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 December 31, 2008

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, a non-accelerated filer, or a smaller reporting company. See the definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act.

| | |
|---|---|
| Large accelerated filer x | Accelerated filer o |
| Non-accelerated filer o | Smaller reporting company o |

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

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

122,352,787 shares of Common Stock as of February 4, 2009

RAYMOND JAMES FINANCIAL, INC. AND SUBSIDIARIES

Form 10-Q for the Quarter Ended December 31, 2008

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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)

| | December 31, 2008 | September 30, 2008 |
|---|---|---|
| | (in 000's) | |
| Assets | | |
| Cash and Cash Equivalents | $ 480,982 | $ 3,207,493 |
| Assets Segregated Pursuant to Regulations and Other Segregated Assets | 4,654,266 | 4,311,933 |
| Securities Purchased under Agreements to Resell and Other Collateralized Financings | 1,302,588 | 950,546 |
| Financial Instruments, at Fair Value: | | |
| Trading Instruments | 259,674 | 314,008 |
| Available for Sale Securities | 467,844 | 577,933 |
| Private Equity and Other Investments | 212,814 | 209,915 |
| Receivables: | | |
| Brokerage Clients, Net | 1,309,054 | 1,850,464 |
| Stock Borrowed | 557,536 | 675,080 |
| Bank Loans, Net | 7,676,791 | 7,095,227 |
| Brokers-Dealers and Clearing Organizations | 73,191 | 186,841 |
| Other | 358,018 | 344,594 |
| Investments in Real Estate Partnerships - Held by Variable Interest Entities | 264,475 | 239,714 |
| Property and Equipment, Net | 190,743 | 192,450 |
| Deferred Income Taxes, Net | 156,400 | 108,765 |
| Deposits With Clearing Organizations | 88,374 | 94,242 |
| Goodwill | 62,575 | 62,575 |
| Prepaid Expenses and Other Assets | 166,991 | 287,836 |
| | | |
| | $ 18,282,316 | $ 20,709,616 |
| | | |
| Liabilities And Shareholders' Equity | | |
| Loans Payable | $ 161,278 | $ 2,212,224 |
| Loans Payable Related to Investments by Variable Interest Entities in Real Estate Partnerships | 94,694 | 102,564 |
| Payables: | | |
| Brokerage Clients | 5,934,448 | 5,789,952 |
| Stock Loaned | 549,054 | 695,739 |
| Bank Deposits | 8,792,982 | 8,774,457 |
| Brokers-Dealers and Clearing Organizations | 68,229 | 266,272 |
| Trade and Other | 149,589 | 154,915 |

| | | |
|---|---|---|
| Trading Instruments Sold but Not Yet Purchased, at Fair Value | 82,665 | 123,756 |
| Securities Sold Under Agreements to Repurchase | 60,817 | 122,728 |
| Accrued Compensation, Commissions and Benefits | 229,909 | 345,782 |
| Income Taxes Payable | 48,416 | - |
| | | |
| | 16,172,081 | 18,588,389 |
| | | |
| Minority Interests | 244,816 | 237,322 |
| | | |
| Shareholders' Equity: | | |
| Preferred Stock; $.10 Par Value; Authorized 10,000,000 Shares; Issued and Outstanding -0- Shares | - | - |
| Common Stock; $.01 Par Value; Authorized 350,000,000 Shares; Issued 125,217,461 at December 31, 2008 and 124,078,129 at September 30, 2008 | 1,210 | 1,202 |
| Shares Exchangeable into Common Stock; 260,937 at December 31, 2008 and 273,042 at September 30, 2008 | 3,349 | 3,504 |
| Additional Paid-In Capital | 367,695 | 355,274 |
| Retained Earnings | 1,687,390 | 1,639,662 |
| Accumulated Other Comprehensive Income | (107,173) | (33,976) |
| | 1,952,471 | 1,965,666 |
| Less: 4,103,946 and 3,825,619 Common Shares in Treasury, at Cost | (87,052) | (81,761) |
| | 1,865,419 | 1,883,905 |
| | | |
| | $ 18,282,316 | $ 20,709,616 |

See accompanying Notes to Condensed Consolidated Financial Statements.

RAYMOND JAMES FINANCIAL, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME
(Unaudited)
(in 000's, except per share amounts)

| | Three Months Ended | |
|---|---|---|
| | December 31, 2008 | December 31, 2007 |
| Revenues: | | |
| Securities Commissions and Fees | $ 418,225 | $ 472,605 |
| Investment Banking | 20,733 | 23,855 |
| Investment Advisory Fees | 44,435 | 56,605 |
| Interest | 143,612 | 212,950 |
| Net Trading Profits | 9,175 | 1,102 |
| Financial Service Fees | 33,135 | 32,975 |
| Other | 26,518 | 29,099 |
| Total Revenues | 695,833 | 829,191 |
| | | |
| Interest Expense | 31,891 | 143,364 |
| Net Revenues | 663,942 | 685,827 |
| | | |
| Non-Interest Expenses: | | |
| Compensation, Commissions and Benefits | 419,254 | 470,604 |
| Communications and Information Processing | 35,223 | 31,011 |
| Occupancy and Equipment Costs | 26,435 | 21,397 |
| Clearance and Floor Brokerage | 8,588 | 8,586 |
| Business Development | 24,724 | 23,859 |
| Investment Advisory Fees | 9,722 | 12,930 |
| Bank Loan Loss Provision | 24,870 | 12,820 |
| Other | 18,469 | 13,318 |
| Total Non-Interest Expenses | 567,285 | 594,525 |
| | | |
| Minority Interest in (Losses) Earnings of Subsidiaries | (5,007) | 545 |
| | | |
| Income Before Provision for Income Taxes | 101,664 | 90,757 |
| | | |
| Provision for Income Taxes | 40,571 | 34,515 |
| | | |
| Net Income | $ 61,093 | $ 56,242 |
| | | |
| Net Income per Share-Basic | $ 0.52 | $ 0.48 |
| Net Income per Share-Diluted | $ 0.52 | $ 0.47 |
| Weighted Average Common Shares Outstanding-Basic | 116,575 | 116,881 |

| | | |
|---|---|---|
| Weighted Average Common and Common Equivalent Shares Outstanding-Diluted | 118,087 | 120,241 |
| | | |
| Dividends Paid per Common Share | $ 0.11 | $ 0.11 |
| | | |
| Net Income | $ 61,093 | $ 56,242 |
| Other Comprehensive Income: | | |
| Change in Unrealized Loss on Available for Sale Securities, Net of Tax | (53,387) | (2,893) |
| Change in Currency Translations | (19,810) | 2,066 |
| Total Comprehensive (Loss) Income | $ (12,104) | $ 55,415 |

See accompanying Notes to Condensed Consolidated Financial Statements.

RAYMOND JAMES FINANCIAL, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)
(in 000's)
(continued on next page)

| | Three Months Ended | |
|---|---|---|
| | December 31, 2008 | December 31, 2007 |
| Cash Flows From Operating Activities: | | |
| Net Income | $ 61,093 | $ 56,242 |
| Adjustments to Reconcile Net Income to Net | | |
| Cash Provided by (Used in) Operating Activities: | | |
| Depreciation and Amortization | 8,345 | 6,993 |
| Excess Tax Benefits from Stock-Based Payment Arrangements | (3,754) | (360) |
| Deferred Income Taxes | (16,423) | (1,808) |
| Premium and Discount Amortization on Available for Sale Securities | | |
| and Unrealized/Realized Gain on Other Investments | (1,192) | (2,128) |
| Other-than-Temporary Impairment on Available for Sale Securities | 571 | - |
| Impairment of and Loss on Sale of Property and Equipment | 6,197 | 19 |
| Gain on Sale of Loans Available for Sale | (49) | (97) |
| Provision for Loan Loss, Legal Proceedings, Bad Debts and Other Accruals | 30,153 | 14,077 |
| Stock-Based Compensation Expense | 2,769 | 12,504 |
| Loss on Company-Owned Life Insurance | 13,505 | 876 |
| | | |
| (Increase) Decrease in Operating Assets: | | |
| Assets Segregated Pursuant to Regulations and Other Segregated Assets | (342,333) | (413,202) |
| Receivables: | | |
| Brokerage Clients, Net | 539,995 | (115,516) |
| Stock Borrowed | 117,544 | 342,730 |
| Brokers-Dealers and Clearing Organizations | 113,650 | 21,118 |
| Other | (16,320) | 3,243 |
| Securities Purchased Under Agreements to Resell and Other Collateralized | | |
| Financings, Net of Securities Sold Under Agreements to Repurchase | (68,953) | 152,359 |
| Trading Instruments, Net | 13,243 | (119,022) |
| Proceeds from Sale of Loans Available for Sale | 3,540 | 9,640 |
| Origination of Loans Available for Sale | (3,217) | (10,545) |
| Prepaid Expenses and Other Assets | 95,798 | (26,954) |
| Minority Interest | (5,007) | 545 |

| | | |
|---|---|---|
| Increase (Decrease) in Operating Liabilities: | | |
| Payables: | | |
| Brokerage Clients | 144,496 | 497,638 |
| Stock Loaned | (146,685) | (341,034) |
| Brokers-Dealers and Clearing Organizations | (198,043) | 55,166 |
| Trade and Other | (13,989) | 18,560 |
| Accrued Compensation, Commissions and Benefits | (115,086) | (107,245) |
| Income Taxes Payable | 52,171 | 22,811 |
| | | |
| Net Cash Provided by Operating Activities | 272,019 | 76,610 |

See accompanying Notes to Condensed Consolidated Financial Statements.

RAYMOND JAMES FINANCIAL, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)
(in 000's)
(continued)

| | Three Months Ended December 31, 2008 | December 31, 2007 |
|---|---|---|
| Cash Flows from Investing Activities: | | |
| Additions to Property and Equipment, Net | (15,138) | (8,329) |
| Bank Loan Originations and Purchases | (1,196,108) | (1,798,220) |
| Bank Loan Repayments and Increase in Unearned Fees, net | 571,148 | 596,411 |
| Purchases of Private Equity and Other Investments, Net | (1,703) | (464) |
| Investments in Company-Owned Life Insurance | (8,836) | (47,818) |
| Investments in Real Estate Partnerships-Held by Variable Interest Entities | (24,761) | (5,199) |
| Repayments of Loans by Investor Members of Variable Interest Entities Related to Investments in Real Estate Partnerships | 783 | 1,797 |
| Securities Purchased Under Agreements to Resell, Net | (345,000) | 600,000 |
| Purchases of Available for Sale Securities | - | (23,754) |
| Available for Sale Securities Maturations and Repayments | 24,907 | 20,125 |
| Net Cash Used in Investing Activities | (994,708) | (665,451) |
| Cash Flows from Financing Activities: | | |
| Proceeds from Borrowed Funds, Net | - | 1,509 |
| Repayments of Borrowings, Net | (2,050,946) | (668) |
| Proceeds from Borrowed Funds Related to Company-Owned Life Insurance | 38,120 | - |
| Proceeds from Borrowed Funds Related to Investments by Variable Interest Entities in Real Estate Partnerships | 1,260 | 1,435 |
| Repayments of Borrowed Funds Related to Investments by Variable Interest Entities in Real Estate Partnerships | (9,130) | (9,378) |
| Proceeds from Capital Contributed to Variable Interest Entities Related to Investments in Real Estate Partnerships | 10,685 | 11,716 |
| Minority Interest | 1,816 | 6,179 |
| Exercise of Stock Options and Employee Stock Purchases | 4,135 | 7,107 |
| Increase in Bank Deposits | 18,525 | 623,603 |
| Purchase of Treasury Stock | (4,462) | (6,854) |

| | | |
|---|---|---|
| Dividends on Common Stock | (13,365) | (13,357) |
| Excess Tax Benefits from Stock-Based Payment Arrangements | 3,754 | 360 |
| Net Cash (Used in) Provided by Financing Activities | (1,999,608) | 621,652 |
| Currency Adjustment: | | |
| Effect of Exchange Rate Changes on Cash | (4,214) | 2,066 |
| Net (Decrease) Increase in Cash and Cash Equivalents | (2,726,511) | 34,877 |
| Cash and Cash Equivalents at Beginning of Year | 3,207,493 | 644,943 |
| Cash and Cash Equivalents at End of Period | $ 480,982 | $ 679,820 |
| Supplemental Disclosures of Cash Flow Information: | | |
| Cash Paid for Interest | $ 33,601 | $ 144,769 |
| Cash Paid for Income Taxes | $ 1,197 | $ 14,147 |

See accompanying Notes to Condensed Consolidated Financial Statements.

RAYMOND JAMES FINANCIAL, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
December 31, 2008

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 7 below. 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.

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, 2008. 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. For the three months ended December 31, 2008, the Company reclassified cash collateral related to interest rate swap contracts in accordance with FASB Staff Position ("FSP") FIN No. 39-1, "Amendment of FASB Interpretation No. 39" ("FSP FIN No. 39-1"). See Note 2 below for further discussion of the Company's adoption of this accounting pronouncement. The Condensed Consolidated Statements of Financial Condition were adjusted for the period ended September 30, 2008, which resulted in reclassifications between Brokers-Dealers and Clearing Organizations Receivables and Payables, Trading Instruments, and Trading Instruments Sold but Not Yet Purchased, netting to a \$22.2 million adjustment between total assets and total liabilities. This reclassification had an immaterial impact on the Condensed Consolidated Statements of Cash Flows for the three months ended December 31, 2007. In the quarter ended December 31, 2008, a new intersegment component to the Company's segment reporting was added to reflect total gross revenues by segment with the elimination of intersegment transactions in this new segment. In addition, the methodology for allocating the Company's corporate bonus pool expense to individual segments was changed. Reclassifications have been made in the segment disclosure for the three months ended December 31, 2007 to conform to this presentation. Additional information is provided in Note 18 below. In the quarter ended December 31, 2008, the Condensed Consolidated Statements of Financial Condition were adjusted to reflect the reclassification of certain other investments from Prepaid Expenses and Other Assets to Other Investments. This reclassification included the Company's private equity investments and other miscellaneous investments recorded at fair value and totaled \$157.2 million at September 30, 2008. The Condensed Consolidated Statements of Cash Flows for the three months ended, December 31, 2007 were adjusted for this reclassification, which resulted in a net increase of \$300,000 in cash flows provided by operating activities with the offset to cash flows used in investing activities. In addition, for the three months ended, December

31, 2007 the Condensed Consolidated Statements of Cash Flows were adjusted for a $47.8 million reclassification of investments in company-owned life insurance from an operating activity to an investing activity.

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

NOTE 2 – EFFECTS OF RECENTLY ISSUED ACCOUNTING STANDARDS:

In September 2006, the FASB issued SFAS 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. The Company adopted SFAS 157 on October 1, 2008. See Note 3 below for the additional disclosure requirements of this pronouncement and for information regarding the impact the adoption of SFAS 157 had on the financial position and operating results of the Company.

In February 2007, the FASB issued SFAS 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 was effective for the Company on October 1, 2008. The Company elected not to adopt the fair value option for any other financial assets and liabilities as permitted by SFAS 159. See Note 3 below for further discussion of the impact the provisions of this pronouncement had on the Company’s consolidated financial statements.

In April 2007, the FASB issued FSP FIN No. 39-1. 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 was adopted by the Company on October 1, 2008. See Note 10 below for information regarding the impact the adoption of FSP FIN No. 39-1 had on the Company’s consolidated financial statements.

In December 2007, the FASB issued SFAS No. 141R, “Business Combinations” (“SFAS 141R”). SFAS 141R provides new guidance on accounting for business combinations which includes the fundamental principle of recording the acquired business at fair value. In addition, this statement requires extensive disclosures about the acquisition’s quantitative and qualitative effects including validation of the fair value of goodwill. This statement is effective for all business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008 (October 1, 2009 for the Company). Earlier application is prohibited.

In December 2007, the FASB issued SFAS No. 160, “Noncontrolling Interests in Consolidated Financial Statements” (“SFAS 160”). SFAS 160 requires noncontrolling interests to be treated as a separate component of equity, not as a liability or other item outside of permanent equity. This statement is applicable to the accounting for noncontrolling interests and transactions with noncontrolling interest holders in consolidated financial statements and is effective for fiscal years beginning on or after December 15, 2008 (October 1, 2009 for the Company). The Company is currently evaluating the impact the adoption of SFAS 160 will have on its consolidated financial statements.

In February 2008, the FASB issued FSP SFAS No. 157-2, “Effective Date of FASB Statement No. 157” (“FSP SFAS No. 157-2”). FSP SFAS No. 157-2 delays the effective date of SFAS No. 157 for nonfinancial assets and nonfinancial liabilities that are not remeasured at fair value on a recurring basis (at least annually) until fiscal years beginning after November 15, 2008 (October 1, 2009 for the Company), and interim periods within those fiscal years. The Company does not expect the adoption of FSP SFAS No. 157-2 will have a material impact on its consolidated financial statements.

In October 2008, the FASB issued FSP SFAS No. 157-3, “Determining the Fair Value of a Financial Asset When the Market for That Asset is Not Active” (“FSP SFAS No. 157-3”). FSP SFAS No. 157-3 clarifies the application of SFAS 157 in a market that is not active and provides an example to illustrate key considerations in determining the fair value of a financial asset when the market for that financial asset is not active. The Company adopted FSP SFAS No 157-3 on October 1, 2008. See Note 3 below for information regarding the impact the adoption of this interpretation had on the Company’s consolidated financial statements.

In February 2008, the FASB issued FSP SFAS No. 140-3, “Accounting for Transfers of Financial Assets and Repurchase Financing Transactions” (“FSP SFAS No. 140-3”). FSP SFAS No. 140-3 addresses the issue of whether these transactions should be viewed as two separate transactions or as one "linked" transaction. The FSP includes a "rebuttable presumption" that presumes linkage of the two transactions unless the presumption can be overcome by meeting certain criteria. The FSP will be effective for fiscal years beginning after November 15, 2008 (October 1, 2009 for the Company) and will apply only to original transfers made after that date; early adoption will not be allowed. The Company is currently evaluating the impact the adoption of FSP SFAS No. 140-3 will have on its consolidated financial statements.

In March 2008, the FASB issued SFAS No. 161, “Disclosures about Derivative Instruments and Hedging Activities” (“SFAS 161”). SFAS 161 requires companies to expand its disclosures regarding derivative instruments and hedging activities to include how and why an entity is using a derivative instrument or hedging activity, an explanation of its accounting under SFAS 133, and how this instrument affects the entity’s financial position and performance as well as cash flows. SFAS 161 also clarifies that derivative instruments are subject to concentration-of-credit-risk disclosures which amends SFAS 107, “Disclosures about Fair Value of Financial Instruments”. This statement is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008 (quarter ending March 31, 2009 for the Company) with early adoption permitted. Although the Company will have to comply with additional disclosure requirements, it does not expect the adoption of SFAS No. 161 will have a material impact on its consolidated financial statements.

In June 2008, the FASB issued FSP Emerging Issues Task Force (“EITF”) 03-6-1, “Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities” (“FSP EITF 03-6-1”). FSP EITF 03-6-1 requires unvested share-based payment awards that contain nonforfeitable rights to dividends or dividend equivalents to be treated as participating securities as defined in EITF Issue No. 03-6, "Participating Securities and the Two-Class Method under FASB Statement No. 128," and, therefore, included in the earnings allocation in computing earnings per share under the two-class method described in FASB Statement No. 128, “Earnings per Share”. This FSP is effective for fiscal years beginning after December 15, 2008 (October 1, 2009 for the Company), and interim periods within those fiscal years. The Company is currently evaluating the impact the adoption of FSP EITF 03-6-1 will have on its consolidated financial statements.

In December 2008, the FASB issued FSP SFAS No. 140-4 and FIN 46R-8, “Disclosures about Transfers of Financial Assets and Interest in Variable Interest Entities”. FSP SFAS No. 140-4 and FIN 46R-7 require companies to provide additional disclosures about transfers of financial assets and their involvement with VIEs in addition to certain disclosures which apply to companies acting as the transferor, sponsor, servicer, primary beneficiary, or qualifying special purpose entity. These disclosures are intended to provide greater transparency to financial statement users regarding a company’s involvement with transferred financial assets and VIEs. The Company adopted this interpretation on October 1, 2008. See Note 7 below for the required disclosures under FSP SFAS No. 140-4 and FIN 46R-7.

In January 2009, the FASB issued FSP EITF No. 99-20-1, “Amendments to the Impairment Guidance of EITF Issue No. 99-20” (“FSP EITF No.99-20-1”). FSP EITF No. 99-20-1 amends the impairment guidance in EITF No. 99-20, “Recognition of Interest Income and Impairment on Purchased Beneficial Interest That Continue to be Held by a Transferor in Securitized Financial Assets,” to achieve more consistent determination of whether an other-than-temporary impairment (“OTTI”) has occurred. In addition, this interpretation retains and emphasizes the objective of an OTTI assessment and the related disclosure requirements in SFAS No. 115 “Accounting for Certain Investments in Debt and Equity Securities”. The Company adopted this interpretation on October 1, 2008. See Note 5 below for the impact the adoption of FSP EITF No. 99-20-1 had on the Company’s consolidated financial statements.

NOTE 3 - FAIR VALUE:

The Company adopted SFAS 157 and FSP SFAS 157-3 on October 1, 2008. The adoption of these pronouncements did not have any impact on the financial position or operating results of the Company. 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. Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. The Company determines the fair values of its financial instruments and assets and liabilities recognized at fair value in the financial statements on a recurring basis in accordance with SFAS 157. FSP SFAS No. 157-2 delays the effective date of SFAS 157 (until October 1, 2009 for the Company) for nonfinancial assets and nonfinancial liabilities, except for items recognized or disclosed at fair value on a recurring basis. As such, the Company has not applied SFAS 157 to the impairment tests or assessments under SFAS No. 142, “Goodwill and Other Intangible Assets (“SFAS 142”), real estate owned and nonfinancial long-lived assets measured at fair value for an impairment assessment under SFAS No.144, “Accounting for the Impairment or Disposal of Long-Lived Assets” (“SFAS 144”).

In determining fair value, the Company uses various valuation approaches, including market, income and/or cost approaches. Fair value is a market-based measure considered from the perspective of a market participant. As such, even when market assumptions are not readily available, the Company's own assumptions reflect those that market participants would use in pricing the asset or liability at the measurement date. The standard describes the following three levels used to classify fair value measurements:

Level 1—Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2— Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3—Prices or valuation techniques that require inputs that are both significant to the fair value measurement and unobservable.

SFAS 157 requires the Company to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The availability of observable inputs can vary from instrument to instrument and in certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, an instrument's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement. The Company's assessment of the significance of a particular input to the fair value measurement of an instrument requires judgment and consideration of factors specific to the instrument.

Valuation Techniques

The fair value for certain financial instruments is derived using pricing models and other valuation techniques that involve significant management judgment. The price transparency of financial instruments is a key determinant of the degree of judgment involved in determining the fair value of the Company's financial instruments. Financial instruments for which actively quoted prices or pricing parameters are available will generally have a higher degree of price transparency than financial instruments that are thinly traded or not quoted. In accordance with SFAS 157, the criteria used to determine whether the market for a financial instrument is active or inactive is based on the particular asset or liability. For equity securities, the Company's definition of actively traded was based on average daily volume and other market trading statistics. The Company considered the market for other types of financial instruments, including certain non-U.S. agency government securities and certain collateralized debt obligations, to be inactive as of December 31, 2008. As a result, the valuation of these financial instruments included significant management judgment in determining the relevance and reliability of market information available. The Company considered the inactivity of the market to be evidenced by several factors, including decreased price transparency caused by decreased volume of trades relative to historical levels, stale transaction prices and transaction prices that varied significantly either over time or among market makers.

Cash Equivalents

Cash equivalents consist of investments in money market mutual funds. Such instruments are classified within Level 1 of the fair value hierarchy.

Trading Instruments and Trading Instruments Sold but Not Yet Purchased

Trading Securities

Trading securities are comprised primarily of the financial instruments held by the Company's broker-dealer subsidiaries (see Note 4 to the Condensed Consolidated Financial Statements for more information). When available, the Company uses quoted prices in active markets to determine the fair value of securities. Such instruments are classified within Level 1 of the fair value hierarchy. Examples include exchange traded equity securities and liquid government debt securities.

When instruments are traded in secondary markets and quoted market prices do not exist for such securities, the Company employs valuation techniques, including matrix pricing to estimate fair value. Matrix pricing generally utilizes spread-based models periodically re-calibrated to observable inputs such as market trades or to dealer price bids in similar securities in order to derive the fair value of the instruments. Valuation techniques may also rely on other observable inputs such as yield curves, interest rates and expected principal repayments, and default probabilities. Instruments valued using these inputs are typically classified within Level 2 of the fair value hierarchy. Examples include certain municipal debt securities, corporate debt securities, agency mortgage backed securities, and restricted equity securities in public companies. Management utilizes prices from independent services to corroborate its estimate of fair value. Depending upon the type of security, the pricing service may provide a listed price, a matrix price, or use other methods including broker-dealer price quotations.

Positions in illiquid securities that do not have readily determinable fair values require significant management judgment or estimation. For these securities the Company uses pricing models, discounted cash flow methodologies, or similar techniques. Securities valued using these techniques are classified within Level 3 of the fair value hierarchy. Examples include certain municipal debt securities, certain mortgage backed securities and equity securities in private companies. For certain collateralized mortgage obligations (“CMOs”), where there has been limited activity or less transparency around significant inputs to the valuation, such as assumptions regarding performance of the underlying mortgages, securities are currently classified as Level 3 even though the Company believes that Level 2 inputs could likely be obtainable should markets for these securities become more active in the future.

Derivative Contracts

The Company enters into interest rate swaps and futures contracts as part of its fixed income business to facilitate customer transactions and to hedge a portion of the Company’s trading inventory. In addition, to mitigate interest rate risk should there be a significantly rising rate environment, Raymond James Bank (“RJBank”) purchases interest rate caps. See Note 10 of the Notes to the Condensed Consolidated Financial Statements for more information. Fair values for derivative contracts are obtained from counterparties, pricing models that consider current market trading levels and the contractual prices for the underlying financial instruments, as well as time value and yield curve or other volatility factors underlying the positions. Where model inputs can be observed in a liquid market and the model does not require significant judgment, such derivative contracts are typically classified within Level 2 of the fair value hierarchy.

Available for Sale Securities

Available for sale securities are comprised primarily of CMOs and other mortgage related debt securities. Debt and equity securities classified as available for sale are reported at fair value with unrealized gains and losses, net of deferred taxes, reported in shareholders' equity as a component of accumulated other comprehensive income. See Note 5 of the Notes to the Condensed Consolidated Financial Statements for more information. The fair value of available for sale securities is determined by obtaining third party bid quotations based upon observable data including benchmark yields, reported trades, other broker-dealer quotes, issuer spreads, two-sided markets, benchmark securities, other bids,offers, new issue data, monthly payment information, collateral performance, and reference data including market research publications. Changes to fair value are recognized in Other Comprehensive Income. Securities measured using these valuation techniques are generally classified within Level 2 of the fair value hierarchy.

If these sources are not available, are deemed unreliable, or when an active market does not exist, then the fair value is estimated using pricing models or discounted cash flow analyses, using observable market data where available as well as unobservable inputs provided by management. Securities valued using these valuation techniques are classified within Level 3 of the fair value hierarchy.

Private Equity Investments

Private equity investments, held primarily by the Company’s Proprietary Capital segment, consist of various direct and third party private equity and merchant banking investments. 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. Direct private equity investments are valued initially at transaction price until significant transactions or developments indicate that a change in the carrying values of these investments is appropriate. Generally, the carrying values of these investments will be adjusted based on financial performance, investment-specific events, financing and sales transactions with third parties and changes in market outlook. Investments in funds structured as limited partnerships are generally valued based on the financial statements of the partnerships which generally use similar methodologies. Investments valued using these valuation techniques are classified within Level 3 of the fair value hierarchy.

Other Investments

Other investments consist predominantly of Canadian government bonds. The fair value of these bonds is estimated using recent external market transactions. Such bonds are classified within Level 2 of the fair value hierarchy as the external market transactions used are less frequent than those in active markets.

Recurring Fair Value Measurements

Assets and liabilities measured at fair value on a recurring basis as of December 31, 2008 are presented below:

| December 31, 2008 (in 000's) | Level 1 | Level 2 | Level 3 | FIN 39 Netting (1) | Total |
|---|---|---|---|---|---|
| Assets: | | | | | |
| Cash Equivalents | $ 39,503 | $ - | $ - | $ - | $ 39,503 |
| Trading Instruments: | | | | | |
| Provincial and Municipal Obligations | 46 | 29,111 | 8,028 | - | 37,185 |
| Corporate Obligations | 1,277 | 15,529 | 18,071 | - | 34,877 |
| Government Obligations | 14,790 | 1,924 | - | - | 16,714 |
| Agencies | - | 45,572 | 489 | - | 46,061 |
| Total Debt Securities | 16,113 | 92,136 | 26,588 | | 134,837 |
| Derivative Contracts | - | 317,896 | - | (213,609) | 104,287 |
| Equity Securities | 19,670 | 64 | - | - | 19,734 |
| Other Securities | 816 | - | - | - | 816 |
| Total Trading Instruments | 36,599 | 410,096 | 26,588 | (213,609) | 259,674 |
| | | | | | |
| Available for Sale Securities: | | | | | |
| Agency Mortgage Backed Securities and Collateralized Mortgage Obligations | - | 244,006 | - | - | 244,006 |
| Non-Agency Collateralized Mortgage Obligations | - | 216,398 | 7,434 | - | 223,832 |
| Other Securities | 6 | - | - | - | 6 |
| Total Available for Sale Securities | 6 | 460,404 | 7,434 | - | 467,844 |
| | | | | | |
| Private Equity and Other Investments: | | | | | |
| Private Equity Investments | - | - | 157,176 | - | 157,176 |
| Other Investments | 2,166 | 52,758 | 714 | - | 55,638 |

| | | | | | |
|---|---|---|---|---|---|
| Total Private Equity and Other Investments | 2,166 | 52,758 | 157,890 | - | 212,814 |
| | | | | | |
| Other Assets | - | 89 | - | - | 89 |
| Total | $ 78,274 | $ 923,347 | $ 191,912 | $ (213,609) | $ 979,924 |
| | | | | | |
| Liabilities: | | | | | |
| Trading Instruments Sold but | | | | | |
| Not Yet Purchased: | | | | | |
| Provincial and Municipal Obligations | $ - | $ 720 | $ - | $ - | $ 720 |
| Corporate Obligations | 1,465 | 4,694 | - | - | 6,159 |
| Government Obligations | 998 | - | - | - | 998 |
| Agencies | 645 | - | - | - | 645 |
| Total Debt Securities | 3,108 | 5,414 | - | - | 8,522 |
| Derivative Contracts | - | 292,916 | - | (230,451) | 62,465 |
| Equity Securities | 11,678 | - | - | - | 11,678 |
| Total Trading Instruments Sold but Not Yet Purchased | 14,786 | 298,330 | - | (230,451) | 82,665 |
| | | | | | |
| Other Liabilities | - | - | 267 | - | 267 |
| Total | $ 14,786 | $ 298,330 | $ 267 | $ (230,451) | $ 82,932 |

(1) As permitted under FIN 39, the Company has elected to net derivative receivables and derivative payables and the related cash collateral received and paid when a legally enforceable master netting agreement exists.

Level 3 Items Measured at Fair Value on a Recurring Basis

Assets and liabilities are considered Level 3 instruments when their value is determined using pricing models, discounted cash flow methodologies or similar techniques and at least one significant model assumption or input is unobservable. Level 3 instruments also include those for which the determination of fair value requires significant management judgment or estimation. As of December 31, 2008, 5.4% and 0.5% of the Company's total assets and total liabilities, respectively, represented instruments measured at fair value on a recurring basis. Instruments measured at fair value on a recurring basis categorized as Level 3 as of December 31, 2008 represented 1.3% of the Company's total assets.

The realized and unrealized gains and losses for assets and liabilities within the Level 3 category presented in the tables below may include changes in fair value that were attributable to both observable and unobservable inputs. The following table presents additional information about Level 3 assets and liabilities measured at fair value on a recurring basis for the three months ended December 31, 2008:

| | Fair Value Measurements Using Significant Unobservable Inputs | | | | | | Change in Unrealized Gains/ (Losses) Related to Financial Instruments Held at |
|---|---|---|---|---|---|---|---|
| Three Months Ended December 31, 2008 (in 000's) | Fair Value, September 30, 2008 | Total Realized /Unrealized Gains/(Losses) Included in Earnings | Total Unrealized Gains/(Losses) Included in Other Comprehensive Income | Purchases, Issuances, and Settlements, Net | Transfers In and/ or Out of Level 3 | Fair Value, December 31, 2008 | December 31, 2008 |
| Assets: | | | | | | | |
| Trading Instruments: | | | | | | | |
| Provincial and Municipal Obligations | $ 7,107 | $ (350) | $ - | $ 1,271 | $ - | $ 8,028 | $ (350) |
| Corporate Obligations | 18,716 | (1,030) | - | 385 | - | 18,071 | (1,033) |
| Agencies | 489 | 1 | - | (1) | - | 489 | - |
| Available for Sale Securities: | | | | | | | |
| Non-Agency Collateralized Mortgage Obligations | 8,710 | (571) | (648) | (57) | - | 7,434 | (571) |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| Private Equity and Other Investments: | | | | | | | |
| Private Equity Investments | 153,282 | (330) | - | 4,224 | - | 157,176 | (247) |
| Other Investments | 844 | 33 | - | (163) | - | 714 | (130) |
| | | | | | | | |
| Liabilities: | | | | | | | |
| Other Liabilities | $ (178) | $ (89) | $ - | $ - | $ - | $ (267) | $ (89) |

Gains and losses (realized and unrealized) included in earnings for the three months ended December 31, 2008 are reported in net trading profits and other revenues in the Company’s statements of income as follows:

| Three Months Ended December 31, 2008 (in 000’s) | Net Trading Profits | Other Revenues |
|---|---|---|
| Total gains or losses included in earnings | $ (1,379) | $ (957) |
| Change in unrealized gains or losses relating to assets still held at reporting date | $ (1,383) | $ (1,037) |

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Nonrecurring Fair Value Measurements

Certain assets and liabilities are not measured at fair value on an ongoing basis but are subject to fair value measurement in certain circumstances, for example, when there is evidence of impairment. These instruments are measured at fair value on a nonrecurring basis and include certain loans that have been deemed impaired.

When a loan held for investment is deemed impaired, a creditor measures impairment based on the present value of expected future cash flows discounted at the loan's effective interest rate, except that as a practical expedient, impairment may be measured based on the fair value of the loan or on the fair value of the underlying collateral if the loan is collateral supported. As of December 31, 2008, loans deemed to be impaired based on a fair value measurement totaled $7.9 million with the portion deemed to be impaired included in the allowance for loan losses.

The following table presents financial instruments by level within the fair value hierarchy at December 31, 2008, for which a nonrecurring change in fair value was recorded during the three months ended December 31, 2008.

| | Fair Value Measurements | | | | Total Gains/ |
|---|---|---|---|---|---|
| (in 000's) | Level 1 | Level 2 | Level 3 | Total | (Losses) |
| Assets: | | | | | |
| Loans | $ - | $ - | $ 7,864 | $ 7,864 | $ - |

Fair Value Option

Effective October 1, 2008, the Company adopted 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. The Company elected not to adopt the fair value option for any other financial assets and liabilities as permitted by SFAS 159.

NOTE 4 – TRADING INSTRUMENTS AND TRADING INSTRUMENTS SOLD BUT NOT YET PURCHASED:

| | December 31, 2008 | | September 30, 2008 | |
|---|---|---|---|---|
| | Trading Instruments | Instruments Sold but Not Yet Purchased | Trading Instruments | Instruments Sold but Not Yet Purchased |
| | (in 000's) | | | |
| Provincial and Municipal Obligations | $ 37,185 | $ 720 | $ 101,748 | $ 79 |
| Corporate Obligations | 34,877 | 6,159 | 43,738 | - |
| Government Obligations | 16,714 | 998 | 28,896 | 82,062 |
| Agencies | 46,061 | 645 | 60,950 | 25 |
| Total Debt Securities | 134,837 | 8,522 | 235,332 | 82,166 |
| | | | | |
| Derivative Contracts | 104,287 | 62,465 | 35,315 | 19,302 |
| Equity Securities | 19,734 | 11,678 | 42,391 | 22,288 |
| Other Securities | 816 | - | 970 | |

| | | | | |
|---|---|---|---|---|
| Total | $ 259,674 | $ 82,665 | $ 314,008 | $ 123,756 |

Mortgage backed securities of $53.9 million and $70.1 million at December 31, 2008 and September 30, 2008, respectively, are included in Corporate Obligations and Agencies in the table above. Mortgage backed securities sold but not yet purchased were $600,000 at December 31, 2008. There were no material mortgage backed securities sold but not yet purchased at September 30, 2008. These are included in Agencies in the table above. Auction rate securities totaling $6.0 million and $16.8 million at December 31, 2008 and September 30, 2008, respectively, are included in Municipal Obligations and Equity Securities in the table above. At both December 31, 2008 and September 30, 2008 these securities were carried at par, which is management's estimate of fair value. The Company believes most of the remainder of these securities will be redeemed at par, within a reasonable time period, by virtue of call provisions, as issuers refinance their bonds to reduce the higher levels of debt service resulting from recent failed auctions. There were no auction rate securities in Trading Instruments Sold but Not Yet Purchased as of December 31, 2008 or as of September 30, 2008.

See Note 3 above for information regarding the fair value of Trading Instruments and Trading Instruments Sold but Not Yet Purchased.

NOTE 5 - AVAILABLE FOR SALE SECURITIES:

Available for sale securities are comprised primarily of CMOs and other mortgage-related debt securities owned by RJBank, and certain equity securities owned by the Company's non-broker-dealer subsidiaries. There were no proceeds from the sale of available for sale securities for the three months ended December 31, 2008 and 2007.

The amortized cost and fair values of securities available for sale at December 31, 2008 and September 30, 2008 are as follows:

| | December 31, 2008 | | | |
|---|---|---|---|---|
| | Cost Basis | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
| | (in 000's) | | | |
| Agency Mortgage Backed Securities and Collateralized Mortgage Obligations | $ 249,347 | $ 70 | $ (5,411) | $ 244,006 |
| Non-Agency Collateralized Mortgage Obligations | 392,030 | - | (168,198) | 223,832 |
| Total RJBank Available for Sale Securities | 641,377 | 70 | (173,609) | 467,838 |
| Other Securities | 3 | 3 | - | 6 |
| Total Available for Sale Securities | $ 641,380 | $ 73 | $(173,609) | $ 467,844 |

| | September 30, 2008 | | | |
|---|---|---|---|---|
| | Cost Basis | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
| | (in 000's) | | | |
| Agency Mortgage Backed Securities and Collateralized Mortgage Obligations | $ 262,823 | $ 82 | $ (3,907) | $ 258,998 |
| Non-Agency Collateralized Mortgage Obligations | 404,044 | - | (85,116) | 318,928 |
| Total RJBank Available for Sale Securities | 666,867 | 82 | (89,023) | 577,926 |

| | | | | |
|---|---|---|---|---|
| Other Securities | 3 | 4 | - | 7 |
| Total Available for Sale Securities | $ 666,870 | $ 86 | $ (89,023) | $ 577,933 |

See Note 3 above for additional information regarding the fair value of available for sale securities.

The following table shows RJBank's investments' gross unrealized losses and fair value, aggregated by investment category and length of time the individual securities have been in a continuous unrealized loss position, at December 31, 2008:

| | Less than 12 Months | | 12 Months or More | | Total | |
|---|---|---|---|---|---|---|
| | Estimated Fair Value | Unrealized Losses | Estimated Fair Value | Unrealized Losses | Estimated Fair Value | Unrealized Losses |
| | (in 000's) | | | | | |
| Agency Mortgage Backed Securities and Collateralized Mortgage Obligations | $126,360 | $ (2,572) | $110,678 | $ (2,839) | $237,038 | $ (5,411) |
| Non-Agency Collateralized Mortgage Obligations | 121,093 | (79,811) | 101,713 | (88,387) | 222,806 | (168,198) |
| Total Temporarily Impaired Securities | $247,453 | $ (82,383) | $212,391 | $ (91,226) | $459,844 | $(173,609) |

The reference point for determining when securities are in a loss position is quarter end. As such, it is possible that a security had a fair value that exceeded its amortized cost on other days during the period.

Agency Mortgage Backed Securities and Collateralized Mortgage Obligations

The Federal National Mortgage Association or Federal Home Loan Mortgage Corporation, both of which were placed under the conservatorship of the U.S. Government on September 7, 2008, guarantees the contractual cash flows of the agency mortgage backed securities. At December 31, 2008, of the 100 U.S. government-sponsored enterprise mortgage backed securities in a continuous unrealized loss position, 51 were in a continuous unrealized loss position for less than 12 months and 49 for 12 months or more. The unrealized losses at December 31, 2008 were primarily due to the continued illiquidity and uncertainty in the markets. The Company does not consider these securities other than temporarily impaired due to the guarantee provided by the Federal National Mortgage Association and the Federal Home Loan Mortgage Corporation as to the full payment of principal and interest.

Non-Agency Collateralized Mortgage Obligations

As of December 31, 2008 and including subsequent ratings changes, $133.8 million of the non-agency collateralized mortgage obligations were rated AAA by two rating agencies and $90.0 million were rated less than AAA by at least one rating agency. Of the 28 non-agency collateralized mortgage obligations in a continuous unrealized loss position, 11 were in a continuous unrealized loss position for less than 12 months and 17 for 12 months or more. All of the non-agency securities carry various amounts of credit enhancement, and none are collateralized with subprime loans. These securities were purchased based on the underlying loan characteristics such as loan to value ("LTV") ratio, credit scores, property type, location and the current level of credit enhancement. Current characteristics of each security owned such as delinquency and foreclosure levels, credit enhancement, projected losses and coverage are reviewed monthly by management. When the level of credit loss coverage for an individual security deteriorates below a specified level, management expands its analysis of the security to include detailed cash flow projections based upon loan level credit characteristics and prepayment assumptions. The resulting cash flows are reviewed to determine whether the company will receive all of the originally scheduled cash flows. The resulting projected credit losses are compared to the current level of credit enhancement to determine whether the security is expected to experience losses during any future period and therefore become other-than-temporarily impaired.

The Company has reviewed these securities in accordance with its accounting policy for other-than-temporary impairment, which is described in Note 1 of the Notes to the Consolidated Financial Statements included in the Company's Annual Report of Form 10-K for the year ended September 30, 2008. In applying FSP EITF 99-20-1, which amended EITF 99-20, the Company estimated future cash flows for each security based upon its best estimate of future delinquencies, loss severity and prepayments to determine the probability of future losses resulting in other-than-temporary impairment. Since the decline in fair value of the securities presented in the table above is not attributable to credit quality but to a significant widening of interest rate spreads across market sectors related to the continued illiquidity and uncertainty in the markets, and because the Company has the ability and intent to hold these investments until a fair value recovery or maturity, it does not consider these securities to be other-than-temporarily impaired as of December 31, 2008. It is possible that the underlying loan collateral of these securities will perform worse than current expectations, which may lead to adverse changes in cash flows on these securities and potential future other-than-temporary impairment losses. Events that may trigger material declines in fair values for these securities in the future would include but are not limited to deterioration of credit metrics, significantly higher levels of default and severity of loss on the underlying collateral, deteriorating credit enhancement and loss coverage ratios, or further illiquidity. In prior periods the Company determined that two securities in the portfolio were other-than-temporarily impaired. The Company recognized an additional loss of $571,000 on these two securities due to additional fair value declines in the three months ended December 31, 2008. No securities were identified as other-than-temporarily impaired during the three months ended December 31, 2007.

NOTE 6 – BANK LOANS, NET:

Bank client receivables are primarily comprised of loans originated or purchased by RJBank and include commercial and residential real estate loans, as well as commercial and consumer loans. These receivables are collateralized by first or second mortgages on residential or other real property, by other assets of the borrower, or are unsecured. The following table presents the balance and associated percentage of each major loan category in RJBank's portfolio, including loans receivable and loans available for sale:

| | December 31, 2008 | | | September 30, 2008 | |
|---|---|---|---|---|---|
| | Balance | | % | Balance | % |
| | ($ in 000's) | | | | |
| | | | | | |
| Commercial Loans | $ | | | | |