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 June 30, 2019

(UNAUDITED)

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

STATEMENT OF FINANCIAL CONDITION
AS OF JUNE 30, 2019
(In thousands, except share amounts)

ASSETS	
CASH AND CASH EQUIVALENTS	$ 30,558
CASH - Segregated under federal and other regulations	100
GOVERNMENT SECURITIES — segregated under federal and other regulations	2,658
RECEIVABLES FROM:	
Brokers and dealers	7,145
Customers	62,341
Officers, directors, and affiliates	596
Others	11,362
MARKETABLE SECURITIES — at fair value	165,124
MARKETABLE SECURITIES pledged as collateral for repurchase agreements - at fair value	79,807
NOT READILY MARKETABLE SECURITIES — at fair value	3,014
SECURITIES PURCHASED UNDER AGREEMENTS TO RESELL	18,784
LEASE RIGHT OF USE ASSET	108,623
FURNITURE, FIXTURES, EQUIPMENT, AND LEASEHOLD IMPROVEMENTS — At cost — net of accumulated depreciation and amortization of $35,372	4,735
OTHER	22,763
TOTAL	$ 517,610
LIABILITIES AND STOCKHOLDER’S EQUITY	
LIABILITIES:	
Payables to:	
Brokers and dealers	$ 14,343
Customers including free credit balances of $33,091	44,757
Officers, directors, and affiliates	833
Securities sold under agreements to repurchase	110,182
Securities sold but not yet purchased — at fair value	20,220
Lease liability	113,507
Accrued compensation	48,458
Other	13,536
Total liabilities	365,836
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	39,774
Total stockholder’s equity	151,774
TOTAL	$ 517,610

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").

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.

Receivables from and Payables to Customers — Receivables from customers primarily consist of amounts due on cash and margin securities transactions. The value of securities owned by customers and held as collateral for these receivables is not reflected in the statement of financial condition. No allowance for doubtful accounts is considered necessary. Payables to customers primarily represent cash on deposit with the Company.

Receivables from and Payables to Officers, Directors, and Affiliates — Receivables from and payables to 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.

Securities borrowed are included in receivables from brokers and dealers in the statement of financial condition. The Company's policy is to treat securities borrowed as collateralized financing transactions and record the transactions at the amount of cash collateral advanced. The Company monitors the market value of the securities borrowed on a daily basis, with additional collateral obtained or refunded as necessary.

Transactions involving sales of securities under agreements to repurchase or purchases of securities under agreements to resell are treated as collateralized financing transactions and are recorded at their contracted resale or repurchase amounts plus accrued interest. The Company's policy is to take possession of securities with a market value in excess of the principal amount loaned plus accrued interest in order to initially collateralize the purchase of securities under agreements to resell. The Company's agreements with third parties generally contain contractual provisions to allow for additional collateral to be obtained when necessary. It is the Company's policy to value collateral daily and to obtain additional collateral when deemed appropriate.

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. In the case of repurchase and resale agreements, counterparty risk is monitored by reviewing counterparty risk compared to established credit limits. 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-us 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. The adoption impact of ASU 2016-02 as of January 1, 2019 was an increase in assets and an increase in liabilities of $95,762 respectively.

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.

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 ASU 2016-13, *Financial Instruments-Credit Losses* (Topic 326), which introduces a new accounting model, referred to as the current expected credit losses (CECL) model, for estimating credit losses on certain financial instruments and expands the disclosure requirements for estimating such credit losses. Under the new model, an entity is required to estimate the credit losses expected over the life of an exposure (or pool of exposures). This guidance also amends the current impairment model for debt securities classified as available-for-sale securities. This ASU is effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. The Company is currently assessing the impact of the adoption of this ASU on it 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 June 30, 2019
Assets:				
Government securities segregated under federal and other regulations		$ 2,658		$ 2,658
State and municipal obligations		7,030		7,030
Mortgage-backed securities		217,093		217,093
Corporate stocks	$ 4,760			4,760
Money markets, mutual funds and other	155			155
Corporate bonds, debentures and notes		382		382
U.S. Treasury obligations		15,511		15,511
Not readily marketable securities	1,469	1,545		3,014
Total assets at fair value	$ 6,384	$ 244,219	$ -	$ 250,603
Liabilities:				
Corporate stocks	$ 194			$ 194
Money markets, mutual funds and other		$ 250		250
U.S. Treasury obligations		19,776		19,776
Total liabilities at fair value	$ 194	$ 20,026	$ -	$ 20,220

The following table presents the carrying values and estimated fair values at June 30, 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 June 30, 2019

Assets	Carrying Value	Level 1	Level 2	Level 3	Total Estimated Fair Value
Cash and Cash Equivalents	$ 30,558	$ 30,558			$ 30,558
Cash Segregated under federal and other regulations	100	100			100
Receivables and Other	104,207		$ 104,207		104,207
Securities Purchased under agreements to resell, net	18,784		18,784		18,784
Totals	$ 153,649	$ 30,658	$ 122,991	$ -	$ 153,649
Liabilities					
Securities sold under agreements to repurchase, net	$ 110,182		$ 110,182		$ 110,182
Payables and Other	121,927		121,927		121,927
Totals	$ 232,109	$ -	$ 232,109	$ -	$ 232,109

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.

Netting of Financial Assets and Financial Liabilities

The following table sets forth the netting of financial assets and of financial liabilities as of June 30, 2019, pursuant to the requirements of ASU 2011-11 and ASU 2013-01.

	June 30, 2019					
	Gross Amounts of Recognized Assets	Gross Amounts Offset in the Statement of Financial Condition	Net Amounts of Assets Presented in the Statement of Financial Condition	Gross Amounts Not Offset in the Statement of Financial Condition: Financial Instruments	Cash Collateral Received	Net Amount
Offsetting of financial assets						
Securities borrowed	$ 1,088		$ 1,088	$ (1,069)		$ 19
Securities purchased under agreements to resell	18,784		18,784	(18,784)		-
Total	$ 19,872	$ -	$ 19,872	$ (19,853)	$ -	$ 19

	Gross Amounts of Recognized Liabilities	Gross Amounts Offset in the Statement of Financial Condition	Net Amounts of Liabilities Presented in the Statement of Financial Condition	Gross Amounts Not Offset in the Statement of Financial Condition: Financial Instruments	Cash Collateral Received	Net Amount
Offsetting of financial liabilities:						
Securities sold under agreements to repurchase	$ 110,182		$ 110,182	$ (110,182)		$ -
Total	$ 110,182	$ -	$ 110,182	$ (110,182)	$ -	$ -

4. ASSETS SEGREGATED UNDER FEDERAL REGULATIONS

At June 30, 2019, the Company had segregated $2,658 of marketable securities in an account “for the exclusive benefit of customers” and $100 of cash in an account “for the special reserve bank account for Brokers and Dealers” pursuant to Rule 15c3-3 under the Securities Exchange Act of 1934.

5. RECEIVABLES AND PAYABLES FROM BROKERS AND DEALERS

Receivables from brokers and dealers at June 30, 2019, consist of the following:

Securities borrowed	$ 1,088
Securities failed to deliver	4,225
Other	1,832
Total	$ 7,145

Payables to brokers and dealers at June 30, 2019, consist of the following:

Securities failed to receive	$ 1,143
Unsettled regular-way trades	10,935
Clearing allocation	4
Other	2,261
Total	$ 14,343

6. FURNITURE, FIXTURES, EQUIPMENT, AND LEASEHOLD IMPROVEMENTS

Furniture, fixtures, equipment, and leasehold improvements at June 30, 2019 consisted of the following:

Leasehold improvements	$ 21,526
Computer hardware	6,583
Furniture and fixtures	8,432
Data and telephone equipment	3,401
Other	165
	40,107
Accumulated depreciation	(35,372)
Total	$ 4,735

7. BORROWINGS

The Company had no short-term bank borrowings outstanding at June 30, 2019.

As of June 30, 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 June 30, 2019, the Company had an aggregate indebtedness to net capital ratio of 1.07 with $114,461 of net capital, which was $106,227 in excess of its required minimum net capital of $8,235. 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 and finance leases for corporate office space and equipment. 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 and finance lease assets are included in Lease Right of Use Asset and both operating and finance lease liabilities are included in Lease liability on the statement of financial condition.

Lease Right of Use (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. Lease expense is recognized on a straight-line basis over the lease term. 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 June 30, 2019 the future minimum rental commitments under these leases are $40,172, less a present value discount of $9,309 for a total liability of $30,863. These operating leases have a weighted average remaining lease term of 14 years and a weighted average discount rate of 4%. 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 June 30, 2019 was $171, 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 $2,173 which is included in marketable securities.

12. COMMITMENTS AND CONTINGENCIES

In addition to the lease commitment discussed in Note 10, the Company has commitments related to other office space and equipment. At June 30, 2019, the future minimum payments required under these agreements are as follows:

Years Ending December 31	**Finance**	**Operating**
2019	$ 8	$ 6,479
2020		13,225
2021		13,171
2022		13,159
2023		12,768
Thereafter	-	82,031
Total	8	140,833
Less: Present value discount	-	(27,334)
Lease liability	$ 8	$ 113,499

Weighted average remaining lease term:	
Operating leases	11 years
Finance leases	less than one year
Weighted average discount rate:	
Operating leases	3.87%
Finance leases	2.78%

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 and arbitrations, 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.

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's clearance activities involve the execution, settlement, and financing of various customer securities and commodities transactions on either a cash or margin basis. In margin transactions, the Company extends credit to the customer, subject to various regulatory and internal margin requirements, collateralized by cash and securities in the customer's account. Customer transactions may expose the Company to off-balance-sheet risks in the event the customer is unable to fulfill its contractual obligation or the margin requirements are not sufficient to fully cover losses that the customer may incur. The Company controls this risk by establishing credit limits for such activities and monitoring its customers' compliance and exposure on a daily basis.

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 June 30, 2019.

	Gross Assets Fair Value	Gross Liabilities Fair Value	Contract/ Notional
Forward settling TBA trades	$ -	$ 170,101	$ 164,070

14. COLLATERAL

The Company receives collateral in connection with resale agreements, securities borrowed transactions, and customer margin loans. Under many agreements, the Company is permitted to sell or repledge the securities held as collateral or for delivery to counterparties to cover short positions. At June 30, 2019, the fair value of securities received as collateral where the Company is permitted to sell or repledge the securities was $103,534 and the fair value of the collateral that had been sold or repledged was $17,838.

	June 30, 2019				
	Remaining Contractual Maturity				
	Overnight and Open	Less than 30 days	30 - 90 days	Over 90 days	Total
Securities sold under agreements to repurchase	$ 102,293	$ 7,889	$ -	$ -	$ 110,182

15. 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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