

STIFEL FINANCIAL CORP
Form 10-Q
November 10, 2010

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
Form 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the Quarterly Period Ended September 30, 2010

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission File No. 001-09305

STIFEL FINANCIAL CORP.

(Exact name of registrant as specified in its charter)

DELAWARE

(State or other jurisdiction of incorporation or organization)

43-1273600

(IRS Employer Identification No.)

**501North Broadway
St. Louis, Missouri**

(Address of principal executive offices)

63102

(Zip Code)

(314) 342-2000

(Registrant's telephone number, including area code)

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 No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

Large accelerated filer: Accelerated filer: Non-accelerated filer: Smaller reporting company:

(Do not check if a smaller reporting company)

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

The number of shares outstanding of the registrant's common stock as of October 31, 2010 was 35,188,116, which includes 636,226 exchangeable shares of TWP Acquisition Company (Canada), Inc., a wholly-owned subsidiary of the registrant. These shares are exchangeable at any time into a share of common stock of the registrant; entitle the holder to dividend and other rights substantially economically equivalent to those of a share of common stock; and, through a voting trust, entitle the holder to a vote on matters presented to common shareholders.

STIFEL FINANCIAL CORP.

Form 10-Q

TABLE OF CONTENTS

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements	3
Condensed Consolidated Statements of Financial Condition as of September 30, 2010 (unaudited) and December 31, 2009	3
Condensed Consolidated Statements of Operations for the three months and nine months ended September 30, 2010 and September 30, 2009 (unaudited)	5
Condensed Consolidated Statements of Cash Flows for the nine months ended September 30, 2010 and September 30, 2009 (unaudited)	6
Notes to Condensed Consolidated Financial Statements	8
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	43
Item 3. Quantitative and Qualitative Disclosures About Market Risk	79
Item 4. Controls and Procedures	82

PART II - OTHER INFORMATION

Item 1. Legal Proceedings	83
Item 1A. Risk Factors	84
Item 2. Unregistered Sales of Equity Securities and Use of Proceeds	84
Item 6. Exhibits	85
Signatures	86

PART I - FINANCIAL INFORMATION**ITEM 1. FINANCIAL STATEMENTS****STIFEL FINANCIAL CORP.****Consolidated Statements of Financial Condition**

<i>(in thousands)</i>	September 30, 2010 (Unaudited)	December 31, 2009
Assets		
Cash and cash equivalents	\$ 206,884	\$ 161,820
Restricted cash (including \$20 and \$19 of cash segregated for regulatory purposes, respectively)	6,888	19
Receivables:		
Brokerage clients, net	504,160	383,222
Broker, dealers and clearing organizations	237,512	309,609
Securities purchased under agreements to resell	136,075	124,854
Trading securities owned, at fair value (includes securities pledged of \$406,930 and \$287,683, respectively)	645,560	454,891
Available-for-sale securities, at fair value	830,127	578,488
Held-to-maturity securities, at amortized cost	50,176	7,574
Loans held for sale	106,788	91,117
Bank loans, net	362,567	335,157
Bank foreclosed assets held for sale, net of estimated cost to sell	1,312	3,143
Investments, at fair value	166,789	109,403
Fixed assets, net of accumulated depreciation and amortization of \$86,627 and \$71,445, respectively	76,267	62,115
Goodwill	290,850	166,725
Intangible assets, net	45,081	24,648
Loans and advances to financial advisors and other employees, net	179,487	185,123
Deferred tax assets, net	192,551	53,462
Other assets	144,769	115,986
Total Assets	\$ 4,183,843	\$ 3,167,356

See accompanying Notes to Consolidated Financial Statements.

STIFEL FINANCIAL CORP.

Consolidated Statements of Financial Condition (continued)

<i>(in thousands, except share and per share amounts)</i>	September 30, 2010 (Unaudited)	December 31, 2009
Liabilities and Shareholders' Equity		
Short-term borrowings from banks	\$ 207,100	\$ 90,800
Payables:		
Customers	218,539	214,883
Brokers, dealers and clearing organizations	248,649	90,460
Drafts	60,981	66,964
Securities sold under agreements to repurchase	98,945	122,533
Bank deposits	1,375,984	1,047,211
Federal Home Loan Bank advances	-	2,000
Trading securities sold, but not yet purchased, at fair value	318,293	277,370
Accrued compensation	184,196	166,346
Accounts payable and accrued expenses	166,919	113,364
Debenture to Stifel Financial Capital Trust II	35,000	35,000
Debenture to Stifel Financial Capital Trust III	35,000	35,000
Debenture to Stifel Financial Capital Trust IV	12,500	12,500
Other	982	9,398
	2,963,088	2,283,829
Liabilities subordinated to claims of general creditors	8,241	10,081
Shareholders' Equity:		
Preferred stock - \$1 par value; authorized 3,000,000 shares; none issued	-	-
Exchangeable common stock - \$0.15 par value; issued 636,226 and zero shares, respectively	95	-
Common stock - \$0.15 par value; authorized 97,000,000 shares; issued 35,181,014 and 30,388,270 shares, respectively	5,281	4,558
Additional paid-in-capital	1,071,790	623,943
Retained earnings	200,941	244,615
Accumulated other comprehensive income	8,589	1,302
	1,286,696	874,418
Treasury stock, at cost, 1,595,472 and 4,221 shares, respectively	(73,609)	(242)
Unearned employee stock ownership plan shares, at cost, 89,483 and 113,885 shares, respectively	(573)	(730)
	1,212,514	873,446
Total Liabilities and Shareholders' Equity	\$ 4,183,843	\$ 3,167,356

See accompanying Notes to Consolidated Financial Statements.

STIFEL FINANCIAL CORP.

Consolidated Statements of Operations

(Unaudited)

<i>(in thousands, except per share amounts)</i>	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
Revenues:				
Principal transactions	\$ 123,194	\$ 123,238	\$ 363,537	\$ 341,777
Commissions	96,986	90,905	305,655	246,236
Asset management and service fees	50,876	27,012	136,117	78,266
Investment banking	51,656	35,056	127,129	75,262
Interest	17,718	11,306	47,019	31,782
Other income	3,656	5,072	9,358	6,148
Total revenues	344,086	292,589	988,815	779,471
Interest expense	3,698	2,906	8,388	8,302
Net revenues	340,388	289,683	980,427	771,169
Non-interest expenses:				
Compensation and benefits	395,936	193,131	819,085	516,852
Occupancy and equipment rental	29,559	24,730	81,012	63,311
Communications and office supplies	19,877	14,429	50,220	39,403
Commissions and floor brokerage	7,972	6,486	18,988	17,167
Other operating expenses	29,600	20,071	78,168	55,336
Total non-interest expenses	482,944	258,847	1,047,473	692,069
Income/(loss) before income tax expense	(142,556)	30,836	(67,046)	79,100
Provision for income taxes/(benefit)	(58,220)	8,698	(27,559)	27,970
Net income/(loss)	\$ (84,336)	\$ 22,138	\$ (39,487)	\$ 51,130
Earnings per common share:				
Basic	\$ (2.47)	\$ 0.77	\$ (1.24)	\$ 1.85
Diluted (1)	\$ (2.47)	\$ 0.67	\$ (1.24)	\$ 1.62
Weighted average number of common shares outstanding:				
Basic	34,134	28,708	31,910	27,652
Diluted (1)	41,223	32,817	37,062	31,468

(1) In accordance with Topic 260, "Earnings Per Share," earnings per diluted common share is calculated using the basic weighted average number of common shares outstanding in periods a loss is incurred.

See accompanying Notes to Consolidated Financial Statements.

STIFEL FINANCIAL CORP.

Consolidated Statements of Cash Flows

(Unaudited)

<i>(in thousands)</i>	Nine Months Ended September 30,	
	2010	2009
Operating Activities:		
Net income/(loss)	\$ (39,487)	\$ 51,130
Adjustments to reconcile net income/(loss) to net cash used in operating activities:		
Depreciation and amortization	17,965	16,777
Amortization of loans and advances to financial advisors and other employees	35,486	20,910
Accretion of discounts on available-for-sale securities	5,349	(174)
Provision for loan losses and allowance for loans and advances to financial advisors and other employees	(916)	861
Amortization of intangible assets	3,480	2,060
Deferred income taxes	(60,586)	(4,925)
Stock-based compensation	183,602	35,454
Excess tax benefits from stock-based compensation	(14,280)	(12,788)
(Gain)/loss on the sale of investments	(1,234)	16,576
Other, net	(5,537)	506
Decrease/(increase) in operating assets, net of assets acquired:		
Receivables:		
Brokerage clients	(120,389)	(69,262)
Brokers, dealers and clearing organizations	73,327	(168,471)
Securities purchased under agreements to resell	(11,221)	(73,822)
Trading securities owned, including those pledged	(176,664)	(326,832)
Loans originated as mortgages held for sale	(761,075)	(677,851)
Proceeds from mortgages held for sale	715,151	678,150
Loans and advances to financial advisors and other employees	(29,362)	(88,077)
Other assets	32,851	(10,685)
Increase/(decrease) in operating liabilities, net of liabilities assumed:		
Payables:		
Customers	3,656	39,873
Brokers, dealers and clearing organizations	72,098	73,068
Drafts	40,923	(9,427)
Trading securities sold, but not yet purchased	(5,983)	179,695
Other liabilities and accrued expenses	(3,061)	(35,569)
Net cash used in operating activities	(45,907)	(362,823)

See accompanying Notes to Consolidated Financial Statements.

STIFEL FINANCIAL CORP.

Consolidated Statements of Cash Flows (continued)

(Unaudited)

<i>(in thousands)</i>	Nine Months Ended September 30,	
	2010	2009
Investing Activities:		
Proceeds from:		
Maturities, calls and principal paydowns on available-for sale securities	\$ 150,931	\$ 24,526
Sale or maturity of investments	79,195	45,238
Sale of bank branch	13,905	-
Sale of bank foreclosed assets held for sale	2,096	3,108
Decrease/(increase) in bank loans, net	(27,531)	(7,437)
Payments for:		
Purchase of available-for-sale securities	(395,646)	(264,285)
Purchase of investments	(98,794)	(91,922)
Purchase of held-to-maturity securities	(42,931)	-
Purchase of fixed assets	(21,886)	(21,210)
Acquisitions	(500)	(196,046)
Purchase of bank foreclosed assets held for sale	(344)	(3,854)
Net cash used in investing activities	(341,505)	(511,882)
Financing Activities:		
Increase in bank deposits, net	346,393	590,230
Net proceeds from short-term borrowings from banks	116,300	165,200
(Decrease)/increase in securities sold under agreements to repurchase	(23,588)	41,733
Increase in securities loaned	86,091	30,562
Excess tax benefits from stock-based compensation	14,280	12,788
Proceeds from offering of common stock	-	135,645
Issuance of common stock	865	10,092
Repurchase of common stock	(91,769)	-
Reissuance of treasury stock	2,055	-
Extinguishment of senior notes	(23,000)	-
Payment of Federal Home Loan Bank advances	(2,000)	(4,000)
Extinguishment of subordinated debt	(1,840)	(1,300)
Net cash provided by financing activities	423,787	980,950
Effect of exchange rate changes on cash	8,689	-
Increase in cash and cash equivalents	45,064	106,245
Cash and cash equivalents at beginning of period	161,820	239,725
Cash and cash equivalents at end of period	\$ 206,884	\$ 345,970
Supplemental disclosure of cash flow information:		
Cash paid for interest	\$ 8,539	\$ 8,121
Cash paid for income taxes, net of refunds	\$ 51,896	\$ 4,692

Noncash investing and financing activities:

Issuance of common stock for acquisition of Thomas Weisel Partners Group, Inc.	\$	273,964	\$	-
Units, net of forfeitures	\$	137,158	\$	67,383
Payment of Ryan Beck contingent earn-out	\$	-	\$	9,301

See accompanying Notes to Consolidated Financial Statements.

STIFEL FINANCIAL CORP.

Notes to Consolidated Financial Statements

(in thousands, except share and per share amounts)

(Unaudited)

NOTE 1 - Nature of Operations and Basis of Presentation

Nature of Operations

Stifel Financial Corp. (the "Parent"), through its wholly-owned subsidiaries, principally Stifel, Nicolaus & Company, Incorporated ("Stifel Nicolaus"), Century Securities Associates, Inc. ("CSA"), Stifel Nicolaus Limited ("SN Ltd"), and Stifel Bank & Trust ("Stifel Bank"), is principally engaged in retail brokerage, securities trading, investment banking, investment advisory, retail, consumer and commercial banking and related financial services throughout the United States. Although we have offices throughout the United States and three European cities, our major geographic area of concentration is in the Midwest and Mid-Atlantic regions, with a growing presence in the Northeast, Southeast and Western United States. Our company's principal customers are individual investors, corporations, municipalities, and institutions.

On July 1, 2010, we acquired Thomas Weisel Partners Group, Inc. ("TWPG"), an investment bank focused principally on the growth sectors of the economy, which generates revenues from three principal sources: investment banking, brokerage and asset management. The investment banking group is comprised of two primary categories of services: corporate finance and strategic advisory. The brokerage group provides equity sales and trading services to institutional investors, and offers brokerage, advisory services to high-net-worth individuals and corporate clients. The asset management group consists of: private investment funds, public equity investment products and distribution management. The employees of the investment banking, research and institutional brokerage businesses of Thomas Weisel Partners, LLC ("TWP"), a wholly-owned subsidiary of TWPG, were merged into Stifel Nicolaus during the third quarter of 2010. TWP will remain a wholly-owned broker-dealer subsidiary of the Parent. See Note 3 - Acquisition of Thomas Weisel Partners Group, Inc. for a discussion of the merger with TWPG.

Basis of Presentation

The consolidated financial statements include the accounts of Stifel Financial Corp. and its wholly-owned subsidiaries, principally Stifel, Nicolaus & Company, Incorporated. Intercompany balances and transactions have been eliminated. Unless otherwise indicated, the terms "we," "us," "our" or "our company" in this report refer to Stifel Financial Corp. and its wholly-owned subsidiaries.

We have prepared the accompanying unaudited consolidated financial statements pursuant to the rules and regulations of the Securities and Exchange Commission (the "SEC"). Pursuant to these rules and regulations, we have omitted certain information and footnote disclosures we normally include in our annual consolidated financial statements prepared in accordance with U.S. generally accepted accounting principles. In management's opinion, we have made all adjustments (consisting only of normal, recurring adjustments, except as otherwise noted) necessary to fairly present our financial position, results of operations and cash flows. Our interim period operating results do not necessarily indicate the results that may be expected for any other interim period or for the full fiscal year. These financial statements and accompanying notes should be read in conjunction with the consolidated financial statements and the notes thereto in our Annual Report on Form 10-K for the year ended December 31, 2009 on file with the SEC.

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

There have been no material changes in our significant accounting policies, as compared to the significant accounting policies described in our Annual Report on Form 10-K for the year ended December 31, 2009.

Recently Adopted Accounting Guidance

With the exception of those described below, there have been no recent accounting pronouncements or changes in accounting pronouncements during the nine months ended September 30, 2010, as compared to the recent accounting pronouncements described in our Annual Report on Form 10-K for the year ended December 31, 2009, that are of significance, or potential significance, to our company's consolidated financial statements.

Deterioration of Credit Quality for Acquired Loans

In April 2010, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("Update") No. 2010-18, "*Receivables (Topic 310): Effect of a Loan Modification When the Loan Is Part of a Pool That is Accounted for as a Single Asset*," which clarifies the accounting for acquired loans that have evidence of a deterioration in credit quality since origination (referred to as "Subtopic 310-30 loans"). Under this guidance, an entity may not apply troubled debt restructuring ("TDR") accounting guidance to individual Subtopic 310-30 loans that are part of a pool, even if the modification of those loans would otherwise be considered a troubled debt restructuring. Once a pool is established, individual loans should not be removed from the pool unless the entity sells, forecloses, or writes off the loan. Entities would continue to consider whether the pool of loans is impaired if expected cash flows for the pool change. Subtopic 310-30 loans that are accounted for individually would continue to be subject to TDR accounting guidance. A one-time election to terminate accounting for loans as a pool, which may be made on a pool-by-pool basis, is provided upon adoption of the guidance. This guidance is effective for interim and annual reporting periods ending on or after July 15, 2010 (September 30, 2010 for our company). The adoption of this new guidance did not have a material impact on our consolidated financial statements.

Consolidation

In February 2010, the FASB issued Update No. 2010-10, "*Consolidation (Topic 810): Amendments for Certain Investment Funds*," which provides for a deferral of the consolidation requirements of Topic 810 resulting from the issuance of FASB Statement No. 167 ("Statement 167"), "*Amendments to FASB Interpretation No. 46R*," for a reporting entity's interest in an entity that has all the attributes of an investment company; or for which it is industry practice to apply measurement principles for financial reporting purposes that are consistent with those followed by investment companies (the "deferral"). The deferral does not apply in situations in which a reporting entity has the explicit or implicit obligation to fund losses of an entity that could potentially be significant to the entity. The deferral also does not apply to interests in securitization entities, asset-backed financing entities, or entities formerly considered qualifying special purpose entities. An entity that qualifies for the deferral will continue to be assessed under the overall guidance on the consolidation of variable interest entities in Subtopic 810-10 (before the Statement 167 amendments) or other applicable consolidation guidance, such as the guidance for the consolidation of partnerships in Subtopic 810-20. This guidance does not defer the disclosure requirements of Topic 810, as amended. The amendments in this Update are effective as of the beginning of the first annual reporting period that begins after November 15, 2009 and for interim periods within the first annual reporting period (January 1, 2010 for our company). The adoption of this guidance permits us to defer the consolidation requirements of Topic 810 resulting from the issuance of Statement 167 for certain of these entities. See Note 24 - Variable Interest Entities.

Subsequent Events

In February 2010, the FASB issued Update No. 2010-09, "*Subsequent Events (Topic 855): Amendments to Certain Recognition and Disclosure Requirements*," which amends certain provisions of the current guidance, including the elimination of the requirement for disclosure of the date through which an evaluation of subsequent events was performed in issued and revised financial statements. This guidance was effective for the first interim and annual reporting periods beginning after issuance (March 31, 2010 for our company). The adoption of this new guidance did not have a material impact on our consolidated financial statements. See Note 25 - Subsequent Events.

Fair Value of Financial Instruments

In January 2010, the FASB issued Update No. 2010-06, "*Fair Value Measurements and Disclosures (Topic 820): Improving Disclosures about Fair Value Measurements*," which amends the disclosure requirements related to recurring and nonrecurring fair value measurements. The guidance requires new disclosures on the transfers of assets and liabilities between Level 1 (quoted prices in active market for identical assets or liabilities) and Level 2 (significant other observable inputs) of the fair value measurement hierarchy, including the reasons and the timing of the transfers. Additionally, the guidance requires a rollforward of activities on purchases, sales, issuance, and settlements of the assets and liabilities measured using significant unobservable inputs (Level 3 fair value measurements). The guidance became effective for us with the reporting period beginning January 1, 2010, except for the disclosure on the roll forward activities for Level 3 fair value measurements, which will become effective for us with the reporting period beginning January 1, 2011. Other than requiring additional disclosures, the adoption of this new guidance did not have a material impact on our consolidated financial statements. See Note 5 - Fair Value of Financial Instruments.

Accounting for Transfers of Financial Assets

In June 2009, the FASB issued and subsequently codified guidance amending Topic 860 designed to improve the relevance, representational faithfulness, and comparability of the information that a reporting entity provides in its financial statements about a transfer of financial assets; the effects of a transfer on its financial position, financial performance, and cash flows; and a transferor's continuing involvement, if any, in transferred financial assets. Additionally, the new guidance eliminates the qualifying special-purpose entity ("QSPE") concept. The guidance became effective for us with the reporting period beginning January 1, 2010. The adoption of this new guidance did not have a material impact on our consolidated financial statements.

Recently Issued Accounting Guidance

Allowance for Credit Losses

In July 2010, the FASB issued Update No. 2010-20, "*Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses*," which requires significant new disclosures about the allowance for credit losses and the credit quality of financing receivables. The requirements are intended to enhance transparency regarding credit losses and the credit quality of loan and lease receivables. Under this guidance, allowance for credit losses and fair value are to be disclosed by portfolio segment, while credit quality information, impaired financing receivables and nonaccrual status are to be presented by class of financing receivable. Disclosure of the nature and extent, the financial impact and segment information of troubled debt restructurings will also be required. The disclosures are to be presented at the level of disaggregation that management uses when assessing and monitoring the portfolio's risk and performance. This guidance is effective for interim and annual reporting periods after December 15, 2010 (December 31, 2010 for our company). We are currently evaluating the impact the new standard will have on our consolidated financial statements.

NOTE 2 - Sale of Bank Branch

On April 30, 2010, Stifel Bank completed the sale of certain assets and the transfer of certain liabilities of Stifel Bank's branch office to Anheuser-Busch Employees' Credit Union, which resulted in a pre-tax loss of \$401. As a result of the transaction, Anheuser-Busch Employees' Credit Union purchased \$31,429 of loans as well as certain other assets, including the building and office equipment of \$661, and assumed \$17,621 of deposits, for a premium of 5.0%, or \$881.

NOTE 3 - Acquisition of Thomas Weisel Partners Group, Inc.

On July 1, 2010, we completed the purchase of all the outstanding shares of common stock of TWPG, an investment banking firm based in San Francisco, California. The purchase was completed pursuant to the merger agreement dated April 25, 2010. As consideration, at the close of the merger, we issued approximately 3,719,000 shares, including approximately 780,000 exchangeable shares to the holders of TWPG common stock and approximately 1,905,000 restricted stock units to employees of TWPG, which resulted in purchase consideration of approximately \$274,000. The fair value of the common stock and restricted stock units was determined using the market price of our common stock on the date of the merger. The merger furthers our company's mission of building the premier middle-market investment bank with significantly enhanced investment banking, research, and wealth management capabilities.

The acquisition was accounted for under the acquisition method of accounting in accordance with ASC 805 ("Topic 805"), "*Business Combinations*." Accordingly, goodwill was measured as the excess of the acquisition-date fair value of the consideration transferred over the amount of acquisition-date identifiable assets acquired net of assumed liabilities. We recorded \$124,125 of goodwill as an asset in the consolidated statement of financial condition, which has been allocated to our company's Global Wealth Management and Institutional Group segments. The allocation of the purchase price is preliminary and will be finalized upon completion of the analysis of the fair values of the net assets of TWPG on July 1, 2010 and the identified intangible assets. The final goodwill and intangible assets recorded on the consolidated statement of financial condition may differ from that reflected herein as a result of future measurement period adjustments. In management's opinion, the goodwill represents the value expected from the synergies created through the operational enhancement benefits that will result from the integration of TWPG's business and the reputation and expertise of TWPG in the investment banking business.

We have preliminarily identified \$24,580 of intangible assets, consisting of customer relationships, investment banking backlog and trade name. Under Topic 805, merger-related transaction costs (such as advisory, legal, valuation and other professional fees) are not included as components of consideration transferred but are accounted for as expenses in the periods in which the costs are incurred. Transaction costs of approximately \$500 and \$2,400 were incurred during the three and nine months ended September 30, 2010, respectively, and are included in "other operating expenses" on the consolidated statement of operations.

The following table summarizes the fair value of assets acquired and liabilities assumed at the date of the acquisition (*in thousands*):

Assets:

Cash and cash equivalents	\$	80,642
Securities purchased under agreements to resell		14,005
Investments		45,395
Fixed assets		12,955
Goodwill		124,125
Intangible assets		24,580
Deferred tax asset, net		77,928
Other assets		39,702
Total assets acquired		419,332

Liabilities:

Notes payable	23,000
Accrued compensation	44,899
Accounts payable and accrued expenses	77,469
Total liabilities assumed	145,368
Net assets acquired	\$ 273,964

Edgar Filing: STIFEL FINANCIAL CORP - Form 10-Q

TWPG's results of operations have been included in our financial statements prospectively from the date of acquisition. The operations of TWPG were integrated with Stifel Nicolaus immediately after the merger, therefore the results of the business, as acquired, does not exist as a discrete entity within our internal reporting structure. The following unaudited pro forma financial data assumes the acquisition had occurred at the beginning of each period presented. Pro forma results have been prepared by adjusting our historical results to include TWPG's results of operations adjusted for the following changes: amortization expense was adjusted as a result of acquisition-date fair value adjustments to intangible assets; interest expense was adjusted for revised debt structures; and the income tax effect of applying our statutory tax rates to TWPG's results. The unaudited pro forma results presented do not necessarily reflect the results of operations that would have resulted had the acquisition been completed at the beginning of the applicable periods presented, nor does it indicate the results of operations in future periods. Additionally, the unaudited pro forma results do not include the impact of possible business model changes nor does it consider any potential impacts of current market conditions or revenues, reduction of expenses, asset dispositions, or other factors. The impact of these items could alter the following pro forma results:

<i>(in thousands)</i>	Three Months Ended September 30, 2009 (Unaudited)	Nine Months Ended September 30, 2010 (Unaudited)		2009 (Unaudited)
Total net revenues	\$ 333,507	\$ 1,071,036	\$	905,567
Net income/(loss)	11,604	(107,023)		23,343
Earnings/(loss) per share:				
Basic	0.34	(3.35)		0.73
Diluted	0.28	(3.35)		0.63

NOTE 4 - Receivables from and Payables to Brokers, Dealers and Clearing Organizations

Amounts receivable from brokers, dealers and clearing organizations at September 30, 2010 and December 31, 2009, included *(in thousands)*:

	September 30, 2010		December 31, 2009
Deposits paid for securities borrowed	\$ 164,833	\$	147,325
Securities failed to deliver	68,916		64,626
Receivable from clearing organizations	3,763		97,658
	\$ 237,512	\$	309,609

Amounts payable to brokers, dealers and clearing organizations at September 30, 2010, and December 31, 2009, included *(in thousands)*:

	September 30, 2010		December 31, 2009
Securities failed to receive	\$ 108,803	\$	73,793
Deposits received from securities loaned	101,907		16,667
Payable to clearing organizations	37,939		-
	\$ 248,649	\$	90,460

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

NOTE 5 - Fair Value of Financial Instruments

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

The degree of judgment used in measuring the fair value of financial instruments generally correlates to the level of pricing observability. Pricing observability is impacted by a number of factors, including the type of financial instrument, whether the financial instrument is new to the market and not yet established and the characteristics specific to the transaction. Financial instruments with readily available active quoted prices for which fair value can be measured from actively quoted prices generally will have a higher degree of pricing observability and a lesser degree of judgment used in measuring fair value. Conversely, financial instruments rarely traded or not quoted will generally have less, or no, pricing observability and a higher degree of judgment used in measuring fair value.

The following is a description of the valuation techniques used to measure fair value.

Cash equivalents

Cash equivalents include money market funds and other highly liquid investments with original maturities of three months or less. Actively traded money market funds are measured at their net asset value and classified as Level 1.

Financial instruments (Trading securities and available-for-sale securities)

When available, the fair value of financial instruments are based on quoted prices in active markets and reported in Level 1. Level 1 financial instruments include highly liquid instruments with quoted prices such as certain U.S. treasury bonds, corporate bonds, certain equities listed in active markets.

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

Level 3 financial instruments have little to no pricing observability. These financial instruments do not have active two-way markets and are measured using management's best estimate of fair value, where the inputs into the determination of fair value require significant management judgment or estimation. We have identified Level 3 financial instruments to include certain asset-backed securities, consisting of collateral loan obligation securities, that have experienced low volumes of executed transactions; and certain corporate bonds where there was less frequent or nominal market activity or when we were able to obtain only a single broker quote. Our Level 3 asset-backed securities are valued using cash flow models that utilize unobservable inputs.

Investments

Assets included in this category generally include investments in public companies, general and limited partnership interests in private equity funds, and auction-rate securities ("ARS") for which the market has been dislocated and largely ceased to function. Investments in public companies are valued based on quoted prices in active markets and reported in Level 1. ARS with unobservable inputs are reported as Level 3 assets. Investments in such securities are valued using certain observable inputs and represent management's best estimate of fair value, where the inputs require significant management judgment.

Fair value of limited and general partnership interests, classified as Level 3, was determined by using net asset values or capital statements provided by the general partner, updated for capital contributions and distributions and changes in market conditions up to the reporting date. Private equity securities and limited and general partnership interests generally trade infrequently.

Trading securities sold but not yet purchased

Trading securities sold but not purchased are recorded at fair value based on quoted prices in active markets and other observable market data are reported as Level 1. Trading securities owned include highly liquid instruments with quoted prices such as certain U.S. Treasury bonds, corporate bonds, certain municipal securities and equities listed in active markets.

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

Level 3 financial instruments have little to no pricing observability. These financial instruments do not have active two-way markets and are measured using management's best estimate of fair value, where the inputs into the determination of fair value require significant management judgment or estimation. We have identified Level 3 financial instruments to include certain corporate bonds where there was less frequent or nominal market activity or when we were able to obtain only a single broker quote.

Securities sold but not yet purchased

Securities sold but not purchased are recorded at fair value based on quoted prices in active markets and other observable market data are reported as Level 1. Securities owned include corporate equity securities listed in active markets.

Derivative contracts

Derivatives are valued using quoted market prices when available or pricing models based on the net present value of estimated future cash flows. The valuation models used require market observable inputs including contractual terms, market prices, yield curves, credit curves and measures of volatility. These measurements are classified as Level 2 within the fair value hierarchy and are used to value interest rate swaps.

Edgar Filing: STIFEL FINANCIAL CORP - Form 10-Q

The following table summarizes the valuation of our financial instruments by pricing observability levels as of September 30, 2010 and December 31, 2009 (*in thousands*):

	September 30, 2010			
	Total	Level 1	Level 2	Level 3
Assets:				
Cash equivalents	\$ 27,217	\$ 27,217	\$ -	\$ -
Trading securities owned:				
U.S. government agency securities	100,495	-	100,495	-
U.S. government securities	15,369	15,369	-	-
Corporate securities:				
Fixed income securities	372,980	142,945	215,065	14,970
Equity securities	42,144	41,997	147	-
State and municipal securities	114,572	-	114,572	-
Total trading securities owned	645,560	200,311	430,279	14,970
Available-for-sale securities:				
U.S. government agency securities	115,165	-	115,165	-
State and municipal securities	14,223	-	14,223	-
Mortgage-backed securities:				
Agency	530,151	-	530,151	-
Non-agency	32,698	-	32,698	-
Commercial	47,892	-	47,892	-
Corporate fixed income securities	77,973	67,414	10,559	-
Asset-backed securities	12,025	-	12,025	-
Total available-for-sale securities	830,127	67,414	762,713	-
Investments:				
Corporate equity securities	3,492	3,492	-	-
Mutual funds	30,344	30,344	-	-
U.S. government securities	7,016	7,016	-	-
Auction rate securities:				
Equity securities	62,044	-	-	62,044
Municipal securities	23,499	-	-	23,499
Other	40,394	1,788	2,047	36,559
Total investments	166,789	42,640	2,047	122,102
	\$ 1,669,693	\$ 337,582	\$ 1,195,039	\$ 137,072
Liabilities:				
Trading securities sold, but not yet purchased:				
U.S. government agency securities	\$ 1,291	\$ -	\$ 1,291	\$ -
U.S. government securities	150,260	150,260	-	-
Corporate securities:				
Fixed income securities	144,894	75,473	69,421	-
Equity securities	21,533	21,533	-	-
State and municipal securities	315	-	315	-
Total trading securities sold, but not yet purchased	318,293	247,266	71,027	-

Edgar Filing: STIFEL FINANCIAL CORP - Form 10-Q

Securities sold, but not yet purchased (1)	17,086	17,086	-	-
Derivative contracts (1)	14,251	-	14,251	-
	\$ 349,630	\$ 264,352	\$ 85,278	\$ -

(1) Included in "Accounts payable and accrued expenses" on the consolidated statements of financial condition.

Edgar Filing: STIFEL FINANCIAL CORP - Form 10-Q

December 31, 2009

	Total	Level 1	Level 2	Level 3
Assets:				
Cash equivalents	\$ 3,824	\$ 3,824	\$ -	\$ -
Trading securities owned:				
U.S. government agency securities	158,724	-	158,724	-
U.S. government securities	20,254	20,254	-	-
Corporate securities:				
Fixed income securities	209,950	36,541	172,166	1,243
Equity securities	18,505	18,505	-	-
State and municipal securities	47,458	-	47,458	-
Total trading securities owned	454,891	75,300	378,348	1,243
Available-for-sale securities:				
U.S. government agency securities	1,011	-	1,011	-
State and municipal securities	992	-	992	-
Mortgage-backed securities:				
Agency	433,019	-	433,019	-
Non-agency	38,466	-	38,466	-
Commercial	47,640	-	47,640	-
Corporate fixed income securities	42,890	32,204	10,686	-
Asset-backed securities	14,470	-	11,777	2,693
Total available-for-sale securities	578,488	32,204	543,591	2,693
Investments:				
Corporate equity securities	2,671	2,671	-	-
Mutual funds	28,597	28,597	-	-
U.S. government securities	7,266	7,266	-	-
Auction rate securities:				
Equity securities	46,297	-	-	46,297
Municipal securities	9,706	-	-	9,706
Other	6,536	672	438	5,426
Total investments	101,073	39,206	438	61,429
	\$ 1,138,276	\$ 150,534	\$ 922,377	\$ 65,365
Liabilities:				
Trading securities sold, but not yet purchased:				
U.S. government securities	\$ 127,953	\$ 127,953	\$ -	\$ -
U.S. government agency securities	1,537	-	1,537	-
Corporate securities:				
Fixed income securities	122,491	11,744	110,747	-
Equity securities	25,057	25,057	-	-
State and municipal securities	332	-	332	-
Total trading securities sold, but not yet purchased	277,370	164,754	112,616	-
Derivative contracts*	78	-	78	-
	\$ 277,448	\$ 164,754	\$ 112,694	\$ -

* Included in "Accounts payable and accrued expenses" on the consolidated statements of financial condition.

Edgar Filing: STIFEL FINANCIAL CORP - Form 10-Q

The following table summarizes the changes in fair value carrying values associated with Level 3 financial instruments during the three and nine months ended September 30, 2010 (*in thousands*):

	Three Months Ended September 30, 2010						Financial
	Financial Assets					Liabilities**	
	Corporate Fixed Income Securities*	Asset-backed Securities	Auction Rate Securities - Equity	Investments Auction Rate Securities - Municipal	Other	Corporate Fixed Income Securities	
Balance at June 30, 2010	\$ 9,124	\$ -	\$ 62,846	\$ 10,788	\$ 6,935	\$ 2,355	
Unrealized gains/(losses):							
Included in changes in net assets	158	-	48	273	(1,648)	-	
Included in OCI	-	-	-	-	-	-	
Realized gains/(losses)	502	-	-	6	2,892	(15)	
Purchases, issuances, settlements, net	5,186	-	(850)	12,432	28,380	(2,340)	
Level III transfers:							
Into level III	-	-	-	-	-	-	
Out of level III	-	-	-	-	-	-	
Net change	5,846	-	(802)	12,711	29,624	(2,355)	
Balance at September 30, 2010	\$ 14,970	\$ -	\$ 62,044	\$ 23,499	\$ 36,559	\$ -	

* Included in "Trading securities owned" on the consolidated statements of financial condition.

** Included in "Trading securities sold, but not yet purchased" on the consolidated statements of financial condition.

	Nine Months Ended September 30, 2010						Financial
	Financial Assets					Liabilities**	
	Corporate Fixed Income Securities*	Asset-backed Securities	Auction Rate Securities - Equity	Investments Auction Rate Securities - Municipal	Other	Corporate Fixed Income Securities	
Balance at December 31, 2009	\$ 1,243	\$ 2,693	\$ 46,297	\$ 9,706	\$ 5,426	\$ -	
Unrealized gains/(losses):							
Included in changes in net assets	252	-	(928)	200	(1,647)	50	
Included in OCI	-	887	-	-	-	-	
Realized gains/(losses)	1,540	-	-	11	2,892	68	
Purchases, issuances, settlements, net	11,801	(3,580)	16,675	13,582	29,888	(1,008)	
Level III transfers:							
Into level III	135	-	-	-	-	890	
Out of level III	(1)	-	-	-	-	-	
Net change	13,727	(2,693)	15,747	13,793	31,133	-	

Edgar Filing: STIFEL FINANCIAL CORP - Form 10-Q

Balance at September 30, 2010	\$	14,970	\$	-	\$	62,044	\$	23,499	\$	36,559	\$	-
--	----	---------------	----	----------	----	---------------	----	---------------	----	---------------	----	----------

* Included in "Trading securities owned" on the consolidated statements of financial condition.

** Included in "Trading securities sold, but not yet purchased" on the consolidated statements of financial condition.

Edgar Filing: STIFEL FINANCIAL CORP - Form 10-Q

The results included in the table above are only a component of the overall trading strategies of our company. The table above does not present Level 1 or Level 2 valued assets or liabilities. The changes to our company's Level 3 classified instruments were principally a result of: purchases of ARS from our customers, principal pay-downs of our available-for-sale securities, realized and unrealized gains and losses, and redemptions of ARS at par during the three and nine months ended September 30, 2010. There were no changes in unrealized gains/(losses) recorded in earnings for the three and nine months ended September 30, 2010 relating to Level 3 assets still held at September 30, 2010. Investment gains and losses of our investments are included in our consolidated statements of operations as a component of other income.

Transfers within the Fair Value Hierarchy

We assess our financial instruments on a quarterly basis to determine the appropriate classification within the fair value hierarchy, as defined by Topic 820. Transfers between fair value classifications occur when there are changes in pricing observability levels. Transfers of financial instruments among the levels are deemed to occur at the end of the reporting period. There were no material transfers between our Level 1 and Level 2 classified instruments during the three and nine months ended September 30, 2010.

The following is a summary of the carrying values and estimated fair values of certain financial instruments as of September 30, 2010 and December 31, 2009 (*in thousands*):

	September 30, 2010		December 31, 2009	
	Carrying value	Estimated fair value	Carrying value	Estimated fair value
Financial assets:				
Cash and cash equivalents	\$ 213,752	\$ 213,752	\$ 161,820	\$ 161,820
Cash segregated for regulatory purposes ⁽¹⁾	20	20	19	19
Securities purchased under agreements to resell ⁽¹⁾	136,075	136,075	124,854	124,854
Trading securities owned	645,560	645,560	454,891	454,891
Available-for-sale securities	830,127	830,127	578,488	578,488
Held-to-maturity securities	50,176	43,626	7,574	4,276
Loans held for sale ⁽¹⁾	106,788	106,788	91,117	91,117
Bank loans	362,567	356,227	335,157	332,437
Investments	166,789	166,789	109,403	109,403
Financial liabilities:				
Securities sold under agreements to repurchase ⁽¹⁾	\$ 98,945	\$ 98,945	\$ 122,533	\$ 122,533
Non-interest-bearing deposits	19,909	20,183	19,521	19,013
Interest-bearing deposits	1,356,075	1,355,704	1,027,690	1,027,403
Federal Home Loan Bank advances ⁽¹⁾	-	-	2,000	2,000
Trading securities sold but not yet purchased	318,293	318,293	277,370	277,370
Securities sold but not yet purchased ⁽²⁾	17,086	17,086	-	-
Derivative contracts ⁽²⁾	14,251	14,251	78	78
Liabilities subordinated to the claims of general creditors	8,241	7,676	10,081	9,299

(1) Carrying value approximates fair value.

(2) Included in "Accounts payable and accrued expenses" on the consolidated statements of financial condition.

The following describes the valuation techniques used in estimating the fair value of those financial instruments, not previously described above, as of September 30, 2010 and December 31, 2009.

Financial Assets

Securities purchased under agreements to resell

Securities purchased under agreements to resell are collateralized financing transactions that are recorded at their contractual amounts plus accrued interest. The carrying values at September 30, 2010 and December 31, 2009 approximate fair value.

Held-to-maturity securities

Securities held to maturity are recorded at amortized cost based on our company's positive intent and ability to hold these securities to maturity. Securities held to maturity include asset-backed securities, consisting of collateralized debt obligation securities and ARS. The fair value is determined using several factors; however, primary weight is given to discounted cash flow modeling techniques that incorporated an estimated discount rate based upon recent observable debt security issuances with similar characteristics.

The decrease in fair value below the carrying amount at September 30, 2010 and December 31, 2009 is primarily due to unrealized losses in our asset-backed security that were caused by: illiquid markets for collateralized debt obligations; global disruptions in the credit markets; increased supply of collateralized debt obligation secondary market securities from distressed sellers; and difficult times in the banking sector, which has led to a significant amount of bank failures.

Loans held for sale

Loans held for sale consist of fixed-rate and adjustable-rate residential real estate mortgage loans intended for sale. Loans held for sale are stated at lower of cost or fair value. Fair value is determined based on prevailing market prices for loans with similar characteristics or on sale contract prices. The carrying value as of September 30, 2010 and December 31, 2009 approximates fair value.

Bank Loans

The fair values of mortgage loans and commercial loans were estimated using a discounted cash flow method, a form of the income approach. Discount rates were determined considering rates at which similar portfolios of loans would be made under current conditions and considering liquidity spreads applicable to each loan portfolio based on the secondary market.

Financial liabilities

Non-interest bearing deposits

The fair value of non interest-bearing deposits was estimated using a discounted cash flow method.

I

Interest bearing deposits

The fair values of money market and savings accounts were the amounts payable on demand at September 30, 2010 and December 31, 2009, and therefore carrying value approximates fair value. The fair value of other interest-bearing deposits, including certificates of deposit, was calculated by discounting the future cash flows using discount rates based on the expected current market rates for similar products with similar remaining terms.

Securities sold under agreements to repurchase

Securities sold under agreements to repurchase are collateralized financing transactions that are recorded at their contractual amounts plus accrued interest. The carrying values at September 30, 2010 and December 31, 2009 approximate fair value.

Liabilities subordinated to claims of general creditors

The fair value of subordinated debt was measured using the interest rates commensurate with borrowings of similar terms.

These fair value disclosures represent our best estimates based on relevant market information and information about the financial instruments. Fair value estimates are based on judgments regarding future expected losses, current economic conditions, risk characteristics of the various instruments, and other factors. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and therefore cannot be determined with precision. Changes in the above methodologies and assumptions could significantly affect the estimates.

NOTE 6 - Trading Securities Owned and Trading Securities Sold, But Not Yet Purchased

The components of trading securities owned and trading securities sold, but not yet purchased at September 30, 2010 and December 31, 2009, are as follows (*in thousands*):

	September 30, 2010	December 31, 2009
Trading securities owned:		
U.S. government agency securities	\$ 100,495	\$ 158,724
U.S. government securities	15,369	20,254
Corporate securities:		
Fixed income securities	372,980	209,950
Equity securities	42,144	18,505
State and municipal securities	114,572	47,458
	\$ 645,560	\$ 454,891
Trading securities sold, but not yet purchased:		
U.S. government agency securities	\$ 1,291	\$ 1,537
U.S. government securities	150,260	127,953
Corporate securities:		
Fixed income securities	144,894	122,491
Equity securities	21,533	25,057
State and municipal securities	315	332
	\$ 318,293	\$ 277,370

At September 30, 2010 and December 31, 2009, trading securities owned in the amount of \$406,930 and \$287,683, respectively, were pledged as collateral for our repurchase agreements, and short-term borrowings from banks.

Trading securities sold, but not yet purchased represent obligations of our company to deliver the specified security at the contracted price, thereby creating a liability to purchase the security in the market at prevailing prices. We are obligated to acquire the securities sold short at prevailing market prices, which may exceed the amount reflected on the consolidated statements of financial condition.

NOTE 7 - Available-for-Sale Securities and Held-to-Maturity Securities

The following tables provide a summary of the amortized cost and fair values of the available-for-sale securities and held-to-maturity securities at September 30, 2010 and December 31, 2009 (*in thousands*):

	Amortized cost	September 30, 2010		Estimated fair value
		Gross unrealized gains (1)	Gross unrealized losses (1)	
Available-for-sale				
U.S. government securities	\$ 114,970	\$ 195	\$ -	\$ 115,165
State and municipal securities	13,959	264	-	14,223
Mortgage-backed securities:				
Agency	521,204	9,464	(517)	530,151
Non-agency	32,853	886	(1,041)	32,698
Commercial	46,072	1,820	-	47,892
Corporate fixed income securities	75,714	2,259	-	77,973
Asset-backed securities	11,267	758	-	12,025
	\$ 816,039	\$ 15,646	\$ (1,558)	\$ 830,127
Held-to-maturity				
Asset-backed securities	\$ 7,245	-	(3,932)	\$ 3,313
Municipal auction rate securities	42,931	-	-	42,931
	\$ 50,176	-	(3,932)	\$ 46,244

(1) Unrealized gains/(losses) related to available-for-sale securities are reported in "Accumulated other comprehensive income."

	Amortized cost	December 31, 2009		Estimated fair value
		Gross unrealized gains (1)	Gross unrealized losses (1)	
Available-for-sale				
U.S. government securities	\$ 998	\$ 13	\$ -	\$ 1,011
State and municipal securities	960	32	-	992
Mortgage-backed securities:				
Agency	432,820	1,880	(1,681)	433,019
Non-agency	39,905	683	(2,122)	38,466
Commercial	47,274	683	(317)	47,640
Corporate fixed income securities	40,788	2,102	-	42,890
Asset-backed securities	13,235	1,235	-	14,470
	\$ 575,980	\$ 6,628	\$ (4,120)	\$ 578,488
Held-to-maturity				
Asset-backed securities	\$ 7,574	-	(3,298)	\$ 4,276

(1) Unrealized gains/(losses) related to available-for-sale securities are reported in "Accumulated other comprehensive income."

During the three and nine months ended September 30, 2010, available-for-sale securities with an aggregate par value of \$50,052 and \$55,920, respectively, were called by the issuing agencies or matured resulting in no gains or losses recorded through the consolidated statement of operations. Additionally, during the three and nine months ended September 30, 2010, Stifel Bank received principal payments on mortgage-backed securities of \$37,801 and \$95,011, respectively. During the three months ended September 30, 2010 and 2009, unrealized gains, net of deferred taxes, of \$109 and \$5,859, respectively, were recorded in "Accumulated other comprehensive income." During the nine months ended September 30, 2010 and 2009, unrealized gains, net of deferred taxes, of \$7,641 and \$7,859, respectively, were recorded in "Accumulated other comprehensive income."

The table below summarizes the amortized cost and fair values of debt securities, by contractual maturity (*in thousands*). Expected maturities may differ significantly from contractual maturities, as issuers may have the right to call or prepay obligations with or without call or prepayment penalties.

	September 30, 2010			
	Available-for-sale		Held-to-maturity	
	Amortized cost	Estimated fair value	Amortized cost	Estimated fair value
Debt securities				
Within one year	\$ 15,921	\$ 16,068	\$ -	\$ -
After one year through three years	134,749	135,990	-	-
After three years through five years	46,831	47,947	-	-
After five years through ten years	5,409	6,150	-	-
After ten years	13,000	13,231	50,176	46,244
Mortgage-backed securities				
After three years through five years	9,868	10,424	-	-
After five years through ten years	22,184	22,648	-	-
After ten years	568,077	577,669	-	-
	\$ 816,039	\$ 830,127	\$ 50,176	\$ 46,244

The carrying value of securities pledged as collateral to secure public deposits and other purposes was \$60,572 and \$76,502 at September 30, 2010 and December 31, 2009, respectively.

Certain investments in the available-for-sale portfolio at September 30, 2010 are reported in the consolidated statements of financial condition at an amount less than their amortized cost. The total fair value of these investments at September 30, 2010 was \$61,743, which was 7.4% of our company's available-for-sale investment portfolio. The amortized cost basis of these investments was \$63,301 at September 30, 2010. The declines in the available-for-sale portfolio primarily resulted from changes in interest rates and liquidity issues that have had a pervasive impact on the market.

Our investment in a held-to-maturity asset-backed security consists of pools of trust preferred securities related to banks and ARS. Unrealized losses in our asset-backed security was caused primarily by: 1) illiquid markets for collateralized debt obligations; 2) global disruptions in the credit markets; 3) increased supply of collateralized debt obligation secondary market securities from distressed sellers; and 4) difficult times in the banking sector, which has led to a significant amount of bank failures.

The following table is a summary of the amount of gross unrealized losses and the estimated fair value by length of time that the securities have been in an unrealized loss position at September 30, 2010 (*in thousands*):

	Less than 12 months		12 months or more		Total	
	Gross unrealized losses	Estimated fair value	Gross unrealized losses	Estimated fair value	Gross unrealized losses	Estimated fair value
Available-for-sale						
Mortgage-backed securities:						
Agency	\$ (517)	\$ 50,235	\$ -	\$ -	\$ (517)	\$ 50,235
Non-agency	-	-	(1,041)	11,508	(1,041)	11,508
	\$ (517)	\$ 50,235	\$ (1,041)	\$ 11,508	\$ (1,558)	\$ 61,743

Other-Than-Temporary Impairment

We evaluate our investment securities portfolio on a quarterly basis for other-than-temporary impairment ("OTTI"). We assess whether OTTI has occurred when the fair value of a debt security is less than the amortized cost basis at the balance sheet date. Under these circumstances, OTTI is considered to have occurred (1) if we intend to sell the security; (2) if it is more likely than not we will be required to sell the security before recovery of its amortized cost basis; or (3) the present value of the expected cash flows is not sufficient to recover the entire amortized cost basis. For securities that we do not expect to sell or it is not more likely than not to be required to sell, credit-related OTTI, represented by the expected loss in principal, is recognized in earnings, while noncredit-related OTTI is recognized in other comprehensive income. For securities which we expect to sell, all OTTI is recognized in earnings.

Non-credit-related OTTI results from other factors, including increased liquidity spreads and extension of the security. Presentation of OTTI is made in the income statement on a gross basis with a reduction for the amount of OTTI recognized in OCI. We applied the related OTTI guidance on the debt security types listed below.

Pooled-trust-preferred securities represent collateralized debt obligations (CDOs) backed by a pool of debt securities issued by financial institutions. The collateral generally consisted of trust-preferred securities and subordinated debt securities issued by banks, bank holding companies, and insurance companies. A full cash flow analysis was used to estimate fair values and assess impairment for each security within this portfolio. We utilized an internal resource with industry experience in pooled trust preferred securities valuations to provide assistance in estimating the fair value and expected cash flows for each security in this portfolio. Relying on cash flows was necessary because there was a lack of observable transactions in the market and many of the original sponsors or dealers for these securities were no longer able to provide a fair value that was compliant with Topic 820.

Based on the evaluation, we recognized a credit-related other-than-temporary impairment of \$773 and \$939 through earnings for the three and nine months ended September 30, 2010, respectively. During the quarter ended September 30, 2010, the remaining balance of other comprehensive income related to the CDO was written off and consequently we reduced the amortized cost of the security.

As of September 30, 2010, management has evaluated all other investment securities with unrealized losses and all non-marketable securities for impairment. The unrealized losses were primarily the result of wider liquidity spreads on asset-backed securities and, additionally, increased market volatility on non-agency mortgage and asset-backed securities that are backed by certain mortgage loans. The fair values of these assets have been impacted by various market conditions. In addition, the expected average lives of the asset-backed securities backed by trust preferred securities have been extended, due to changes in the expectations of when the underlying securities would be repaid. The contractual terms and/or cash flows of the investments do not permit the issuer to settle the securities at a price less than the amortized cost. We have reviewed our asset-backed portfolio and do not believe there is additional OTTI from these securities other than what has already been recorded.

Since the decline in fair value of the securities presented in the table above is not attributable to credit quality but to changes in interest rates and the liquidity issues that have had a pervasive impact on the market and because we do not have the intent to sell these securities and it is not likely we would be required to sell these securities until a fair value recovery or maturity, we do not consider these securities to be other-than-temporarily impaired as of September 30, 2010.

NOTE 8 - Bank Loans

The following table presents the balance and associated percentage of each major loan category in Stifel Bank's loan portfolio at September 30, 2010 and December 31, 2009 (*in thousands, except percentages*):

	September 30, 2010		December 31, 2009	
	Balance	Percent	Balance	Percent
Consumer ⁽¹⁾	\$ 245,239	66.8%	\$ 227,436	67.8%
Residential real estate	52,290	14.2	52,086	15.5
Commercial	34,405	9.4	11,294	3.4
Home equity lines of credit	32,638	8.9	33,369	10.0
Commercial real estate	2,075	0.6	10,152	3.0
Construction and land	524	0.1	952	0.3
	367,171	100.0%	335,289	100.0%
Unamortized loan origination costs, net of loan fees	775		1,556	
Loans in process	(3,556)		14	
Allowance for loan losses	(1,823)		(1,702)	
	\$ 362,567		\$ 335,157	

(1) Includes stock-secured loans of \$244,436 and \$226,527 at September 30, 2010 and December 31, 2009, respectively.

Changes in the allowance for loan losses at Stifel Bank were as follows (in thousands):

	Three Months Ended				Nine Months Ended			
	September 30, 2010		September 30, 2009		September 30, 2010		September 30, 2009	
Allowance for loan losses, beginning of period	\$	1,936	\$	3,060	\$	1,702	\$	2,448
Provision for loan losses		(51)		482		216		1,389
Charge-offs:								
Residential real estate		(66)		-		(215)		-
Construction and land		-		(829)		-		(859)
Commercial real estate		-		(188)		-		(294)
Real estate construction loans		-		(37)		-		(171)
Other		-		-		(2)		(25)
Total charge-offs		(66)		(1,054)		(217)		(1,349)
Recoveries		4		-		122		-
Allowance for loan losses, end of period	\$	1,823	\$	2,488	\$	1,823	\$	2,488

At September 30, 2010 and December 31, 2009, Stifel Bank had mortgage loans held for sale of \$106,788 and \$91,117, respectively. For the three months ended September 30, 2010 and 2009, Stifel Bank recognized a gain of \$2,060 and \$809, respectively, from the sale of loans originated for sale, net of fees and costs to originate these loans. For the nine months ended September 30, 2010 and 2009, Stifel Bank recognized a gain of \$4,531 and \$3,044, respectively, from the sale of loans originated for sale, net of fees and costs to originate these loans.

A loan is impaired when it is probable that interest and principal payments will not be made in accordance with the contractual terms of the loan agreement. At September 30, 2010, Stifel Bank had \$660 of nonaccrual loans that were more than 90 days past due, for which there was a specific allowance of \$114. Further, Stifel Bank had \$390 in troubled debt restructurings at September 30, 2010. At December 31, 2009, Stifel Bank had \$1,368 of nonaccrual loans that were more than 90 days past due, for which there was a specific reserve of \$47. In addition, there were \$533 in troubled debt restructurings at December 31, 2009. The gross interest income related to impaired loans, which would have been recorded had these loans been current in accordance with their original terms, and the interest income recognized on these loans during the year, were immaterial to the consolidated financial statements.

At September 30, 2010 and December 31, 2009, Stifel Bank had loans outstanding to its executive officers, directors and significant stockholders and their affiliates in the amount of \$809 and \$590, respectively, and loans outstanding to other Stifel Financial Corp. executive officers, directors and significant stockholders and their affiliates in the amount of \$3,316 and \$994, respectively. Such loans and other extensions of credit were made in the ordinary course of business and were made on substantially the same terms (including interest rates and collateral requirements) as those prevailing at the time for comparable transactions with other persons.

NOTE 9 - Goodwill and Intangible Assets

Goodwill impairment is tested at the reporting unit level, which is an operating segment or one level below an operating segment on an annual basis. Our reporting units are Private Client Group, Fixed Income Capital Markets, Equity Capital Markets, and Stifel Bank. The goodwill impairment analysis is a two-step test. The first step, used to identify potential impairment, involves comparing each reporting unit's fair value to its carrying value including goodwill. If the fair value of a reporting unit exceeds its carrying value, applicable goodwill is considered not to be impaired. If the carrying value exceeds fair value, there is an indication of impairment and the second step is performed to measure the amount of impairment. No indicators of impairment were identified during our annual impairment testing as of July 31, 2010.

The carrying amount of goodwill and intangible assets attributable to each of our reporting units is presented in the following table (*in thousands*):

	December 31, 2009	Net additions	Impairment losses	September 30, 2010
Goodwill				
Global Wealth Management	\$ 112,420	\$ 12,412	\$ -	\$ 124,832
Institutional Group	54,305	111,713	-	166,018
	\$ 166,725	\$ 124,125	\$ -	\$ 290,850

	December 31, 2009	Net additions	Net deductions	Amortization	September 30, 2010
Intangible assets					
Global Wealth Management	\$ 21,356	\$ 7,960	\$ (1,060)	\$ (1,920)	\$ 26,336
Institutional Group	3,292	17,011	-	(1,558)	18,745
	\$ 24,648	\$ 24,971	\$ (1,060)	\$ (3,478)	\$ 45,081

The additions to goodwill and intangible assets during the nine months ended September 30, 2010 are primarily attributable to the acquisition of TWPG. The allocation of the purchase price is preliminary and will be finalized upon completion of the analysis of the fair values of the net assets of TWPG on July 1, 2010 and the identified intangible assets. The final goodwill and intangible assets recorded on the consolidated statement of financial condition may differ from that reflected herein as a result of future measurement period adjustments.

We have preliminary identified \$24,580 of intangible assets, consisting of customer relationships, investment banking backlog and trade name. The customer relationships and trade name will each be amortized over weighted average lives of 15 years, respectively. The investment banking backlog will be amortized over their estimated lives, which we expect to be within the next 12 months.

Amortizable intangible assets consist of acquired customer lists, trade name, investment banking backlog and non-compete agreements that are amortized to expense over their contractual or determined useful lives. Intangible assets subject to amortization as of September 30, 2010 and December 31, 2009 were as follows (*in thousands*):

September 30, 2010

December 31, 2009

Edgar Filing: STIFEL FINANCIAL CORP - Form 10-Q

	Gross carrying value	Accumulated Amortization	Gross carrying value	Accumulated Amortization
Customer lists	\$ 31,145	\$ 9,595	\$ 30,754	\$ 7,584
TWPG intangible assets	24,580	1,306	-	-
Non-compete agreement	2,441	2,184	2,441	2,023
Core deposits (1)	-	-	2,157	1,097
	\$ 58,166	\$ 13,085	\$ 35,532	\$ 10,704

(1) The gross carrying amount and accumulated amortization for core deposit intangibles at September 30, 2010 have been reduced by \$2,157 and \$1,097, respectively, or a net amount of \$1,060, related to the sale of certain assets and the transfer of certain liabilities of Stifel Bank's branch office as described in Note 2 in the notes to our consolidated financial statements.

Amortization expense related to intangible assets was \$2,007 and \$661 for the three months ended September 30, 2010 and 2009, respectively. Amortization expense related to intangible assets was \$3,478 and \$2,060 for the nine months ended September 30, 2010 and 2009, respectively.

The weighted-average remaining lives of the following intangible assets at September 30, 2010 are: customer lists 9.3 years; trade name 14.8 years; and non-compete agreements 1.2 years. The investment banking backlog will be amortized over their estimated lives, which we expect to be within the next 12 months. As of September 30, 2010, we expect amortization expense in future periods to be as follows (*in thousands*):

Fiscal year

Remainder of 2010	\$	2,233
2011		4,922
2012		3,920
2013		3,656
2014		3,494
Thereafter		26,856
	\$	45,081

NOTE 10 - Short-Term Borrowings

Our short-term financing is generally obtained through the use of bank loans and securities lending arrangements. We borrow from various banks on a demand basis with company-owned and customer securities pledged as collateral. The value of the customer-owned securities used as collateral is not reflected in the consolidated statements of financial condition. We maintain available ongoing credit arrangements with banks that provided a peak daily borrowing of \$303,800 during the nine months ended September 30, 2010. There are no compensating balance requirements under these arrangements. At September 30, 2010, short-term borrowings from banks were \$207,100 at an average rate of 1.11%, which were collateralized by company-owned securities valued at \$307,985. At December 31, 2009, short-term borrowings from banks were \$90,800 at an average rate of 1.04%, which were collateralized by company-owned securities valued at \$165,150. The average bank borrowing was \$91,876 and \$107,826 during the three months ended September 30, 2010 and 2009, respectively, at weighted average daily interest rates of 1.28%, and 1.07%, respectively. The average bank borrowing was \$108,277 and \$119,381 during the nine months ended September 30, 2010 and 2009, respectively, at weighted average daily interest rates of 1.09%, and 0.97%, respectively.

At September 30, 2010 and December 31, 2009, Stifel Nicolaus had a stock loan balance of \$101,907 and \$16,667, respectively, at weighted average daily interest rates of 0.54% and 0.33%, respectively. The average outstanding securities lending arrangements utilized in financing activities were \$99,508 and \$78,898 during the three months ended September 30, 2010 and 2009, respectively, at weighted average daily effective interest rates of 1.31%, and 1.12%, respectively. The average outstanding securities lending arrangements utilized in financing activities were \$66,320 and \$54,820 during the nine months ended September 30, 2010 and 2009, respectively, at weighted average daily effective interest rates of 1.48%, and 1.01%, respectively. Customer-owned securities were utilized in these arrangements.

NOTE 11 - Bank Deposits

Deposits consist of money market and savings accounts, certificates of deposit and demand deposits. Deposits at September 30, 2010 and December 31, 2009 were as follows (*in thousands*):

	September 30, 2010	December 31, 2009
Money market and savings accounts	\$ 1,332,522	\$ 993,264
Demand deposits (interest bearing)	20,486	16,181
Demand deposits (non-interest bearing)	19,909	19,521
Certificates of deposit	3,067	18,245
	\$ 1,375,984	\$ 1,047,211

The weighted average interest rate on deposits was 0.3% and 0.5% at September 30, 2010 and December 31, 2009, respectively.

Scheduled maturities of certificates of deposit at September 30, 2010 and December 31, 2009 were as follows (*in thousands*):

	September 30, 2010	December 31, 2009
Certificates of deposit, less than \$100:		
Within one year	\$ 284	\$ 9,775
One to three years	638	514
Over three years	189	250
	\$ 1,111	\$ 10,539
Certificates of deposit, \$100 and greater:		
Within one year	\$ 448	\$ 5,936
One to three years	1,275	1,217
Over three years	233	553
	\$ 1,956	\$ 7,706
	\$ 3,067	\$ 18,245

At September 30, 2010 and December 31, 2009, the amount of deposits includes deposits of related parties, including \$1,350,179 and \$1,008,593, respectively, of brokerage customer's deposits from Stifel Nicolaus, and interest-bearing and time deposits of executive officers, directors and significant stockholders and their affiliates of \$361 and \$391, respectively. Such deposits were made in the ordinary course of business and were made on substantially the same terms (including interest rates) as those prevailing at the time for comparable transactions with other persons.

NOTE 12 - Derivative Instruments and Hedging Activities

Stifel Bank uses interest rate swaps as part of its interest rate risk management strategy. Interest rate swaps generally involve the exchange of fixed and variable rate interest payments between two parties, based on a common notional principal amount and maturity date with no exchange of underlying principal amounts. Interest rate swaps designated as cash flow hedges involve the receipt of variable amounts from a counterparty in exchange for our company making fixed payments. Our company's policy is not to offset fair value amounts recognized for derivative instruments and fair value amounts recognized for the right to reclaim cash collateral or the obligation to return cash collateral arising from derivative instruments recognized at fair value executed with the same counterparty under master netting arrangements.

The following table provides the notional values and fair values of Stifel Bank's derivative instruments as of September 30, 2010 and December 31, 2009 (*in thousands*):

		September 30, 2010			
		Asset derivatives		Liability derivatives	
Notional Value		Balance sheet location	Positive fair value	Balance sheet location	Negative fair value
Derivatives designated as hedging instruments under Topic 815:					
Cash flow interest rate contracts	\$ 511,327	Other assets	\$ -	Accounts payable and accrued expenses	\$ (14,251)

		December 31, 2009			
		Asset derivatives		Liability derivatives	
Notional Value		Balance sheet location	Positive fair value	Balance sheet location	Negative fair value
Derivatives designated as hedging instruments under Topic 815:					
Cash flow interest rate contracts	\$ 403,503	Other assets	\$ 157	Accounts payable and accrued expenses	\$ (78)

Cash Flow Hedges

Stifel Bank has entered into interest rate swap agreements that effectively modify its exposure to interest rate risk by converting floating rate debt to a fixed rate debt over the next ten years. The agreements involve the receipt of floating rate amounts in exchange for fixed rate interest payments over the life of the agreement without an exchange of underlying principal amounts.

Any unrealized gains or losses related to cash flow hedging instruments are reclassified from other comprehensive loss into earnings in the same period or periods during which the hedged forecasted transaction affects earnings and are recorded in interest expense on the accompanying statements of operations. Adjustments related to the ineffective portion of the cash flow hedging instruments are recorded in other income or other expense. There was no ineffectiveness recognized during the three and nine months ended September 30, 2010.

Edgar Filing: STIFEL FINANCIAL CORP - Form 10-Q

Amounts reported in cumulative other comprehensive income/(loss) related to derivatives will be reclassified to interest expense as interest payments are made on our variable rate deposits. During the next twelve months, the Company estimates that \$8,117 will be reclassified as an increase to interest expense.

The following table shows the effect of our company's derivative instruments on the consolidated statements of operations for the three and nine months ended September 30, 2010 (*in thousands*):

	Three Months Ended September 30, 2010				
	Loss recognized in OCI (effectiveness)	Location of loss reclassified from OCI into income	Loss reclassified from OCI into income	Location of loss recognized in OCI (ineffectiveness)	Loss recognized due to ineffectiveness
Cash flow interest rate contracts	\$ 4,495	Interest expense	\$ 764	None	\$ -
	Nine Months Ended September 30, 2010				
	Loss recognized in OCI (effectiveness)	Location of loss reclassified from OCI into income	Loss reclassified from OCI into income	Location of loss recognized in OCI (ineffectiveness)	Loss recognized due to ineffectiveness
Cash flow interest rate contracts	\$ 15,172	Interest expense	\$ 842	None	\$ -

We maintain a risk management strategy that incorporates the use of derivative instruments to minimize significant unplanned fluctuations in earnings caused by interest rate volatility. Our goal is to manage sensitivity to changes in rates by hedging the maturity characteristics of Fed-funds based affiliated deposits, thereby limiting the impact on earnings. By using derivative instruments, we are exposed to credit and market risk on those derivative positions. We manage the market risk associated with interest rate contracts by establishing and monitoring limits as to the types and degree of risk that may be undertaken. Credit risk is equal to the extent of the fair value gain in a derivative, if the counterparty fails to perform. When the fair value of a derivative contract is positive, this generally indicates that the counterparty owes our company and, therefore, creates a repayment risk for our company. When the fair value of a derivative contract is negative, we owe the counterparty and therefore, have no repayment risk. See Note 5 in the notes to our consolidated financial statements for further discussion on how we determine the fair value of our financial instruments. We minimize the credit (or repayment) risk in derivative instruments by entering into transactions with high-quality counterparties that are reviewed periodically by senior management.

Credit Risk-Related Contingency Features

We have agreements with our derivative counterparties containing provisions where if we default on any of our indebtedness, including default where repayment of the indebtedness has not been accelerated by the lender, then we could also be declared in default on our derivative obligations.

We have agreements with certain of our derivative counterparties that contain provisions where if our shareholders' equity declines below a specified threshold or if we fail to maintain a specified minimum shareholders' equity, then we could be declared in default on our derivative obligations.

Finally, certain of our company's agreements with its derivative counterparties contain provisions where if a specified event or condition occurs that materially changes our creditworthiness in an adverse manner, we may be required to fully collateralize our obligations under the derivative instrument.

Regulatory Capital-Related Contingency Features

Certain of Stifel Bank's derivative instruments contain provisions that require it to maintain its capital adequacy requirements. If Stifel Bank were to lose its status as "adequately capitalized," it would be in violation of those provisions, and the counterparties of the derivative instruments could request immediate payment or demand immediate and ongoing full overnight collateralization on derivative instruments in net liability positions.

As of September 30, 2010 the fair value of derivatives in a net liability position, which includes accrued interest but excludes any adjustment for nonperformance risk, related to these agreements was \$15,279. We have minimum collateral posting thresholds with certain of our derivative counterparties, and have posted collateral of \$16,172 against our obligations under these agreements. If we had breached any of these provisions at September 30, 2010, we would have been required to settle our obligations under the agreements at the termination value.

Counterparty Risk

In the event of counterparty default, our economic loss may be higher than the uncollateralized exposure of our derivatives if we were not able to replace the defaulted derivatives in a timely fashion. We monitor the risk that our uncollateralized exposure to each of our counterparties for interest rate swaps will increase under certain adverse market conditions by performing periodic market stress tests. These tests evaluate the potential additional uncollateralized exposure we would have to each of these derivative counterparties assuming changes in the level of market rates over a brief time period.

NOTE 13 - Commitments and Contingencies

Broker-dealer Commitments and Guarantees

In the normal course of business, we enter into underwriting commitments. Settlement of transactions relating to such underwriting commitments, which were open at September 30, 2010, had no material effect on the consolidated financial statements.

In connection with margin deposit requirements of The Options Clearing Corporation, we pledged customer-owned securities valued at \$70,606 to satisfy the minimum margin deposit requirement of \$59,838 at September 30, 2010.

In connection with margin deposit requirements of the National Securities Clearing Corporation, we deposited \$19,900 in cash at September 30, 2010, which satisfied the minimum margin deposit requirements of \$14,745.

We also provide guarantees to securities clearinghouses and exchanges under their standard membership agreement, which requires members to guarantee the performance of other members. Under the agreement, if another member becomes unable to satisfy its obligations to the clearinghouse, other members would be required to meet shortfalls. Our 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 our company to make payments under these arrangements is considered remote. Accordingly, no liability has been recognized for these arrangements.

On December 28, 2009, we announced that Stifel Nicolaus had reached an agreement with the State of Missouri, the State of Indiana, the State of Colorado and with an association of other State securities regulatory authorities regarding the repurchase of ARS from Eligible ARS investors. As part of the modified ARS repurchase offer we have accelerated the previously announced repurchase plan. We have agreed to repurchase ARS from Eligible ARS investors in four phases starting in January 2010 and ending on December 31, 2011. At September 30, 2010, we estimate that our retail clients held \$84,400 of eligible ARS after issuer redemptions of \$40,020 and Stifel repurchases of \$64,900.

The first phase of the modified ARS repurchase offer was completed in January 2010. The remaining three phases of the modified ARS repurchase offer will be completed by December 31, 2011. During phases two and three, which will be completed by December 31, 2010, we estimate that we will repurchase ARS of \$18,475. During phase four, we estimate that we will repurchase ARS of \$65,375, which will be completed by December 31, 2011.

We have recorded a liability for our estimated exposure to the voluntary repurchase plan based upon a net present value calculation, which is subject to change and future events, including redemptions. ARS redemptions have been at par and we believe will continue to be at par over the remaining repurchase period. Future periods' results may be affected by changes in estimated redemption rates or changes in the fair value of ARS.

Other Commitments

In the ordinary course of business, Stifel Bank has commitments to extend credit in the form of commitments to originate loans, standby letters of credit, and lines of credit. See Note 18 in the notes to our consolidated financial statements for further details.

Concentration of Credit Risk

We provide investment, capital-raising and related services to a diverse group of domestic customers, including governments, corporations, and institutional and individual investors. Our company's exposure to credit risk associated with the non-performance of customers in fulfilling their contractual obligations pursuant to securities transactions can be directly impacted by volatile securities markets, credit markets and regulatory changes. This exposure is measured on an individual customer basis and on a group basis for customers that share similar attributes. To alleviate the potential for risk concentrations, counterparty credit limits have been implemented for certain products and are continually monitored in light of changing customer and market conditions. As of September 30, 2010 and December 31, 2009, we did not have significant concentrations of credit risk with any one customer or counterparty, or any group of customers or counterparties.

Note 14 - Legal Proceedings

Our company and its subsidiaries are named in and subject to various proceedings and claims arising primarily from our securities business activities, including lawsuits, arbitration claims, class actions, and regulatory matters. Some of these claims seek substantial compensatory, punitive, or indeterminate damages. Our company and its subsidiaries are also involved in other reviews, investigations and proceedings by governmental and self-regulatory organizations regarding our business, which may result in adverse judgments, settlements, fines, penalties, injunctions and other relief. We are contesting the allegations in these claims, and we believe that there are meritorious defenses in each of these lawsuits, arbitrations and regulatory investigations. In view of the number and diversity of claims against the company, the number of jurisdictions in which litigation is pending and the inherent difficulty of predicting the outcome of litigation and other claims, we cannot state with certainty what the eventual outcome of pending litigation or other claims will be. In our opinion, based on currently available information, review with outside legal counsel, and consideration of amounts provided for in our consolidated financial statements with respect to these matters, the ultimate resolution of these matters will not have a material adverse impact on our financial position. However, resolution of one or more of these matters may have a material effect on the results of operations in any future period,

depending upon the ultimate resolution of those matters and depending upon the level of income for such period.

The regulatory investigations include inquiries from the SEC and a state regulatory authority requesting information relating to our role in investments made by five Southeastern Wisconsin school districts (the "school districts") in transactions involving collateralized debt obligations ("CDOs"). We are fully cooperating with the SEC and the state regulatory authority in these investigations.

We are named in a civil lawsuit filed in the Circuit Court of Milwaukee, Wisconsin (the "Wisconsin State Court") on September 29, 2008. The lawsuit has been filed against our company, Stifel Nicolaus, Royal Bank of Canada Europe Ltd. ("RBC"), and certain other RBC entities (collectively the "Defendants") by the school districts and the individual trustees for other post-employment benefit ("OPEB") trusts established by those school districts (collectively the "Plaintiffs").

The suit arises out of purchases of certain CDOs by the OPEB trusts. The RBC entities structured and served as "arranger" for the CDOs. We served as the placement agent/broker in connection with the transactions. The school districts each formed trusts that made investments designed to address their OPEB liabilities. The total amount of the investments made by the OPEB trusts was \$200.0 million. Plaintiffs assert that the school districts contributed \$37.5 million to the OPEB trusts to purchase the investments. The balance of \$162.5 million used to purchase the investments was borrowed by the OPEB trusts from Depfa Bank. The recourse of the lender is each of the OPEB trusts' respective assets and the moral obligation of each school district. The legal claims asserted include violation of the Wisconsin Securities Act, fraud and negligence. The lawsuit seeks equitable relief, unspecified compensatory damages, treble damages, punitive damages and attorney's fees and costs. The Plaintiffs claim that the RBC entities and our company either made misrepresentations or failed to disclose material facts in connection with the sale of the CDOs, and thus allegedly violated the Wisconsin Securities Act. We believe the Plaintiffs reviewed and understood the relevant offering materials and that the investments were suitable based upon, among other things, our receipt of written acknowledgement of risks from each of the Plaintiffs. The Wisconsin State Court denied the Defendants' motions to dismiss, and the Defendants have responded to the allegations of the Second Amended Complaint, denying the substantive allegations and asserting various affirmative defenses. We believe, based upon currently available information and review with outside counsel, that we have meritorious defenses to this lawsuit, and intend to vigorously defend all of the Plaintiffs' claims.

Prior to the acquisition of TWPG, FINRA commenced an administrative proceeding against Thomas Weisel Partners, LLC ("TWP"), a wholly-owned broker-dealer subsidiary of TWPG, related to a transaction undertaken by a former employee in which approximately \$15,700 of ARS were sold from a TWPG account to the accounts of three customers. FINRA has alleged that TWP violated various NASD and FINRA rules, as well as Section 10(b) of the Securities Exchange Act and Rule 10b-5. TWP has filed an answer denying the substantive allegations and asserting various affirmative defenses. TWP has repurchased the ARS at issue from the customers at par. FINRA is seeking fines and other relief against TWP and the former employee. TWP intends to defend the FINRA proceeding vigorously.

NOTE 15 - Regulatory Capital Requirements

We operate in a highly regulated environment and are subject to capital requirements, which may limit distributions to our company from our subsidiaries. Distributions from our broker-dealer subsidiaries are subject to net capital rules. A broker-dealer that fails to comply with the SEC's Uniform Net Capital Rule (Rule 15c3-1) may be subject to disciplinary actions by the SEC and self-regulatory organizations, such as FINRA, including censures, fines, suspension, or expulsion. Stifel Nicolaus and TWP have chosen to calculate their net capital under the alternative method, which prescribes that their net capital shall not be less than the greater of \$1,000, or two percent of aggregate debit balances (primarily receivables from customers) computed in accordance with the SEC's Customer Protection Rule (Rule 15c3-3). CSA calculates its net capital under the aggregate indebtedness method whereby its aggregate indebtedness may not be greater than fifteen times its net capital (as defined). The only restriction with regard to the payment of cash dividends by our company is its ability to obtain cash through dividends and advances from its subsidiaries, if needed.

At September 30, 2010, Stifel Nicolaus had net capital of \$189,597, which was 31.5% of aggregate debit items and \$177,574 in excess of its minimum required net capital. TWP had net capital of \$17,987, which was \$16,987 in excess of its minimum required net capital. CSA had net capital of \$1,526, which was \$1,354 in excess of minimum required net capital.

Edgar Filing: STIFEL FINANCIAL CORP - Form 10-Q

Our international subsidiaries, SN Ltd and Thomas Weisel Partners International Limited ("TWPIL"), are subject to the regulatory supervision and requirements of the Financial Services Authority ("FSA") in the United Kingdom. At September 30, 2010, SN Ltd's and TWPIL's capital and reserves were in excess of the financial resources requirement under the rules of the FSA.

Our Canadian subsidiary, Stifel Nicolaus Canada, is subject to the regulatory supervision and requirements of the Investment Industry Regulatory Organization of Canada ("IIROC"). At September 30, 2010, Stifel Nicolaus Canada's capital and reserves was in excess of the financial resources requirement under the rules of the IIROC.

Our company, as a bank holding company, and Stifel Bank are subject to various regulatory capital requirements administered by the Federal Reserve Board and the Missouri State Division of Finance, respectively. Additionally, Stifel Bank is regulated by the Federal Depository Insurance Corporation ("FDIC"). Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary, actions by regulators that, if undertaken, could have a direct material effect on our company's and Stifel Bank's financial results. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, our company and Stifel Bank must meet specific capital guidelines that involve quantitative measures of our assets, liabilities, and certain off-balance-sheet items as calculated under regulatory accounting practices. Our company's and Stifel Bank's capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

Quantitative measures established by regulation to ensure capital adequacy require our company, as a bank holding company, and Stifel Bank to maintain minimum amounts and ratios of total and Tier 1 capital (as defined in the regulations) to risk-weighted assets (as defined), and Tier 1 capital to average assets (as defined). Management believes, as of September 30, 2010, that our company and Stifel Bank meet all capital adequacy requirements to which they are subject and are considered to be categorized as "well capitalized" under the regulatory framework for prompt corrective action. To be categorized as "well capitalized," our company and Stifel Bank must maintain total risk-based, Tier 1 risk-based and Tier 1 leverage ratios as set forth in the tables below.

Stifel Financial Corp. - Federal Reserve Capital Amounts

	Actual		For Capital Adequacy Purposes		To be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
Total capital to risk-weighted assets	\$ 788,673	29.0%	\$ 217,334	8.0%	\$ 271,668	10.0%
Tier 1 capital to risk-weighted assets	786,850	29.0	108,667	4.0	163,001	6.0
Tier 1 capital to adjusted average total assets	786,850	26.4	119,080	4.0	148,851	5.0

Stifel Bank - Federal Reserve Capital Amounts

	Actual		For Capital Adequacy Purposes		To be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
Total capital to risk-weighted assets	\$ 103,086	14.2%	\$ 58,037	8.0%	\$ 72,546	10.0%

Edgar Filing: STIFEL FINANCIAL CORP - Form 10-Q

Tier 1 capital to risk-weighted assets	101,263	14.0	29,018	4.0	43,527	6.0
Tier 1 capital to adjusted average total assets	101,263	6.8	59,853	4.0	74,816	5.0

NOTE 16 - Stock-Based Compensation Plans

We maintain several incentive stock award plans that provide for the granting of stock options, stock appreciation rights, restricted stock, performance awards and stock units to our employees. Awards under our company's incentive stock award plans are granted at market value at the date of grant. Options expire ten years from the date of grant. The awards generally vest ratably over a three- to eight-year vesting period.

All stock-based compensation plans are administered by the Compensation Committee of the Board of Directors of the Parent ("Compensation Committee"), which has the authority to interpret the plans, determine to whom awards may be granted under the plans, and determine the terms of each award. According to these plans, we are authorized to grant an additional 3,454,399 shares at September 30, 2010.

Stock-based compensation expense included in "Compensation and benefits" in the consolidated statements of operations for our company's incentive stock award plans was \$182,410 and \$11,038 for the three months ended September 30, 2010 and 2009, respectively. The related income tax benefit recognized in income was \$1,158 and \$2,242 for the three months ended September 30, 2010 and 2009, respectively.

Stock-based compensation expense included in "Compensation and benefits" in the consolidated statements of operations for our company's incentive stock award plans was \$214,178 and \$34,332 for the nine months ended September 30, 2010 and 2009, respectively. The related income tax benefit recognized in income was \$14,280 and \$12,788 for the nine months ended September 30, 2010 and 2009, respectively.

Modification of Deferred Compensation Plan

On August 3, 2010, the Compensation Committee approved the modification of the existing Stifel Financial Corp. deferred compensation plan to align the requirements for vesting with that of the TWPG deferred compensation plan, whereby forfeiture would not result from an event of termination, except termination for cause, provided that the employee does not compete with our company or violate non-solicitation provisions during the remaining term of the award. This action accelerated the non-cash compensation expense associated with all outstanding deferred compensation awards as of August 9, 2010, resulting in a charge of \$107,165 after tax (\$181,101 pre-tax), included in "Compensation and benefits" in the consolidated statements of operations.

Under the provisions of the modified plan, future deferred compensation awards to employees will continue to be subject to continued service and employment requirements with the grant date fair value of these awards amortized as compensation expense over the required service period, which is typically three to eight years; however, participants who wish to leave the firm and whose awards have not met the service requirements for vesting at that time, may seek the approval of the plan's administrative committee to receive those awards. Upon receipt of approval, the employee's awards will continue to vest over the remaining service period of the award provided that the employee execute a non-compete, non-solicitation agreement, which will be effective over the remaining term of the award. The removal of the service requirement by the committee will result in a non-cash compensation charge for the unvested portion at the time of the approval.

Stock Units

A stock unit represents the right to receive a share of common stock from our company at a designated time in the future without cash payment by the employee and is issued in lieu of cash incentive, principally for deferred compensation and employee retention plans. At September 30, 2010, the total number of stock units outstanding was 9,186,555, of which 94,373 were unvested.

Deferred Compensation Plans

Our company's Deferred Compensation Plan (the "Plan") is provided to certain revenue producers, officers, and key administrative employees, whereby a certain percentage of their incentive compensation is deferred as defined by the Plan into company stock units with a 25% matching contribution by our company. Participants may elect to defer up to an additional 15% of their incentive compensation with a 25% matching contribution. Units generally vest over a three- to five-year period and are distributable upon vesting or at future specified dates. Deferred compensation costs are amortized on a straight-line basis over the vesting period. Elective deferrals are 100% vested. As of September 30, 2010, there were 5,018,494 units outstanding under the Plan.

Additionally, Stifel Nicolaus maintains a deferred compensation plan for its financial advisors who achieve certain levels of production, whereby a certain percentage of their earnings are deferred as defined by the plan, of which 50% is deferred into company stock units with a 25% matching contribution and 50% is deferred in mutual funds which earn a return based on the performance of index mutual funds as designated by our company or a fixed income option. Financial advisors may elect to defer an additional 1% of earnings into company stock units with a 25% matching contribution. Financial advisors have no ownership in the mutual funds. Included on the consolidated statements of financial condition under the caption "Investments" are \$30,344 and \$28,597 at September 30, 2010 and December 31, 2009, respectively, in mutual funds that were purchased by our company to economically hedge, on an after-tax basis, its liability to the financial advisors who choose to base the performance of their return on the index mutual fund option. At September 30, 2010 and December 31, 2009, the deferred compensation liability related to the mutual fund option of \$30,408 and \$34,300, respectively, is included in "Accrued employee compensation" on the consolidated statements of financial condition.

In addition, certain financial advisors, upon joining our company, may receive company stock units in lieu of transition cash payments. Deferred compensation related to these awards generally cliff vests over a five to eight-year period. Deferred compensation costs are amortized on a straight-line basis over the deferral period. As of September 30, 2010, there were 4,049,065 units outstanding under the two plans.

Stock Options

We have substantially eliminated the use of stock options as a form of compensation. During the three and nine months ended September 30, 2010, no options were granted. As of September 30, 2010, there were 837,343 options outstanding at a weighted-average exercise price of \$12.67 and a weighted-average contractual life of 2.75 years. As of September 30, 2010, there was \$180 of unrecognized compensation cost related to non-vested option awards. The cost is expected to be recognized over a weighted-average period of 0.88 years. We received \$219 and \$1,371 in cash from the exercise of stock options during the three and nine months ended September 30, 2010, respectively.

NOTE 17 - Restructuring

As a result of the merger and integration of TWPG, we incurred certain restructuring charges. These charges relate to costs associated with contract and lease terminations, consolidation of facilities and infrastructure, and employee termination benefits, which represent one-time activities and do not represent ongoing costs to fully integrate TWPG. Contract termination fees are determined based on the provisions of ASC Topic 420, "Exit or Disposal Cost Obligations," which among other things requires the recognition of a liability for contract termination under a

cease-use date concept. Lease terminations represent costs associated with redundant office space disposed of as part of the restructuring plan. Payments related to terminated lease contracts continue through the original terms of the leases, which run for various periods, with the longest lease term running through 2011.

The following table presents a summary of the activity with respect to the restructuring-related liabilities included in "Accrued compensation" and "Accounts payable and accrued expenses" on the consolidated statements of financial condition (*in thousands*):

Balance at June 30, 2010		\$	3,119
Provision charged to operating expense			2,760
Cash outlays			(3,946)
Non-cash write-downs			-
Balance at September 30, 2010		\$	1,933

NOTE 18 - Off-Balance Sheet Credit Risk

In the normal course of business, we execute, settle, and finance customer and proprietary securities transactions. These activities expose our company to off-balance sheet risk in the event that customers or other parties fail to satisfy their obligations.

In accordance with industry practice, securities transactions generally settle within three business days after trade date. Should a customer or broker fail to deliver cash or securities as agreed, we may be required to purchase or sell securities at unfavorable market prices.

We borrow and lend securities to facilitate the settlement process and finance transactions, utilizing customer margin securities held as collateral. We monitor the adequacy of collateral levels on a daily basis. We periodically borrow from banks on a collateralized basis utilizing firm and customer margin securities in compliance with SEC rules. Should the counterparty fail to return customer securities pledged, we are subject to the risk of acquiring the securities at prevailing market prices in order to satisfy our customer obligations. We control our exposure to credit risk by continually monitoring our counterparties' positions and, where deemed necessary, we may require a deposit of additional collateral and/or a reduction or diversification of positions. Our company sells securities it does not currently own (short sales) and is obligated to subsequently purchase such securities at prevailing market prices. We are exposed to risk of loss if securities prices increase prior to closing the transactions. We control our exposure to price risk from short sales through daily review and setting position and trading limits.

We manage our risks associated with the aforementioned transactions through position and credit limits, and the continuous monitoring of collateral. Additional collateral is required from customers and other counterparties when appropriate.

We have accepted collateral in connection with resale agreements, securities borrowed transactions, and customer margin loans. Under many agreements, we are permitted to sell or repledge these securities held as collateral and use these securities to enter into securities lending arrangements or to deliver to counterparties to cover short positions. At September 30, 2010, the fair value of securities accepted as collateral where we are permitted to sell or repledge the securities was \$867,773, and the fair value of the collateral that had been sold or repledged was \$98,945. At December 31, 2009, the fair value of securities accepted as collateral where we are permitted to sell or repledge the securities was \$792,094, and the fair value of the collateral that had been sold or repledged was \$122,533.

Derivatives' notional contract amounts are not reflected as assets or liabilities in the consolidated statements of financial condition. Rather, the market, or fair value, of the derivative transactions are reported on the consolidated statements of financial condition as other assets or accounts payable and accrued expenses, as applicable.

We enter into interest rate derivative contracts to manage exposures that arise from business activities that result in the receipt or payment of future known and uncertain cash amounts, the value of which are determined by interest rates. Our derivative financial instruments are principally used to manage differences in the amount, timing, and duration of our known or expected cash payments related to certain variable-rate affiliated deposits. Interest rate swaps designated as cash flow hedges involve the receipt of variable-rate amounts from a counterparty in exchange for us making fixed-rate payments. Our interest rate hedging strategies may not work in all market environments and as a result may not be effective in mitigating interest rate risk.

For a complete discussion of our activities related to derivative instruments, see Note 12 in the notes to our consolidated financial statements.

In the ordinary course of business, Stifel Bank has commitments to originate loans, standby letters of credit and lines of credit. Commitments to originate loans are agreements to lend to a customer as long as there is no violation of any condition established by the contract. These commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since a portion of the commitments may expire without being drawn upon, the total commitment amounts do not necessarily represent future cash commitments. Each customer's creditworthiness is evaluated on a case-by-case basis. The amount of collateral obtained, if necessary, is based on the credit evaluation of the counterparty. Collateral held varies, but may include accounts receivable, inventory, property, plant and equipment, commercial real estate and residential real estate.

At September 30, 2010 and December 31, 2009, Stifel Bank had outstanding commitments to originate loans aggregating \$222,570 and \$91,670, respectively. The commitments extended over varying periods of time with all commitments at September 30, 2010 scheduled to be disbursed in the following two months.

Standby letters of credit are irrevocable conditional commitments issued by Stifel Bank to guarantee the performance of a customer to a third-party. Financial standby letters of credit are primarily issued to support public and private borrowing arrangements, including commercial paper, bond financing and similar transactions. Performance standby letters of credit are issued to guarantee performance of certain customers under non-financial contractual obligations. The credit risk involved in issuing standby letters of credit is essentially the same as that involved in extending loans to customers. Should Stifel Bank be obligated to perform under the standby letters of credit, it may seek recourse from the customer for reimbursement of amounts paid. At September 30, 2010 and December 31, 2009, Stifel Bank had outstanding letters of credit totaling \$9,178 and \$1,047, respectively. One of the standby letters of credit has an expiration of January 1, 2012. All of the remaining standby letters of credit commitments at September 30, 2010 have expiration terms that are less than one year.

Lines of credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Lines of credit generally have fixed expiration dates. Since a portion of the line may expire without being drawn upon, the total unused lines do not necessarily represent future cash requirements. Each customer's creditworthiness is evaluated on a case-by-case basis. The amount of collateral obtained, if necessary, is based on the credit evaluation of the counterparty. Collateral held varies but may include accounts receivable, inventory, property, plant and equipment, commercial real estate and residential real estate. Stifel Bank uses the same credit policies in granting lines of credit as it does for on-balance sheet instruments. At September 30, 2010 and December 31, 2009, Stifel Bank had granted unused lines of credit to commercial and consumer borrowers aggregating \$55,707 and \$27,148, respectively.

NOTE 19 - Income Taxes

The liability for unrecognized tax benefits was \$3,510 and \$2,046 as of September 30, 2010 and December 31, 2009, respectively, that if recognized would affect the effective tax rate for income before taxes. The increase in the unrecognized tax benefit from December 31, 2009 is primarily attributable to items added as a result of our acquisition of TWPG.

During the three months ended September 30, 2010, our deferred tax asset increased as a result of the following items: the acceleration of deferred compensation as a result of the previously announced modification of the company's deferred compensation plan, as discussed further in Note 16 in the notes to our consolidated financial statements, and the recognition of TWPG's deferred tax asset and net operating loss carryforwards, as discussed further in Note 3 in the notes to our consolidated financial statements.

We recognize the accrual of interest and penalties related to income tax matters in the "Provision for income taxes" on the consolidated statements of operations. As of September 30, 2010 and December 31, 2009, accrued interest and penalties included in the unrecognized tax benefits liability were \$875 and \$422, respectively.

We file income tax returns in the U.S. federal jurisdiction and various states, and foreign jurisdictions with varying statutes of limitation. We are subject to examination for various years by federal and state tax jurisdictions. For the U.S. and most state and foreign jurisdictions, the years 2007 through 2009 remain subject to examination by their respective authorities. It is possible that these examinations will be resolved in the next twelve months. We do not anticipate that payments made during the next twelve month period for these examinations will be material, nor do we expect that the reduction to unrecognized tax benefits as a result of a lapse of applicable statute of limitations will be significant. Our company's foreign jurisdictions are generally fully taxable by the United States.

NOTE 20 - Segment Reporting

We currently operate through the following three business segments: Global Wealth Management; Institutional Group (formerly Capital Markets); and various corporate activities combined in the Other segment.

Our Global Wealth Management segment consists of two businesses, the Private Client Group and Stifel Bank. The Private Client Group includes branch offices and independent contractor offices of our broker-dealer subsidiaries located throughout the United States, primarily in the Midwest and Mid-Atlantic regions with a growing presence in the Northeast, Southeast and Western United States. These branches provide securities brokerage services, including the sale of equities, mutual funds, fixed income products, and insurance, as well as offering banking products to their private clients through Stifel Bank. Stifel Bank segment provides residential, consumer, and commercial lending, as well as FDIC-insured deposit accounts to customers of our broker-dealer subsidiaries and to the general public.

The Institutional Group segment includes institutional sales and trading. It provides securities brokerage, trading, and research services to institutions with an emphasis on the sale of equity and fixed income products. This segment also includes the management of and participation in underwritings for both corporate and public finance (exclusive of sales credits generated through the private client group, which are included in the Global Wealth Management segment), merger and acquisition, and financial advisory services.

The Other segment includes certain corporate activities of our company.

Information concerning operations in these segments of business for the three and nine months ended September 30, 2010 and 2009 is as follows (*in thousands*):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
Net revenues: (1)				
Global Wealth Management	\$ 207,484	\$ 158,659	\$ 606,845	\$ 409,911
Institutional Group	138,043	130,179	375,937	360,787
Other	(5,139)	845	(2,355)	471
	\$ 340,388	\$ 289,683	\$ 980,427	\$ 771,169
Income/(loss) before income taxes:				
Global Wealth Management	\$ 51,707	\$ 29,054	\$ 131,306	\$ 70,373
Institutional Group	27,654	33,433	85,879	91,317
Other	(221,917)	(31,651)	(284,231)	(82,590)
	\$ (142,556)	\$ 30,836	\$ (67,046)	\$ 79,100

(1) No individual client accounted for more than 10 percent of total net revenues for the three and six months ended September 30, 2010 or 2009.

Edgar Filing: STIFEL FINANCIAL CORP - Form 10-Q

The following table presents our company's total assets on a segment basis at September 30, 2010 and December 31, 2009 (*in thousands*):

	September 30, 2010	December 31, 2009
Total assets:		
Global Wealth Management	\$ 2,804,218	\$ 2,226,050
Institutional Group	1,011,841	701,213
Other	367,784	240,093
	\$ 4,183,843	\$ 3,167,356

We have operations in the United States, Canada, United Kingdom and Europe. Our company's foreign operations are conducted through its wholly-owned subsidiaries, SN Ltd., Stifel Nicolaus Canada, and TWPIIL. Substantially all long-lived assets are located in the United States.

Revenues, classified by the major geographic areas in which they are earned for the three and nine months ended September 30, 2010 and 2009, were as follows (*in thousands*):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
Net revenues:				
United States	\$ 329,350	\$ 284,095	\$ 955,938	\$ 755,876
United Kingdom	4,073	3,577	12,790	10,146
Other European	2,095	2,011	6,829	5,147
Canada	4,870	-	4,870	-
	\$ 340,388	\$ 289,683	\$ 980,427	\$ 771,169

NOTE 21 - Other Comprehensive income/(loss)

The following table sets forth the components of other comprehensive income/(loss) for the three and nine months ended September 30, 2010 and 2009 (*in thousands*):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
Net income/(loss)	\$ (84,336)	\$ 22,138	\$ (39,487)	\$ 51,130
Other comprehensive income:				
Unrealized gains on available-for-sale securities, net of tax	517	5,874	7,472	7,985
Unrealized losses in cash flow hedging instruments, net of tax	(2,478)	(526)	(8,875)	(526)
Foreign currency translation adjustment, net of tax	8,690	-	8,690	-
	6,729	5,348	7,287	7,459
Comprehensive income/(loss)	\$ (77,607)	\$ 27,486	\$ (32,200)	\$ 58,589

NOTE 22 - Earnings per Share

The following table sets forth the computation of basic and diluted earnings per share for the three and nine months ended September 30, 2010 and 2009 (*in thousands, except per share data*):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
Net income/(loss)	\$ (84,336)	\$ 22,138	\$ (39,487)	\$ 51,130
Shares for basic and diluted calculations:				
Average shares used in basic computation	34,134	28,708	31,910	27,652
Dilutive effect of stock options and units ⁽¹⁾	7,089	4,109	5,152	3,816
Average shares used in diluted computation	\$ 41,223	\$ 32,817	\$ 37,062	\$ 31,468
Net income per share:				
Basic	\$ (2.47)	\$ 0.77	\$ (1.24)	\$ 1.85
Diluted ^{(1) (2)}	\$ (2.47)	\$ 0.67	\$ (1.24)	\$ 1.62

(1) Diluted earnings per share is computed on the basis of the weighted average number of shares of common stock plus the effect of dilutive potential common shares outstanding during the period using the treasury method. Diluted earnings per share include stock options and units.

(2) In accordance with Topic 260, "Earnings Per Share," earnings per diluted common share is calculated using the basic weighted average number of common shares outstanding in periods a loss is incurred.

For the three and nine months ended September 30, 2010 and 2009, the anti-dilutive effect from restricted stock units was immaterial.

NOTE 23 - Stockholders' Equity

On May 5, 2005, the Board authorized the repurchase of up to 3,000,000 additional shares in addition to an existing authorization of 1,500,000 shares. These purchases may be made on the open market or in privately negotiated transactions, depending upon market conditions and other factors. Repurchased shares may be used to meet obligations under our employee benefit plans and for general corporate purposes. On August 3, 2010, the Board authorized the repurchase of an additional 2,000,000 shares.

Under existing Board authorizations at September 30, 2010, we are permitted to buy an additional 2,038,517 shares. The repurchase program has no expiration date. During the three and nine months ended September 30, 2010, we repurchased \$67,341 and \$91,769, or 1,499,414 and 1,972,314 shares, respectively, using existing Board authorizations at average prices of \$44.91 and \$46.53 per share, respectively, to meet obligations under our company's employee benefit plans and for general corporate purposes. During the three and nine months ended September 30, 2010, we issued 4,437,363 and 5,428,977 shares, respectively, which included the reissuance of 356,273 and 430,098 shares from treasury, respectively, for the purchase of TWPG, the exercise of warrants that were issued as part of the Ryan Beck acquisition and shares for employee benefit plans. See Note 3 in the notes to our consolidated financial statements for additional information regarding the acquisition of TWPG.

NOTE 24 - Variable Interest Entities ("VIE")

The determination as to whether an entity is a VIE is based on the structure and nature of the entity. We also consider other characteristics such as the ability to influence the decision making relative to the entity's activities and how the entity is financed. The determination as to whether we are the primary beneficiary for entities subject to the deferral is based on a qualitative analysis of the VIE's expected losses and expected residual returns. This analysis includes a review of, among other factors, the VIE's capital structure, contractual terms, which interests create or absorb

variability, related party relationships and the design of the VIE. For entities not subject to the deferral, the determination as to whether we are the primary beneficiary is based on an analysis of the power to direct the activities of the VIE as well as the obligation to absorb losses or benefits that could potentially be significant to the entity. Where qualitative analyses are not conclusive, we perform a quantitative analysis. Our company's involvement with VIEs is limited to entities used as investment vehicles and private equity funds, the establishment of Stifel Financial Capital Trusts and our investment in a convertible promissory note.

We have formed several non-consolidated investment funds with third-party investors that are typically organized as limited liability companies or limited partnerships. These partnerships and LLCs have assets of approximately \$269,906 at September 30, 2010. For those funds where we act as the general partner, our company's economic interest is generally limited to management fee arrangements as stipulated by the Operating Agreements. We have generally provided the third-party investors with rights to terminate the funds or to remove us as the general partner. In assessing whether or not we have control we look to the accounting guidance in determining whether a general partner controls a limited partnership. Management fee revenue earned by our company was insignificant during the three and nine months ended September 30, 2010 and 2009, respectively. In addition, our direct investment interest in these entities is insignificant at September 30, 2010 and December 31, 2009, respectively.

Thomas Weisel Capital Management LLC, a subsidiary of our company, acts as the general partner of a series of investment funds in venture capital and fund of funds and manages investment funds that are active buyers of secondary interests in private equity funds, as well as portfolios of direct interests in venture-backed companies. These partnerships have combined assets of approximately \$577,400 at September 30, 2010. We hold variable interests in these funds as a result of our company's rights to receive management fees. Our company's investment in and additional capital commitments to the private equity funds are also considered variable interests. The additional capital commitments are subject to call at a later date and are limited in amount. Our exposure to loss is limited to our investments in, advances and commitments to, and receivables due from these funds and that exposure is approximately \$3,492 at September 30, 2010. Management fee revenue earned by our company was insignificant during the three and nine months ended September 30, 2010, respectively.

Under the current accounting rules, the general partner in a limited partnership is presumed to control that limited partnership. The presumption may be overcome if the limited partners have either (1) the substantive ability to dissolve the limited partnership or otherwise remove the general partner without cause or (2) substantive participating rights, which provide the limited partners with the ability to effectively participate in significant decisions that would be expected to be made in the ordinary course of the limited partnership's business and thereby preclude the general partner from exercising unilateral control over the partnership. If the criteria are not met, the consolidation of the partnership or limited liability company is required. Based on our evaluation of these entities, we determined that these entities do not require consolidation.

Debenture to Stifel Financial Capital Trusts

We have completed private placements of cumulative trust preferred securities through Stifel Financial Capital Trust II, Stifel Financial Capital Trust III, and Stifel Financial Capital Trust IV (collectively, the "Trusts"). The Trusts are non-consolidated wholly-owned business trust subsidiaries of our company and were established for the limited purpose of issuing trust securities to third parties and lending the proceeds to our company.

The trust preferred securities represent an indirect interest in junior subordinated debentures purchased from our company by the Trusts, and we effectively provide for the full and unconditional guarantee of the securities issued by the Trusts. We make timely payments of interest to the Trusts as required by contractual obligations, which are sufficient to cover payments due on the securities issued by the Trusts and believe that it is unlikely that any circumstances would occur that would make it necessary for our company to make payments related to these Trusts other than those required under the terms of the debenture agreements and the trust preferred securities agreements. The Trusts were determined to be VIEs because the holders of the equity investment at risk do not have adequate decision making ability over the Trust's activities. Our investment in the Trusts is not a variable interest because equity interests are variable interests only to the extent that the investment is considered to be at risk. Because our investment was funded by the Trusts, it is not considered to be at risk.

Interest in FSI Group, LLC ("FSI")

We have provided financing of \$18,000 in the form of a convertible promissory note to FSI, a limited liability company specializing in investing in banks, thrifts, insurance companies, and other financial services firms. The note is convertible at our election into a 49.9% interest in FSI at any time after the third anniversary or during the defined conversion period. The convertible promissory note has a minimum coupon rate equal to 10% per annum plus additional interest related to certain defined cash flows of the business, not to exceed 18% per annum. As we do not hold the power to direct the activities of FSI nor to absorb a majority of the expected losses, or receive a majority of the expected benefits, it was determined that we are not the primary beneficiary.

Our company's exposure to loss is limited to the carrying value of the note with FSI at September 30, 2010 of \$18,000, which is included in "Other assets" on the consolidated statements of financial condition. Our company had no liabilities related to this entity at September 30, 2010. We have the discretion to make additional capital

contributions. We have not provided financial or other support to FSI that we were not previously contractually required to provide as of September 30, 2010. Our company's involvement with FSI has not had a material effect on its consolidated financial position, operations or cash flows.

NOTE 25 - Subsequent Events

In accordance with Topic 855 "Subsequent Events," we evaluate subsequent events that have occurred after the balance sheet date but before the financial statements are issued. There are two types of subsequent events: (1) recognized, or those that provide additional evidence about conditions that existed at the date of the balance sheet, including the estimates inherent in the process of preparing financial statements, and (2) non-recognized, or those that provide evidence about conditions that did not exist at the date of the balance sheet but arose after that date. Based on the evaluation, we did not identify any recognized subsequent events that would have required adjustment to the consolidated financial statements.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion of the financial condition and results of operations of our company should be read in conjunction with the consolidated financial statements and notes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2009, and the accompanying consolidated financial statements and notes thereto contained in this Quarterly Report on Form 10-Q.

Certain statements in this report may be considered forward-looking. Statements that are not historical or current facts, including statements about beliefs and expectations, are forward-looking statements. These forward-looking statements cover, among other things, statements made about general economic and market conditions, the investment banking industry, our objectives and results, and also may include our belief regarding the effect of various legal proceedings, management expectations, our liquidity and funding sources, counterparty credit risk, or other similar matters. Forward-looking statements involve inherent risks and uncertainties, and important factors could cause actual results to differ materially from those anticipated, including those factors discussed below under "External Factors Impacting Our Business" as well as the factors identified under "Risk Factors" in Part I, Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2009, as updated in our subsequent reports filed with the SEC. These reports are available at our web site at www.stifel.com and at the SEC web site at www.sec.gov.

Because of these and other uncertainties, our actual future results may be materially different from the results indicated by these forward-looking statements. In addition, our past results of operations do not necessarily indicate our future results. Forward-looking statements speak only as of the date they are made, and we undertake no obligation to update them in light of new information or future events, unless we are obligated to do so under federal securities laws.

Unless otherwise indicated, the terms "we," "us," "our" or "our company" in this report refer to Stifel Financial Corp. and its wholly-owned subsidiaries.

Executive Summary

Stifel Financial Corp. (the "Parent") through its wholly-owned subsidiaries, principally Stifel Nicolaus & Company, Incorporated ("Stifel Nicolaus"), Century Securities Associates, Inc. ("CSA"), Stifel Nicolaus Limited ("SN Ltd"), and Stifel Bank & Trust ("Stifel Bank"), is engaged in retail brokerage, securities trading, investment banking, investment advisory, residential, consumer and commercial banking and related financial services throughout the United States and in three European offices. Although we have offices across the United States, our major geographic area of concentration is in the Midwest and Mid-Atlantic regions with a growing presence in the Northeast, Southwest and Western United States. Our principal customers are individual investors, corporations, municipalities and institutions.

On July 1, 2010, we acquired Thomas Weisel Partners Group, Inc. ("TWPG"), an investment bank focused principally on the growth sectors of the economy, which generates revenues from three principal sources: investment banking, brokerage and asset management. The investment banking group is comprised of two primary categories of services: corporate finance and strategic advisory. The brokerage group provides equity sales and trading services to institutional investors, and offers brokerage, advisory services to high-net-worth individuals and corporate clients. The asset management group consists of: private investment funds, public equity investment products and distribution management. The employees of the investment banking, research and institutional brokerage businesses of Thomas Weisel Partners, LLC ("TWP"), a wholly-owned subsidiary of TWPG, were merged into Stifel Nicolaus during the third quarter of 2010. TWP will remain a wholly-owned broker-dealer subsidiary of the Parent.

We plan to maintain our focus on revenue growth with a continued focus on developing quality relationships with our clients. Within our private client business, our efforts will be focused on recruiting experienced financial advisors with established client relationships. Within our institutional group business, our focus continues to be on providing quality

client management and product diversification. In executing our growth strategy, we take advantage of the consolidation among middle market firms, which we believe provides us opportunities in our Global Wealth Management and Institutional Group businesses.

Our ability to attract and retain highly skilled and productive employees is critical to the success of our business. Accordingly, compensation and benefits comprise the largest component of our expenses, and our performance is dependent upon our ability to attract, develop and retain highly skilled employees who are motivated and committed to providing the highest quality of service and guidance to our clients.

Our overall financial results continue to be highly and directly correlated to the direction and activity levels of the United States equity and fixed income markets, our expansion of the Institutional Group segment, and the continued expansion of our Global Wealth Management segment. Since September 30, 2009, we have increased our number of financial advisors and branch offices by hiring 246 financial advisors and opening 33 branches, of which 76 financial advisors and 15 branches were part of the last wave of acquired UBS branches that closed during the fourth quarter of 2009. In addition, we added 306 revenue producing investment bankers, traders, institutional sales staff and mortgage bankers along with 379 branch and home office support staff. As a result of the TWPG acquisition, we added 96 investment bankers, 74 research professionals, 49 institutional equity sales staff to our Institutional Group segment and 31 in our Global Wealth Management segment, as well as 74 support staff.

Results for the three and nine months ended September 30, 2010

For the three months ended September 30, 2010, our net revenues increased 17.5% to \$340.4 million compared to \$289.7 million during the comparable period in 2009. For the three months ended September 30, 2010, we incurred a net loss of \$84.3 million compared to net income of \$22.1 million during the comparable period in 2009.

For the nine months ended September 30, 2010, our net revenues increased 27.1% to \$980.4 million compared to \$771.2 million during the comparable period in 2009. For the nine months ended September 30, 2010, we incurred a net loss of \$39.5 million compared to net income of \$51.1 million during the comparable period in 2009.

We experienced revenue growth across all revenue line items over the three and nine months ended September 30, 2009. Our revenue growth was primarily attributable to an increase in the number of financial advisors, client assets and higher productivity and the acquisition of TWPG, which closed in the third quarter of 2010.

On August 3, 2010, the Compensation Committee approved the modification of the existing Stifel Financial Corp. deferred compensation plan to align the requirements for vesting with that of the TWPG deferred compensation plan, whereby forfeiture would not result from an event of termination, except termination for cause, provided that the employee does not compete with our company or violate non-solicitation provisions during the remaining term of the award. This action accelerated the non-cash compensation expense associated with all outstanding deferred compensation awards as of August 9, 2010, resulting in an after-tax charge of \$107.2 million.

External Factors Impacting our Business

We operated in an environment characterized by tighter bid-offer spreads and increasing volatility levels, which lead to challenging market conditions during 2010. While encouraged by the signs of improvement, we operate in a challenging environment that is still recovering from a recession and operates in a state of uncertainty. In addition, the financial services industry continues to deal with issues related to credit quality, auction rate securities, liquidity and regulatory reform. There has been an increase in industry-wide equity and equity-related offerings compared to the difficult conditions that existed during 2009.

Performance in the financial services industry in which we operate is highly correlated to the overall strength of economic conditions and financial market activity. Overall market conditions are a product of many factors, which are beyond our control and mostly unpredictable. These factors may affect the financial decisions made by investors, including their level of participation in the financial markets. In turn, these decisions may affect our business results. With respect to financial market activity, our profitability is sensitive to a variety of factors, including the demand for investment banking services as reflected by the number and size of equity and debt financings and merger and acquisition transactions, the volatility of the equity and fixed income markets, the level and shape of various yield curves, the volume and value of trading in securities, and the value of our customers' assets under management.

Although we do not engage in any significant proprietary trading for our own account, the inventory of securities held to facilitate customer trades and our market making activities are sensitive to market movements. We do not have any significant direct exposure to the sub-prime market, but are subject to market fluctuations resulting from news and corporate events in the sub-prime mortgage markets, associated write-downs by other financial services firms and interest rate fluctuations. Stock prices for companies in this industry, including Stifel Financial Corp., have been volatile as a result of reactions to the global credit crisis and the continued volatility in the financial services industry. We will continue to monitor our market capitalization and review for potential goodwill asset impairment losses if events or changes in circumstances occur that would more likely than not reduce the fair value of the asset below its carrying amount.

In connection with auction rate securities ("ARS"), our broker-dealer subsidiaries have been subject to ongoing investigations, which include inquiries from the Securities and Exchange Commission (the "SEC"), the Financial Industry Regulatory Authority ("FINRA") and several state regulatory agencies, with which we are cooperating fully. We previously disclosed that we were also named in a class action lawsuit (the "ARS class action lawsuit") similar to that filed against a number of brokerage firms alleging various securities law violations in connection with the sale of ARS. On July 2, 2010, the ARS class action lawsuit was dismissed and the Court denied the Plaintiff's Motion to Award Attorneys' Fees and Costs. We are, in conjunction with other industry participants actively seeking a solution to ARS' illiquidity. See Item 1, "Legal Proceedings," in Part II of this report for further details regarding ARS investigations and claims.

RESULTS OF OPERATIONS***Three Months Ended September 30, 2010 Compared with Three Months Ended September 30, 2009***

The following table presents consolidated financial information for the periods indicated (*in thousands, except percentages*):

	For the Three Months Ended September 30,			As a Percentage of Net Revenues For the Three Months Ended September 30,	
	2010	2009	% Change	2010	2009
Revenues:					
Principal transactions	\$ 123,194	\$ 123,238	0.0%	36.2 %	42.5%
Commissions	96,986	90,905	6.7	28.5	31.4
Investment banking	51,656	35,056	47.4	15.2	12.1
Asset management and service fees	50,876	27,012	88.4	14.9	9.3
Interest	17,718	11,306	56.7	5.2	3.9
Other income	3,656	5,072	(27.9)	1.1	1.8
Total revenues	344,086	292,589	17.6	101.1	101.0
Interest expense	3,698	2,906	27.2	1.1	1.0
Net revenues	340,388	289,683	17.5	100.0	100.0
Non-interest expenses:					
Compensation and benefits	395,936	193,131	105.0	116.3	66.7
Occupancy and equipment rental	29,559	24,730	19.5	8.7	8.5
Communication and office supplies	19,877	14,429	37.8	5.8	5.0
Commissions and floor brokerage	7,972	6,486	22.9	2.3	2.2
Other operating expenses	29,600	20,071	47.4	8.8	7.0
Total non-interest expenses	482,944	258,847	86.6	141.9	89.4
Income/(loss) before income taxes	(142,556)	30,836	*	(41.9)	10.6
Provision for income taxes/(tax benefit)	(58,220)	8,698	*	(17.1)	3.0
Net income/(loss)	\$ (84,336)	\$ 22,138	*%	(24.8) %	7.6%

* Percentage is not meaningful.

For the three months ended September 30, 2010, net revenues (total revenues less interest expense) increased \$50.7 million to \$340.4 million; a 17.5% increase over the \$289.7 million recorded for the three months ended September 30, 2009. For the three months ended September 30, 2010, we incurred a net loss of \$84.3 million compared to net income of \$22.1 million during the comparable period in 2009.

Nine Months Ended September 30, 2010 Compared with Nine Months Ended September 30, 2009

The following table presents consolidated financial information for the periods indicated (*in thousands, except percentages*):

	For the Nine Months Ended September 30,			As a Percentage of Net Revenues For the Nine Months Ended September 30,	
	2010	2009	% Change	2010	2009
Revenues:					
Principal transactions	\$ 363,537	\$ 341,777	6.4%	37.0 %	44.3%
Commissions	305,655	246,236	24.1	31.2	31.9
Asset management and service fees	136,117	78,266	73.9	13.9	10.1
Investment banking	127,129	75,262	68.9	13.0	9.8
Interest	47,019	31,782	47.9	4.8	4.1
Other income	9,358	6,148	52.2	1.0	0.9
Total revenues	988,815	779,471	26.9	100.9	101.1
Interest expense	8,388	8,302	1.0	0.9	1.1
Net revenues	980,427	771,169	27.1	100.0	100.0
Non-interest expenses:					
Compensation and benefits	819,085	516,852	58.5	83.5	67.0
Occupancy and equipment rental	81,012	63,311	28.0	8.3	8.2
Communication and office supplies	50,220	39,403	27.5	5.1	5.1
Commissions and floor brokerage	18,988	17,167	10.6	1.9	2.2
Other operating expenses	78,168	55,336	41.3	8.0	7.2
Total non-interest expenses	1,047,473	692,069	51.4	106.8	89.7
Income/(loss) before income taxes	(67,046)	79,100	*	(6.8)	10.3
Provision for income taxes/(tax benefit)	(27,559)	27,970	*	(2.8)	3.6
Net income/(loss)	\$ (39,487)	\$ 51,130	*%	(4.0) %	6.7%

* Percentage is not meaningful.

For the nine months ended September 30, 2010, net revenues (total revenues less interest expense) increased \$209.2 million to \$980.4 million; a 27.1% increase over the \$771.2 million recorded for the nine months ended September 30, 2009. For the nine months ended September 30, 2010, we incurred a net loss of \$39.5 million compared to net income of \$51.1 million during the comparable period in 2009.

NET REVENUES

The following table presents consolidated net revenues for the periods indicated (*in thousands, except percentages*):

	For the Three Months Ended September 30,			For the Nine Months Ended September 30,		
	2010	2009	% Change	2010	2009	% Change
Net revenues:						
Principal transactions	\$ 123,194	\$ 123,238	0.0%	\$ 363,537	\$ 341,777	6.4%
Commissions	96,986	90,905	6.7	305,655	246,236	24.1
Asset management and service fees	50,876	27,012	88.4	136,117	78,266	73.9
Investment banking:						
Capital raising	28,593	22,332	28.0	84,613	42,065	101.1
Strategic advisory fees	23,063	12,724	81.3	42,516	33,197	28.1
	51,656	35,056	47.4	127,129	75,262	68.9
Net interest	14,020	8,400	66.9	38,631	23,480	64.5
Other income	3,656	5,072	(27.9)	9,358	6,148	52.2
Total net revenues	\$ 340,388	\$ 289,683	17.5%	\$ 980,427	\$ 771,169	27.1%

* Percentage is not meaningful.

Except as noted in the following discussion of variances, the underlying reasons for the increase in revenue can be attributed principally to the increased number of private client group offices and financial advisors in our Global Wealth Management segment, the increased number of revenue producers in our Institutional Group segment and the acquisitions of UBS branches during the third and fourth quarters of 2009 and TWPG on July 1, 2010. The results of operations for the acquired UBS branches are included in our results prospectively from the date of their respective acquisitions. For the three and nine months ended September 30, 2010, this acquisition generated net revenues of \$26.9 million and \$81.7 million, respectively, compared to \$4.0 million for the three months ended September 30, 2009. The operations of TWPG were integrated with Stifel Nicolaus immediately after the merger, therefore the results of the business, as acquired, does not exist as a discrete entity within our internal reporting structure.

Principal transactions - For the three months ended September 30, 2010, principal transactions revenues of \$123.2 million remained relatively unchanged from the comparable period in 2009. For the nine months ended September 30, 2010, principal transactions revenues increased 6.4% to \$363.5 million from \$341.8 million in the comparable period in 2009. The growth in our company since September 2009, both organically and through acquisitions, has contributed to the increase in principal transactions revenues; however, the growth was negatively impacted by the challenging fixed income market conditions that existed during the quarter ended September 30, 2010.

Commissions - Commission revenues are primarily generated from agency transactions in OTC and listed equity securities, insurance products and options. In addition, commission revenues also include distribution fees for promoting and distributing mutual funds.

For the three months ended September 30, 2010, commission revenues increased 6.7% to \$97.0 million from \$90.9 million in the comparable period in 2009. For the nine months ended September 30, 2010, commission revenues increased 24.1% to \$305.7 million from \$246.2 million in the comparable period in 2009. The increases are primarily attributable to an increase in the number of financial advisors, client assets and higher productivity.

Asset management and service fees - Asset management and service fees include fees for asset-based financial services provided to individuals and institutional clients. Investment advisory fees are charged based on the value of assets in fee-based accounts. Asset management and service fees are affected by changes in the balances of client assets due to market fluctuations and levels of net new client assets.

For the three months ended September 30, 2010, asset management and service fee revenues increased 88.4% to \$50.9 million from \$27.0 million in the comparable period of 2009. For the nine months ended September 30, 2010, asset management and service fee revenues increased 73.9% to \$136.1 million from \$78.3 million in the comparable period of 2009. The increases are primarily a result of an increase in the value of assets in fee-based accounts and the number of managed accounts from September 30, 2009, offset by a reduction in fees for money-fund balances due to the waiving of fees by certain fund managers. See "Assets in fee-based accounts" included in the table in "Results of Operations - Global Wealth Management."

Investment banking - Investment banking revenues include: (i) capital raising revenues representing fees earned from the underwriting of debt and equity securities, and (ii) strategic advisory fees related to corporate debt and equity offerings, municipal debt offerings, merger and acquisitions, private placements and other investment banking advisory fees.

For the three months ended September 30, 2010, investment banking revenues increased \$16.6 million, or 47.4%, to \$51.7 million from \$35.1 million in the comparable period in 2009. For the nine months ended September 30, 2010, investment banking revenues increased \$51.8 million, or 68.9%, to \$127.1 million from \$75.3 million in the comparable period in 2009. The increase was primarily attributable to our acquisition of TWPG at the beginning of the third quarter of 2010.

Capital raising revenues increased \$6.2 million, or 28.0%, to \$28.6 million for the three months ended September 30, 2010 from \$22.4 million in the comparable period in 2009. During the third quarter of 2010, equity and fixed income capital raising revenues were \$20.8 million and \$6.3 million, respectively, an increase of 31.3% and 21.1%, respectively, from the comparable period in 2009. For the nine months ended September 30, 2010, capital raising revenues increased \$42.5 million, or 101.1%, to \$84.6 million from \$42.1 million in the comparable period in 2009. During the nine months ended September 30, 2010, equity and fixed income capital raising revenues were \$58.7 million and \$18.5 million, respectively, an increase of 121.9% and 33.9%, respectively, from the comparable period in 2009.

Strategic advisory fees increased 81.3% to \$23.1 million for the three months ended September 30, 2010 from \$12.7 million in the comparable period in 2009. For the nine months ended September 30, 2010, strategic advisory fees increased 28.1%, to \$42.5 million from \$33.2 million in the comparable period in 2009. The increases are primarily attributable to an increase in the number of completed equity transactions and the aggregate transaction value, as well as average revenue per transaction, over the comparable periods in 2009.

Other income - For the three months ended September 30, 2010, other income decreased \$1.4 million to \$3.7 million from \$5.1 million during the comparable period in 2009.

For the nine months ended September 30, 2010, other income increased \$3.2 million to \$9.4 million from \$6.2 million during the comparable period in 2009. The increase is primarily attributable to the recognition of a \$2.1 million gain on the conversion of our seat membership on the Chicago Board of Exchange to shares in conjunction with its initial public offering during the second quarter of 2010.

NET INTEREST INCOME

The following tables present average balance data and operating interest revenue and expense data, as well as related interest yields for the periods indicated (*in thousands, except rates*):

	September 30, 2010			Three Months Ended		
	Average Balance	Interest Income/Expense	Average Interest Rate	Average Balance	Interest Income/Expense	Average Interest Rate
Interest-earning assets:						
Margin balances (Stifel Nicolaus)	\$ 391,727	\$ 4,253	4.34%	\$ 301,697	\$ 3,277	4.34%
Interest-earning assets (Stifel Bank)	1,457,598	9,601	2.63	687,211	4,961	2.89
Stock borrow (Stifel Nicolaus)	73,936	6	0.03	64,009	6	0.04
Other (Stifel Nicolaus)		3,858			3,062	
Total interest revenue		\$ 17,718			\$ 11,306	
Interest-bearing liabilities:						
Short-term borrowings (Stifel Nicolaus)	\$ 91,876	\$ 294	1.28%	\$ 107,826	\$ 287	1.07%
Interest-bearing liabilities (Stifel Bank)	1,351,502	1,378	0.41	633,259	911	0.58
Stock loan (Stifel Nicolaus)	99,508	327	1.31	78,898	221	1.12
Interest-bearing liabilities (Capital Trusts)	82,500	1,377	6.67	82,500	1,373	6.66
Other (Stifel Nicolaus)		322			114	
Total interest expense		3,698			2,906	
Net interest income		\$ 14,020			\$ 8,400	

	September 30, 2010			Nine Months Ended		
	Average Balance	Interest Income/Expense	Average Interest Rate	Average Balance	Interest Income/Expense	Average Interest Rate
Interest-earning assets:						
Margin balances (Stifel Nicolaus)	\$ 377,131	\$ 12,136	4.29%	\$ 273,845	\$ 8,820	4.29%
Interest-earning assets (Stifel Bank)	1,223,696	25,859	2.82	555,153	12,395	2.98
Stock borrow (Stifel Nicolaus)	75,181	23	0.04	25,855	32	0.16
Other (Stifel Nicolaus)		9,001			10,535	
Total interest revenue		\$ 47,019			\$ 31,782	
Interest-bearing liabilities:						
Short-term borrowings (Stifel Nicolaus)	\$ 108,277	\$ 889	1.09%	\$ 119,381	\$ 870	0.97%
Interest-bearing liabilities (Stifel Bank)	1,128,265	2,112	0.25	505,545	2,605	0.69
Stock loan (Stifel Nicolaus)	66,320	738	1.48	54,820	416	1.01
Interest-bearing liabilities (Capital Trusts)	82,500	4,093	6.61	82,500	4,102	6.63
Other (Stifel Nicolaus)		556			309	

Edgar Filing: STIFEL FINANCIAL CORP - Form 10-Q

Total interest expense	8,388	8,302
Net interest income	\$ 38,631	\$ 23,480
	50	

Net interest income - Net interest income is the difference between interest earned on interest-earning assets and interest paid on funding sources. Net interest income is affected by changes in the volume and mix of these assets and liabilities, as well as by fluctuations in interest rates and portfolio management strategies. For the three months ended September 30, 2010, net interest income increased to \$14.0 million from \$8.4 million during the comparable period in 2009. For the nine months ended September 30, 2010, net interest income increased to \$38.6 million from \$23.5 million during the comparable period in 2009.

For the three months ended September 30, 2010, interest revenue increased 56.7%, or \$6.4 million, to \$17.7 million from \$11.3 million in the comparable period in 2009, principally as a result of a \$4.6 million increase in interest revenue generated from the interest-earning assets of Stifel Bank and a \$1.0 million increase in interest revenue from customer margin borrowing. The average interest-earning assets of Stifel Bank increased to \$1.5 billion during the three months ended September 30, 2010 compared to \$687.2 million during the comparable period in 2009 at weighted average interest rates of 2.63% and 2.89%, respectively. The average margin balances of Stifel Nicolaus increased to \$391.7 million during the three months ended September 30, 2010 compared to \$301.7 million during the comparable period in 2009 at weighted average interest rates of 4.34% during each respective period.

For the nine months ended September 30, 2010, interest revenue increased 47.9%, or \$15.2 million, to \$47.0 million from \$31.8 million in the comparable period in 2009, principally as a result of a \$13.5 million increase in interest revenue generated from the interest-earning assets of Stifel Bank and a \$3.3 million increase in interest revenue from customer margin borrowing. The average interest-earning assets of Stifel Bank increased to \$1.2 billion during the nine months ended September 30, 2010 compared to \$555.2 million during the comparable period in 2009 at weighted average interest rates of 2.82% and 2.98%, respectively. The average margin balances of Stifel Nicolaus increased to \$377.1 million during the nine months ended September 30, 2010 compared to \$273.8 million during the comparable period in 2009 at weighted average interest rates of 4.29% during each respective period.

For the three months ended September 30, 2010, interest expense increased 27.2% to \$3.7 million from \$2.9 million during the comparable period in 2009. For the nine months ended September 30, 2010, interest expense increased 1.0% to \$8.4 million from \$8.3 million during the comparable period in 2009. See "Net Interest Income" table above for more details.

NON-INTEREST EXPENSES

The following table presents consolidated non-interest expenses for the periods indicated (*in thousands, except percentages*):

	For the Three Months Ended September 30,			For the Nine Months Ended September 30,		
	2010	2009	% Change	2010	2009	% Change
Non-interest expenses:						
Compensation and benefits	\$ 395,936	\$ 193,131	105.0%	\$ 819,085	\$ 516,852	58.5%
Occupancy and equipment rental	29,559	24,730	19.5	81,012	63,311	28.0
Communications and office supplies	19,877	14,429	37.8	50,220	39,403	27.5
Commissions and floor brokerage	7,972	6,486	22.9	18,988	17,167	10.6
Other operating expenses	29,600	20,071	47.4	78,168	55,336	41.3
Total non-interest expenses	\$ 482,944	\$ 258,847	86.6%	\$ 1,047,473	\$ 692,069	51.4%

Except as noted in the following discussion of variances, the underlying reasons for the increase in non-interest expenses can be attributed principally to our continued expansion, increased administrative overhead to support the growth in our segments.

Compensation and benefits - Compensation and benefits expenses, which are the largest component of our expenses, include salaries, bonuses, transition pay, benefits, amortization of stock-based compensation, employment taxes and other employee-related costs. A significant portion of compensation expense is comprised of production-based variable compensation, including discretionary bonuses, which fluctuates in proportion to the level of business activity, increasing with higher revenues and operating profits. Other compensation costs, including base salaries, stock-based compensation amortization, and benefits, are more fixed in nature.

For the three months ended September 30, 2010, compensation and benefits expense increased 105.0%, or \$202.8 million, to \$395.9 million from \$193.1 million during the comparable period in 2009. For the nine months ended September 30, 2010, compensation and benefits expense increased 58.5%, or \$302.2 million, to \$819.1 million from \$516.9 million during the comparable period in 2009. The increase in compensation and benefits expense over the prior year periods is primarily attributable to the acceleration of deferred compensation as a result of the modification of our deferred compensation plan during the third quarter of 2010. We were required to accelerate all unvested deferred compensation as a result of the plan modification resulting in non-cash, pre-tax charge of \$181.1 million.

Excluding the acceleration of deferred compensation expenses, compensation and benefits expense as a percentage of net revenues was 62.3% and 64.5% for the three and nine months ended September 30, 2010, respectively, compared to 66.7% and 67.0% for the three and nine months ended September 30, 2009, respectively.

A portion of compensation and benefits expenses includes transition pay, principally in the form of upfront notes, signing bonuses and retention awards in connection with our continuing expansion efforts, of \$27.3 million (8.0% of net revenues) and \$66.9 million (6.8% of net revenues) for the three and nine months ended September 30, 2010, respectively, compared to \$14.9 million (5.1% of net revenues) and \$40.9 million (5.3% of net revenues) for the comparable periods in 2009, respectively. The upfront notes are amortized over a five to ten year period.

Occupancy and equipment rental - For the three months ended September 30, 2010, occupancy and equipment rental expense increased 19.5% to \$29.6 million from \$24.7 million during the three months ended September 30, 2009. For the nine months ended September 30, 2010, occupancy and equipment rental expense increased 28.0% to \$81.0 million from \$63.3 million during the nine months ended September 30, 2009. The increases are primarily due to the increase in rent and depreciation expense due primarily to an increase in office locations. As of September 30, 2010, we have 311 locations compared to 281 at September 30, 2009.

Communications and office supplies - Communications expense includes costs for telecommunication and data communication, primarily for obtaining third-party market data information. For the three months ended September 30, 2010, communications and office supplies expense increased 37.8% to \$19.9 million from \$14.4 million during the third quarter of 2009. For the nine months ended September 30, 2010, communications and office supplies expense increased 27.5% to \$50.2 million from \$39.4 million during the comparable period in 2009. The increases are primarily attributable to our continued expansion as we sustained our growth initiatives throughout 2010 by adding additional revenue producers and support staff.

Commissions and floor brokerage - For the three months ended September 30, 2010, commissions and floor brokerage expense increased 22.9% to \$8.0 million from \$6.5 million during the comparable period in 2009. The decreases are primarily attributable to vendor billing issues resulting in higher than normal expense for the quarter ended September 30, 2009. For the nine months ended September 30, 2010, commissions and floor brokerage expense increased 10.6% to \$19.0 million from \$17.2 million during the comparable period in 2009. The increase is primarily attributable to the continued growth of our company, offset by the previously discussed vendor billing issued in the prior year.

Other operating expenses - Other operating expenses primarily include license and registration fees, litigation-related expenses, which consist of amounts we reserve and/or pay out related to legal and regulatory matters, travel and entertainment, promotional expenses and expenses for professional services.

For the three months ended September 30, 2010, other operating expenses increased 47.4% to \$29.6 million from \$20.1 million during the three months ended September 30, 2009. For the nine months ended September 30, 2010, other operating expenses increased 41.3% to \$78.2 million from \$55.3 million during the nine months ended September 30, 2009.

The increases were primarily attributable to the continued growth in all segments during 2010, which included increased license and registration fees, SIPC assessments, securities processing fees, travel and promotion, transaction costs associated with the TWPG acquisition and legal expenses. The increase in legal expenses is attributable to an increase in the number of customer claims arising from poor market conditions. We are subject to various proceedings and claims arising primarily from our securities business activities, including lawsuits, arbitration claims, class actions, and regulatory matters.

Provision for income taxes/(benefit) - For the three months ended September 30, 2010, our provision for income taxes was a benefit of \$58.2 million, representing an effective tax rate of 40.8%, compared to expense of \$8.7 million for the comparable period in 2009, representing an effective tax rate of 28.2%. For the nine months ended September 30, 2010, our provision for income taxes was a benefit of \$27.6 million, representing an effective tax rate of 41.1%, compared to expense of \$28.0 million for the comparable period in 2009, representing an effective tax rate of 35.4%. The three and nine months ended September 30, 2009 effective tax rates were reduced due to the recognition of a tax benefit related to an investment and jobs creation tax credit.

SEGMENT ANALYSIS

Our reportable segments include Global Wealth Management, Institutional Group (formerly Capital Markets), and Other. The UBS branch acquisition and related customer account conversion to our platform has enabled us to leverage our customers' assets, which allows us the ability to provide a full array of financial products to both our Private Client Group and Stifel Bank customers.

Our Global Wealth Management segment consists of two businesses, the Private Client Group and Stifel Bank. The Private Client Group includes branch offices and independent contractor offices of our broker-dealer subsidiaries located throughout the United States, primarily in the Midwest and Mid-Atlantic regions with a growing presence in the Northeast, Southeast and Western United States. These branches provide securities brokerage services, including the sale of equities, mutual funds, fixed income products, and insurance, as well as offering banking products to their private clients through Stifel Bank, which provides residential, consumer, and commercial lending, as well as Federal Depository Insurance Corporation ("FDIC")-insured deposit accounts to customers of our broker-dealer subsidiaries and to the general public.

The Institutional Group segment includes institutional sales and trading. It provides securities brokerage, trading, and research services to institutions with an emphasis on the sale of equity and fixed income products. This segment also includes the management of and participation in underwritings for both corporate and public finance (exclusive of sales credits generated through the private client group, which are included in the Global Wealth Management segment), merger and acquisition, and financial advisory services.

The Other segment includes interest income from stock borrow activities, unallocated interest expense, interest income and gains and losses from investments held, and all unallocated overhead cost associated with the execution of orders; processing of securities transactions; custody of client securities; receipt, identification, and delivery of funds and securities; compliance with regulatory and legal requirements; internal financial accounting and controls; compensation expense associated with the deferred compensation plan modification; acquisition charges primarily related to the TWPG acquisition, and general administration.

We evaluate the performance of our segments and allocate resources to them based on various factors, including prospects for growth, return on investment, and return on revenues.

Results of Operations - Global Wealth Management**Three Months Ended September 30, 2010 Compared with Three Months Ended September 30, 2009**

The following table presents consolidated financial information for the Global Wealth Management segment for the periods indicated (*in thousands, except percentages*):

	For the Three Months Ended September 30,			As a Percentage of Net Revenues For the Three Months Ended September 30,	
	2010	2009	% Change	2010	2009
Revenues:					
Commissions	\$ 69,875	\$ 63,161	10.6%	33.7%	39.8%
Principal transactions	62,785	53,052	18.3	30.2	33.4
Asset management and service fees	50,449	26,920	87.4	24.3	17.0
Investment banking	6,957	4,263	63.2	3.4	2.7
Interest	14,522	8,997	61.4	7.0	5.7
Other income	5,401	4,077	32.5	2.6	2.5
Total revenues	209,989	160,470	30.9	101.2	101.1
Interest expense	2,505	1,811	38.3	1.2	1.1
Net revenues	207,484	158,659	30.8	100.0	100.0
Non-interest expenses:					
Compensation and benefits	119,100	96,711	23.2	57.4	61.0
Occupancy and equipment rental	15,476	13,447	15.1	7.5	8.5
Communication and office supplies	8,541	7,295	17.1	4.1	4.6
Commissions and floor brokerage	2,511	1,875	33.9	1.2	1.2
Other operating expenses	10,149	10,277	(1.2)	4.9	6.4
Total non-interest expenses	155,777	129,605	20.2	75.1	81.7
Income before income taxes	\$ 51,707	\$ 29,054	78.0%	24.9%	18.3%

	September 30, 2010	December 31, 2009	September 30, 2009
Branch offices	279	272	256
Financial advisors	1,755	1,719	1,640
Independent contractors	165	166	183
Assets in fee-based accounts:			
Value (in thousands)	11,737,145	9,309,775	5,699,311
Number of accounts	55,778	44,071	27,593

Nine Months Ended September 30, 2010 Compared with Nine Months Ended September 30, 2009

The following table presents consolidated financial information for the Global Wealth Management segment for the periods indicated (*in thousands, except percentages*):

	For the Nine Months Ended September 30,			As a Percentage of Net Revenues For the Nine Months Ended September 30,	
	2010	2009	% Change	2010	2009
Revenues:					
Commissions	\$ 228,983	\$ 158,468	44.5%	37.7%	38.7%
Principal transactions	181,331	140,248	29.3	29.9	34.2
Asset management and service fees	135,120	77,981	73.3	22.3	19.0
Investment banking	17,753	9,176	93.5	2.9	2.2
Interest	40,013	23,190	72.5	6.6	5.7
Other income	9,101	5,914	53.9	1.5	1.4
Total revenues	612,301	414,977	47.6	100.9	101.2
Interest expense	5,456	5,066	7.7	0.9	1.2
Net revenues	606,845	409,911	48.0	100.0	100.0
Non-interest expenses:					
Compensation and benefits	367,447	253,169	45.1	60.6	61.8
Occupancy and equipment rental	45,339	35,441	27.9	7.5	8.6
Communication and office supplies	23,701	18,515	28.0	3.9	4.5
Commissions and floor brokerage	7,634	5,580	36.8	1.3	1.4
Other operating expenses	31,418	26,833	17.1	5.1	6.5
Total non-interest expenses	475,539	339,538	40.1	78.4	82.8
Income before income taxes	\$ 131,306	\$ 70,373	86.6%	21.6%	17.2%

NET REVENUES

For the three months ended September 30, 2010, Global Wealth Management net revenues increased 30.8% to \$207.5 million from \$158.7 million for the comparable period in 2009. For the nine months ended September 30, 2010, Global Wealth Management net revenues increased 48.0% to \$606.8 million from \$409.9 million for the comparable period in 2009. The increase in net revenues for the three and nine months ended September 30, 2010 over the comparable periods in 2009 is attributable to growth across all revenue line items, primarily due to an increase in financial advisors and client assets resulting from the acquisition of UBS branches during the third and fourth quarters of 2009 and the acquisition of TWPG on July 1, 2010. For the three and nine months ended September 30, 2010, revenues generated in the Global Wealth Management segment from the acquired UBS branches was \$26.9 million and \$81.7 million, respectively, compared to \$4.0 million for the three months ended September 30, 2009. The operations of TWPG were integrated with Stifel Nicolaus immediately after the merger, therefore the results of the business, as acquired, does not exist as a discrete entity within our internal reporting structure.

Commissions - For the three months ended September 30, 2010, commission revenues increased 10.6% to \$69.9 million from \$63.2 million in the comparable period in 2009. For the nine months ended September 30, 2010, commission revenues increased 44.5% to \$229.0 million from \$158.5 million in the comparable period in 2009. The increases are primarily attributable to an increase in agency transactions in mutual fund and insurance products. These increases are primarily attributable to an increase in the number of financial advisors, client assets and higher productivity. In addition, the market turmoil and downturns, which were at unprecedented levels at the beginning of 2009, have improved in the first nine months of 2010.

Principal transactions - For the three months ended September 30, 2010, principal transactions revenues increased 18.4% to \$62.8 million from \$53.1 million in the comparable period in 2009. For the nine months ended September 30, 2010, principal transactions revenues increased 29.3% to \$181.3 million from \$140.2 million in the comparable period in 2009. The increases are primarily attributable to increased principal transactions, primarily in OTC equity, market maker activities, and municipal debt.

Asset management and service fees - For the three months ended September 30, 2010, asset management and service fees increased 87.4% to \$50.4 million from \$26.9 million in the comparable period in 2009. For the nine months ended September 30, 2010, asset management and service fees increased 73.3% to \$135.1 million from \$78.0 million in the comparable period in 2009. The increases are primarily a result of a 101.8% increase in the value of assets in fee-based accounts from September 30, 2009 and a 102.2% increase in the number of managed accounts attributable principally to the continued growth of the private client group, offset by a reduction in fees for money-fund balances due to the waiving of fees by certain fund managers. See "Assets in fee-based accounts" included in the table above for further details.

Investment banking - Investment banking, which represents sales credits for investment banking underwritings, increased 63.2% to \$7.0 million for the three months ended September 30, 2010 from \$4.3 million during the comparable period in 2009. For the nine months ended September 30, 2010, investment banking revenues increased 93.5% to \$17.8 million from \$9.2 million during the comparable period in 2009. See "Investment banking" in the Institutional Group segment discussion for information on the changes in net revenues.

Interest revenue - For the three months ended September 30, 2010, interest revenue increased 61.4% to \$14.5 million from \$9.0 million in the comparable period in 2009. For the nine months ended September 30, 2010, interest revenue increased 42.5% to \$40.0 million from \$23.2 million in the comparable period in 2009. The increases are primarily due to an increase in interest revenue from customer margin borrowing to finance trading activity and higher average customer margin balances. The increase is also attributable to the growth of the interest-earning assets of Stifel Bank. See "Net Interest Income - Stifel Bank" below for a further discussion of the changes in net revenues.

Interest expense - For the three months ended September 30, 2010, interest expense increased 38.3% to \$2.5 million from \$1.8 million in the comparable period in 2009. For the nine months ended September 30, 2010, interest expense increased 7.7% to \$5.5 million from \$5.1 million in the comparable period in 2009. The increases are primarily due to the growth of the interest-bearing liabilities of Stifel Bank, offset by lower interest rates. See "Net Interest Income - Stifel Bank" below for a further discussion of the changes in net revenues.

NET INTEREST INCOME - STIFEL BANK

The following tables present average balance data and operating interest revenue and expense data for Stifel Bank, as well as related interest yields for the periods indicated (*in thousands, except rates*):

	Three Months Ended September 30, 2010			Three Months Ended September 30, 2009		
	Average Balance	Interest Income/ Expense	Average Interest Rate	Average Balance	Interest Income/ Expense	Average Interest Rate
Assets:						
Federal funds sold	\$ 196,722	\$ 148	0.30%	\$ 225,562	\$ 163	0.29%
U.S. government agencies	97,912	250	1.02	1,126	14	5.16
State and political subdivisions:						
Taxable	20,474	245	4.79	-	-	-
Non-taxable ⁽¹⁾	959	10	4.17	961	9	4.02
Mortgage-backed securities	600,827	4,256	2.83	147,557	1,477	4.00
Corporate bonds	64,336	599	3.72	41,276	484	4.70
Asset-backed securities	11,232	77	2.74	15,692	162	4.13
Federal Home Loan Bank ("FHLB") and other capital stock	1,545	7	1.81	783	3	1.68
Loans ⁽²⁾	402,524	3,238	3.22	224,375	2,340	4.17
Loans held for sale	61,067	771	5.05	29,879	309	4.12
Total interest-earning assets ⁽³⁾	\$ 1,457,598	\$ 9,601	2.63%	\$ 687,211	\$ 4,961	2.89%
Cash and due from banks	10,045			5,940		
Other non interest-earning assets	44,503			23,395		
Total assets	\$ 1,512,146			\$ 716,546		
Liabilities and stockholders' equity:						
Deposits:						
Money market	\$ 1,323,187	\$ 1,350	0.41%	\$ 600,536	\$ 727	0.48%
Demand deposits	25,064	9	0.14	11,145	7	0.25
Time deposits	3,231	19	2.35	19,292	160	3.32
Savings	20	-	-	286	-	-
FHLB advances	-	-	-	2,000	17	3.27
Federal funds and repurchase agreements	-	-	-	-	-	-
Total interest-bearing liabilities ⁽³⁾	\$ 1,351,502	\$ 1,378	0.41%	\$ 633,259	\$ 911	0.58%
Non interest-bearing deposits	22,438			12,228		
Other non interest-bearing liabilities	19,681			2,073		
Total liabilities	1,393,621			647,560		
Stockholders' equity	118,525			68,986		
Total liabilities and stockholders' equity	\$ 1,512,146			\$ 716,546		
Net interest margin	-	\$ 8,223	2.26%		\$ 4,050	2.36%

(1) Due to immaterial amount of income recognized on tax-exempt securities, yields were not calculated on a tax equivalent basis.

(2) Loans on non-accrual status are included in average balances.

(3) See Net Interest Income table included in "Results of Operations" for additional information on our company's average balances and operating interest and expenses.

Edgar Filing: STIFEL FINANCIAL CORP - Form 10-Q

	Nine Months Ended September 30, 2010			Nine Months Ended September 30, 2009		
	Average Balance	Interest Income/ Expense	Average Interest Rate	Average Balance	Interest Income/ Expense	Average Interest Rate
Assets:						
Federal funds sold	\$ 147,836	\$ 301	0.27%	\$ 201,396	\$ 653	0.43%
U.S. government agencies	48,143	375	1.04	2,037	85	5.57
State and political subdivisions:						
Taxable	6,947	247	4.74	-	-	-
Non-taxable (1)	960	29	4.03	1,142	35	4.10
Mortgage-backed securities	528,118	11,682	2.95	77,593	2,404	4.13
Corporate bonds	48,137	1,563	4.33	23,202	799	4.59
Asset-backed securities	11,373	235	2.76	12,928	579	5.97
Federal Home Loan Bank ("FHLB") and other capital stock	1,180	13	1.47	756	5	0.89
Loans (2)	357,617	9,099	3.39	198,599	6,670	4.48
Loans held for sale	73,385	2,315	4.21	37,500	1,165	4.14
Total interest-earning assets (3)	\$ 1,223,696	\$ 25,859	2.82%	\$ 555,153	\$ 12,395	2.98%
Cash and due from banks	7,529			4,867		
Other non interest-earning assets	37,909			26,105		
Total assets	\$ 1,269,134			\$ 586,125		
Liabilities and stockholders' equity:						
Deposits:						
Money market	\$ 1,094,919	\$ 1,873	0.23%	\$ 471,997	\$ 1,975	0.56%
Demand deposits	20,500	18	0.12	9,108	22	0.31
Time deposits	11,953	200	2.23	20,361	521	3.14
Savings	21	-	-	321	-	-
FHLB advances	872	21	3.21	3,744	87	3.09
Federal funds and repurchase agreements	-	-	-	14	-	-
Total interest-bearing liabilities (3)	\$ 1,128,265	\$ 2,112	0.25%	\$ 505,545	\$ 2,605	0.69%
Non interest-bearing deposits	17,075			14,801		
Other non interest-bearing liabilities	11,197			1,989		
Total liabilities	1,156,537			522,335		
Stockholders' equity	112,597			63,790		
Total liabilities and stockholders' equity	\$ 1,269,134			\$ 586,125		
Net interest margin	-	\$ 23,747	2.59%		\$ 9,790	2.35%

(1) Due to immaterial amount of income recognized on tax-exempt securities, yields were not calculated on a tax equivalent basis.

(2) Loans on non-accrual status are included in average balances.

(3) See Net Interest Income table included in "Results of Operations" for additional information on our company's average balances and operating interest and expenses.

Edgar Filing: STIFEL FINANCIAL CORP - Form 10-Q

The following table sets forth an analysis of the effect on net interest income of volume and rate changes for the three and nine month periods ended September 30, 2010 compared to the three and nine month periods ended September 30, 2009 (*in thousands*):

	Three Months Ended September 30, 2010 Compared to Three Months Ended September 30, 2009			Nine Months Ended September 30, 2010 Compared to Nine Months Ended September 30, 2009		
	Increase (decrease) due to:			Increase (decrease) due to:		
	Volume	Rate	Total	Volume	Rate	Total
Interest income:						
Federal funds sold	\$ (22)	\$ 7	\$ (15)	\$ (147)	\$ (205)	\$ (352)
U.S. government agencies	238	(2)	236	301	(11)	290
State and political subdivisions:						
Taxable	245	-	245	247	-	247
Non-taxable	-	1	1	(5)	(1)	(6)
Mortgage-backed securities	5,682	(2,903)	2,779	10,589	(1,311)	9,278
Corporate bonds	183	(68)	115	807	(43)	764
Asset-backed securities	(39)	(46)	(85)	(63)	(281)	(344)
FHLB and other capital stock	4	-	4	8	-	8
Loans	4,016	(3,118)	898	5,179	(2,750)	2,429
Loans held for sale	380	82	462	1,132	18	1,150
	\$ 10,687	\$ (6,047)	\$ 4,640	\$ 18,048	\$ (4,584)	\$ 13,464
Interest expense:						
Deposits:						
Money market	\$ 1,322	\$ (699)	\$ 623	\$ 2,092	\$ (2,194)	\$ (102)
Demand deposits	18	(16)	2	20	(24)	(4)
Time deposits	(104)	(37)	(141)	(189)	(132)	(321)
Savings	-	-	-	-	-	-
FHLB advances	(17)	-	(17)	(70)	4	(66)
Federal funds and repurchase agreements	-	-	-	-	-	-
	\$ 1,219	\$ (752)	\$ 467	\$ 1,853	\$ (2,346)	\$ (493)

Increases and decreases in interest revenue and interest expense result from changes in average balances (volume) of interest-earning bank assets and liabilities, as well as changes in average interest rates. The effect of changes in volume is determined by multiplying the change in volume by the previous year's average yield/cost. Similarly, the effect of rate changes is calculated by multiplying the change in average yield/cost by the previous year's volume. Changes applicable to both volume and rate have been allocated proportionately.

Net interest income - Net interest income is the difference between interest earned on interest-earning assets and interest paid on funding sources. Net interest income is affected by changes in the volume and mix of these assets and liabilities, as well as by fluctuations in interest rates and portfolio management strategies.

For the three months ended September 30, 2010, interest revenue of \$9.6 million was generated from weighted average interest-earning assets of \$1.5 billion at a weighted average interest rate of 2.63%. Interest revenue of \$5.0 million for the comparable period in 2009 was generated from weighted average interest-earning assets of \$687.2 million at a weighted average interest rate of 2.89%.

For the nine months ended September 30, 2010, interest revenue of \$25.9 million was generated from weighted average interest-earning assets of \$1.2 billion at a weighted average interest rate of 2.82%. Interest revenue of \$12.4 million for the comparable period in 2009 was generated from weighted average interest-earning assets of \$555.2 million at a weighted average interest rate of 2.98%. Interest-earning assets principally consist of residential, consumer, and commercial loans, securities, and federal funds sold.

Interest expense represents interest on customer money market accounts, interest on time deposits and other interest expense. The weighted average balance of interest-bearing liabilities during the three months ended September 30, 2010 was \$1.4 billion at a weighted average interest rate of 0.41%. The weighted average balance of interest-bearing liabilities for the comparable period in 2009 was \$633.3 million at a weighted average interest rate of 0.58%. The weighted average balance of interest-bearing liabilities during the nine months ended September 30, 2010 was \$1.1 billion at a weighted average interest rate of 0.25%. The weighted average balance of interest-bearing liabilities for the comparable period in 2009 was \$505.5 million at a weighted average interest rate of 0.69%.

The growth in Stifel Bank has been primarily driven by (i) the conversion of UBS branches to the Stifel Nicolaus platform with money market funds and FDIC-insured balances of \$1.7 billion and (ii) the growth in deposits associated with brokerage customers of Stifel Nicolaus. At September 30, 2010, the balance of Stifel Nicolaus brokerage customer deposits at Stifel Bank was \$1.4 billion compared to \$834.8 million at September 30, 2009.

See "Net Interest Income - Stifel Bank" above for more information regarding average balances, interest income and expense, and average interest rate yields.

NON-INTEREST EXPENSES

For the three months ended September 30, 2010, Global Wealth Management non-interest expenses increased 20.2% to \$155.8 million from \$129.6 million for the comparable period in 2009. For the nine months ended September 30, 2010, Global Wealth Management non-interest expenses increased 40.1% to \$475.5 million from \$339.5 million for the comparable period in 2009.

The fluctuations in non-interest expenses, discussed below, were primarily attributable to the continued growth of our Private Client Group during the first nine months of 2010. Our expansion efforts include the acquisitions of TWPG and UBS, as well as organic growth. As of September 30, 2010, we have 279 branch offices compared to 256 at September 30, 2009. In addition, since September 30, 2009, we have added 461 revenue producers and support staff.

Compensation and benefits - For the three months ended September 30, 2010, compensation and benefits expense increased 23.2% to \$119.1 million from \$96.7 million during the three months ended September 30, 2009. For the nine months ended September 30, 2010, compensation and benefits expense increased 45.1% to \$367.4 million from \$253.2 million during the three months ended September 30, 2009. The increases are principally due to increased variable compensation as a result of increased production due to the growth in financial advisors and fixed compensation for the additional administrative support staff, offset by the elimination of deferred compensation expense as a result of the modification to our deferred compensation plan, whereby we removed the service requirement during the third quarter of 2010 resulting in a charge of \$181.1 million. See "Compensation and benefits" in the Other segment discussion for additional information on the plan modification.

Compensation and benefits expense as a percentage of net revenues decreased to 57.4% for the three months ended September 30, 2010, compared to 61.0% for the comparable period in 2009. Compensation and benefits expense as a percentage of net revenues decreased to 60.6% for the nine months ended September 30, 2010, compared to 61.8% for the comparable period in 2009. The decrease in compensation and benefits expense as a percent of net revenues is primarily attributable to the reduction in deferred compensation expense and an increase in net revenues, offset by an increase in transition pay, which consists of the amortization of upfront notes, signing bonuses and retention awards, and increased overhead in connection with our continued expansion efforts.

A portion of compensation and benefits expenses includes transition pay, principally in the form of upfront notes, signing bonuses and retention awards in connection with our continuing expansion efforts, of \$11.7 million (5.6% of net revenues) and \$41.7 million (6.9% of net revenues) for the three and nine months ended September 30, 2010, respectively, compared to \$10.8 million (6.8% of net revenues) and \$28.7 million (7.0% of net revenues) for the three and nine months ended September 30, 2009, respectively. The upfront notes are amortized over a five to ten year period.

Occupancy and equipment rental - For the three months ended September 30, 2010, occupancy and equipment rental expense increased 15.1% to \$15.5 million from \$13.4 million during the comparable period in 2009. For the nine months ended September 30, 2010, occupancy and equipment rental expense increased 27.9% to \$45.3 million from \$35.4 million during the comparable period in 2009.

Communications and office supplies - For the three months ended September 30, 2010, communications and office supplies expense increased 17.1% to \$8.5 million from \$7.3 million during the third quarter of 2009. For the nine months ended September 30, 2010, communications and office supplies expense increased 28.0% to \$23.7 million from \$18.5 million during the third quarter of 2009.

Commissions and floor brokerage - For the three months ended September 30, 2009, commissions and floor brokerage expense increased 33.9% to \$2.5 million from \$1.9 million during the third quarter of 2009. For the nine months ended September 30, 2009, commissions and floor brokerage expense increased 36.8% to \$7.6 million from \$5.6 million during the third quarter of 2009.

Other operating expenses - For the three months ended September 30, 2010, other operating expenses decreased 1.2% to \$10.1 million from \$10.3 million during the comparable period in 2009. During the quarter ended September 30, 2009, there was an increase in license and registration fees, securities processing fees and travel-related expenses associated with the acquisition of certain UBS branches.

For the nine months ended September 30, 2010, other operating expenses increased 17.1% to \$31.4 million from \$26.8 million during the comparable period in 2009. The increase is primarily attributable to the growth of our private client business, as well as an increase in litigation costs to defend industry recruiting claims.

INCOME BEFORE INCOME TAXES

For the three months ended September 30, 2010, income before income taxes increased \$22.6 million, or 78.0%, to \$51.7 million from \$29.1 million during the comparable period in 2009. For the nine months ended September 30, 2010, income before income taxes increased \$60.9 million, or 86.6%, to \$131.3 million from \$70.4 million during the comparable period in 2009. Profit margins have improved as a result of the increase in revenue growth, a reduction in deferred compensation expense and a decline in start-up costs associated with the branches we opened during 2009, both organically and through the acquisition of UBS, as we continued to take advantage of market displacement.

Results of Operations - Institutional Group**Three Months Ended September 30, 2010 Compared with Three Months Ended September 30, 2009**

The following table presents consolidated financial information for the Institutional Group segment for the periods indicated (*in thousands, except percentages*):

	For the Three Months Ended September 30,			As a Percentage of Net Revenues For the Three Months Ended September 30,	
	2010	2009	% Change	2010	2009
Revenues:					
Principal transactions	\$ 60,408	\$ 70,186	(13.9)%	43.7%	53.9%
Commissions	27,111	27,743	(2.3)	19.6	21.3
Capital raising	22,575	18,070	24.9	16.4	13.9
Advisory	23,063	12,724	81.3	16.7	9.8
Investment banking	45,638	30,794	48.2	33.1	23.7
Interest	2,422	2,256	7.4	1.8	1.7
Other income	3,419	306	*	2.5	0.2
Total revenues	138,998	131,285	5.9	100.7	100.8
Interest expense	955	1,106	(13.6)	0.7	0.8
Net revenues	138,043	130,179	6.0	100.0	100.0
Non-interest expenses:					
Compensation and benefits	82,147	77,483	6.0	59.5	59.5
Occupancy and equipment rental	7,355	4,697	56.6	5.3	3.6
Communication and office supplies	6,892	4,490	53.5	5.0	3.5
Commissions and floor brokerage	4,251	4,564	(6.9)	3.1	3.5
Other operating expenses	9,744	5,512	76.8	7.1	4.2
Total non-interest expenses	110,389	96,746	14.1	80.0	74.3
Income before income taxes	\$ 27,654	\$ 33,433	(17.3)%	20.0%	25.7%

* Percentage is not meaningful.

Nine Months Ended September 30, 2010 Compared with Nine Months Ended September 30, 2009

The following table presents consolidated financial information for the Institutional Group segment for the periods indicated (*in thousands, except percentages*):

	For the Nine Months Ended September 30,			As a Percentage of Net Revenues For the Nine Months Ended September 30,	
	2010	2009	% Change	2010	2009
Revenues:					
Principal transactions	\$ 182,206	\$ 201,529	(9.6)%	48.4%	55.9%
Commissions	76,672	87,767	(12.6)	20.4	24.3
Capital raising	67,799	32,890	106.1	18.0	9.1
Advisory	42,516	33,197	28.1	11.3	9.2
Investment banking	110,315	66,087	66.9	29.3	18.3
Interest	5,330	6,973	(23.6)	1.4	1.9
Other income	4,432	895	*	1.3	0.3
Total revenues	378,955	363,251	4.3	100.8	100.7
Interest expense	3,018	2,464	22.5	0.8	0.7
Net revenues	375,937	360,787	4.2	100.0	100.0
Non-interest expenses:					
Compensation and benefits	221,029	214,251	3.2	58.8	59.4
Occupancy and equipment rental	15,449	12,201	26.6	4.1	3.4
Communication and office supplies	16,992	13,767	23.4	4.5	3.8
Commissions and floor brokerage	10,144	11,537	(12.1)	2.7	3.2
Other operating expenses	26,444	17,714	49.3	7.1	4.9
Total non-interest expenses	290,058	269,470	7.6	77.2	74.7
Income before income taxes	\$ 85,879	\$ 91,317	(6.0)%	22.8%	25.3%

* Percentage is not meaningful.

NET REVENUES

For the three months ended September 30, 2010, Institutional Group net revenues increased 6.0% to \$138.0 million from \$130.2 million for the comparable period in 2009. For the nine months ended September 30, 2010, Institutional Group net revenues increased 4.2% to \$375.9 million from \$360.8 million for the comparable period in 2009. The increase in net revenues for the three and nine months ended September 30, 2010 over the comparable periods in 2009 is primarily attributable to the acquisition of TWPG during the third quarter of 2010.

Principal transactions - For the three months ended September 30, 2010, principal transactions revenues decreased 13.9%, to \$60.4 million from \$70.2 million in the comparable period in 2009. For the nine months ended September 30, 2010, principal transactions revenues decreased 9.6%, to \$182.2 million from \$201.5 million in the comparable period in 2009.

Commissions - For the three months ended September 30, 2010, commission revenues decreased 2.3% to \$27.1 million from \$27.7 million in the comparable period in 2009. For the nine months ended September 30, 2010, commission revenues decreased 12.6% to \$76.7 million from \$87.8 million in the comparable period in 2009.

In the third quarter of 2010, lower fixed income trading volumes led to a decline in institutional brokerage revenues from the comparable periods in 2009. Fixed income institutional brokerage revenues were \$43.8 million in the third quarter of 2010, compared with \$58.2 million in the prior-year, down from the robust performance in the third quarter of 2009 when we experienced a very favorable fixed income trading environment.

Additionally, in the third quarter of 2010, investor concerns over credit risk continued, which led to wider credit spreads and lower client activity in municipal products and reduced trading performance across products. Equity institutional brokerage revenues were \$43.7 million in the third quarter of 2010, compared to \$39.7 million in the prior year. The increase is attributable to an increase in trading volumes in equities over the comparable period in 2009.

Investment banking - For the three months ended September 30, 2010, investment banking revenues increased 48.2% to \$45.6 million from \$30.8 million in the comparable period in 2009. For the nine months ended September 30, 2010, investment banking revenues increased 66.9% to \$110.3 million from \$66.1 million in the comparable period in 2009. The increase is attributable to an increase in equity financing revenues and advisory fee revenues over the comparable periods in 2009 and the acquisition of TWPG, which closed on July 1, 2010.

For the three months ended September 30, 2010, capital raising revenues increased 24.9% to \$22.6 million from \$18.1 million in the comparable period in 2009. For the nine months ended September 30, 2010, capital raising revenues increased 106.1% to \$67.8 million from \$32.9 million in the comparable period in 2009.

For the three months ended September 30, 2010, equity capital raising revenues increased 23.0% to \$15.9 million from \$12.9 million during the third quarter of 2009. For the nine months ended September 30, 2010, equity capital raising revenues increased 100.0% to \$46.0 million from \$23.0 million during the comparable period in 2009. The increases were primarily attributable to an increase in the number of transactions and average revenue per transaction over the comparable periods in 2009. During the three and nine months ended September 30, 2010, we were involved, as manager or co-manager, in 36 and 85 equity underwritings, respectively, compared to 27 and 52 equity underwritings, respectively, during the comparable period in 2009.

For the three months ended September 30, 2010, fixed income capital raising revenues increased 17.3%, to \$4.4 million from \$3.8 million during the third quarter of 2009. For the nine months ended September 30, 2010, fixed income capital raising revenues increased 69.9%, to \$13.8 million from \$8.1 million during the comparable period in 2009. For the three and nine months ended September 30, 2010, we were involved, as manager or co-manager, in 158 and 405 tax-exempt issues compared to 230 and 369 issues, respectively, during the comparable periods in 2009.

For the three months ended September 30, 2010, strategic advisory fees increased 81.3% to \$23.1 million from \$12.7 million in the comparable period in 2009. For the nine months ended September 30, 2010, strategic advisory fees increased 28.1% to \$42.5 million from \$33.2 million in the comparable period in 2009. The increase is primarily attributable to an increase in the number of completed equity transactions and the aggregate transaction value, as well as average revenue per transaction, over the comparable periods in 2009.

Interest revenue - For the three months ended September 30, 2010, interest revenue increased 7.4% to \$2.4 million from \$2.3 million in the comparable period in 2009. The increase in interest revenues is primarily attributable to increased interest earned on our trading inventory during the quarter. For the nine months ended September 30, 2010, interest revenue decreased 23.6% to \$5.3 million from \$7.0 million in the comparable period in 2009.

Interest expense - For the three months ended September 30, 2010, interest expense decreased 13.6% to \$1.0 million from \$1.1 million in the comparable period in 2009. For the nine months ended September 30, 2010, interest expense increased 22.5% to \$3.0 million from \$2.5 million in the comparable period in 2009.

NON-INTEREST EXPENSES

For the three months ended September 30, 2010, Institutional Group non-interest expenses increased 14.1% to \$110.4 million from \$96.7 million for the comparable period in 2009. For the nine months ended September 30, 2010, Institutional Group non-interest expenses increased 7.6% to \$290.1 million from \$269.5 million for the comparable period in 2009.

Unless specifically discussed below, the fluctuations in non-interest expenses were primarily attributable to the continued growth of our Institutional Group segment, both organically and through the acquisition of TWPG on July 1, 2010. We have added 381 revenue producers and support staff, including 219 from the TWPG acquisition, since September 30, 2009.

Compensation and benefits - For the three months ended September 30, 2010, compensation and benefits expense increased 6.0% to \$82.1 million from \$77.5 million during the comparable period in 2009. For the nine months ended September 30, 2010, compensation and benefits expense increased 3.2% to \$221.0 million from \$214.3 million during the comparable period in 2009. The increases are principally due to increased compensation as a result of the acquisition of TWPG on July 1, 2010, offset by the elimination of deferred compensation expense as a result of the modification to our deferred compensation plan, whereby we removed the service requirement, as previously discussed.

Compensation and benefits expense as a percentage of net revenues of 59.5% was relatively consistent with the comparable period in 2009. Compensation and benefits expense as a percentage of net revenues decreased to 58.8% for the nine months ended September 30, 2010, compared to 59.4% for the comparable period in 2009.

The decrease in compensation and benefits expense as a percent of net revenues is primarily attributable to the reduction in deferred compensation expense. The impact of the reduction in deferred compensation expense is offset by an increase in compensation expense due to the acquisition of TWPG and an increase in revenues.

Occupancy and equipment rental - For the three months ended September 30, 2010, occupancy and equipment rental expense increased 56.6% to \$7.4 million from \$4.7 million during the comparable period in 2009. For the nine months ended September 30, 2010, occupancy and equipment rental expense increased 26.6% to \$15.4 million from \$12.2 million during the comparable period in 2009.

Communications and office supplies - For the three months ended September 30, 2010, communications and office supplies expense increased 53.5% to \$6.9 million from \$4.5 million during the third quarter of 2009. For the nine months ended September 30, 2010, communications and office supplies expense increased 23.4% to \$17.0 million from \$13.8 million during the comparable period in 2009.

Commissions and floor brokerage - For the three months ended September 30, 2010, commissions and floor brokerage expense decreased 6.9% to \$4.3 million from \$4.6 million during the third quarter of 2009. For the nine months ended September 30, 2010, commissions and floor brokerage expense decreased 12.1% to \$10.1 million from \$11.5 million during the comparable period in 2009. The decreases are primarily attributable to vendor billing issues resulting in higher than normal expense for the three and nine months ended September 30, 2009.

Other operating expenses - For the three months ended September 30, 2010, other operating expenses increased 76.8% to \$9.7 million from \$5.5 million during the comparable period in 2009. For the nine months ended September 30, 2010, other operating expenses increased 49.3% to \$26.4 million from \$17.7 million during the comparable period in 2009. The increase is primarily attributable to transaction costs of approximately \$3.0 million associated with the acquisition of TWPG.

INCOME BEFORE INCOME TAXES

For the three months ended September 30, 2010, income before income taxes for the Institutional Group segment decreased 17.3%, to \$27.7 million from \$33.4 million during the comparable period in 2009. For the nine months ended September 30, 2010, income before income taxes for the Institutional Group segment decreased 6.0%, to \$85.9 million from \$91.3 million during the comparable period in 2009.

Increased non-interest expense resulting from the TWPG acquisition and decreased fixed income institutional brokerage revenues and fixed income trading profits have resulted in lower profit margins.

Results of Operations - Other Segment

The following table presents consolidated financial information for the Other segment for the periods presented (*in thousands, except percentages*):

	For the Three Months Ended September 30,			For the Nine Months Ended September 30,		
	2010	2009	% Change	2010	2009	% Change
Net revenues	\$ (5,139)	\$ 845	*%	\$ (2,355)	\$ 471	*%
Non-interest expenses:						
Compensation and benefits	194,689	18,937	*	230,609	49,432	*
Other operating expenses	22,089	13,559	62.9	51,267	33,629	52.4
Total non-interest expenses	216,779	32,496	*	281,876	83,061	*
Loss before income taxes	\$ (221,917)	\$ (31,651)	*%	\$ (284,231)	\$ (82,590)	*%

* Percentage is not meaningful.

Net revenues - For the three and nine month periods ended September 30, 2010, net revenues decreased \$6.0 million and \$2.8 million from the comparable periods in 2009. The decreases in net revenues for the three and nine months ended September 30, 2010 are primarily attributable to an increase in investment losses from the comparable period in 2009. In addition, we recorded an impairment charge of \$0.8 million on our held-to-maturity investment during the third quarter due to an other-than-temporary decline in value. The decrease in net revenues for the nine months ended September 30, 2010 is offset by the recognition of a \$2.1 million gain on the conversion of our seat membership on the Chicago Board of Exchange to shares in conjunction with its initial public offering during the second quarter of 2010.

Compensation and benefits - For the three months ended September 30, 2010, compensation and benefits expense increased \$175.8 million to \$194.7 million from \$18.9 million for the comparable period in 2009. For the nine months ended September 30, 2010, compensation and benefits expense increased \$181.2 million to \$230.6 million from \$49.4 million for the comparable period in 2009. For the three and nine months ended September 30, 2010, compensation and benefits expense includes \$181.1 million of deferred compensation expense due to the modification of our deferred compensation plan.

Other operating expenses - For the three months ended September 30, 2010, other operating expenses increased 62.9% to \$22.1 million from \$13.6 million for the comparable period in 2009. For the nine months ended September 30, 2010, other operating expenses increased 52.4% to \$51.3 million from \$33.6 million for the comparable period in 2009. The increases were primarily attributable to the continued growth in all segments during the first quarter of 2010, which included increased SIPC assessments, securities processing fees, travel and promotion, and legal expenses. The increase in legal expenses is attributable to an increase in the number of customer claims arising from poor market conditions. We are subject to various proceedings and claims arising primarily from our securities business activities, including lawsuits, arbitration claims, class actions, and regulatory matters.

Analysis of Financial Condition

Our company's consolidated statements of financial condition consist primarily of cash and cash equivalents, receivables, trading inventory, bank loans, investments, goodwill, loans and advances to financial advisors, bank deposits, and payables. Total assets of \$4.2 billion at September 30, 2010 were up 32.1% over December 31, 2009. The increase is primarily attributable to increased trading inventory, financial instruments and bank loans, offset by decrease in cash and cash equivalents and receivables. Our broker-dealer subsidiary's gross assets and liabilities, including trading inventory, stock loan/borrow, receivables and payables from/to brokers, dealers and clearing organizations and clients, fluctuate with our business levels and overall market conditions.

As of September 30, 2010, our liabilities were comprised primarily of short-term borrowings of \$207.1 million, deposits of \$1.4 billion at Stifel Bank and payables to brokerage clients, brokers, dealers and clearing organizations of \$504.2 million and \$248.6 million, respectively, at our broker-dealer subsidiaries, as well as accounts payable and accrued expenses and accrued employee compensation of \$334.0 million. To meet our obligations to clients and operating needs, we have \$206.9 million in cash. We also have client brokerage receivables of \$504.2 million and \$469.4 million in loans (including loans held for sale) at Stifel Bank.

Liquidity and Capital Resources

Liquidity is essential to our business. We regularly monitor our liquidity position, including our cash and regulatory net capital positions, and we have implemented a liquidity strategy designed to enable our business to continue to operate even under adverse circumstances, although there can be no assurance that our strategy will be successful under all circumstances.

Our assets, consisting mainly of cash or assets readily convertible into cash are our principal source of liquidity. The liquid nature of these assets provides for flexibility in managing and financing the projected operating needs of the business. These assets are financed primarily by our equity capital, debentures to trusts, client credit balances, short-term bank loans, proceeds from securities lending, and other payables. We currently finance our client accounts and firm trading positions through ordinary course borrowings at floating interest rates from various banks on a demand basis and securities lending, with company-owned and client securities pledged as collateral. Changes in securities market volumes, related client borrowing demands, underwriting activity, and levels of securities inventory affect the amount of our financing requirements.

Our bank assets consist principally of retained loans, available-for-sale securities, and cash and cash equivalents. Stifel Bank's current liquidity needs are generally met through deposits from bank clients and equity capital. We monitor the liquidity of Stifel Bank daily to ensure its ability to meet customer deposit withdrawals, maintain reserve requirements and support asset growth.

We rely exclusively on financing activities and distributions from our subsidiaries for funds to implement our business and growth strategies. Net capital rules, restrictions under the borrowing arrangements of our subsidiaries, as well as the earnings, financial condition, and cash requirements of our subsidiaries, may each limit distributions to us from our subsidiaries.

We have an ongoing authorization, as amended, from the Board of Directors to repurchase our common stock in the open market or in negotiated transactions. On August 3, 2010, the Board of Directors authorized the repurchase of an additional 2.0 million shares under our existing repurchase program. The share repurchase program will manage our equity capital relative to the growth of our business and help to meet obligations under our employee benefit plans. During the three and nine months ended September 30, 2010, we repurchased \$67.4 million and \$91.8 million, or 1.5 million shares and 2.0 million shares, respectively, using existing board authorizations at average prices of \$44.91 and \$46.53 per share, respectively, to meet obligations under our company's employee benefit plans and for general corporate purposes. Under existing Board authorizations at November 1, 2010, we are permitted to buy an additional

2.0 million shares.

We currently do not pay cash dividends on our common stock.

We believe our existing assets, most of which are liquid in nature, together with the funds from operations, available informal short-term credit arrangements and our ability to raise additional capital will provide sufficient resources to meet our present and anticipated financing needs.

Cash Flow

Cash and cash equivalents increased \$45.1 million to \$206.9 million at September 30, 2010 from \$161.8 million at December 31, 2009. Operating activities used cash of \$45.9 million primarily due to the net effect of non-cash expenses and net losses, offset by a decrease in operating assets and liabilities. Investing activities used cash of \$341.5 million primarily due to purchases of available for sale securities and purchases of eligible ARS from our customers as part of our voluntary repurchase plan, increase in bank loans, and fixed asset purchases, offset by proceeds from maturities, calls and principal payments of our available-for-sale securities, the sale of proprietary investments and cash received from the sale of a branch location. During the nine months ended September 30, 2010, we purchased \$21.9 million in fixed assets, consisting primarily of information technology equipment, leasehold improvements and furniture and fixtures. Financing activities provided cash of \$423.8 million primarily due to an increase in bank deposits, short-term borrowings from banks and securities loaned, offset by repurchases of our common stock and the extinguishment of notes that were acquired from TWPG.

Funding Sources

Our short-term financing is generally obtained through the use of bank loans and securities lending arrangements. We borrow from various banks on a demand basis with company-owned and customer securities pledged as collateral. The value of the customer-owned securities is not reflected in the consolidated statements of financial condition. We maintain available ongoing credit arrangements with banks that provided a peak daily borrowing of \$303.8 million during the nine months ended September 30, 2010. There are no compensating balance requirements under these arrangements. At September 30, 2010, short-term borrowings from banks were \$207.1 million at an average rate of 1.11%, which were collateralized by company-owned securities valued at \$308.0 million. At December 31, 2009, short-term borrowings from banks were \$90.8 million at an average rate of 1.04%, which were collateralized by company-owned securities valued at \$165.2 million. The average bank borrowing was \$91.9 million and \$107.8 million during the three months ended September 30, 2010 and 2009, respectively, at weighted average daily interest rates of 1.28%, and 1.07%, respectively. The average bank borrowing was \$108.3 million and \$119.4 million during the nine months ended September 30, 2010 and 2009, respectively, at weighted average daily interest rates of 1.09%, and 0.97%, respectively.

At September 30, 2010 and December 31, 2009, Stifel Nicolaus had a stock loan balance of \$101.9 million and \$16.7 million, respectively, at weighted average daily interest rates of 0.54% and 0.33%, respectively. The average outstanding securities lending arrangements utilized in financing activities were \$99.5 million and \$78.9 million during the three months ended September 30, 2010 and 2009, respectively, at weighted average daily effective interest rates of 1.31%, and 1.12%, respectively. The average outstanding securities lending arrangements utilized in financing activities were \$66.3 million and \$54.8 million during the nine months ended September 30, 2010 and 2009, respectively, at weighted average daily effective interest rates of 1.48%, and 1.01%, respectively. Customer-owned securities were utilized in these arrangements.

On September 8, 2010, we entered into an unsecured line of credit with two lenders totaling \$50.0 million. We can draw upon this line, as long as certain restrictive covenants are maintained. At September 30, 2010, we had no advances against this line of credit.

Stifel Bank has borrowing capacity with the Federal Home Loan Bank of \$109.5 million at September 30, 2010, all of which was unused, and a \$13.0 million federal funds agreement for the purpose of purchasing short-term funds should additional liquidity be needed. Stifel Bank receives overnight funds from excess cash held in Stifel Nicolaus brokerage accounts, which are deposited into a money market account. These balances totaled \$1.4 billion at September 30, 2010.

Our liquidity requirements may change in the event we need to raise more funds than anticipated to increase inventory positions, support more rapid expansion, develop new or enhanced services and products, acquire technologies, or

respond to other unanticipated liquidity requirements. We rely exclusively on financing activities and distributions from our subsidiaries for funds to implement our business and growth strategies, and repurchase our shares. Net capital rules, restrictions under our borrowing arrangements of our subsidiaries, as well as the earnings, financial condition, and cash requirements of our subsidiaries, may each limit distributions to us from our subsidiaries.

In the event existing internal and external financial resources do not satisfy our needs, we may have to seek additional outside financing. The availability of outside financing will depend on a variety of factors, such as market conditions, the general availability of credit, the volume of trading activities, the overall availability of credit to the financial services industry, credit ratings, and credit capacity, as well as the possibility that lenders could develop a negative perception of our long-term or short-term financial prospects if we incurred large trading losses or if the level of our business activity decreased due to a market downturn or otherwise. We currently do not have a credit rating, which could adversely affect our liquidity and competitive position by increasing our borrowing costs and limiting access to sources of liquidity that require a credit rating as a condition to providing funds.

Use of Capital Resources

On July 1, 2010, we completed the purchase of all the outstanding shares of common stock of TWPG, an investment banking firm based in San Francisco, California. The purchase was completed pursuant to the merger agreement dated April 25, 2010. As consideration, at the close of the merger, we issued approximately 3.7 million shares, including approximately 0.8 million exchangeable shares to the holders of TWPG common stock and approximately 1.9 million restricted stock units to employees of TWPG, which resulted in purchase consideration of approximately \$274.0 million.

On August 3, 2010, the Board approved the modification of the existing Stifel Financial Corp. deferred compensation plan to align the requirements for vesting with that of the TWPG deferred compensation plan, whereby forfeiture would not result from an event of termination, except termination for cause, provided that the employee does not compete with our company or violate non-solicitation provisions during the remaining term of the award. This action accelerated the non-cash compensation expense associated with all outstanding deferred compensation awards as of August 9, 2010, resulting in an after tax charge of \$108.7 million.

On June 23, 2009, we announced that Stifel Nicolaus had received acceptance from approximately 95 percent of its clients that are eligible to participate in its voluntary plan to repurchase 100 percent of their ARS. The eligible ARS were purchased by our retail clients before the collapse of the ARS market in February 2008. On December 28, 2009, pursuant to an agreement with state securities authorities, we announced the modification of the previously announced ARS repurchase plan which provides, among other things, for ARS repurchases to be completed by December 31, 2011. At September 30, 2010, we estimate that our retail clients held \$84.4 million of eligible ARS after issuer redemptions of \$40.0 million and Stifel purchases of \$64.9 million.

We have paid \$34.2 million in the form of upfront notes to investment executives for transition pay during the period from January 1, 2010 through October 31, 2010. As we continue to take advantage of the opportunities created by market displacement and as competition for skilled professionals in the industry increases, we may have to devote more significant resources to attracting and retaining qualified personnel.

We utilize transition pay, principally in the form of upfront demand notes, to aid financial advisors, who have elected to join our firm, to supplement their lost compensation while transitioning their customers' accounts to the Stifel platform. The initial value of the notes is determined primarily by the financial advisors trailing production and assets under management. These notes are generally forgiven over a five to ten year period based on production. The future estimated amortization expense of the upfront notes, assuming current year production levels and static growth for the remaining three months of 2010 and the years ended December 31, 2011, 2012, 2013, 2014 and thereafter are \$16.0 million, \$47.7 million, \$36.7 million, \$27.4 million and \$51.7 million, respectively. These estimates could change if we continue to grow our business through expansion or experience increased production levels.

Net Capital Requirements

We operate in a highly regulated environment and are subject to capital requirements, which may limit distributions to our company from our subsidiaries. Distributions from our broker-dealer subsidiaries are subject to net capital rules. These subsidiaries have historically operated in excess of minimum net capital requirements. However, if distributions were to be limited in the future due to the failure of our subsidiaries to comply with the net capital rules or a change in the net capital rules, it could have a material and adverse affect to our company by limiting our operations that require intensive use of capital, such as underwriting or trading activities, or limit our ability to implement our business and growth strategies, pay interest on and repay the principal of our debt, and/or repurchase our common stock. Our non broker-dealer subsidiary, Stifel Bank is also subject to various regulatory capital requirements administered by the federal banking agencies. Our broker-dealer subsidiaries and Stifel Bank have consistently operated in excess of their capital adequacy requirements. At September 30, 2010, our broker-dealer subsidiaries that were included in the TWPG acquisition are in excess of their capital adequacy requirements.

At September 30, 2010, Stifel Nicolaus had net capital of \$190.0 million, which was 31.5% of its aggregate debit items, and \$177.6 million in excess of its minimum required net capital. At September 30, 2010, TWP had net capital of \$17.9 million, which was \$17.0 million in excess of its minimum required net capital. At September 30, 2010, CSA had net capital of \$1.5 million, which was \$1.4 million in excess of its minimum required net capital.

At September 30, 2010, SN Ltd and Thomas Weisel Partners International Limited were in compliance with the capital requirements of the Financial Services Authority. At September 30, 2010, Stifel Nicolaus Canada was in compliance with the capital requirements of the Investment Industry Regulatory Organization of Canada.

At September 30, 2010, Stifel Bank was considered well capitalized under the regulatory framework for prompt corrective action. See Note 15 of the Notes to Consolidated Financial Statements for details of our regulatory capital requirements.

Critical Accounting Policies and Estimates

In preparing our consolidated financial statements in accordance with U.S. generally accepted accounting principles and pursuant to the rules and regulations of the SEC, we make assumptions, judgments and estimates that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosures of contingent assets and liabilities. We base our assumptions, judgments and estimates on historical experience and various other factors that we believe to be reasonable under the circumstances. Actual results could differ materially from these estimates under different assumptions or conditions. On a regular basis, we evaluate our assumptions, judgments and estimates. We also discuss our critical accounting policies and estimates with the Audit Committee of the Board of Directors.

We believe that the assumptions, judgments and estimates involved in the accounting policies described below have the greatest potential impact on our consolidated financial statements. These areas are key components of our results of operations and are based on complex rules that require us to make assumptions, judgments and estimates, so we consider these to be our critical accounting policies. Historically, our assumptions, judgments and estimates relative to our critical accounting policies and estimates have not differed materially from actual results.

For a full description of these and other accounting policies, see Note 1 of the Notes to Consolidated Financial Statements included in our Annual Report on Form 10-K for the year ended December 31, 2009.

Valuation of Financial Instruments

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

Trading securities owned and pledged and trading securities sold, but not yet purchased, are carried at fair value on the consolidated statements of financial condition, with unrealized gains and losses reflected in the consolidated statements of operations.

The fair value of a financial instrument is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, or an exit price. The degree of judgment used in measuring the fair value of financial instruments generally correlates to the level of pricing observability. Financial instruments with readily available active quoted prices or for which fair value can be measured from actively quoted prices in active markets generally have more pricing observability and less judgment used in measuring fair value. Conversely, financial instruments rarely traded or not quoted have less pricing observability and are measured at fair value using valuation models that require more judgment. Pricing observability is impacted by a number of factors, including the type of financial instrument, whether the financial instrument is new to the market and not yet established, the characteristics specific to the transaction, and overall market conditions generally.

When available, we use observable market prices, observable market parameters, or broker or dealer quotes (bid and ask prices) to derive the fair value of financial instruments. In the case of financial instruments transacted on recognized exchanges, the observable market prices represent quotations for completed transactions from the exchange on which the financial instrument is principally traded.

A substantial percentage of the fair value of our trading securities and other investments owned, trading securities pledged as collateral, and trading securities sold, but not yet purchased, are based on observable market prices, observable market parameters, or derived from broker or dealer prices. The availability of observable market prices and pricing parameters can vary from product to product. Where available, observable market prices and pricing or market parameters in a product may be used to derive a price without requiring significant judgment. In certain markets, observable market prices or market parameters are not available for all products, and fair value is determined using techniques appropriate for each particular product. These techniques involve some degree of judgment.

For investments in illiquid or privately held securities that do not have readily determinable fair values, the determination of fair value requires us to estimate the value of the securities using the best information available. Among the factors we consider in determining the fair value of investments are 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. In instances where a security is subject to transfer restrictions, the value of the security is based primarily on the quoted price of a similar security without restriction but may be reduced by an amount estimated to reflect such restrictions. The fair value of these investments is subject to a high degree of volatility and may be susceptible to significant fluctuation in the near term and the differences could be material.

We have categorized our financial instruments measured at fair value into a three-level classification in accordance with Topic 820, "Fair Value Measurement and Disclosures." Fair value measurements of financial instruments that use quoted prices in active markets for identical assets or liabilities are generally categorized as Level 1, and fair value measurements of financial instruments that have no direct observable levels are generally categorized as Level 3. All other fair value measurements of financial instruments that do not fall within the Level 1 or Level 3 classification are considered Level 2. The lowest level input that is significant to the fair value measurement of a financial instrument is

used to categorize the instrument and reflects the judgment of management.

Level 3 financial instruments have little to no pricing observability as of the report date. These financial instruments do not have active two-way markets and are measured using management's best estimate of fair value, where the inputs into the determination of fair value require significant management judgment or estimation. We have identified Level 3 cash instruments to include certain asset-backed securities, consisting of collateral loan obligation securities, that have experienced low volumes of executed transactions; and certain corporate bonds where there was less frequent or nominal market activity. Our Level 3 asset-backed securities are valued using cash flow models that utilize unobservable inputs. Level 3 corporate bonds are valued using prices from comparable securities.

At September 30, 2010, Level 3 assets for which we bear economic exposure were \$137.1 million or 8.2% of the total assets measured at fair value. During the three months ended September 30, 2010, we recorded net purchases of \$45.1 million of Level 3 assets. Our valuation adjustments (realized and unrealized) increased the value of our Level 3 assets by \$2.2 million. During the nine months ended September 30, 2010, we recorded net purchases of \$68.4 million of Level 3 assets. Our valuation adjustments (realized and unrealized) increased the value of our Level 3 assets by \$3.2 million. In June 2009, we began repurchasing eligible ARS from our customers as part of our voluntary repurchase plan, which have been classified as Level 3 assets at September 30, 2010.

At September 30, 2010, Level 3 assets included the following: \$85.5 million of auction rate securities, for which the auctions have failed and \$51.6 million of private equity and other fixed income securities.

Contingencies

We are involved in various pending and potential legal proceedings related to our business, including litigation, arbitration and regulatory proceedings. Some of these matters involve claims for substantial amounts, including claims for punitive damages. We have, after consultation with outside legal counsel and consideration of facts currently known by management, recorded estimated losses in accordance with Topic 450 ("Topic 450"), "Contingencies," to the extent that claims are probable of loss and the amount of the loss can be reasonably estimated. The determination of these reserve amounts requires us to use significant judgment and our final liabilities may ultimately be materially different. This determination is inherently subjective, as it requires estimates that are subject to potentially significant revision as more information becomes available and due to subsequent events. In making these determinations, we consider many factors, including, but not limited to, the loss and damages sought by the plaintiff or claimant, the basis and validity of the claim, the likelihood of a successful defense against the claim, and the potential for, and magnitude of, damages or settlements from such pending and potential litigation and arbitration proceedings, and fines and penalties or orders from regulatory agencies. See Item 1, "Legal Proceedings," in Part II of this report for information on our legal, regulatory and arbitration proceedings.

Allowance for Loan Losses

We regularly review the loan portfolio of Stifel Bank and have established an allowance for loan losses in accordance with Topic 450. The allowance for loan losses is established as losses are estimated to have occurred through a provision for loan losses charged to income. In providing for the allowance for loan losses, we consider historical loss experience, the nature and volume of the loan portfolio, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral and prevailing economic conditions. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available. Large groups of smaller balance homogenous loans are collectively evaluated for impairment. Accordingly, we do not separately identify individual consumer and residential loans for impairment measurements.

In addition, impairment is measured on a loan-by loan basis for commercial and construction loans and a specific allowance established for individual loans determined to be impaired in accordance with Topic 310 "Receivables." Impairment is measured using the present value of the impaired loan's expected cash flow discounted at the loan's effective interest rate, the loan's observable market price, or the fair value of the collateral if the loan is collateral dependent.

A loan is considered impaired when, based on current information and events, it is probable that the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement will not be collectible. Factors considered in determining impairment include payment status, collateral value and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. We determine the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record and the amount of the shortfall in relation to the principal and interest owed.

Once a loan is determined to be impaired, usually when principal or interest becomes 90 days past due or when collection becomes uncertain, the accrual of interest and amortization of deferred loan origination fees is discontinued ("non-accrual status"), and any accrued and unpaid interest income is written off. Loans placed on non-accrual status are returned to accrual status when all delinquent principal and interest payments are collected and the collectibility of future principal and interest payments is reasonably assured. Loan losses are charged against the allowance when we believe the uncollectibility of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance.

Derivative Instruments and Hedging Activities

Stifel Bank utilizes certain derivative instruments to minimize significant unplanned fluctuations in earnings caused by interest rate volatility. Our company's goal is to manage sensitivity to changes in rates by offsetting the repricing or maturity characteristics of certain assets and liabilities, thereby limiting the impact on earnings. The use of derivative instruments does expose our company to credit and market risk. We manage credit risk through strict counterparty credit risk limits and/or collateralization agreements. At inception, we determine if a derivative instrument meets the criteria for hedge accounting under Topic 815, "Derivatives and Hedging." Ongoing effectiveness evaluations are made for instruments that are designated and qualify as hedges. If the derivative does not qualify for hedge accounting, no assessment of effectiveness is needed.

Income Taxes

The provision for income taxes and related tax reserves is based on our consideration of known liabilities and tax contingencies for multiple taxing authorities. Known liabilities are amounts that will appear on current tax returns, amounts that have been agreed to in revenue agent revisions as the result of examinations by the taxing authorities and amounts that will follow from such examinations but affect years other than those being examined. Tax contingencies are liabilities that might arise from a successful challenge by the taxing authorities taking a contrary position or

interpretation regarding the application of tax law to our tax return filings. Factors considered in estimating our liability are results of tax audits, historical experience, and consultation with tax attorneys and other experts.

Topic 740 ("Topic 740"), "Income Taxes," clarifies the accounting for uncertainty in income taxes recognized in an entity's financial statements and prescribed recognition threshold and measurement attributes for financial statement disclosure of tax positions taken or expected to be taken on a tax return. The impact of an uncertain income tax position on the income tax return must be recognized at the largest amount that is more-likely-than-not to be sustained upon audit by the relevant taxing authority. An uncertain income tax position will not be recognized if it has less than a 50% likelihood of being sustained. Additionally, Topic 740 provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition.

Goodwill and Intangible Assets

Under the provisions of Topic 805, "Business Combinations," we record all assets and liabilities acquired in purchase acquisitions, including goodwill and other intangible assets, at fair value. Determining the fair value of assets and liabilities requires certain estimates. At September 30, 2010, we had goodwill of \$290.9 million and intangible assets of \$45.1 million.

In accordance with Topic 350, "Intangibles - Goodwill and Other," indefinite-life intangible assets and goodwill are not amortized. Rather, they are subject to impairment testing on an annual basis, or more often if events or circumstances indicate there may be impairment. This test involves assigning tangible assets and liabilities, identified intangible assets and goodwill to reporting units and comparing the fair value of each reporting unit to its carrying amount. If the fair value is less than the carrying amount, a further test is required to measure the amount of the impairment. We have elected to test for goodwill impairment in the third quarter of each calendar year. The results of the impairment test performed as of July 31, 2010, our last annual measurement date, did not indicate any impairment.

The goodwill impairment test is a two-step process, which requires us to make judgments in determining what assumptions to use in the calculation. Assumptions, judgments and estimates about future cash flows and discount rates are complex and often subjective. They can be affected by a variety of factors, including, among others, economic trends and market conditions, changes in revenue growth trends or business strategies, unanticipated competition, discount rates, technology, or government regulations. In assessing the fair value of our reporting units, the volatile nature of the securities markets and industry requires us to consider the business and market cycle and assess the stage of the cycle in estimating the timing and extent of future cash flows. In addition to discounted cash flows, we consider other information such as public market comparables and multiples of recent mergers and acquisitions of similar businesses. Although we believe the assumptions, judgments and estimates we have made in the past have been reasonable and appropriate, different assumptions, judgments and estimates could materially affect our reported financial results.

Identifiable intangible assets, which are amortized over their estimated useful lives, are tested for potential impairment whenever events or changes in circumstances suggest that the carrying value of an asset or asset group may not be fully recoverable.

Recent Accounting Pronouncements

See Note 1 of the Notes to Consolidated Financial Statements for information regarding the effect of new accounting pronouncements on our consolidated financial statements.

Off-balance Sheet Arrangements

Information concerning our off-balance sheet arrangements is included in Note 18 of the Notes to Consolidated Financial Statements. Such information is hereby incorporated by reference.

Contractual Obligations

Our contractual obligations have not materially changed from those reported in our Annual Report on Form 10-K for the year ended December 31, 2009.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Risk Management

Risks are an inherent part of our business and activities. Management of these risks is critical to our soundness and profitability. Risk management at our company is a multi-faceted process that requires communication, judgment, and knowledge of financial products and markets. Our senior management group takes an active role in the risk management process and requires specific administrative and business functions to assist in the identification, assessment, monitoring, and control of various risks. The principal risks involved in our business activities are: market (interest rates and equity prices), credit, operational, and regulatory and legal.

Market Risk

The potential for changes in the value of financial instruments owned by our company resulting from changes in interest rates and equity prices is referred to as "market risk." Market risk is inherent to financial instruments, and accordingly, the scope of our market risk management procedures includes all market risk-sensitive financial instruments.

We trade tax-exempt and taxable debt obligations, including U.S. treasury bills, notes, and bonds; U.S. government agency and municipal notes and bonds; bank certificates of deposit; mortgage-backed securities; and corporate obligations. We are also an active market-maker in over-the-counter equity securities. In connection with these activities, we may maintain inventories in order to ensure availability and to facilitate customer transactions.

Changes in value of our financial instruments may result from fluctuations in interest rates, credit ratings, equity prices, and the correlation among these factors, along with the level of volatility.

We manage our trading businesses by product and have established trading departments that have responsibility for each product. The trading inventories are managed with a view toward facilitating client transactions, considering the risk and profitability of each inventory position. Position limits in trading inventory accounts are established and monitored on a daily basis. We monitor inventory levels and results of the trading departments, as well as inventory aging, pricing, concentration, and securities ratings.

We are also exposed to market risk based on our other investing activities. These investments consist of investments in private equity partnerships, start-up companies, venture capital investments and zero coupon U.S. government securities and are included under the caption "Investments" on the consolidated statements of financial condition.

Interest Rate Risk

We are exposed to interest rate risk as a result of maintaining inventories of interest rate-sensitive financial instruments and from changes in the interest rates on our interest-earning assets (including client loans, stock borrow activities, investments, inventories and resale agreements) and our funding sources (including client cash balances, stock lending activities, bank borrowings, and repurchase agreements), which finance these assets. The collateral underlying financial instruments at the broker-dealer is repriced daily, thus requiring collateral to be delivered as necessary. Interest rates on client balances and stock borrow and lending produce a positive spread to our company, with the rates generally fluctuating in parallel.

We manage our inventory exposure to interest rate risk by setting and monitoring limits and, where feasible, hedging with offsetting positions in securities with similar interest rate risk characteristics. While a significant portion of our securities inventories have contractual maturities in excess of five years, these inventories, on average, turn over several times per year.

Additionally, we monitor, on a daily basis, the Value-at-Risk ("VaR") in our trading portfolios using a ten day horizon and report VaR at a 99% confidence level. VaR is a statistical technique used to estimate the probability of portfolio losses based on the statistical analysis of historical price trends and volatility. This model assumes that historical changes in market conditions are representative of future changes, and trading losses on any given day could exceed the reported VaR by significant amounts in unusual volatile markets. Further, the model involves a number of assumptions and inputs. While we believe that the assumptions and inputs we use in our risk model are reasonable, different assumptions and inputs could produce materially different VaR estimates.

Edgar Filing: STIFEL FINANCIAL CORP - Form 10-Q

The following table sets forth the high, low, and daily average VaR for our trading portfolios during the nine months ended September 30, 2010 and the daily VaR at September 30, 2010 and December 31, 2009 (*in thousands*):

	Nine Months Ended September 30, 2010			VaR calculation at	
	High	Low	Daily Average	September 30, 2010	December 31, 2009
Daily VaR	\$ 15,028	\$ 3,786	\$ 5,543	\$ 5,617	\$ 3,277

Stifel Bank's interest rate risk is principally associated with changes in market interest rates related to residential, consumer, and commercial lending activities, as well as FDIC-insured deposit accounts to customers of our broker-dealer subsidiaries and to the general public.

Our primary emphasis in interest rate risk management for Stifel Bank is the matching of assets and liabilities of similar cash flow and re-pricing time frames. This matching of assets and liabilities reduces exposure to interest rate movements and aids in stabilizing positive interest spreads. Stifel Bank has established limits for acceptable interest rate risk and acceptable portfolio value risk. To ensure that Stifel Bank is within the limits established for net interest margin, an analysis of net interest margin based on various shifts in interest rates is prepared each quarter and presented to Stifel Bank's Board of Directors. Stifel Bank utilizes a third party vendor to analyze the available data.

The following table illustrates the estimated change in net interest margin at September 30, 2010 based on shifts in interest rates of up to positive 200 basis points and negative 200 basis points:

Hypothetical change in interest rates	Projected change in net interest margin
+200	41.5%
+100	23.6%
0	-%
-100	n/a
-200	n/a

The following GAP Analysis table indicates Stifel Bank's interest rate sensitivity position at September 30, 2010 (*in thousands*):

	Repricing Opportunities			
	0-6 Months	7-12 Months	1-5 Years	5+ Years
Interest-earning assets:				
Loans	\$ 446,080	\$ 17,048	\$ 25,903	\$ 2,711
Securities	310,373	93,552	321,695	136,432
Interest-bearing cash	133,894	-	-	-
	\$ 890,347	\$ 110,600	\$ 347,598	\$ 139,143
Interest-bearing liabilities:				
Transaction accounts and savings	\$ 232,850	\$ 212,178	\$ 795,917	\$ 136,667
Certificates of deposit	439	293	2,335	-
Borrowings	-	-	-	-
	\$ 233,289	\$ 212,471	\$ 798,252	\$ 136,667
GAP	657,058	(101,871)	(450,654)	2,467
Cumulative GAP	\$ 657,058	\$ 555,187	\$ 104,533	\$ 107,009

We maintain a risk management strategy that incorporates the use of derivative instruments to minimize significant unplanned fluctuations in earnings caused by interest rate volatility. Our goal is to manage sensitivity to changes in rates by hedging the maturity characteristics of Fed-funds based affiliated deposits, thereby limiting the impact on earnings. By using derivative instruments, we are exposed to credit and market risk on those derivative positions. We manage the market risk associated with interest rate contracts by establishing and monitoring limits as to the types and degree of risk that may be undertaken. Our interest rate hedging strategies may not work in all market environments and as a result may not be effective in mitigating interest rate risk.

Equity Price Risk

We are exposed to equity price risk as a consequence of making markets in equity securities. We attempt to reduce the risk of loss inherent in our inventory of equity securities by monitoring those security positions constantly throughout each day.

Our equity securities inventories are repriced on a regular basis, and there are no unrecorded gains or losses. Our activities as a dealer are client-driven, with the objective of meeting clients' needs while earning a positive spread.

Credit Risk

We are engaged in various trading and brokerage activities, with the counterparties primarily being broker-dealers. In the event counterparties do not fulfill their obligations, we may be exposed to risk. The risk of default depends on the creditworthiness of the counterparty or issuer of the instrument. We manage this risk by imposing and monitoring position limits for each counterparty, monitoring trading counterparties, conducting regular credit reviews of financial counterparties, reviewing security concentrations, holding and marking to market collateral on certain transactions, and conducting business through clearing organizations, which guarantee performance.

Our client activities involve the execution, settlement, and financing of various transactions on behalf of our clients. Client activities are transacted on either a cash or margin basis. Credit exposure associated with our private client business consists primarily of customer margin accounts, which are monitored daily and are collateralized. We monitor exposure to industry sectors and individual securities and perform analyses on a regular basis in connection with our margin lending activities. We adjust our margin requirements if we believe our risk exposure is not appropriate based on market conditions.

We have accepted collateral in connection with resale agreements, securities borrowed transactions, and customer margin loans. Under many agreements, we are permitted to sell or repledge these securities held as collateral and use these securities to enter into securities lending arrangements or to deliver to counterparties to cover short positions. At September 30, 2010, the fair value of securities accepted as collateral where we are permitted to sell or repledge the securities was \$867.8 million, and the fair value of the collateral that had been sold or repledged was \$98.9 million.

By using derivative instruments, we are exposed to credit and market risk on those derivative positions. Credit risk is equal to the fair value gain in a derivative, if the counterparty fails to perform. When the fair value of a derivative contract is positive, this generally indicates that the counterparty owes our company and, therefore, creates a repayment risk for our company. When the fair value of a derivative contract is negative, we owe the counterparty and, therefore, have no repayment risk. We minimize the credit (or repayment) risk in derivative instruments by entering into transactions with high-quality counterparties that are reviewed periodically by senior management.

Stifel Bank extends credit to individual and commercial borrowers through a variety of loan products, including residential and commercial mortgage loans, home equity loans, construction loans and non-real-estate commercial and consumer loans. Bank loans are generally collateralized by real estate, real property, or other assets of the borrower. Stifel Bank's loan policy includes criteria to adequately underwrite, document, monitor, and manage credit risk. Underwriting requires reviewing and documenting the fundamental characteristics of credit including character,

capacity to service the debt, capital, conditions, and collateral. Benchmark capital and coverage ratios are utilized, which include liquidity, debt service coverage, credit, working capital, and capital to asset ratios. Lending limits are established to include individual, collective, committee, and board authority. Monitoring credit risk is accomplished through defined loan review procedures including frequency and scope.

We are subject to concentration risk if we hold large positions, extend large loans to, or have large commitments with a single counterparty, borrower, or group of similar counterparties or borrowers (i.e., in the same industry). Securities purchased under agreements to resell consist of securities issued by the U.S. government or its agencies. Receivables from and payables to clients and stock borrow and lending activities are both with a large number of clients and counterparties, and any potential concentration is carefully monitored. Stock borrow and lending activities are executed under master netting agreements, which gives our company the right of offset in the event of counterparty default. Inventory and investment positions taken and commitments made, including underwritings, may involve exposure to individual issuers and businesses. We seek to limit this risk through careful review of counterparties and borrowers and the use of limits established by our senior management group, taking into consideration factors including the financial strength of the counterparty, the size of the position or commitment, the expected duration of the position or commitment, and other positions or commitments outstanding.

Operational Risk

Operational risk generally refers to the risk of loss resulting from our operations, including, but not limited to, improper or unauthorized execution and processing of transactions, deficiencies in our technology or financial operating systems, and inadequacies or breaches in our control processes. We operate different businesses in diverse markets and are reliant on the ability of our employees and systems to process a large number of transactions. These risks are less direct than credit and market risk, but managing them is critical, particularly in a rapidly changing environment with increasing transaction volumes. In the event of a breakdown or improper operation of systems or improper action by employees, we could suffer financial loss, regulatory sanctions, and damage to our reputation. In order to mitigate and control operational risk, we have developed and continue to enhance specific policies and procedures that are designed to identify and manage operational risk at appropriate levels throughout the organization and within such departments as Accounting, Operations, Information Technology, Legal, Compliance, and Internal Audit. These control mechanisms attempt to ensure that operational policies and procedures are being followed and that our various businesses are operating within established corporate policies and limits. Business continuity plans exist for critical systems, and redundancies are built into the systems as deemed appropriate.

Regulatory and Legal Risk

Legal risk includes the risk of large numbers of private client group customer claims for sales practice violations. While these claims may not be the result of any wrongdoing, we do, at a minimum, incur costs associated with investigating and defending against such claims. See further discussion on our legal reserves policy under "Critical Accounting Policies and Estimates" in Item 2 and "Legal Proceedings" in Item 1, Part II of this report. In addition, we are subject to potentially sizable adverse legal judgments or arbitration awards, and fines, penalties, and other sanctions for non-compliance with applicable legal and regulatory requirements. We are generally subject to extensive regulation by the SEC, FINRA, and state and foreign securities regulators in the different jurisdictions in which we conduct business. We have comprehensive procedures addressing issues such as regulatory capital requirements, sales and trading practices, use of and safekeeping of customer funds, the extension of credit, including margin loans, collection activities, money laundering, and record keeping. We act as an underwriter or selling group member in both equity and fixed income product offerings. Particularly when acting as lead or co-lead manager, we have potential legal exposure to claims relating to these securities offerings. To manage this exposure, a committee of senior executives review proposed underwriting commitments to assess the quality of the offering and the adequacy of due diligence investigation.

Our company, as a bank and financial holding company, is subject to regulation, including capital requirements, by the Federal Reserve. Stifel Bank is subject to various regulatory capital requirements administered by the Federal Deposit Insurance Corporation ("FDIC") and state banking authorities. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on our company's and Stifel Bank's financial statements.

ITEM 4. CONTROLS AND PROCEDURES

As of the end of the period covered by this report, an evaluation was carried out by Stifel Financial Corp.'s management with the participation of our Chief Executive Officer and Chief Financial Officer, of the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934). Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that these disclosure controls and procedures were effective as of the end of the period covered by this report. In addition, no change in our internal control over financial reporting (as defined in Rule 13a-15(f) under the Securities Exchange Act of 1934, as amended) occurred during our most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

The following supplements and amends our discussion set forth under Item 3. "Legal Proceedings" in our Annual Report on Form 10-K for the year ended December 31, 2009.

Our company and its subsidiaries are named in and subject to various proceedings and claims arising primarily from our securities business activities, including lawsuits, arbitration claims, class actions, and regulatory matters. Some of these claims seek substantial compensatory, punitive, or indeterminate damages. Our company and its subsidiaries are also involved in other reviews, investigations and proceedings by governmental and self-regulatory organizations regarding our business, which may result in adverse judgments, settlements, fines, penalties, injunctions and other relief. We are contesting the allegations in these claims, and we believe that there are meritorious defenses in each of these lawsuits, arbitrations and regulatory investigations. In view of the number and diversity of claims against the company, the number of jurisdictions in which litigation is pending and the inherent difficulty of predicting the outcome of litigation and other claims, we cannot state with certainty what the eventual outcome of pending litigation or other claims will be. In our opinion, based on currently available information, review with outside legal counsel, and consideration of amounts provided for in our consolidated financial statements with respect to these matters, the ultimate resolution of these matters will not have a material adverse impact on our financial position. However, resolution of one or more of these matters may have a material effect on the results of operations in any future period, depending upon the ultimate resolution of those matters and depending upon the level of income for such period.

The regulatory investigations include inquiries from the SEC and a state regulatory authority requesting information relating to our role in investments made by five Southeastern Wisconsin school districts (the "school districts") in transactions involving collateralized debt obligations ("CDOs"). We are fully cooperating with the SEC and the state regulatory authority in these investigations.

We are named in a civil lawsuit filed in the Circuit Court of Milwaukee, Wisconsin (the "Wisconsin State Court") on September 29, 2008. The lawsuit has been filed against our company, Stifel Nicolaus, Royal Bank of Canada Europe Ltd. ("RBC"), and certain other RBC entities (collectively the "Defendants") by the school districts and the individual trustees for other post-employment benefit ("OPEB") trusts established by those school districts (collectively the "Plaintiffs").

The suit arises out of purchases of certain CDOs by the OPEB trusts. The RBC entities structured and served as "arranger" for the CDOs. We served as the placement agent/broker in connection with the transactions. The school districts each formed trusts that made investments designed to address their OPEB liabilities. The total amount of the investments made by the OPEB trusts was \$200.0 million. Plaintiffs assert that the school districts contributed \$37.5 million to the OPEB trusts to purchase the investments. The balance of \$162.5 million used to purchase the investments was borrowed by the OPEB trusts from Depfa Bank. The recourse of the lender is each of the OPEB trusts' respective assets and the moral obligation of each school district. The legal claims asserted include violation of the Wisconsin Securities Act, fraud and negligence. The lawsuit seeks equitable relief, unspecified compensatory damages, treble damages, punitive damages and attorney's fees and costs. The Plaintiffs claim that the RBC entities and our company either made misrepresentations or failed to disclose material facts in connection with the sale of the CDOs, and thus allegedly violated the Wisconsin Securities Act. We believe the Plaintiffs reviewed and understood the relevant offering materials and that the investments were suitable based upon, among other things, our receipt of written acknowledgement of risks from each of the Plaintiffs. The Wisconsin State Court denied the Defendants' motions to dismiss, and the Defendants have responded to the allegations of the Second Amended Complaint, denying the substantive allegations and asserting various affirmative defenses. We believe, based upon currently available information and review with outside counsel, that we have meritorious defenses to this lawsuit, and intend to vigorously defend all of the Plaintiffs' claims.

Prior to the acquisition of TWPG, FINRA commenced an administrative proceeding against Thomas Weisel Partners, LLC ("TWP"), a wholly-owned broker-dealer subsidiary of TWPG, related to a transaction undertaken by a former employee in which approximately \$15.7 million of ARS were sold from a TWPG account to the accounts of three customers. FINRA has alleged that TWP violated various NASD and FINRA rules, as well as Section 10(b) of the Securities Exchange Act and Rule 10b-5. TWP has filed an answer denying the substantive allegations and asserting various affirmative defenses. TWP has repurchased the ARS at issue from the customers at par. FINRA is seeking fines and other relief against TWP and the former employee. TWP intends to defend the FINRA proceeding vigorously.

ITEM 1A. RISK FACTORS

The discussion of our business and operations should be read together with the risk factors contained in Part I, Item 1A of our Annual Report on Form 10-K for the fiscal year ended December 31, 2009 filed with the SEC. These risk factors describe various risks and uncertainties to which we are or may become subject. These risks and uncertainties have the potential to affect our business, financial condition, results of operations, cash flows, strategies or prospects in a material and adverse manner.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

The following table sets forth information with respect to purchases made by or on behalf of Stifel Financial Corp. or any "affiliated purchaser" (as defined in Rule 10b-18(a)(3) under the Securities Exchange Act of 1934, as amended), of our common stock during the quarter ended September 30, 2010.

	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans	Maximum Number of Shares That May Yet be Purchased Under the Plan or Program (1) (2)
July 1 - 31, 2010	1,468,414	\$ 44.91	1,468,414	69,517
August 1 - 31, 2010	31,000	44.78	31,000	2,038,517
September 1 - 30, 2010	-	-	-	2,038,517
	1,499,414	\$ 44.91	1,499,414	2,038,517

(1) On May 5, 2005, the Board authorized the repurchase of up to 3,000,000 additional shares under our existing share repurchase program.

(2) On August 3, 2010, the Board authorized the repurchase of an additional 2,000,000 shares under our existing share repurchase program.

ITEM 6. EXHIBITS

Exhibit No.	Description
10.1	First Amendment to Stifel, Nicolaus & Company, Incorporated Wealth Accumulation Plan 2010 Restated, incorporated herein by reference to Exhibit 10.1 to Stifel Financial Corp.'s Current Report on Form 8-K filed on August 9, 2010.
11.1	Statement Re: Computation of per Share Earnings (The calculation of per share earnings is included in Part I, Item 1 in the Notes to Consolidated Financial Statements (Earnings Per Share) and is omitted here in accordance with Section (b)(11) of Item 601 of Regulation S-K).
31.1	Rule 13a-14(a) Certification of Chief Executive Officer.
31.2	Rule 13a-14(a) Certification of Chief Financial Officer.
32.1	Section 1350 Certification of Chief Executive Officer.*
32.2	Section 1350 Certification of Chief Financial Officer.*
101.INS	XBRL Instance Document *
101.SCH	XBRL Taxonomy Extension Schema *
101.CAL	XBRL Taxonomy Extension Calculation Linkbase *
101.DEF	XBRL Taxonomy Extension Definition Linkbase *
101.LAB	XBRL Taxonomy Extension Label Linkbase *
101.PRE	XBRL Taxonomy Extension Presentation Linkbase *

* The certifications attached as Exhibits 32.1 and 32.2 and the interactive data files attached as Exhibits 101 that accompany this Quarterly Report on Form 10-Q, are not deemed filed with the Securities and Exchange Commission and are not to be incorporated by reference into any filing of Stifel Financial Corp. under the Securities Act of 1933, as amended, or the Securities Act of 1934, as amended, whether made before or after the date of this Form 10-Q, irrespective of any general incorporation language contained in such filing.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

STIFEL FINANCIAL CORP.

/s/ Ronald J. Kruszewski
Ronald J. Kruszewski
*Chairman, President, and
Chief Executive Officer*

/s/ James M. Zemlyak
James M. Zemlyak
*Senior Vice President, Treasurer, and
Chief Financial Officer*
Date: November 10, 2010