RAYMOND JAMES FINANCIAL INC
Form 10-Q
August 09, 2007

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, 2007

or

o **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 o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of “accelerated filer and large accelerated filer” in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer x Accelerated filer o Non-accelerated filer o

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

Indicate the number of shares outstanding of each of the registrant's classes of common stock, as of the close of the latest practicable date.

119,578,344 shares of Common Stock as of August 6, 2007

RAYMOND JAMES FINANCIAL, INC. AND SUBSIDIARIES

Form 10-Q for the Quarter Ended June 30, 2007

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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, 2007	September 30, 2006
	(in thousands)	
Assets:		
Cash and cash equivalents	$ 745,003	$ 641,691
Assets segregated pursuant to federal regulations	3,749,872	3,189,900
Securities purchased under agreements to resell	1,723,172	776,863
Securities owned:		
Trading securities, at fair value	737,580	485,771
Available for sale securities, at fair value	527,585	280,580
Other investments, at fair value	85,160	66,726
Receivables:		
Brokerage clients, net	1,708,549	1,504,607
Stock borrowed	1,382,233	1,068,102
Bank loans, net	3,427,240	2,262,832
Brokers-dealers and clearing organizations	449,175	210,443
Other	299,103	290,294
Investments in real estate partnerships- held by variable interest entities	219,887	227,963
Property and equipment, net	155,055	142,780
Deferred income taxes, net	96,132	94,957
Deposits with clearing organizations	31,350	30,780
Goodwill	62,575	62,575
Investment in leveraged lease, net	10,150	10,882
Prepaid expenses and other assets	261,380	168,904
	$ 15,671,201	$ 11,516,650
Liabilities and Shareholders' Equity:		
Loans payable	$ 552,104	$ 141,638
Loans payable related to investments by variable interest entities in real estate partnerships	114,937	193,647
Payables:		
Brokerage clients	5,331,386	4,552,227
Stock loaned	1,502,335	1,235,104
Bank deposits	5,024,546	2,806,880
Brokers-dealers and clearing organizations	228,101	79,646
Trade and other	141,324	138,091
Trading securities sold but not yet purchased, at fair value	342,919	94,009
Securities sold under agreements to repurchase	197,627	301,110
Accrued compensation, commissions and benefits	304,538	321,224
Income taxes payable	9,864	34,294

	13,749,681	9,897,870
Minority interests	241,356	154,911
Shareholders' equity:		
Preferred stock; $.10 par value; authorized 10,000,000 shares; issued and outstanding -0- shares	-	-
Common stock; $.01 par value; authorized 180,000,000 shares; issued 120,508,583 at June 30, 2007 and 117,655,883 at September 30, 2006	1,173	1,150
Shares exchangeable into common stock; 273,042 at June 30, 2007 and 362,197 at September 30, 2006	3,504	4,649
Additional paid-in capital	262,357	205,198
Retained earnings	1,409,498	1,258,446
Accumulated other comprehensive income	19,103	12,095
	1,695,635	1,481,538
Less: 989,691 and 1,270,015 common shares in treasury, at cost	15,471	17,669
	1,680,164	1,463,869
	$ 15,671,201	$ 11,516,650

See accompanying Notes to Condensed Consolidated Financial Statements.

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RAYMOND JAMES FINANCIAL, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME
(Unaudited)
(In thousands, except per share amounts)

	Three Months Ended		Nine Months Ended	
	June 30, 2007	June 30, 2006	June 30, 2007	June 30, 2006
Revenues:				
Securities commissions and fees	$ 462,047	$ 424,594	$ 1,281,204	$ 1,186,079
Investment banking	51,818	44,075	131,682	112,645
Investment advisory fees	51,754	46,371	152,487	132,603
Interest	191,691	125,860	514,727	320,532
Net trading profits	7,050	5,671	16,434	19,717
Financial service fees	30,285	41,596	91,683	96,004
Other	28,108	26,498	82,436	85,505
Total revenues	822,753	714,665	2,270,653	1,953,085
Interest expense	134,093	81,689	352,374	194,516
Net revenues	688,660	632,976	1,918,279	1,758,569
Non-Interest Expenses:				
Compensation, commissions and benefits	462,459	429,224	1,299,862	1,195,488
Communications and information processing	28,828	25,858	83,080	77,152
Occupancy and equipment costs	19,983	18,701	59,849	54,213
Clearance and floor brokerage	8,180	8,781	22,662	19,607
Business development	22,416	21,782	66,252	58,608
Investment advisory fees	12,111	10,616	34,615	30,024
Other	29,156	23,685	60,686	67,064
Total non-interest expenses	583,133	538,647	1,627,006	1,502,156
Income before minority interest and provision for income taxes	105,527	94,329	291,273	256,413
Minority interest	(4,371)	(2,173)	(5,346)	(6,734)
Income before provision for income taxes	109,898	96,502	296,619	263,147
Provision for income taxes	41,545	39,728	109,156	99,733
Net income	**$ 68,353**	**$ 56,774**	**$ 187,463**	**$ 163,414**
Net income per share-basic	**$ 0.59**	**$ 0.50**	**$ 1.63**	**$ 1.45**
Net income per share-diluted	**$ 0.57**	**$ 0.48**	**$ 1.58**	**$ 1.41**
Weighted average common shares outstanding-basic	116,135	113,464	115,353	112,376
Weighted average common and common				

equivalent shares outstanding-diluted	119,140	116,960	118,425	115,556
Cash dividend declared per common share	**$ 0.10**	**$ 0.08**	**$ 0.30**	**$ 0.24**
Net income	$ 68,353	$ 56,774	$ 187,463	$ 163,414
Other Comprehensive Income:				
Net unrealized (loss) gain on available for sale securities, net of tax	(954)	35	(834)	(88)
Net unrealized gain on interest rate swaps accounted for as cash flow hedges, net of tax	-	2	-	44
Net change in currency translations	9,190	2,689	7,842	1,348
Total comprehensive income	$ 76,589	$ 59,500	$ 194,471	$ 164,718

See accompanying Notes to Condensed Consolidated Financial Statements.

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RAYMOND JAMES FINANCIAL, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)
(in thousands)
(continued on next page)

	Nine Months Ended June 30, 2007	Nine Months Ended June 30, 2006
Cash Flows from operating activities:		
Net income	$ 187,463	$ 163,414
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation and amortization	16,310	14,474
Excess tax benefits from stock-based payment arrangements	(1,781)	(1,312)
Deferred income taxes	(2,673)	(6,441)
Unrealized loss, premium and discount amortization on available for sale securities and other securities	673	123
Loss on sale of property and equipment	13	1,046
Gain on sale of loans available for sale	(397)	(303)
Gain on sale of joint venture interest	(2,559)	-
Provision for loan loss, legal proceedings, bad debts and other accruals	17,169	26,607
Stock-based compensation expense	27,089	17,253
(Increase) decrease in operating assets:		
Assets segregated pursuant to federal regulations	(559,972)	(874,439)
Receivables:		
Brokerage clients, net	(205,536)	(105,090)
Stock borrowed	(314,131)	29,696
Brokers-dealers and clearing organizations	(238,732)	(109,516)
Other	(87,014)	(46,280)
Securities purchased under agreements to resell, net of securities sold under agreements to repurchase	(154,792)	102,613
Trading securities, net	(4,854)	(257,494)
Prepaid expenses and other assets	(17,781)	(44,174)
Increase (decrease) in operating liabilities:		
Payables:		
Brokerage clients	779,159	877,422
Stock loaned	267,231	218,603
Brokers-dealers and clearing organizations	148,455	(57,972)
Trade and other	27,507	8,607
Accrued compensation, commissions and benefits	(15,941)	(24,646)
Income taxes payable	(23,073)	15,873
Minority interest	(5,346)	(6,734)
Net cash used in operating activities	(163,513)	(58,670)

See accompanying Notes to Condensed Consolidated Financial Statements.

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

	Nine Months Ended	
	June 30, 2007	June 30, 2006
Cash Flows from investing activities:		
Additions to property and equipment, net	(30,062)	(22,409)
Proceeds from sale of joint venture interest, net of cash disposed	3,514	-
Loan originations and purchases	(2,594,200)	(1,623,799)
Loan repayments	1,388,809	699,807
Proceeds from sale of loans available for sale	29,396	11,613
Purchases of other investments	(18,434)	(66,815)
Investments in real estate partnerships-held by variable interest entities	(16,818)	(48,665)
Loans to investor member of variable interest entities related to investments in real estate partnerships	-	(3,985)
Repayments of loans by investor members of variable interest entities related to investments in real estate partnerships	12,780	10,898
Securities purchased under agreements to resell, net	(895,000)	-
Sales of available for sale securities	81	227
Purchases of available for sale securities	(325,096)	(9,721)
Available for sale securities maturations and repayments	75,995	45,945
Net cash used in investing activities	(2,369,035)	(1,006,904)
Cash Flows from financing activities:		
Proceeds from borrowed funds, net	426,900	413,033
Repayments of mortgage and borrowings, net	(15,233)	(2,820)
Proceeds from borrowed funds related to investments by variable interest entities in real estate partnerships	5,202	4,820
Repayments of borrowed funds related to investments by variable interest entities in real estate partnerships	(36,339)	(5,384)
Proceeds from capital contributed to variable interest entities related to investments in real estate partnerships	58,816	56,011
Minority interest	(29,479)	(19,731)
Exercise of stock options and employee stock purchases	32,811	28,321
Increase in bank deposits	2,217,666	372,384
Purchase of treasury stock	(1,350)	(5,100)
Cash dividends on common stock	(36,411)	(27,841)

Excess tax benefits from stock-based payment arrangements	1,781	1,312
Net cash provided by financing activities	2,624,364	815,005
Currency adjustment:		
Effect of exchange rate changes on cash	7,842	1,348
Net increase (decrease) in cash and cash equivalents	99,658	(249,221)
Cash reduced by deconsolidation of variable interest entity related to investments in real estate partnerships	(291)	-
Cash resulting from consolidation of limited partnerships	3,945	-
Cash and cash equivalents at beginning of period	641,691	881,133
Cash and cash equivalents at end of period	$ 745,003	$ 631,912
Supplemental disclosures of cash flow information:		
Cash paid for interest	$ 349,101	$ 191,274
Cash paid for taxes	$ 128,364	$ 90,329

See accompanying Notes to Condensed Consolidated Financial Statements.

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RAYMOND JAMES FINANCIAL, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
June 30, 2007

Note 1 - Basis of Presentation:

The accompanying unaudited condensed consolidated financial statements include the accounts of Raymond James Financial, Inc. (“RJF”) and its consolidated subsidiaries that are generally controlled through a majority voting interest. RJF is a holding company headquartered in Florida whose subsidiaries are engaged in various financial service businesses; as used herein, the term “the Company” refers to RJF and/or one or more of its subsidiaries. In accordance with Financial Accounting Standards Board (“FASB”) Interpretation (“FIN”) No. 46R, “Consolidation of Variable Interest Entities” (“FIN 46R”), the Company also consolidates any variable interest entities (“VIEs”) for which it is the primary beneficiary. Additional information is provided in Note 5. When the Company does not have a controlling interest in an entity, but exerts significant influence over the entity, the Company applies the equity method of accounting. All material intercompany balances and transactions have been eliminated in consolidation.

Effective October 1, 2006, the Company adopted Emerging Issues Task Force (“EITF”) Issue 04-5, “Determining Whether a General Partner, or the General Partners as a Group, Controls a Limited Partnership or Similar Entity When the Limited Partners Have Certain Rights,” for partnerships created before and not subsequently modified after June 29, 2005. As a result, the Company consolidated three partnerships beginning in the three months ended December 31, 2006. As of June 30, 2007, these partnerships had assets of approximately $81.8 million.

Certain financial information that is normally included in annual financial statements prepared in accordance with generally accepted accounting principles in the United States of America ("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 the Company's 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 the Company's Annual Report on Form 10-K for the year ended September 30, 2006. To prepare consolidated financial statements in conformity with GAAP, management must estimate certain amounts that affect the reported assets and liabilities, disclosure of contingent assets and liabilities, and reported revenues and expenses. Actual results could differ from those estimates. Certain revisions and reclassifications have been made to the unaudited condensed consolidated financial statements of the prior period to conform to the current period presentation. As a result, financial service fees revenue and investment advisory fees expense increased by approximately $3.3 million and $9.6 million, respectively, for the three and nine months ended June 30, 2006. These revisions did not impact the Company’s net income for the three or nine months ended June 30, 2006.

The Company’s quarters end on the last day of each calendar quarter.

Note 2 - Effects of Recently Issued Accounting Standards, Not Yet Adopted:

In June 2006, the FASB issued Interpretation No. 48, “Accounting for Uncertainty in Income Taxes” (“FIN 48”), which clarifies the accounting for uncertainty in income taxes recognized in an enterprise’s financial statements in accordance with SFAS No. 109, “Accounting for Income Taxes”. FIN 48 establishes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. This interpretation also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. FIN 48 is effective for fiscal years beginning after December 15, 2006 (October 1, 2007 for the Company). The Company is currently evaluating the impact the adoption of this interpretation will have on its consolidated financial statements for the fiscal year ending September 30, 2008.

In July 2006, the FASB issued Staff Position ("FSP") No. FAS 13-2, "Accounting for a Change or Projected Change in the Timing of Cash Flows Relating to Income Taxes Generated by a Leveraged Lease Transaction" ("FSP FAS 13-2"). This FSP addresses how a change in the timing of cash flows relating to income taxes generated by a leveraged lease transaction affects the accounting by a lessor for that lease. FSP FAS 13-2 is effective for fiscal years beginning after December 15, 2006 (October 1, 2007 for the Company). The Company does not expect this FSP to have a material impact on its consolidated financial statements for the fiscal year ending September 30, 2008.

In September 2006, the SEC issued Staff Accounting Bulletin No. 108, “Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in the Current Year Financial Statements” (“SAB 108”). SAB 108 addresses how the effects of prior year uncorrected misstatements should be considered when quantifying misstatements in current year financial statements. SAB 108 requires an entity to quantify misstatements using a balance sheet and income statement approach and to evaluate whether either approach results in quantifying an error that is material in light of relevant quantitative and qualitative factors. The guidance is effective for annual financial statements covering the first fiscal year ending after November 15, 2006. The Company is currently evaluating the impact this guidance will have on its consolidated financial statements for the fiscal year ending September 30, 2007.

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 157, “Fair Value Measurements” (“SFAS 157”). SFAS 157 defines fair value, establishes a framework for measuring fair value and expands disclosures about fair-value measurements required under other accounting pronouncements but does not change existing guidance as to whether or not an instrument is carried at fair value. SFAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007 (October 1, 2008 for the Company), and interim periods within those fiscal years. The Company does not expect SFAS 157 to have a material impact on the consolidated financial statements of the Company.

In February 2007, the FASB issued Statement of Financial Accounting Standards No. 159, “The Fair Value Option for Financial Assets and Financial Liabilities” (“SFAS 159”). SFAS 159 allows companies to elect to follow fair value accounting for certain financial assets and liabilities on an instrument by instrument basis. SFAS 159 is applicable only to certain financial instruments and is effective for fiscal years beginning after November 15, 2007 (October 1, 2008 for the Company). The Company has not yet completed its assessment of what impact, if any, SFAS 159 will have on its consolidated financial statements.

In April 2007, the FASB issued Staff Position FIN No. 39-1, "Amendment of FASB Interpretation No. 39." FSP FIN No. 39-1 defines "right of setoff" and specifies what conditions must be met for a derivative contract to qualify for this right of setoff. FSP FIN No. 39-1 also addresses the applicability of a right of setoff to derivative instruments and clarifies the circumstances in which it is appropriate to offset amounts recognized for those instruments in the statement of financial position. In addition, this FSP permits offsetting of fair value amounts recognized for multiple derivative instruments executed with the same counterparty under a master netting arrangement and fair value amounts recognized for the right to reclaim cash collateral (a receivable) or the obligation to return cash collateral (a payable) arising from the same master netting arrangement as the derivative instruments. This interpretation is effective for fiscal years beginning after November 15, 2007 (October 1, 2008 for the Company), with early application permitted. The Company is currently evaluating the impact the adoption of FSP FIN No. 39-1 will have on its consolidated financial statements.

In May 2007, the FASB issued FSP FIN No. 46R-7, "Application of FASB Interpretation No. 46(R) to Investment Companies." FSP FIN No. 46R-7 amends the scope of the exception to FIN 46R to state that investments accounted for at fair value in accordance with the specialized accounting guidance in the American Institute of Certified Public Accountants ("AICPA") Audit and Accounting Guide, Investment Companies, are not subject to consolidation under FIN 46R. This interpretation is effective for fiscal years beginning on or after December 15, 2007 (October 1, 2008 for the Company). The Company is currently evaluating the impact the adoption of FSP FIN No. 46R-7 will have on its consolidated financial statements.

In June 2007, the Accounting Standards Executive Committee of the AICPA issued Statement of Position ("SOP") 07-1, "Clarification of the Scope of the Audit and Accounting Guide Investment Companies and Accounting by Parent Companies and Equity Method Investors for Investments in Investment Companies." This SOP provides guidance for determining whether an entity is within the scope of the AICPA Audit and Accounting Guide Investment Companies (the "Guide"). Additionally, it provides guidance as to whether a parent company or an equity method investor can apply the specialized industry accounting principles of the Guide (referred to as investment company accounting). This SOP is effective for fiscal years beginning on or after December 15, 2007 (October 1, 2008 for the Company), with early application encouraged. The Company is currently evaluating the impact the adoption of SOP 07-1 will have on its consolidated financial statements.

Note 3 – Trading Securities and Trading Securities Sold But Not Yet Purchased:

	June 30, 2007		September 30, 2006	
	Trading Securities	Securities Sold but Not yet Purchased	Trading Securities	Securities Sold but Not yet Purchased
	(in 000's)			
Marketable:				
Municipal obligations	$ 296,289	$ -	$ 192,028	$ 5
Corporate obligations	113,761	90	134,431	968
Government obligations	53,903	158,684	37,793	31,636
Agencies	184,282	123,984	68,380	34,023
Total debt securities	648,235	282,758	432,632	66,632
Derivative contracts	39,295	12,292	20,904	8,309
Equity securities	45,509	47,869	29,532	19,068
Other securities	4,541	-	2,703	-
Total	$ 737,580	$ 342,919	$ 485,771	$ 94,009

Mortgage-backed securities of $192.7 million and $77.1 million at June 30, 2007 and September 30, 2006, respectively, are included in Corporate obligations and Agencies in the table above. Mortgage-backed securities sold but not yet purchased of $124 million and $34 million at June 30, 2007 and September 30, 2006, respectively, are included in Agencies in the table above.

Note 4 – Available For Sale Securities:

Available for sale securities are comprised primarily of collateralized mortgage obligations, mortgage related debt, and certain equity securities held by the Company's non-broker-dealer subsidiaries, principally Raymond James Bank, F.S.B. ("RJBank"). There were no material proceeds from the sale of securities available for sale for the three and nine months ended June 30, 2007 and 2006.

The amortized cost and estimated market values of securities available for sale at June 30, 2007 are as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Market Value
	(in 000's)			
Agency collateralized mortgage obligations	$ 202,764	$ 481	$ (77)	$ 203,168

Non-agency collateralized mortgage obligations	324,471	59	(1,205)	323,325
Other	1,073	20	(1)	1,092
	$ 528,308	$ 560	$ (1,283)	$ 527,585

The amortized cost and estimated market values of securities available for sale at September 30, 2006 are as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Market Value
		(in 000's)		
Agency collateralized mortgage obligations	$ 140,888	$ 461	$ (27)	$ 141,322
Non-agency collateralized mortgage obligations	137,753	330	(156)	137,927
Other	1,306	26	(1)	1,331
	$ 279,947	$ 817	$ (184)	$ 280,580

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Note 5 – Variable Interest Entities (“VIEs”):

Under the provisions of FIN 46R the Company has determined that Raymond James Employee Investment Funds I and II (the “EIF Funds”), Comprehensive Software Systems, Inc. (“CSS”), certain entities in which Raymond James Tax Credit Funds, Inc. (“RJTCF”) owns variable interests, various partnerships involving real estate, and a trust fund established for employee retention purposes are VIEs. Of these, the Company has determined that the EIF Funds, certain tax credit fund partnerships/LLCs, and the trust fund should be consolidated in the financial statements as the Company is the primary beneficiary.

The EIF Funds are limited partnerships, for which the Company is the general partner, that invest in the merchant banking and private equity activities of the Company and other unaffiliated venture capital limited partnerships. The EIF Funds were established as compensation and retention measures for certain qualified key employees of the Company. The Company makes non-recourse loans to these employees for two-thirds of the purchase price per unit. The loans and applicable interest are to be repaid based on the earnings of the EIF Funds. The Company is deemed to be the primary beneficiary, and accordingly, consolidates the EIF Funds, which had combined assets of approximately $16.3 million at June 30, 2007. None of those assets act as collateral for any obligations of the EIF Funds. The Company's exposure to loss is limited to its contributions and the non-recourse loans funded to the employee investors, for which their partnership interests serve as collateral. At June 30, 2007 that exposure is approximately $5.7 million.

CSS was formed by a group of broker-dealer firms, including the Company, to develop a back-office software system. CSS had assets of $3.8 million at June 30, 2007. As of June 30, 2007, the Company owns approximately 42% of CSS. The Company's exposure to loss is limited to its capital contributions. The Company is not the primary beneficiary of CSS and accounts for its investment using the equity method of accounting. The carrying value of the Company’s investment in CSS is zero at June 30, 2007.

RJTCF is a wholly owned subsidiary of RJF and is the managing member or general partner in approximately 47 separate tax credit housing funds having one or more investor members or limited partners. These tax credit housing funds are organized as limited liability companies or limited partnerships for the purpose of investing in limited partnerships which purchase and develop low income housing properties qualifying for tax credits. As of June 30, 2007, 44 of these tax credit housing funds are VIEs as defined by FIN 46R, and RJTCF’s interest in these tax credit housing funds which are VIEs range from .01% to 1.0%.

RJTCF has concluded that it is the primary beneficiary in approximately one quarter of these tax credit housing funds, and accordingly, consolidates these funds, which have combined assets of approximately $271.2 million at June 30, 2007. None of those assets act as collateral for any obligations of these funds. The Company's exposure to loss is limited to its investments in, advances to, and receivables due from these funds and at June 30, 2007, that exposure is approximately $5.3 million.

RJTCF is not the primary beneficiary of the remaining tax credit housing funds it determined to be VIEs and accordingly the Company does not consolidate these funds. The Company's exposure to loss is limited to its investments in, advances to, and receivables due from these funds and at June 30, 2007, that exposure is approximately $24.6 million.

The three remaining tax credit housing funds that have been determined not to be VIEs are wholly owned by RJTCF and are included in the Company’s consolidated financial statements. As of June 30, 2007, only two of these funds had any material activity. These funds typically hold interests in certain tax credit limited partnerships for less than 90 days and had assets of approximately $8.4 million at June 30, 2007.

As of June 30, 2007, the Company has a variable interest in several limited partnerships involved in various real estate activities, in which a subsidiary is the general partner. The Company is not the primary beneficiary of these partnerships and accordingly the Company does not consolidate these partnerships. These partnerships have assets of approximately $22.3 million at June 30, 2007. The Company's exposure to loss is limited to its capital contributions. The carrying value of the Company's investment in these partnerships is not material at June 30, 2007.

One of the Company’s restricted stock plans is associated with a trust fund which was established through the Company’s wholly owned Canadian subsidiary. This trust fund was established and funded to enable the trust fund to acquire Company common stock in the open market to be used to settle restricted stock units granted as a retention vehicle for certain employees of the Canadian subsidiary. For financial statement purposes, the Company is deemed to be the primary beneficiary in accordance with FIN 46R, and accordingly, consolidates this trust fund, which has assets of approximately $6.5 million at June 30, 2007. None of those assets are specifically pledged as collateral for any obligations of the trust fund. The Company's exposure to loss is limited to its contributions to the trust fund and at June 30, 2007, that exposure is approximately $6.5 million.

Note 6 – Bank Loans, Net and Deposits:

Bank Loans, Net

Bank client receivables are comprised of loans originated or purchased by RJBank and include commercial and residential mortgage loans, as well as consumer loans. These receivables are generally collateralized by first or second mortgages on residential property, real property, or assets of the borrower. The following table provides a summary of RJBank's loans receivable at June 30, 2007 and September 30, 2006:

	June 30, 2007	September 30, 2006
	(in 000's)	
Residential mortgage loans	$ 1,775,821	$ 1,322,911
Commercial loans	1,683,552	960,977
Consumer loans	3,970	1,917
	3,463,343	2,285,805
Allowance for loan losses	(30,553)	(18,694)
Unearned income, net of deferred expenses	(5,550)	(4,279)
	$ 3,427,240	$ 2,262,832

Changes in the allowance for loan losses and reserve for unfunded lending commitments at RJBank for the nine months ended June 30, 2007 and June 30, 2006 are as follows:

	June 30, 2007	June 30, 2006
	(in 000's)	
Balance, beginning of year	$ 22,738	$ 9,030
Provision charged to operations	13,064	9,677
Charge-offs	(176)	-
Recoveries	-	9
Balance, end of period	$ 35,626	$ 18,716

Charge-offs for the three months ended June 30, 2007 were $131,000.

Bank Deposits

Bank deposits include demand deposits, savings and money market accounts and certificates of deposit. The following table presents a summary of bank deposits at June 30, 2007 and September 30, 2006:

	June 30, 2007	September 30, 2006

	Balance	Weighted Average Rate	Balance	Weighted Average Rate
	($ in 000's)			
Bank deposits:				
Demand deposits - interest bearing	$ 4,504	1.58%	$ 6,088	1.95%
Demand deposits - non-interest bearing	3,354	-	2,538	-
Savings and money market accounts	4,777,171	4.60%	2,542,894	4.59%
Certificates of deposit (1)	239,517	4.70%	255,360	4.49%
Total bank deposits	$ 5,024,546	4.60%	$ 2,806,880	4.57%

(1) Certificates of deposit in amounts of $100,000 or more at June 30, 2007 and September 30, 2006 were $70,410,944 and $72,067,000, respectively.

Certificates of deposit issued have remaining maturities at June 30, 2007 and September 30, 2006, as follows:

	June 30, 2007	September 30, 2006
	(in 000's)	
One year or less	$ 126,693	$ 125,622
One to two years	44,271	50,427
Two to three years	37,765	36,306
Three to four years	15,354	24,885
Four to five years and thereafter	15,434	18,120
Total	$ 239,517	$ 255,360

Note 7 - Borrowings:

Loans payable at June 30, 2007 and September 30, 2006 are presented below:

	June 30, 2007	September 30, 2006
	(in 000's)	
Short-term Borrowings:		
Borrowings on lines of credit (1)	$ 431,490	$ 13,040
Current portion of mortgage note payable	2,693	2,746
Federal Home Loan Bank advances (3)	5,000	-
Total short-term borrowings	439,183	15,786
Long-term Borrowings:		
Mortgage note payable (2)	62,921	65,852
Federal Home Loan Bank advances (3)	50,000	60,000
Total long-term borrowings	112,921	125,852
Total loans payable	$ 552,104	$ 141,638

(1) The Company and its subsidiaries maintain one committed and several uncommitted lines of credit denominated in U.S. dollars and one uncommitted line of credit denominated in Canadian dollars ("CDN"). At June 30, 2007, the aggregate domestic lines were $1.21 billion and CDN $40 million, respectively. During the three months ended June 30, 2007, the Company entered into a $500 million uncommitted tri-party repurchase agreement line of credit. Under this agreement, the Company pledges certain of its trading inventory as collateral against borrowings on this line. The required market value of the collateral is generally 102% of the cash borrowed. The rate is set each day at 20 basis points over the opening Fed Funds rate and this agreement can be terminated by either party on any business day. The outstanding balances against these lines of credit at June 30, 2007 were $426.9 million and CDN $3.5 million, respectively. The interest rates for the lines of credit are variable and are based on the Fed Funds rate, LIBOR, and Canadian prime rate. For the three months ended June 30, 2007, interest rates on the lines of credit ranged from 5.25% to 6.259%. For the three months ended June 30, 2006, interest rates

on the lines of credit ranged from 4.75% to 6.763%. In addition, the Company’s joint ventures in Turkey and Argentina have multiple settlement lines of credit. The Company has guaranteed certain of these settlement lines of credit as follows: four in Turkey totaling $22.5 million and one in Argentina for $3 million. On June 30, 2007, there was an outstanding balance of $313,000 on the settlement lines in Turkey. At June 30, 2007 the aggregate unsecured settlement lines of credit available were $77.5 million, and there were outstanding balances of $989,000 on these lines. The interest rates for these lines of credit ranged from 9% to 21%.

(2) Mortgage note payable evidences a mortgage loan for the financing of the Company's home office complex. The mortgage loan bears interest at 5.7% and is secured by land, buildings, and improvements with a net book value of $71.5 million at June 30, 2007.

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(3) RJBank has $55 million in FHLB advances outstanding at June 30, 2007, which are comprised of one short-term, fixed rate advance and several long-term, fixed rate advances. The short-term, fixed rate advance bears interest at 5.67% and the long-term, fixed rate advances bear interest at rates ranging from 4.90% to 5.65%. The outstanding FHLB advances mature between May 2008 and February 2011. These advances are secured by a blanket lien on RJBank's residential loan portfolio granted to FHLB. The FHLB has the right to convert advances totaling $35 million and $50 million at June 30, 2007 and September 30, 2006, respectively, to a floating rate at one or more future dates. RJBank has the right to prepay these advances without penalty if the FHLB exercises its right.

Note 8 – Stock Based Compensation:

Effective October 1, 2005, the Company adopted SFAS No. 123R, "Share-Based Payment", which requires the measurement and recognition of compensation expense for all share-based payment awards made to employees and directors based on estimated fair values. The Company's share-based employee and outside director compensation plans are described more fully in Note 17 of the Notes to the Consolidated Financial Statements included in the Company's Annual Report on Form 10-K for the year ended September 30, 2006. The Company's net income for the three and nine months ended June 30, 2007 includes $7.1 million and $20.7 million, respectively, of compensation costs and $2.3 million and $6.2 million, respectively, of income tax benefits related to the Company's share-based plans available for awards to employees and members of its Board of Directors. The Company's net income for the three and nine months ended June 30, 2006 includes $5.4 million and $14.9 million, respectively, of compensation costs and $1.4 million and $4.1 million, respectively, of income tax benefits related to the Company's share-based plans available for awards to employees and members of its Board of Directors.

During the three months ended June 30, 2007, the Company granted 16,500 stock options, 131,588 shares of restricted stock and no restricted stock units to employees under its stock-based employee compensation plans. During the three months ended June 30, 2007, no options were granted to outside directors. During the nine months ended June 30, 2007, the Company granted 242,100 stock options, 1,089,015 shares of restricted stock and 60,959 restricted stock units to employees under its stock-based employee compensation plans. During the nine months ended June 30, 2007, 12,500 options were granted to outside directors. Restricted stock grants under the 2007 Stock Bonus Plan and the 2005 Restricted Stock Plan are limited to 750,000 and 1,000,000 shares, respectively, per fiscal year.

The weighted-average grant-date fair value of stock options granted to employees and directors during the three and nine months ended June 30, 2007 was $9.14 and $9.37 per share, respectively. Pre-tax unrecognized compensation expense for stock options granted to employees and outside directors, net of estimated forfeitures, was $10.6 million as of June 30, 2007, and will be recognized as expense over a weighted-average period of approximately 2.7 years.

The weighted-average grant-date fair value of restricted stock granted to employees during the three and nine months ended June 30, 2007 was $30.72 and $30.64 per share, respectively. Pre-tax unrecognized compensation expense for unvested restricted stock granted to employees, net of estimated forfeitures, was $53.8 million as of June 30, 2007, and will be recognized as expense over a weighted-average period of approximately 2.9 years.

The weighted-average grant-date fair value of restricted stock units granted to employees during the nine months ended June 30, 2007 was $31.78 per share. Pre-tax unrecognized compensation expense for unvested restricted stock units granted to employees, net of estimated forfeitures, was $3.4 million as of June 30, 2007, and will be recognized as expense over a weighted-average period of approximately 1.6 years.

Under one of its non-qualified fixed stock option plans, the Company may grant stock options to its independent contractor Financial Advisors. In addition, the Company may grant restricted stock units or restricted shares of common stock to its independent contractor Financial Advisors under one of its restricted stock plans. The Company accounts for share-based awards to its independent contractor Financial Advisors in accordance with EITF No. 96-18, "Accounting for Equity Instruments That are Issued to Other Than Employees for Acquiring, or in Conjunction with Selling, Goods or Services" and EITF 00-19, "Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company's Own Stock" (see Note 18 of the Notes to the Consolidated Financial Statements included in the Company's Annual Report on Form 10-K for the year ended September 30, 2006 for more information). The Company's net income for the three and nine months ended June 30, 2007 includes $1.9 million and $4.8 million, respectively, of compensation costs and $0.7 million and $1.8 million, respectively, of income tax benefits related to the Company's share-based plans available for awards to its independent contractor Financial Advisors. The Company's net income for the three and nine months ended June 30, 2006 includes $0.4 million and $1.2 million, respectively, of compensation costs and $0.2 million and $0.4 million, respectively, of income tax benefits related to the Company's share-based plans available for awards to its independent contractor Financial Advisors.

During the three months ended June 30, 2007, the Company granted no stock options and 25,734 shares of restricted stock to its independent contractor Financial Advisors. During the nine months ended June 30, 2007, the Company granted 343,600 stock options and 47,482 shares of restricted stock to its independent contractor Financial Advisors.

The weighted-average grant-date fair value of stock options granted to independent contractor Financial Advisors during the nine months ended June 30, 2007 was $8.96 per share. As of June 30, 2007, there was $8.1 million of total unrecognized pre-tax compensation cost related to unvested stock options granted to its independent contractor Financial Advisors based on estimated fair value at that date. These costs are expected to be recognized over a weighted average period of approximately 3.3 years.

The weighted-average grant-date fair value of restricted stock granted to independent contractor Financial Advisors during the three months ended June 30, 2007 was $30.90 per share. The weighted-average grant-date fair value of restricted stock granted to independent contractor Financial Advisors during the nine months ended June 30, 2007 was $30.91 per share. As of June 30, 2007, here was $1.2 million of total unrecognized pre-tax compensation cost related to unvested restricted shares granted to its independent contractor Financial Advisors based on estimated fair value at that date. These costs are expected to be recognized over a weighted average period of approximately 4.9 years.

Note 9 - Commitments and Contingencies:

The Company is the lessor in a leveraged commercial aircraft transaction with Continental Airlines, Inc. (“Continental"). The Company's ability to realize its expected return is dependent upon this airline’s ability to fulfill its lease obligation. In the event that this airline defaults on its lease commitment and the Trustee for the debt holders is unable to re-lease or sell the plane with adequate terms, the Company would suffer a loss of some or all of its investment. The value of this leveraged lease with Continental was approximately $10.1 million as of June 30, 2007. The Company's equity investment represented 20% of the aggregate purchase price; the remaining 80% was funded by public debt issued in the form of equipment trust certificates. The residual value of the aircraft at the end of the lease term of approximately 17 years is projected to be 15% of the original cost. This lease expires in May 2014.

Although Continental remains current on its lease payments to the Company, the inability of Continental to make its lease payments, or the termination or modification of the lease through a bankruptcy proceeding, could result in the write-down of the Company's investment and the acceleration of certain income tax payments. The Company continues to monitor this lessee for specific events or circumstances that would increase the likelihood of a default on Continental’s obligations under this lease.

The Company was also the lessor in a leveraged commercial aircraft transaction with Delta Air Lines, Inc. (“Delta”). Delta filed for bankruptcy protection on September 14, 2005. Accordingly, the Company recorded a $6.5 million pre-tax charge in 2005 to fully reserve the balance of its investment in the leveraged lease of an aircraft to Delta. The Company had taken a $4 million pre-tax charge in 2004 to partially reserve for this investment. No amount of these charges represented a cash expenditure. During the second quarter of fiscal 2007, the Company sold its interest in the Delta transaction for $2 million, which was recognized as a pre-tax gain within Other Revenue. Upon closing, certain income tax obligations of approximately $8.5 million were accelerated and paid during the quarter. These tax payments did not impact net earnings, as these amounts were previously recorded as deferred tax liabilities.

RJBank has outstanding at any time a significant number of commitments to extend credit or purchase loans. These arrangements are subject to strict credit control assessments and each client's credit worthiness is evaluated on a case-by-case basis. A summary of commitments to extend credit, purchase loans and letters of credit outstanding is as follows:

	June 30, 2007	September 30, 2006
	(in 000's)	
Standby letters of credit	$ 100,397	$ 55,193
Consumer lines of credit	30,426	25,772
Commercial lines of credit	1,173,526	760,253
Unfunded loan commitments - variable rate	561,862	264,663
Unfunded loan commitments - fixed rate	14,235	6,412

Because many commitments expire without being funded in whole or part, the contract amounts are not estimates of future cash flows.

In the normal course of business, RJBank issues, or participates in the issuance of, financial standby letters of credit whereby it provides an irrevocable guarantee of payment in the event the letter of credit is drawn down by the beneficiary. As of June 30, 2007, $100.4 million of such letters of credit were outstanding. Of the letters of credit outstanding, $100 million are underwritten as part of a larger corporate credit relationship. In the event that a letter of credit is drawn down, RJBank would pursue repayment from the account party under the existing borrowing relationship, or would liquidate collateral, or both. The proceeds from repayment or liquidation of collateral are expected to satisfy the maximum potential future amount of any payments of amounts drawn down under the existing letters of credit.

At June 30, 2007 and September 30, 2006, no securities were pledged by RJBank as collateral with the FHLB for advances. In lieu of pledging securities as collateral for advances, RJBank provided the FHLB with a blanket lien against RJBank's entire portfolio of residential mortgage loans.

As of June 30, 2007, RJBank has entered into $1.35 billion in reverse repurchase agreements, ranging from $355 million to $500 million, with three different counterparties. Although RJBank is exposed to risk that these counterparties may not fulfill their contractual obligations, the risk of default is minimal due to the creditworthiness of these counterparties, collateral received and the short duration of these agreements.

As part of an effort to increase brand awareness, the Company entered into a stadium naming rights contract in July 1998. The contract expires in 2016 and has a 4% annual escalator. Expenses of $765,000 and $736,000 were recognized in the three months ended June 30, 2007 and 2006. Expenses of $2,266,000 and $2,179,000 were recognized in the nine months ended June 30, 2007 and 2006.

In the normal course of business, the Company enters into underwriting commitments. Transactions relating to such commitments that were open at June 30, 2007 and were subsequently settled had no material effect on the consolidated financial statements as of that date.

The Company utilizes client marginable securities to satisfy deposits with clearing organizations. At June 30, 2007, the Company had client margin securities valued at $107.2 million pledged with a clearing organization to meet the point in time requirement of $68.6 million. At September 30, 2006, the Company had client margin securities valued at $93.5 million pledged with a clearing organization to meet the point in time requirement of $57.4 million.

The Company has committed a total of $42.6 million, in amounts ranging from $200,000 to $2.0 million, to 40 different independent venture capital or private equity partnerships. As of June 30, 2007, the Company has invested $31.7 million of that amount and has received $29.6 million in distributions. Additionally, the Company is the general partner in two internally sponsored private equity limited partnerships to which it has committed $14 million. Of that amount, the Company has invested $12.2 million and has received $8.7 million in distributions as of June 30, 2007.

The Company is the general partner in EIF Funds. These limited partnerships invest in the merchant banking and private equity activities of the Company and other unaffiliated venture capital limited partnerships. The EIF Funds were established as compensation and retention measures for certain qualified key employees of the Company. At June 30, 2007, the funds have unfunded commitments of $3.6 million.

At June 30, 2007, the approximate market values of collateral received that can be repledged by the Company, were:

Sources of collateral (in 000's):
Securities purchased under agreements to resell