

STIFEL FINANCIAL CORP  
Form 10-Q  
August 10, 2015

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934  
For the quarterly period ended June 30, 2015

OR

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

Commission File Number: 001-09305

STIFEL FINANCIAL CORP.

(Exact name of registrant as specified in its charter)

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

(Address of principal executive offices and zip code)

(314) 342-2000

(Registrant's telephone number, including area code)

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

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

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

Large accelerated filer

Accelerated filer

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

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

The number of shares outstanding of the registrant's common stock, \$0.15 par value per share, as of the close of business on August 3, 2015, was 69,432,970.

STIFEL FINANCIAL CORP.

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## PART I – FINANCIAL INFORMATION

## ITEM 1. FINANCIAL STATEMENTS

## STIFEL FINANCIAL CORP.

## Consolidated Statements of Financial Condition

	June 30,	December 31,
(in thousands)	2015 (Unaudited)	2014
<b>Assets</b>		
Cash and cash equivalents	\$641,937	\$689,782
Cash segregated for regulatory purposes	150	49,646
Receivables:		
Brokerage clients, net	756,727	483,887
Brokers, dealers, and clearing organizations	835,433	651,074
Securities purchased under agreements to resell	242,944	55,078
Financial instruments owned, at fair value	944,813	786,855
Available-for-sale securities, at fair value	787,897	1,513,478
Held-to-maturity securities, at amortized cost	1,125,426	1,177,565
Loans held for sale, at lower of cost or market	183,991	121,939
Bank loans, net of allowance	2,420,326	2,065,420
Investments, at fair value	190,452	210,255
Fixed assets, net	159,365	124,246
Goodwill	886,011	795,026
Intangible assets, net	60,758	54,563
Loans and advances to financial advisors and other employees, net	250,512	197,757
Deferred tax assets, net	258,157	258,142
Other assets	394,643	283,438
<b>Total Assets</b>	<b>\$10,139,542</b>	<b>\$9,518,151</b>

See accompanying Notes to Consolidated Financial Statements.

## STIFEL FINANCIAL CORP.

## Consolidated Statements of Financial Condition (continued)

	June 30,	December 31,
(in thousands, except share and per share amounts)	2015 (Unaudited)	2014
<b>Liabilities and Shareholders' Equity</b>		
Short-term borrowings from banks	\$543,289	\$—
<b>Payables:</b>		
Brokerage clients	449,834	321,496
Brokers, dealers, and clearing organizations	170,956	14,023
Drafts	59,579	75,198
Securities sold under agreements to repurchase	342,350	39,180
Bank deposits	4,313,937	4,790,081
Financial instruments sold, but not yet purchased, at fair value	566,726	587,265
Accrued compensation	228,277	359,050
Accounts payable and accrued expenses	411,843	302,320
Senior notes	450,000	625,000
Debentures to Stifel Financial Capital Trusts	82,500	82,500
<b>Total liabilities</b>	<b>\$7,619,291</b>	<b>7,196,113</b>
<b>Shareholders' Equity:</b>		
Preferred stock - \$1 par value; authorized 3,000,000 shares; none issued	—	—
Common stock - \$0.15 par value; authorized 97,000,000 shares; issued 69,338,091 and 66,336,018 shares, respectively	10,401	9,950
Additional paid-in-capital	1,759,347	1,634,114
Retained earnings	781,377	716,305
Accumulated other comprehensive income	(30,656 )	(38,331 )
	2,520,469	2,322,038
Treasury stock, at cost, 3,657 and 5 shares, respectively	(218 )	—
<b>Total Shareholders' Equity</b>	<b>2,520,251</b>	<b>2,322,038</b>
<b>Total Liabilities and Shareholders' Equity</b>	<b>\$10,139,542</b>	<b>\$9,518,151</b>

See accompanying Notes to Consolidated Financial Statements.

## STIFEL FINANCIAL CORP.

## Consolidated Statements of Operations

(Unaudited)

(in thousands, except per share amounts)	Three Months Ended		Six Months Ended June	
	June 30, 2015	2014	30, 2015	2014
<b>Revenues:</b>				
Commissions	\$183,771	\$164,371	\$364,073	\$336,614
Principal transactions	85,542	110,717	186,275	221,399
Investment banking	161,007	144,815	285,568	280,077
Asset management and service fees	119,936	94,231	233,805	183,401
Interest	43,852	46,114	86,588	88,950
Other income	13,741	8,745	25,541	13,983
Total revenues	607,849	568,993	1,181,850	1,124,424
Interest expense	10,098	8,888	23,117	17,562
Net revenues	597,751	560,105	1,158,733	1,106,862
<b>Non-interest expenses:</b>				
Compensation and benefits	409,998	355,268	765,691	702,257
Occupancy and equipment rental	48,346	43,237	92,516	84,019
Communications and office supplies	31,114	25,858	60,348	50,696
Commissions and floor brokerage	9,124	9,248	19,193	18,277
Other operating expenses	61,098	52,075	112,848	99,764
Total non-interest expenses	559,680	485,686	1,050,596	955,013
Income before income tax expense	38,071	74,419	108,137	151,849
Provision for income taxes	17,183	30,819	44,152	60,866
Net income	\$20,888	\$43,600	\$63,985	\$90,983
<b>Earnings per common share</b>				
Basic	\$0.31	\$0.66	\$0.94	\$1.38
Diluted	0.27	0.58	0.82	1.20
<b>Weighted-average number of common shares outstanding:</b>				
Basic	68,370	66,302	68,189	66,167
Diluted	77,856	75,641	77,624	75,665

See accompanying Notes to Consolidated Financial Statements.

## STIFEL FINANCIAL CORP.

## Consolidated Statements of Comprehensive Income

(Unaudited)

(in thousands)	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Net income	\$20,888	\$43,600	\$63,985	\$90,983
Other comprehensive income, net of tax:				
Changes in unrealized gains/(losses) on available-for-sale				
securities <sup>1, 2</sup>	(1,804 )	2,704	5,873	5,567
Changes in unrealized gains on cash flow				
hedging instruments <sup>3</sup>	713	360	487	986
Foreign currency translation adjustment	5,293	1,732	1,315	2,068
Total other comprehensive income, net of tax	4,202	4,796	7,675	8,621
Comprehensive income	\$25,090	\$48,396	\$71,660	\$99,604

<sup>(1)</sup>Net of tax benefit of \$1.1 million and taxes of \$1.7 million for the three months ended June 30, 2015 and 2014, respectively. Net of taxes of \$4.8 million and \$3.5 million for the six months ended June 30, 2015 and 2014, respectively.

<sup>(2)</sup>Amounts are net of reclassifications to earnings of realized gains of \$1.9 million and \$1.2 million for the three months ended June 30, 2015 and 2014, respectively. Amounts are net of reclassifications to earnings of realized gains of \$1.9 million and \$1.2 million for the six months ended June 30, 2015 and 2014, respectively.

<sup>(3)</sup>Amounts are net of reclassifications to earnings of losses of \$1.0 million and \$1.6 million for the three months ended June 30, 2015 and 2014, respectively. Amounts are net of reclassifications to earnings of losses of \$2.2 million and \$3.3 million for the six months ended June 30, 2015 and 2014, respectively.

<sup>(4)</sup>Net of taxes of \$0.4 million and \$0.2 million for the three months ended June 30, 2015 and 2014, respectively. Net of taxes of \$0.3 million and \$0.6 million for the six months ended June 30, 2015 and 2014, respectively.

<sup>(5)</sup>Net of taxes of \$3.3 million and \$1.1 million for the three months ended June 30, 2015 and 2014, respectively. Net of taxes of \$0.8 million and \$1.3 million for the six months ended June 30, 2015 and 2014, respectively.

See accompanying Notes to Consolidated Financial Statements.

## STIFEL FINANCIAL CORP.

## Consolidated Statements of Cash Flows

(Unaudited)

(in thousands)	Six Months Ended	
	June 30,	
	2015	2014
<b>Cash Flows From Operating Activities:</b>		
Net income	\$63,985	\$90,983
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation and amortization	14,899	14,306
Amortization of loans and advances to financial advisors and other employees	28,692	32,580
Amortization of premium on investment portfolio	2,222	3,118
Provision for loan losses and allowance for loans and advances to financial advisors and other employees	4,393	4,692
Amortization of intangible assets	3,673	8,204
Deferred income taxes	16,797	25,377
Excess tax benefits from stock-based compensation	(12,454 )	(17,208 )
Stock-based compensation	81,160	47,087
Gains on sale of investments	(4,941 )	(4,945 )
Other, net	(7,012 )	2,158
Decrease/(increase) in operating assets, net of assets acquired:		
Cash segregated for regulatory purposes and restricted cash	49,496	4,265
Receivables:		
Brokerage clients	(160,766)	(27,219 )
Brokers, dealers, and clearing organizations	(150,642)	(354,142)
Securities purchased under agreements to resell	(187,866)	2,866
Financial instruments owned, including those pledged	(100,353)	(226,505)
Loans originated as held for sale	(969,064)	(490,705)
Proceeds from mortgages held for sale	904,798	472,609
Loans and advances to financial advisors and other employees	(48,472 )	(37,632 )
Other assets	(27,769 )	(14,521 )
Increase/(decrease) in operating liabilities, net of liabilities assumed:		
Payables:		
Brokerage clients	128,338	4,769
Brokers, dealers, and clearing organizations	57,487	46,634
Drafts	(15,619 )	(6,161 )
Financial instruments sold, but not yet purchased	(20,539 )	204,129
Other liabilities and accrued expenses	(222,792)	(180,887)
Net cash used in operating activities	\$(572,349)	\$(396,148)

See accompanying Notes to Consolidated Financial Statements.





## STIFEL FINANCIAL CORP.

## Consolidated Statements of Cash Flows (continued)

(Unaudited)

(in thousands)	Six Months Ended	
	June 30,	
	2015	2014
<b>Cash Flows From Investing Activities:</b>		
Proceeds from:		
Maturities, calls, sales, and principal paydowns of available-for-sale securities	\$728,809	\$245,570
Calls and principal paydowns of held-to-maturity securities	52,903	46,240
Sale or maturity of investments	50,912	33,737
Sale of other real estate owned	-	131
Increase in bank loans, net	(356,580)	(357,654)
Payments for:		
Purchase of available-for-sale securities	(199 )	(132,703)
Purchase of held-to-maturity securities	-	(7,959 )
Purchase of investments	(30,283 )	(37,116 )
Purchase of fixed assets	(32,309 )	(12,107 )
Acquisitions, net of cash acquired	18,456	(7,922 )
Net cash provided by/(used in) investing activities	431,709	(229,783)
<b>Cash Flows From Financing Activities:</b>		
Proceeds from short-term borrowings from banks	327,568	312,300
Increase in securities sold under agreements to repurchase	303,170	25,771
Decrease in bank deposits, net	(476,144)	(9,667 )
Increase/(decrease) in securities loaned	99,446	(15,003 )
Excess tax benefits from stock-based compensation	12,454	17,208
Issuance of common stock for stock option exercises	245	114
Repayment of senior notes	(175,000)	—
Extinguishment of subordinated debt	-	(3,131 )
Net cash provided by financing activities	91,739	327,592
Effect of exchange rate changes on cash	1,056	2,069
Decrease in cash and cash equivalents	(47,845 )	(296,270)
Cash and cash equivalents at beginning of period	689,782	716,560
Cash and cash equivalents at end of period	\$641,937	\$420,290
<b>Supplemental disclosure of cash flow information:</b>		
Cash paid for interest	\$20,073	\$16,968
Cash paid for income taxes, net of refunds	31,951	31,594
<b>Noncash financing activities:</b>		
Unit grants, net of forfeitures	105,448	116,475
Shares surrendered into treasury	223	—
Issuance of common stock for acquisitions	80,981	—

See accompanying Notes to Consolidated Financial Statements.



STIFEL FINANCIAL CORP.

Notes to Consolidated Financial Statements

(Unaudited)

NOTE 1 – Nature of Operations and Basis of Presentation

Nature of Operations

Stifel Financial Corp. (the “Parent”), through its wholly owned subsidiaries, principally Stifel, Nicolaus & Company, Incorporated (“Stifel”), Stifel Bank & Trust (“Stifel Bank”), Stifel Nicolaus Europe Limited (“SNEL”), Century Securities Associates, Inc. (“CSA”), Keefe, Bruyette & Woods, Inc. (“KBW”), Sterne, Agee and Leach Inc. (“SALI”), Sterne Agee Financial Services, Inc. (“SAFS”), Miller Buckfire & Co. LLC (“Miller Buckfire”), 1919 Investment Counsel & Trust Co., National Association (“1919 Investment Counsel”), Stifel Trust Company, National Association, and Ziegler Capital Management, LLC (“ZCM”), is principally engaged in retail brokerage; securities trading; investment banking; investment advisory; retail, consumer, and commercial banking; and related financial services. We have offices throughout the United States and several European cities. Our major geographic area of concentration is throughout the United States, with a growing presence in the United Kingdom and Europe. Our company’s principal customers are individual investors, corporations, municipalities, and institutions.

Basis of Presentation

The consolidated financial statements include Stifel Financial Corp. and its wholly owned subsidiaries, principally Stifel Nicolaus and Stifel Bank. All material intercompany balances and transactions have been eliminated. Unless otherwise indicated, the terms “we,” “us,” “our,” or “our company” in this report refer to Stifel Financial Corp. and its wholly owned subsidiaries.

We have prepared the accompanying unaudited consolidated financial statements pursuant to the rules and regulations of the Securities and Exchange Commission (the “SEC”). Pursuant to these rules and regulations, we have omitted certain information and footnote disclosures we normally include in our annual consolidated financial statements prepared in accordance with U.S. generally accepted accounting principles. In management’s opinion, we have made all adjustments (consisting only of normal, recurring adjustments, except as otherwise noted) necessary to fairly present our financial position, results of operations and cash flows. Our interim period operating results do not necessarily indicate the results that may be expected for any other interim period or for the full fiscal year. These financial statements and accompanying notes should be read in conjunction with the consolidated financial statements and the notes thereto in our Annual Report on Form 10-K for the year ended December 31, 2014 on file with the SEC.

Certain amounts from prior periods have been reclassified to conform to the current period’s presentation. The effect of these reclassifications on our company’s previously reported consolidated financial statements was not material.

There have been no material changes in our significant accounting policies, as compared to the significant accounting policies described in our Annual Report on Form 10-K for the year ended December 31, 2014.

NOTE 2 – Recently Issued Accounting Guidance

Interest - Imputation of Interest

In April 2015, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2015-03, “Interest - Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs” (“ASU 2015-03”). The guidance in ASU 2015-03 requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. ASU 2015-03 is effective for fiscal years beginning after December 15, 2015, and interim periods within those fiscal years. Early adoption is permitted, and a retrospective approach is required. The guidance is not expected to have a material impact on our consolidated financial statements.

Disclosures for Investments in Certain Entities that Calculate Net Asset Value per Share

In May 2015, the FASB issued ASU No. 2015-07, “Fair Value Measurement (Topic 820): Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent).” The guidance removes the requirement to categorize within the fair value hierarchy all investments for which fair value is measured using the net asset value per share practical expedient. The guidance also removes the requirement to make certain disclosures for all investments that are eligible to be measured at fair value using the net asset value per share practical expedient. Rather, those disclosures are limited to investments for which the entity has elected to measure the fair value using that practical expedient. The guidance is effective for fiscal years beginning after December 15, 2015 and for interim periods within those years. The guidance shall be applied retrospectively for all periods presented. Early application is permitted. The guidance is not expected to have a material impact on our consolidated financial statements.

### Consolidation

In February 2015, the FASB issued ASU No. 2015-02, "Consolidation (Topic 810): Amendments to the Consolidation Analysis" that amends the criteria for determining whether limited partnerships and similar entities are VIEs, clarifies when a general partner or asset manager should consolidate an entity and eliminates the indefinite deferral of certain aspects of VIE accounting guidance for investments in certain investment funds. Money market funds registered under Rule 2a-7 of the Investment Company Act and similar funds are exempt from consolidation under the new guidance. The new accounting guidance is effective beginning on January 1, 2016. Early adoption is permitted; however, we do not expect to adopt this new guidance early. The guidance is not expected to have a material impact on our consolidated financial statements.

### Repurchase Agreements

In June 2014, the FASB issued ASU No. 2014-11, "Transfers and Servicing (Topic 860): Repurchase-to-Maturity Transactions, Repurchase Financings, and Disclosures," ("ASU 2014-11") amending FASB Accounting Standards Codification Topic 860, "Transfers and Servicing." The amended guidance changes the accounting for repurchase-to-maturity transactions and repurchase financing arrangements. The guidance also requires new disclosures for certain transfers accounted for as sales and collateral supporting transactions that are accounted for as secured borrowings. ASU 2014-11 is effective for annual and interim periods beginning after December 15, 2014, except for the disclosures related to secured borrowings, which are effective for annual periods beginning after December 15, 2014, and for interim periods beginning after March 15, 2015. The adoption of ASU 2014-11 did not have a material impact on our results of operations or financial position.

### Revenue Recognition

In May 2014, the FASB issued ASU No. 2014-09, "Revenue from Contracts with Customers (Topic 606)," ("ASU 2014-09") which supersedes current revenue recognition guidance, including most industry-specific guidance. ASU 2014-09 requires a company to recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods and services. The guidance also requires additional disclosures regarding the nature, amount, timing and uncertainty of revenue that is recognized. The guidance allows for either retrospective application to all periods presented or a modified retrospective approach where the guidance would only be applied to existing contracts in effect at the adoption date and new contracts going forward. ASU 2014-09 is effective for annual and interim periods beginning after December 15, 2016; however, the FASB has issued a proposal to extend the effective date by one year. Early adoption is not permitted. We are currently evaluating the impact the new guidance will have on our consolidated financial statements.

### Discontinued Operations

In April 2014, the FASB issued ASU No. 2014-08, "Presentation of Financial Statements (Topic 205) and Property, Plant, and Equipment (Topic 360): Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity," ("ASU 2014-08") amending FASB ASC Topic 205-20, "Discontinued Operations," ("ASC 205-20"). The amended guidance changes the criteria for reporting discontinued operations and requires new disclosures. ASU 2014-08 is effective for annual and interim periods beginning on or after December 15, 2014, and will be applied prospectively. The adoption of ASU 2014-08 did not have a material impact on our consolidated financial statements.

NOTE 3 – Receivables From and Payables to Brokers, Dealers, and Clearing Organizations

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Amounts receivable from brokers, dealers, and clearing organizations at June 30, 2015 and December 31, 2014, included (in thousands):

	June 30,	December 31,
	2015	2014
Deposits paid for securities borrowed	\$480,240	\$445,542
Receivables from clearing organizations	320,601	198,079
Securities failed to deliver	34,592	7,453
	\$835,433	\$651,074

Amounts payable to brokers, dealers, and clearing organizations at June 30, 2015 and December 31, 2014, included (in thousands):

	June 30,	December 31,
	2015	2014
Deposits received from securities loaned	\$104,138	\$4,215
Payable to clearing organizations	40,738	2,443
Securities failed to receive	26,080	7,365
	\$170,956	\$14,023

Deposits paid for securities borrowed approximate the market value of the securities. Securities failed to deliver and receive represent the contract value of securities that have not been delivered or received on settlement date.

#### NOTE 4 – Fair Value Measurements

We measure certain financial assets and liabilities at fair value on a recurring basis, including cash equivalents, financial instruments owned, available-for-sale securities, investments, financial instruments sold, but not yet purchased, and derivatives.

We generally utilize third-party pricing services to value Level 1 and Level 2 available-for-sale investment securities, as well as certain derivatives designated as cash flow hedges. We review the methodologies and assumptions used by the third-party pricing services and evaluate the values provided, principally by comparison with other available market quotes for similar instruments and/or analysis based on internal models using available third-party market data. We may occasionally adjust certain values provided by the third-party pricing service when we believe, as the result of our review, that the adjusted price most appropriately reflects the fair value of the particular security.

Following are descriptions of the valuation methodologies and key inputs used to measure financial assets and liabilities recorded at fair value. The descriptions include an indication of the level of the fair value hierarchy in which the assets or liabilities are classified.

##### Cash Equivalents

Cash equivalents include highly liquid investments with original maturities of three months or less. Due to their short-term nature, the carrying amount of these instruments approximates the estimated fair value. Actively traded money market funds are measured at their reported net asset value, which approximates fair value. As such, we classify the estimated fair value of these instruments as Level 1.

##### Financial Instruments Owned and Available-For-Sale Securities

When available, the fair value of financial instruments is based on quoted prices in active markets and reported in Level 1. Level 1 financial instruments include highly liquid instruments with quoted prices, such as equity securities listed in active markets, corporate fixed income securities, mortgage-backed securities, and U.S. government securities.

If quoted prices are not available for identical instruments, fair values are obtained from pricing services, broker quotes, or other model-based valuation techniques with observable inputs, such as the present value of estimated cash flows, and reported as Level 2. The nature of these financial instruments include instruments for which quoted prices are available but traded less frequently, instruments whose fair value has been derived using a model where inputs to the model are directly observable in the market, or can be derived principally from or corroborated by observable market data, and instruments that are fair valued using other financial instruments, the parameters of which can be directly observed. Level 2 financial instruments include U.S. government agency securities, mortgage-backed securities, corporate fixed income securities infrequently traded, state and municipal securities, asset-backed securities, and equity securities not actively traded.



We have identified Level 3 financial instruments to include certain corporate fixed income securities with unobservable pricing inputs and certain state and municipal securities, which include auction rate securities (“ARS”). Level 3 financial instruments have little to no pricing observability as of the report date. These financial instruments do not have active two-way markets and are measured using management’s best estimate of fair value, where the inputs into the determination of fair value require significant management judgment or estimation. ARS are valued based upon our expectations of issuer redemptions and using internal discounted cash flow models that utilize unobservable inputs.

#### Investments

Investments carried at fair value primarily include corporate equity securities, ARS, investments in mutual funds, U.S. government securities, and investments in public companies, private equity securities, and partnerships, which are classified as other in the following tables.

Corporate equity securities, mutual funds, and U.S. government securities are valued based on quoted prices in active markets and reported in Level 1.

ARS for which the market has been dislocated and largely ceased to function are reported as Level 3 assets. The methods used to value ARS are discussed above.

Investments in partnerships and other investments include our general and limited partnership interests in investment partnerships and direct investments in non-public companies. The net assets of investment partnerships consist primarily of investments in non-marketable securities. The value of these investments is at risk to changes in equity markets, general economic conditions, and a variety of other factors. We estimate fair value for private equity investments based on our percentage ownership in the net asset value of the entire fund, as reported by the fund or on behalf of the fund, after indication that the fund adheres to applicable fair value measurement guidance.

The valuation of these investments requires significant management judgment due to the absence of quoted market prices, inherent lack of liquidity, and long-term nature of these assets. As a result, these values cannot be determined with precision, and the calculated fair value estimates may not be realizable in a current sale or immediate settlement of the instrument.

For those funds where the net asset value is not reported by the fund, we derive the fair value of the fund by estimating the fair value of each underlying investment in the fund. In addition to using qualitative information about each underlying investment, as provided by the fund, we give consideration to information pertinent to the specific nature of the debt or equity investment, such as relevant market conditions, offering prices, operating results, financial conditions, exit strategy, and other qualitative information, as available. The lack of an independent source to validate fair value estimates, including the impact of future capital calls and transfer restrictions, is an inherent limitation in the valuation process. Commitments to fund additional investments in nonmarketable equity securities recorded at fair value were \$11.3 million and \$11.5 million at June 30, 2015 and December 31, 2014, respectively.

#### Financial Instruments Sold, But Not Yet Purchased

Financial instruments sold, but not purchased, recorded at fair value based on quoted prices in active markets and other observable market data include highly liquid instruments with quoted prices, such as U.S. government securities, corporate fixed income securities, and equity securities listed in active markets, which are reported as Level 1.

If quoted prices are not available, fair values are obtained from pricing services, broker quotes, or other model-based valuation techniques with observable inputs, such as the present value of estimated cash flows, and reported as Level 2. The nature of these financial instruments include instruments for which quoted prices are available but traded less frequently, instruments whose fair value has been derived using a model where inputs to the model are directly observable in the market, or can be derived principally from or corroborated by observable market data, and instruments that are fair valued using other financial instruments, the parameters of which can be directly observed. Level 2 financial instruments include U.S. government agency securities, mortgage-backed securities not actively traded, and corporate fixed income securities.

#### Derivatives

Derivatives are valued using quoted market prices for identical instruments when available or pricing models based on the net present value of estimated future cash flows. The valuation models used require market observable inputs, including contractual terms, market prices, yield curves, credit curves, and measures of volatility. We manage credit risk for our derivative positions on a counterparty-by-counterparty basis and calculate credit valuation adjustments, included in the fair value of these instruments, on the basis of our relationships at the counterparty portfolio/master netting agreement level. These credit valuation adjustments are determined by applying a credit spread for the counterparty to the total expected exposure of the derivative after considering collateral and other master netting arrangements. We have classified our interest rate swaps as Level 2.

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Assets and liabilities measured at fair value on a recurring basis as of June 30, 2015, are presented below:

	June 30, 2015			
	Total	Level 1	Level 2	Level 3
<b>Assets:</b>				
Cash equivalents	\$89,423	\$89,423	\$—	\$—
<b>Financial instruments owned:</b>				
U.S. government securities	29,280	29,280	—	—
U.S. government agency securities	151,895	—	151,895	—
<b>Mortgage-backed securities:</b>				
Agency	259,968	—	259,968	—
Non-agency	16,377	—	15,707	670
<b>Corporate securities:</b>				
Fixed income securities	270,594	30,389	235,633	4,572
Equity securities	41,628	40,898	111	619
State and municipal securities	175,071	—	175,071	—
<b>Total financial instruments owned</b>	<b>944,813</b>	<b>100,567</b>	<b>838,385</b>	<b>5,861</b>
<b>Available-for-sale securities:</b>				
U.S. government agency securities	1,710	—	1,710	—
State and municipal securities	73,733	—	73,733	—
<b>Mortgage-backed securities:</b>				
Agency	27,903	—	27,903	—
Commercial	36,654	—	36,654	—
Non-agency	2,934	—	2,934	—
Corporate fixed income securities	188,533	—	188,533	—
Asset-backed securities	456,430	—	456,430	—
<b>Total available-for-sale securities</b>	<b>787,897</b>	<b>—</b>	<b>787,897</b>	<b>—</b>
<b>Investments:</b>				
Corporate equity securities	54,126	51,157	7	2,962
Mutual funds	14,907	14,907	—	—
U.S. government securities	103	103	—	—
<b>Auction rate securities:</b>				
Equity securities	48,355	—	—	48,355
Municipal securities	1,324	—	—	1,324
Other <sup>1</sup>	71,637	—	2,395	69,242
<b>Total investments</b>	<b>190,452</b>	<b>66,167</b>	<b>2,402</b>	<b>121,883</b>
	<b>\$2,012,585</b>	<b>\$256,157</b>	<b>\$1,628,684</b>	<b>\$127,744</b>

<sup>1</sup> Includes \$51.2 million of partnership interests, \$13.2 million of private company investments, and \$4.8 million of private equity and other investments.

	June 30, 2015			
	Total	Level 1	Level 2	Level 3
<b>Liabilities:</b>				
<b>Financial instruments sold, but not yet purchased:</b>				
U.S. government securities	\$236,053	\$236,053	\$—	\$—

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U.S. government agency securities	5,061	—	5,061	—
Mortgage-backed securities:				
Agency	70,715	—	70,715	—
Non-agency	163	—	163	—
Corporate securities:				
Fixed income securities	189,758	1,194	188,564	—
Equity securities	64,970	64,923	47	—
State and municipal securities	6	—	6	—
Total financial instruments sold, but not yet purchased	566,726	302,170	264,556	\$ —
Derivative contracts <sup>2</sup>	4,322	—	4,322	—
	\$571,048	\$302,170	\$268,878	\$ —

<sup>2</sup>Included in accounts payable and accrued expenses in the consolidated statements of financial condition.

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Assets and liabilities measured at fair value on a recurring basis as of December 31, 2014, are presented below:

	December 31, 2014			
	Total	Level 1	Level 2	Level 3
<b>Assets:</b>				
Cash equivalents	\$122,875	\$122,875	\$—	\$—
<b>Financial instruments owned:</b>				
U.S. government securities	58,992	58,992	—	—
U.S. government agency securities	101,439	—	101,439	—
<b>Mortgage-backed securities:</b>				
Agency	159,057	—	159,057	—
Non-agency	13,366	189	12,371	806
<b>Corporate securities:</b>				
Fixed income securities	245,909	75,236	168,680	1,993
Equity securities	77,548	76,316	88	1,144
State and municipal securities	130,544	—	130,544	—
<b>Total financial instruments owned</b>	<b>786,855</b>	<b>210,733</b>	<b>572,179</b>	<b>3,943</b>
<b>Available-for-sale securities:</b>				
U.S. government agency securities	1,610	—	1,610	—
State and municipal securities	74,401	—	74,401	—
<b>Mortgage-backed securities:</b>				
Agency	209,206	—	209,206	—
Commercial	107,644	—	107,644	—
Non-agency	3,137	—	3,137	—
Corporate fixed income securities	337,406	50,892	286,514	—
Asset-backed securities	780,074	—	736,029	44,045
<b>Total available-for-sale securities</b>	<b>1,513,478</b>	<b>50,892</b>	<b>1,418,541</b>	<b>44,045</b>
<b>Investments:</b>				
Corporate equity securities	59,203	35,123	24,080	—
Mutual funds	18,144	18,144	—	—
U.S. government securities	6,555	104	6,451	—
<b>Auction rate securities:</b>				
Equity securities	46,197	—	—	46,197
Municipal securities	1,326	—	—	1,326
Other <sup>1</sup>	78,830	1,283	4,557	72,990
<b>Total investments</b>	<b>210,255</b>	<b>54,654</b>	<b>35,088</b>	<b>120,513</b>
	<b>\$2,633,463</b>	<b>\$439,154</b>	<b>\$2,025,808</b>	<b>\$168,501</b>

<sup>1</sup>Includes \$42.1 million of partnership interests, \$16.4 million of private company investments, and \$14.3 million of private equity and other investments.

	December 31, 2014			
	Total	Level 1	Level 2	Level 3
<b>Liabilities:</b>				
<b>Financial instruments sold, but not yet purchased:</b>				
U.S. government securities	\$146,592	\$146,592	\$—	\$—

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U.S. government agency securities	10,029	—	10,029	—
Mortgage-backed securities:				
Agency	28,067	—	28,067	—
Non-agency	4,556	401	4,155	—
Corporate securities:				
Fixed income securities	293,008	17,116	275,892	—
Equity securities	105,013	105,013	—	—
Total financial instruments sold, but not yet purchased	587,265	269,122	318,143	—
Derivative contracts <sup>2</sup>	5,641	—	5,641	—
	\$592,906	\$269,122	\$323,784	\$ —

<sup>2</sup>Included in accounts payable and accrued expenses in the consolidated statements of financial condition.

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The following table summarizes the changes in fair value carrying values associated with Level 3 financial instruments during the three months ended June 30, 2015 (in thousands):

	Three Months Ended June 30, 2015			
	Available-			
	for-sale			
	Financial instruments owned securities			
	Mortgage-			
	BackedCorporate			
	Asset-			
	Securities	Fixed	Equity	Backed
	Income	Income	Equity	Backed
	Non-Agency	Securities	Securities	Securities
Balance at March 31, 2015	\$ 719	\$ 2,680	\$ 619	\$ 44,387
Unrealized gains/(losses):				
Included in changes in net assets <sup>2</sup>	(23 )	210	—	—
Included in OCI <sup>3</sup>	—	—	—	—
Realized gains/(losses) <sup>2</sup>	19	—	—	(2,136 )
Purchases	—	8,963	—	—
Sales	—	(7,281 )	—	(42,251 )
Redemptions	(45 )	—	—	—
Transfers:				
Into Level 3	—	—	—	—
Out of Level 3	—	—	—	—
Net change	(49 )	1,892	—	(44,387 )
Balance at June 30, 2015	\$ 670	\$ 4,572	\$ 619	\$ —

	Three Months Ended June 30, 2015			
	Investments			
	Auction Rate		Auction Rate	
	Corporate	Securities –	Securities –	
	Equity	Equity	Municipal	Other <sup>1</sup>
Balance at March 31, 2015	\$ —	\$ 42,518	\$ 1,330	\$ 66,557
Unrealized gains/(losses):				
Included in changes in net assets <sup>2</sup>	85	(788 )	(6 )	3,030
Included in OCI <sup>3</sup>	—	—	—	—
Realized gains <sup>2</sup>	—	—	—	126
Purchases	—	6,625	—	2,701
Sales	—	—	—	(266 )
Redemptions	—	—	—	(29 )
Transfers:				
Into Level 3	2,877	—	—	—

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Out of Level 3	—	—	—	(2,877 )
Net change	2,962	5,837	(6 )	2,685
Balance at June 30, 2015	\$2,962	\$ 48,355	\$ 1,324	\$69,242

<sup>1</sup>Includes partnership interests, private company investments, and private equity investments.

<sup>2</sup>Realized and unrealized gains/(losses) related to financial instruments owned and investments are reported in other income in the consolidated statements of operations.

<sup>3</sup>Unrealized gains/(losses) related to available-for-sale securities are reported in accumulated other comprehensive loss in the consolidated statements of financial condition.

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The following table summarizes the changes in fair value carrying values associated with Level 3 financial instruments during the six months ended June 30, 2015 (in thousands):

	Six Months Ended June 30, 2015			
	Financial instruments owned		Available-for-sale securities	
	Mortgage-Backed Corporate Securities		Asset-Backed Securities	
	Non-Agency	Fixed Income	Equity	Backed
Balance at December 31, 2014	\$ 806	\$ 1,993	\$ 1,144	\$ 44,045
Unrealized gains/(losses):				
Included in changes in net assets <sup>2</sup>	(83 )	210	—	—
Included in OCI <sup>3</sup>	—	—	—	342
Realized gains/(losses) <sup>2</sup>	33	—	—	(2,136 )
Purchases	—	11,643	—	—
Sales	—	(9,274 )	(525 )	(42,251 )
Redemptions	(86 )	—	—	—
Transfers:				
Into Level 3	—	—	—	—
Out of Level 3	—	—	—	—
Net change	(136)	2,579	(525 )	(44,045 )
Balance at June 30, 2015	\$ 670	\$ 4,572		