Stephens Inc.

(A Wholly Owned Subsidiary of SI Holdings Inc.)
(SEC I.D. No. 8-001927) (CFTC I.D. No. 0002736)

Statement of Financial Condition as of December 31, 2019, and Report of Independent Registered Public Accounting Firm

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Directors and Stockholder of Stephens Inc.

Opinion on the Financial Statements

We have audited the accompanying statement of financial condition of Stephens Inc. (the "Company") (a wholly owned subsidiary of SI Holdings Inc.) as of December 31, 2019, and the related notes (collectively referred to as the "financial statement"). In our opinion, the financial statement presents fairly, in all material respects, the financial position of the Company as of December 31, 2019, in conformity with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As discussed in Note 2 to the financial statements, effective January 1, 2019, the Company adopted Accounting Standard Codification ("ASC") Topic 842, *Leases*.

Basis for Opinion

The financial statement is the responsibility of the Company's management. Our responsibility is to express an opinion on this financial statement based on our audit. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement, whether due to error or fraud.

Our audit included performing procedures to assess the risks of material misstatement of the financial statement, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statement. Our audit also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statement. We believe that our audit of the financial statement provides a reasonable basis for our opinion.

DELOITTE & TOUCHE LLP

February 27, 2020

We have served as the Company's auditor since 2001.

STEPHENS INC.
(A Wholly Owned Subsidiary of SI Holdings Inc.)

STATEMENT OF FINANCIAL CONDITION
AS OF DECEMBER 31, 2019
(In thousands, except share amounts)

ASSETS	
CASH AND CASH EQUIVALENTS	$ 5,129
CASH - Segregated under federal and other regulations	3,500
RECEIVABLES FROM:	
Brokers and dealers	190
Clearing broker	79,303
Officers, directors, and affiliates	205
Others	9,765
MARKETABLE SECURITIES — at fair value	186,903
NOT READILY MARKETABLE SECURITIES — at fair value	25
RIGHT OF USE ASSET	105,830
FURNITURE, FIXTURES, EQUIPMENT, AND LEASEHOLD IMPROVEMENTS — At cost — net of accumulated depreciation and amortization of $35,716	6,020
OTHER	15,720
TOTAL	$ 412,590
LIABILITIES AND STOCKHOLDER'S EQUITY	
LIABILITIES:	
Payables to:	
Brokers and dealers	$ 252
Customers free credit balances	903
Securities sold but not yet purchased — at fair value	20,431
Lease liability	112,493
Accrued compensation	102,388
Other	14,428
Total liabilities	250,895
STOCKHOLDER'S EQUITY:	
Common stock, no par value — 2,000 shares authorized, issued, and outstanding	100,000
Additional paid-in capital	12,000
Retained earnings	49,695
Total stockholder's equity	161,695
TOTAL	$ 412,590

See notes to statement of financial condition.

1. ORGANIZATION

Stephens Inc., an S Corporation (the "Company"), is a full-service investment banking firm which is headquartered in Little Rock, Arkansas. The Company is a registered broker/dealer with the Securities and Exchange Commission (SEC), the Financial Industry Regulatory Authority (FINRA) and the Commodity Futures Trading Commission (CFTC). The Company is a wholly owned subsidiary of SI Holdings Inc., an S Corporation (the "Parent"). In November 2019, the Company began clearing its brokerage business and trading activity on a fully-disclosed basis with Pershing LLC ("Pershing).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Cash and Cash Equivalents —The Company defines cash and cash equivalents as currency on hand and demand deposits with banks and overnight money market deposits and instruments with a maturity of less than ninety days.

Receivable from Clearing broker – Receivables from clearing broker represents net receivable from Pershing LLC related to daily operational business.

Payables to Customers —Payables to customers primarily represent cash on deposit with the Company.

Receivables from Officers, Directors, and Affiliates — Receivables from officers, directors, and affiliates result from securities transactions executed in the ordinary course of business and carry the same terms and conditions as transactions with non-related parties.

Receivables from Others — Receivables from others result primarily from the Company's brokerage activities.

Securities Transactions — Marketable securities and securities sold but not yet purchased are carried at fair value on a trade date basis.

Concentrations of Credit Risk — In the normal course of business, the Company engages in fixed income transactions that expose it to temporary concentrations of credit risk. Credit limits are established after review of customer financial data. In the case of both debt and equity underwritings, counterparty risk is reviewed by the appropriate underwriting committee prior to commitment.

Furniture, Fixtures, Equipment, and Leasehold Improvements — Furniture, fixtures, equipment, and leasehold improvements are recorded at cost. Depreciation of furniture, fixtures, and equipment is provided over estimated useful lives of three to ten years using the straight-line method. Leasehold improvements are amortized using the straight-line method over the shorter of

10 years or the lease term. The Company annually evaluates the carrying value of its furniture, fixtures, and equipment to determine if an impairment exists.

Operating Leases – The Company enters into operating leases for real estate, substantially all of which are used in connection with its operations. The Company adopted ASU 2016-02 on January 1, 2019, which required the Company to recognize, for leases longer than one year, a right-of-use asset representing the right to use the underlying asset for the lease term, and a lease liability representing the liability to make payments. The lease term is generally determined based on the contractual maturity of the lease. For leases where the Company has the option to terminate or extend the lease, an assessment of the likelihood of exercising the option is incorporated into the determination of the lease term. Such assessment is initially performed at the inception of the lease and is updated if events occur that impact the original assessment.

An operating lease right-of-use asset is initially determined based on the operating lease liability, adjusted for initial direct costs, lease incentives and amounts paid at or prior to lease commencement. This amount is then amortized over the lease term. See Notes 10-12 for information about operating leases. Due to a no-action letter issued by the SEC, the impact to net capital is immaterial.

Income Taxes — The Company is a Qualified Subchapter S Corporation and therefore bears no entity level tax.

Use of Estimates — The preparation of statement of financial condition in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, and disclosure of contingent assets and liabilities. Actual results may differ from these estimates and assumptions, and these differences may be material.

Recent Accounting Pronouncements —In June 2016, the FASB issued Accounting Standards Update (ASU) 2016-13, *Financial Instruments-Credit Losses Measurement of Credit Losses on Financial Instruments* (Topic 326). This ASU replaces the incurred loss model with the current expected credit loss approach. For loans carried at amortized cost, the allowance for loan losses will be based on management's current estimate of all expected credit losses over the remaining contractual term of the loans. The ASU was effective for the Company on January 1, 2020 and did not have an effect on the Company's statement of financial condition.

3. FAIR VALUE MEASUREMENTS

Fair value is defined as the price that would be received from the sale of an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. In determining fair value, the Company uses various valuation approaches. The fair value hierarchy requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs by requiring that the most observable inputs be used when available. Fair value is a market-based measure considered from the perspective of a market participant rather than a Company-specific measure. Therefore, even when market assumptions are not readily available, the Company's own assumptions reflect those that the Company believes market participants would use in pricing the asset or liability at the measurement date. The hierarchy is broken down into three levels based on the observability of inputs as follows:

Level 1 — Valuations based on quoted prices in active markets for identical assets or liabilities that the Company has the ability to access. Valuation adjustments and block discounts are not applied to

Level 1 instruments. Since valuations are based on quoted prices that are readily and regularly available in an active market, valuation of these products does not entail a significant degree of judgment.

Level 2 — Valuations based on one or more quoted prices in markets that are not active or for which all significant inputs are observable, either directly or indirectly.

Level 3 — Valuations based on inputs that are unobservable and significant to the overall fair value measurement.

The availability of observable inputs can vary by product and is affected by a wide variety of factors, including, for example, the type of product, whether the product is new and not yet established in the market place, the liquidity of the markets, and other characteristics particular to the transaction. To the extent that valuation is based on models or inputs that are less observable or unobservable in the market, the determination of fair value requires more judgment. Accordingly, the degree of judgment exercised by the Company in determining fair value is greatest for instruments categorized in Level 3.

A description of the valuation techniques applied to the Company's major categories of assets and liabilities measured at fair value on a recurring basis follows:

Mortgage-backed Securities are comprised of agency issued debt and mortgage pass-throughs. Non-callable agency issued debt securities are generally valued using quoted market prices adjusted for risk characteristics. Actively traded non-callable agency issued debt securities are generally categorized in Level 2 of the fair value hierarchy.

The fair value of corporate bonds and U.S. Treasury obligations are estimated using recently executed transactions, market price quotations or bond spreads. Corporate bonds and U.S. Treasury obligations are generally categorized in Level 2 of the fair value hierarchy.

The fair value of municipal bonds is estimated using recently executed transactions, market price quotations and pricing models that factor in, where applicable, interest rates and volatility. These bonds are generally categorized in Level 2 of the fair value hierarchy.

Corporate stocks are exchange traded securities that are generally valued based on quoted prices from the exchange. To the extent these securities are actively traded, valuation adjustments are not applied, and they are categorized in Level 1 of the fair value hierarchy.

Not readily marketable securities held in proprietary inventory are valued using quoted market prices, and they are categorized in Level 1 of the fair value hierarchy. The value of other not readily marketable securities is estimated using multiple factors including the cost of the investment, terms and liquidity, developments since the acquisition of the investment, the sales price of recently issued securities, the financial condition and operating results of the issuer, earnings trends and consistency of operating cash flows, the long-term business potential of the issuer, the quoted market price of securities with similar quality and yield that are publicly traded, and other factors generally pertinent to the valuation of investments. These securities are generally categorized in Level 2 of the fair value hierarchy.

	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance as of December 31, 2019
Assets:				
State and municipal obligations		$ 3,524		$ 3,524
Mortgage-backed securities		180,440		180,440
Corporate stocks	$ 2,639			2,639
Corporate bonds, debentures and notes		300		300
Not readily marketable securities		25		25
Total assets at fair value	$ 2,639	$ 184,289	$ -	$ 186,928
Liabilities:				
Corporate stocks	$ 220			$ 220
Money markets, mutual funds and other		$ 1,445		1,445
Mortgage-backed securities		26		26
U.S. Treasury obligations		18,740		18,740
Total liabilities at fair value	$ 220	$ 20,211	$ -	$ 20,431

The following table presents the carrying values and estimated fair values at December 31, 2019 of financial assets and liabilities, excluding financial instruments that are carried at fair value on a recurring basis, and information is provided on their classification within the fair value hierarchy:

Fair Value Measurements Not on a Recurring Basis as of December 31, 2019

	Carrying Value	Level 1	Level 2	Level 3
Assets				
Cash and Cash Equivalents	$ 5,129	$ 5,129		
Cash Segregated under federal and other regulations	3,500	3,500		
Receivables and Other	105,183		$ 105,183	
Totals	$ 113,812	$ 8,629	$ 105,183	$ -
Liabilities				
Payables and Other			$ 117,971	
Totals	$ -	$ -	$ 117,971	$ -

Substantially all of the Company's assets and liabilities are carried at contracted amounts which the Company believes approximate fair value. Assets which are recorded at contract amounts approximating fair value primarily consist of short-term receivables, securities purchased under agreements to resell and certain other receivables. Similarly, the Company's liabilities such as securities sold under agreements to repurchase and certain other payables are recorded at contract amounts approximating fair value. These instruments generally have variable interest rates and short-term maturities, in many cases overnight, and accordingly, their fair values are not materially affected by changes in interest rates on market movements.

4. ASSETS SEGREGATED UNDER FEDERAL REGULATIONS

At December 31, 2019, the Company had segregated $3,500 of cash in an account "for the exclusive benefit of customers" pursuant to Rule 15c3-3 under the Securities Exchange Act of 1934.

5. RECEIVABLES FROM BROKERS AND DEALERS

Receivables from brokers and dealers at December 31, 2019, consist of the following:

Clearing broker	$ 79,303
Unsettled regular-way trades	190
Total	$ 79,493

6. FURNITURE, FIXTURES, EQUIPMENT, AND LEASEHOLD IMPROVEMENTS

Furniture, fixtures, equipment, and leasehold improvements at December 31, 2019 consisted of the following:

Leasehold improvements	$ 22,946
Computer hardware	6,768
Furniture and fixtures	8,571
Data and telephone equipment	3,286
Other	165
	41,736
Accumulated depreciation	(35,716)
Total	$ 6,020

7. BORROWINGS

The Company had no short-term bank borrowings outstanding at December 31, 2019.

As of December 31, 2019, the Company had no outstanding obligations that were subordinated to claims of general creditors.

8. NET CAPITAL REQUIREMENTS

The Company is subject to the Uniform Net Capital Rule 15c3-1 (the "Rule") under the Securities Exchange Act of 1934. The Company has elected to compute its net capital requirement under the aggregate indebtedness method of the Rule, which does not allow aggregate indebtedness to exceed 15 times net capital. At December 31, 2019, the Company had an aggregate indebtedness to net capital ratio of .96 with $128,144 of net capital, which was $119,942 in excess of its required minimum net capital of $8,202. The Company is also subject to the Commodity Futures Trading Commission's minimum financial requirements (Regulation 1.17).

The Company operates in a highly regulated industry. Applicable laws and regulations restrict permissible activities and investments. These policies require compliance with various financial and client-related regulations. The consequences of noncompliance can include substantial monetary and nonmonetary sanctions. In addition, the Company is the subject of regular, comprehensive examinations and supervision by various governmental and self-regulatory agencies. These regulatory agencies generally have broad discretion to prescribe greater limitations on the operations of a regulated entity for the protection of investors or public interest. Furthermore, where the agencies determine that such operations are unsafe or unsound, fail to comply with applicable law, or are otherwise inconsistent with the laws and regulations or with the supervisory policies, greater restrictions may be imposed.

9. EMPLOYEE BENEFIT PLANS

The Company's 401(k) profit sharing plan allows employees to begin making contributions on the first payroll date of the second calendar month following the calendar month of their date of hire/rehire. Participants share in matching contributions for a Plan year if they had Pre-Tax or Roth

401(k) contributions made to the Plan during the year and are an eligible employee at the end of the Plan Year, or have ceased being an eligible employee during the Plan Year after having attained age 65 or by reason of disability or death. The Company's contributions for each plan year are made at the discretion of the Company's Board of Directors. The Plan has graduated vesting over five years. Participants are fully vested in the Company's contributions after five years of service. Forfeitures of the Company's contributions are used to pay for plan expenses or to decrease the Company's contributions.

10. LEASES

The Company has operating leases for corporate office space. The leases have remaining lease terms of less than one year to fourteen years, some of which include options to extend leases for up to seven years. The Company determines if an arrangement is a lease at inception (or the effective date of the ASU). Operating lease assets are included in Right of Use Asset (ROU) and operating lease liabilities are included in Lease liability on the statement of financial condition.

ROU assets represent the Company's right to use an underlying asset for the lease term and lease liabilities represent the Company's obligation to make lease payments arising from the lease. Operating lease ROU assets and liabilities are recognized at commencement date (or the effective date of the ASU) based on the present value of lease payments over the lease term The Company uses an incremental borrowing rate based on the information available at commencement date (or the effective date of the ASU) in determining the present value of lease payments. The operating lease ROU assets also include any lease payments made and exclude lease incentives. The lease terms may include options to extend or terminate the lease when it is reasonably certain that the option will be exercised. The Company has lease agreements with lease and non-lease components, which are generally accounted for separately.

11. RELATED-PARTY TRANSACTIONS

The Company rents certain real property from an affiliate and other related parties under non-cancelable operating leases. At December 31, 2019, the future minimum rental commitments under these leases are $41,972, less a present value discount of $9,344 for a total liability of $32,628. These operating leases have a weighted average remaining lease term of 14 years and a weighted average discount rate of 3.98 %. The weighted average discount rate represents the Company's incremental borrowing rate at the lease inception date for all of these related party leases.

The Company pays various expenses on behalf of an affiliated entity which are attributable to the operations of that entity. The affiliate reimburses the Company for expenses paid on its behalf. The receivable balance from affiliated entities as of December 31, 2019 was $205, which is included in receivables from officers, directors and affiliates.

The Company holds positions in marketable securities of companies in which officers, directors, and affiliates are members of the Boards of Directors. Total investment in related entities was $1,660 which is included in marketable securities.

12. COMMITMENTS AND CONTINGENCIES

In addition to the lease commitment discussed in Note 11, the Company has commitments related to other office space and equipment. At December 31, 2019, the future minimum payments required under these agreements are as follows:

Years Ending December 31	Operating
2020	$ 13,623
2021	13,571
2022	13,562
2023	13,174
2024	12,845
Thereafter	71,676
Total	$ 138,451
Less: Present value discount	(25,958)
Lease liability	$ 112,493
Weighted average remaining lease term:	
Operating leases	11 years
Weighted average discount rate:	
Operating leases	3.87%

In the table above, the weighted average discount rate represents the Company's incremental borrowing rate at the lease inception date for all of the leases.

The Company is a defendant in several lawsuits, which arose from its usual business activities. Almost all of these lawsuits arose from the Company's participation as a member of the underwriting syndicate in public offerings of securities. The Company also is involved, from time to time, in investigations and proceedings by governmental and self-regulatory agencies, certain of which may result in adverse judgments, fines, or penalties. Although the ultimate outcome of these actions cannot be ascertained at this time, and the results of legal proceedings cannot be predicted with certainty, management, based on its understanding of the facts and consultation with outside counsel, does not believe that the ultimate resolution of these matters will have a materially adverse effect on the Company's financial position.

As a securities broker and dealer, the Company is engaged in various securities trading activities. The Company's exposure to credit risk associated with the nonperformance of these customers in fulfilling their contractual obligations pursuant to securities transactions can be directly impacted by volatile trading markets, which may impair the customers' ability to satisfy their obligations to the Company. The Company manages its risk in this area through Pershing's monitoring of customer position and credit limits and collateral. Additional collateral is required from customers where appropriate.

The Company has provided a guarantee to Pershing. Under the agreement, the Company has agreed to indemnify Pershing for customers introduced by the Company that are unable to satisfy the terms of their contracts. The Company's liability under these arrangements is not quantifiable. However, management believes the potential for the Company to be required to make payments under this agreement is remote. Accordingly, no amounts are recorded on the balance sheet for these contingent liabilities.

The Company also provides guarantees to securities clearinghouses and exchanges under their standard membership agreements, which require members to guarantee the performance of other members. Under the agreements, if another member becomes unable to satisfy its obligations to the clearinghouse, other members would be required to meet shortfalls. The Company's liability under these agreements is not quantifiable and may exceed the cash and securities it has posted as collateral. However, the potential requirement for the Company to make payments under these arrangements is remote. Accordingly, no liability has been recognized for these transactions.

The Company provides indemnification in connection with securities offering transactions in which it is involved. When the Company is an underwriter or placement agent, it provides a limited indemnification to the issuer related to its actions in connection with the offering and, if there are other underwriters or placement agents, indemnification of those entities is intended to result in an appropriate sharing of the risk of participating in the offering. It is not possible to quantify the aggregate exposure to the Company resulting from these types of indemnification provisions. The Company has not recorded a liability for such exposure as the likelihood of being required to pay is remote.

13. DISCLOSURES ABOUT FINANCIAL INSTRUMENTS

Off-Balance-Sheet Risk — The Company enters into various transactions involving off-balance-sheet financial instruments, which primarily include securities purchased and sold on a when-issued basis, securities to-be-announced, and options.

The Company has sold securities not yet purchased and, therefore, will be obligated to purchase such securities at a future date. The Company has exposure to losses if the market values of those securities increase prior to purchase.

The Company enters into TBA (to-be-announced) transactions to manage the Company's exposure to risk resulting from trading activities. The table below sets forth the fair value and notional amounts of open TBA contracts as of December 31, 2019.

	Gross Assets Fair Value	Gross Liabilities Fair Value	Contract/ Notional
Forward settling TBA trades	$ -	$ 124,612	$ 121,375

14. SUBSEQUENT EVENTS

The Company evaluated subsequent events through the date this statement of financial condition was issued, and identified no subsequent events that should be disclosed in the notes to the statement of financial condition.

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A copy of our December 31, 2019 statement of financial condition filed pursuant to Rule 17a-5 of the Securities Exchange Act of 1934 is available for examination at the New York Office of the Securities and Exchange Commission or at our principal office at 111 Center Street, Little Rock, Arkansas 72201.