

STIFEL FINANCIAL CORP  
Form 10-Q  
April 30, 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 March 31, 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. 1-9305

## 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.)

**501 North 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 April 22, 2009 was 31,033,701.



**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 March 31, 2010 (unaudited) and December 31, 2009	3
Condensed Consolidated Statements of Operations for the three months ended March 31, 2010 and March 31, 2009 (unaudited)	5
Condensed Consolidated Statements of Cash Flows for the three months ended March 31, 2010 and March 31, 2009 (unaudited)	6
Notes to Condensed Consolidated Financial Statements	8
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	30
Item 3. Quantitative and Qualitative Disclosures About Market Risk	48
Item 4. Controls and Procedures	50

**PART II - OTHER INFORMATION**

Item 1. Legal Proceedings	51
Item 1A. Risk Factors	51
Item 2. Unregistered Sales of Equity Securities and Use of Proceeds	51
Item 5. Exhibits	52
Signatures	53

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

<i>(in thousands)</i>	<b>March 31, 2010 (Unaudited)</b>	December 31, 2009
<b>Assets</b>		
Cash and cash equivalents	\$ 145,701	\$ 161,820
Cash segregated for regulatory purposes	19	19
Receivables:		
Brokerage clients, net	412,726	383,222
Broker, dealers and clearing organizations	254,129	309,609
Securities purchased under agreements to resell	136,101	124,854
Trading securities owned, at fair value (includes securities pledged of \$459,152 and \$366,788, respectively)	586,149	454,891
Available-for-sale securities, at fair value	549,121	578,488
Held-to-maturity securities, at amortized cost	7,574	7,574
Loans held for sale	72,179	91,117
Bank loans, net	342,883	335,157
Bank foreclosed assets held for sale, net of estimated cost to sell	1,998	3,143
Investments	122,853	109,403
Fixed assets, net of accumulated depreciation and amortization of \$74,702 and \$71,445, respectively	62,985	62,115
Goodwill	166,725	166,725
Intangible assets, net	24,275	24,648
Loans and advances to financial advisors and other employees, net	181,521	185,123
Deferred tax assets, net	51,100	53,462
Other assets	109,344	115,986
Total Assets	\$ 3,227,383	\$ 3,167,356

*See accompanying Notes to Condensed Consolidated Financial Statements.*

## STIFEL FINANCIAL CORP.

## Condensed Consolidated Statements of Financial Condition (continued)

<i>(in thousands, except share and per share amounts)</i>	March 31, 2010 (Unaudited)	December 31, 2009
<b>Liabilities and Shareholders' Equity</b>		
Short-term borrowings from banks	\$ 184,900	\$ 90,800
Payables:		
Customers	227,353	214,883
Brokers, dealers and clearing organizations	102,529	90,460
Drafts	55,490	66,964
Securities sold under agreements to repurchase	106,617	122,533
Bank deposits	988,263	1,047,211
Federal Home Loan Bank advances	2,000	2,000
Trading securities sold, but not yet purchased, at fair value	369,825	277,370
Accrued compensation	91,544	166,346
Accounts payable and accrued expenses	94,286	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
	<b>2,306,289</b>	<b>2,283,829</b>
Liabilities subordinated to claims of general creditors	8,690	10,081
Shareholders' Equity:		
Preferred stock - \$1 par value; authorized 3,000,000 shares; none issued	-	-
Common stock - \$0.15 par value; authorized 97,000,000 shares; issued 31,032,251 and 30,388,270 shares, respectively	4,655	4,558
Additional paid-in-capital	639,232	623,943
Retained earnings	268,354	244,615
Accumulated other comprehensive income	840	1,302
	<b>913,081</b>	<b>874,418</b>
Treasury stock, at cost, 0 and 4,221 shares, respectively	-	(242)
Unearned employee stock ownership plan shares, at cost, 105,751 and 113,885 shares, respectively	(677)	(730)
	<b>912,404</b>	<b>873,446</b>
Total Liabilities and Shareholders' Equity	\$ 3,227,383	\$ 3,167,356

*See accompanying Notes to Condensed Consolidated Financial Statements.*

**STIFEL FINANCIAL CORP.****Condensed Consolidated Statements of Operations****(Unaudited)**

<i>(in thousands, except per share amounts)</i>	<b>Three Months Ended March 31,</b>	
	<b>2010</b>	<b>2009</b>
<b>Revenues:</b>		
Principal transactions	\$ 117,420	\$ 97,278
Commissions	105,035	74,610
Asset management and service fees	38,877	24,933
Investment banking	34,221	15,504
Interest	14,647	9,892
Other income	4,171	115
Total revenues	314,371	222,332
Interest expense	2,341	2,351
Net revenues	312,030	219,981
<b>Non-interest expenses:</b>		
Compensation and benefits	206,242	147,840
Occupancy and equipment rental	24,858	17,867
Communications and office supplies	14,418	11,845
Commissions and floor brokerage	5,744	4,360
Other operating expenses	21,203	15,914
Total non-interest expenses	272,465	197,826
<b>Income before income tax expense</b>	<b>39,565</b>	<b>22,155</b>
Provision for income taxes	15,825	8,978
<b>Net income</b>	<b>\$ 23,740</b>	<b>\$ 13,177</b>
<b>Earnings per common share:</b>		
Basic	\$ 0.77	\$ 0.49
Diluted	\$ 0.68	\$ 0.44
<b>Weighted average number of common shares outstanding:</b>		
Basic	30,720	26,772
Diluted	35,025	30,198

*See accompanying Notes to Condensed Consolidated Financial Statements.*

## STIFEL FINANCIAL CORP.

## Condensed Consolidated Statements of Cash Flows

(Unaudited)

<i>(in thousands)</i>	Three Months Ended	
	2010	March 31, 2009
<b>Operating Activities:</b>		
Net income	\$ 23,740	\$ 13,177
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation and amortization	5,342	4,019
Amortization of loans and advances to financial advisors and other employees	12,101	6,341
Accretion of discounts on available-for-sale securities	1,889	(75)
Provision for loan losses and allowance for loans and advances to financial advisors and other employees	(425)	663
Amortization of intangible assets	764	734
Deferred income taxes	(3,476)	2,746
Stock-based compensation	15,823	13,077
Excess tax benefits from stock-based compensation	(12,683)	(9,597)
Loss on the sale of investments	8	2,409
Other, net	(18)	476
Decrease/(increase) in operating assets:		
Receivables:		
Brokerage clients	(29,667)	9,389
Brokers, dealers and clearing organizations	55,480	(70,560)
Securities purchased under agreements to resell	(11,247)	(51,870)
Trading securities owned, including those pledged	(131,258)	(286,010)
Loans originated as mortgages held for sale	(166,143)	(240,131)
Proceeds from mortgages held for sale	184,882	240,270
Loans and advances to financial advisors and other employees	(7,943)	(15,161)
Other assets	19,530	(14,574)
Increase/(decrease) in operating liabilities:		
Payables:		
Customers	12,470	(10,489)
Brokers, dealers and clearing organizations	(12,995)	13,866
Drafts	(11,474)	(14,342)
Trading securities sold, but not yet purchased	92,455	161,750
Other liabilities and accrued expenses	(116,432)	(89,722)
Net cash used in operating activities	(79,277)	(333,614)

*See accompanying Notes to Condensed Consolidated Financial Statements.*

**STIFEL FINANCIAL CORP.****Condensed Consolidated Statements of Cash Flows (continued)****(Unaudited)**

<i>(in thousands)</i>	<b>Three Months Ended March 31,</b>	
	<b>2010</b>	<b>2009</b>
<b>Investing Activities:</b>		
Proceeds from:		
Sale or maturity of investments	\$ 16,992	\$ 24,848
Maturities, calls and principal paydowns on available-for sale securities	32,855	9,515
Sale of bank foreclosed assets held for sale	1,302	353
Decrease/(increase) in bank loans, net	(7,694)	10,025
Payments for:		
Purchase of available-for-sale securities	-	(10,521)
Acquisitions	(500)	-
Purchase of investments	(30,402)	(14,831)
Purchase of fixed assets	(6,183)	(3,847)
Purchase of bank foreclosed loans held for sale	(113)	(2,523)
Net cash provided by investing activities	6,257	13,019
<b>Financing Activities:</b>		
(Decrease)/increase in bank deposits, net	(58,948)	174,507
Net proceeds from short-term borrowings from banks	94,100	163,500
Securities sold under agreements to repurchase	(15,916)	(1,453)
Increase in securities loaned	25,064	12,570
Excess tax benefits from stock-based compensation	12,683	9,597
Repurchase of common stock	1,067	10,072
Reissuance of treasury stock	242	-
Proceeds from Federal Home Loan Bank advances and other secured financing	-	35
Extinguishment of subordinated debt	(1,391)	(1,300)
Net cash provided by financing activities	56,901	367,528
(Decrease)/Increase in cash and cash equivalents	(16,119)	46,933
Cash and cash equivalents at beginning of period	161,820	239,725
Cash and cash equivalents at end of period	\$ 145,701	\$ 286,658
<b>Supplemental disclosure of cash flow information:</b>		
Cash paid for interest	\$ 2,238	\$ 2,264
Cash paid for income taxes, net of refunds	\$ 19,473	\$ 497
<b>Noncash investing and financing activities:</b>		
Units, net of forfeitures	\$ 44,979	\$ 35,157
Payment of Ryan Beck contingent earn-out	\$ -	\$ 9,301

*See accompanying Notes to Condensed Consolidated Financial Statements.*





**STIFEL FINANCIAL CORP.**

**Notes to Condensed Consolidated Financial Statements**

**(in thousands, except share and per share amounts)**

**(Unaudited)**

**NOTE 1 - Nature of Operation 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.

*Basis of Presentation*

The condensed 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 condensed 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 condensed or 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 was not material.

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

#### *Consolidation*

In February 2010, the Financial Accounting Standards Board ("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 22 - Variable Interest Entities.

#### *Subsequent Events*

In February 2010, the FASB issued Accounting Standards Update ("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 23 - 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 roll forward 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 4 - Fair Value of Financial Instruments.

#### *Accounting for Transfers of Financial Assets*

In June 2009, the FASB issued and subsequently codified guidance amending ASC 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.

**NOTE 2 - Assets and Liabilities Held for Sale**

On December 30, 2009, Stifel Bank entered into a Branch Purchase and Assumption Agreement providing for the sale of a branch office to Anheuser-Busch Employees' Credit Union. Under the terms of the agreement, Anheuser-Busch Employees' Credit Union is to assume \$18,928 of deposits, and will purchase \$30,995 of loans as well as certain other assets, including the building and office equipment of \$661. The transaction, which is subject to certain closing conditions, is expected to be completed during the second quarter of 2010.

The assets and liabilities associated with the branch office are reflected in "Loans held for sale", "Other assets" and "Deposits" on the consolidated statements of financial condition as of March 31, 2010, respectively, at the lower of their carrying value or fair value less costs to sell. The branch sale has not been classified as discontinued operations as Stifel Bank will have on-going banking operations in this market.

**NOTE 3 - Receivables from and Payables to Brokers, Dealers and Clearing Organizations**

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

	<b>March 31, 2010</b>		December 31, 2009
Deposits paid for securities borrowed	\$ 176,499	\$	147,325
Receivable from clearing organizations	39,784		97,658
Securities failed to deliver	37,846		64,626
	<b>\$ 254,129</b>	\$	<b>309,609</b>

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

	<b>March 31, 2010</b>		December 31, 2009
Securities failed to receive	\$ 60,235	\$	73,793
Deposits received from securities loaned	41,419		16,667
Payable to clearing organizations	875		-
	<b>\$ 102,529</b>	\$	<b>90,460</b>

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

**NOTE 4 - Fair Value 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.

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 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 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 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 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 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. Level 3 corporate bonds are valued using prices from comparable securities.

#### *Investments*

Investments in public companies are valued based on quoted prices in active markets and reported in Level 1. Investments in certain equity securities with unobservable inputs and auction-rate securities for which the market has been dislocated and largely ceased to function are reported as Level 3 assets. Investments in certain equity securities with unobservable inputs are valued using management's best estimate of fair value, where the inputs require significant management judgment. Auction-rate securities are valued based upon our expectations of issuer redemptions and using internal models.

#### *Derivatives*

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 March 31, 2010 (*in thousands*):

	<b>March 31, 2010</b>			
	<b>Total</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
<b>Assets:</b>				
Cash equivalents	\$ 3,860	\$ 3,860	\$ -	\$ -
<b>Trading securities owned:</b>				
U.S. government agency securities	96,686	-	96,686	-
U.S. government securities	28,552	28,552	-	-
Corporate securities:				
Fixed income securities	374,669	142,101	225,526	7,042
Equity securities	22,429	19,863	2,566	-
State and municipal securities	63,813	-	63,813	-
Total trading securities owned	586,149	190,516	388,591	7,042
<b>Available-for-sale securities:</b>				
U.S. government agency securities	504	-	504	-
State and municipal securities	989	-	989	-
Mortgage-backed securities:				
Agency	408,664	-	408,664	-
Non-agency	36,731	-	36,731	-
Commercial	48,175	-	48,175	-
Corporate fixed income securities	42,075	31,405	10,670	-
Asset-backed securities	11,983	-	11,983	-
Total available-for-sale securities	549,121	31,405	517,716	-
<b>Investments:</b>				
Corporate equity securities	3,066	3,066	-	-
Mutual funds	29,551	29,551	-	-
U.S. government securities	8,072	8,072	-	-
Auction rate securities:				
Equity securities	64,735	-	-	64,735
Municipal securities	10,956	-	-	10,956
Other	6,473	626	429	5,418
Total investments	122,853	41,315	429	81,109
	\$ 1,261,983	\$ 267,096	\$ 906,736	\$ 88,151
<b>Liabilities:</b>				
<b>Trading securities sold, but not yet purchased:</b>				
U.S. government securities	\$ 110,616	\$ 110,616	\$ -	\$ -
U.S. government agency securities	6,876	-	6,876	-
Corporate securities:				
Fixed income securities	224,282	95,357	124,670	4,255
Equity securities	27,866	27,767	99	-
State and municipal securities	185	-	185	-
Total trading securities sold, but not yet purchased	369,825	233,740	131,830	4,255
Derivative contracts*	3,291	-	3,291	-
	\$ 373,116	\$ 233,740	\$ 135,121	\$ 4,255

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

Edgar Filing: STIFEL FINANCIAL CORP - Form 10-Q

	December 31, 2009			
	Total	Level 1	Level 2	Level 3
<b>Assets:</b>				
Cash equivalents	\$ 3,824	\$ 3,824	\$ -	\$ -
<b>Trading securities owned:</b>				
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
<b>Available-for-sale securities:</b>				
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
<b>Investments:</b>				
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
<b>Liabilities:</b>				
<b>Trading securities sold, but not yet purchased:</b>				
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 condensed 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 months ended March 31, 2010 (*in thousands*):

	Financial Assets*					Financial Liabilities**
	Corporate Fixed Income Securities	Asset-backed Securities	Auction Rate Securities - Equity	Auction Rate Securities - Municipal	Other	Corporate Fixed Income Securities
<b>Balance at December 31, 2009</b>	\$ 1,243	\$ 2,693	\$ 46,297	\$ 9,706	\$ 5,426	\$ -
Unrealized gains/(losses):						
Included in changes in net assets	(18)	-	(1,087)	(75)	(182)	50
Included in OCI	-	887	-	-	-	-
Realized gains/(losses)	230	-	-	-	-	-
Purchases, issuances, settlements, net	5,478	(3,580)	19,525	1,325	174	3,315
Level III transfers:						
Into level III	109	-	-	-	-	890
Out of level III	-	-	-	-	-	-
Net change	5,799	(2,693)	18,438	1,250	(8)	4,255
<b>Balance at March 31, 2010</b>	\$ 7,042	\$ -	\$ 64,735	\$ 10,956	\$ 5,418	\$ 4,255

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

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

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 auction rate securities ("ARS") from our customers, principal pay-downs of our available-for-sale securities, unrealized gains and losses, and redemptions of ARS at par during the three months ended March 31, 2010. There were no changes in unrealized gains/(losses) recorded in earnings for the three months ended March 31, 2010 relating to Level 3 assets still held at March 31, 2010. Investment gains and losses of our investments are included in our condensed 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 ASC Topic 810. Transfers between fair value classifications occur when there are changes in pricing observability levels. Transfers of financial instruments among the levels 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 months ended March 31, 2010.

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

	March 31, 2010		December 31, 2009	
	Carrying value	Estimated fair value	Carrying value	Estimated fair value
<b>Financial assets:</b>				

Edgar Filing: STIFEL FINANCIAL CORP - Form 10-Q

Cash and cash equivalents	\$	145,701	\$	145,701	\$	161,820	\$	161,820
Cash segregated for regulatory purposes *		19		19		19		19
Securities purchased under agreements to resell *		136,101		136,101		124,854		124,854
Trading securities owned		586,149		586,149		454,891		454,891
Available-for-sale securities		549,121		549,121		578,488		578,488
Held-to-maturity securities		7,574		4,177		7,574		4,276
Loans held for sale *		72,179		72,179		91,117		91,117
Bank loans		342,883		340,810		335,157		332,437
Investments		122,853		122,853		109,403		109,403
<b>Financial liabilities:</b>								
Non-interest-bearing deposits	\$	17,947	\$	17,664	\$	19,521	\$	19,013
Interest-bearing deposits		970,316		969,819		1,027,690		1,027,403
Securities sold under agreements to repurchase *		106,617		106,617		122,533		122,533
Federal Home Loan Bank advances *		2,000		2,000		2,000		2,000
Trading securities sold but not yet purchased		369,825		369,825		277,370		277,370
Derivative contracts**		3,291		3,291		78		78
Liabilities subordinated to the claims of general creditors		8,690		7,912		10,081		9,299

\* Carrying value approximates fair value.

\*\* Included in "Accounts payable and accrued expenses on the condensed 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 March 31, 2010 and December 31, 2009.

## **Financial Assets**

### *Securities purchased under agreements to resell*

Securities purchased under agreements to resell are collateralized investing transactions that are recorded at their contractual amounts plus accrued interest. The carrying values at March 31, 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. The fair value was determined using several factors; however, primary weight was 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 March 31, 2010 and December 31, 2009 is primarily due to unrealized losses that were caused primarily by: widening of credit spreads; 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 market 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 March 31, 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.

### *Interest bearing deposits*

The fair values of money market and savings accounts were the amounts payable on demand at March 31, 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 investing transactions that are recorded at their contractual amounts plus accrued interest. The carrying values at March 31, 2010 and December 31, 2009 approximate fair value.

*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. 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. 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.

*Derivative contracts*

Most of our derivatives are not exchange traded but instead traded in over the counter markets where quoted market prices are not readily available. The fair value of those derivatives is derived using models that use primarily market observable inputs, such as interest rate yield curves, credit curves, option volatility and currency rates. These derivatives are included in "Accounts payable and accrued expenses" on the consolidated statements of financial condition.

*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 5 - 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 March 31, 2010 and December 31, 2009, are as follows (*in thousands*):

	<b>March 31,</b>		December 31, 2009
	<b>2010</b>		
Trading securities owned:			
U.S. government agency securities	\$ 96,686	\$	158,724
U.S. government securities	28,552		20,254
Corporate securities:			
Fixed income securities	374,669		209,950
Equity securities	22,429		18,505
State and municipal securities	63,813		47,458
	\$ 586,149	\$	454,891
Trading securities sold, but not yet purchased:			
U.S. government securities	\$ 110,616	\$	127,953
U.S. government agency securities	6,876		1,537
Corporate securities:			
Fixed income securities	224,282		122,491
Equity securities	27,866		25,057
State and municipal securities	185		332
	\$ 369,825	\$	277,370

At March 31, 2010 and December 31, 2009, trading securities owned in the amount of \$459,152 and \$366,788, 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 condensed consolidated statements of financial condition.

**NOTE 6 - 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 March 31, 2010 and December 31, 2009 (*in thousands*):

	March 31, 2010			
	Amortized cost	Gross unrealized gains (1)	Gross unrealized losses (1)	Estimated fair value
<b>Available-for-sale</b>				
U.S. government securities	\$ 500	\$ 4	\$ -	\$ 504
State and municipal securities	960	29	-	989
Mortgage-backed securities:				
Agency	404,399	4,624	(359)	408,664
Non-agency	38,039	670	(1,978)	36,731
Commercial	47,002	1,173	-	48,175
Corporate fixed income securities	39,878	2,197	-	42,075
Asset-backed securities	11,152	831	-	11,983
	\$ 541,930	\$ 9,528	\$ (2,337)	\$ 549,121
<b>Held-to-maturity</b>				
Asset-backed securities	\$ 7,574	-	(3,397)	\$ 4,177

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

	December 31, 2009			
	Amortized cost	Gross unrealized gains (1)	Gross unrealized losses (1)	Estimated fair value
<b>Available-for-sale</b>				
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
<b>Held-to-maturity</b>				
Asset-backed securities	\$ 7,574	-	(3,298)	\$ 4,276

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

During the three months ended March 31, 2010, available-for-sale securities with an aggregate par value of \$2,953 were called by the issuing agencies or matured resulting in no gains or losses recorded through the condensed consolidated statement of operations. Additionally, during the three months ended March 31, 2010, Stifel Bank received principal payments on mortgage-backed securities of \$28,515. During the three months ended March 31, 2010 and 2009, unrealized gains, net of deferred taxes, of \$3,382 and \$1,372, respectively, were recorded in accumulated other comprehensive income.

Edgar Filing: STIFEL FINANCIAL CORP - Form 10-Q

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.

	March 31, 2010					
	Available-for-sale			Held-to-maturity		
	Amortized cost	Estimated fair value		Amortized cost	Estimated fair value	
<b>Debt securities</b>						
Within one year	\$ 18,361	\$ 18,794		\$ -	\$ -	
After one year through three years	18,027	19,156		-	-	
After three years through five years	6,085	6,732		-	-	
After five years through ten years	10,017	10,869		-	-	
After ten years	-	-		7,574	4,177	
<b>Mortgage-backed securities</b>						
After three years through five years	9,991	10,124		-	-	
After five years through ten years	24,343	24,488		-	-	
After ten years	455,106	458,958		-	-	
	\$ 541,930	\$ 549,121		\$ 7,574	\$ 4,177	

The carrying value of securities pledged as collateral to secure public deposits and other purposes was \$71,820 and \$76,502 at March 31, 2010 and December 31, 2009, respectively.

Certain investments in the available-for-sale portfolio at March 31, 2010 are reported in the condensed consolidated statements of financial condition at an amount less than their amortized cost. The total fair value of these investments at March 31, 2010 was \$125,459, which was 22.8% of our company's available-for-sale investment portfolio. The amortized cost basis of these investments was \$127,796 at March 31, 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. Unrealized losses were 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 lead 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 March 31, 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
<b>Available-for-sale</b>						
Mortgage-backed securities:						
Agency	\$ (254)	\$ 96,809	\$ (105)	\$ 10,281	\$ (359)	\$ 107,090
Non-agency	(239)	9,121	(1,739)	9,248	(1,978)	18,369
	\$ (493)	\$ 105,930	\$ (1,844)	\$ 19,529	\$ (2,337)	\$ 125,459

Our company's available-for-sale securities and held-to-maturity security are reviewed quarterly in accordance with its accounting policy for other-than-temporary impairment. Since the decline in fair value of the securities presented in the table above is not attributable to credit quality but to changes in interest rates, the widening of credit spreads, and the liquidity issues that have had a pervasive impact on the market and because we have the ability and intent to hold

these investments until a fair value recovery or maturity, we do not consider these securities to be other-than-temporarily impaired as of March 31, 2010.



***Other-Than-Temporary Impairment***

We evaluate our investment securities portfolio on a quarterly basis for other-than-temporary impairment ("OTTI"). We assesses 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/(loss). For securities which we expect to sell, all OTTI is recognized in earnings.

Noncredit-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 a specialist 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 ASC 820, "Fair Value Measurements and Disclosures."

Based on the evaluation, we recognized other-than-temporary impairment of \$166 related to credit through earnings for the three months ended March 31, 2010. For the impaired security, unrealized losses not related to credit and therefore recognized in other comprehensive income was \$1,267 (net of tax was \$760) as of March 31, 2010.

As of March 31, 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 with independent third parties and do not believe there is additional OTTI from these securities other than what has already been recorded. We do not intend to sell, nor do we believe we will be required to sell these securities until the fair value is recovered, which may be maturity and, therefore, do not consider them to be other-than-temporarily impaired at March 31, 2010.

**NOTE 7 - Bank Loans**

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

	March 31, 2010		December 31, 2009	
	Balance	Percent	Balance	Percent
Consumer <sup>(1)</sup>	\$ 233,001	67.8%	\$ 227,436	67.8%
Residential real estate	52,725	15.4	52,086	15.5
Home equity lines of credit	33,245	9.7	33,369	10.0
Commercial	13,890	4.0	11,294	3.4
Commercial real estate	10,093	2.9	10,152	3.0
Construction and land	574	0.2	952	0.3
	<b>342,528</b>	<b>100.0%</b>	<b>335,289</b>	<b>100.0%</b>
Unamortized loan origination costs, net of loan fees	1,319		1,556	
Loans in process	(295)		14	
Allowance for loan losses	(1,669)		(1,702)	
	<b>\$ 342,883</b>		<b>\$ 335,157</b>	

(1) Includes stock-secured loans of \$232,418 and \$226,527 at March 31, 2010 and December 31, 2009, respectively.

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

	Three Months Ended March 31,			
	2010		2009	
<b>Allowance for loan losses, beginning of period</b>	\$	1,702	\$	2,448
Provision for loan losses		113		533
Charge-offs:				
Residential real estate		(149)		-
Construction and land		-		(31)
Commercial real estate		-		(219)
Real estate construction loans		-		(21)
Total charge-offs		(149)		(271)
Recoveries		3		-
<b>Allowance for loan losses, end of period</b>	\$	1,669	\$	2,710
Net charge-offs to average bank loans outstanding, net		0.04%		0.12%

At March 31, 2010 and December 31, 2009, Stifel Bank had mortgage loans held for sale of \$72,179 and \$91,117, respectively. For the three months ended March 31, 2010 and 2009, Stifel Bank recognized a gain of \$1,074 and \$933, 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 March 31, 2010, Stifel Bank had \$1,064 of non-accrual loans that were more than 90 days past due, for which there was a specific allowance of \$192. Further, Stifel Bank had \$394 in troubled debt restructurings at March 31, 2010. At December 31, 2009, Stifel Bank had \$1,368 of non-accrual loans that were more than 90 days past due, for which there was a specific reserve of an insignificant amount. In addition, there were \$533 in troubled debt restructurings at December 31, 2009. Stifel Bank has no exposure to sub-prime mortgages. 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 condensed consolidated financial statements.

At March 31, 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 \$790 and \$590, respectively, and loans outstanding to other Stifel Financial Corp. executive officers, directors and significant stockholders and their affiliates in the amount of \$993 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 8 - 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, 2009.

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	March 31, 2010
<b>Goodwill</b>				
Global Wealth Management	\$ 112,420	\$ -	\$ -	\$ 112,420
Institutional Group	54,305	-	-	54,305
	<b>\$ 166,725</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 166,725</b>

	December 31, 2009	Net additions	Amortization	March 31, 2010
<b>Intangible assets</b>				
Global Wealth Management	\$ 21,356	\$ -	\$ (647)	\$ 20,709
Institutional Group	3,292	391	(117)	3,566
	<b>\$ 24,648</b>	<b>\$ 391</b>	<b>\$ (764)</b>	<b>\$ 24,275</b>

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

	March 31, 2010		December 31, 2009	
	Gross carrying value	Accumulated Amortization	Gross carrying value	Accumulated Amortization
Customer lists	\$ 31,145	\$ 8,294	\$ 30,754	\$ 7,584
Non-compete agreement	2,789	2,425	2,789	2,371
Core deposits	2,157	1,097	2,157	1,097
	<b>\$ 36,091</b>	<b>\$ 11,816</b>	<b>\$ 35,700</b>	<b>\$ 11,052</b>

Amortization expense related to intangible assets was \$764 and \$734 for the three months ended March 31, 2010 and 2009, respectively.

The weighted-average remaining lives of the following intangible assets at March 31, 2010 are: customer lists 8.2 years; core deposits 5.5 years; and non-compete agreements 1.7 years. As of March 31, 2010, we expect amortization expense in future periods to be as follows (*in thousands*):

**Fiscal year \***

Edgar Filing: STIFEL FINANCIAL CORP - Form 10-Q

Remainder of 2010	\$	2,335
2011		2,827
2012		2,448
2013		2,184
2014		2,022
Thereafter		11,400
	\$	23,216

\* The above table does not include the amortization expense associated with our core deposit intangible. We have determined that the assets and liabilities meet the criteria for being classified as held for sale, therefore, we have stopped amortizing the intangible asset.

**NOTE 9 - Short-Term Borrowings from Banks**

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 condensed consolidated statements of financial condition. We maintain available ongoing credit arrangements with banks that provided a peak daily borrowing of \$302,800 during the three months ended March 31, 2010. There are no compensating balance requirements under these arrangements. At March 31, 2010, short-term borrowings from banks were \$184,900 at an average rate of 1.10%, which were collateralized by company-owned securities valued at \$240,135. 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 \$106,356 and \$63,948 during the three months ended March 31, 2010 and 2009, respectively, at weighted average daily interest rates of 1.01%, and 0.81%, respectively. At March 31, 2010 and December 31, 2009, Stifel Nicolaus had a stock loan balance of \$41,419 and \$16,667, respectively, at weighted average daily interest rates of 0.50% and 0.33%, respectively. The average outstanding securities lending arrangements utilized in financing activities were \$36,140 and \$44,285 during the three months ended March 31, 2010 and 2009, respectively, at weighted average daily effective interest rates of 1.89%, and 0.84%, respectively. Customer-owned securities were utilized in these arrangements.

**NOTE 10 - Bank Deposits**

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

	March 31, 2010		December 31, 2009
Money market and savings accounts	\$ 931,453	\$	993,264
Demand deposits (interest bearing)	22,298		16,181
Demand deposits (non-interest bearing)	17,947		19,521
Certificates of deposit	16,565		18,245
	\$ 988,263	\$	1,047,211

The weighted average interest rate on deposits was 0.2% and 0.5% at March 31, 2010 and December 31, 2009, respectively.

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

	March 31, 2010		December 31, 2009
<b>Certificates of deposit, less than \$100:</b>			
Within one year	\$ 8,817	\$	9,775
One to three years	638		514
Over three years	267		250
	\$ 9,722	\$	10,539
<b>Certificates of deposit, \$100 and greater:</b>			
Within one year	\$ 5,148	\$	5,936
One to three years	1,465		1,217
Over three years	230		553
	\$ 6,843	\$	7,706
	\$ 16,565	\$	18,245

At March 31, 2010 and December 31, 2009, the amount of deposits includes deposits of related parties, including \$957,796 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 \$370 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 11 - 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 March 31, 2010 and December 31, 2009 (*in thousands*):

	Notional Value	March 31, 2010		Liability derivatives	
		Asset derivatives		Balance sheet	Negative
Derivatives designated as hedging instruments under ASC 815:		Balance sheet location	Positive fair value	location	fair value
Cash flow interest rate contracts \$	511,327	Other assets	\$ -	Accounts payable and accrued expenses	\$ (3,291)

	Notional Value	December 31, 2009		Liability derivatives	
		Asset derivatives		Balance sheet	Negative
Derivatives designated as hedging instruments under ASC 815:		Balance sheet location	Positive fair value	location	fair value
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 months ended March 31, 2010. We reclassified \$2,179 in "Other operating expenses" during the quarter ended March 31, 2010 related to a mismatch between the index on the swaps and the



index on the affiliated deposits.

..At March 31, 2010, we expect to reclassify \$8,097 of net losses, net of tax benefits, on derivative instruments from cumulative other comprehensive income/(loss) to earnings during the next 12 months as terminated swaps are amortized and as interest payments on derivative instruments occur.

The following table shows the effect of our company's derivative instruments on the condensed consolidated statements of operations for the three months ended March 31, 2010 (*in thousands*):

	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	\$ 3,448	Interest expense	\$ 78	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 4 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 March 31, 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 \$4,171. We have minimum collateral posting thresholds with certain of our derivative counterparties, and have posted collateral of \$7,530 against our obligations under these agreements. If we had breached any of these provisions at March 31, 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 12 - Commitments and Contingencies**

### ***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 March 31, 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.

### ***Other Commitments***

In the normal course of business, we enter into underwriting commitments. Settlement of transactions relating to such underwriting commitments, which were open at March 31, 2010, had no material effect on the condensed consolidated financial statements.

In connection with margin deposit requirements of The Options Clearing Corporation, we pledged customer-owned securities valued at \$86,770 to satisfy the minimum margin deposit requirement of \$43,220 at March 31, 2010.

In connection with margin deposit requirements of the National Securities Clearing Corporation, we deposited \$19,100 in cash at March 31, 2010, which satisfied the minimum margin deposit requirements of \$9,972.

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 between 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 March 31, 2010, we estimate that our retail clients held \$95,600 of eligible ARS after issuer redemptions of \$30,895 and Stifel repurchases of \$80,825.

As part of the first phase of the modified ARS repurchase offer, completed in January 2010, we repurchased at par \$21,825 of eligible ARS. 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 \$20,050. During phase four, we estimate that we will repurchase ARS of \$73,925, which will be completed 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 voluntary repurchase period. Future periods' results may be affected by changes in estimated redemption rates or changes in the fair value of ARS.

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 16 for further details.

### Note 13 - 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, FINRA and several state regulatory authorities requesting information concerning our activities with respect to ARS, and 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 CDOs. We intend to cooperate fully with the SEC, FINRA and the several states 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 \$200,000. Plaintiffs assert that the school districts contributed \$37,500 to the OPEB trusts to purchase the investments. The balance of \$162,500 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 recently denied the Defendants' motions to dismiss, and the Defendants have responded to the allegations of the Second Amended Complaint. 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.

**NOTE 14 - Regulatory Capital Requirements**

We operate in a highly regulated environment and are subject to net capital requirements, which may limit distributions to our company from our broker-dealer 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 has chosen to calculate its 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). Stifel Nicolaus and CSA have consistently operated in excess of their capital adequacy requirements. 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 March 31, 2010, Stifel Nicolaus had net capital of \$196,847, which was 37.5% of aggregate debit items and \$186,342 in excess of its minimum required net capital. CSA had net capital of \$3,947, which was \$3,757 in excess of minimum required net capital.

Our international subsidiary, SN Ltd, is subject to the regulatory supervision and requirements of the Financial Services Authority ("FSA") in the United Kingdom. At March 31, 2010, SN Ltd's capital and reserves were \$8,275, which was \$7,670 in excess of the financial resources requirement under the rules of the FSA.

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 March 31, 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	\$ 761,719	35.8%	\$ 170,088	8.0%	\$ 212,610	10.0%		
Tier 1 capital to risk-weighted assets	760,050	35.7	85,044	4.0	127,566	6.0		
	760,050	28.6	106,391	4.0	132,989	5.0		

Tier 1 capital to adjusted average  
total assets

	Stifel Bank - Federal Reserve Capital Amounts				To be Well Capitalized Under Prompt Corrective Action Provisions	
	Actual		For Capital Adequacy Purposes		Amount	Ratio
	Amount	Ratio	Amount	Ratio		
Total capital to risk-weighted assets	\$ 96,447	16.4%	\$ 47,002	8.0%	\$ 58,752	10.0%
Tier 1 capital to risk-weighted assets	94,778	16.1	23,501	4.0	35,251	6.0
Tier 1 capital to adjusted average total assets	94,778	8.5	44,664	4.0	55,830	5.0

## **NOTE 15 - 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, 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 3,897,469 shares at March 31, 2010.

Stock-based compensation expense included in "Compensation and benefits" in the condensed consolidated statements of operations for our company's incentive stock award plans was \$15,544 and \$12,708 for the three months ended March 31, 2010 and 2009, respectively. The related income tax benefit recognized in income was \$12,683 and \$9,597 for the three months ended March 31, 2010 and 2009, respectively.

### *Stock Options*

We have substantially eliminated the use of stock options as a form of compensation. During the three months ended March 31, 2010, no options were granted. As of March 31, 2010, there were 824,355 options outstanding at a weighted-average exercise price of \$8.99 and a weighted-average contractual life of 2.90 years. As of March 31, 2010, there was \$291 of unrecognized compensation cost related to non-vested option awards. The cost is expected to be recognized over a weighted-average period of 0.93 years. We received \$1,076 in cash from the exercise of stock options during the three months ended March 31, 2010.

### *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 March 31, 2010, the total number of stock units outstanding was 7,246,846, of which 5,125,975 were non-vested. At March 31, 2010 there was unrecognized compensation cost for stock units of \$157,115, which is expected to be recognized over a weighted-average period of 2.76 years.

### *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. We charged \$10,504 and \$9,055 to "Compensation and benefits" for the three months ended March 31, 2010 and 2009, respectively, relating to units granted under the Plan. As of March 31, 2010, there were 3,118,617 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 condensed consolidated

statements of financial condition under the caption "Investments" are \$29,551 and \$28,597 at March 31, 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 March 31, 2010 and December 31, 2009, the deferred compensation liability of \$26,242 and \$26,728, respectively, is included in "Accrued employee compensation" on the condensed 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 this plan generally cliff vests over a five to eight-year period. Deferred compensation costs are amortized on a straight-line basis over the deferral period.

Charges to "Compensation and benefits" related to these two plans were \$4,753 and \$3,391 for the three months ended March 31, 2010 and 2009, respectively. As of March 31, 2010, there were 3,300,964 units outstanding under the two plans.



**NOTE 16 - 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 March 31, 2010, the fair value of securities accepted as collateral where we are permitted to sell or repledge the securities was \$816,418, and the fair value of the collateral that had been sold or repledged was \$219,018. 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 \$201,638.

Derivatives' notional contract amounts are not reflected as assets or liabilities in the condensed consolidated statements of financial condition. Rather, the market, or fair value, of the derivative transactions are reported on the condensed 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 11 in the notes to our condensed 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 March 31, 2010 and December 31, 2009, Stifel Bank had outstanding commitments to originate loans aggregating \$100,985 and \$91,670, respectively. The commitments extended over varying periods of time with all commitments at March 31, 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 March 31, 2010 and December 31, 2009, Stifel Bank had outstanding letters of credit totaling \$8,822 and \$1,047, respectively. For all but one of the standby letters of credit commitments at March 31, 2010, the expiration terms are less than one year. The remaining commitment, in the amount of \$10, has an expiration term of April 2013.

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 March 31, 2010 and December 31, 2009, Stifel Bank had granted unused lines of credit to commercial and consumer borrowers aggregating \$49,774 and \$27,148, respectively.

#### **NOTE 17 - Income Taxes**

The liability for unrecognized tax benefits was \$2,044 and \$2,046 as of March 31, 2010 and December 31, 2009, respectively, that if recognized would affect the effective tax rate for income before taxes.

We recognize the accrual of interest and penalties related to income tax matters in the "Provision for income taxes" on the condensed consolidated statements of operations. As of March 31, 2010 and December 31, 2009, accrued interest and penalties included in the unrecognized tax benefits liability were \$445 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. For the U.S. and most state and foreign jurisdictions, the years 2006 through 2009 remain subject to examination by their respective authorities. We are subject to examination for various years by federal and state tax jurisdictions. 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 18 - 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. 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. As a result, we have changed how we manage these reporting units and consequently they were combined to form the Global Wealth Management segment. Previously reported segment information has been revised to reflect this change.

As a result of organizational changes in the second quarter of 2009, which included a change in the management reporting structure of our company, the segments formerly reported as Equity Capital Markets and Fixed Income Capital Markets have been combined into a single segment called Institutional Group. Previously reported segment information has been revised to reflect this change.

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, 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 months ended March 31, 2010 and 2009 is as follows (*in thousands*):

	<b>Three Months Ended March 31,</b>	
	<b>2010</b>	<b>2009</b>
<b>Net revenues: (1)</b>		
Global Wealth Management	\$ 197,195	\$ 114,164
Institutional Group	113,292	105,472
Other	1,543	345
	<b>\$ 312,030</b>	<b>\$ 219,981</b>
<b>Income/(loss) before income taxes:</b>		
Global Wealth Management	\$ 36,932	\$ 17,234
Institutional Group	27,456	26,034
Other	(24,823)	(21,113)
	<b>\$ 39,565</b>	<b>\$ 22,155</b>

(1) No individual client accounted for more than 10 percent of total net revenues for the three months ended March 31, 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 March 31, 2010 and December 31, 2009 (*in thousands*):

	<b>March 31,</b>		December 31, 2009	
	<b>2010</b>			
<b>Total assets:</b>				
Global Wealth Management	\$	<b>2,230,912</b>	\$	2,226,050
Institutional Group		<b>770,554</b>		701,213
Other		<b>225,917</b>		240,093
	\$	<b>3,227,383</b>	\$	3,167,356

We have operations in the United States, United Kingdom and Europe. Our company's foreign operations are conducted through its wholly-owned subsidiary, SN Ltd. 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 months ended March 31, 2010 and 2009, were as follows (*in thousands*):

	<b>Three Months Ended March 31,</b>			
	<b>2010</b>		2009	
<b>Net revenues:</b>				
United States	\$	<b>305,655</b>	\$	215,452
United Kingdom		<b>3,891</b>		3,074
Other European		<b>2,484</b>		1,455
	\$	<b>312,030</b>	\$	219,981

**NOTE 19 - Other Comprehensive income**

The following table sets forth the components of other comprehensive income for the three months ended March 31, 2010 and 2009 (*in thousands*):

	<b>Three Months Ended March 31,</b>	
	<b>2010</b>	<b>2009</b>
Net income	\$ 23,740	\$ 13,177
Other comprehensive income:		
Unrealized gains on available-for-sale securities, net of tax	2,908	1,387
Unrealized losses in cash flow hedging instruments, net of tax	(3,370)	-
Other comprehensive income, net of tax	\$ 23,278	\$ 14,564

**NOTE 20 - Earnings per Share**

The following table sets forth the computation of basic and diluted earnings per share for the three months ended March 31, 2010 and 2009 (*in thousands, except per share data*):

	<b>Three Months Ended March 31,</b>	
	<b>2010</b>	<b>2009</b>
Net income	\$ 23,740	\$ 13,177
Shares for basic and diluted calculations:		
Average shares used in basic computation	30,720	26,772
Dilutive effect of stock options and units (1) (2)	4,305	3,426
Average shares used in diluted computation	35,025	30,198
Net income per share:		
Basic	\$ 0.77	\$ 0.49
Diluted (1) (2)	\$ 0.68	\$ 0.44

(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) For the three months ended March 31, 2010 and 2009, there were no securities excluded from the weighted average diluted common shares calculation because their effect would be antidilutive.

**NOTE 21 - Stockholders' Equity**

On May 5, 2005, the board of directors 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. Under existing Board authorizations at March 31, 2010, we are permitted to buy an additional 2,010,831 shares. The repurchase program has no expiration date. During the three months ended March 31, 2010, we issued 643,981 new shares for employee benefit plans.

**NOTE 22 - 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, 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 \$254,940 at March 31, 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. 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. Management fee revenue earned by our company during the three months ended March 31, 2010 and 2009 was insignificant. In addition, our direct investment interest in these entities is insignificant at March 31, 2010 and December 31, 2009, respectively.

*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 March 31, 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 March 31, 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 March 31, 2010. Our company's involvement with FSI has not had a material effect on its consolidated financial position, operations or cash flows.

#### **NOTE 23 - Subsequent Events**

In accordance with ASC 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. However, we identified the following as non-recognized subsequent events:

#### ***Acquisition of Thomas Weisel Partners Group, Inc.***

On April 26, 2010 Stifel Financial Corp. and Thomas Weisel Partners Group, Inc. ("TWPG") entered into a definitive agreement for our company to acquire 100% of the outstanding shares of TWPG common stock. Under the terms of the agreement TWPG shareholders would receive 0.1364 our company's shares for each TWPG share they own. Based upon our stock price as of April 23, 2010, the acquisition purchase price would be approximately \$320,826. The acquisition is subject to the effectiveness of a registration statement with respect to our company's shares to be issued in the transaction and other customary closing conditions. The acquisition is also subject to the approval of TWPG shareholders. The merger is expected to close during the second quarter of 2010.

#### ***Sale of Bank Branch***

Stifel Bank entered into a Branch Purchase and Assumption Agreement with Anheuser-Busch Employees' Credit Union on December 30, 2009 providing for the sale of a branch office. The transaction was completed on April 30, 2010. See Note 2 for further details.

**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 condensed 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](http://www.stifel.com) and at the SEC web site at [www.sec.gov](http://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.

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 private client 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 March 31, 2009, we have increased our number of financial advisors and branch offices by hiring 655 financial advisors and opening 80 branches, of which 312 financial advisors and 57 branches were part of our acquisition of UBS. In addition, we added 105 revenue producing investment bankers, traders, institutional sales staff and mortgage bankers along with 545 branch and home office support staff.

***Results for the three months ended March 30, 2010***

For the three months ended March 31, 2010, our net revenues increased 41.8% to \$312.0 million compared to \$220.0 million during the comparable period in 2009. Net income increased 80.2% to \$23.7 million for the three months ended March 31, 2010 compared to \$13.2 million during the comparable period in 2009.

We experienced revenue growth across all revenue line items over the first quarter of 2009. Our revenue growth was 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 begun showing signs of improvement and stability during the first quarter of 2010.

Capital market conditions continued to build upon the improvement that began during the third and fourth quarters of 2009 for both equity and fixed income. While we have seen improvements in the equity capital markets, the increase over the three months ended March 31, 2009 is somewhat attributable to the severe conditions that existed a year ago in the capital markets. Our business does not produce predictable earnings and is affected by many risk factors such as the global economic and credit slowdown, among others.

On April 26, 2010 Stifel Financial Corp. and Thomas Weisel Partners Group, Inc. ("TWPG") entered into a definitive agreement for our company to acquire 100% of the outstanding shares of TWPG common stock. Under the terms of the agreement TWPG shareholders would receive 0.1364 our company's shares for each TWPG share they own. Based upon our stock price as of April 23, 2010, the acquisition purchase price would be approximately \$320.8 million. The acquisition is subject to the effectiveness of a registration statement with respect to our company's shares to be issued in the transaction and other customary closing conditions. The acquisition is also subject to the approval of TWPG shareholders. The merger is expected to close during the second quarter of 2010.

As a result of this acquisition we are considering aligning our equity incentive plans with those of TWPG, which has no continued service requirements. As a result of the removal of the service requirements for vesting under our equity incentive plans, we will accelerate the expensing of any remaining unamortized share-based compensation costs with respect to previously granted awards on the modification date. This action would result in the acceleration of the non-cash compensation expense associated with these equity awards resulting in an after tax charge of approximately \$85.0 to \$94.0 million with a corresponding increase to additional paid in capital. Prior to this modification, restricted stock and RSUs awarded to employees were generally 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 was typically three to eight years.

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 auction rate securities ("ARS"). The eligible ARS were purchased by our retail clients before the collapse of the ARS market in February 2008. At March 31, 2010, we estimate that our retail clients held \$95.6 million of eligible ARS after issuer redemptions of \$30.9 million and Stifel purchases of \$80.8 million. 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 voluntary repurchase period. Future periods' results may be affected by changes in estimated redemption rates

or changes in the fair value of ARS.

**External Factors Impacting our Business**

While the economy continues to show signs of growth from the unprecedented levels reached during 2009, there is still a level of uncertainty and volatility in the capital markets. The growth and improvement in the capital markets that began during the second half of 2009 carried over into the first quarter of 2010. We operated in an environment characterized by strong client-driven activity, increased volumes in several lines of our business, tighter bid-offer spreads and a decline in the volatility levels. While encouraged by the signs of improvement, we operate in a challenging environment that is still recovering from a recession and financial services industry issues related to credit quality, auction rate securities and liquidity. There has been an increase in industry-wide equity and equity-related offerings compared to the difficult conditions that existed during the first half of 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 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 are also named in a class action lawsuit similar to that filed against a number of brokerage firms alleging various securities law violations, which we are vigorously defending. 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**

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

	For the Three Months Ended March 31,			As a Percentage of Net Revenues For the Three Months Ended March 31,	
	2010	2009	% Change	2010	2009
<b>Revenues:</b>					
Principal transactions	\$ 117,420	\$ 97,278	20.7%	37.6%	44.2%
Commissions	105,035	74,610	40.8	33.7	33.9

Edgar Filing: STIFEL FINANCIAL CORP - Form 10-Q

Asset management and service fees	<b>38,877</b>	24,933	55.9	<b>12.5</b>	11.
Investment banking	<b>34,221</b>	15,504	120.7	<b>11.0</b>	7.1
Interest	<b>14,647</b>	9,892	48.1	<b>4.7</b>	4.5
Other income	<b>4,171</b>	115	*	<b>1.3</b>	0.1
<b>Total revenues</b>	<b>314,371</b>	222,332	41.4	<b>100.8</b>	101.1
Interest expense	<b>2,341</b>	2,351	(0.4)	<b>0.8</b>	1.1
<b>Net revenues</b>	<b>312,030</b>	219,981	41.8	<b>100.0</b>	100.0
<b>Non-interest expenses:</b>					
Compensation and benefits	<b>206,242</b>	147,840	39.5	<b>66.1</b>	67.2
Occupancy and equipment rental	<b>24,858</b>	17,867	39.1	<b>8.0</b>	8.1
Communication and office supplies	<b>14,418</b>	11,845	21.7	<b>4.6</b>	5.4
Commissions and floor brokerage	<b>5,744</b>	4,360	31.7	<b>1.8</b>	2.0
Other operating expenses	<b>21,203</b>	15,914	33.2	<b>6.8</b>	7.2
<b>Total non-interest expenses</b>	<b>272,465</b>	197,826	37.7	<b>87.3</b>	89.9
<b>Income before income taxes</b>	<b>39,565</b>	22,155	78.6	<b>12.7</b>	10.1
Provision for income taxes	<b>15,825</b>	8,978	76.2	<b>5.1</b>	4.1
<b>Net income</b>	<b>\$ 23,740</b>	<b>\$ 13,177</b>	80.2%	<b>7.6%</b>	6.0%

\* Percentage is not meaningful.

For the three months ended March 31, 2010, net revenues (total revenues less interest expense) increased \$92.0 million to \$312.0 million; a 41.8% increase over the \$220.0 million recorded for the three months ended March 31, 2009. Net income increased 80.2% to \$23.7 million for the three months ended March 31, 2010 compared to \$13.2 million during the comparable period in 2009.

**NET REVENUE**

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

	<b>For the Three Months Ended</b>			<i>%</i> Change	
	<b>March 31,</b>				
	<b>2010</b>		<b>2009</b>		
<b>Net revenues:</b>					
Principal transactions	\$	<b>117,420</b>	\$	97,278	20.7%
Commissions		<b>105,035</b>		74,610	40.8
Asset management and service fees		<b>38,877</b>		24,933	55.9
Investment banking:					
Capital raising		<b>25,307</b>		5,499	360.2
Strategic advisory fees		<b>8,914</b>		10,005	(10.9)
		<b>34,221</b>		15,504	120.7
Net interest		<b>12,306</b>		7,541	63.2
Other income		<b>4,171</b>		115	*
<b>Total net revenues</b>	\$	<b>312,030</b>	\$	219,981	41.8%

\* 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, the acquisition of UBS branches during the third and fourth quarters of 2009. The results of operations for the acquired UBS branches are included in our results prospectively from the date of their respective conversion. For the three months ended March 31, 2010, the acquired branches generated net revenues of \$27.3 million.

**Principal transactions** - For the three months ended March 31, 2010, principal transactions revenues increased 20.7% to \$117.4 million from \$97.3 million in the comparable period in 2009. The increase is primarily attributable to increased principal transactions, primarily in over-the-counter ("OTC") equity, market making activities, and municipal debt.

**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 March 31, 2010, commission revenues increased 40.8% to \$105.0 million from \$74.6 million in the comparable period in 2009 primarily due to higher revenues from OTC equity and mutual funds. The increase is 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 begun showing signs of improvement and stability during the first quarter of 2010.

**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 March 31, 2010, investment banking revenues increased \$18.7 million, or 120.7%, to \$34.2 million from \$15.5 million in the comparable period in 2009.

Capital raising revenues increased \$19.8 million to \$25.3 million for the three months ended March 31, 2010 from \$5.5 million in the comparable period in 2009. During the first quarter of 2010, equity and fixed income capital

raising revenues were \$14.8 million and \$6.9 million, respectively, an increase of \$13.7 million and \$2.6 million, respectively, from the comparable period in 2009. Capital market conditions continued to build upon the improvement that began during the third and fourth quarters of 2009 for both equity and fixed income. While we have seen improvements in the equity capital markets, the increase over the three months ended March 31, 2009 is somewhat attributable to the severe conditions that existed a year ago in the capital markets.

Strategic advisory fees decreased 10.9% to \$8.9 million for the three months ended March 31, 2010 from \$10.0 million in the comparable period in 2009. The decrease is primarily attributable to a decrease 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.

***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 March 31, 2010, asset management and service fee revenues increased 55.9% to \$38.9 million from \$24.9 million in the comparable period of 2009. The increase is primarily a result of an increase in the value of assets in fee-based accounts and the number of managed accounts from March 31, 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."

***Other income*** - For the three months ended March 31, 2010, other income increased \$4.1 million to \$4.2 million from \$0.1 million during the comparable period in 2009. The increase is primarily attributable to the reduction of investment losses during the three months ended March 31, 2010 compared to the prior year period.

**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*):

	March 31, 2010		Three Months Ended		March 31, 2009	
	Average Balance	Interest Income/Expense	Average Interest Rate	Average Balance	Interest Income/Expense	Average Interest Rate
<b>Interest-earning assets:</b>						
Margin balances (Stifel Nicolaus)	\$ 357,294	\$ 3,793	4.25%	\$ 250,509	\$ 2,654	4.24%
Interest-earning assets (Stifel Bank)	1,094,156	8,087	2.96	470,364	3,656	3.11
Stock borrow (Stifel Nicolaus)	71,047	10	0.06	57,431	8	0.06
Other (Stifel Nicolaus)		2,757			3,574	
<b>Total interest revenue</b>		\$ 14,647			\$ 9,892	
<b>Interest-bearing liabilities:</b>						
Short-term borrowings (Stifel Nicolaus)	\$ 106,356	\$ 269	1.01%	\$ 63,948	\$ 130	0.81%
Interest-bearing liabilities (Stifel Bank)	1,006,638	447	0.18	420,096	686	0.65
Stock loan (Stifel Nicolaus)	36,140	171	1.89	44,285	93	0.84
Interest-bearing liabilities (Capital Trusts)	82,500	1,348	6.53	82,500	1,364	6.61
Other (Stifel Nicolaus)		106			78	
<b>Total interest expense</b>		2,341			2,351	
<b>Net interest income</b>		\$ 12,306			\$ 7,541	

**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 March 31, 2010, net interest income increased to \$12.3 million from \$7.5 million during the comparable period in 2009.

For the three months ended March 31, 2010, interest revenue increased 48.1%, or \$4.7 million, to \$14.6 million from \$9.9 million in the comparable period in 2009, principally as a result of a \$4.4 million increase in interest revenue generated from the interest-earning assets of Stifel Bank and a \$1.1 million increase in interest revenue from customer margin borrowing. The average interest-earning assets of Stifel Bank increased to \$1,094.2 million during the three months ended March 31, 2010 compared to \$470.4 million during the comparable period in 2009 at weighted average interest rates of 2.96% and 3.11%, respectively. The average margin balances of Stifel Nicolaus increased to \$357.3 million during the three months ended March 31, 2010 compared to \$250.5 million during the comparable period in 2009 at weighted average interest rates of 4.25% and 4.24%, respectively.

For the three months ended March 31, 2010, interest expense of \$2.3 million remained relatively unchanged from 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 March 31,			%
	2010		2009	
<b>Non-interest expenses:</b>				
Compensation and benefits	\$ 206,242		\$ 147,840	39.5%
Occupancy and equipment rental	24,858		17,867	39.1
Communications and office supplies	14,418		11,845	21.7
Commissions and floor brokerage	5,744		4,360	31.7
Other operating expenses	21,203		15,914	33.2
<b>Total non-interest expenses</b>	\$ 272,465		\$ 197,826	37.7%

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 March 31, 2010, compensation and benefits expense increased 39.5%, or \$58.4 million, to \$206.2 million from \$147.8 million during the comparable period in 2009. The increase in compensation and benefits expense over the prior year periods is primarily attributable to increased headcount and higher production-based variable compensation.

Compensation and benefits expense as a percentage of net revenues decreased to 66.1% for the three months ended March 31, 2010, compared to 67.2% for the comparable period in 2009. The decrease in compensation and benefits expense as a percent of net revenues is primarily attributable to increased net revenues as compared to the three months ended March 31, 2009, offset by an increase in transition pay and base salaries.

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 \$19.3 million (6.2% of net revenues) for the three months ended March 31, 2010, respectively, compared to \$12.2 million (5.5% of net revenues) for the comparable period in 2009. The upfront notes are amortized over a five to ten year period.

**Occupancy and equipment rental** - For the three months ended March 31, 2010, occupancy and equipment rental expense increased 39.1% to \$24.9 million from \$17.9 million during the three months ended March 31, 2009. The increase is primarily due to the increase in rent and depreciation expense. As of March 31, 2010, we have 294 locations compared to 230 at March 31, 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 March 31, 2010, communications and office supplies expense increased 21.7% to \$14.4 million from \$11.8 million during the first quarter of 2009. The increase is primarily attributable to our continued expansion as we sustained our growth initiatives throughout the first quarter of 2010 by adding additional revenue producers and support staff.

**Commissions and floor brokerage** - For the three months ended March 31, 2010, commissions and floor brokerage expense increased 31.7% to \$5.7 million from \$4.4 million during the comparable period in 2009. The increase is primarily attributable to increased business activity.

**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 March 31, 2010, other operating expenses increased 33.2% to \$21.2 million from \$15.9 million during the three months ended March 31, 2009.

The increases were primarily attributable to the continued growth in all segments during the first quarter of 2010, which included increased license and registration fees, SIPC assessments, securities processing fees, travel and promotion, and legal expenses. The increase in legal expenses is attributable to an increase in litigation costs to defend industry recruitment claims.

**Provision for income taxes** - For the three months ended March 31, 2010, our provision for income taxes was \$15.8 million, representing an effective tax rate of 40.0%, compared to \$9.0 million for the comparable period in 2009, representing an effective tax rate of 40.5%.

## 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. As a result, we have changed how we manage these reporting units and consequently they were combined to form the Global Wealth Management segment. Previously reported segment information has been revised to reflect this change.

As a result of organizational changes in the second quarter of 2009, which included a change in the management reporting structure of our company, the segments formerly reported as Equity Capital Markets and Fixed Income Capital Markets have been combined into a single segment called Institutional Group. Previously reported segment information has been revised to reflect this change.

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, 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; acquisition charges related to the LM Capital Markets and Ryan Beck & Company, Inc. ("Ryan Beck") acquisitions, 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**

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 March 31,			As a Percentage of Net Revenues For the Three Months Ended March 31,	
	2010	2009	% Change	2010	2009
<b>Revenues:</b>					
Commissions	\$ 79,587	\$ 43,216	84.2%	40.4%	37.8%
Principal transactions	59,871	38,437	55.8	30.3	33.7
Asset management and service fees	38,668	24,831	55.7	19.6	21.7
Investment banking	5,302	2,070	156.2	2.7	1.8
Interest	12,558	6,811	84.4	6.4	6.0
Other income	2,733	203	*	1.4	0.2
<b>Total revenues</b>	<b>198,719</b>	<b>115,568</b>	<b>71.9</b>	<b>100.8</b>	<b>101.2</b>
Interest expense	1,524	1,404	8.5	0.8	1.2
<b>Net revenues</b>	<b>197,195</b>	<b>114,164</b>	<b>72.7</b>	<b>100.0</b>	<b>100.0</b>
<b>Non-interest expenses:</b>					
Compensation and benefits	124,738	72,629	71.7	63.3	63.6
Occupancy and equipment rental	14,731	10,451	41.0	7.5	9.2
Communication and office supplies	7,479	5,398	38.5	3.8	4.7
Commissions and floor brokerage	2,803	1,841	52.3	1.4	1.6
Other operating expenses	10,512	6,611	59.0	5.3	5.8
<b>Total non-interest expenses</b>	<b>160,263</b>	<b>96,930</b>	<b>65.3</b>	<b>81.3</b>	<b>84.9</b>
<b>Income before income taxes</b>	<b>\$ 36,932</b>	<b>\$ 17,234</b>	<b>114.3%</b>	<b>18.7%</b>	<b>15.1%</b>

\* Percentage is not meaningful.

	March 31, 2010	December 31, 2009	March 31, 2009
Branch offices	272	272	210
Financial advisors	1,732	1,719	1,218
Independent contractors	168	166	176
<b>Assets in fee-based accounts:</b>			
Value (in thousands)	10,923,155	9,309,775	4,755,030
Number of accounts	52,610	44,071	25,364

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 and the acquisition UBS branches during the third and fourth quarters of 2009.

## NET REVENUES

For the three months ended March 31, 2010, Global Wealth Management net revenues increased 72.7% to \$197.2 million from \$114.2 million for the comparable period in 2009. The increase in net revenues for the three months ended March 31, 2010 over the comparable period in 2009 is attributable to growth across all revenue line items.

**Commissions** - For the three months ended March 31, 2010, commission revenues increased 84.2% to \$79.6 million from \$43.2 million in the comparable period in 2009. The increase is primarily attributable to an increase in agency transactions in OTC and listed equity securities, and insurance products. The increase is 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 begun showing signs of improvement and stability during the first quarter of 2010.

**Principal transactions** - For the three months ended March 31, 2010, principal transactions revenues increased 55.8% to \$59.9 million from \$38.4 million in the comparable period in 2009. The increase is 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 March 31, 2010, asset management and service fees increased 55.7% to \$38.7 million from \$24.8 million in the comparable period in 2009. The increase is primarily a result of a 17.3% increase in the value of assets in fee-based accounts from March 31, 2009 and a 19.4% 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 \$3.2 million to \$5.3 million for the three months ended March 31, 2010 from \$2.1 million during the comparable period in 2009. Capital market conditions continued to build upon the improvement that began during the third and fourth quarters of 2009 for both equity and fixed income. Equity capital markets have improved when compared to the severe conditions that existed a year ago. See further discussion of investment banking activities in the Institutional Group segment section.

**Interest revenue** - For the three months ended March 31, 2010, interest revenue increased 84.4% to \$12.6 million from \$6.8 million in the comparable period in 2009. The increase is 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 March 31, 2010, interest expense increased 8.5% to \$1.5 million from \$1.4 million in the comparable period in 2009. The increase is primarily due to increased interest charged on our short-term borrowing activity, offset by decreased interest rates charged by banks on lower levels of borrowings to finance customer borrowing. 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 March 31, 2010			Three Months Ended March 31, 2009		
	Average Balance	Interest Income/ Expense	Average Interest Rate	Average Balance	Interest Income/ Expense	Average Interest Rate
<b>Assets:</b>						
Federal funds sold	\$ 116,219	\$ 71	0.24%	\$ 183,137	\$ 221	0.48%
U.S. government agencies	793	10	5.04	3,011	89	11.77
State and political subdivisions (non-taxable) (1)	960	10	4.17	1,512	16	4.17
Mortgage-backed securities	505,124	3,572	2.83	35,723	374	4.19
Corporate bonds	40,085	465	4.64	6,046	51	3.34
Asset-backed securities	11,719	75	2.56	17,583	242	5.51
Federal Home Loan Bank ("FHLB") and other capital stock	655	3	1.83	719	-	0.11
Loans (2)	346,267	3,009	3.48	189,011	2,293	4.85
Loans held for sale	72,334	872	4.82	33,622	370	4.41
<b>Total interest-earning assets (3)</b>	<b>\$ 1,094,156</b>	<b>\$ 8,087</b>	<b>2.96%</b>	<b>\$ 470,364</b>	<b>\$ 3,656</b>	<b>3.11%</b>
Cash and due from banks	6,286			4,222		
Other non interest-earning assets	33,048			21,344		
<b>Total assets</b>	<b>\$ 1,133,490</b>			<b>\$ 495,930</b>		
<b>Liabilities and stockholders' equity:</b>						
Deposits:						
Money market	\$ 970,704	\$ 298	0.12%	\$ 385,411	\$ 448	0.46%
Demand deposits	17,348	3	0.07	6,501	4	0.25%
Time deposits	16,349	130	3.18	21,820	189	3.48
Savings	237	-	-	349	-	0.05
FHLB advances	2,000	16	3.20	6,000	45	2.97
Federal funds and repurchase agreements	-	-	-	15	-	0.08
<b>Total interest-bearing liabilities (3)</b>	<b>\$ 1,006,638</b>	<b>\$ 447</b>	<b>0.18%</b>	<b>\$ 420,096</b>	<b>\$ 686</b>	<b>0.65%</b>
Non interest-bearing deposits	15,774			16,354		
Other non interest-bearing liabilities	5,182			1,564		
<b>Total liabilities</b>	<b>1,027,594</b>			<b>438,014</b>		
Stockholders' equity	105,896			57,916		
<b>Total liabilities and stockholders' equity</b>	<b>\$ 1,133,490</b>			<b>\$ 495,930</b>		
Net interest margin		\$ 7,640	2.79%		\$ 2,970	2.53%

(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 month period ended March 31, 2010 compared to the three month period ended March 31, 2009 (*in thousands*):

	Three Months Ended March 31, 2010 Compared to Three Months Ended March 31, 2009		
	Increase (decrease) due to:		Total
	Volume	Rate	
<b>Interest income:</b>			
Federal funds sold	\$ (148)	\$ (2)	\$ (150)
U.S. government agencies	(44)	(35)	(79)
State and political subdivisions (non-taxable)	(2)	(4)	(6)
Mortgage-backed securities	4,070	(872)	3,198
Corporate bonds	387	27	414
Asset-backed securities	(64)	(103)	(167)
FHLB and other capital stock	-	3	3
Loans	4,056	(3,340)	716
Loans held for sale	703	(201)	502
	\$ 8,958	\$ (4,527)	\$ 4,431
<b>Interest expense:</b>			
Deposits:			
Money market	\$ 1,676	\$ (1,826)	\$ (150)
Demand deposits	16	(17)	(1)
Time deposits	(44)	(15)	(59)
Savings	-	-	-
FHLB advances	(81)	52	(29)
Federal funds and repurchase agreements	-	-	-
	\$ 1,567	\$ (1,806)	\$ (239)

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 March 31, 2010, interest revenue of \$8.1 million was generated from weighted average interest-earning assets of \$1,094.2 million at a weighted average interest rate of 2.96%. Interest revenue of \$3.7 million for the comparable period in 2009 was generated from weighted average interest-earning assets of \$470.4 million at a weighted average interest rate of 3.11%. Interest-earning assets principally consist of residential, consumer, and commercial loans, securities, and federal funds sold.

Interest expense represents interest on customer money market and savings accounts, interest on time deposits and other interest expense. The weighted average balance of interest-bearing liabilities during the three months ended March 31, 2010 was \$1,006.6 million at a weighted average interest rate of 0.18%. The weighted average balance of interest-bearing liabilities for the comparable period in 2009 was \$420.1 million at a weighted average interest rate of 0.65%.

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 March 31, 2010, the balance of Stifel Nicolaus brokerage customer deposits at Stifel Bank was \$957.8 million compared to \$418.0 million at March 31, 2009.

See the average balances and interest rates for Stifel Bank presented above for more information regarding average balances, interest income and expense, and average interest rate yields.



## NON-INTEREST EXPENSES

For the three months ended March 31, 2010, Global Wealth Management non-interest expenses increased 65.3% to \$160.3 million from \$96.9 million for the comparable period in 2009.

**Compensation and benefits** - For the three months ended March 31, 2010, compensation and benefits expense increased 71.7% to \$124.7 million from \$72.6 million during the three months ended March 31, 2009. The increase is principally due to increased variable compensation as a result of increased production and fixed compensation.

Compensation and benefits expense as a percentage of net revenues decreased to 63.3% for the three months ended March 31, 2010, compared to 63.6% for the comparable period in 2009. The decrease in compensation and benefits expense as a percent of net revenues is primarily attributable to increased 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 \$14.9 million (7.5% of net revenues) for the three months ended March 31, 2010 compared to \$8.4 million (7.3% of net revenues) for the three months ended March 31, 2009. The upfront notes are amortized over a five to ten year period.

The fluctuations in non-compensation interest expenses, discussed below, were primarily attributable to the continued growth of our Private Client Group during the three months ended March 31, 2010. Our expansion efforts include the acquisitions of UBS, as well as organic growth. As of March 31, 2010, we have 272 branch offices compared to 210 at March 31, 2009. In addition, since March 31, 2009, we have added 1,071 revenue producers and support staff.

**Occupancy and equipment rental** - For the three months ended March 31, 2010, occupancy and equipment rental expense increased 41.0% to \$14.7 million from \$10.5 million during the comparable period in 2009.

**Communications and office supplies** - For the three months ended March 31, 2010, communications and office supplies expense increased 38.5% to \$7.5 million from \$5.4 million during the third quarter of 2009.

**Commissions and floor brokerage** - For the three months ended March 31, 2009, commissions and floor brokerage expense increased 52.3% to \$2.8 million from \$1.8 million during the third quarter of 2009.

**Other operating expenses** - For the three months ended March 31, 2010, other operating expenses increased 59.0% to \$10.5 million from \$6.6 million during the comparable period in 2009. As a result of the growth of our Private Client Group segment during the three months ended March 31, 2010, there has been an increase in license and registration fees, and securities processing fees, as well as litigation costs to defend industry recruiting claims.

## INCOME BEFORE INCOME TAXES

For the three months ended March 31, 2010, income before income taxes increased \$19.7 million, or 114.3%, to \$36.9 million from \$17.2 million during the comparable period in 2009. Profit margins have improved as a result of the increase in revenue growth 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**

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 March 31,			As a Percentage of Net Revenues For the Three Months Ended March 31,	
	2010	2009	% Change	2010	2009
<b>Revenues:</b>					
Principal transactions	\$ 57,549	\$ 58,840	(2.2)%	50.8%	55.8%
Commissions	25,448	31,395	(18.9)	22.5	29.8
Capital raising	20,004	3,429	483.4	17.6	3.2
Advisory	8,914	10,006	(10.9)	7.9	9.5
Investment banking	28,918	13,435	115.3	25.5	12.7
Interest	1,959	2,073	(5.5)	1.7	2.0
Other income	422	222	90.1	0.4	0.2
<b>Total revenues</b>	<b>114,296</b>	<b>105,965</b>	<b>7.9</b>	<b>100.9</b>	<b>100.5</b>
Interest expense	1,004	493	103.9	0.9	0.5
<b>Net revenues</b>	<b>113,292</b>	<b>105,472</b>	<b>7.4</b>	<b>100.0</b>	<b>100.0</b>
<b>Non-interest expenses:</b>					
Compensation and benefits	66,304	62,518	6.1	58.5	59.3
Occupancy and equipment rental	4,066	3,687	10.3	3.6	3.5
Communication and office supplies	4,880	4,779	2.1	4.3	4.5
Commissions and floor brokerage	2,941	2,520	16.7	2.6	2.4
Other operating expenses	7,645	5,934	28.8	6.8	5.6
<b>Total non-interest expenses</b>	<b>85,836</b>	<b>79,438</b>	<b>8.1</b>	<b>75.8</b>	<b>75.3</b>
<b>Income before income taxes</b>	<b>\$ 27,456</b>	<b>\$ 26,034</b>	<b>5.5%</b>	<b>24.2%</b>	<b>24.7%</b>

**NET REVENUES**

For the three months ended March 31, 2010, Institutional Group net revenues increased 7.4% to \$113.3 million from \$105.5 million for the comparable period in 2009. The increase in net revenues for the three months ended March 31, 2010 over the comparable period in 2009 is primarily attributable to an increase in investment banking,, specifically capital raising, offset by decreases in principal transactions and commissions.

**Principal transactions** - For the three months ended March 31, 2010, principal transactions revenues decreased 2.2%, to \$57.5 million from \$58.8 million in the comparable period in 2009. The decrease is primarily attributable to decreased principal transactions, primarily in corporate debt and mortgage-backed bonds, offset by an increase in corporate equity.

**Commissions** - For the three months ended March 31, 2010, commission revenues decreased 18.9% to \$25.4 million from \$31.4 million in the comparable period in 2009. The decrease is primarily attributable to decreased trading volumes, primarily in equity securities (listed and over-the-counter).

**Investment banking** - For the three months ended March 31, 2010, investment banking revenues increased \$15.5 million, or 115.3%, to \$28.9 million from \$13.4 million in the comparable period in 2009.

For the three months ended March 31, 2010, capital raising revenues increased \$16.8 million to \$20.0 million from \$3.4 million in the comparable period in 2009.

For the three months ended March 31, 2010, fixed income capital raising revenues increased \$3.5 million to \$5.2 million from \$1.7 million during the first quarter of 2009.

During the second and third quarters of 2009, capital market conditions began to improve, and we raised capital for our clients in a number of successful public finance underwritings. For the three months ended March 31, 2010, we were involved, as manager or co-manager, in 98 tax-exempt issues with a total par value of \$10.8 billion compared to 72 issues with a total par value of \$3.9 billion during the comparable period in 2009.

For the three months ended March 31, 2010, equity capital raising revenues increased \$9.7 million to \$11.3 million from \$1.6 million during the first quarter of 2009. During the quarter ended March 31, 2010, we were involved, as manager or co-manager, in 24 equity underwritings, which raised a total of \$6.0 billion, compared to 2 equity underwritings, which raised a total of \$206.6 million during the comparable period in 2009. Capital market conditions continued to build upon the improvement that began during the third and fourth quarters of 2009 for both equity and fixed income. While we have seen improvements in the equity capital markets, the increase over the three months ended March 31, 2009 is somewhat attributable to the severe conditions in the capital markets that existed a year ago.

For the three months ended March 31, 2010, strategic advisory fees decreased 10.9% to \$8.9 million from \$10.0 million in the comparable period in 2009. The decrease is primarily due to an decrease in the number of completed transactions and the aggregate transaction value, as well as average revenue per transaction, over the comparable period in 2009.

**Interest revenue** - For the three months ended March 31, 2010, interest revenue decreased 5.5% to \$2.0 million from \$2.1 million in the comparable period in 2009. The decrease in interest revenues is primarily attributable to decreased interest earned on our trading inventory. The change in the mix from principal transactions revenue to commissions-based revenues has created a decrease in our trading inventory levels primarily related to fixed income products.

**Interest expense** - For the three months ended March 31, 2010, interest expense increased 103.9%, or \$0.5 million, to \$1.0 million from \$0.5 million in the comparable period in 2009.

## NON-INTEREST EXPENSES

For the three months ended March 31, 2010, Institutional Group non-interest expenses increased 8.1% to \$85.8 million from \$79.4 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 during the three months ended March 31, 2010. We have added 99 revenue producers and support staff since March 31, 2009.

**Compensation and benefits** - For the three months ended March 31, 2010, compensation and benefits expense increased 6.1% to \$66.3 million from \$62.5 million during the comparable period in 2009. The increase is primarily due to increased fixed compensation and higher production-based variable compensation due to higher production as compared to the prior year.

Compensation and benefits expense as a percentage of net revenues decreased to 58.5% for the three months ended March 31, 2010, compared to 59.3% for the comparable period in 2009. The decrease in compensation and benefits expense as a percent of net revenues is primarily attributable to increased net revenues.

The fluctuations in non-compensation interest expenses, discussed below, were primarily attributable to the continued growth of our Institutional Group segment during the three months ended March 31, 2010. We have added 99 revenue producers and support staff since March 31, 2009.

**Occupancy and equipment rental** - For the three months ended March 31, 2010, occupancy and equipment rental expense increased 10.3% to \$4.1 million from \$3.7 million during the comparable period in 2009.

**Communications and office supplies** - For the three months ended March 31, 2010, communications and office supplies expense increased 2.1% to \$4.9 million from \$4.8 million during the first quarter of 2009.

**Commissions and floor brokerage** - For the three months ended March 31, 2010, commissions and floor brokerage expense increased 16.7% to \$2.9 million from \$2.5 million during the first quarter of 2009.

**Other operating expenses** - For the three months ended March 31, 2010, other operating expenses increased 28.8% to \$7.6 million from \$5.9 million during the comparable period in 2009.

## INCOME BEFORE INCOME TAXES

For the three months ended March 31, 2010, income before income taxes for the Institutional Group segment increased \$1.4 million, or 5.5%, to \$27.4 million from \$26.0 million during the comparable period in 2009. The increase is primarily attributable to increased revenues and the scalability of increased production as a result of our continued expansion of the Institutional Group segment during the first quarter of 2010.

**Results of Operations - Other Segment**

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

	2010		For the Three Months Ended March 31, 2009		% Change
<b>Net revenues</b>	\$	<b>1,543</b>	\$	345	347.7%
<b>Non-interest expenses:</b>					
Compensation and benefits		<b>15,200</b>		12,693	19.8
Other operating expenses		<b>11,166</b>		8,765	27.4
<b>Total non-interest expenses</b>		<b>26,366</b>		21,458	22.9
<b>Loss before income taxes</b>	\$	<b>(24,823)</b>	\$	(21,113)	17.6%

**Net revenues** - For the three months ended March 31, 2010, net revenues increased \$1.2 million to \$1.5 million from \$0.3 million for the comparable period in 2009. The increase in net revenues is primarily attributable to the reduction of investment losses during the three months ended March 31, 2010 compared to losses in the prior year period, offset by declining net interest revenues.

**Compensation and benefits** - For the three months ended March 31, 2010, compensation and benefits expense increased 19.8% to \$15.2 million from \$12.7 million for the comparable period in 2009. The increase in compensation and benefits expense during the three months ended March 31, 2010 was related to an increase in support personnel as we continued our growth initiatives.

**Other operating expenses** - For the three months ended March 31, 2010, other operating expenses increased 27.4% to \$11.2 million from \$8.8 million for the comparable period in 2009. The increase was 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 claims and litigation costs to defend industry recruitment claims.

**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 \$3.2 billion at March 31, 2010 were up 1.9% 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 March 31, 2010, our liabilities were comprised primarily of short-term borrowings of \$184.9 million, deposits of \$988.3 million at Stifel Bank and payables to brokerage clients, brokers, dealers and clearing organizations of \$227.4 million and \$102.5 million, respectively, at our broker-dealer subsidiaries, as well as accounts payable and accrued expenses, including accrued employee compensation of \$185.8 million. To meet our obligations to clients and operating needs, we have \$145.7 million in cash. We also have client brokerage receivables of \$412.7 million and \$342.8 million in loans 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. In May 2005, the Board of Directors authorized the repurchase of an additional 3,000,000 shares, for a total authorization to repurchase up to 4,500,000 shares. 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. Under existing Board authorizations at March 31, 2010, we are permitted to buy an additional 2,010,831 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 decreased \$16.1 million to \$145.7 million at March 31, 2010 from \$161.8 million at December 31, 2009. Operating activities used \$79.3 million of cash primarily due to an increase in operating assets and liabilities offset by the net effect of non-cash expenses and cash from earnings. Investing activities provided cash of \$6.3 million primarily due to proceeds from maturities, calls and principal payments of our available-for-sale securities and the sale of proprietary investments, offset by purchases of eligible ARS from our customers as part of our voluntary repurchase plan, increase in bank loans, and fixed asset purchases. During the three months ended March 31, 2010, we purchased \$6.2 million in fixed assets, consisting primarily of information technology equipment, leasehold improvements and furniture and fixtures. Financing activities provided cash of \$56.9 million primarily due to an increase in short-term borrowings from banks and an increase in securities loaned, offset by a decrease in bank deposits.

### *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 condensed consolidated statements of financial condition. We maintain available ongoing credit arrangements with banks that provided a peak daily borrowing of \$302.8 million during the three months ended March 31, 2010. There are no compensating balance requirements under these arrangements. At March 31, 2010, short-term borrowings from banks were \$184.9 million at an average rate of 1.10%, which were collateralized by company-owned securities valued at \$240.1 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 \$106.4 million and \$63.9 million during the three months ended March 31, 2010 and 2009, respectively, at weighted average daily interest rates of 1.01%, and 0.81%, respectively. At March 31, 2010 and December 31, 2009, Stifel Nicolaus had a stock loan balance of \$41.4 million and \$16.7 million, respectively, at weighted average daily interest rates of 0.50% and 0.33%, respectively. The average outstanding securities lending arrangements utilized in financing activities were \$36.1 million and \$44.3 million during the three months ended March 31, 2010 and 2009, respectively, at weighted average daily effective interest rates of 1.89%, and 0.84%, respectively. Customer-owned securities were utilized in these arrangements.

The impact of the tightened credit markets has resulted in decreased financing through stock loan as our counterparties sought liquidity. As a result, bank loan financing used to finance trading inventories increased.

Stifel Bank has borrowing capacity with the Federal Home Loan Bank of \$110.4 million at March 31, 2010, of which \$108.4 million 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 \$957.8 million at March 31, 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 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. At March 31, 2010, we estimate that our retail clients held \$95.6 million of eligible ARS after issuer redemptions of \$30.9 million and Stifel purchases of \$80.8 million.

We have paid \$7.1 million in the form of upfront notes to investment executives for transition pay during the period from January 1, 2010 through April 30, 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 nine months of 2010 and the years ended December 31, 2011, 2012, 2013, 2014 and thereafter are \$35.8 million, \$31.4 million, \$25.9 million, \$20.4 million and \$68.0 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 net capital requirements, which may limit distributions to our company from our broker-dealer 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.

At March 31, 2010, Stifel Nicolaus had net capital of \$196.8 million, which was 37.5% of its aggregate debit items, and \$186.3 million in excess of its minimum required net capital; CSA had net capital of \$3.9 million, which was \$3.7 million in excess of its minimum required net capital. At March 31, 2010, SN Ltd had capital and reserves of \$8.3 million, which was \$7.7 million in excess of the financial resources requirement under the rules of the FSA. At March 31, 2010, Stifel Bank was considered well capitalized under the regulatory framework for prompt corrective action. See Note 14 of the Notes to Condensed 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 condensed 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 ASC 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 March 31, 2010, Level 3 assets for which we bear economic exposure were \$88.1 million or 7.0% of the total assets measured at fair value. During the three months ended March 31, 2010, we recorded net purchases of \$22.9

million of Level 3 assets. Our valuation adjustments (realized and unrealized) increased the value of our Level 3 assets by \$0.5 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 March 31, 2010.

At March 31, 2010, Level 3 assets included the following: \$75.7 million of auction rate securities, of which the auctions have failed and \$12.4 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 ASC 450 ("ASC 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 Doubtful Receivables from Former Employees***

We offer transition pay, principally in the form of upfront loans, to financial advisors and certain key revenue producers as part of our overall growth strategy. These loans are generally forgiven over a five- to ten-year period if the individual satisfies certain conditions, usually based on continued employment and certain performance standards. If the individual leaves before the term of the loan expires or fails to meet certain performance standards, the individual is required to repay the balance. In determining the allowance for doubtful receivables from former employees, we consider the facts and circumstances surrounding each receivable, including the amount of the unforgiven balance, the reasons for the terminated employment relationship, and the former employees' overall financial position. The loan balance from former employees at March 31, 2010 and December 31, 2009 was \$2.1 million and \$2.5 million, respectively, with associated loss allowances of \$0.8 million and \$1.5 million, respectively.

### ***Allowance for Loan Losses***

We regularly review the loan portfolio of Stifel Bank and have established an allowance for loan losses in accordance with ASC 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 ASC 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 ASC 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.

ASC 740 ("ASC 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, ASC 740 provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition.

### ***Goodwill and Intangible Assets***

Under the provisions of ASC 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 March 31, 2010, we had goodwill of \$166.7 million and intangible assets of \$24.3 million.

In accordance with ASC 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, 2009, 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 Condensed 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 16 of the Notes to Condensed 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 condensed 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, and inventories) and our funding sources (including client cash balances, stock lending activities, bank borrowings, and resale 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 institutional trading portfolios using daily market data for the previous twelve months and report VaR at a 95% 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.

The following table sets forth the high, low, and daily average VaR for our institutional trading portfolios during the three months ended March 31, 2010 and the daily VaR at March 31, 2010 and December 31, 2009 (*in thousands, except rates*):

	Three Months Ended March 31, 2010			VaR calculation at	
	High	Low	Daily Average	March 31, 2010	December 31, 2009
Daily VaR	\$ 1,542	\$ 353	\$ 917	\$ 575	\$ 766
Related portfolio value	\$ 236,367	\$ 15,098	\$ 162,081	\$ 17,590	\$ 138,053
VaR as a percentage of portfolio value	0.65%	2.34%	0.57%	3.27%	0.55%

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.

Edgar Filing: STIFEL FINANCIAL CORP - Form 10-Q

The following table illustrates the estimated change in net interest margin at March 31, 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	39.9%
+100	21.5%
0	-%
-100	n/a
-200	n/a

The following GAP Analysis table indicates Stifel Bank's interest rate sensitivity position at March 31, 2010 (*in thousands*):

	Repricing Opportunities			
	0-6 Months	7-12 Months	1-5 Years	5+ Years
<b>Interest-earning assets:</b>				
Loans	\$ 365,487	\$ 6,845	\$ 37,781	\$ 8,426
Securities	87,828	33,575	208,863	212,854
Interest-bearing cash	112,206	-	-	-
	\$ 565,521	\$ 40,420	\$ 246,644	\$ 221,280
<b>Interest-bearing liabilities:</b>				
Transaction accounts and savings	\$ 465,942	\$ 71,194	\$ 386,918	\$ 66,234
Certificates of deposit	295	437	2,510	-
Borrowings	2,000	-	-	-
	\$ 468,237	\$ 71,631	\$ 389,428	\$ 66,234
GAP	97,284	(31,211)	(142,784)	155,046
Cumulative GAP	\$ 97,284	\$ 66,073	\$ (76,711)	\$ 78,335

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 March 31, 2010, the fair value of securities accepted as collateral where we are permitted to sell or repledge the securities was \$816.4 million, and the fair value of the collateral that had been sold or repledged was \$219.0 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 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 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 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.

## ***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, FINRA and several state regulatory authorities requesting information concerning our activities with respect to auction rate securities ("ARS"), and 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 intend to cooperate fully with the SEC, FINRA and the several states 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 recently denied the Defendants' motions to dismiss, and the Defendants have responded to the allegations of the Second Amended Complaint. 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.

**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**

There were no unregistered sales of equity securities during the quarter ended March 31, 2010. There were also no 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 March 31, 2010.

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. In May 2005, the Board of Directors authorized the repurchase of an additional 3,000,000 shares, for a total authorization to repurchase up to 4,500,000 shares. At March 31, 2010, the maximum number of shares that may yet be purchased under this plan was 2,010,831.

**ITEM 5. EXHIBITS**

**Exhibit**

<b>No.</b>	<b>Description</b>
3.1	Restated Certificate of Incorporation, as amended, filed with the Secretary of State of Delaware on June 3, 2009, incorporated herein by reference to Exhibit 4.1 to Stifel Financial Corp.'s Registration Statement on Form S-8 (Registration File No. 333-160523) filed on July 10, 2009.
10.1	Stifel Financial Corp. Equity Incentive Plan for Non-Employee Directors, as restated and amended, filed as Annex A to Stifel Financial Corp.'s Definitive Proxy Statement for the 2008 Annual Meeting of Shareholders filed on April 29, 2008 and incorporated herein by reference.
10.2	Stifel Financial Corp. 2001 Incentive Stock Plan, as restated and amended, filed as Annex B to the Stifel Financial Corp.'s Definitive Proxy Statement for the 2008 Annual Meeting of Shareholders filed on April 29, 2008 and incorporated herein by reference.
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 Condensed 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.*

\* The certifications attached as Exhibits 32.1 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: April 30, 2010