity sales and sales trading departments and maintain relationships with approximately 1,200 institutional clients. Some European and U.S. offices also provide services to high net worth clients. RJ Ltd. has approximately 40 institutional equity sales and trading professionals servicing predominantly Canadian, U.S. and European institutional investors from offices in Canada and Europe.

From offices in various locations within the U.S., RJ&A distributes to institutional clients both taxable and tax-exempt fixed income products, primarily municipal, corporate, government agency and mortgage-backed bonds. RJ&A carries inventory positions of taxable and tax-exempt securities to facilitate institutional sales activities.

Trading

Trading equity securities involves the purchase and sale of securities from and to our clients or other dealers. Profits and losses are derived from the spreads between bid and asked prices, as well as market trends for the individual securities during the period we hold them. RJ&A makes markets in over 900 common stocks. Similar to the equity research department, this operation serves to support both our institutional and Private Client Group sales efforts. The RJ Ltd. trading desks not only support client activity, but also take proprietary positions that are closely monitored within well defined limits. RJ Ltd. also provides specialist services in approximately 150 TSX listed common stocks.

RJ&A trades both taxable and tax-exempt fixed income securities. The taxable and tax-exempt RJ&A fixed income traders purchase and sell corporate, municipal, government, government agency, and mortgage-backed bonds, asset-backed securities, preferred stock and certificates of deposit from and to our clients or other dealers. RJ&A enters into future commitments such as forward contracts and “to be announced” securities (e.g., securities having a stated coupon and original term to maturity, although the issuer and/or the specific pool of mortgage loans is not known at the time of the transaction). Low levels of proprietary trading positions are also periodically taken by RJ&A for various purposes and are closely monitored within well defined limits. In addition, a subsidiary of RJF, RJ Capital Services, Inc., participates in the interest rate swaps market as a principal, either to economically hedge RJ&A fixed income inventory, for transactions with customers, or for its own account.

Equity Research

The domestic analysts in RJ&A's research department support our institutional and retail sales efforts and publish research on approximately 900 companies. This research primarily focuses on U.S. companies in specific industries including technology, telecommunications, consumer, financial services, transportation and industrial services, healthcare, real estate and energy. Proprietary industry studies and company-specific research reports are made available to both institutional and individual clients. RJ Ltd. has 15 analysts who publish research on approximately 250 primarily Canadian companies focused in the energy, energy services, mining, forest products, agricultural, technology, clean technology, consumer and industrial products, and real estate sectors. Additionally, we provide coverage of approximately 60 European and approximately 70 Latin American companies through joint ventures in which we hold interests.

Investment Banking

The nearly 125 professionals of RJ&A's investment banking group reside in various locations within the U.S. and are involved in a variety of activities including public and private equity financing for corporate clients, and merger and acquisition advisory services. RJ Ltd.'s investment banking group consists of approximately 30 professionals who reside in various locations within Canada and provide equity financing and financial advisory services to corporate clients. Our investment banking activities provide a comprehensive range of strategic and financial advisory services tailored to our clients' business life cycles and backed by our strategic industry focus.

Fixed income investment banking includes debt underwriting and public finance activities. The over 70 professionals in the RJ&A public finance division operate out of various offices located throughout the U.S., and serve as a financial advisor, placement agent or underwriter to various issuers who include municipal agencies (including political subdivisions), housing developers and non-profit health care institutions.

RJ&A acts as a consultant, underwriter or selling group member for corporate bonds, mortgage-backed securities, agency bonds, preferred stock and unit investment trusts. When underwriting new issue securities, RJ&A agrees to purchase the issue through a negotiated sale or submits a competitive bid.

Syndicate

The syndicate department consists of professionals who coordinate the marketing, distribution, pricing and stabilization of lead and co-managed equity underwritings. In addition to lead and co-managed offerings, this department coordinates the firm's syndicate and selling group activities in transactions managed by other investment banking firms.

Raymond James Tax Credit Funds, Inc.

Raymond James Tax Credit Funds, Inc. (“RJTCF”) is the general partner or managing member in a number of limited partnerships and limited liability companies. These partnerships and limited liability companies invest in real estate project entities that qualify for tax credits under Section 42 of the Internal Revenue Code. RJTCF has been an active participant in the tax credit program since its inception in 1986 and currently focuses on tax credit funds for institutional investors that invest in a portfolio of tax credit-eligible multi-family apartments. The investors’ expected returns on their investments in these funds are primarily derived from tax credits and tax losses that investors can use to reduce their federal tax liability. During fiscal 2011, RJTCF invested approximately \$615 million for large institutional investors in 80 real estate transactions for properties located throughout the U.S. Since inception, RJTCF has raised over \$3.5 billion in equity and has sponsored over 70 tax credit funds, with investments in over 1,350 tax credit apartment properties in 45 states and one U.S. Territory.

ASSET MANAGEMENT

Our Asset Management segment includes the operations of Eagle, the Eagle Family of Funds (“Eagle Funds”), the asset management operations of RJ&A (“AMS”), Raymond James Trust, and other fee-based programs. The majority of the revenue for this segment is generated by the investment advisory fees related to asset management services for individual investment portfolios and mutual funds. Investment advisory fees are also earned on assets held in managed and non-managed programs. These fees are computed based on balances either at the beginning of the quarter, the end of the quarter, or average assets. Consistent with industry practice, fees from private client investment portfolios are typically based on asset values at the beginning of the period while institutional fees are typically based on asset values at the end of the period. Asset balances are impacted by both the performance of the market and new sales and redemptions of client accounts/funds. Increasing markets generally positively impact revenues from investment advisory fees as existing accounts increase in value, and individuals and institutions may commit incremental funds in rising markets. No single client accounts for a material percentage of this segment's total business.

Eagle Asset Management, Inc.

Eagle is a registered investment advisor with \$16.1 billion under management and \$800 million in assets under advisement (non-discretionary advised assets) as of September 30, 2011. Eagle offers a variety of equity and fixed income objectives managed by a number of portfolio management teams and a subsidiary investment advisor, Eagle Boston Investment Management, Inc. Eagle's clients include individuals, corporations, pension and profit sharing plans, foundations, endowments, variable annuities and mutual funds. Eagle also serves as investment advisor to the Eagle Funds. Additionally, performance fees may be earned for performing above respective benchmarks. Eagle also earns fees on non-discretionary assets for providing their account models to professional advisors at other firms.

Eagle Fund Distributors, Inc. (“EFD”), a wholly owned subsidiary of Eagle, is a registered broker-dealer engaged in the distribution of the Eagle Funds.

The Eagle Funds utilize unaffiliated sub-advisors for the Capital Appreciation Fund and International Equity Fund. The Small Cap Growth Fund, Mid Cap Growth Fund, Growth and Income Fund, Large Cap Core Fund, Mid Cap Stock Fund, Investment Grade Bond Fund, and Small Cap Core Value Fund are managed by Eagle.

Eagle closed its money market funds during the fourth quarter of fiscal year 2010. Eagle class shares of both a taxable and a tax-exempt money market fund are available to clients of Eagle and its affiliates through an unrelated third-party.

AMS

AMS manages several investment advisory programs which maintain an approved list of investment managers, provide asset allocation model portfolios, establish custodial facilities, monitor performance of client accounts, provide clients with accounting and other administrative services, and assist investment managers with certain trading management activities. AMS earns fees generally ranging from 0.35% to 0.85% of asset balances per annum, a portion of which is paid to predominately independent investment managers and Eagle who direct the investments within clients' accounts. In addition, AMS offers additional managed accounts managed within fee based asset allocation platforms under our Freedom accounts and other managed programs. Freedom's investment committee manages portfolios of mutual funds, exchange traded funds and separately managed account models on a discretionary basis. AMS earns fees generally ranging from 0.10% to 0.55% of asset balances per annum. For separately managed account models a portion of the fee may be paid to the investment managers who provide the separately managed account models. At September 30, 2011, these managed programs had \$19.6 billion in assets under management, including \$3.6 billion managed by Eagle.

AMS also provides certain services for their non-managed fee-based programs (Passport, Ambassador and other non-managed programs). They provide performance reporting, research, sales, accounting, trading and other administrative services. Advisory services are provided by PCG financial advisors. Client fees are based on the individual account or relationship size and may also be dependent on the type of securities in the accounts. Total client fees generally range from 0.50% to 3.00% of assets, and are predominantly allocated to the PCG segment, with a lesser share of revenue generated from these activities allocated to this Asset Management segment. As of September 30, 2011, these programs had \$38.9 billion in assets. RJFS and RJFSA offer similar fee-based programs called IMPAC (“IMPAC”). All revenues for IMPAC are allocated to either RJFS or RJFSA. As of September 30, 2011, IMPAC had nearly \$10 billion in assets serviced by RJFS financial advisors and RJFSA registered investment advisors (see the Private Client Group segment discussion for additional information).

In addition to the foregoing programs, AMS also administers managed fee-based programs for clients who have contracted for portfolio management services from non-affiliated investment advisors that are not part of the Raymond James consulting services program.

Raymond James Trust, National Association

Raymond James Trust, National Association, (“RJT”) provides personal trust services primarily to existing clients of our broker-dealer subsidiaries. Portfolio management of trust assets can be subcontracted to our asset management operations. This subsidiary had a total of approximately \$2 billion in client assets at September 30, 2011, including nearly \$120 million in the donor-advised charitable foundation known as the Raymond James Charitable Endowment Fund.

RJ BANK

RJ Bank is a federally chartered savings bank, regulated by the Office of the Comptroller of the Currency (“OCC”), which provides corporate, residential and consumer loans, as well as Federal Deposit Insurance Corporation (“FDIC”) insured deposit accounts, to clients of our broker-dealer subsidiaries and to the general public. RJ Bank is active in corporate loan syndications and bank participations as well as purchases residential whole loan packages to hold for investment. RJ Bank generates revenue principally through the interest income earned on loans and investments, which is offset by the interest expense it pays on client deposits and on its borrowings. See Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” in this report for financial information regarding RJ Bank’s net interest earnings.

RJ Bank operates from a single branch location adjacent to our headquarters complex in St. Petersburg, Florida. Access to RJ Bank's products and services is available nationwide through the offices of our affiliated broker-dealers as well as through telephonic and electronic banking services. RJ Bank’s assets include C&I loans, commercial and residential real estate loans, as well as consumer loans that were purchased or originated by RJ Bank. Corporate loans represent approximately 75% of RJ Bank’s loan portfolio of which 90% are Shared National Credits (“SNC”) or other large syndicated loans. SNCs are loan syndications totaling over \$20 million that are shared among three or more regulated institutions. Purchased loans originated by select large financial institutions represent approximately 85% of RJ Bank’s residential mortgage loan portfolio. RJ Bank’s total liabilities primarily consist of deposits that are cash balances swept from the investment accounts maintained at RJ&A. This cash sweep program, the Raymond James Bank Deposit Program (“RJBDP”), is a multi-bank (RJ Bank and other non-affiliated banks) program under which clients’ cash deposits in their brokerage accounts are re-deposited through a third-party service into interest-bearing

deposit accounts (\$245,000 per bank for individual accounts and \$490,000 for joint accounts) at up to 12 banks. This program enables clients to obtain up to \$2.5 million in individual FDIC deposit insurance coverage (\$5 million for joint accounts) in addition to competitive rates for their cash balances.

RJ Bank does not have any significant concentrations with any one industry or customer (see table of industry concentration in Item 7A, "Market Risk").

EMERGING MARKETS

Raymond James International Holdings, Inc. (“RJIH”), through its subsidiaries, currently has interests in operations in Latin American countries including Argentina, Uruguay and Brazil. Through these entities we operate securities brokerage, investment banking, asset management and equity research businesses. In fiscal year 2011, approximately 75% of this segments’ investment banking revenues arose from one client. No single client accounts for a material percentage of the remainder of the revenue generated by this segment.

SECURITIES LENDING

This segment conducts its business through the borrowing and lending of securities from and to other broker-dealers, financial institutions and other counterparties. Generally, we conduct these activities as an intermediary (referred to as “Matched Book”). However, Securities Lending will also loan customer marginable securities held in a margin account containing a debit (referred to as lending from the “Box”) to counterparties. The borrower of the securities puts up a cash deposit on which interest is earned. The lender in turn receives cash and pays interest. These cash deposits are adjusted daily to reflect changes in the current market value of the underlying securities. Additionally, securities are borrowed from other broker-dealers (referred to as borrowing for the “Box”) to facilitate RJ&A’s clearance and settlement obligations. The net revenues of this securities lending business are the interest spreads generated. No single client accounts for a material percentage of this segment’s total business.

PROPRIETARY CAPITAL

This segment consists of our principal capital and private equity activities including various direct and third-party private equity and merchant banking investments; Raymond James Employee Investment Funds I and II (the “EIF Funds”); and a private equity fund which we sponsor – Raymond James Capital Partners, L.P. As of September 30, 2011, certain of our merchant banking investments include an investment in a manufacturer of crime investigation and forensic supplies, an event photography business, and an indirect investment in an allergy immunotherapy testing and treatment supply company.

We participate in profits or losses through both general and limited partnership interests. Additionally, we incur profits or losses as a result of direct merchant banking investments. The EIF Funds are limited partnerships, for which we are the general partner, that invest in our merchant banking and private equity activities and other unaffiliated venture capital limited partnerships. The EIF Funds were established as compensation and retention vehicles for certain of our qualified key employees.

OTHER

This segment includes various corporate overhead costs, including interest expense on our senior debt and the loss associated with the securities repurchased as a result of settlements with the SEC and other regulatory authorities regarding the offer and sale of auction rate securities (“ARS”). (See further discussion of the ARS matter in Item 3, “Legal Proceedings”).

COMPETITION

We are engaged in intensely competitive businesses. We compete with many larger, better capitalized providers of financial services, including other securities firms, most of which are affiliated with major financial services companies, insurance companies, banking institutions and other organizations. We also compete with a number of firms offering on-line financial services and discount brokerage services, usually with lower levels of service, to

individual clients. We compete principally on the basis of the quality of our associates, service, product selection, location and reputation in local markets.

In the financial services industry, there is significant competition for qualified associates. Our ability to compete effectively in these businesses is substantially dependent on our continuing ability to attract, retain and motivate qualified associates, including successful financial advisors, investment bankers, trading professionals, portfolio managers and other revenue-producing or specialized personnel.

REGULATION

The following discussion sets forth some of the material elements of the regulatory framework applicable to the financial services industry and provides some specific information relevant to us. The regulatory framework is intended primarily for the protection of our customers and the securities markets, our depositors and the Federal Deposit Insurance Fund and not for the protection of our creditors or shareholders. Under certain circumstances, these rules may limit our ability to make capital withdrawals from RJ Bank or our broker-dealer subsidiaries.

To the extent that the following information describes statutory and regulatory provisions, it is qualified in its entirety by reference to the particular statutory and regulatory provisions. A change in applicable statutes, regulations or regulatory policy may have a material effect on our business.

The financial services industry in the U.S. is subject to extensive regulation under federal and state laws. During our fiscal 2010, the U. S. government enacted financial services reform legislation known as the Dodd-Frank Wall Street Reform & Consumer Protection Act (“Dodd-Frank Act”). Because of the nature of our business and our business practices, we presently do not expect the Dodd-Frank Act to have a significant direct impact on our operations as a whole. However, because many of the implementing regulations will result from further studies by various regulatory agencies, the specific impact on each of our businesses is uncertain.

Effective July 21, 2011, and in accordance with the Dodd-Frank Act, RJF, as the holding company of RJ Bank, became subject to the oversight of the Board of Governors of the Federal Reserve System (the “FRB”). As a result, RJF is subject to periodic examination by the FRB. In addition, the Office of Thrift Supervision (“OTS”) merged into the OCC and, therefore, the OCC assumed responsibility from the OTS for the ongoing examination, supervision, and regulation of federal savings associations and rulemaking for all savings associations, state and federal.

The SEC is the federal agency charged with administration of the federal securities laws. Financial services firms are also subject to regulation by state securities commissions in those states in which they conduct business. RJ&A and RJFS are currently registered as broker-dealers in all 50 states. In addition, financial services firms are subject to regulation by various foreign governments, securities exchanges, central banks and regulatory bodies, particularly in those countries where they have established offices. We have offices in Europe, Canada and Latin America.

Much of the regulation of broker-dealers in the U.S. and Canada, however, has been delegated to self-regulatory organizations (“SROs”), principally FINRA, the IIROC and securities exchanges. These SROs adopt and amend rules (which are subject to approval by government agencies) for regulating the industry and conduct periodic examinations of member broker-dealers.

The SEC, SROs and state securities commissions may conduct administrative proceedings that can result in censure, fine, suspension or expulsion of a broker-dealer, its officers or employees. Such administrative proceedings, whether or not resulting in adverse findings, can require substantial expenditures and can have an adverse impact on the reputation of a broker-dealer.

Our U.S. broker-dealer subsidiaries are required by federal law to belong to SIPC. When the SIPC fund falls below a certain amount, members are required to pay higher annual assessments to replenish the reserves. During fiscal year 2011, certain of our domestic broker-dealer subsidiaries incurred expenses amounting to 0.25% of net operating revenues as defined by SIPC, or approximately \$3.2 million, to SIPC as a special assessment. The SIPC fund provides protection for securities held in customer accounts up to \$500,000 per customer, with a limitation of \$250,000 on claims for cash balances. We have purchased excess SIPC coverage through various syndicates of Lloyd’s, a London-based firm that holds an “A+” rating from Standard and Poor’s and Fitch Ratings. Excess SIPC is fully

protected by the Lloyd's trust funds and Lloyd's Central Fund. The additional protection currently provided has an aggregate firm limit of \$750 million, including a sub-limit of \$1.9 million per customer for cash above basic SIPC. Account protection applies when a SIPC member fails financially and is unable to meet obligations to clients. This coverage does not protect against market fluctuations.

RJ Ltd. is currently registered in all provinces and territories in Canada. The financial services industry in Canada is subject to comprehensive regulation under both federal and provincial laws. Securities commissions have been established in all provinces and territorial jurisdictions which are charged with the administration of securities laws. Investment dealers in Canada are also subject to regulation by SROs, which are responsible for the enforcement of, and conformity with, securities legislation for their members and have been granted the powers to prescribe their own rules of conduct and financial requirements of members. RJ Ltd. is regulated by the securities commissions in the jurisdictions of registration as well as by the SROs and the IIROC.

RJ Ltd. is required by the IIROC to belong to the Canadian Investors Protection Fund ("CIPF"), whose primary role is investor protection. The CIPF Board of Directors determines the fund size required to meet its coverage obligations and sets a quarterly assessment rate. Dealer members are assessed the lesser of 1.0% of revenue or a risk-based assessment. The CIPF provides protection for securities and cash held in client accounts up to \$1 million Canadian dollars ("CDN") per client with separate coverage of CDN \$1 million for certain types of accounts. This coverage does not protect against market fluctuations.

See Note 22 of the Notes to Consolidated Financial Statements for further information on SEC, FINRA and IIROC regulations pertaining to broker-dealer regulatory minimum net capital requirements.

Our investment advisory operations, including the mutual funds that we sponsor, are also subject to extensive regulation. Our U.S. asset managers are registered as investment advisors with the SEC and are also required to make notice filings in certain states. Virtually all aspects of the asset management business are subject to various federal and state laws and regulations. These laws and regulations are primarily intended to benefit the asset management clients.

We are a "unitary savings and loan holding company" as defined by federal law, because we own one savings association, RJ Bank. For the periods through and including September 30, 2011, we were under the supervision of, and subject to the rules, regulations, and periodic examination by, either the OTS or the OCC (upon the July 21, 2011 merger of the OTS with the OCC). Additionally, RJ Bank is subject to the rules and regulations of the FRB and the FDIC. Collectively, these rules and regulations cover all aspects of the banking business including lending practices, safeguarding deposits, capital structure, transactions with affiliates and conduct and qualifications of personnel. Since we were a savings and loan holding company prior to May 4, 1999, we are exempt from certain restrictions that would otherwise apply under federal law to the activities and investments of a savings and loan holding company. These restrictions would become applicable to us if RJ Bank had failed to meet a qualified thrift lender ("QTL") test established by federal law. On September 30, 2011, RJ Bank was granted an exception to the QTL requirement until September 29, 2012. As of September 30, 2010, RJ Bank was in compliance with QTL standards according to the Domestic Building and Loan Association ("DBLA") test. This test required RJ Bank to meet a "business operations test" and a point-in-time "60% of assets test" on the last day of each fiscal year. The business operations test required the business to consist primarily of acquiring the savings of the public and investing in loans. The 60% of assets test required that at least 60% of the assets consist of qualifying assets that thrifts normally hold pursuant to regulations. As of September 30, 2010, RJ Bank met the business operations test and the 60% of assets test with 62% of qualifying assets. In order to meet this point-in-time percentage of assets requirement, RJ Bank held an additional \$3.5 billion in qualifying assets, which was funded by a \$2.4 billion overnight Federal Home Loan Bank of Atlanta ("FHLB") advance, deposits of approximately \$400 million from affiliates, and additional deposits of approximately \$700 million from the RJBDP. The deposits from affiliates were withdrawn and the FHLB advance was repaid on October 1, 2010. The RJBDP deposits were redirected to other RJBDP participating banks during early October 2010. The consequences for financial institutions which fail the QTL test include the requirement to either become a national bank or be prohibited from making or engaging in any non-allowable investments or activities, the establishment of new branch offices and the repayment of dividends.

RJ Bank applied to the OCC in November, 2008 to convert to a national bank. RJ Bank's application to convert to a national bank is still pending and approval is anticipated before the end of the calendar year. This charter conversion also requires, by law, that RJF become a bank holding company. Accordingly, in December, 2008, RJF applied to the FRB to become a bank holding company. RJF re-filed its application to become a bank holding company at the request of the FRB in November, 2011. We anticipate approval before the end of the calendar year. Upon conversion from a thrift to a national bank charter, RJ Bank would no longer be subject to the QTL requirement. RJF will then become a bank holding company and can elect to become a financial holding company.

RJ Bank is subject to various regulatory capital requirements established by bank regulators. Failure to meet minimum capital requirements can initiate certain mandatory - and possibly additional discretionary - actions by regulators that, if undertaken, could have a direct material effect on RJ Bank's financial statements and consequently ours. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, RJ Bank must meet specific capital guidelines that involve quantitative measures of RJ Bank's assets, liabilities and certain off-balance sheet items as calculated under regulatory accounting practices. RJ Bank's capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings and other factors. Quantitative measures established by regulation to ensure capital adequacy require RJ Bank to maintain minimum amounts and ratios of Total and Tier I capital to risk-weighted assets and Tier I capital to adjusted assets (as defined in the regulations). See Note 22 of the Notes to Consolidated Financial Statements for further information.

In addition, since RJ Bank provides products covered by FDIC insurance, RJ Bank is subject to the Federal Deposit Insurance Act.

Our federally chartered trust company is subject to regulation by the OCC. This regulation focuses on, among other things, ensuring the safety and soundness of RJT's fiduciary services.

As a public company whose common stock is listed on the NYSE, we are subject to corporate governance requirements established by the SEC and NYSE, as well as federal and state law. Under the Sarbanes-Oxley Act, we are required to meet certain requirements regarding business dealings with members of our Board of Directors, the structure of our Audit Committee, and ethical standards for our senior financial officers. Under SEC and NYSE rules, we are required to comply with other standards of corporate governance, including having a majority of independent directors serve on our Board of Directors, and the establishment of independent audit, compensation and corporate governance committees. The Dodd-Frank Act included a number of provisions imposing governance standards, including those regarding "Say-on-Pay" votes for shareholders, incentive compensation clawbacks, compensation committee independence and disclosure concerning executive compensation, employee and director hedging and chairman and CEO positions.

Under Section 404 of the Sarbanes-Oxley Act, we are required to assess the effectiveness of our internal controls over financial reporting and to obtain an opinion from our independent auditors regarding the effectiveness of our internal controls over financial reporting.

EXECUTIVE OFFICERS OF THE REGISTRANT

Executive officers of the registrant (which includes officers of certain significant subsidiaries) who are not Directors of the registrant are as follows:

Jennifer C. Ackart	47	Senior Vice President, Controller
Paul D. Allison	55	Chairman, President and CEO – Raymond James Ltd. since January, 2009; Co-President and Co-CEO – Raymond James Ltd., August, 2008 – January, 2009; Executive Vice President and Vice Chairman, Merrill Lynch Canada, December, 2007 – August, 2008; Executive Vice President and Managing Director, Co-Head of Canada Investment Banking, Merrill Lynch Canada, March, 2001 – December, 2007
James N. Augustine, Jr.	44	Executive Vice President – Fixed Income Capital Markets – Raymond James & Associates, Inc. since October, 2011; Senior Vice President, Director – Fixed Income Sales Management – Raymond James & Associates, Inc., June, 2008 – October, 2011; Senior Managing Director – Fixed Income Sales Management, Bear Stearns, March, 2006 – June, 2008
Richard G. Averitt, III	66	Chairman and CEO – Raymond James Financial Services, Inc.
Angela M. Biever	58	Chief Administrative Officer since May, 2008; Director, RJF, May, 1997 – April, 2008; Vice President, Intel Capital and Managing Director, Consumer Internet Sector, November, 2006 – May, 2008; General Manager, Intel New Business Initiatives, January, 1999 – November, 2006
George Catanese	52	Senior Vice President and Chief Risk Officer since October, 2005; Director, Internal Audit, November, 2001 – October, 2005
Tim Eitel	62	Chief Information Officer – Raymond James & Associates, Inc.
Jeffrey P. Julien	55	Executive Vice President – Finance, Chief Financial Officer and Treasurer, Director and/or officer of several RJF subsidiaries
Paul L. Matecki	55	Senior Vice President – General Counsel, Secretary
Steven M. Raney	46	

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President and CEO – Raymond James Bank, FSB since January, 2006; Partner and Director of Business Development, LCM Group, February, 2005 – December, 2005; various executive positions in the Tampa Bay area, Bank of America, June, 1988 – January, 2005

Richard K. Riess	62	Executive Vice President – Asset Management; CEO and Director of Eagle Asset Management, Inc.
Thomas R. Tremaine	55	Executive Vice President – Operations and Administration – Raymond James & Associates, Inc.
Jeffrey E. Trocin	52	Executive Vice President – Equity Capital Markets – Raymond James & Associates, Inc.
Dennis W. Zank	57	President – Raymond James & Associates, Inc.

Except where otherwise indicated, the executive officer has held his or her current position for more than five years.

EMPLOYEES AND INDEPENDENT CONTRACTORS

Our employees and independent contractors are vital to our success in the financial services industry. As of September 30, 2011, we have approximately 7,600 employees. As of September 30, 2011, we have approximately 3,700 independent contractors with whom we are affiliated.

OTHER INFORMATION

Our internet address is www.raymondjames.com. We make available, free of charge, through links to the SEC website, our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934. A copy of any document we file with the SEC is available at the SEC's Public Reference Room at 100 F Street, NE, Room 1580, Washington, DC 20549. Please call the SEC at 1-800-SEC-0330 for information on the Public Reference Room. The SEC maintains an internet site that contains annual, quarterly and current reports, proxy and information statements and other information that we file electronically with the SEC. The SEC's internet site is www.sec.gov. Investors can find financial information on our website under "Our Company – Investor Relations – Financial Reports – SEC Filings." These reports, which include certain XBRL instance files, are available through our website as soon as reasonably practicable after we electronically file such material with, or furnish it to, the SEC. We also make available on our website our Annual Report to Shareholders and our proxy statements in PDF format under "Our Company - Investors Relations - Financial Reports."

Additionally, we make available on our website under "Our Company - Investor Relations - Corporate Governance," a number of our corporate governance documents. These include: the Corporate Governance Principles, the charters of the Audit Committee and the Corporate Governance, Nominating and Compensation Committee of the Board of Directors, our Compensation Recoupment Policy, the Senior Financial Officers' Code of Ethics, and the Codes of Ethics for Employees and the Board of Directors. Printed copies of these documents will be furnished to any shareholder upon request. The information on our website is not incorporated by reference into this report.

Factors affecting "forward-looking statements"

From time to time, we may publish "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities and Exchange Act of 1934, as amended, or make oral statements that constitute forward-looking statements. These forward-looking statements may relate to such matters as anticipated financial performance, future revenues or earnings, business prospects, allowance for loan loss levels at RJ Bank, projected ventures, new products, anticipated market performance, recruiting efforts, regulatory approvals, auction rate securities, and other matters. The Private Securities Litigation Reform Act of 1995 provides a safe harbor for forward-looking statements. In order to comply with the terms of the safe harbor, we caution readers that a variety of factors could cause our actual results to differ materially from the anticipated results or other expectations expressed in our forward-looking statements. These risks and uncertainties, many of which are beyond our control, are discussed in Item 1A, "Risk Factors," in this report. We do not undertake any obligation to publicly update or revise any forward-looking statements.

ITEM 1A. RISK FACTORS

Our operations and financial results are subject to various risks and uncertainties, including those described below, that could adversely affect our business, financial condition, results of operations, liquidity and the trading price of our common stock.

RISKS RELATED TO OUR BUSINESS AND INDUSTRY

We are affected by difficult conditions in the global financial markets and economic and political conditions generally.

We are engaged in various financial services businesses. As such, we are affected by economic and political conditions. These conditions may directly and indirectly impact a number of factors that may be detrimental to our operating results, including the inflation rate, the related impact on the securities markets including changes in volume, interest spreads and price levels of securities, fluctuations in interest and currency rates, reduced investor confidence, and a slowdown in economic activity. These conditions historically have impacted our trading volume and net revenues and affected our profitability. Additionally, a decline in the strength of the U.S. economy can lead to deterioration in credit quality and decreased loan demand. Continued or further credit dislocations or sustained market downturns may result in a decrease in the volume of trades we execute for our clients, a decline in the value of securities we hold in inventory as assets, and potentially reduced investment banking revenues given that associated fees are directly related to the number and size of transactions in which we participate. In addition, declines in the market value of securities generally result in a decline in revenues from fees based on the asset values of client portfolios, and may result in the failure of buyers and sellers of securities to fulfill their settlement obligations, as well as the failure of our clients to fulfill their credit and settlement obligations. Also, we permit our clients to purchase securities on margin. During periods of steep declines in securities prices, the value of the collateral securing client accounts margin purchases may drop below the amount of the purchaser's indebtedness. If the clients are unable to provide additional collateral for these loans, we may lose money on these margin transactions. This may cause us to incur additional expenses defending or pursuing claims or litigation related to counterparty or client defaults.

On August 5, 2011, the credit rating agency Standard & Poor's ("S&P") lowered its long term sovereign credit rating on the U.S. from AAA to AA+, while maintaining a negative outlook. While U.S. lawmakers reached agreement to raise the federal debt ceiling on August 2, 2011, the downgrade reflected S&P's view that the fiscal consolidation plan within that agreement fell short of what would be necessary to stabilize the U.S. government's medium term debt dynamics. The two other major credit rating agencies did not downgrade their previously issued U.S. sovereign credit ratings. Future downgrades of the U.S. sovereign credit rating by one or more of the major credit rating agencies could have material adverse impacts on financial markets and economic conditions in the U.S. and throughout the world and, in turn, could have a material adverse effect on our business, financial condition and liquidity. Because of the unprecedented nature of any negative credit rating actions with respect to U.S. government obligations, the ultimate impacts on global markets and our business, financial condition and liquidity are unpredictable and may not be immediately apparent.

Continued declines in the real estate market over the past few years, with increasing foreclosures and unemployment, have resulted in significant write-downs of asset values by financial institutions, including government-sponsored entities as well as commercial and investment banks. These write-downs, initially of mortgage-backed securities but spreading to credit default swaps and other derivative securities, have in turn caused many financial institutions to seek additional capital, to merge with larger and stronger institutions and, in some cases, to fail. RJ Bank is particularly affected by domestic economic conditions. Such conditions include: U.S. interest rates, the rate of unemployment, real estate prices, the level of consumer confidence, changes in consumer spending and the number of personal bankruptcies, among others. The deterioration of these conditions can diminish loan demand, lead to an increase in mortgage and other loan delinquencies, affect corporate loan repayment performance and result in higher reserves and net charge-offs, which can adversely affect our earnings.

Our businesses and earnings are affected by the fiscal and other policies adopted by various regulatory authorities of the U.S., non-U.S. governments, and international agencies. The FRB regulates the supply of money and credit in the

U.S. FRB policies determine in large part the cost of funds for lending and investing and the return earned on those loans and investments. The market impact from such policies can also materially decrease the value of certain of our financial assets, most notably debt securities. Changes in FRB policies are beyond our control and, consequently, the impact of these changes on our activities and results of our operations are difficult to predict.

As described in Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations-Liquidity and Capital Resources,” a worsening of current financial market and economic conditions could materially and adversely affect our business, financial condition, results of operations, and access to credit or the trading price of our common stock.

Lack of liquidity or access to capital could impair our business and financial condition.

Liquidity, or ready access to funds, is essential to our business. A compromise to our liquidity could have a significant negative effect on our financial condition. Some potential conditions that could negatively affect our liquidity include illiquid or volatile markets, diminished access to debt or equity markets, unforeseen cash or capital requirements and adverse legal settlements or judgments. Our broker-dealer and bank subsidiaries operate in highly regulated industries. These subsidiaries may require access to funds in order to meet certain capital and regulatory requirements. Therefore, these subsidiaries may, in some instances, not be able to pay dividends to fund the obligations of the parent including debt obligations and dividend payments. If existing sources of liquidity do not satisfy our needs, we may have to seek additional outside financing or scale back or curtail our operations, including limiting our efforts to recruit additional financial advisors, selling assets at prices that may be less favorable to us, cutting or eliminating the dividends we pay to our shareholders and reducing our operating expenses. The availability of outside financing, including access to the capital markets and bank lending, depends on a variety of factors, such as market conditions, the general availability of credit, the volume of trading activities, the overall availability of credit to the financial services sector and our credit ratings. Our cost and availability of funding may be adversely affected by illiquid credit markets and wider credit spreads. As a result of any future concerns about the stability of the markets generally and the strength of counterparties specifically, lenders may from time to time curtail, or even cease, to provide funding to borrowers. A reduction in our credit ratings could adversely affect our liquidity and competitive position, increase our incremental borrowing costs, limit our access to the capital markets or trigger our obligations under certain financial agreements. As such, we may not be able to successfully obtain additional outside financing to fund our operations on favorable terms, or at all. See Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations – Liquidity and Capital Resources,” for additional information on liquidity and how we manage our liquidity risk.

We are exposed to market risk.

We are, directly and indirectly, affected by changes in market conditions. Market risk generally represents the risk that values of assets and liabilities or revenues will be adversely affected by changes in market conditions. For example, changes in interest rates could adversely affect our net interest spread – the difference between the yield we earn on our assets and the interest rate we pay for deposits and other sources of funding – which in turn impacts our net interest income and earnings. Market risk is inherent in the financial instruments associated with our operations and activities including loans, deposits, securities, short-term borrowings, long-term debt, trading account assets and liabilities, derivatives and venture capital and merchant banking investments. Market conditions that change from time to time, thereby exposing us to market risk, include fluctuations in interest rates, equity prices, relative exchange rates, and price deterioration or changes in value due to changes in market perception or actual credit quality of an issuer.

Certain of our venture capital and merchant banking investments are carried at fair value with unrealized gains and losses reflected in earnings. The value of our private equity portfolios can fluctuate and earnings from our venture capital investments can be volatile and difficult to predict. When, and if, we recognize gains can depend on a number of factors, including general economic conditions, the prospects of the companies in which we invest, when these companies go public, the size of our position relative to the public float and whether we are subject to any resale restrictions. Further, our investments could incur significant mark-to-market losses, especially if they have been written up in prior periods because of higher market prices. See Item 7A, “Quantitative and Qualitative Disclosures about Market Risk,” in this report for additional information regarding our exposure to and approaches to managing market risk.

We are exposed to credit risk.

We are generally exposed to the risk that third parties that owe us money, securities or other assets do not meet their performance obligations due to bankruptcy, lack of liquidity, operational failure or other reasons.

We actively buy and sell securities from and to clients and counterparties in the normal course of our broker-dealer businesses exposing us to credit risk in the event of default. Although generally collateralized by the underlying security to the transaction, we still face the risk associated with changes in the market value of collateral through settlement date. We also hold securities and derivatives in our trading accounts. Deterioration in the actual or perceived credit quality of the underlying issuers of securities, or the non-performance of issuers and counterparties to derivative contracts could result in trading losses.

We borrow securities from and lend securities to other broker-dealers, and may also enter into agreements to repurchase and agreements to resell securities as part of investing and financing activities. A sharp change in the security market values utilized in these transactions may result in losses if counterparties to these transactions fail to honor their commitments.

We deposit our cash in depository institutions as a means of maintaining the liquidity necessary to meet our operating needs, and we also facilitate the deposit of cash awaiting investment in depository institutions on behalf of our clients. A failure of a depository institution to return these deposits could severely impact our operating liquidity, result in significant reputational damage, and impact financial performance.

We also incur credit risk by lending to businesses and individuals including, but not limited to, C&I loans, commercial and residential mortgage loans, home equity lines of credit, and margin and non-purpose loans collateralized by securities as well as by investing in MBS and CMOs.

The credit quality of our loan and investment portfolios held at RJ Bank can have a significant impact on earnings and overall financial performance. Our credit risk and credit losses can increase if our loans or investments are concentrated to borrowers or issuers engaged in the same or similar activities, industries, geographies, or to borrowers or issuers who as a group may be uniquely or disproportionately affected by economic or market conditions. The deterioration of an individually large exposure could lead to additional loan loss provisions and/or charges-offs, or credit impairment of our investments, and subsequently have a material impact on our net income and the level of regulatory capital at RJ Bank.

Continued declines in the real estate market or a sustained economic downturn may cause us to have to further write down the value of some of the loans in RJ Bank's portfolio, foreclose on certain real estate properties or write down the value of some of RJ Bank's available for sale securities portfolio. Credit quality generally may also be affected by adverse changes in the financial performance or condition of our debtors or deterioration in the strength of the U.S. economy. Our policies also can adversely affect borrowers, potentially increasing the risk that they may fail to repay their loans or satisfy their obligations to us. See Item 7A, "Quantitative and Qualitative Disclosures about Market Risk," in this report for additional information regarding our exposure to and approaches to managing credit risk.

Our business depends on fees generated from the distribution of financial products and on fees earned from the management of client accounts by our asset management subsidiaries.

A large portion of our revenues are derived from fees generated from the distribution of financial products such as mutual funds and variable annuities. Changes in the structure or amount of the fees paid by the sponsors of these products could directly affect our revenues, business and financial condition. In addition, if these products experience losses or increased investor redemptions, we may receive reduced fees from the investment management and distribution services we provide on behalf of the mutual funds and annuities. The investment management fees we are paid may also decline over time due to factors such as increased competition, renegotiation of contracts and the introduction of new, lower-priced investment products and services. Changes in market values or in the fee structure of asset management accounts would affect our revenues, business and financial condition. Asset management fees often are primarily comprised of base management and incentive fees. Management fees are primarily based on assets under management. Assets under management balances are impacted by net inflow/outflow of client assets and market values. Below market investment performance by our funds and portfolio managers could result in a loss of managed accounts and could result in reputational damage that might make it more difficult to attract new investors and thus further impacting our business and financial condition. If we experience losses of managed accounts, our fee revenue will decline. In addition, in periods of declining market values, our asset values under management may

resultantly decline, which would negatively impact our fee revenues.

Our underwriting, market-making, trading, and other business activities place our capital at risk.

We may incur losses and be subject to reputational harm to the extent that, for any reason, we are unable to sell securities which we have underwritten at the anticipated price levels. As an underwriter, we also are subject to heightened standards regarding liability for material misstatements or omissions in prospectuses and other offering documents relating to offerings we underwrite. As a market maker, we may own positions in specific securities, and these undiversified holdings concentrate the risk of market fluctuations and may result in greater losses than would be the case if our holdings were more diversified. In addition, we may incur losses as a result of proprietary positions we hold.

From time to time and as part of our underwriting processes, we may carry significant positions in securities of a single issuer or issuers engaged in a specific industry. Sudden changes in the value of these positions could impact our financial results.

We have made and may continue to make principal investments in private equity funds and other illiquid investments, which are typically private limited partnership interests and securities that are not publicly traded. There is risk that we may be unable to realize our investment objectives by sale or other disposition at attract