

STIFEL FINANCIAL CORP  
Form 10-Q  
November 10, 2008

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549**

**FORM 10-Q**

(Mark One)

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

For the quarterly period ended September 30, 2008

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 number 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

(I.R.S. Employer Identification No.)

501 N. Broadway, St. Louis, Missouri

(Address of principal executive offices)

63102-2188

(Zip Code)

Registrant's telephone number, including area code

314-342-2000

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

Large accelerated filer

Accelerated filer

Non-accelerated filer (Do not check if smaller reporting company)

Smaller reporting company

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

As of October 31, 2008, there were 25,652,168 shares of Stifel Financial Corp. common stock, par value \$0.15, outstanding.

**STIFEL FINANCIAL CORP.**  
**Form 10-Q Index**  
**September 30, 2008**

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**PART I. FINANCIAL INFORMATION**  
**ITEM 1. FINANCIAL STATEMENTS**

**STIFEL FINANCIAL CORP.**  
**CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION**

| <i>(dollars in thousands)</i> |  | <b>September 30,<br/>2008<br/>(Unaudited)</b> | <b>December 31,<br/>2007<br/>(Audited)</b> |
|-------------------------------|--|---|--|
| <b>Assets</b>                 | Cash and cash equivalents  | \$ 78,708                                     | \$ 47,963                                  |
|                               | Cash segregated under federal and other regulations  | 19  | 19   |
|                               | Securities purchased under agreements to resell  | 42,464  | 13,245                                     |
|                               | Receivable from brokers and dealers:   |   |  |
|                               | Securities failed to deliver   | 71,476  | 18,342                                     |
|                               | Deposits paid for securities borrowed  | 105,047                                       | 45,144                                     |
|                               | Clearing organizations   | 269,757                                       | 115,964                                    |
|                               | Receivable from brokerage customers, net of allowance for doubtful receivables of \$276 and \$290, respectively  | 458,764                                       | 495,289                                    |
|                               | Securities:  |   |  |
|                               | Trading securities owned and pledged, at fair value  | 265,747                                       | 137,058                                    |
|                               | Available-for-sale securities, at fair value   | 65,592  | 87,107                                     |
|                               | Held-to-maturity securities, at amortized cost   | 7,574   | -  |
|                               | Mortgages held for sale  | 11,370  | -  |
|                               | Bank loans, net of allowance for loan losses of \$2,501 and \$1,685, respectively  | 191,691                                       | 126,668                                    |
|                               | Bank foreclosed assets held for sale, net of estimated cost to sell  | 1,946   | 757  |
|                               | Investments  | 80,494  | 72,482                                     |
|                               | Office equipment and leasehold improvements, at cost, net of accumulated depreciation and amortization of \$49,377 and \$41,127, respectively                    | 44,587  | 40,661                                     |
|                               | Goodwill   | 102,994                                       | 91,886                                     |
|                               | Intangible assets, net of accumulated amortization of \$7,546 and \$5,209, respectively  | 16,728  | 18,715                                     |
|                               | Loans and advances to financial advisors and other employees, net of allowance for doubtful receivables from former employees of \$1,656 and \$737, respectively | 89,351  | 70,407                                     |
|                               | Deferred tax assets, net   | 42,001  | 36,632                                     |
|                               | Other assets   | 94,259  | 81,101                                     |
|                               | <b>TOTAL ASSETS</b>  | <b>\$2,040,569</b>                            | <b>\$1,499,440</b>                         |

*See Notes to Condensed Consolidated Financial Statements (unaudited).*

**STIFEL FINANCIAL CORP.**  
**CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION (CONTINUED)**

| <i>(in thousands, except share amounts)</i>  |  | <b>September 30,<br/>2008<br/>(Unaudited)</b> | <b>December 31,<br/>2007<br/>(Audited)</b> |
|--|--|---|--|
| Liabilities<br>and<br>Stockholders'<br>Equity  | <b>Liabilities:</b>  |   |  |
|  | Short-term borrowings from banks   | \$ 265,300                                    | \$ 127,850                                 |
|  | Drafts payable   | 43,841  | 51,482                                     |
|  | Payable to brokers and dealers:  |   |  |
|  | Securities failed to receive   | 110,302                                       | 12,588                                     |
|  | Deposits received from securities loaned   | 39,714  | 138,475                                    |
|  | Clearing organizations   | 10,473  | 11,436                                     |
|  | Payable to customers   | 220,401                                       | 159,740                                    |
|  | Bank deposits  | 261,018                                       | 192,481                                    |
|  | Federal Home Loan Bank advances and other secured financing  | 10,250  | --   |
|  | Trading securities sold, but not yet purchased, at fair value  | 209,299                                       | 36,613                                     |
|  | Accrued employee compensation  | 119,972                                       | 147,161                                    |
|  | Accounts payable and accrued expenses  | 65,570  | 72,735                                     |
|  | 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   | 25,000  | 25,000                                     |
|  | Other  | 19,998  | 24,598                                     |
|  |  | <b>1,471,138</b>                              | <b>1,070,159</b>                           |
|  | Liabilities (affiliated) subordinated to claims of general creditors   | 4,043   | 4,644                                      |
|  |  |   |  |
|  | <b>Stockholders' equity:</b>   |   |  |
|  | Preferred stock -- \$1 par value; authorized 3,000,000 shares; none issued   | --  | --   |
|  | Common stock -- \$.15 par value; authorized 30,000,000 shares; issued 25,608,186 and 23,319,876 shares, respectively | 3,841   | 3,498                                      |
| Additional paid-in capital   | 413,396  | 298,092                                       |  |
| Retained earnings  | 152,992  | 125,303                                       |  |
| Accumulated other comprehensive loss   | (3,851)  | (660)   |  |
|  | <b>566,378</b>   | <b>426,233</b>                                |  |
| Less:  |  |   |  |
| Treasury stock, at cost, 0 and 13,880 shares, respectively                                       | --   | 450   |  |
| Unearned employee stock ownership plan shares, at cost, 154,555 and 178,958 shares, respectively | 990  | 1,146   |  |
|  | <b>565,388</b>   | <b>424,637</b>                                |  |
| <b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>  | <b>\$2,040,569</b>   | <b>\$1,499,440</b>                            |  |

\*All shares reflect the three-for-two stock split distributed in June 2008. (See Note A of the notes to condensed consolidated financial statements)

*See Notes to Condensed Consolidated Financial Statements (unaudited).*

**STIFEL FINANCIAL CORP.**  
**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**  
**(UNAUDITED)**

|   |   | <b>Three Months<br/>Ended</b>      |                  | <b>Nine Months<br/>Ended</b> |                |
|---|---|------------------------------------|------------------|------------------------------|----------------|
|   |   | <b>September 30,</b>               |                  | <b>September 30,</b>         |                |
|   |   | <b>2008</b>                        | <b>2007</b>      | <b>2008</b>                  | <b>2007</b>    |
| <i>(in thousands, except per share amounts)</i>           |   |                                    |                  |                              |                |
| Revenues  | Commissions   | \$ 88,727                          | \$ 82,917        | \$ 257,491                   | \$ 224,930     |
|   | Principal transactions  | 68,182                             | 31,711           | 200,793                      | 91,578         |
|   | Investment banking  | 25,156                             | 30,966           | 67,935                       | 137,964        |
|   | Asset management and service fees   | 30,336                             | 27,108           | 90,580                       | 72,018         |
|   | Interest  | 12,819                             | 15,972           | 39,175                       | 43,371         |
|   | Other   | (1,391)                            | 2,165            | (883)                        | 4,107          |
|   | <b>Total revenues</b>   | <b>223,829</b>                     | <b>190,839</b>   | <b>655,091</b>               | <b>573,968</b> |
|   | Less: Interest expense  | 4,906                              | 7,856            | 15,740                       | 23,089         |
|   | <b>Net revenues</b>   | <b>218,923</b>                     | <b>182,983</b>   | <b>639,351</b>               | <b>550,879</b> |
|   | Non-interest<br>Expenses  | Employee compensation and benefits | 150,203          | 126,652                      | 441,028        |
| Occupancy and equipment rental                            |   | 17,286                             | 14,492           | 49,012                       | 40,767         |
| Communications and office supplies                        |   | 11,192                             | 11,528           | 32,887                       | 31,303         |
| Commissions and floor brokerage                           |   | 4,348                              | 2,527            | 8,315                        | 7,246          |
| Other operating expenses                                  |   | 14,800                             | 14,512           | 42,940                       | 39,547         |
| <b>Total non-interest expenses</b>                        |   | <b>197,829</b>                     | <b>169,711</b>   | <b>574,182</b>               | <b>520,126</b> |
| <b>Income before income taxes</b>                         |   | <b>21,094</b>                      | <b>13,272</b>    | <b>65,169</b>                | <b>30,753</b>  |
| Provision for income taxes                                |   | 8,317                              | 5,214            | 25,713                       | 12,418         |
| <b>Net income</b>   | <b>\$ 12,777</b>  | <b>\$ 8,058</b>                    | <b>\$ 39,456</b> | <b>\$ 18,335</b>             |                |
| Earnings Per<br>Common Share<br>and Share<br>Equivalents* | Net income per share:   |                                    |                  |                              |                |
|   | Basic earnings per share  | \$ 0.54                            | \$ 0.36          | \$ 1.68                      | \$ 0.85        |
|   | Diluted earnings per share  | \$ 0.46                            | \$ 0.30          | \$ 1.44                      | \$ 0.73        |
|   | Average common shares and<br>share equivalents used in determining<br>earnings per share: |                                    |                  |                              |                |
|   | Basic shares outstanding  | 23,830                             | 22,394           | 23,520                       | 21,456         |
| Diluted shares outstanding                                | 28,045  | 26,815                             | 27,335           | 25,264                       |                |

\*All shares and earnings per share amount reflect the three-for-two stock split distributed in June 2008. (See Note A of the notes to condensed consolidated financial statements)

See Notes to Condensed Consolidated Financial Statements (unaudited).



**STIFEL FINANCIAL CORP.**  
**CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**  
**(UNAUDITED)**

|  | <b>Three Months<br/>Ended<br/>September 30,</b> |                 | <b>Nine Months Ended<br/>September 30,</b> |                  |
|--|---|-----------------|--|------------------|
| <i>(in thousands)</i>  | <b>2008</b>                                     | <b>2007</b>     | <b>2008</b>                                | <b>2007</b>      |
| Net income   | \$ 12,777                                       | \$ 8,058        | \$ 39,456                                  | \$ 18,335        |
| Other comprehensive income (loss):   |   |                 |  |                  |
| Unrealized gains (losses) on available-for-sale securities, net of income taxes of \$(585), \$91, \$(1,773), and \$(8), respectively | (1,019)   | 136             | (3,191)                                    | (11)             |
| Other comprehensive income (loss)  | (1,019)   | 136             | (3,191)                                    | (11)             |
| <b>Comprehensive income</b>  | <b>\$ 11,758</b>                                | <b>\$ 8,194</b> | <b>\$ 36,265</b>                           | <b>\$ 18,324</b> |

*See Notes to Condensed Consolidated Financial Statements (unaudited).*

**STIFEL FINANCIAL CORP.**  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(UnAUDITED)

|                |   | <b>Nine Months<br/>Ended<br/>September 30,</b> |                  |
|----------------|---|--|------------------|
|                |   | <b>2008</b>                                    | <b>2007</b>      |
|                | <i>(in thousands)</i>   |  |                  |
| Cash Flows     | <b>Net income</b>   | \$ 39,456                                      | \$ 18,335        |
| From Operating | <i>Adjustments to reconcile net income to net cash provided by (used in)</i>                              |  |                  |
| Activities     | <i>operating activities:</i>  |  |                  |
|                | Depreciation and amortization   | 11,556   | 10,940           |
|                | Loans and advances amortization   | 15,063   | 12,647           |
|                | Accretion of discounts on available-for-sale securities   | (589)  | - -              |
|                | Provision for loan losses and allowances for loans and advances to financial advisors and other employees | 1,025  | 781              |
|                | Deferred taxes and other  | (3,966)  | (14,952)         |
|                | Excess tax benefit associated with stock-based awards   | (9,133)  | (9,094)          |
|                | Warrant valuation   | - -  | 455              |
|                | Stock-based compensation  | 39,093   | 45,468           |
|                | Losses (gains) on investments   | 6,836  | (963)            |
|                | Loss on sale of bank foreclosed assets held for sale  | 253  | 18               |
|                | Decrease (increase) in assets:  |  |                  |
|                | Operating receivables   | (230,305)                                      | (309,048)        |
|                | Cash segregated under federal and other regulations   | - -  | (16)             |
|                | Securities purchased under agreements to resell   | (29,219)                                       | 120,198          |
|                | Loans originated as mortgages held for sale   | (226,714)                                      | - -              |
|                | Proceeds from mortgages held for sale   | 218,654  | - -              |
|                | Trading securities owned, including those pledged   | (128,689)                                      | 249,877          |
|                | Loans and advancements to financial advisors and other employees  | (34,176)                                       | (38,088)         |
|                | Other assets  | (5,205)  | 43,974           |
|                | Increase (decrease) in liabilities:   |  |                  |
|                | Operating payables  | 150,923  | 76,030           |
|                | Trading securities sold, but not yet purchased  | 172,686  | (177,389)        |
|                | Other liabilities   | (54,578)                                       | (279)            |
|                | <b>Net cash provided by (used in) operating activities</b>  | <b>\$ (67,029)</b>                             | <b>\$ 28,894</b> |

*See Notes to Condensed Consolidated Financial Statements (unaudited).*

**STIFEL FINANCIAL CORP.**  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)**  
(UNAUDITED)

|                |  | <b>Nine Months<br/>Ended<br/>September 30,</b> |                  |
|----------------|--|--|------------------|
|                |  | <b>2008</b>                                    | <b>2007</b>      |
|                | <i>(in thousands)</i>  |  |                  |
| Cash Flows     | Proceeds from sale or maturity of investments  | \$ 38,583                                      | \$ 48,674        |
| From Investing | Proceeds from maturities, calls, and principal paydowns on available-for-sale securities | 34,445   | --               |
| Activities     | Proceeds from sale of property   | 766  | --               |
|                | Proceeds from bank customer loan repayments  | 113,215  | 33,101           |
|                | Proceeds from sale of bank foreclosed assets held for sale                               | 1,000  | 473              |
|                | Excess of cash acquired over cash disbursed in Ryan Beck acquisition                     | --   | 3,545            |
|                | Payments for:  |  |                  |
|                | Bank customer loan originations  | (183,557)                                      | (47,176)         |
|                | Purchase of First Service Financial Corp.  | --   | (33,219)         |
|                | Purchase of Miller Johnson Steichen Kinnard  | --   | (110)            |
|                | Purchase of available-for-sale securities  | (24,909)                                       | (62,048)         |
|                | Purchase of bank foreclosed assets for sale  | (1,322)  | --               |
|                | Purchase of office equipment and leasehold improvements                                  | (14,643)                                       | (22,615)         |
|                | Purchase of investments  | (53,297)                                       | (47,143)         |
|                | <b>Net cash used in investing activities</b>   | <b>(89,719)</b>                                | <b>(126,518)</b> |
| Cash Flows     | Increase in bank deposits, net   | 68,537   | 76,146           |
| From Financing | Net proceeds from borrowings from banks  | 137,450  | (68,200)         |
| Activities     | Securities loaned, net   | (92,272)                                       | 71,378           |
|                | Reissuance of treasury stock   | 751  | 383              |
|                | Issuance of stock  | 2,330  | 1,608            |
|                | Issuance of debentures to Stifel Financial Capital Trust III                             | --   | 35,000           |
|                | Issuance of debentures to Stifel Financial Capital Trust IV                              | --   | 35,000           |
|                | Excess tax benefits associated with stock-based awards                                   | 9,133  | 9,094            |
|                | Proceeds from public offering of Company common stock, net                               | 64,369   | --               |
|                | Proceeds from FHLB advances, Fed Funds purchased, repurchase agreements, net             | 10,250   | --               |
|                | Proceeds from private placement  | --   | 200              |
|                | Payments for:  |  |                  |
|                | Advances from the Federal Home Loan Bank   | --   | (9,988)          |
|                | Purchases of stock for treasury  | (12,141)                                       | (2,472)          |
|                | Calling of Stifel Financial Capital Trust I  | --   | (34,500)         |
|                | Reduction of subordinated debt   | (914)  | (720)            |
|                | <b>Net cash provided by financing activities</b>   | <b>187,493</b>                                 | <b>112,929</b>   |
|                | Increase in cash and cash equivalents  | 30,745   | 15,305           |
|                | Cash and cash equivalents - beginning of period  | 47,963   | 20,982           |
|                | <b>Cash and cash equivalents - end of period</b>   | <b>\$ 78,708</b>                               | <b>\$ 36,287</b> |

See Notes to Condensed Consolidated Financial Statements (unaudited).



**STIFEL FINANCIAL CORP.**  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)**  
(UNAUDITED)

| <i>(in thousands)</i>  | <b>Nine Months<br/>Ended<br/>September 30,</b> |             |
|--|--|-------------|
|  | <b>2008</b>                                    | <b>2007</b> |
| <b>Supplemental disclosures of cash flow information:</b>      |  |             |
| Interest payments  | \$ 15,708                                      | \$ 20,243   |
| Income tax payments  | \$ 20,673                                      | \$ 10,265   |
| <b>Schedule of noncash investing and financing activities:</b> |  |             |
| Liabilities subordinated to claims of general creditors        | \$ -   | \$ 1,474    |
| Units, net of forfeitures                                      | \$ 53,447                                      | \$ 64,262   |
| Employee stock ownership shares                                | \$ 156   | \$ 156      |
| Stock and warrants issued for Ryan Beck acquisition            | \$ -   | \$ 118,969  |

*See Notes to Condensed Consolidated Financial Statements (unaudited).*

**STIFEL FINANCIAL CORP.**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**  
*(in thousands, except share and per share data)*

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING AND REPORTING POLICIES**

**Nature of Operations**

Stifel Financial Corp., through its wholly-owned subsidiaries, primarily Stifel, Nicolaus & Company, Incorporated ("Stifel Nicolaus"), Century Securities Associates, Inc. ("CSA"), Stifel Nicolaus Limited ("SN Ltd"), and Stifel Bank & Trust, collectively referred to as the "Company," 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 the Company has offices throughout the United States and three European cities, its major geographic area of concentration is in the Midwest and Mid-Atlantic regions with a growing presence in the East and West regions. The 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 subsidiaries. The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles ("GAAP") for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three and nine months ended September 30, 2008 are not necessarily indicative of the results that may be expected for the year ending December 31, 2008. For further information, refer to the consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2007.

On May 12, 2008, the Board of Directors authorized a 50% stock dividend, which was made in the form of a three-for-two stock split to shareholders of record on May 29, 2008 and distributed on June 12, 2008. Cash was distributed in lieu of fractional shares. All share and per share data (except par value) have been adjusted to reflect the effect of the stock split for all periods presented. The number of shares of common stock issuable upon exercise of outstanding stock options, vesting of other stock awards, and the number of shares reserved for issuance under various employee benefit plans were proportionately increased in accordance with the terms of the respective plans.

**Use of Estimates**

The preparation of the condensed consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Management considers its significant estimates, which are most susceptible to change and impacted significantly by judgments, assumptions and estimates, to be: the fair value of investments; the accrual for litigation; the allowance for doubtful receivables from loans and advances to financial advisors and other employees; the allowance for loan losses; the fair value of goodwill and intangible assets; the provision for income taxes and related tax reserves, the estimation of forfeitures associated with stock-based compensation, and interim incentive compensation accruals. Actual results could differ from those estimates.



### **Consolidation Policies**

The condensed consolidated financial statements include the accounts of Stifel Financial Corp. and its subsidiaries. The Company also has investments or interests in other entities for which it must evaluate whether to consolidate by determining whether it has a controlling financial interest or is considered to be the primary beneficiary. In determining whether to consolidate these entities or not, the Company determines whether the entity is a voting interest entity, a variable interest entity ("VIE"), or a qualified special purpose entity ("QSPE").

**Voting Interest Entity.** Voting interest entities are entities that have (i) total equity investment at risk sufficient to fund expected future operations independently; and (ii) equity holders who have the obligation to absorb losses or receive residual returns and the right to make decisions about the entity's activities. The Company consolidates voting interest entities in accordance with Accounting Research Bulletin ("ARB") No. 51, *Consolidated Financial Statements*, when it determines that it has a controlling financial interest, usually ownership of all, or a majority of, the voting interest.

**Variable Interest Entity.** VIEs are entities that lack one or more of the characteristics of a voting interest entity. The Company is required to consolidate VIEs in which it is deemed to be the primary beneficiary in accordance with Financial Accounting Standards Board ("FASB") Interpretation No. 46(R), *Consolidation of Variable Interest Entities (revised December 2003) - an interpretation of ARB No. 51 ("FIN 46(R))*. The primary beneficiary is defined as the entity that has a variable interest, or a combination of variable interests, that will either: (i) absorb a majority of the VIEs expected losses; (ii) receive a majority of the VIEs expected returns; or (iii) both.

**Qualified Special Purpose Entity.** QSPEs are entities established for a particular limited purpose, generally with significantly limited powers that are intended to limit it to passively holding financial assets and distributing cash flows based upon predetermined criteria. Statement of Financial Accounting Standards ("SFAS") No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities - a replacement of FASB Statement No. 125 ("SFAS No. 140")*, established the criteria an entity must satisfy to be a QSPE, including types of assets held, limits on asset sales, use of derivatives and financial guarantees, and discretion exercised in servicing activities. The Company does not consolidate QSPEs in accordance with the guidance in SFAS No. 140.

**Equity-Method Investments.** Entities in which the Company does not have a controlling financial interest (and therefore does not consolidate) but in which it exerts significant influence over the entities operating and financial policies (generally defined as owning a voting interest of 20 percent to 50 percent, or a limited partnership interest greater than 3 percent) are accounted for using the equity method of accounting prescribed by Accounting Principles Board ("APB") Opinion No. 18, *The Equity Method of Accounting for Investments in Common Stock*.

**Other.** The Company accounts for its investment in entities for which it does not consolidate or apply the equity method of accounting at fair value. These investments primarily consist of limited partnerships in which the Company is neither the general partner nor the managing partners.

### **Cash and Cash Equivalents**

The Company defines cash equivalents as short-term, highly liquid investments with original maturities of 90 days or less, other than those held for sale in the ordinary course of business.

### **Security Transactions**

Trading securities owned, and trading securities sold, but not yet purchased, are carried at fair value, and realized and unrealized gains and losses are included net in principal transaction revenues. Interest from trading securities owned and trading securities sold, but not yet purchased, is included in interest revenues.





Securities failed to deliver and failed to receive represent the contract value of securities that have not been delivered or received by settlement date.

Receivable from brokerage customers includes amounts due on cash and margin transactions. The value of securities owned by customers and held as collateral for these receivables is not reflected in the condensed consolidated statements of financial condition.

Securities purchased under agreements to resell ("Resale Agreements") and securities sold under agreements to repurchase ("Repurchase Agreements") are recorded at the contractual amounts that the securities will be resold/repurchased, including accrued interest. The Company's policy is to obtain possession or control of securities purchased under Resale Agreements and to obtain additional collateral when necessary to minimize the risk associated with this activity. All resale and repurchase agreement activity is concentrated with one counterparty.

Customer security transactions are recorded on a settlement date basis, with related commission revenues and expenses recorded on a trade date basis. Commission revenues are recorded at the amount charged to the customer, which, in certain cases, may include varying discounts. Principal securities transactions are recorded on a trade date basis. The Company distributes its proprietary equity research products to its client base of institutional investors at no charge. These proprietary equity research products are accounted for as a cost of doing business.

The security transactions discussed above are trading securities activities related to customer broker-dealer transactions and are reflected as operating activities on the Company's condensed consolidated statements of cash flows.

### **Securities Borrowing and Lending Activities**

Securities borrowed and securities loaned are recorded at the amount of cash collateral advanced or received. Securities borrowed transactions require the Company to deposit cash with the lender generally in excess of the market value of securities borrowed. With respect to securities loaned, the Company receives collateral in the form of cash in an amount generally in excess of the market value of securities loaned. The Company monitors the market value of securities borrowed and loaned generally on a daily basis, with additional collateral obtained or refunded as necessary. Substantially all of these transactions are executed under master netting agreements, which give the Company right of offset in the event of counterparty default; however, such receivables and payables with the same counterparty are not set off in the Company's condensed consolidated statements of financial condition.

### **Available-for-Sale Securities and Held-to-Maturity Securities**

Available-for-sale securities are securities for which the Company has no immediate plan to sell but which may be sold in the future and are held by Stifel Bank & Trust. Securities are classified as available-for-sale when, in management's judgment, they may be sold in response to, or in anticipation of, changes in market conditions. Securities classified as available-for-sale are reported at fair value, with unrealized gains and losses, net of deferred taxes, excluded from earnings and reported as other comprehensive income/(loss) until realized. The fair values of the securities are generally determined based upon quoted market prices or through pricing models that utilize observable inputs.

Held-to-maturity securities are investments in asset-backed securities, consisting of collateralized debt obligation securities, that Stifel Bank & Trust has the positive intent and ability to hold until maturity. Held-to-maturity securities are recorded at amortized cost.

Purchases of and proceeds from sales/maturities of available-for-sale securities and held-to-maturity securities are reflected as investing activities on the Company's condensed consolidated statements of cash flows. Amortization of premiums and accretion of discounts are recorded as interest expense/revenue. Realized gains and losses are recorded as net security gains (losses) in "Other revenues" on the condensed consolidated statements of operations. Gains and losses on sales of securities are determined on the specific-identification method.

Available-for-sale securities and held-to-maturity securities are regularly reviewed for losses that may be considered other than temporary. The Company considers several factors in its evaluation of other-than-temporary security declines, including: the severity and duration of the impairment; the financial condition and near-term prospects of the issuer or underlying issuers, including credit rating information and information obtained from regulatory filings; recent changes in market interest rates; and the Company's intent and ability to hold these securities until recovery or maturity. Management has evaluated the securities in an unrealized loss position and maintains the intent and ability to hold these securities to the earlier of the recovery of the losses or maturity for securities held as available-for-sale, or until maturity for securities classified as held-to-maturity. Should the impairment of any of these securities become other than temporary, the cost basis of the investment will be reduced and the resulting loss recognized in net income in the period the other-than-temporary impairment is identified.

### **Investments**

Investments on the condensed consolidated statements of financial condition contain the Company's investments in securities that are marketable and securities that are not readily marketable. These investments are not included in the Company's broker-dealer trading inventory or Stifel Bank & Trust's available-for-sale portfolio and represent the acquiring and disposing of debt or equity instruments for the Company's benefit. Marketable securities are carried at fair value, based on either quoted market or dealer prices, or accreted cost that approximates fair value, with gains or losses recorded in "Other revenues" on the condensed consolidated statements of operations. The fair value of investments for which a quoted market or dealer price is not readily available is based on management's estimates. Among the factors considered by management 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. 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. These investments were valued at \$24,950 and \$8,101 at September 30, 2008 and December 31, 2007, respectively. The marketable investments carried at fair value were \$37,472 and \$42,609 at September 30, 2008 and December 31, 2007, respectively. Investments carried at accreted cost, which approximates fair value, were \$18,072 and \$21,772 at September 30, 2008 and December 31, 2007, respectively.

### **Fair Value**

Substantially all of the Company's financial instruments, excluding securities classified as held-to-maturity, are carried at fair value or amounts that approximate fair value. Securities owned, and securities sold, but not yet purchased are valued using quoted market or dealer prices. Customer receivables, primarily consisting of floating-rate loans collateralized by customer-owned securities, are charged interest at rates similar to other such loans made throughout the industry. Other than those separately discussed in the notes to condensed consolidated financial statements, the Company's remaining financial instruments are generally short-term in nature and their carrying values approximate fair value.

The Company adopted the provisions of SFAS No. 157, *Fair Value Measurements* ("SFAS No.157"), on January 1, 2008. SFAS No. 157 applies to all financial instruments that are being measured and reported in "Trading securities owned and pledged", "Available-for-sale securities", "Investments", and "Trading securities sold, but not yet purchased" on the condensed consolidated statements of financial condition.

SFAS No. 157 defines fair value 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 (i.e., the "exit price"). This statement applies under other accounting pronouncements that require or permit fair value measurements and does not require any new

fair value measurements.

To differentiate between the basis of fair value measurements, SFAS No. 157 uses a three level hierarchy. The hierarchy is based on observable and unobservable inputs. Financial instrument fair values are ranked based on the significance of observable and unobservable inputs, with Level 1 reflecting the highest level of observable inputs and Level 3 reflecting the unobservable inputs.

Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the Company has the ability to access at the measurement date. An active market for the asset or liability is a market in which transactions for the asset or liability occur with sufficient frequency and volume to provide pricing information on an ongoing basis.

The Company generally includes the fair value measurements for the following financial instruments as Level 1:

Exchange-traded equity securities listed in active markets

U.S. Treasuries, and

Certain government obligations

Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. If the asset or liability has a specified (contractual) term, a Level 2 input must be observable for substantially the full term of the asset or liability. Level 2 inputs include the following:

1. Quoted prices for similar assets or liabilities in active markets;
2. Quoted prices for identical or similar assets or liabilities in markets that are not active, that is, markets in which there are few transactions for the asset or liability, the prices are not current, or price quotations vary substantially either over time or among market makers (for example, some brokered markets), or in which little information is released publicly (for example, a principal-to-principal market);
3. Inputs other than quoted prices that are observable for the asset or liability (for example, interest rates and yield curves observable at commonly quoted intervals, volatilities, prepayment speeds, loss severities, credit risks, and default rates); and
4. Inputs that are derived principally from or corroborated by observable market data by correlation or other means (market-corroborated inputs).

The Company generally includes the fair value measurements for the following financial instruments as Level 2:

Equity securities not actively traded

Corporate obligations infrequently traded

Certain government and municipal obligations

Certain bank notes

Interest rate swaps

Certain asset-backed securities ("ABS") consisting of collateral loan obligation ("CLO") securities, and

Certain mortgage-backed securities ("MBS")

Level 3 fair value measurements are based on unobservable inputs for the asset or liability. Unobservable inputs are used to measure fair value to the extent that observable inputs are not available, thereby allowing for situations in which there is little, if any, market activity for the asset or liability at the measurement date. Therefore, unobservable inputs reflect the Company's own assumptions about the inputs that market participants would use in pricing the asset or liability (including assumptions about risk).

The Company generally includes the fair value measurements for the following financial instruments as Level 3:

Equity securities with unobservable inputs

Certain corporate obligations with unobservable pricing inputs

Auction rate securities ("ARS")

Certain airplane trust certificates

Limited partnerships, and

Other Company investments

The Company's investments in ARS consist of ARS backed by state student loan bonds and closed-end mutual fund owned corporate stocks and bonds. These auction rate securities have been deemed to be illiquid, and, as a result, have been valued using unobservable inputs.

The Company has common stock ownership in a holding company with no observable inputs or data, resulting in the Company's total investment in this holding company being classified as Level 3. The Company also has an investment in a limited liability company in the form of a convertible promissory note. The Company estimates the fair value of its investment in this limited liability company using unobservable inputs.

### **Valuation Techniques**

In valuing certain assets where there is little or no market activity or observable inputs, the Company uses techniques appropriate for each particular product to estimate fair value. These techniques require some degree of judgment. These techniques utilize assumptions that market participants would use in pricing the asset, including assumptions about the risk inherent in the valuation technique and the effect of a restriction on the sale or use of an asset. Valuation models may incorporate the use of discounted cash flow analysis or may utilize other techniques that take into consideration such factors as benchmarking to similar instruments, analysis of default and deferral rates, credit spreads, and implied volatilities. The Company utilizes an outside valuation firm to assist in the valuation of its asset-backed securities in its available-for-sale portfolio. The outside valuation firm utilizes comprehensive models to price the securities in a way that is consistent with the values that the market has for other debt securities on a relative or spread connected basis. The models may include the following methodologies, as appropriate, for each individual security: determine market value of each asset in portfolio; calculate default rates for each asset individually, create correlation structure for portfolio, simulate portfolio future (Monte-Carlo) numerous times; run samples through waterfall; diagram net present value of flows to Tranches in different scenarios; and determine the value of the Tranches. The Company validates the inputs and other information utilized, where possible, in valuations provided by third parties.

Equity securities (corporate stocks) - All equity securities that are publicly traded stocks with observable prices in active markets receive a Level 1 rating, the highest in the hierarchy. Any equity security not actively traded is given a Level 2 rating, as these are priced based on similar assets traded in active markets. Several preferred corporate equity securities are held in the form of auction rate securities and were classified as Level 3 as a result of their illiquidity and priced at par. Currently, the \$10,825 of illiquid preferred corporate equity securities are carried at par based on outside pricing service valuation at par; evidence of calling by certain issuers for redemption or for restructuring of these securities at par; and current weighted-average interest rates of 10.5%, which would not indicate a discount from par.

Corporate obligations - Corporate obligations that are actively traded on major exchanges receive a Level 1 rating. Corporate obligations that are not actively traded on major exchanges and are valued using market data for similar instruments are considered Level 2. Any corporate obligation not actively traded and valued with unobservable inputs is classified as Level 3 and priced using techniques previously described. Level 3 corporate obligations principally consist of airplane trust certificates held in the form of asset-backed securities and enhanced equipment trust certificates.

Government obligations - The fair value of government obligations is generally based on quoted prices in active markets and is classified as Level 1. There are instances where quoted prices are not available. In these instances, fair value is determined based on observable market data for similar obligations; therefore, these obligations are generally classified as Level 2.



Municipal obligations - Municipal obligations that are valued based on quoted prices and actively traded daily are classified as Level 1. The fair values of municipal obligations not priced daily, but measured frequently, are estimated using recently executed transactions and are categorized as Level 2. Several state and municipal bonds are held in the form of auction rate securities. These obligations were given Level 3 classification due to the illiquid markets for these securities previously discussed and priced at a six percent discount based upon recent tender of certain bonds at that price.

Bank notes - Bank notes generally have recurring fair value measurements using significant observable market data and are classified as Level 2.

MBS securities - MBS that are actively traded on major exchanges receive a Level 1 rating. MBS that are not actively traded on major exchanges and are valued using market data for similar instruments are considered Level 2.

Asset-backed CDO and CLO securities - Where possible, the Company uses quoted prices on similar securities actively traded to price the securities and classifies these securities as Level 2. When sufficient information is not available to determine fair value under Level, 2, the Company uses model pricing techniques and classifies the securities as Level 3.

### **Mortgages Held for Sale**

Residential mortgages that are originated and held for sale are recorded at the lower of cost or market. Declines in market value below cost and any gains or losses on the sale of these assets are recognized in "Other revenues" on the condensed consolidated statements of operations. Market value is determined based on prevailing market prices for loans with similar characteristics or on sale contract prices. Deferred fees and costs related to these loans are not amortized but are recognized as part of the cost basis of the loan at the time it is sold.

### **Bank Loans and Allowance for Loan Losses**

Bank loans consist of commercial and residential mortgage loans, home equity loans, stock secured loans, construction loans and non-real-estate commercial and consumer loans originated by Stifel Bank & Trust. Bank loans that management has the intent and ability to hold are recorded at outstanding principal adjusted for any charge offs, allowance for loan losses, and deferred origination fees or costs. Loan origination costs, net of fees, are deferred and recognized over the contractual life of the loan as an adjustment of yield using the interest method. Bank loans are generally collateralized by real estate, real property, marketable securities, or other assets of the borrower. Interest income is recognized in the period using the effective interest rate method, which is based upon the respective interest rates and the average daily asset balance. Stifel Bank & Trust does not maintain any mortgage servicing rights on mortgages that are sold. Stifel Bank & Trust's loan portfolio does not have any investments in sub-prime mortgages.

The Company regularly reviews the loan portfolio and has established an allowance for loan losses in accordance with SFAS No. 5, *Accounting for Contingencies*. 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, management considers 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, the Company does 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 is established for individual loans determined to be impaired in accordance with SFAS No. 114, *Accounting by Creditors for Impairment of a Loan*. 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. The Company determines 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 management believes the uncollectibility of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance.

### **Bank Foreclosed Assets Held for Sale**

Assets acquired through, or in lieu of, loan foreclosure by Stifel Bank & Trust are held for sale and initially recorded at fair value, less estimated cost to sell, at the date of foreclosure, establishing a new cost basis. Subsequent to foreclosure, valuations are periodically performed and the assets are carried at the lower of carrying amount or fair value less cost to sell. Expenses from operations and changes in the valuation allowance are included in "Other operating expenses" on the condensed consolidated statements of operations.

### **Concentration Risk**

At September 30, 2008 and December 31, 2007, the Company did not have any material concentrations in its securities, investments, loans, or receivables portfolios in that it does not hold, nor is it committed to hold, large positions in certain types of securities, securities of a single issuer, issuers located in a particular country or geographical area, or issuers engaged in a particular industry.

### **Office Equipment and Leasehold Improvements**

Leasehold improvements are amortized over the shorter of their estimated useful life or the remaining term of the lease. Depreciation of office equipment is provided over estimated useful lives of three to seven years using accelerated methods. Upon retirement or disposition, the cost and related accumulated depreciation are removed from the accounts and any gain or loss is included in the results of operations. Repairs and maintenance costs are expensed as incurred. Office equipment and leasehold improvements are tested for potential impairment whenever events or changes in circumstances suggest that the carrying value of an asset or group may not be fully recoverable in accordance with SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets* ("SFAS No.144").

### **Goodwill and Intangible Assets**

Goodwill represents the cost of acquired businesses in excess of the fair value of the related net assets acquired. The Company does not amortize goodwill. In accordance with SFAS No. 142, *Goodwill and Other Intangible Assets*, goodwill is tested for impairment at least annually or whenever indications of impairment exist. In testing for the potential impairment of goodwill, management estimates the fair value of each of the Company's reporting units (generally defined as the Company's businesses for which financial information is available and reviewed regularly by

management), and compares it to their carrying value. If the estimated fair value of a reporting unit is less than its carrying value, management is required to estimate the fair value of all assets and liabilities of the reporting unit, including goodwill. If the carrying value of the reporting unit's goodwill is greater than the estimated fair value, an impairment charge is recognized for the excess. The Company has elected July 31<sup>st</sup> as its annual impairment testing date.

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 in accordance with SFAS No. 144.

### **Loans and Advances**

The Company offers transition pay, principally in the form of upfront loans, to financial advisors and certain key revenue producers as part of the Company's overall growth strategy. These loans are generally forgiven by a charge to "Employee compensation and benefits" over a five- to ten-year period if the individual satisfies certain conditions, usually based on continued employment and certain performance standards. Management monitors and compares individual financial advisor production to each loan issued to ensure future recoverability. 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, management considers 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 positions. The loan balance from former employees at September 30, 2008 and December 31, 2007 was \$2,611 and \$2,516, respectively, with associated loss allowances of \$1,656 and \$737, respectively.

### **Federal Home Loan Bank Stocks**

Federal Home Loan Bank stock of \$794 and \$206 at September 30, 2008 and December 31, 2007, respectively, included in "Other assets", is a required investment for institutions that are members of the Federal Home Loan Bank system and is recorded at cost. The required investment in the common stock is based on a predetermined formula.

### **Bank Deposits**

The fair value of demand deposit accounts, interest-bearing savings accounts with no stated maturity, and certain money market deposits is equal to the amount payable on demand (carrying value). The fair value of fixed maturity time deposits, such as certificate of deposits, approximates the carrying value at September 30, 2008 and December 31, 2007. The carrying amount of interest payable approximates its fair value.

### **Legal Loss Allowances**

The Company records loss allowances related to legal proceedings resulting from lawsuits and arbitrations, which arise from its business activities. Some of these lawsuits and arbitrations claim substantial amounts, including punitive damage claims. Management has determined that it is likely that the ultimate resolution of certain of these claims will result in losses to the Company. The Company has, after consultation with outside legal counsel and consideration of facts currently known by management, recorded estimated losses to the extent they believe certain claims are probable of loss and the amount of the loss can be reasonably estimated. Factors considered by management in estimating the Company's liability are the loss and damages sought by the claimant/plaintiff, the merits of the claim, the amount of loss in the client's account, the possibility of wrongdoing on the part of the employee of the Company, the total cost of defending the litigation, the likelihood of a successful defense against the claim, and the potential for fines and penalties from regulatory agencies. Results of litigation and arbitration are inherently uncertain, and management's assessment of risk associated therewith is subject to change as the proceedings evolve. After discussion with counsel, management, based on its understanding of the facts, accrues what they consider appropriate to provide loss allowances for certain claims, which is included in the condensed consolidated statements of financial condition under the caption "Accounts payable and accrued expenses."

### **Federal Home Loan Bank Advances and Other Secured Financing**

Advances from the Federal Home Loan Bank and federal funds purchased are recorded at outstanding principal plus accrued interest, which approximates fair value. The advances are secured by an assignment of certain loans held by the Stifel Bank & Trust, as well as certain bank owned securities, and the federal funds purchased are secured by

certain bank owned securities.

### **Investment Banking**

Investment banking revenues include advisory fees, management fees, underwriting fees, net of reimbursable expenses, and sales credits earned in connection with the distribution of the underwritten securities. Investment banking management fees are recorded on the offering date, sales credits on trade date, and underwriting fees at the time the underwriting is completed and the income is determinable. Revenues derived from contractual arrangements, typically advisory fees, are recorded when payments are earned and contractually due. Expenses associated with investment banking transactions are deferred until the related revenue is recognized or the engagement is otherwise concluded. For the periods presented, there were no significant expenses recognized for incomplete transactions. The Company has not recognized any incentive income that is subject to contingent repayments.

### **Asset Management and Service Fees**

Asset management and service fees are recorded based on the month-end assets in the accounts when earned and consist of customer account service fees, per account fees (such as IRA fees), and wrap fees on managed accounts.

### **Stock-Based Compensation**

On January 1, 2006, the Company adopted the provisions of SFAS No. 123 (revised 2004), *Share-Based Payment* ("SFAS No. 123R"), using the modified prospective application method, which requires the measurement and recognition of compensation expense for all share-based payment awards made to employees and directors based on estimated fair values. Under this method, SFAS No. 123R applies to new awards and to awards outstanding on the effective date as well as those that are subsequently modified or cancelled. Compensation expense for outstanding awards for which the requisite service had not been rendered as of the effective date will be recognized over the remaining service period using the compensation cost calculated for pro forma disclosure purposes under SFAS No. 123, *Accounting for Stock-Based Compensation* ("SFAS No. 123"). Accordingly, prior period amounts have not been restated to reflect the impact of SFAS No. 123R. Additionally, SFAS No. 123R amends SFAS No. 95, *Statement of Cash Flows*, to require the excess tax benefits to be reported as a financing cash inflow rather than a reduction of taxes paid, which is included within operating cash flows. See Note N to these condensed consolidated financial statements for a further discussion of stock-based compensation.

### **Income Taxes**

The Company utilizes the asset and liability approach defined in SFAS No. 109, *Accounting for Income Taxes* ("SFAS No. 109"). The provision for income taxes and related tax accruals are based on management's 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 the Company's tax return filings. Factors considered by management in estimating the Company's liability are results of tax audits, historical experience, and consultation with tax attorneys and other experts. Deferred income taxes are recognized for the future tax consequences attributable to differences between the financial reporting and income tax bases of assets and liabilities. Valuation allowances are established when necessary to reduce deferred taxes to amounts expected to be realized.

On January 1, 2007, the Company adopted the provisions of FASB Interpretation No.48, *Accounting for Uncertainty in Income Taxes-An interpretation of FAS Statement No. 109* ("FIN 48"). FIN 48 clarified the accounting for uncertainty in income taxes recognized in an entity's financial statements in accordance with SFAS No. 109 and

prescribed recognition threshold and measurement attributes for financial statement disclosure of tax positions taken or expected to be taken on a tax return. Under FIN 48, 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, FIN 48 provided guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. The adoption of FIN 48 did not have a material impact on the Company's condensed consolidated financial statements. See Note P to these condensed consolidated financial statements for a further discussion on income taxes.

### **Comprehensive Income**

SFAS No. 130, *Reporting Comprehensive Income* ("SFAS No. 130") establishes standards for reporting and display of comprehensive income and its components (revenue, gains and losses) in a full set of general purpose financial statements. SFAS No. 130 requires that all components of comprehensive income, including net income, be reported in a financial statement that is displayed with the same prominence as other financial statements. Comprehensive income is defined as the change in equity during a period from transactions and other events and circumstances from non-owner sources. Net income and other comprehensive income, including unrealized gains and losses on investments, are reported, net of their related tax effect, to arrive at comprehensive income.

The components of accumulated other comprehensive income, net of related tax, at September 30, 2008 and December 31, 2007 consist of unrealized holding losses on available-for-sale securities. For the three and nine months ended September 30, 2008 and 2007, there were no significant reclassifications of losses out of accumulated other comprehensive income into earnings.

### **Derivative Financial Instruments**

The Company accounts for derivative financial instruments and hedging activities in accordance with SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities* ("SFAS No. 133"), as subsequently amended by SFAS No. 137, *Accounting for Derivative Instruments and Hedging Activities - Deferral of the Effective Date of FASB Statements No. 133*, SFAS No. 138, *Accounting for Certain Derivative Instruments and Certain Hedging Activities*, and SFAS No. 149, *Amendments of Statement 133 on Derivative Instruments and Hedging Activities*, which establishes accounting and reporting standards for stand-alone derivative instruments, derivatives embedded within other contracts or securities, and hedging activities. The Company principally utilizes interest rate swaps, on occasion, to economically hedge the fair value of securities in its Fixed Income Capital Markets business; however, these derivatives do not qualify for, nor receive, SFAS No. 133 hedge accounting. Accordingly, all derivatives are carried in the Company's condensed consolidated statements of financial condition at fair value with any realized and unrealized gains or losses recorded in the condensed consolidated statement of operations for that period. Any collateral exchanged as part of the swap agreement is recorded in broker receivables and payables in the condensed consolidated statements of financial condition.

The Company elects to net-by-counterparty the fair value of interest rate swap contracts as provided for under FIN 39, *Offsetting of Amounts Related to Certain Contracts*, and amended by FASB Interpretation No. 39-1, *Amendment of FASB Interpretation No. 39* ("FIN 39-1"), as long as the contracts contain a legally enforceable master netting arrangement. The fair value of those swap contracts are netted by counterparty in the Company's condensed consolidated statements of financial condition.

The Company did not have any open derivative positions at September 30, 2008 or December 31, 2007.

### **Recent Accounting Pronouncements**

In December 2007, the FASB issued SFAS No. 141 (Revised 2007), *Business Combinations* ("SFAS No. 141R"). SFAS No. 141R retains the fundamental requirement in SFAS No. 141 that the acquisition method of accounting be used for all business combinations and for an acquirer to be identified for each business combination. SFAS No. 141R

establishes principles and requirements for how the acquirer: a) recognizes and measures in its financial statement the identifiable assets acquired, the liabilities assumed, and any noncontrolling interest in the acquiree; b) recognizes and measures the goodwill acquired in the business combination or a gain from a bargain purchase; and c) determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination. SFAS No. 141R applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008.

The Company will evaluate the impact that the adoption of SFAS No. 141R will have on the Company's consolidated financial statements upon future acquisitions.

In December 2007, the FASB issued SFAS No. 160, *Noncontrolling interests in Consolidated Financial Statements - an amendment of ARB No. 51* ("SFAS No. 160"). SFAS No. 160 establishes accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. SFAS No. 160 changes the way the consolidated income statement is presented, establishes a single method of accounting for changes in a parent's ownership interest in a subsidiary that do not result in deconsolidation, requires that a parent recognize a gain or loss in net income when a subsidiary is deconsolidated, and requires expanded disclosures in the consolidated financial statements that clearly identify and distinguish between the interests of the parent's owners and the interests of the noncontrolling owners of a subsidiary. SFAS No. 160 is effective for fiscal years beginning on or after December 15, 2008 and shall be applied prospectively as of the beginning of the fiscal year in which the Statement is adopted, except that the presentation and disclosure requirements shall be applied retrospectively for all periods presented. The Company is evaluating the impact that the adoption of SFAS No. 160 will have on the Company's consolidated financial statements.

In February 2008, the FASB issued FASB Staff Position ("FSP") FAS No. 157-2, *Effective Date of FASB Statement No. 157* ("FSP No. 157-2"). FSP No. 157-2 defers the effective date of SFAS No. 157, *Fair Value Measurements*, to fiscal years beginning after November 15, 2008 for nonfinancial assets and nonfinancial liabilities, except for items that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). The Company does not anticipate that the adoption of FSP No. 157-2 related to nonfinancial assets and nonfinancial liabilities will have a significant impact on the Company's consolidated financial statements.

In March 2008, the FASB issued SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities - an amendment of FASB Statement No. 133* ("SFAS No. 161"). SFAS No. 161 requires enhanced disclosures about (a) how and why an entity uses derivative instruments, (b) how derivative instruments and related hedged items are accounted for under SFAS No. 133 and its related interpretations, and (c) how derivative instruments and related hedged items affect an entity's financial position, financial performance, and cash flows. SFAS No. 161 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008, with early application encouraged. The Company is evaluating the impact that the adoption of SFAS No. 161 will have on the Company's consolidated financial statements.

In April 2008, the FASB issued FSP No. FAS 142-3, *Determination of the Useful Life of Intangible Assets* ("FSP No. 142-3"). FSP No. 142-3 amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under FASB Statement No. 142, *Goodwill and Other Intangible Assets* and requires additional disclosures to enable users of financial statements to assess the extent to which the expected future cash flows associated with the asset are affected by the entity's intent and/or ability to renew or extend the arrangement. FSP No. 142-3 is effective for fiscal years beginning after December 15, 2008 and interim periods within those fiscal years. The Company is evaluating the impact that the adoption of FSP No. 142-3 will have on the Company's consolidated financial statements.

In June 2008, the FASB issued FSP EITF No. 03-6-1, *Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities* ("FSP EITF No. 03-6-1"). FSP EITF No. 03-6-1 addresses whether instruments granted in share-based payment transactions are participating securities prior to vesting and, therefore, need to be included in the earnings allocation in computing earnings per share under the two-class method described in SFAS No. 128, *Earnings per Share*. FSP EITF No. 03-6-1 specifies that unvested share-based payment awards that contain nonforfeitable rights to dividends or dividend equivalents (whether paid or unpaid) are participating securities and shall be included in the computation of earnings per share pursuant to the two-class method. FSP EITF No. 03-6-1 is effective for fiscal years beginning after December 15, 2008, and interim periods

within those years. Early application is not permitted. The Company does not expect the adoption of FSP EITF No. 03-6-1 to have a material effect on its results of operations or earnings per share.

**NOTE B - ACQUISITIONS**

On February 28, 2007, the Company closed on the acquisition of Ryan Beck Holdings, Inc. and its wholly-owned broker-dealer subsidiary, Ryan Beck & Company, Inc. ("Ryan Beck"), from BankAtlantic Bancorp, Inc. Ryan Beck's results of operations have been included in the Company's condensed consolidated statements of operations prospectively beginning on the date of acquisition. This acquisition extends the Company's geographic reach in the East and Southeast regions and leverages the capabilities of the Company's capital markets business, strong research platforms, and technology and operations infrastructure.

Under the terms of the agreement, the Company paid initial consideration of approximately \$2,653 in cash and issued 3,701,400 shares of Company common stock valued at \$27.70 per share, which was the five day average closing price of Company common stock for the two days prior to, the day of, and two days subsequent to January 9, 2007, the date the negotiations regarding the principal financial terms were substantially completed, for a total initial consideration of approximately \$105,182. The cash portion of the purchase price was funded from cash generated from operations. In addition, the Company issued, upon obtaining shareholder approval, five-year immediately exercisable warrants to purchase up to 750,000 shares of Company common stock at an exercise price of \$24.00 per share. Shareholders approved the issuance of the warrants on June 22, 2007. The estimated fair value of the warrants on the date of closing and issuance were \$16,440 and \$16,895, respectively.

In addition, a contingent earn-out payment is payable based on defined revenues attributable to specified individuals in Ryan Beck's existing private client division over the two-year period following closing. This earn-out is capped at \$40,000. A second contingent payment is payable based on defined revenues attributable to specified individuals in Ryan Beck's existing investment banking division. The investment banking earn-out is equal to 25% of the amount of investment banking fees, as defined, over \$25,000 for each successive year in the two year period following closing. Each of the contingent earn-out payments is payable, at the Company's election, in cash or common stock. Any contingent payments will be reflected as additional purchase consideration and reflected in goodwill. The Company obtained the approval of shareholders on June 22, 2007 for the issuance of up to 1,500,000 additional shares of Company common stock for the payment of contingent earn-out consideration. The Company has estimated a potential private client contingent earn-out payment of approximately \$22,000 based upon actual-to-date revenue production and current projections. On August 14, 2008, the Company agreed to prepay \$9,585 of BankAtlantic's pro-rata share of that estimated private client contingent earn-out payment in exchange for a \$10,000 permanent reduction of BankAtlantic's pro-rata share of the private client contingent payment. The Company elected to make such pre-payment using 233,500 shares of Company common stock at an agreed upon per share price of \$41.05 per share. In the event that BankAtlantic's pro-rata portion of the private client contingent payment is less than \$10,000, BankAtlantic has agreed to reimburse the shortfall. There is no liability for the remaining estimated contingent earn-out recorded at September 30, 2008 as the liability is not determinable beyond a reasonable doubt. The Company paid the contingent payment of \$1,790 related to the first year investment banking earn-out in 57,059 shares of Company common stock valued at \$31.35 per share in the second quarter of 2008, with partial shares paid in cash. Based upon current trends and projections, the Company does not anticipate that a payment will be due for the second year investment banking contingent earn-out.

In addition to the transaction consideration described above, the Company i) established a retention program for certain associates of Ryan Beck valued at approximately \$47,916, consisting of \$24,423 employee loans paid in cash and 591,269 Company restricted stock units ("Units") valued at \$23,493 using a share price of \$39.73, the price on the date of shareholder approval; and ii) issued 420,372 Units valued at approximately \$16,703 using the price on the date of shareholder approval, in exchange for Ryan Beck Appreciation Units related to the Ryan Beck deferred compensation plan. On June 22, 2007, the Company obtained shareholder approval for the Stifel Financial 2007 Incentive Stock Plan from which the above units were issued. Additionally, as a result of the amendment to the Ryan Beck deferred compensation plans in June 2007, the Company recorded a \$20,568 charge to employee compensation

and benefits.

The goodwill and intangible assets of \$74,355 recorded in this transaction were assigned to the Private Client Group, Equity Capital Markets and Fixed Income Capital Markets in the amounts of \$56,547, \$13,829, and \$3,979, respectively. The total amount of goodwill and intangible assets is not deductible for tax purposes.

The following unaudited pro forma financial data assumes the acquisition of Ryan Beck had occurred at the beginning of 2007. The pro forma financial information is presented for informational purposes only and is not indicative of the results of operations that would have been achieved if the acquisition had taken place at the beginning of 2007. The unaudited pro forma results include pro-rata compensation expense related to the amortization of \$24,423 employee loans paid in cash. The unaudited pro forma results do not include any anticipated Ryan Beck future cost savings related to the elimination of clearing fees and redundant corporate overhead expenses.

***Nine Months Ended***  
***September 30, 2007(unaudited)***

***(in thousands, except per share data)***

|   |            |
|---|------------|
| Total revenues                              | \$ 587,731 |
| Net income                                  | \$ 13,629  |
| Diluted earnings per share                  | \$ 0.52    |
| Diluted weighted average shares outstanding | 26,169     |

On April 2, 2007, the Company completed its acquisition of First Service Financial Company ("First Service"), a Missouri corporation, and its wholly-owned subsidiary First Service Bank, a Missouri bank, by means of the merger (the "Merger") of First Service with and into FSFC Acquisition Co. ("AcquisitionCo"), a Missouri corporation and wholly-owned subsidiary of the Company, with AcquisitionCo surviving the Merger. The acquisition was completed to serve the Private Client Group more effectively and to position the Company for growth by leveraging our large private client network. The total consideration paid by the Company in the Merger for all of the outstanding shares of First Service was \$37,896 in cash; of this amount, approximately \$990 has been deposited into escrow pending satisfaction of certain contingencies provided for in an escrow agreement among the Company, First Service, AcquisitionCo, UMB Bank, N.A., as escrow agent, and the shareholders' committee specified in the escrow agreement. The acquisition was funded by the net proceeds to the Company from the sale of the Junior Subordinated Debentures to Stifel Financial Capital Trust III. Upon consummation of the Merger, the Company became a bank holding company and a financial holding company, subject to the supervision and regulation of The Board of Governors of the Federal Reserve System. Also, First Service Bank has converted its charter from a Missouri bank to a Missouri trust company and changed its name to Stifel Bank & Trust.

The goodwill and intangible assets of \$18,842 recorded in this transaction were assigned to a newly created "Stifel Bank" operating segment. The total amount of goodwill and intangible assets is not deductible for tax purposes.

Supplemental pro forma information is not presented because the acquisition is not considered to be material. The results of operations of First Service are included in the Company's condensed consolidated statements of operations prospectively from the date of acquisition.

**NOTE C - FAIR VALUE MEASUREMENTS**

The Company's financial instruments recorded at fair value have been categorized based upon a fair value hierarchy in accordance with SFAS No. 157. See Note A to these condensed consolidated financial statements for a further discussion regarding the Company's policies regarding this hierarchy.

The following tables present information about the Company's financial instruments measured at fair value on a recurring basis as of September 30, 2008:

**Assets and Liabilities Measured at Fair Value on a Recurring Basis as of September 30, 2008**

| <i>(in thousands)</i>                                    | Quoted Prices in Active<br>Markets for Identical<br>Assets (Level 1) | Significant Other<br>Observable Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) | Balance as of<br>September 30,<br>2008 |
|--|--|---|--|--|
| <b>Assets</b>  |  |   |  |  |
| <b>Trading securities owned and pledged:</b>             |  |   |  |  |
| U.S. government and agency securities                    | \$ 9,526   | \$ 42,999   | \$ --  | \$ 52,525                              |
| State and municipal bonds                                | --   | 56,720  | 11,045   | 67,765                                 |
| Corporate obligations                                    | --   | 94,425  | 21,707   | 116,132                                |
| Corporate stocks   | 18,113   | 387   | 10,825   | 29,325                                 |
| Total trading securities owned and pledged               | 27,639   | 194,531   | 43,577   | 265,747                                |
| <b>Available-for-sale securities:</b>                    |  |   |  |  |
| U.S. government agencies                                 | --   | 8,556   | --   | 8,556                                  |
| State and political subdivisions                         | --   | 9,823   | --   | 9,823                                  |
| Mortgage-backed securities-agency collateralized         | --   | 12,715  | --   | 12,715                                 |
| Mortgage-backed securities-non-agency collateralized     | --   | 21,702  | --   | 21,702                                 |
| Asset-backed securities                                  | --   | 12,796  | --   | 12,796                                 |
| Total available-for-sale securities                      | --   | 65,592  | --   | 65,592                                 |
| <b>Investments:</b>                                      |  |   |  |  |
| Marketable equity securities                             | 1,797  | 838   | --   | 2,635                                  |
| Mutual funds   | 25,586   | 1,114   | --   | 26,700                                 |
| U.S. government obligations                              | 8,871  | 18,424  | --   | 27,295                                 |
| Other investments  | 178  | 40  | 23,646   | 23,864                                 |
| Total investments  | 36,432   | 20,416  | 23,646   | 80,494                                 |
| Total assets measured at fair value on a recurring basis | \$ 64,071  | \$ 280,539  | \$ 67,223  | \$ 411,833                             |

| Quoted Prices in Active<br>Markets for Identical<br>Assets (Level 1) | Significant Other<br>Observable Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs | Balance as of<br>September 30, |
|--|---|---------------------------------------|--------------------------------|
|--|---|---------------------------------------|--------------------------------|



*(in thousands)***(Level 3)****2008****Liabilities**

|   |           |            |       |            |
|---|-----------|------------|-------|------------|
| Trading securities sold,<br>but not yet purchased:                  |           |            |       |            |
| U.S. government and<br>agency securities                            | \$ 48,363 | \$ --      | \$ -- | \$ 48,363  |
| State and municipal<br>bonds  | --        | 344        | --    | 344        |
| Corporate obligations   | --        | 136,790    | --    | 136,790    |
| Corporate stocks  | 16,188    | 7,614      | --    | 23,802     |
| Total trading securities<br>sold, but not yet<br>purchased          | 64,551    | 144,748    | --    | 209,299    |
| Total liabilities<br>measured at fair value<br>on a recurring basis | \$ 64,551 | \$ 144,748 | \$ -- | \$ 209,299 |

**Assets Measured at Fair Value on a Recurring Basis Using Significant Unobservable Inputs (Level 3)  
Three Months Ended September 30, 2008**

| <i>(in thousands)</i>                     | Trading Securities Owned<br>and Pledged |  | Available-for-Sale<br>Securities |  | Investments | Total     |
|---|---|--|----------------------------------|--|-------------|-----------|
|   |   |  |                                  |  |             |           |
| Balance, beginning of period              | \$ 16,106                               |  | \$ 11,020                        |  | \$ 17,038   | \$ 44,164 |
| Unrealized losses                         |   |  |                                  |  |             |           |
| Included in net income                    | (275)                                   |  |                                  |  | (641)       | (916)     |
| Included in other<br>comprehensive income | --                                      |  | --                               |  | --          | --        |
| Realized gains (losses)                   | --                                      |  | --                               |  | --          | --        |
| Purchases, issuances, and<br>settlements  | 27,746                                  |  | (11,020)                         |  | 7,249       | 23,975    |
| Transfers in to level 3                   | --                                      |  | --                               |  | --          | --        |
| Transfers out of Level 3                  | --                                      |  | --                               |  | --          | --        |
| Balance at September 30, 2008             | \$ 43,577                               |  | \$ --                            |  | \$ 23,646   | \$ 67,223 |

**Assets Measured at Fair Value on a Recurring Basis Using Significant Unobservable Inputs (Level 3)  
Nine Months Ended September 30, 2008**

| <i>(in thousands)</i>                     | Trading Securities Owned<br>and Pledged |  | Available-for-Sale<br>Securities |  | Investments | Total     |
|---|---|--|----------------------------------|--|-------------|-----------|
|   |   |  |                                  |  |             |           |
| Balance at January 1, 2008                | \$ --                                   |  | \$ 10,074                        |  | \$ 5,653    | \$ 15,727 |
| Unrealized losses                         |   |  |                                  |  |             |           |
| Included in net income                    | (3,263)                                 |  | --                               |  | (1,081)     | (4,344)   |
| Included in other<br>comprehensive income | --                                      |  | (2,500)                          |  | --          | (2,500)   |
| Realized gains (losses)                   | --                                      |  | --                               |  | (281)       | (281)     |
| Purchases, issuances, and<br>settlements  | 31,475                                  |  | (11,020)                         |  | 19,355      | 39,810    |
| Transfers in to level 3                   | 15,365                                  |  | 11,020                           |  |             | 26,385    |
| Transfers out of Level 3                  | --                                      |  | (7,574)                          |  | --          | (7,574)   |
| Balance at September 30, 2008             | \$ 43,577                               |  | \$ --                            |  | \$ 23,646   | \$ 67,223 |

The results included in the table above are only a component of the overall trading strategies of the Company. The table above does not present Level 1 or Level 2 valued assets or liabilities. The Company did not have any Level 3 liabilities at September 30, 2008 or January 1, 2008. The changes to the Company's Level 3 classified instruments were principally a result of: transfers of preferred and municipal auction rate securities from Level 2 into Level 3 during the first quarter; purchases during the second and third quarter; unrealized losses; sales of auction rate securities at par during the third quarter; and transfers out at the end of the second quarter. On June 30, 2008, Stifel Bank & Trust transferred a \$10,000 par value of asset-backed security from its available-for-sale portfolio to its held-to-maturity portfolio. The estimated fair value at the date of transfer was \$7,574. See further discussion regarding this transfer in Note E to these condensed consolidated financial statements. During September 2008, \$11,600 par value of auction rate securities were called at par. The Company was carrying these auction rate securities at the estimated fair value of \$11,020 due to the illiquid markets for these types of securities. As a result, the \$580 unrealized loss and related deferred tax benefit were removed from accumulated other comprehensive income.



**NOTE D - TRADING SECURITIES OWNED AND TRADING SECURITIES SOLD, BUT NOT YET PURCHASED**

The components of trading securities owned and trading securities sold, but not yet purchased at September 30, 2008 and December 31, 2007, are as follows:

| <i>(in thousands)</i>            | September 30, 2008 |               | December 31, 2007 |               |
|----------------------------------|--------------------|---------------|-------------------|---------------|
|                                  | Sold, But Not      |               | Sold, But Not     |               |
|                                  | Owned              | Yet Purchased | Owned             | Yet Purchased |
| <b>Securities, at fair value</b> |                    |               |                   |               |
| U.S. Government obligations      | \$ 52,525          | \$ 48,363     | \$ 53,086         | \$ 15,582     |
| State and municipal bonds        | 67,765             | 344           | 52,257            | 68            |
| Corporate obligations            | 116,132            | 136,790       | 14,150            | 11,856        |
| Corporate stocks                 | 29,325             | 23,802        | 17,565            | 9,107         |
|                                  | \$ 265,747         | \$ 209,299    | \$ 137,058        | \$ 36,613     |

The Company pledges securities owned as collateral to counterparties, who have the ability to repledge the collateral; therefore, the Company has reported the pledged securities under the caption "Trading securities owned and pledged, at fair value" in the condensed consolidated statements of financial condition.

**NOTE E - AVAILABLE-FOR-SALE SECURITIES AND HELD-TO-MATURITY SECURITIES**

The following tables provide a summary of the amortized cost and fair values of available-for-sale securities and held-to-maturity securities at September 30, 2008 and December 31, 2007:

| <i>(in thousands)</i>                                    | September 30, 2008 |                        |                         |            |
|--|--------------------|------------------------|-------------------------|------------|
|  | Amortized Cost     | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
| <b>Available-for-sale:</b>                               |                    |                        |                         |            |
| U.S. Government agencies                                 | \$ 8,444           | \$ 112                 | \$ --                   | \$ 8,556   |
| State and political subdivisions                         | 9,814              | 9                      | --                      | 9,823      |
| Mortgage-backed securities-<br>agency collateralized     | 13,012             | --                     | (297)                   | 12,715     |
| Mortgage-backed securities-<br>non-agency collateralized | 23,315             | --                     | (1,613)                 | 21,702     |
| Asset-backed securities                                  | 14,606             | --                     | (1,810)                 | 12,796     |
| <b>Total available-for-sale</b>                          | \$ 69,191          | \$ 121                 | \$ (3,720)              | \$ 65,592  |
| <b>Held-to-maturity:</b>                                 |                    |                        |                         |            |
| Asset-backed securities                                  | \$ 7,574           | \$ --                  | \$ (573)                | \$ 7,001   |

**December 31, 2007**  
**Gross Unrealized Gains Gross Unrealized Losses**

*(in thousands)*

|  | Amortized Cost   |               |                   | Fair Value       |
|--|------------------|---------------|-------------------|------------------|
| <b>Available-for-sale</b>                                |                  |               |                   |                  |
| U.S. Government agencies                                 | \$ 22,485        | \$ 278        | \$ (1)            | \$ 22,762        |
| State and political subdivisions                         | 15,121           | 5             | - -               | 15,126           |
| Mortgage-backed securities-<br>agency collateralized     | 13,465           | - -           | (10)              | 13,455           |
| Mortgage-backed securities-<br>non-agency collateralized | 14,444           | 232           | - -               | 14,676           |
| Corporate bonds  | 2,993            | - -           | (23)              | 2,970            |
| Asset-backed securities                                  | 19,699           | - -           | (1,581)           | 18,118           |
| <b>Total available-for-sale</b>                          | <b>\$ 88,207</b> | <b>\$ 515</b> | <b>\$ (1,615)</b> | <b>\$ 87,107</b> |

During the three and nine months ended September 30, 2008, available-for-sale securities with an aggregate par value of \$19,200 and \$28,906, respectively, were called by the issuing agencies or matured, including \$11,600 par value of auction rate securities, resulting in no gains or losses recorded through the condensed consolidated statement of operations. Additionally, for the three and nine months ended September 30, 2008, the Company received principal payments on asset-backed and mortgage-backed securities of \$892 and \$2,546, respectively. During the second quarter of 2008, the Company sold corporate bonds for the approximate carrying value (fair value) of \$2,993. There were no calls, sales, maturities, or principal payments during the three or nine months ended September 30, 2007. During the three and nine months ended September 30, 2008, unrealized losses, net of deferred tax benefits, of \$1,387 and \$3,312, respectively, were recorded in accumulated other comprehensive loss. During the three and nine months ended September 30, 2007, unrealized gains (losses), net of deferred tax benefits, of \$136 and (\$147), respectively, were recorded in accumulated other comprehensive loss. There were no material realized gains or losses related to available-for-sale securities for the three and nine months ended September 30, 2008 and 2007.

On June 30, 2008, Stifel Bank & Trust transferred a \$10,000 par value ABS, consisting of investment-grade trust preferred securities related primarily to banks, with an amortized cost basis of \$10,069 from its available-for-sale securities portfolio to its held-to-maturity portfolio. This security was transferred at the estimated fair value of \$7,574. The gross unrealized loss of \$2,495 included in accumulated other comprehensive income will be amortized as an adjustment of yield over the remaining life of the security. During the three months ended September 30, 2008, amortization of \$19, net of tax, related to the unrealized loss was recorded as an adjustment of yield. The estimated fair value of these held-to-maturity securities at September 30, 2008 was \$7,001. The estimated 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. Based upon the results of this analysis and Stifel Bank & Trust's intent and ability to hold this investment to maturity, the Company has determined that the expected cash flows of this investment support the estimated fair value.

The amortized cost and fair value of available-for-sale securities and held-to-maturity securities at September 30, 2008 by contractual maturity, is shown below. Expected maturities will differ from contractual maturities because issuers may have the right to call or prepay obligations with or without call or prepayment penalties.

| <i>(in thousands)</i>   | <b>Available-for-sale</b> |                   | <b>Held-to-maturity</b> |                 |
|---|---------------------------|-------------------|-------------------------|-----------------|
|   | <b>Amortized</b>          | <b>Fair Value</b> | <b>Amortized</b>        | <b>Fair</b>     |
|   | <b>Cost</b>               |                   | <b>Cost</b>             | <b>Value</b>    |
| <b>U.S. Government and state and political agencies and other non-mortgage debt securities:</b> |                           |                   |                         |                 |
| Within one year   | \$ 4,300                  | \$ 4,300          | \$ --                   | \$ --           |
| One to three years  | 14,016                    | 12,714            | --                      | --              |
| Three to five years   | 2,043                     | 1,575             | --                      | --              |
| Five to ten years   | 8,505                     | 8,586             | --                      | --              |
| Over ten years  | 4,000                     | 4,000             | --                      | --              |
| <b>Mortgage-backed securities:</b>  |                           |                   |                         |                 |
| Over twenty-five years  | 36,327                    | 34,417            | 7,574                   | 7,001           |
| <b>Total</b>  | <b>\$ 69,191</b>          | <b>\$ 65,592</b>  | <b>\$ 7,574</b>         | <b>\$ 7,001</b> |

The carrying value of securities pledged as collateral to secure public deposits and for other purposes was \$43,151 and \$12,105 at September 30, 2008 and December 31, 2007, respectively.

Certain investments in the available-for-sale portfolio at September 30, 2008 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 September 30, 2008 was \$47,213, which was approximately 72% of the Company's available-for-sale investment portfolio. The amortized cost basis of these investments was \$50,933 at September 30, 2008. The declines in the available-for-sale portfolio primarily resulted from changes in interest rates and the widening of credit spreads, and the liquidity issues that have had a pervasive impact on the market. 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:

| <i>(in thousands)</i>                                 | <b>Less than 12 months</b> |                   | <b>12 months or more</b> |                   | <b>Total</b>            |                   |
|---|----------------------------|-------------------|--------------------------|-------------------|-------------------------|-------------------|
|   | <b>Gross Unrealized</b>    |                   | <b>Gross Unrealized</b>  |                   | <b>Gross Unrealized</b> |                   |
|   | <b>Losses</b>              | <b>Fair Value</b> | <b>Losses</b>            | <b>Fair Value</b> | <b>Losses</b>           | <b>Fair Value</b> |
| <b>Available-for-sale</b>                             |                            |                   |                          |                   |                         |                   |
| Mortgage-backed securities- agency collateralized     | \$ (297)                   | \$ 12,715         | \$ --                    | \$ --             | \$ (297)                | \$ 12,715         |
| Mortgage-backed securities- non-agency collateralized | (1,613)                    | 21,702            | --                       | --                | (1,613)                 | 21,702            |
| Asset-backed securities                               | (1,114)                    | 7,679             | (696)                    | 5,117             | (1,810)                 | 12,796            |
| <b>Total available-for-sale</b>                       | <b>\$ (3,024)</b>          | <b>\$ 42,096</b>  | <b>\$ (696)</b>          | <b>\$ 5,117</b>   | <b>\$ (3,720)</b>       | <b>\$ 47,213</b>  |

Stifel Bank & Trust's investment in a held-to-maturity asset-backed security consists of investment grade pools of trust preferred securities related primarily to banks. Unrealized losses were caused primarily by: 1) widening of credit spreads; 2) illiquid markets for CDOs; 3) global disruptions in the credit markets; and 4) increased supply of CDO secondary market securities from distressed sellers. There have been no adverse changes to the estimated cash flows of these securities.

Stifel Bank & Trust's available-for-sale securities and held-to-maturity security are reviewed quarterly according to the Company's policy discussed in Note A to assess credit quality and to determine if any impairment is other than temporary. The Company believes the declines in fair value for these securities are temporary. There has been no decline in fair value attributable to credit quality, and Stifel Bank & Trust has the ability and intent to hold these investments until a recovery of fair value, which may be maturity. Should the impairment of any of these securities become other than temporary, the cost basis of the investment will be reduced and the resulting loss recognized in net income in the period the other-than-temporary impairment is identified.

#### NOTE F - BANK LOANS

The following table provides a summary of Stifel Bank & Trust's loan portfolio at September 30, 2008 and December 31, 2007:

| (\$'s in thousands)                                       | September 30, 2008 |      | December 31, 2007 |      |
|---|--------------------|------|-------------------|------|
|   | Balance            | %    | Balance           | %    |
| Commercial real estate                                    | \$ 47,578          | 24%  | \$ 39,184         | 30%  |
| Construction and land                                     | 15,488             | 8%   | 24,447            | 19%  |
| Commercial  | 46,142             | 24%  | 31,526            | 25%  |
| Residential real estate                                   | 52,928             | 27%  | 27,628            | 21%  |
| Home equity lines of credit                               | 28,482             | 15%  | 1,524             | 1%   |
| Consumer  | 3,043              | 2%   | 3,474             | 3%   |
| Other   | 46                 | --%  | 570               | 1%   |
| Total bank loans  | 193,707            | 100% | 128,353           | 100% |
| Add: unamortized loan origination costs, net of loan fees | 590                |      | --                |      |
| Less: loans in process                                    | (105)              |      | --                |      |
| Less: allowance for loan losses                           | (2,501)            |      | (1,685)           |      |
| Total bank loans, net                                     | \$ 191,691         |      | \$ 126,668        |      |

Changes in the allowance for loan losses for the three and nine months ended September 30, 2008 and 2007 are as follows:

The results of Stifel Bank & Trust are included prospectively from the date of acquisition of April 2, 2007.

At September 30, 2008, Stifel Bank & Trust had \$11,370 in mortgage loans held for sale. For the three and nine months ended September 30, 2008, Stifel Bank & Trust recognized a gain of \$502 and \$1,558, respectively, from the sale of loans originated for sale, net of fees and costs to originate these loans. For the three and nine months ended September 30, 2007, Stifel Bank & Trust recognized a gain of \$183 and \$269, respectively, from the sale of loans originated for sale, net of fees and costs to originate these loans.

Included in the loan portfolio at September 30, 2008 and December 31, 2007 are impaired loans totaling \$189 and \$657, respectively, for which there are specific loss allowances of \$169 and \$328, respectively. During the third quarter 2008, Stifel Bank & Trust obtained a deed in lieu of foreclosure on a residential construction development with an outstanding loan balance of \$1,075, which was then transferred into Bank Foreclosed Assets Held for Sale at its estimated fair value less cost to sell, resulting in an immaterial charge-off. There were no other non-accruing loans and there were no accruing loans delinquent 90 days or more at September 30, 2008 or December 31, 2007.

Approximately \$990 of the purchase price related to Stifel Bank & Trust was deposited into an escrow account pending satisfaction of certain contingencies, including impaired and non-accrual loans (See Note B to these condensed consolidated financial statements). The gross interest income related to impaired and non-accruing 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 current quarter were immaterial to the condensed consolidated financial statements. There were no troubled debt restructurings during the nine months ended September 30, 2008 or year ended December 31, 2007.

At September 30, 2008 and December 31, 2007, Stifel Bank & Trust had loans outstanding to its executive officers, directors and significant stockholders and their affiliates in the amount of \$3,955 and \$4,194, respectively, and loans outstanding to other Stifel Financial Corp. executive officers, directors and significant stockholders and their affiliates in the amount of \$48 and \$260, 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) as those prevailing at the time for comparable transactions with other persons.

#### NOTE G - GOODWILL AND INTANGIBLE ASSETS

The carrying amount of goodwill and intangible assets attributable to each of the Company's reportable segments is presented in the following table:

| <i>(in thousands)</i>                   | <b>Private<br/>Client<br/>Group</b> | <b>Equity<br/>Capital<br/>Markets</b> | <b>Fixed Income Capital<br/>Markets</b> | <b>Stifel Bank</b> | <b>Total</b> |
|---|-------------------------------------|---------------------------------------|---|--------------------|--------------|
| <b><u>Goodwill</u></b>                  |                                     |                                       |   |                    |              |
| Balance at December 31, 2007            | \$ 42,303                           | \$ 25,528                             | \$ 7,267                                | \$ 16,788          | \$ 91,886    |
| Acquisitions/purchase price adjustments | 8,408                               | 2,242                                 | 561                                     | (103)              | 11,108       |
| Balance at September 30, 2008           | 50,711                              | 27,770                                | 7,828                                   | 16,685             | 102,994      |
| <b><u>Intangible Assets</u></b>         |                                     |                                       |   |                    |              |
| Balance at December 31, 2007            | 12,336                              | 3,394                                 | 1,212                                   | 1,773              | 18,715       |
| Net additions                           | -                                   | 350                                   | -                                       | -                  | 350          |
| Amortization of intangible assets       | (1,533)                             | (367)                                 | (115)                                   | (322)              | (2,337)      |
| Balance at September 30, 2008           | 10,803                              | 3,377                                 | 1,097                                   | 1,451              | 16,728       |
| Total goodwill and intangible assets    | \$ 61,514                           | \$ 31,147                             | \$ 8,925                                | \$ 18,136          | \$ 119,722   |



The changes in goodwill during the nine months ended September 30, 2008 are attributable to the acquisition of Ryan Beck and Stifel Bank & Trust consisting of accruals for estimated investment banking earn-out payments of \$1,125, advance payments of the Private Client contingent payment of \$9,585 and purchase price adjustments of \$501 principally related to the allowance for doubtful receivables from former employees for Ryan Beck, and a \$103 credit related to federal tax refunds from Stifel Bank & Trust.

Intangible assets consist of acquired customer lists, core deposits, and non-compete agreements that are amortized to expense over their contractual or determined useful lives, as well as backlog, which is amortized against revenues as specific transactions are closed. The gross and accumulated amortization balances of intangibles are as follows:

| <i>(in thousands)</i>                    | September 30, 2008    |                          |                  | December 31, 2007     |                          |                  |
|--|-----------------------|--------------------------|------------------|-----------------------|--------------------------|------------------|
|  | Gross Carrying Amount | Accumulated Amortization | Net              | Gross Carrying Amount | Accumulated Amortization | Net              |
| <b>Amortized intangible assets</b>       |                       |                          |                  |                       |                          |                  |
| Customer lists                           | \$ 19,533             | \$ 4,872                 | \$ 14,661        | \$ 19,533             | \$ 3,301                 | \$ 16,232        |
| Backlog                                  | 348                   | 343                      | 5                | 348                   | 339                      | 9                |
| Core deposits                            | 2,157                 | 706                      | 1,451            | 2,157                 | 384                      | 1,773            |
| Non-compete agreements                   | 2,236                 | 1,625                    | 611              | 1,886                 | 1,185                    | 701              |
| <b>Total amortized intangible assets</b> | <b>\$ 24,274</b>      | <b>\$ 7,546</b>          | <b>\$ 16,728</b> | <b>\$ 23,924</b>      | <b>\$ 5,209</b>          | <b>\$ 18,715</b> |

Aggregate amortization expense related to intangible assets was \$743 and \$833 for the three months ended September 30, 2008 and 2007, respectively, and \$2,337 and \$2,010 for the nine months ended September 30, 2008 and 2007, respectively. Estimated annual amortization expense for the next five years is: 2008 - \$3,076 (including \$2,337 recognized during the first nine months); 2009 - \$2,372; 2010 - \$2,093; 2011 - \$1,896; and 2012 - \$1,618. The weighted-average remaining lives of the following intangible assets at September 30, 2008 are: customer lists 6.7 years; core deposits 6.5 years; and non-compete agreements 1.0 years.

#### NOTE H - SHORT-TERM BORROWINGS FROM BANKS

The Company's short-term financing related to the broker-dealer business is generally obtained through the use of bank loans and securities lending arrangements. Stifel Nicolaus borrows 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. Available ongoing credit arrangements with banks totaled \$755,000 at September 30, 2008, of which \$489,700 was unused. There are no compensating balance requirements under these arrangements. At September 30, 2008, short-term borrowings from banks were \$265,300 at an average rate of 2.85%, which were collateralized by company-owned and customer owned securities valued at \$372,951. At December 31, 2007, short-term borrowings from banks were \$127,850 at an average rate of 4.53%, which were collateralized by company-owned securities valued at \$151,714. The average short-term bank borrowings were \$162,732 and \$153,053 for the three and nine months ended September 30, 2008, respectively, at weighted average daily interest rates of 2.41% and 2.31%, respectively. The average short-term bank borrowings were \$130,517 and \$178,095 for the three and nine months ended September 30, 2007, respectively, at weighted average daily interest rates of 4.52% and 5.15%, respectively. At September 30, 2008 and December 31, 2007, Stifel Nicolaus had a stock loan balance of \$39,714 and \$138,475, respectively, at weighted average daily interest rates of 2.58% and 4.12%, respectively. The average outstanding securities lending arrangements utilized in financing activities were \$105,273 and \$131,562 for the three and nine months ended September 30, 2008, respectively, at weighted average daily effective interest rates of 2.05% and 2.58%, respectively. The average outstanding securities lending arrangements utilized in financing activities were \$132,801 and \$102,583 for the three and nine months ended September 30, 2007, respectively, at weighted average daily effective interest rates of 5.06% and 5.00%, respectively. Customer owned securities were utilized in these arrangements.

**NOTE I - FEDERAL HOME LOAN BANK ADVANCES AND OTHER SECURED FINANCING**

At September 30, 2008, Stifel Bank & Trust had \$10,000 of credit extended from the Federal Home Loan Bank, consisting of advances of \$6,000 and repurchase agreements of \$4,000. Of the \$6,000 advances outstanding, \$4,000 is at a rate of 2.86% and matures on April 30, 2009, and \$2,000 is at a rate of 3.20% and matures on April 30, 2010. Stifel Bank & Trust did not have any such advances outstanding at December 31, 2007. The average FHLB advances outstanding were \$21,692 and \$11,527 for the three and nine months ended September 30, 2008, respectively, at weighted average daily interest rates of 2.67% and 2.60%, respectively. The average FHLB advances outstanding were \$1,921 and \$5,044 for the three and nine months ended September 30, 2007, respectively, at weighted average daily interest rates of 5.41% and 5.35%, respectively.

Additionally, Stifel Bank & Trust had other miscellaneous repurchase agreements, considered to be secured financing, outstanding in the amount of \$250 at September 30, 2008. At December 31, 2007, the amount outstanding under repurchase agreements was \$38. For the three and nine months ended September 30, 2008, Stifel Bank & Trust had average federal funds and repurchase agreements outstanding of \$1,806 and \$1,166, respectively, at weighted average interest rates of 2.21% and 2.29%, respectively. For the three and nine months ended September 30, 2007, Stifel Bank & Trust had average federal funds and repurchase agreements outstanding of \$204 and \$156, respectively, at weighted average interest rates of 3.92% and 3.85%, respectively.

**NOTE J -BANK DEPOSITS**

Deposits consist of customer bank deposits, savings accounts and time deposits. Deposits at September 30, 2008 and December 31, 2007 are summarized as follows:

|  | <b>September 30, December 31, 2007</b> |            |
|--|--|------------|
| <i>(in thousands)</i>                      | <b>2008</b>                            |            |
| Demand deposits-non-interest bearing       | \$ 15,415                              | \$ 9,260   |
| Demand deposits-interest bearing           | 4,970                                  | 3,054      |
| Money market accounts                      | 211,220                                | 133,057    |
| Savings accounts                           | 275                                    | 365        |
| Certificates of deposit, less than \$100   | 16,132                                 | 27,324     |
| Certificates of deposit, \$100 and greater | 13,006                                 | 19,421     |
| Total deposits                             | \$ 261,018                             | \$ 192,481 |

The weighted average interest rate on deposits was approximately 2.0% and 4.3% at September 30, 2008 and December 31, 2007, respectively.

The scheduled maturities of certificates of deposit at September 30, 2008 and December 31, 2007 were as follows:

|  | <b>September 30, December 31, 2007</b> |           |
|--|--|-----------|
| <i>(in thousands)</i>                              | <b>2008</b>                            |           |
| <b>Certificates of deposit, less than \$100:</b>   |  |           |
| Within one year                                    | \$ 10,794                              | \$ 22,984 |
| One to three years                                 | 3,840                                  | 2,998     |
| Over three years                                   | 1,498                                  | 1,342     |
|  | \$ 16,132                              | \$ 27,324 |
| <b>Certificates of deposit, \$100 and greater:</b> |  |           |
| Within one year                                    | \$ 9,817                               | \$ 16,002 |
| One to three years                                 | 1,935                                  | 2,501     |
| Over three years                                   | 1,254                                  | 918       |

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\$ 13,006

\$ 19,421

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At September 30, 2008 and December 31, 2007, the amount of deposits includes deposits of related parties, including \$197,462 and \$118,160, 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 \$658 and \$1,114, 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.

At September 30, 2008 and December 31, 2007, customer demand deposit overdrafts of \$46 and \$570, respectively, have been recorded to "Bank loans" on the condensed consolidated statements of financial condition.

#### **NOTE K - COMMITMENTS, CONTINGENCIES AND GUARANTEES**

In the normal course of business, the Company enters into underwriting commitments. Settlement of transactions relating to such underwriting commitments, which were open at September 30, 2008, had no material effect on the condensed consolidated financial statements.

In connection with margin deposit requirements of The Options Clearing Corporation, the Company had pledged customer-owned securities valued at \$124,965 and firm cash on deposit of \$7,890 to satisfy the minimum margin deposit requirement of \$132,855 at September 30, 2008. At December 31, 2007 the Company had pledged customer-owned securities valued at \$78,250 to satisfy the minimum margin deposit requirement of \$56,525.

In connection with margin deposit requirements of the National Securities Clearing Corporation, the Company had deposited \$39,500 and \$13,000 in cash at September 30, 2008 and December 31, 2007, respectively, which satisfied the minimum margin deposit requirements of \$33,205 and \$7,698, respectively.

The Company also provides 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. The Company's liability under these agreements is not quantifiable and may exceed the cash and securities it has posted as collateral. However, the potential requirement for the Company to make payments under these arrangements is considered remote. Accordingly, no liability has been recognized for these arrangements.

As discussed in Note B - Acquisitions, the Company has potential contingent earn-out payments related to the acquisition of Ryan Beck. The Company has not recorded a liability for these remaining potential contingent earn-out arrangements, as it is not able to estimate the liability beyond a reasonable doubt. Any contingent payments will be reflected as additional purchase consideration and reflected in goodwill. In addition, the Company has potential contingent earn-out consideration related to its acquisition of the LM Capital Markets business from Citigroup Inc. on December 1, 2005. The potential contingent earn-out payment by the Company to Citigroup Inc. is based on the performance of the combined capital markets business of both the Company's pre-closing Fixed Income and Equity Capital Markets business and LM Capital Markets for calendar years 2006, 2007, and 2008, up to a maximum \$30,000 of additional purchase consideration. For calendar years 2006 and 2007, the Company recorded an earn-out liability of \$360 and \$9,940, respectively, which was accounted for as additional purchase price. The Company has estimated a contingent earn-out payment to Citigroup Inc. for calendar year 2008, based upon actual-to-date revenue production and current projections, of approximately \$14,200, for a total potential earn out payment of approximately \$24,500.

The Company has 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 (the "trusts"). These trusts are non-consolidated wholly-owned subsidiaries of the Company and were established for the limited purpose of issuing trust securities to third parties and lending the proceeds to the Company. The trust preferred securities represent an

indirect interest in junior subordinated debentures purchased from the Company by the trusts, and the Company effectively provides for the full and unconditional guarantee of the securities issued by the trusts.

The Company makes 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 believes that it is unlikely that any circumstances would occur that would make it necessary for the 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. For further information regarding these debentures and trust preferred securities, see Note J of the Notes to consolidated financial statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2007.

The Company has received inquiries from the Securities and Exchange Commission ("SEC"), the Financial Industry Regulatory Authority ("FINRA"), and several state regulatory authorities requesting information concerning the Company's transactions in auction rate securities. Additionally, the Company and its subsidiary Stifel Nicolaus have been named in civil suits. See further information regarding the civil suit in Note L - Legal Proceedings. To date several of the larger securities firms that primarily underwrote and supported the auctions for auction rate securities have, through regulatory settlements and otherwise, announced agreements to repurchase auction rate securities at par from certain of their clients; other securities firms have entered into similar agreements. The Company is working with other industry participants in seeking to resolve issues relating to auction rate securities and is exploring a range of potential solutions, including the restructuring and refinancing of the debt underlying the auction rate securities. However, there is no assurance that these efforts will be successful. The Company's customers hold approximately \$226,400 of auction rate securities at September 30, 2008, exclusive of approximately \$83,100 of such securities that were either transferred to the Company or purchased after February 2008. If the Company were to purchase these securities from some or all of its clients in order to resolve pending claims, inquiries, or investigations, these purchases would likely have a material adverse effect on the Company's financial condition, including its cash position. Therefore, before purchasing any of these securities, the Company would be required to assess whether it had sufficient regulatory capital or borrowing capacity to do so.

In the ordinary course of business, Stifel Bank & Trust has commitments to extend credit in the form of commitments to originate loans, standby letters of credit, and lines of credit. See Note O to these condensed consolidated financial statements for further discussion.

#### **NOTE L - LEGAL PROCEEDINGS**

The Company and its subsidiaries are named in and subject to various proceedings and claims arising primarily from its securities business activities, including lawsuits, arbitration claims, class actions and regulatory matters. Some of these claims seek substantial compensatory, punitive or indeterminate damages. The Company is also involved in other reviews, investigations and proceedings by governmental and self-regulatory agencies regarding the Company's business, certain of which may result in adverse judgments, settlements, fines, penalties, injunctions or other relief.

The investigations include inquiries from the SEC, the FINRA and several state regulatory authorities requesting information concerning the Company's activities with respect to auction rate securities, and inquiries from the SEC and a state regulatory authority requesting information relating to the Company's role in investments made by five Southeastern Wisconsin school districts in transactions involving collateralized debt obligations ("CDOs"). The Company intends to cooperate fully with the SEC, FINRA and the several states in these investigations.

Current claims include a civil lawsuit filed in the United States District Court for the Eastern District of Missouri on August 8, 2008 seeking class action status for investors who purchased and continue to hold auction rate securities offered for sale between June 11, 2003 and February 13, 2008, which alleges misrepresentation about the investment characteristics of auction rate securities and the auction markets. As of September 30, 2008 our clients held approximately \$226,400 of auction rate securities, exclusive of approximately \$83,100 of such securities that were either transferred to the Company or purchased after February 2008. The Company intends to vigorously defend this

lawsuit.



Current claims also include a civil lawsuit filed in the Circuit Court of Milwaukee, Wisconsin on September 29, 2008 against the Company, Royal Bank of Canada Europe Ltd. ("RBC") and certain other RBC entities by the five school districts and the individual trustees for other post-employment benefit ("OPEB") trusts established by those school districts ("the "Plaintiffs"). The suit was removed to the United States District Court for the Eastern District of Wisconsin on October 31, 2008. The suit arises out of the purchase of certain CDOs by the OPEB trusts. The RBC entities structured and served as "arranger" for the CDOs. The Company served as placement agent/broker in connection with the OPEB trusts purchase of the investments. 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. The recourse of the lender is the OPEB trust assets and the moral obligation of the school districts. The legal claims asserted include violation of the Wisconsin Securities Act, fraud and negligence. The Plaintiffs claim that the RBC entities and the Company either made misrepresentations in connection with the sale of the CDOs or failed to disclose material facts in connection with the sale of the CDOs. The Company believes the Plaintiffs reviewed and understood the relevant offering materials and that the investments were suitable based upon, among other things, its receipt of a written acknowledgement from Plaintiffs. The lawsuit seeks equitable relief, unspecified compensatory damages, treble damages, punitive damages and attorney's fees and costs. The Company intends to vigorously defend this lawsuit.

Because litigation is inherently unpredictable, particularly in cases where claimants seek substantial or indeterminate damages or when investigations and proceedings are in the early stages, the Company cannot predict with certainty the losses or range of losses related to such matters, how such matters will be resolved, when they will ultimately be resolved, or what the eventual settlement, fine, penalty or other relief might be. Consequently, the Company cannot estimate losses or ranges of losses for matters where there is only a reasonable possibility that a loss may have been incurred. However, if the Company were to purchase auction rate securities from some or all of its clients in order to resolve the pending lawsuit and regulatory inquiries regarding auction rate securities, the purchases likely would have a material adverse effect on the Company's financial position, including its cash position. Therefore, before purchasing these securities, the Company would be required to assess whether it had sufficient regulatory capital or borrowing capacity to do so, and there is no assurance that it would have such capital or capacity. In addition, if the Company were to purchase these securities at their par value, it may have a market loss if the underlying value of securities is less than par, and any such loss may adversely effect the Company's results of operations and financial position.

Additionally, the Company has provided loss allowances for matters for which losses are probable in accordance with SFAS No. 5, Accounting for Contingencies. The ultimate resolution may differ materially from the amounts accrued. For the periods presented, the recording of legal accruals did not have a material impact on the condensed consolidated statements of operations.

#### **NOTE M - REGULATORY AND CAPITAL REQUIREMENTS**

As a registered broker-dealer, Stifel Nicolaus is subject to the Uniform Net Capital Rule, Rule 15c3-1 under the Exchange Act (the "Rule"), which requires the maintenance of minimum net capital, as defined. Stifel Nicolaus has elected to use the alternative method permitted by the Rule that requires maintenance of minimum net capital equal to the greater of \$1,000 or 2% of aggregate debit items arising from customer transactions, as defined. The Rule also provides that equity capital may not be withdrawn or cash dividends paid if resulting net capital would be less than 5% of aggregate debit items. Another subsidiary, CSA, is also subject to minimum capital requirements that may restrict the payment of cash dividends and advances to the Company. CSA has consistently operated in excess of its capital adequacy requirements. The only restriction with regard to the payment of cash dividends by the Company is its ability to obtain cash through dividends and advances from its subsidiaries, if needed.

At September 30, 2008, Stifel Nicolaus had net capital of \$161,225, which was 25.8% of aggregate debit items and \$148,719 in excess of minimum required net capital. CSA had net capital of \$3,742 at September 30, 2008, which was \$3,557 in excess of minimum required net capital. At December 31, 2007, Stifel Nicolaus had net capital of \$129,620, which was 23.2% of aggregate debit items and \$118,445 in excess of minimum required net capital. At December 31, 2007, CSA had net capital of \$3,699, which was \$3,417 in excess of minimum required net capital.

The Company's international subsidiary, SN Ltd, is subject to the regulatory supervision and requirements of the Financial Services Authority ("FSA") in the United Kingdom. At September 30, 2008 and December 31, 2007, SN Ltd's capital and reserves were \$9,184 and \$8,367, respectively, which were \$8,961 and \$4,537, respectively, in excess of the financial resources requirement under the rules of the FSA.

The Company, as a bank holding company, and Stifel Bank & Trust are subject to various regulatory capital requirements administered by the Federal Reserve Board and the Missouri State Division of Finance, respectively. Additionally, Stifel Bank & Trust is regulated by the Federal Depository Insurance Corporation. 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 adverse effect on the Company's and Stifel Bank & Trust's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Company and Stifel Bank & Trust must meet specific capital guidelines that involve quantitative measures of their assets, liabilities, and certain off-balance-sheet items as calculated under regulatory accounting practices. The Company's and Stifel Bank & Trust'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 the Company, as a bank holding company, and Stifel Bank & Trust 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 (as defined) to average assets (as defined). Management believes, as of September 30, 2008 and December 31, 2007 that the Company and Stifel Bank & Trust 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. The calculation of Stifel Bank & Trust's total risk-based, Tier 1 risk-based and Tier 1 leverage ratios at September 30, 2008 and December 31, 2007 is set forth in the table below.

**Stifel Bank & Trust**  
Federal Reserve Capital Amounts

| <i>(\$'s in 000's)</i>                          | <b>Actual</b> |       | <b>For Capital Adequacy Purposes</b> |       | <b>To Be Well Capitalized Under Prompt Corrective Action Provisions</b> |       |
|---|---------------|-------|--------------------------------------|-------|---|-------|
|   | Amount        | Ratio | Amount                               | Ratio | Amount  | Ratio |
| <b>As of September 30, 2008:</b>                |               |       |                                      |       |   |       |
| Total capital to risk-weighted assets           | \$ 42,946     | 16.2% | \$ 21,272                            | 8.0%  | \$ 26,589   | 10.0% |
| Tier 1 capital to risk-weighted assets          | \$ 40,445     | 15.2% | \$ 10,636                            | 4.0%  | \$ 15,954   | 6.0%  |
| Tier 1 capital to adjusted average total assets | \$ 40,445     | 13.4% | \$ 12,119                            | 4.0%  | \$ 15,149   | 5.0%  |
| <b>As of December 31, 2007:</b>                 |               |       |                                      |       |   |       |
| Total capital to risk-weighted assets           | \$ 40,420     | 21.3% | \$ 15,208                            | 8.0%  | \$ 19,010   | 10.0% |
| Tier 1 capital to risk-weighted assets          | \$ 38,735     | 20.4% | \$ 7,604                             | 4.0%  | \$ 11,406   | 6.0%  |
| Tier 1 capital to adjusted average total assets | \$ 38,735     | 17.5% | \$ 8,860                             | 4.0%  | \$ 11,075   | 5.0%  |

## **NOTE N - STOCK-BASED COMPENSATION PLANS**

The Company has various incentive stock award plans consisting of: the Company's 1997 and 2001 Incentive Stock Plans, as amended, whereby the Company may grant up to an aggregate of 16,872,989 incentive stock options, stock appreciation rights, restricted stock, performance awards, or stock units; the "Equity Incentive Plan for Non-Employee Directors", as amended, whereby the Company may grant stock options and stock units up to 600,000 shares; and the Stifel, Nicolaus & Company, Incorporated Wealth Accumulation Plan ("SWAP"), a deferred compensation plan for financial advisors, whereby the Company is authorized to grant 1,400,000 stock units.

In connection with the Company's acquisition of Ryan Beck, the Company established a retention program, including cash and equity compensation awards (in the form of restricted stock units) for certain investment executives and officers of Ryan Beck. On June 22, 2007, the Company's shareholders approved the Stifel Financial Corp. 2007 Incentive Stock Plan (the "2007 Incentive Stock Plan") whereby the Company may grant up to an aggregate of 1,800,000 incentive stock options, stock appreciation rights, restricted stock, performance awards, or stock units.

On June 4, 2008, the Company's shareholders approved an amendment and restatement to the Company's Equity Incentive Plan for Non-Employee Directors and the 2001 Incentive Stock Plan. The Equity Incentive Plan for Non-Employee Directors was amended to increase the number of shares by 300,000, to extend the duration of the plan to June 5, 2018, and to document the changes made in the deferred compensation provisions to comply with Section 409A of the Internal Revenue Code, as amended. The 2001 Incentive Stock Plan was amended to increase the number of shares available for issuance by 3,750,000 and to extend the duration of the plan. For each calendar year in the ten-year period commencing January 1, 2009, the number of shares reserved for issuance shall automatically increase by an additional 750,000 shares, subject to certain restrictions.

Awards under the Company's incentive stock award plans are granted at market value at the date of the grant. Options expire ten years from the date of grant. The awards generally vest ratably over a three- to eight-year vesting period, except for awards under the Equity Incentive Plan for Non-Employee Directors, which are exercisable six months to one year from date of grant.

All stock-based compensation plans are administered by the Compensation Committee of the Board of Directors of the Company, 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, the Company is authorized to grant an additional 4,654,484 shares at September 30, 2008.

### ***Stock Option/Incentive Award Plans***

Total compensation cost for stock options for the three and nine months ended September 30, 2008 was \$91 and \$243, respectively. The total tax benefit related thereto was \$1,545 and \$3,551, respectively. Total compensation cost for stock options for the three and nine months ended September 30, 2007 was \$129 and \$389, respectively. The total tax benefit related thereto was \$150 and \$1,739, respectively.

For the nine months ended September 30, 2008, no options were granted. The Company has substantially eliminated the use of stock options as a form of compensation. As of September 30, 2008, there were 1,413,442 options outstanding at a weighted-average exercise price of \$7.90 and a weighted-average remaining contractual life of 3.57 years. As of September 30, 2008, there was approximately \$805 of unrecognized compensation cost related to non-vested option awards. That cost is expected to be recognized over a weighted-average period of 1.72 years.

The Company received \$615 and \$1,994 cash from the exercise of stock options during the three and nine months ended September 30, 2008, respectively.



### *Stock Units*

The total stock unit compensation cost, which is included in "Employee compensation and benefits" on the condensed consolidated statements of operations, under all of the Company's incentive stock plans recognized for the three and nine months ended September 30, 2008 was \$13,367 and \$37,895, respectively. Because of the fluctuation of stock prices the total tax provision related thereto was \$57 for the three months ended September 30, 2008 and a tax benefit of \$5,582 for the nine months ended September 30, 2008. The total stock unit compensation cost under all of the Company's incentive stock plans recognized for the three and nine months ended September 30, 2007 was \$9,898 and \$44,442, respectively. The total tax benefit related thereto was \$4 and \$6,114, respectively.

During the three months ended September 30, 2008, the Company granted 544,773 units with a fair value of \$19,624 and converted 104,686 units into common stock. During the nine months ended September 30, 2008, the Company granted 1,741,880 units with a fair value of \$54,818 and converted 911,734 units into common stock, and cancelled 99,455 stock unit grants. At September 30, 2008, the total number of non-vested stock units under the plans was 5,177,099 with a total unrecognized compensation cost of \$99,256.

A deferred compensation 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 the Company. Participants may elect to defer up to an additional 15% of their incentive compensation with a 25% matching contribution by the Company. 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. The Company charged \$9,339 and \$26,777 to employee compensation and benefits for the three and nine months ended September 30, 2008, respectively, and \$7,252 and \$21,256 for the three and nine months ended September 30, 2007, respectively, relating to units granted under this plan.

Stifel Nicolaus has 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% earns a return based on optional investments chosen by financial advisors. Financial advisors may choose to base their return on the performance of an index mutual fund as designated by the Company or a fixed income option. Financial advisors have no ownership in the mutual funds. Included on the condensed consolidated statements of financial condition under the caption "Investments" are \$26,700 at September 30, 2008 and \$30,760 at December 31, 2007 in mutual funds that were purchased by the Company to economically hedge its liability to the financial advisors that choose to base the performance of their return on the index mutual fund option. Financial advisors may elect to defer an additional 1% of earnings into Company stock units with a 25% matching contribution. In addition, certain financial advisors, upon joining the Company, may receive Company stock units in lieu of transition cash payments. Deferred compensation related to this plan cliff vests over a five-year period. Deferred compensation costs are amortized on a straight-line basis over the deferral period. Charges to employee compensation and benefits related to this plan were \$3,739 and \$10,327 for the three and nine months ended September 30, 2008, respectively, and \$2,023 and \$5,444 for the three and nine months ended September 30, 2007, respectively.

As a component of the total units granted under the Company's incentive stock plans, on June 22, 2007, the Company granted 591,269 restricted stock units for a component of the Ryan Beck retention program and issued 420,372 restricted stock units in exchange for Ryan Beck appreciation units held by Ryan Beck employees under Ryan Beck's deferred compensation plans. Both unit grants were made under the 2007 Incentive Stock Plan. The value of the restricted stock units was \$40,196. The restricted stock units granted for the retention program will vest over a three to seven year period. The Company incurred compensation expense of \$1,204 and \$3,745 for the retention program during the three and nine months ended September 30, 2008, respectively, which is included in the total stock unit

compensation cost. Additionally, included in employee compensation and benefits for the nine months ended September 30, 2007 is a charge related to the modification of the service requirements for participants in the Ryan Beck deferred compensation plans to provide for accelerated vesting for participants that had completed one year of service for Ryan Beck. As a result of the vesting, the Company charged \$20,254 to "Employee compensation and benefits," of which \$16,405 was recorded as "Additional paid-in capital."

As a component of the total units granted under the Company's incentive stock plans, the Company granted 2,711,415 restricted stock units to key associates of the Legg Mason Capital Markets business ("LM Capital Markets") on January 2, 2006. The units were granted in accordance with the Company's 2001 incentive stock award plan, as amended, with a fair value of \$67,948. The units vest ratably over a three year period. The Company incurred compensation expense of \$5,196 and \$15,937 during the three and nine months ended September 30, 2008, respectively, and \$5,416 and \$16,216 during the three and nine months ended September 30, 2007, respectively, which is included as a component of the total stock unit compensation cost.

#### **NOTE O - OFF-BALANCE SHEET CREDIT RISK**

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

At September 30, 2008 and December 31, 2007, Stifel Bank & Trust had outstanding commitments to originate loans aggregating approximately \$9,623 and \$4,236, respectively. The commitments extended over varying periods of time with all commitments at September 30, 2008 scheduled to be disbursed in the following two months.

Standby letters of credit are irrevocable conditional commitments issued by Stifel Bank & Trust 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 & Trust be obligated to perform under the standby letters of credit, it may seek recourse from the customer for reimbursement of amounts paid. At September 30, 2008 and December 31, 2007, Stifel Bank & Trust had total outstanding letters of credit totaling \$434 and \$344, respectively. For all but one of the standby letters of credit commitments at September 30, 2008, the expiration terms range from one month to 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 & Trust uses the same credit policies in granting lines of credit as it does for on-balance sheet instruments. At September 30, 2008 and December 31, 2007, Stifel Bank & Trust had granted unused lines of credit to commercial and consumer borrowers aggregating \$48,722 and \$19,437, respectively.

See Note Q of the Notes to consolidated financial statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2007 for more information regarding the Company's financial instruments with



off-balance sheet credit risk.

**NOTE P - INCOME TAXES**

FIN 48 clarifies the accounting for uncertainty in income taxes recognized under SFAS 109. FIN 48 prescribes a recognition threshold and measurement attribute for financial statement recognition and measurement of tax positions taken or expected to be taken in a tax return and also provides guidance on various related matters such as derecognition, interest and penalties and disclosure. The Company adopted the provisions of FIN 48 effective January 1, 2007 and recognized a \$138 increase in the liability for unrecognized tax benefits (including interest and penalties) upon adoption, which was accounted for as an \$83 increase to the January 1, 2007 balance of retained earnings and a \$221 increase in net deferred tax assets.

At December 31, 2007, the Company's liability for gross unrecognized tax benefits was \$2,869. Included in the balance at December 31, 2007 was \$2,106 of tax positions excluding interest and penalties that, if recognized, would affect the effective tax rate. The Company accrues interest and penalties related to unrecognized tax benefits in its provision for income taxes. The Company had accrued interest related to unrecognized tax benefits of \$524 at December 31, 2007, and accrued penalties related to unrecognized tax benefits of \$127 at December 31, 2007. The amount of interest and penalties recognized in the condensed consolidated statements of operations for the nine months ended September 30, 2008 was not material. The Company's gross unrecognized tax benefits were reduced by \$254 during the third quarter of 2008 mainly due to the expiration of the 2004 tax year for U.S. purposes and the settlement of non-U.S. tax liabilities. The Company does not expect gross unrecognized tax benefits to change significantly during the next twelve month period.

The Company files U.S., state, and foreign income tax returns in jurisdictions with varying statutes of limitation. For the U.S. and most state and foreign jurisdictions, the years 2005 through 2007 remain subject to examination by their respective authorities. The Company is subject to examination by state tax jurisdictions. It is possible that these examinations will be resolved in the next twelve months. The Company does not anticipate that payments made during the next twelve month period for these examinations will be material, nor does the Company expect that the reduction to unrecognized tax benefits as a result of a lapse of applicable statute of limitations will be significant. The Company's foreign jurisdictions are generally fully taxable by the U.S.

**NOTE Q - SEGMENT REPORTING**

The Company's reportable segments include the Private Client Group, Equity Capital Markets, Fixed Income Capital Markets, Stifel Bank, and Other. The Private Client Group segment includes branch offices and independent contractor offices of the Company's broker-dealer subsidiaries located throughout the U.S., primarily in the Midwest and Mid-Atlantic regions with a growing presence in the East and West regions. These branches provide securities brokerage services, including the sale of equities, mutual funds, fixed income products, and insurance, as well as offering Stifel Bank & Trust banking products to their private clients. The Equity Capital Markets segment includes corporate finance management and participation in underwritings (exclusive of sales credits, which are included in the Private Client Group segment), mergers and acquisitions, institutional sales, trading, research, and market making. The Fixed Income Capital Markets segment includes public finance, institutional sales and competitive underwriting, and trading. The Stifel Bank segment includes the results of operations from the Company's wholly-owned subsidiary, Stifel Bank & Trust, beginning prospectively from the date of acquisition on April 2, 2007 and includes residential, consumer, and commercial lending activities, as well as FDIC-insured deposit accounts to customers of the Company's broker-dealer subsidiaries and to the general public. The "Other" segment includes clearing revenue, 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 the Ryan Beck acquisitions; and general administration.



The Company evaluates the performance of its segments and allocates resources to them based on various factors, including prospects for growth, return on investment, and return on revenues.

Information concerning operations in these segments of business is as follows:

| <i>(in thousands)</i>             | <b>Three Months Ended September 30,</b> |                   | <b>Nine Months Ended September 30,</b> |                   |
|-----------------------------------|---|-------------------|--|-------------------|
|                                   | <b>2008</b>                             | <b>2007</b>       | <b>2008</b>                            | <b>2007</b>       |
| <b>Net Revenues</b>               |   |                   |  |                   |
| Private Client Group              | \$ 113,976                              | \$ 112,650        | \$ 349,828                             | \$ 316,451        |
| Equity Capital Markets            | 63,405                                  | 47,703            | 160,644                                | 178,643           |
| Fixed Income Capital Markets      | 38,193                                  | 15,962            | 116,904                                | 41,073            |
| Stifel Bank (1)                   | 3,175                                   | 1,839             | 8,494                                  | 2,929             |
| Other                             | 174                                     | 4,829             | 3,481                                  | 11,783            |
| <b>Total Net Revenues</b>         | <b>\$ 218,923</b>                       | <b>\$ 182,983</b> | <b>\$ 639,351</b>                      | <b>\$ 550,879</b> |
| <b>Operating Contributions</b>    |   |                   |  |                   |
| Private Client Group              | \$ 22,801                               | \$ 23,401         | \$ 78,262                              | \$ 67,869         |
| Equity Capital Markets            | 11,775                                  | 8,499             | 22,286                                 | 42,445            |
| Fixed Income Capital Markets      | 12,014                                  | 2,133             | 38,713                                 | 3,406             |
| Stifel Bank (1)                   | 732                                     | 369               | 1,463                                  | 643               |
| Other/Unallocated Overhead        | (26,228)                                | (21,130)          | (75,555)                               | (83,610)          |
| <b>Income before income taxes</b> | <b>\$ 21,094</b>                        | <b>\$ 13,272</b>  | <b>\$ 65,169</b>                       | <b>\$ 30,753</b>  |

(1) The Stifel Bank segment was added beginning April 2, 2007 with the Company's acquisition of First Service, now referred to as Stifel Bank & Trust.

Information regarding net revenues by geographic area is as follows:

| <i>(in thousands)</i>     | <b>Three Months Ended September 30,</b> |                   | <b>Nine Months Ended September 30,</b> |                   |
|---------------------------|---|-------------------|--|-------------------|
|                           | <b>2008</b>                             | <b>2007</b>       | <b>2008</b>                            | <b>2007</b>       |
| <b>Net Revenues</b>       |   |                   |  |                   |
| United States             | \$ 209,255                              | \$ 175,492        | \$ 612,753                             | \$ 530,296        |
| United Kingdom            | 5,569                                   | 4,624             | 17,153                                 | 12,306            |
| Other European            | 4,099                                   | 2,867             | 9,445                                  | 8,277             |
| <b>Total Net Revenues</b> | <b>\$ 218,923</b>                       | <b>\$ 182,983</b> | <b>\$ 639,351</b>                      | <b>\$ 550,879</b> |

Our foreign operations are conducted through our wholly-owned subsidiary, SN Ltd. Net revenues in the preceding table are attributable to the country or territory in which our subsidiaries are located.

## **NOTE R - STOCKHOLDERS' EQUITY**

The Company has an ongoing authorization, as amended, from the Board of Directors to repurchase its common stock in the open market or in negotiated transactions in order to meet obligations under the Company's employee benefit plans and for general corporate purposes. In May 2005, the Company's 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. During the first nine months of 2008, the Company repurchased 567,953 shares of its common stock, at an average price of \$27.87 per share. The Company reissued 581,833 shares of common stock and issued 2,288,310 new shares for its employee benefit plans in the first nine months of 2008.

The Company has issued shares of its common stock in conjunction with earn-out payments related to the Ryan Beck acquisition. On May 9, 2008, the Company paid the first year investment banking contingent earn-out payment of \$1,790 in 57,059 shares of Company common stock valued at \$31.35 per share. On August 14, 2008, the Company issued 233,500 shares of its common stock per an agreement with BankAtlantic to prepay a portion of the estimated private client division contingent earn-out payment. See further discussion regarding the Ryan Beck contingent earn-out payments in Note B - Acquisitions.

On September 29, 2008, the Company completed the public offering of 1,495,000 new shares of Company common stock at an offering price of \$45.00 per share. The net proceeds to the Company after consideration of the underwriters discount and before any expenses were \$64,369. The Company intends to use the net proceeds from this offering for general corporate purposes, which may include the Company's working capital needs and investments in the Company's subsidiaries to support the continued growth of the Company or selective opportunistic acquisitions.

### NOTE S - EARNINGS PER SHARE

Basic earnings per share of common stock is computed by dividing income available to shareholders by the weighted average number of common shares outstanding during the periods. Diluted earnings per share reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock that then shared in the earnings of the entity. Diluted earnings per share include dilutive stock options and stock units under the treasury stock method.

The components of the basic and diluted EPS calculations for the three and nine months ended September 30 are as follows:

|   | Three Months<br>Ended<br>September 30, |                | Nine Months<br>Ended<br>September 30, |                |
|---|--|----------------|---------------------------------------|----------------|
|   | 2008                                   | 2007           | 2008                                  | 2007           |
| <i>(in thousands, except per share amounts)</i>           |  |                |                                       |                |
| <b><u>Income Available to Common Stockholders</u></b>     |  |                |                                       |                |
| <b>Net Income</b>   | \$ 12,777                              | \$ 8,058       | \$ 39,456                             | \$ 18,335      |
| <b><u>Weighted Average Shares Outstanding</u></b>         |  |                |                                       |                |
| <b>Basic Weighted Average Shares Outstanding</b>          | 23,830                                 | 22,394         | 23,520                                | 21,456         |
| Effect of dilutive securities from employee benefit plans | 4,215                                  | 4,421          | 3,815                                 | 3,808          |
| <b>Diluted Weighted Average Shares Outstanding</b>        | <b>28,045</b>                          | <b>26,815</b>  | <b>27,335</b>                         | <b>25,264</b>  |
| <b>Basic Earnings per share</b>                           | <b>\$ 0.54</b>                         | <b>\$ 0.36</b> | <b>\$ 1.68</b>                        | <b>\$ 0.85</b> |
| <b>Diluted Earnings per share</b>                         | <b>\$ 0.46</b>                         | <b>\$ 0.30</b> | <b>\$ 1.44</b>                        | <b>\$ 0.73</b> |

\*All shares and earnings per share amount reflect the three-for-two stock split distributed in June 2008. (See Note A to these condensed consolidated financial statements.)

### NOTE T - VARIABLE INTEREST ENTITY ("VIE")

On April 16, 2008, the Company invested \$12,000 in a convertible promissory note issued by FSI Group, LLC ("FSI"), a limited liability company specializing in investing in banks, thrifts, insurance companies, and other financial services firms. On July 1, 2008, under the terms of the note purchase agreement, the Company exercised its option to increase its investment in the convertible promissory note to \$18,000. The note is convertible at the election of the Company 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. The Company has determined that FSI is a VIE under the provisions of FIN 46R. The Company has determined it is not the primary beneficiary of

FSI. The Company's exposure to loss is limited to its investment. At September 30, 2008, the \$18,000 investment is included on the condensed consolidated statements of financial condition under the caption "Investments".

**NOTE U - SUBSEQUENT EVENT**

On November 4, 2008, the Company issued 142,196 shares of Company common stock in exchange for \$12,500 par value of 6.78% Cumulative Trust Preferred Securities. The Cumulative Trust Preferred Securities were originally offered and sold in a \$35,000 private placement by Stifel Financial Capital Trust IV, a non-consolidated wholly-owned Delaware business trust subsidiary of the Company, on June 28, 2007. As a result, the Company intends to extinguish \$12,500 of its debenture to Stifel Financial Capital Trust IV in the fourth quarter and record an approximate \$6,700 gain before certain expenses and taxes.

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

### **Forward-Looking Statements**

The Management's Discussion and Analysis of Financial Condition and Results of Operations contain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended ("Securities Act") and Section 21E of the Securities Exchange Act of 1934, as amended ("Securities Exchange Act") that are based upon our current expectations and projections about current events. We intend for these forward-looking statements to be covered by the safe harbor provisions for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995, and we are including this statement for purposes of these safe harbor provisions. You can identify these statements from our use of the words "may," "will," "should," "could," "would," "plan," "potential," "estimate," "project," "believe," "intend," "anticipate," "expect" and similar expressions. These forward-looking statements include statements relating to:

- our goals, intentions and expectations;
- our business plans and growth strategies;
- our ability to integrate and manage our acquired businesses;
- estimates of our risks and future costs and benefits; and
- forecasted demographic and economic trends relating to our industry.

These forward-looking statements are subject to significant risks, assumptions and uncertainties, including, among other things, changes in general economic and business conditions, actions of competitors, regulatory actions, changes in legislation, technology changes and the risks and other factors set forth in the Company's risk factors as updated and filed on Form 8-K Current Report on September 23, 2008 that may impact our results.

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. You should not place undue reliance on any forward-looking statements, which speak only as of the date they were made. We will not update these forward-looking statements, even though our situation may change in the future, unless we are obligated to do so under federal securities laws. We qualify all of our forward-looking statements by these cautionary statements.

### **Business & Economic Environment**

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, the Company 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 three European offices. Although the Company has offices across the United States, its major geographic area of concentration is in the Midwest and Mid-Atlantic regions with a growing presence in the East and West regions. The Company's principal customers are individual investors, corporations, municipalities and institutions.





Concerns over inflation, recession, energy costs, geopolitical issues, the U.S. sub-prime mortgage market, a declining residential real estate market in the U.S., the disruption in the auction-rate securities market, an increase in the rate of unemployment, and the availability and cost of credit continued to become increasingly pressing. The unprecedented extraordinarily turbulent market conditions during the third quarter were evidenced by the cataclysmic failure of a large investment bank, the failure of the nation's largest savings and loan, the governmental rescue of a large insurance company, the placement into conservatorship of two government-sponsored enterprises by the government and the consolidation of several large financial institutions. As a result, the global credit market came to a virtual standstill. The United States Treasury ("Treasury") department and the Federal Reserve took various forms of action to address the frozen credit conditions that now exist in the market. Additionally, on October 3, 2008, the United States House of Representatives passed the Emergency Economic Stabilization Act of 2008 that allows the Treasury to spend up to \$700 billion to purchase distressed assets from banks and raises the limit on deposit insurance at banks and credit unions. Despite these efforts to restore liquidity and consumer confidence, the global markets have continued to be very volatile. At September 30, 2008, the key indicators of the markets' performances, the Dow Jones Industrial Average ("DJIA"), the NASDAQ, and the Standard and Poor's 500 Index ("S&P 500") closed approximately 18%, 21%, and 21% respectively, lower than their December 31, 2007 closing prices, and approximately 22%, 23%, and 24%, respectively, lower than their September 30, 2007 closing prices. Given such factors, the current quarter results may not be indicative of future results.

The U.S. Federal Reserve System's Federal Open Market Committee (the "FOMC") continues to be aggressive in monitoring monetary policy. During the third quarter the federal funds rate remained at 2.0%, primarily on the upside risks to inflation, although during the first nine months of 2008, the federal funds rate has decreased 225 basis points from the December 31, 2007 rate of 4.25%. Additionally, at an unscheduled meeting on October 8, 2008, the FOMC reduced the federal funds rate an additional 50 basis points to 1.5% on evidence of a weakening economy and a reduction in inflationary pressures. Then, on October 29, 2008, the federal funds rate was further reduced by 50 basis point to 1.0% at the regularly scheduled FOMC meeting. Long-term interest rates, as measured by the 10-year U.S. Daily Treasury Yield Curve, were 3.85% at September 30, 2008, down from 4.04% at December 31, 2007.

Although the Company does not engage in any significant proprietary trading for its own account, the inventory of securities held to facilitate customer trades and its market making activities are sensitive to market movements. The Company does not have any significant direct exposure to the sub-prime market crisis, but is 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. The Company will continue to monitor its 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.

Recently, several of the larger securities firms that primarily underwrote and supported the auctions for auction rate securities have, through regulatory settlements and otherwise, announced agreements to repurchase auction rate securities at par from certain of their clients; other securities firms have entered into similar agreements. The Company has received inquiries from the Securities and Exchange Commission, the Financial Industry Regulatory Authority, and several state regulatory authorities requesting information concerning the Company's activities in auction rate securities. Additionally, the Company and its subsidiary Stifel Nicolaus have been named in a civil suit. The Company is working with other industry participants in seeking to resolve issues relating to auction rate securities and is exploring a range of potential solutions, including the restructuring and refinancing of the debt underlying the auction rate securities. However, there is no assurance that these efforts will be successful. The Company's customers hold approximately \$226.4 million of auction rate securities at September 30, 2008, exclusive of approximately \$83.1 million of such securities that were either transferred to the Company or purchased after February 2008. If the Company were to purchase these securities from some or all of our clients in order to resolve pending claims,

inquiries, or investigations, these purchases would likely have a material adverse effect on the Company's financial condition, including its cash position. Therefore, before purchasing any of these securities, the Company would be required to assess whether it had sufficient regulatory capital or borrowing capacity to do so.

### **Acquisitions**

On February 28, 2007, the Company closed on the acquisition of Ryan Beck Holdings, Inc. and its wholly owned broker-dealer subsidiary Ryan Beck & Company, Inc. ("Ryan Beck") from BankAtlantic Bancorp, Inc. Ryan Beck continued to operate as a free standing broker-dealer through the end of the third quarter of 2007, when the conversion of its existing branches to Stifel Nicolaus was completed. The results of operations for the Company, Private Client Group, Equity Capital Markets and Fixed Income Capital Markets include the acquired Ryan Beck business results of operations beginning on the date of acquisition.

On April 2, 2007, the Company completed its acquisition of First Service Financial Company ("First Service") and its wholly owned subsidiary, FirstService Bank, by means of the merger of First Service with and into FSFC Acquisition Co. ("AcquisitionCo"), a Missouri corporation and wholly-owned subsidiary of the Company, with AcquisitionCo surviving the merger. Upon consummation of the merger, the Company became a bank holding company and a "financial holding company," subject to the supervision and regulation of The Board of Governors of the Federal Reserve System. Also, FirstService Bank has converted its charter from a Missouri bank to a Missouri trust company and changed its name to "Stifel Bank & Trust." The results of operations for the Company and the Stifel Bank segment include the acquired Stifel Bank & Trust business results of operations beginning on the date of acquisition.

### **Executive Summary**

The Company's 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; the increased activity from the successful integrations of the Ryan Beck acquisition on February 28, 2007 and the Stifel Bank & Trust acquisition on April 2, 2007; the Company's expansion of the Equity Capital Markets ("ECM"), Fixed Income Capital Markets ("FICM"), Stifel Bank & Trust; and the continued expansion of the Private Client Group ("PCG"). During the first nine months of 2008, the Company opened twenty-one branch offices and hired 142 financial advisors. In addition, the Company added 75, 47, and 21 revenue producers in its ECM, FICM, and Stifel Bank segments, and added 209 employees that directly support these revenue producers and 85 employees for home office support.

Comparability of the current year nine month results to the prior year period for total company and ECM segment results is affected by the inclusion of a significant investment banking transaction, which contributed \$24.7 million in revenues in the prior year second quarter, and the decline in investment banking activity during the current year, principally due to poor market conditions. In addition, the prior year quarter and nine month periods include \$3.2 million and \$28.2 million, respectively, of acquisition-related expenses associated with the Ryan Beck acquisition, principally a charge related to the acceleration of vesting arising from the amendment of the Ryan Beck deferred compensation plans. In addition to these factors, comparability of the first nine months of 2008 results to the prior year first nine months for total company and segment results is affected by the inclusion of the full nine months of Ryan Beck's and Stifel Bank & Trusts' results of operations in 2008 compared to the inclusion of seven months of Ryan Beck's results of operations and six months of Stifel Bank & Trust's results of operations in the first nine months of 2007. For the nine months ended September 30, 2008, Ryan Beck contributed \$144.3 million in net revenues compared to \$134.2 million in the nine months ended September 30, 2007 and income before income taxes of \$21.3 million for the nine months ended September 30, 2008, including the aforementioned revenue and expense items, compared to a loss of \$6.2 million for the nine months ended September 30, 2007. Stifel Bank & Trust contributed \$8.5 million in net revenues and \$1.5 million in income before income taxes for the nine months ended September 30, 2008 compared to \$2.9 million in net revenues and \$643,000 in income before income taxes for the nine months ended September 30, 2007.

While the Company's net revenues increased to \$639.4 million for the nine months ended September 30, 2008 compared to \$550.9 million for the nine months ended September 30, 2007, primarily from increased commissions, principal transactions, and asset management and services fees, certain of our business activities were impacted by the particularly challenging equity market conditions as evidenced by the decline of the Company's investment banking revenues of approximately \$70.0 million from the year ago period. The market turmoil has contributed to increased commissions and principal transactions revenues for the ECM and FICM as institutions rebalanced their portfolios to diminish exposure to the markets. Additionally, the market upheaval and the resultant failure of some Wall Street firms has led to increased market share of institutional business for the Company. The market turmoil has led to a decrease in the value of our customers' assets and a decrease in customer margin receivables. As a result, PCG commissions, asset management and service fees, and margin interest income may diminish in the future.



As a result of the turmoil in the credit markets, many issuances of auction rate securities ("ARS") have been adversely affected. The Company held \$21.9 million of ARS at September 30, 2008 in its inventory of trading securities, which were considered to be illiquid. During September 2008, \$11.6 million par value of auction rate securities in the Company's available-for-sale portfolio were called at par. The Company was carrying these auction rate securities at the estimated fair value of \$11.0 million due to the illiquid markets for these types of securities. As a result, the \$580,000 unrealized loss and related deferred tax benefit were removed from accumulated other comprehensive income. Additionally, the Company held a \$10.0 million par value asset-backed security ("ABS"), consisting of collateralized debt obligation ("CDO") trust preferred securities related primarily to banks, which is carried at \$7.6 million in the Company's held-to-maturity portfolio. This investment was also considered to be illiquid at September 30, 2008. The unrealized loss, included in accumulated other comprehensive income, will be amortized as an adjustment of yield over the remaining life of the security. The decline in the value is principally due to: 1) widening of credit spreads; 2) illiquid markets for CDOs; 3) global disruptions in the credit markets; and 4) increased supply of CDO secondary market securities from distressed sellers. The estimated fair value of this ABS security, based upon modeling techniques, was \$7.0 million at September 30, 2008. The Company has the intent and ability to hold these ARS securities held as available-for-sale and CDO security until market recovery or maturity and has concluded that as of September 30, 2008 there has not been other than temporary impairment to these securities. The Company will continue to monitor these investments for impairment.

Our business does not produce predictable earnings and is potentially affected by many risk factors such as the economic and global credit slowdown, among others. For a further discussion of the factors that may affect our future operating results, see the updated risk factors that the Company filed on Form 8-K Current Report on September 23, 2008.

### Results of Operations for the Company

*Nine months ended September 30, 2008 as compared to nine months ended September 30, 2007*

|  | Nine Months Ended  |            |          |                    |          |  |
|--|--------------------|------------|----------|--------------------|----------|--|
|  | September 30, 2008 |            |          | September 30, 2007 |          |  |
|  | % of Net           |            | % of Net |                    |          |  |
| (\$'s in thousands)                    | Amount             | Revenues % | Change   | Amount             | Revenues |  |
| <b>Revenues</b>                        |                    |            |          |                    |          |  |
| Commissions and principal transactions | \$ 458,284         | 71.7 %     | 45%      | \$ 316,508         | 57.5%    |  |
| Investment banking                     | 67,935             | 10.6       | (51)     | 137,964            | 25.0     |  |
| Asset management and service fees      | 90,580             | 14.2       | 26       | 72,018             | 13.1     |  |
| Interest                               | 39,175             | 6.1        | (10)     | 43,371             | 7.9      |  |
| Other                                  | (883)              | (0.1)      | N/M      | 4,107              | 0.7      |  |
| Total revenues                         | 655,091            | 102.5      | 14       | 573,968            | 104.2    |  |
| Less: Interest expense                 | 15,740             | 2.5        | (32)     | 23,089             | 4.2      |  |
| Net revenues                           | 639,351            | 100.0      | 16       | 550,879            | 100.0    |  |
| <b>Non-Interest Expenses</b>           |                    |            |          |                    |          |  |
| Employee compensation and benefits     | 441,028            | 69.0       | 10       | 401,263            | 72.8     |  |
| Occupancy and equipment rental         | 49,012             | 7.7        | 20       | 40,767             | 7.4      |  |
| Communication and office supplies      | 32,887             | 5.1        | 5        | 31,303             | 5.7      |  |
| Commissions and floor brokerage        | 8,315              | 1.3        | 15       | 7,246              | 1.3      |  |
| Other operating expenses               | 42,940             | 6.7        | 9        | 39,547             | 7.2      |  |
| Total non-interest expenses            | 574,182            | 89.8       | 10       | 520,126            | 94.4     |  |
| Income before income taxes             | 65,169             | 10.2       | 112      | 30,753             | 5.6      |  |
| Provision for income taxes             | 25,713             | 4.0        | 107      | 12,418             | 2.3      |  |
| Net income                             | \$ 39,456          | 6.2 %      | 115%     | \$ 18,335          | 3.3%     |  |

N/M- Not meaningful

The following table presents average balance data and operating interest income and expense data for the Company, as well as related interest yields for the periods indicated:

| (\$'s in thousands)  | Average Balances and Interest Income and Expense Data<br>Nine Months Ended |                                    |                           |                    |                                    |                           |
|--|--|------------------------------------|---------------------------|--------------------|------------------------------------|---------------------------|
|  | September 30, 2008   |                                    |                           | September 30, 2007 |                                    |                           |
|  | Average<br>Balance   | Operating<br>Interest<br>Inc./Exp. | Average<br>Yield/<br>Cost | Average<br>Balance | Operating<br>Interest<br>Inc./Exp. | Average<br>Yield/<br>Cost |
| <b>Interest-Earning Assets:</b>                                |  |                                    |                           |                    |                                    |                           |
| Margin balances of Stifel Nicolaus (1)                         | \$ 416,297   | \$ 17,413                          | 5.58%                     | \$ 290,768         | \$ 18,119                          | 8.31%                     |
| Interest-earning assets of Stifel Bank & Trust (2)             | 269,551  | 11,491                             | 5.68%                     | 172,433            | 5,823                              | 6.75%                     |
| Stock borrow of Stifel Nicolaus                                | 63,273   | 726                                | 1.53%                     | 36,969             | 1,100                              | 3.97%                     |
| Other  |  | 9,545                              |                           |                    | 18,329                             |                           |
| <b>Total interest income</b>                                   |  | <b>\$ 39,175</b>                   |                           |                    | <b>\$ 43,371</b>                   |                           |
| <b>Interest-Bearing Liabilities:</b>                           |  |                                    |                           |                    |                                    |                           |
| Stifel Nicolaus short-term borrowings                          | \$ 153,053   | \$ 2,656                           | 2.31%                     | \$ 178,095         | \$ 6,877                           | 5.15%                     |
| Interest-bearing liabilities of Stifel Bank & Trust (2)        | 220,341  | 4,599                              | 2.78%                     | 140,624            | 3,453                              | 4.91%                     |
| Stock loan of Stifel Nicolaus                                  | 131,562  | 2,549                              | 2.58%                     | 102,583            | 3,844                              | 5.00%                     |
| Interest-bearing liabilities of<br>Unconsolidated subsidiaries | 95,000   | 4,783                              | 6.71%                     | 95,158             | 5,140                              | 7.20%                     |
| Other  |  | 1,153                              |                           |                    | 3,775                              |                           |
| <b>Total interest expense</b>                                  |  | <b>15,740</b>                      |                           |                    | <b>23,089</b>                      |                           |
| <b>Net interest income</b>                                     |  | <b>\$ 23,435</b>                   |                           |                    | <b>\$ 20,282</b>                   |                           |

(1) Average margin balances increased as a result of the acquisition of Ryan Beck and the growth in the PCG segment.

(2) Stifel Bank & Trust was acquired on April 2, 2007. See further details of Stifel Bank & Trust assets and interest-bearing liabilities in Results of Operation-Stifel Bank & Trust discussion.

Except as noted in the following discussion of variances for the total Company and the ensuing segment results, the underlying reasons for the increase in revenue and expense categories for the first nine months can be attributed principally to the acquisitions discussed above in "Acquisitions" and the increased number of PCG offices and PCG financial advisors. Ryan Beck's and Stifel Bank & Trust's results of operations are included in the Company's results of operations prospectively from their respective dates of acquisition of February 28, 2007, and April 2, 2007. As such, the first nine months of 2007 includes only seven months of Ryan Beck's results of operations and six months of Stifel Bank & Trust's results of operations. As noted in the Executive Summary discussion above, for the nine months ended September 30, 2008, Ryan Beck contributed \$144.3 million in net revenues compared to \$134.2 million in the nine months ended September 30, 2007 and income before income taxes of \$21.3 million for the nine months ended September 30, 2008, including the aforementioned revenue and expense items, compared to a loss of \$6.2 million for the nine months ended September 30, 2007. Stifel Bank & Trust contributed \$8.5 million in net revenues and income before income taxes of \$1.5 million for the nine months ended September 30, 2008 compared to \$2.9 million in net revenues and \$643,000 in income before income taxes for the nine months ended September 30, 2007.

The Company's net revenues (total revenues less interest expense) increased \$88.5 million to \$639.4 million for the nine months ended September 30, 2008, a 16% increase over the \$550.9 million recorded for the nine months ended September 30, 2007.



Commissions and principal transactions revenues increased 45% to \$458.3 million for the first nine months of 2008 from \$316.5 million for the first nine months of 2007, with increases of 19%, 36%, and 230% in the PCG, ECM, and FICM segments, respectively, primarily resulting from the aforementioned growth and market volatility leading to increased commissions, principally in OTC stocks, and increased principal transactions, primarily in mortgage-backed securities, municipal debt and corporate debt.

Investment banking revenues decreased 51% to \$67.9 million for the first nine months of 2008 from \$138.0 million for the first nine months of 2007 due to the industry-wide decline in common stock offerings and mergers and acquisitions caused by the challenging equity market conditions. Capital raising revenues decreased 56% to \$35.9 million from \$80.9 million for the prior year period and strategic advisory fees decreased 44% to \$32.0 million from \$57.1 million for the first nine months of 2007. Additionally, during the second quarter of 2007, the Company closed on a significant corporate finance investment banking transaction, which contributed \$24.7 million in revenues.

Asset management and service fees revenues increased 26% to \$90.6 million from \$72.0 million for the prior year period, primarily resulting from a 44% increase in the number of Stifel Nicolaus managed accounts and a 28% increase in the value of assets in fee-based accounts and increased distribution fees for money market funds, principally FDIC insured accounts, attributable principally to the Ryan Beck acquisition and the continued growth of the Private Client Group (See Assets in Fee-based Accounts in Results of Operations for Private Client Group, nine months ended September 30, 2008).

Other revenues decreased \$5.0 million to a loss of \$883,000 for the first nine months of 2008 from \$4.1 million for the first nine months of 2007, principally due to investment losses of approximately \$5.9 million for the first nine months of 2008 as a result of the downturn in the equity markets, compared to investment gains of approximately \$640,000 for the first nine months of 2007. Other miscellaneous revenues increased \$1.6 million, principally due to increased bank fees from Stifel Bank & Trust.

Interest revenues decreased 10%, or \$4.2 million, to \$39.2 million for the first nine months of 2008 from \$43.4 million for the first nine months of 2007, principally as a result of a \$8.8 million decrease in interest revenues on fixed income inventory held for sale to clients and decreased interest revenues of \$706,000 from customer margin borrowing, partially offset by increased interest revenues of \$5.7 million from interest-earning assets of Stifel Bank & Trust. The average margin balances of Stifel Nicolaus increased to \$416.3 million during the first nine months of 2008 compared to \$290.8 million during the first nine months of 2007 at weighted average interest rates of 5.58% and 8.31%, respectively. The average interest-earning assets of Stifel Bank & Trust increased to \$269.6 million during the first nine months of 2008 compared to \$172.4 million during the first nine months of 2007 at weighted average interest rates of 5.68% and 6.75%, respectively. Interest expense decreased 32%, or \$7.3 million, to \$15.7 million for the first nine months of 2008 from \$23.1 million for the first nine months of 2007, principally as a result of decreased interest rates charged by banks on decreased levels of borrowings to finance customer borrowing and firm inventory and decreased interest rates on stock loan borrowings, partially offset by increased average interest-bearing liabilities of Stifel Bank & Trust. See the Average Balances and Interest Income and Expense Data table, nine months ended September 30, 2008 above related to average balance data and operating interest income and expense data, as well as related interest yields for further information.

Employee compensation and benefits increased 10%, or \$39.8 million, to \$441.0 million for the first nine months of 2008 from \$401.3 million for the first nine months of 2007, principally due to increased commissions and principal transactions revenue production. As a percentage of net revenues, employee compensation and benefits totaled 69.0% for the nine months ended September 30, 2008 compared to 72.8% for the nine months ended September 30, 2007. Included in compensation and benefits in 2007 is \$22.7 million of acquisition-related expenses associated with the Ryan Beck acquisition, principally a charge related to the acceleration of vesting arising from the amendment of the Ryan Beck deferred compensation plans. A portion of employee compensation and benefits includes transition pay, principally in the form of upfront notes and accelerated payout in connection with the Company's continuing expansion efforts, of \$20.8 million (3% of net revenues) and \$18.3 million (3% of net revenues) for the nine months ended September 30, 2008 and September 30, 2007, respectively. The upfront notes are amortized over a five to ten year period. In addition, for the nine months ended September 30, 2008 and 2007, employee compensation and benefits includes \$19.1 million and \$17.7 million, respectively, for amortization of units awarded to Legg Mason Capital Markets ("LM Capital Markets") associates. The amortization of these units will continue through the end of

2008.

Occupancy and equipment rental, communication and office supplies, commissions and floor brokerage, and other operating expenses increased principally due to the acquisitions and the Company's expansion of the ECM and FICM segments and continued expansion of the PCG. Additionally, a change in the second quarter of 2008 to a third party vendor for services, resulted in approximately \$3.4 million of expenses previously accounted for as communication and office supplies that are now accounted for as commissions and floor brokerage. This resulting increase in commissions and floor brokerage expenses was partially offset by a rebate of approximately \$1.5 million received in the first quarter of 2008 related to clearing fees paid in 2007.

The provision for income taxes was \$25.7 million for the first nine months of 2008, representing an effective tax rate of 39.5%, compared to \$12.4 million for the first nine months of 2007, representing an effective tax rate of 40.4%. The higher effective tax rate in the first nine months of 2007 was due to the proportionately higher level of non-deductible expenses to net income.

Net income increased 115%, or \$21.1 million, to \$39.4 million for the first nine months of 2008, compared to \$18.3 million for the first nine months of 2007, principally due to the increase in net revenues and the scalability of increased production and lower acquisition-related charges.

### Results of Operations for the Company

*Three months ended September 30, 2008 as compared to three months ended September 30, 2007*

| (\$'s in thousands)                    | Three Months Ended<br>September 30, 2008 |                   |          | Three Months Ended<br>September 30, 2007 |                   |
|--|--|-------------------|----------|--|-------------------|
|  | Amount                                   | % of Net Revenues | % Change | Amount                                   | % of Net Revenues |
| <b>Revenues</b>                        |  |                   |          |  |                   |
| Commissions and principal transactions | \$ 156,909                               | 71.7 %            | 37%      | \$ 114,628                               | 62.7%             |
| Investment banking                     | 25,156                                   | 11.5              | (19)     | 30,966                                   | 16.9              |
| Asset management and service fees      | 30,336                                   | 13.8              | 12       | 27,108                                   | 14.8              |
| Interest                               | 12,819                                   | 5.8               | (20)     | 15,972                                   | 8.7               |
| Other                                  | (1,391)                                  | (0.6)             | N/M      | 2,165                                    | 1.2               |
| Total revenues                         | 223,829                                  | 102.2             | 17       | 190,839                                  | 104.3             |
| Less: Interest expense                 | 4,906                                    | 2.2               | (38)     | 7,856                                    | 4.3               |
| Net revenues                           | 218,923                                  | 100.0             | 20       | 182,983                                  | 100.0             |
| <b>Non-Interest Expenses</b>           |  |                   |          |  |                   |
| Employee compensation and benefits     | 150,203                                  | 68.6              | 19       | 126,652                                  | 69.2              |
| Occupancy and equipment rental         | 17,286                                   | 7.9               | 19       | 14,492                                   | 7.9               |
| Communication and office supplies      | 11,192                                   | 5.1               | (3)      | 11,528                                   | 6.3               |
| Commissions and floor brokerage        | 4,348                                    | 2.0               | 72       | 2,527                                    | 1.4               |
| Other operating expenses               | 14,800                                   | 6.8               | 2        | 14,512                                   | 8.0               |
| Total non-interest expenses            | 197,829                                  | 90.4              | 17       | 169,711                                  | 92.8              |
| Income before income taxes             | 21,094                                   | 9.6               | 59       | 13,272                                   | 7.2               |
| Provision for income taxes             | 8,317                                    | 3.8               | 60       | 5,214                                    | 2.8               |
| Net income                             | \$ 12,777                                | 5.8 %             | 59%      | \$ 8,058                                 | 4.4%              |

N/M- Not meaningful

The following table presents average balance data and operating interest income and expense data for the Company, as well as related interest yields for the periods indicated:

| (\$'s in thousands)  | Average Balances and Interest Income and Expense Data<br>Three Months Ended |                                    |                           |                    |                                    |                           |
|--|---|------------------------------------|---------------------------|--------------------|------------------------------------|---------------------------|
|  | September 30, 2008  |                                    |                           | September 30, 2007 |                                    |                           |
|  | Average<br>Balance  | Operating<br>Interest<br>Inc./Exp. | Average<br>Yield/<br>Cost | Average<br>Balance | Operating<br>Interest<br>Inc./Exp. | Average<br>Yield/<br>Cost |
| <b>Interest-Earning Assets:</b>                                |   |                                    |                           |                    |                                    |                           |
| Margin balances of Stifel Nicolaus                             | \$ 389,272  | \$ 5,173                           | 5.32%                     | \$ 387,063         | \$ 7,958                           | 8.22%                     |
| Interest-earning assets of Stifel Bank & Trust                 | 296,296   | 4,129                              | 5.57%                     | 189,666            | 3,231                              | 6.81%                     |
| Stock borrow of Stifel Nicolaus                                | 86,772  | 272                                | 1.25%                     | 39,965             | 405                                | 4.05%                     |
| Other  |   | 3,245                              |                           |                    | 4,378                              |                           |
| <b>Total interest income</b>                                   |   | \$ 12,819                          |                           |                    | \$ 15,972                          |                           |
| <b>Interest-Bearing Liabilities:</b>                           |   |                                    |                           |                    |                                    |                           |
| Stifel Nicolaus short-term borrowings                          | \$ 162,732  | \$ 980                             | 2.41%                     | \$ 130,517         | \$ 1,475                           | 4.52%                     |
| Interest-bearing liabilities of Stifel Bank & Trust            | 247,859   | 1,447                              | 2.34%                     | 147,570            | 1,815                              | 4.92%                     |
| Stock loan of Stifel Nicolaus                                  | 105,273   | 539                                | 2.05%                     | 132,801            | 1,680                              | 5.06%                     |
| Interest-bearing liabilities of<br>unconsolidated subsidiaries | 95,000  | 1,587                              | 6.68%                     | 109,875            | 1,844                              | 6.71%                     |
| Other  |   | 353                                |                           |                    | 1,042                              |                           |
| <b>Total interest expense</b>                                  |   | 4,906                              |                           |                    | 7,856                              |                           |
| <b>Net interest income</b>                                     |   | \$ 7,913                           |                           |                    | \$ 8,116                           |                           |

The Company's net revenues (total revenues less interest expense) increased 20%, or \$35.9 million, to \$218.9 million for the three months ended September 30, 2008 compared to \$183.0 million recorded for the three months ended September 30, 2007, resulting from increased commissions and principal transactions and asset management and service fees, partially offset by a decrease in investment banking revenues, interest revenues, and other revenues.

Commissions and principal transactions revenues increased 37% to \$156.9 million for the third quarter of 2008 from \$114.6 million for the third quarter of 2007, with increases of 9%, 45%, and 188% in the PCG, ECM, and FICM segments, respectively, primarily resulting from the aforementioned growth and market volatility leading to increased commissions, principally in OTC stocks, and increased principal transactions, primarily in corporate debt and municipal debt.

Investment banking revenues decreased 19% to \$25.2 million for the third quarter of 2008 from \$31.0 million for the third quarter of 2007 due to the industry-wide decline in common stock offerings and mergers and acquisitions caused by the challenging equity market conditions. Capital raising revenues decreased 43% to \$11.1 million from \$19.6 million for the prior year quarter, which was partially offset by a 23% increase in strategic advisory fees to \$14.1 million from \$11.4 million for the third quarter of 2007.

Asset management and service fees revenues increased 12% to \$30.3 million from \$27.1 million for the prior year quarter resulting from a 44% increase in the number of Stifel Nicolaus managed accounts and a 28% increase in the value of assets in fee-based accounts and increased distribution fees for money market funds, principally FDIC insured accounts, attributable principally to the Ryan Beck acquisition and the continued growth of the Private Client Group (See Assets in Fee-based Accounts in Results of Operations for Private Client Group, nine months ended September 30, 2008).



Other revenues decreased \$3.6 million to a loss of \$1.4 million for the third quarter of 2008 from \$2.2 million for the third quarter of 2007, principally due to investment losses of approximately \$3.0 million for the third quarter of 2008 as a result of the downturn in the equity markets, compared to investment gains of approximately \$1.0 million for the third quarter of 2007. Other miscellaneous revenues increased \$410,000, principally due to increased bank fees from Stifel Bank & Trust.

Interest revenues decreased 20%, or \$3.2 million, to \$12.8 million for the third quarter of 2008 from \$16.0 million for the third quarter of 2007 principally as a result of \$2.8 million of decreased interest revenues on customer margin borrowing attributable to lower interest rates, a \$1.1 million decrease in interest revenues from fixed income inventory held for sale to clients, partially offset by increased interest revenues of \$898,000 from interest-earning assets of Stifel Bank & Trust. The average interest-earning assets of Stifel Bank & Trust increased to \$296.3 million during the third quarter of 2008 compared to \$189.7 million during the third quarter of 2007 at weighted average interest rates of 5.57% and 6.81%, respectively. Interest expense decreased 38%, or \$3.0 million, to \$4.9 million for the third quarter of 2008, principally as a result of decreased interest rates charged by banks on borrowings to finance customer borrowing and firm inventory, decreased interest rates on interest-bearing liabilities of Stifel Bank & Trust, and decreased rates and principal balances on the Company's debentures. For further information regarding the debentures, see Note J of Notes to Consolidated Financial Statements included in the Company's Annual Report on Form 10-K for the period ended December 31, 2007. The average balance of interest-bearing liabilities at Stifel Bank & Trust increased to \$247.9 million during the third quarter of 2008 from \$147.6 million in the prior year quarter; however, the average interest rate decreased to 2.34% from 4.92%, resulting in lower interest expense. See the Average Balances and Interest Income and Expense Data table, three months ended September 30, 2008 above related to average balance data and operating interest income and expense data, as well as related interest yields, for further information.

Employee compensation and benefits increased 19%, or \$23.5 million, to \$150.2 million for the third quarter of 2008 from \$126.7 million for the third quarter of 2007. As a percentage of net revenues, employee compensation and benefits totaled 68.6% for the three months ended September 30, 2008 compared to 69.2% for the three months ended September 30, 2007. A portion of employee compensation and benefits includes transition pay, principally in the form of upfront notes and accelerated payout in connection with the Company's continuing expansion efforts, of \$7.4 million (3% of net revenues) and \$6.9 million (4% of net revenues) for the three months ended September 30, 2008 and September 30, 2007, respectively. The upfront notes are amortized over a five to ten year period. In addition, for the three months ended September 30, 2008 and 2007, compensation and benefits includes \$6.5 million and \$6.1 million, respectively, principally for amortization of units awarded to LM Capital Markets associates. The amortization of these units will continue through the end of 2008.

Occupancy and equipment rental and other operating expenses increased principally due to the continued expansion of the Private Client Group. Communication and office supplies decreased principally due to the Company's change in the second quarter of 2008 to a third party vendor for services, resulting in approximately \$2.0 million of expenses in the current quarter that were previously accounted for as communication and office supplies, but are now accounted for as commissions and floor brokerage.

The provision for income taxes was \$8.3 million for the third quarter of 2008, representing an effective tax rate of 39.4%, compared to \$5.2 million for the third quarter of 2007, representing an effective tax rate of 39.3%.

Net income increased \$4.7 million to \$12.8 million for the third quarter of 2008 from \$8.1 million for the prior year quarter, principally due to the increase in net revenues and the scalability of increased production.

### Segment Analysis

The Company's reportable segments include the Private Client Group, Equity Capital Markets, Fixed Income Capital Markets, Stifel Bank, and Other. The Private Client Group segment includes branch offices and independent contractor offices of the Company's broker-dealer subsidiaries located throughout the U.S., primarily in the Midwest and Mid-Atlantic regions with a growing presence in the East and West regions. These branches provide securities brokerage services, including the sale of equities, mutual funds, fixed income products, and insurance, as well as offering Stifel Bank & Trust banking products to their private clients. The Equity Capital Markets segment includes corporate finance management and participation in underwritings (exclusive of sales credits, which are included in the Private Client Group segment), mergers and acquisitions, institutional sales, trading, research, and market making. The Fixed Income Capital Markets segment includes public finance, institutional sales and competitive underwriting and trading. The Stifel Bank segment includes the results of operations from Stifel Bank & Trust, beginning prospectively from the date of acquisition on April 2, 2007, and principally includes residential, consumer, and commercial lending activities, as well as FDIC-insured deposit accounts to customers of the Company's broker-dealer subsidiaries and to the general public. 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 acquisitions, and general administration.

The Company evaluates the performance of its segments and allocates resources to them based on various factors, including prospects for growth, return on investment, and return on revenues.

#### Results of Operations for Private Client Group

##### Nine months ended September 30, 2008 as compared to nine months ended September 30, 2007

The following table presents consolidated information for the PCG segment for the respective periods indicated.

|  | September 30, 2008 |                   | September 30, 2007 |            |                   |
|--|--------------------|-------------------|--------------------|------------|-------------------|
|  | Amount             | % of Net Revenues | % Change           | Amount     | % of Net Revenues |
| <i>(\$'s in thousands)</i>             |                    |                   |                    |            |                   |
| <b>Revenues</b>                        |                    |                   |                    |            |                   |
| Commissions and principal transactions | \$ 237,523         | 67.9%             | 19 %               | \$ 199,421 | 63.0%             |
| Investment banking                     | 13,690             | 3.9               | (61)               | 35,366     | 11.2              |
| Asset management and service fees      | 90,199             | 25.8              | 26                 | 71,550     | 22.6              |
| Interest                               | 18,827             | 5.3               | (16)               | 22,310     | 7.0               |
| Other                                  | (502)              | (0.1)             | N/M                | 1,127      | 0.4               |
| Total revenues                         | 359,737            | 102.8             | 9                  | 329,774    | 104.2             |
| Less: Interest expense                 | 9,909              | 2.8               | (26)               | 13,323     | 4.2               |
| Net revenues                           | 349,828            | 100.0             | 11                 | 316,451    | 100.0             |
| <b>Non-Interest Expenses</b>           |                    |                   |                    |            |                   |
| Employee compensation and benefits     | 215,879            | 61.7              | 7                  | 201,964    | 63.8              |
| Occupancy and equipment rental         | 25,560             | 7.3               | 27                 | 20,110     | 6.4               |
| Communication and office supplies      | 13,271             | 3.8               | 13                 | 11,700     | 3.7               |
| Commissions and floor brokerage        | 3,308              | 0.9               | 14                 | 2,904      | 0.9               |
| Other operating expenses               | 13,548             | 3.9               | 14                 | 11,904     | 3.8               |



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|                             |           |       |      |           |       |
|-----------------------------|-----------|-------|------|-----------|-------|
| Total non-interest expenses | 271,566   | 77.6  | 9    | 248,582   | 78.6  |
| Income before income taxes  | \$ 78,262 | 22.4% | 15 % | \$ 67,869 | 21.4% |

N/M=Not meaningful

|                         | September 30,<br>2008 | June 30,<br>2008 | December 31, 2007 | September 30,<br>2007 | June 30,<br>2007 |
|-------------------------|-----------------------|------------------|-------------------|-----------------------|------------------|
| Branch offices          | 166                   | 160              | 148               | 148                   | 150              |
| Financial advisors      | 1,043                 | 986              | 966               | 959                   | 956              |
| Independent contractors | 185                   | 192              | 197               | 199                   | 194              |

#### Assets in Fee-based Accounts

|                    |                  |                  |                  |                  |                  |
|--------------------|------------------|------------------|------------------|------------------|------------------|
| Value              | \$ 6,319,028,000 | \$ 6,277,218,000 | \$ 6,668,882,000 | \$ 4,921,894,000 | \$ 4,409,262,000 |
| Number of accounts | 23,569           | 23,017           | 21,803           | 16,357           | 14,587           |

PCG net revenues increased 11% to \$349.8 million for the nine months ended in 2008, compared to \$316.5 million for the nine months ended in 2007 as a result of increases in commissions and principal transactions and asset management and service fees, partially offset by a decrease in investment banking revenues and other revenues. Commissions and principal transactions increased primarily due to the increased number of branch locations resulting from the Ryan Beck acquisition and the continued expansion of the PCG and an increase in the number of financial advisors as indicated in the table above. Investment banking, which represents sales credits for investment banking underwritings, decreased approximately 61%, principally reflecting a decline in industry-wide common stock offerings. Asset management and service fees increased principally due to increased wrap fees, resulting from an increase in the number and value of managed accounts. Other revenues decreased principally due to losses on investments to hedge financial advisors' deferred compensation for the first nine months of 2008 compared to investment gains for the first nine months of 2007.

Interest revenues for PCG decreased 16% to \$18.8 million for the nine months ended in 2008 compared to \$22.3 million for the nine months ended in 2007, principally due to lower average interest rates on customer margin borrowing to finance trading activity, partially offset by higher average customer margin balances. Interest expense decreased 26% to \$9.9 million for the current year period compared to \$13.3 million for the prior year period, principally as a result of decreased interest rates charged by banks on decreased levels of borrowings to finance customer borrowings. See the Average Balances and Interest Income and Expense Data table, nine months ended September 30, 2008 in Results of Operations for the Company, nine months ended September 30, 2008.

Non-interest expenses increased 9% to \$271.6 million compared to \$248.6 million for the nine months ended September 30, 2008 and 2007, respectively. Employee compensation and benefits increased 7% principally as a result of increased variable compensation, which increased in conjunction with increased production, and increased fixed compensation as a result of the Ryan Beck acquisition and the continued expansion of the Private Client Group. Employee compensation and benefits includes transition pay of \$19.8 million (6% of net revenues) and \$16.0 million (approximately 5% of net revenues) for the nine months ended 2008 and 2007, respectively, principally in the form of upfront notes and accelerated payouts in connection with the Company's expansion efforts and retention awards issued in connection with the Ryan Beck acquisition. As a percentage of net revenues, employee compensation and benefits decreased to 61.7% for the nine months ended September 30, 2008 compared to 63.8% for the nine months ended September 30, 2007 as a result of increased net revenues and the conversion of Ryan Beck financial advisors to the Stifel Nicolaus lower payout schedule effective January 1, 2008. Other non-employee compensation and benefits expenses increased principally due to the increase in new branch offices and financial advisors, and the increased depreciation expense associated with the investment in infrastructure, primarily communication and quote equipment, for the Ryan Beck offices.

Income before income taxes for the PCG increased 15% to \$78.3 million for the nine months ended September 30, 2008 compared to \$67.9 million for the nine months ended September 30, 2007 as a result of increased net revenues and the scalability of increased production.

**Results of Operations for Private Client Group**  
**Three months ended September 30, 2008 as compared to three months ended September 30, 2007**

The following table presents consolidated information for the PCG segment for the respective periods indicated.

| <i>(\$'s in thousands)</i>             | <b>Three Months Ended</b> |                          |                 | <b>September 30,</b> |                 |
|--|---------------------------|--------------------------|-----------------|----------------------|-----------------|
|  | <b>September 30, 2008</b> |                          |                 | <b>2007</b>          | <b>% of Net</b> |
|  | <b>Amount</b>             | <b>% of Net Revenues</b> | <b>% Change</b> | <b>Amount</b>        | <b>Revenues</b> |
| <b>Revenues</b>                        |                           |                          |                 |                      |                 |
| Commissions and principal transactions | \$ 78,031                 | 68.5%                    | 9 %             | \$ 71,766            | 63.7%           |
| Investment banking                     | 3,371                     | 2.9                      | (67)            | 10,068               | 9.0             |
| Asset management and service fees      | 30,111                    | 26.4                     | 12              | 26,833               | 23.8            |
| Interest                               | 5,543                     | 4.9                      | (39)            | 9,044                | 8.0             |
| Other                                  | (252)                     | (0.2)                    | N/M             | 577                  | 0.5             |
| Total revenues                         | 116,804                   | 102.5                    | (1)             | 118,288              | 105.0           |
| Less: Interest expense                 | 2,828                     | 2.5                      | (50)            | 5,638                | 5.0             |
| Net revenues                           | 113,976                   | 100.0                    | 1               | 112,650              | 100.0           |
| <b>Non-Interest Expenses</b>           |                           |                          |                 |                      |                 |
| Employee compensation and benefits     | 70,343                    | 61.7                     | (3)             | 72,177               | 64.1            |
| Occupancy and equipment rental         | 9,200                     | 8.1                      | 30              | 7,070                | 6.3             |
| Communication and office supplies      | 4,842                     | 4.2                      | 12              | 4,326                | 3.8             |
| Commissions and floor brokerage        | 1,815                     | 1.6                      | 29              | 1,409                | 1.2             |
| Other operating expenses               | 4,975                     | 4.4                      | 17              | 4,267                | 3.8             |
| Total non-interest expenses            | 91,175                    | 80.0                     | 2               | 89,249               | 79.2            |
| Income before income taxes             | \$ 22,801                 | 20.0%                    | (3)%            | \$ 23,401            | 20.8%           |

N/M=Not meaningful

PCG net revenues increased 1% to \$114.0 million for the three months ended in 2008, compared to \$112.7 million for the three months ended in 2007 as a result of increases in commissions and principal transactions and asset management and service fees, offset by a decrease in investment banking revenues, net interest revenues and other revenues. Commissions and principal transactions increased, principally attributable to increased principal transaction revenues from corporate equity and municipal debt, primarily due to the increased number of branch locations and financial advisors due to the continued expansion of the PCG. Investment banking, which represents sales credits for investment banking underwritings, decreased 67%, principally reflecting a decline in industry-wide common stock offerings. Asset management and service fees increased principally due to increased wrap fees, resulting from an increase in the number and value of managed accounts.

Interest revenues for PCG decreased principally as a result of decreased average interest rates charged to customers. Interest expense decreased principally as a result of decreased average interest rates charged by banks on borrowings to finance customer borrowings. See interest revenues and expense discussion in Results of Operations for the Company, three months ended September 30, 2008.

Non-interest expenses increased 2% to \$91.2 million compared to \$89.2 million for the three months ended September 30, 2008 and 2007, respectively. Employee compensation and benefits decreased 3%, principally as a result of decreased fixed compensation and benefit expenses associated with the elimination of certain Ryan Beck salaried positions and the conversion of Ryan Beck financial advisors to the Stifel Nicolaus payout schedule effective January 1, 2008. As a percentage of net revenues, employee compensation and benefits decreased to 61.7% for the three

months ended September 30, 2008 compared to 64.1% for the three months ended September 30, 2007 as a result of increased net revenues and the conversion of Ryan Beck financial advisors to the Stifel Nicolaus lower payout schedule effective January 1, 2008. Employee compensation and benefits includes transition pay of \$6.9 million (6% of net revenues) and \$10.1 million (approximately 9% of net revenues) for the three months ended 2008 and 2007, respectively, principally in the form of upfront notes and accelerated payouts in

connection with the Company's expansion efforts and retention awards issued in connection with the Ryan Beck acquisition. Other non-employee compensation and benefits expenses increased principally due to the increase in new branch offices and financial advisors

Income before income taxes for the PCG decreased 3% to \$22.8 million for the three months ended September 30, 2008 compared to \$23.4 million for the three months ended September 30, 2007, principally due higher expenses, primarily occupancy expenses, associated with new office openings.

### Results of Operations for Equity Capital Markets

#### Nine months ended September 30, 2008 as compared to nine months ended September 30, 2007

The following table presents consolidated information for the ECM segment for the respective periods indicated.

| (\$'s in thousands)                    | Nine Months Ended  |                   |          |                    |                   |  |
|--|--------------------|-------------------|----------|--------------------|-------------------|--|
|  | September 30, 2008 |                   |          | September 30, 2007 |                   |  |
|  | Amount             | % of Net Revenues | % Change | Amount             | % of Net Revenues |  |
| <b>Revenues</b>                        |                    |                   |          |                    |                   |  |
| Commissions and principal transactions | \$ 115,361         | 71.8%             | 36 %     | \$ 85,104          | 47.7%             |  |
| Investment banking                     | 44,370             | 27.6              | (52)     | 92,754             | 51.9              |  |
| Other                                  | 1,084              | 0.7               | (17)     | 1,313              | 0.7               |  |
| Total revenues                         | 160,815            | 100.1             | (10)     | 179,171            | 100.3             |  |
| Less: Interest expense                 | 171                | 0.1               | (68)     | 528                | 0.3               |  |
| Net revenues                           | 160,644            | 100.0             | (10)     | 178,643            | 100.0             |  |
| <b>Non-Interest Expenses</b>           |                    |                   |          |                    |                   |  |
| Employee compensation and benefits     | 103,383            | 64.3              | (2)      | 105,619            | 59.1              |  |
| Occupancy and equipment rental         | 7,303              | 4.5               | 26       | 5,804              | 3.2               |  |
| Communication and office supplies      | 10,883             | 6.8               | (7)      | 11,746             | 6.6               |  |
| Commissions and floor brokerage        | 4,811              | 3.0               | 119      | 2,193              | 1.2               |  |
| Other operating expenses               | 11,978             | 7.5               | 11       | 10,836             | 6.1               |  |
| Total non-interest expenses            | 138,358            | 86.1              | 2        | 136,198            | 76.2              |  |
| Income before income taxes             | \$ 22,286          | 13.9%             | (47)%    | \$ 42,445          | 23.8%             |  |

ECM recorded net revenues of \$160.6 million for the nine months ended September 30, 2008, a decrease of 10% compared to the \$178.6 million for the nine months ended September 30, 2007, principally due to the decrease in investment banking activity resulting from the industry-wide difficult equity market conditions, partially offset by increased commissions and principal transactions, which increased 36% to \$115.4 million. Investment banking revenues decreased 52% to \$44.4 million, reflecting a 50% decrease in financial advisory fees to \$27.7 million and a 55% decrease in equity financing revenues to \$16.7 million.

Non-interest expenses increased 2% to \$138.4 million for the nine months ended September 30, 2008 compared to \$136.2 million for the nine months ended September 30, 2007. Employee compensation and benefits as a percentage of net revenues increased to 64.3% for the nine months ended September 30, 2008 compared to 59.1% for the nine months ended September 30, 2007, principally due to increased fixed compensation and benefits associated with the Company's expansion of the ECM and decreased net revenues. All other increases in occupancy and equipment rental, commission and floor brokerage, and other operating expenses can be attributed to the Company's expansion of the ECM, including the Ryan Beck acquisition, and increased expenses associated with the new downtown Baltimore location for the Company's capital markets operations, which was occupied beginning in the fall of 2007. Additionally, with the Company's change in a third party vendor for services, approximately \$3.4 million previously

recorded as communication and office supplies are now being recorded to commission and floor brokerage. See further discussion in Results of Operations for the Company, nine months ended September 30, 2008.

Income before income taxes decreased 47% to \$22.3 million for the nine months ended September 30, 2008 compared to \$42.4 million for the nine months ended September 30, 2007, principally as a result of the 10% decrease in net revenues.

### Results of Operations for Equity Capital Markets

#### Three months ended September 30, 2008 as compared to three months ended September 30, 2007

The following table presents consolidated information for the ECM segment for the respective periods indicated.

| (\$'s in thousands)                    | Three Months Ended    |                      |          | Three Months Ended    |                      |                      |
|--|-----------------------|----------------------|----------|-----------------------|----------------------|----------------------|
|  | September 30,<br>2008 |                      | % Change | September 30,<br>2007 |                      | % of Net<br>Revenues |
|  | Amount                | % of Net<br>Revenues |          | Amount                | % of Net<br>Revenues |                      |
| <b>Revenues</b>                        |                       |                      |          |                       |                      |                      |
| Commissions and principal transactions | \$ 44,827             | 70.7%                | 45 %     | \$ 31,020             | 65.0%                |                      |
| Investment banking                     | 18,235                | 28.8                 | 9        | 16,658                | 34.9                 |                      |
| Other                                  | 409                   | 0.6                  | 83       | 223                   | 0.5                  |                      |
| Total revenues                         | 63,471                | 100.1                | 33       | 47,901                | 100.4                |                      |
| Less: Interest expense                 | 66                    | 0.1                  | (67)     | 198                   | 0.4                  |                      |
| Net revenues                           | 63,405                | 100.0                | 33       | 47,703                | 100.0                |                      |
| <b>Non-Interest Expenses</b>           |                       |                      |          |                       |                      |                      |
| Employee compensation and benefits     | 39,139                | 39                   | 28,235   | 59.2                  |                      |                      |
| Occupancy and equipment rental         | 2,712                 | 4.3                  | 35       | 2,002                 | 4.2                  |                      |
| Communication and office supplies      | 3,354                 | 5.3                  | (23)     | 4,352                 | 9.1                  |                      |
| Commissions and floor brokerage        | 2,442                 | 3.8                  | 211      | 786                   | 1.7                  |                      |
| Other operating expenses               | 3,983                 | 6.3                  | 4        | 3,829                 | 8.0                  |                      |
| Total non-interest expenses            | 51,630                | 81.4                 | 32       | 39,204                | 82.2                 |                      |
| Income before income taxes             | \$ 11,775             | 18.6%                | 39 %     | \$ 8,499              | 17.8%                |                      |

ECM recorded net revenues of \$63.4 million for the three months ended September 30, 2008, an increase of 33% compared to the \$47.7 million for the three months ended September 30, 2007, principally due to the increased commissions and principal transactions which increased 45% to \$44.8 million and increased investment banking revenues, which increased 9% to \$18.2 million. Investment banking revenues increased principally due to a 27% increase in financial advisory fees to \$12.8 million in the three months ended September 30, 2008 from \$10.1 million in the prior year three month period, partially offset by a 17% decrease in equity financing revenues to \$5.4 million.

Non-interest expenses increased 32% to \$51.6 million for the three months ended September 30, 2008 compared to \$39.2 million for the three months ended September 30, 2007, principally due to increased variable employee compensation and benefit expenses associated with the increased revenues and fixed employee compensation and benefits expense, which increased as a result of the Company's expansion of the ECM. As a percentage of net revenues, employee compensation and benefits increased to 61.7% for the three months ended September 30, 2008 compared to 59.2% for the three months ended September 30, 2007. All other increases in occupancy and equipment rental, commission and floor brokerage, and other operating expenses can be attributed to the Company's expansion of the ECM, including the Ryan Beck acquisition, and increased expenses associated with the new downtown Baltimore location for the Company's capital markets operations, which was occupied beginning in the fall of 2007. Additionally, see discussion in Results of Operations for the Company, three months ended September 30, 2008, regarding services of approximately \$2.0 million that were previously recorded in communication and office supplies that are now recorded in commissions and floor brokerage.

Income before income taxes increased 39% to \$11.8 million for the three months ended September 30, 2008 compared to \$8.5 million for the three months ended September 30, 2007, principally due to the increase in net revenues.





### Results of Operations for Fixed Income Capital Markets

#### Nine months ended September 30, 2008 as compared to nine months ended September 30, 2007

The following table presents consolidated information for the FICM segment for the respective periods indicated.

| (\$'s in thousands)                    | September 30, 2008 |                   |          | September 30, 2007 |                   |
|--|--------------------|-------------------|----------|--------------------|-------------------|
|  | Amount             | % of Net Revenues | % Change | Amount             | % of Net Revenues |
| <b>Revenues</b>                        |                    |                   |          |                    |                   |
| Commissions and principal transactions | \$ 105,399         | 90.2%             | 230 %    | \$ 31,939          | 77.8%             |
| Investment banking                     | 9,875              | 8.4               | (2)      | 10,076             | 24.5              |
| Interest                               | 6,611              | 5.7               | (62)     | 17,512             | 42.7              |
| Other                                  | 15                 | --                | 50       | 10                 | --                |
| Total revenues                         | 121,900            | 104.3             | 105      | 59,537             | 145.0             |
| Less: Interest expense                 | 4,996              | 4.3               | (73)     | 18,464             | 45.0              |
| Net revenues                           | 116,904            | 100.0             | 185      | 41,073             | 100.0             |
| <b>Non-Interest Expenses</b>           |                    |                   |          |                    |                   |
| Employee compensation and benefits     | 68,492             | 58.6              | 139      | 28,623             | 69.7              |
| Occupancy and equipment rental         | 2,723              | 2.3               | 8        | 2,528              | 6.2               |
| Communication and office supplies      | 3,370              | 2.9               | 6        | 3,175              | 7.7               |
| Commissions and floor brokerage        | 196                | 0.2               | (9)      | 215                | 0.5               |
| Other operating expenses               | 3,410              | 2.9               | 9        | 3,126              | 7.6               |
| Total non-interest expenses            | 78,191             | 66.9              | 108      | 37,667             | 91.7              |
| Income before income taxes             | \$ 38,713          | 33.1%             | N/M      | \$ 3,406           | 8.3%              |

N/M=Not meaningful

FICM net revenues for the nine months ended September 30, 2008 increased 185% to \$116.9 million compared to net revenues of \$41.1 million for the nine months ended September 30, 2007, principally due to an increase in principal transactions, primarily corporate debt, municipal debt, and mortgage-backed bonds due to turbulent markets and institutional customers returning to traditional fixed income products. Interest revenues decreased approximately 62% to \$6.6 million principally as a result of decreased fixed income inventory held for sale to clients. Interest expense decreased 73% to \$5.0 million as a result of decreased interest expense incurred to carry the lower levels of such inventory.

Non-interest expenses increased \$40.5 million or 108% to \$78.2 million principally due to a 139% increase in employee compensation and benefits, which primarily increased as a result of increased productivity. Employee compensation and benefits as a percentage of net revenues decreased to 58.6% in 2008 from 69.7% in 2007, reflecting the increased production. Occupancy and equipment rental, communications and office supplies, and other operating expenses increased principally due to office expansion.

Income before income taxes increased \$35.3 million to \$38.7 million for the first nine months of 2008 from \$3.4 million for the comparable nine months of 2007 as a result of the increased net revenues and the scalability of increased production.

**Results of Operations for Fixed Income Capital Markets****Three months ended September 30, 2008 as compared to three months ended September 30, 2007**

The following table presents consolidated information for the FICM segment for the respective periods indicated.

| (\$'s in thousands)                    | September 30,<br>2008 |                   | September 30,<br>2007 |                   |
|--|-----------------------|-------------------|-----------------------|-------------------|
|  | Amount                | % of Net Revenues | Amount                | % of Net Revenues |
| <b>Revenues</b>                        |                       |                   |                       |                   |
| Commissions and principal transactions | \$ 34,050             | 89.1%             | 188 % \$ 11,840       | 74.2 %            |
| Investment banking                     | 3,550                 | 9.3               | (16)                  | 4,241             |
| Interest                               | 2,324                 | 6.1               | (30)                  | 3,303             |
| Other                                  | 3                     | --                | (63)                  | 8                 |
| Total revenues                         | 39,927                | 104.5             | 106                   | 19,392            |
| Less: Interest expense                 | 1,734                 | 4.5               | (49)                  | 3,430             |
| Net revenues                           | 38,193                | 100.0             | 139                   | 15,962            |
| <b>Non-Interest Expenses</b>           |                       |                   |                       |                   |
| Employee compensation and benefits     | 22,891                | 59.9              | 116                   | 10,576            |
| Occupancy and equipment rental         | 1,022                 | 2.7               | (1)                   | 1,034             |
| Communication and office supplies      | 806                   | 2.1               | (25)                  | 1,077             |
| Commissions and floor brokerage        | 91                    | 0.2               | 168                   | 34                |
| Other operating expenses               | 1,369                 | 3.6               | 24                    | 1,108             |
| Total non-interest expenses            | 26,179                | 68.5              | 89                    | 13,829            |
| Income before income taxes             | \$ 12,014             | 31.5%             | 463                   | \$ 2,133          |

FICM net revenues for the three months ended September 30, 2008 increased 139% to \$38.2 million compared to net revenues of \$16.0 million for the three months ended September 30, 2007, principally due to an increase in principal transactions, primarily corporate debt and municipal debt due to turbulent markets and institutional customers returning to traditional fixed income products. Investment banking revenues decreased 16% to \$3.6 million for the current quarter compared to \$4.2 million for the year ago quarter, principally due to a \$761,000 decrease in capital raising revenues. Interest revenues decreased approximately 30% to \$2.3 million principally as a result of decreased fixed income inventory held for sale to clients. Interest expense decreased 49% to \$1.7 million as a result of decreased interest expense incurred to carry the lower levels of such inventory.

Non-interest expenses increased \$12.4 million or 89% to \$26.2 million principally due to a 116% increase in employee compensation and benefits, which primarily increased as a result of increased productivity. Employee compensation and benefits as a percentage of net revenues decreased to 59.9% in 2008 from 66.3% in 2007, reflecting the increased production.

Income before income taxes increased \$9.9 million to \$12.0 million for the three months ended September 30, 2008 from \$2.1 million for the comparable three months of 2007 as a result of the increased net revenues and the scalability of increased production.

### Results of Operations for Stifel Bank

#### Nine months ended September 30, 2008 as compared to nine months ended September 30, 2007

The following table presents consolidated information for the Stifel Bank segment for the respective periods indicated. The results of operations related to Stifel Bank & Trust, acquired on April 2, 2007, are only included in the Company's condensed consolidated statements of operations beginning prospectively from the date of acquisition.

| (\$'s in thousands)                | September 30, 2008 |                   |          | September 30, 2007 |                   |  |
|------------------------------------|--------------------|-------------------|----------|--------------------|-------------------|--|
|                                    | Amount             | % of Net Revenues | % Change | Amount             | % of Net Revenues |  |
| <b>Revenues</b>                    |                    |                   |          |                    |                   |  |
| Interest                           | \$ 11,491          | 135.3%            | 97 %     | \$ 5,823           | 198.8 %           |  |
| Other                              | 1,602              | 18.8              | 187      | 559                | 19.1              |  |
| Total revenues                     | 13,093             | 154.1             | 105      | 6,382              | 217.9             |  |
| Less: Interest expense             | 4,599              | 54.1              | 33       | 3,453              | 117.9             |  |
| Net revenues                       | 8,494              | 100.0             | 190      | 2,929              | 100.0             |  |
| <b>Non-Interest Expenses</b>       |                    |                   |          |                    |                   |  |
| Employee compensation and benefits | 2,782              | 32.8              | 222      | 863                | 29.5              |  |
| Occupancy and equipment rental     | 769                | 9.0               | 213      | 246                | 8.4               |  |
| Communication and office supplies  | 333                | 3.9               | 344      | 75                 | 2.5               |  |
| Provision for loan losses          | 1,622              | 19.1              | 240      | 477                | 16.3              |  |
| Other operating expenses           | 1,525              | 18.0              | 144      | 625                | 21.3              |  |
| Total non-interest expenses        | 7,031              | 82.8              | 208      | 2,286              | 78.0              |  |
| Income before income taxes         | \$ 1,463           | 17.2%             | 128 %    | \$ 643             | 22.0 %            |  |

The following table presents average balance data and operating interest income and expense data for Stifel Bank & Trust for the respective periods indicated.

#### Stifel Bank & Trust Average Balances and Interest Income and Expense Data

| (\$'s in thousands)                              | September 30, 2008 |                         |                       | September 30, 2007 |                         |                       |
|--|--------------------|-------------------------|-----------------------|--------------------|-------------------------|-----------------------|
|  | Average Balance    | Interest Income/Expense | Average Interest Rate | Average Balance    | Interest Income/Expense | Average Interest Rate |
| <b>Interest-earning assets:</b>                  |                    |                         |                       |                    |                         |                       |
| Federal funds sold                               | \$ 10,203          | \$ 201                  | 2.63%                 | \$ 30,178          | \$ 788                  | 5.22%                 |
| U.S. Government agencies                         | 14,974             | 699                     | 6.22                  | 20,654             | 561                     | 5.43                  |
| State and political subdivisions-taxable         | 10,939             | 316                     | 3.85                  | 1,037              | 34                      | 6.56                  |
| State and political subdivisions-non taxable (1) | 1,533              | 43                      | 3.74                  | 1,518              | 25                      | 3.29                  |
| Mortgage backed securities                       | 33,262             | 1,288                   | 5.16                  | 14,950             | 485                     | 6.49                  |
| Corporate bonds                                  | 1,237              | 57                      | 6.14                  | --                 | --                      | --                    |
| Asset backed securities                          | 20,119             | 1,226                   | 8.12                  | 4,463              | 170                     | 7.62                  |
| FHLB and other capital stock                     | 1,012              | 19                      | 2.50                  | 579                | 15                      | 5.18                  |
| Loans (2)  | 160,815            | 7,089                   | 5.88                  | 99,054             | 3,745                   | 7.56                  |
| Loans held for sale                              | 15,457             | 553                     | 4.77                  | --                 | --                      | --                    |

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|            |           |       |            |          |       |
|------------|-----------|-------|------------|----------|-------|
| \$ 269,551 | \$ 11,491 | 5.68% | \$ 172,433 | \$ 5,823 | 6.75% |
|------------|-----------|-------|------------|----------|-------|

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**Stifel Bank & Trust Average Balances and Interest Income and Expense Data**

| (\$'s in thousands)                     | Nine Months Ended  |                         |                       |                    |                         |                       |
|---|--------------------|-------------------------|-----------------------|--------------------|-------------------------|-----------------------|
|   | September 30, 2008 |                         |                       | September 30, 2007 |                         |                       |
|   | Average Balance    | Interest Income/Expense | Average Interest Rate | Average Balance    | Interest Income/Expense | Average Interest Rate |
| <b>Interest-bearing liabilities:</b>    |                    |                         |                       |                    |                         |                       |
| <b>Deposits:</b>                        |                    |                         |                       |                    |                         |                       |
| Demand deposits                         | \$ 2,689           | \$ 39                   | 1.93%                 | \$ 1,359           | \$ 20                   | 2.94%                 |
| Money market                            | 164,825            | 2,962                   | 2.40                  | 76,687             | 1,873                   | 4.88                  |
| Savings                                 | 342                | 3                       | 1.17                  | 551                | 7                       | 2.54                  |
| Time deposits                           | 39,792             | 1,350                   | 4.52                  | 56,827             | 1,415                   | 4.98                  |
| FHLB advances                           | 11,527             | 225                     | 2.60                  | 5,044              | 135                     | 5.35                  |
| Federal funds and repurchase agreements | 1,166              | 20                      | 2.29                  | 156                | 3                       | 3.85                  |
|   | \$ 220,341         | \$ 4,599                | 2.78%                 | \$ 140,624         | \$ 3,453                | 4.91%                 |
| Net interest margin                     |                    | \$ 6,892                | 3.41%                 |                    | \$ 2,370                | 2.75%                 |

(1) Calculated on a tax equivalent basis.

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

The growth in Stifel Bank & Trust has been primarily driven by the growth in deposits associated with deposits of brokerage customer's of Stifel Nicolaus. At September 30, 2008, the balance of Stifel Nicolaus brokerage customer deposits at Stifel Bank & Trust was \$197.5 million compared to Stifel Nicolaus brokerage customer deposits of \$95.8 million at September 30, 2007.

Interest revenues of \$11.5 million for the first nine months of 2008 were generated from weighted average interest-earning assets of \$269.6 million at a weighted average interest rate of 5.68%. Interest revenues of \$5.8 million for the first nine months of 2007 were generated from weighted average interest-earning assets of \$172.4 million at a weighted average interest rate of 6.75%. Interest-earning assets principally consist of residential, consumer, and commercial lending activities, securities, and federal funds sold. See the Stifel Bank & Trust Average Balances and Interest Income and Expense Data table above for more information regarding average balances, interest income, and average interest rate analysis.

Other revenues principally reflect mortgage loan fees, which increased due to the growth in mortgage loans originated.

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 nine months ended September 30, 2008 was \$220.3 million at a weighted average interest rate of 2.78%. The weighted average balance of interest-bearing liabilities during the nine months ended September 30, 2007 was \$140.6 million at a weighted average interest rate of 4.91%. See the table above for more information regarding average balances, interest expense, and average interest rate analysis.

Non-interest expenses includes employee compensation and benefits, occupancy and equipment rental, and communication and office supplies primarily related to Stifel Bank & Trust's branch location and leased executive office space, the provision for loan losses, and other operating expenses, principally legal and accounting, data processing, and other miscellaneous expenses, all of which increased as a result of the growth of the bank. During the nine months ended September 30, 2008, the provision for loan loss charged to operations was \$1.6 million, with charge-offs of \$806,000 during the period. Included in the loan portfolio at September 30, 2008 are impaired loans

totaling \$189,000 for which there are specific loss allowances of \$169,000. There were no other non-accruing loans and there were no accruing loans delinquent 90 days or more at September 30, 2008. Stifel Bank & Trust has no exposure to sub-prime mortgages.

### Results of Operations for Stifel Bank

#### Three months ended September 30, 2008 as compared to three months ended September 30, 2007

The following table presents consolidated information for the Stifel Bank segment for the respective periods indicated.

| (\$'s in thousands)                | Three Months Ended<br>September 30,<br>2008 |                      |          | Three Months Ended<br>September 30,<br>2007 |                      |  |
|------------------------------------|---|----------------------|----------|---|----------------------|--|
|                                    | Amount                                      | % of Net<br>Revenues | % Change | Amount                                      | % of Net<br>Revenues |  |
| <b>Revenues</b>                    |   |                      |          |   |                      |  |
| Interest                           | \$ 4,129                                    | 130.1%               | 28%      | \$ 3,231                                    | 175.7%               |  |
| Other                              | 493   | 15.5                 | 17       | 423   | 23.0                 |  |
| Total revenues                     | 4,622                                       | 145.6                | 26       | 3,654                                       | 198.7                |  |
| Less: Interest expense             | 1,447                                       | 45.6                 | (20)     | 1,815                                       | 98.7                 |  |
| Net revenues                       | 3,175                                       | 100.0                | 73       | 1,839                                       | 100.0                |  |
| <b>Non-Interest Expenses</b>       |   |                      |          |   |                      |  |
| Employee compensation and benefits | 1,045                                       | 32.9                 | 103      | 516   | 28.1                 |  |
| Occupancy and equipment rental     | 266   | 8.4                  | 116      | 123   | 6.7                  |  |
| Communication and office supplies  | 88  | 2.8                  | 115      | 41  | 2.2                  |  |
| Provision for loan losses          | 552   | 17.4                 | 19       | 462   | 25.1                 |  |
| Other operating expenses           | 492   | 15.4                 | 50       | 328   | 17.8                 |  |
| Total non-interest expenses        | 2,443                                       | 76.9                 | 66       | 1,470                                       | 79.9                 |  |
| Income before income taxes         | \$ 732                                      | 23.1%                | 98%      | \$ 369                                      | 20.1%                |  |

The following table presents average balance data and operating interest income and expense data for Stifel Bank & Trust for the respective periods indicated.

#### Stifel Bank & Trust Average Balances and Interest Income and Expense Data

| (\$'s in thousands)                                 | Three Months Ended<br>September 30, 2008 |                                |                          | Three Months Ended<br>September 30, 2007 |                                |                          |
|---|--|--------------------------------|--------------------------|--|--------------------------------|--------------------------|
|   | Average<br>Balance                       | Interest<br>Income/<br>Expense | Average Interest<br>Rate | Average<br>Balance                       | Interest<br>Income/<br>Expense | Average Interest<br>Rate |
| <b>Interest-earning assets:</b>                     |  |                                |                          |  |                                |                          |
| Federal funds sold                                  | \$ 5,623                                 | \$ 26                          | 1.85%                    | \$ 21,515                                | \$ 279                         | 5.19%                    |
| U.S. Government agencies                            | 9,792                                    | 185                            | 7.56                     | 24,034                                   | 349                            | 5.81                     |
| State and political subdivisions-taxable            | 10,191                                   | 86                             | 3.38                     | 2,063                                    | 34                             | - -                      |
| State and political subdivisions-non<br>taxable (1) | 1,527                                    | 15                             | 3.93                     | 1,513                                    | 12                             | 3.17                     |
| Mortgage backed securities                          | 35,014                                   | 453                            | 5.18                     | 28,519                                   | 445                            | 6.24                     |
| Corporate bonds                                     | - -                                      | - -                            | - -                      | - -                                      | - -                            | - -                      |
| Asset backed securities                             | 21,364                                   | 410                            | 7.68                     | 8,878                                    | 170                            | 7.66                     |
| FHLB and other capital stock                        | 1,707                                    | 11                             | 2.58                     | 420                                      | 7                              | 6.67                     |
| Loans (2)   | 197,330                                  | 2,771                          | 5.62                     | 102,724                                  | 1,935                          | 7.53                     |



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|                     |            |          |       |            |          |       |
|---------------------|------------|----------|-------|------------|----------|-------|
| Loans held for sale | 13,748     | 172      | 5.00  | --         | --       | --    |
|                     | \$ 296,296 | \$ 4,129 | 5.57% | \$ 189,666 | \$ 3,231 | 6.81% |
|                     |            | 62       |       |            |          |       |

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**Stifel Bank & Trust Average Balances and Interest Income and Expense Data**

**Three Months Ended**

| <i>(\$'s in thousands)</i>              | September 30, 2008 |                                |                          | September 30, 2007 |                                |                          |
|---|--------------------|--------------------------------|--------------------------|--------------------|--------------------------------|--------------------------|
|   | Average<br>Balance | Interest<br>Income/<br>Expense | Average Interest<br>Rate | Average<br>Balance | Interest<br>Income/<br>Expense | Average Interest<br>Rate |
| <b>Interest-bearing liabilities:</b>    |                    |                                |                          |                    |                                |                          |
| <b>Deposits:</b>                        |                    |                                |                          |                    |                                |                          |
| Demand deposits                         | \$ 3,055           | \$ 13                          | 1.70%                    | \$ 1,499           | \$ 13                          | 3.47%                    |
| Money market                            | 188,205            | 934                            | 1.99                     | 93,504             | 1,152                          | 4.93                     |
| Savings                                 | 304                | 1                              | 1.32                     | 481                | 3                              | 2.49                     |
| Time deposits                           | 32,797             | 344                            | 4.20                     | 49,961             | 619                            | 4.96                     |
| FHLB advances                           | 21,692             | 145                            | 2.67                     | 1,921              | 26                             | 5.41                     |
| Federal funds and repurchase agreements | 1,806              | 10                             | 2.21                     | 204                | 2                              | 3.92                     |
|   | \$ 247,859         | \$ 1,447                       | 2.34%                    | \$ 147,570         | \$ 1,815                       | 4.92%                    |
| <b>Net interest margin</b>              |                    | <b>\$ 2,682</b>                | <b>3.63%</b>             |                    | <b>\$ 1,416</b>                | <b>2.99%</b>             |

(1) Calculated on a tax equivalent basis.

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

Interest revenues of \$4.1 million for the third quarter of 2008 were generated from weighted average interest-earning assets of \$296.3 million at a weighted average interest rate of 5.57%. Interest revenues of \$3.2 million for the third quarter of 2007 were generated from weighted average interest-earning assets of \$189.7 million at a weighted average interest rate of 6.81%. Interest-earning assets principally consist of residential, consumer, and commercial lending activities, securities, and federal funds sold. See the Stifel Bank & Trust Average Balances and Interest Income and Expense Data table above for more information regarding average balances, interest income, and average interest rate analysis.

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 September 30, 2008 was \$247.9 million at a weighted average interest rate of 2.34%. The weighted average balance of interest-bearing liabilities during the three months ended September 30, 2007 was \$147.6 million at a weighted average interest rate of 4.92%. See the table above for more information regarding average balances, interest expense, and average interest rate analysis.

Non-interest expenses includes employee compensation and benefits, occupancy and equipment rental, communication and office supplies primarily related to Stifel Bank & Trust's branch location and leased executive office space, the provision for loan losses, and other operating expenses, principally legal and accounting, data processing, and other miscellaneous expenses, all of which increased as a result of the growth of the bank. During the three months ended September 30, 2008, the provision for loan loss charged to operations was \$552,000, with charge-offs of \$60,000 during the period.

**Results of Operations for Other Segment****Nine months ended September 30, 2008 as compared to nine months ended September 30, 2007**

The following table presents consolidated information for the Other segment for the respective periods indicated.

| (\$'s in thousands)                | Nine Months Ended  |          |                    |
|------------------------------------|--------------------|----------|--------------------|
|                                    | September 30, 2008 | % Change | September 30, 2007 |
|                                    | Amount             |          | Amount             |
| <b>Net revenues</b>                | \$ 3,481           | (70)%    | \$ 11,783          |
| <b>Non-Interest Expenses</b>       |                    |          |                    |
| Employee compensation and benefits | 50,492             | (21)     | 64,194             |
| Other operating expenses           | 28,544             | (9)      | 31,199             |
| Total non-interest expenses        | 79,036             | (17)     | 95,393             |
| Loss before income taxes           | \$(75,555)         | 10 %     | \$(83,610)         |

Net revenues decreased 70% to \$3.5 million for the first nine months of 2008 compared to \$11.8 million for the first nine months of 2007, principally as a result of losses on investments of approximately \$5.2 million for the first nine months of 2008 compared to gains on investments of approximately \$30,000 for the first nine months of 2007 and a \$3.8 million decrease in net interest revenues to \$6.0 million as a result of decreased interest charged for short-term borrowings.

Employee compensation and benefits decreased 21% to \$50.5 million for the first nine months of 2008 compared to \$64.2 million for the first nine months of 2007. Included in the first nine months of 2007 are acquisition-related charges of approximately \$22.7 million principally for the amendment and acceleration of vesting of the Ryan Beck deferred compensation plan. Excluding the 2007 acquisition-related charges, overall compensation and benefits increased primarily as a result of a 32% increase in support personnel for overall Company growth. Included in employee compensation and benefits are acquisition-related expenses associated with the LM Capital Markets acquisition consisting principally of compensation charges of approximately \$19.1 million and \$17.7 million for the first nine months of 2008 and 2007, respectively, primarily for amortization of units awarded to LM Capital Markets associates. The amortization of these units will continue through the end of 2008.

Other operating expenses decreased 9% to \$28.5 million for the first nine months of 2008 compared to \$31.2 million for the first nine months of 2007. Included in the first nine months of 2007 are approximately \$5.5 million of acquisition-related expenses associated with Ryan Beck. This decrease in acquisition-related expenses was partially offset by increased occupancy and equipment rental and communications and office supplies associated with the continued growth of the Company.

**Results of Operations for Other Segment**  
Three months ended September 30, 2008 as compared to three months ended September 30, 2007

The following table presents consolidated information for the Other segment for the respective periods indicated.

| <i>(\$'s in thousands)</i>         | <b>Three Months Ended</b> |                 | <b>September 30, 2007</b> |
|------------------------------------|---------------------------|-----------------|---------------------------|
|                                    | <b>September 30, 2008</b> | <b>% Change</b> |                           |
|                                    | <b>Amount</b>             | <b>% Change</b> | <b>Amount</b>             |
| <b>Net revenues</b>                | \$ 174                    | N/M %           | \$ 4,829                  |
| <b>Non-Interest Expenses</b>       |                           |                 |                           |
| Employee compensation and benefits | 16,785                    | 11              | 15,148                    |
| Other operating expenses           | 9,617                     | (11)            | 10,811                    |
| Total non-interest expenses        | 26,402                    | 2               | 25,959                    |
| Loss before income taxes           | \$(26,228)                | (24)%           | \$(21,130)                |

N/M=Not meaningful

Net revenues decreased \$4.7 million to \$174,000 for the third quarter of 2008 compared to \$4.8 million for the third quarter of 2007, principally as a result of losses on investments of \$2.7 million during the current quarter compared to investment gains of \$577,000 during the year ago quarter and a decrease in net interest of 44% to \$1.9 million from \$3.5 million in the prior year period as a result of decreased interest charged for short-term borrowings. Interest expense in the Other segment represents interest charged by banks and interest accrued on the debenture securities.

Employee compensation and benefits increased 11% to \$16.8 million for the third quarter of 2008 compared to \$15.1 million for the third quarter of 2007, principally as a result of a 28% increase in support personnel for overall Company growth. Included in the third quarter of 2007 is \$1.0 million of severance expenses associated with Ryan Beck. Included in employee compensation and benefits are acquisition-related expenses associated with the LM Capital Markets acquisition consisting principally of compensation charges of approximately \$6.4 million and \$6.1 million for the three months ended September 30, 2008 and 2007, respectively, primarily for amortization of units awarded to LM Capital Markets associates. The amortization of these units will continue through the end of 2008.

Other operating expenses decreased 11%, to \$9.6 million for the three months ended September 30, 2008 compared to \$10.8 million for the comparable three months of 2007. Included in the other operating expenses in the third quarter 2007 are approximately \$2.3 million of acquisition-related expenses associated with Ryan Beck. This decrease in acquisition-related expenses was partially offset by increased occupancy and equipment rental and communications and office supplies associated with the continued growth of the Company.

### Analysis of Financial Condition

Total assets of \$2.0 billion at September 30, 2008 were up approximately 36% over December 31, 2007, primarily due to increases in cash and cash equivalents, securities purchased under agreements to resell, receivables from brokers and dealers, trading securities owned and pledged, and the growth in loans and loans held for sale at Stifel Bank & Trust. Stifel Bank & Trust total assets increased approximately 31% to \$327.1 million at September 30, 2008, principally due to increases in loans and loans held for sale primarily as a result of increased deposit balances. Bank deposit balances increased primarily due to the growth in the balance of brokerage customer's excess cash on deposit at Stifel Bank & Trust, which increased to \$197.5 million at September 30, 2008 compared to \$118.2 million at December 31, 2007. Receivables from brokers and dealers increased by 149% to \$446.3 million, partially offset by a slight decrease in receivables from customers. The broker-dealer assets and liabilities fluctuate with market conditions and the Company's business levels.



### **Liquidity and Capital Resources**

The Company relies exclusively on financing activities and distributions from its subsidiaries for funds to implement the Company's business and growth strategies, and repurchase shares of the Company's common stock.

The principal source of the Company's brokerage business liquidity is the brokerage business assets, which are principally highly liquid, consisting mainly of cash or assets readily convertible into cash. The liquid nature of these assets provides for flexibility in managing and financing the projected operating needs of this business. These assets are financed primarily by the Company's equity capital, debentures to trusts, customer credit balances, short-term bank loans, proceeds from securities lending, and other payables. Changes in securities market volumes, related customer borrowing demands, underwriting activity, and levels of securities inventory affect the amount of the Company's financing requirements.

The Company's bank assets consist principally of retained loans, available-for-sale securities, and cash and cash equivalents. Stifel Bank & Trust's current liquidity needs are generally met through deposits from bank clients and equity capital. The Company monitors the liquidity of Stifel Bank & Trust daily to ensure its ability to meet customer deposit withdrawals, maintain reserve requirements and support asset growth. Stifel Bank & Trust has net borrowing capacity with the FHLB of \$56.4 million at September 30, 2008 and a \$14.1 million federal funds agreement for the purpose of purchasing short-term funds should additional liquidity be needed. Stifel Bank & Trust receives overnight funds from excess cash held in Stifel Nicolaus brokerage accounts, which are deposited into a money market account. These balances totaled \$197.5 million at September 30, 2008.

At September 30, 2008, the Company held and categorized as Level 3 assets under the fair value hierarchy of Statement of Financial Accounting Standards ("SFAS") No. 157, \$21.9 million of auction rate securities in its inventory of trading securities which were considered to be illiquid as a result of the failed auctions of ARS occurring since February 2008. ARS held in trading inventory consisted of ARS backed by state student loan bonds and closed-end mutual fund owned corporate stocks and bonds.

The Company has received inquiries from the Securities and Exchange Commission, the Financial Industry Regulatory Authority, and several state regulatory authorities requesting information concerning the Company's transactions in auction rate securities. Additionally, the Company and its subsidiary Stifel Nicolaus have been named in a civil suit. To date several of the larger securities firms that primarily underwrote and supported the auctions have, through regulatory settlements and otherwise, announced agreements to repurchase auction rate securities at par from certain of their clients and other securities firms have entered into similar agreements. The Company is working with other industry participants in order to resolve issues relating to auction rate securities and is exploring a range of potential solutions, including the restructuring and refinancing of the debt underlying the auction rate securities. The Company's customers hold approximately \$226.4 million of auction rate securities at September 30, 2008, exclusive of approximately \$83.1 million of such securities that were either transferred to the Company or purchased after February 2008. If the Company were to redeem these securities from certain of our clients in order to resolve pending claims, inquiries, or investigations, it would have a material adverse effect on the Company's statement of financial condition and statement of cash flows, and the Company would be required to assess whether it had sufficient regulatory capital or borrowing capacity to do so.

The Company's short-term financing is generally obtained through the use of bank loans and securities lending arrangements. Stifel Nicolaus borrows 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. Available ongoing credit arrangements with banks totaled \$755.0 million at September 30, 2008, of which \$489.7 million was unused. There are no compensating balance requirements under these arrangements. At September 30, 2008, short-term borrowings from banks were \$265.3 million at an average rate of 2.85%, which were collateralized by company-owned securities valued at \$373.0 million. At December 31, 2007, short-term borrowings from banks were \$127.8 million at an average rate of 4.53%, which were collateralized by company-owned securities valued at \$151.7 million. The average bank borrowings during the three months ended September 30, 2008 and 2007 were \$162.7 million and \$130.5 million, respectively, at weighted average daily interest rates of 2.41% and 4.52%, respectively. The average bank borrowings during the nine months ended September 30, 2008 and 2007 were \$153.1 million and \$178.1 million, respectively, at weighted average daily interest rates of 2.31% and 5.15%, respectively. At September 30, 2008 and December 31, 2007, Stifel Nicolaus had a stock loan balance of \$39.7 million and \$138.5 million, respectively, at weighted average daily interest rates of 2.58% and 4.12%, respectively. The average outstanding securities lending arrangements utilized in financing activities were \$105.3 million and \$132.8 million during the three months ended September 30, 2008 and 2007, respectively, at weighted average daily effective interest rates of 2.05% and 5.06%, respectively. Customer owned securities were utilized in these arrangements. The average outstanding securities lending arrangements utilized in financing activities were \$131.6 million and \$102.6 million during the nine months ended September 30, 2008 and 2007, respectively, at weighted average daily effective interest rates of 2.58% and 5.00%, respectively.

The impact of the tightened credit markets has resulted in decreased financing through stock loan as the Company's counterparties sought liquidity. As a result, bank loan financing used to finance trading inventories increased along with increased rates charged by banks.

The Company operates in a highly regulated environment and is subject to net capital requirements, which may limit distributions to the Company from the Company's subsidiaries. As broker-dealers, the Company's subsidiaries, Stifel Nicolaus and CSA are subject to the Uniform Net Capital Rule, Rule 15c3-1 under the Exchange Act, while the Company's international subsidiary, SN Ltd, is subject to the regulatory supervision and requirements of the Financial Services Authority ("FSA") in the United Kingdom. The amount of net assets that these subsidiaries may distribute is subject to restrictions under these applicable 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 subsidiaries failure to comply with the net capital rules or a change in the net capital rules, it could have a material and adverse consequence to the Company by limiting the Company's operations that require intensive use of capital, such as underwriting or trading activities, or limit the Company's ability to implement its business and growth strategies, pay interest on and repay the principal of its debt, and/or repurchase its shares. The Company's non broker-dealer subsidiary, Stifel Bank & Trust is also subject to various regulatory capital requirements administered by the federal banking agencies. At September 30, 2008, Stifel Nicolaus had net capital of \$161.2 million, which was 25.8% of its aggregate debit items, and \$148.7 million in excess of its minimum required net capital; CSA had net capital of \$3.7 million, which was \$3.6 million in excess of its minimum required net capital. At September 30, 2008, SN Ltd had capital and reserves of \$9.2 million, which was \$9.0 million in excess of the financial resources requirement under the rules of the FSA. At September 30, 2008, Stifel Bank & Trust was considered well capitalized under the regulatory framework for prompt corrective action. See Note M of the notes to condensed consolidated financial statements contained herewith.

During the nine months ended September 30, 2008, the Company's cash and cash equivalents increased by \$30.7 million, primarily due to increased cash generated by financing activities, partially offset by increased investing activities associated with the growth of the business and cash used in operating activities. Financing activities during this nine month period generated \$187.5 million primarily from proceeds from short-term borrowings, net, an increase

in bank deposits due to the growth of the bank, proceeds from the public offering of 1,495,000 shares of Company common stock during the third quarter 2008, and proceeds from FHLB advances, Fed Funds purchased, and repurchase agreements, net, offset by an increase in securities loaned, net, and purchases of stock for treasury. The Company used cash in operating activities of \$67.0 million, principally for increased operating receivables, increased loans originated as mortgages held for sale, increased trading securities owned, including those pledged, and decreased other liabilities, partially offset by increased operating payables and trading securities sold, but not yet purchased. Investing activities used \$89.7 million, primarily for increased net loan activity of Stifel Bank & Trust, increased net purchases of investments and available-for-sale securities, and purchases of office equipment and leasehold improvements. During the nine months ended September 30, 2008, the Company purchased \$14.6 million in fixed assets, consisting primarily of information technology equipment, leasehold improvements and furniture and fixtures.



In connection with the acquisition of the LM Capital Markets business from Citigroup Inc. in December 2005, the Company agreed to make up to an additional \$30.0 million in earn-out payments to Citigroup based on the performance of the combined capital markets business of the Company, subject to certain adjustments, for calendar years 2006, 2007 and 2008. Such earn-out payments are accounted for as additional purchase price and accordingly recorded as additional goodwill. For calendar years 2006 and 2007, the Company recorded earn-out liabilities of approximately \$360,000 and \$9.9 million, respectively.

On February 28, 2007, the Company closed on the acquisition of Ryan Beck from BankAtlantic Bancorp, Inc. A contingent earn-out payment is payable based on defined revenues attributable to specified individuals in Ryan Beck's existing private client division over the two-year period following closing. This earn-out is capped at \$40.0 million. A second contingent payment is payable based on defined revenues attributable to specified individuals in Ryan Beck's existing investment banking division. The investment banking earn-out is equal to 25% of the amount of investment banking fees over \$25.0 million for each successive year in the two year period following closing. The Company paid the first year investment banking contingent earn-out payment of approximately \$1.8 million in 57,059 shares of Company common stock in May 2008. Based upon the provisions of the agreements for the contingent earn-outs, the Company does not anticipate that a payment will be due for the second year investment banking contingent earn-out, but estimates that approximately \$22.0 million could be payable under the private client division contingent earn out payment arrangement. On August 14, 2008, the Company agreed to prepay \$9.6 million of BankAtlantic's pro-rata share of the estimated private client division contingent earn-out payment in exchange for a \$10.0 million permanent reduction of BankAtlantic's pro-rata share of the private client contingent payment. The Company elected to make such pre-payment using 233,500 shares of Company common stock at an agreed upon per share price of \$41.05 per share. In the event that BankAtlantic's pro-rata portion of the private client contingent payment is less than \$10.0 million, BankAtlantic has agreed to reimburse the shortfall. The Company has not recorded a liability for any remaining potential contingent earn-out arrangement, as it is not able to estimate the liability beyond a reasonable doubt. Any contingent payment will be reflected as additional purchase consideration and reflected in goodwill. The Company has the ability to pay any future contingent consideration in cash or stock at the Company's election.

In addition, the Company has potential contingent earn-out consideration related to its acquisition of the LM Capital Markets business from Citigroup Inc. on December 1, 2005. The potential contingent earn-out payment by the Company to Citigroup Inc. is based on the performance of the combined capital markets business of both the Company's pre-closing Fixed Income and Equity Capital Markets business and LM Capital Markets for calendar years 2006, 2007, and 2008, up to a maximum \$30.0 million of additional purchase consideration. For calendar years 2006 and 2007, the Company recorded an earn-out liability of \$360,000 and \$9.9 million, respectively, which was accounted for as additional purchase price. The Company has estimated a contingent earn-out payment to Citigroup Inc. for calendar year 2008, based upon actual-to-date revenue production and current projections, of approximately \$14.2 million, for a total potential earn out payment of approximately \$24.5 million. Any payment to Citigroup Inc for these contingent earn-out payments would be payable in early 2009.

On April 16, 2008, the Company invested \$12.0 million in Financial Stocks, LLC ("FSI Group"), a firm specializing in investing in banks, thrifts, insurance companies, and other financial services firms. On July 1, 2008, the Company elected to exercise its option to invest an additional \$6.0 million in FSI Group. The Company's investment is in the form of a Senior Participating Convertible Note, which, upon certain events and conditions, is convertible into a significant, non-controlling, minority interest in FSI Group.

On September 29, 2008, the Company completed the public offering of 1,495,000 new shares of Company common stock at an offering price of \$45.00 per share. The proceeds to the Company after consideration of the underwriters discount and before any expenses were \$64.4 million. The Company intends to use the net proceeds from this offering for general corporate purposes, which may include the Company's working capital needs and investments in the Company's subsidiaries to support the continued growth of the Company or selective opportunistic acquisitions.



The Company repurchased 567,953 shares during the nine months ended September 30, 2008, using existing Board authorizations, at an average price of \$27.87 per share, to meet obligations under the Company's employee benefit plans and for general corporate purposes. Under existing Board authorizations, the Company is permitted to buy an additional 2,010,831 shares. To satisfy the withholding obligations for the conversion of the Company's stock units, the Company withheld 321,456 shares during the first nine months of 2008. The Company reissued 581,833 shares and issued 2,288,310 new shares during the nine months ended September 30, 2008, for employee benefit plans.

Management believes the funds from operations, available informal short-term credit arrangements, long-term borrowings, and its ability to raise additional capital will provide sufficient resources to meet the present and anticipated financing needs.

### **Critical Accounting Policies and Estimates**

The preparation of financial statements and related disclosures in conformity with U.S. generally accepted accounting principles requires management to make judgments, assumptions, and estimates that affect the amounts reported in the condensed consolidated financial statements and accompanying notes. Note A to the condensed consolidated financial statements describes the significant accounting policies and methods used in the preparation of the condensed consolidated financial statements. The following critical accounting policies and estimates are impacted significantly by judgments, assumptions, and estimates used in the preparation of the condensed consolidated financial statements.

#### ***Legal loss allowances***

The Company records loss allowances related to legal proceedings resulting from lawsuits and arbitrations, which arise from its business activities. Some of these lawsuits and arbitrations claim substantial amounts, including punitive damage claims. Management has determined that it is likely that the ultimate resolution of certain of these claims will result in losses to the Company. The Company has, after consultation with outside legal counsel and consideration of facts currently known by management, recorded estimated losses to the extent they believe certain claims are probable of loss and the amount of the loss can be reasonably estimated. Factors considered by management in estimating the Company's liability are the loss and damages sought by the claimant/plaintiff, the merits of the claim, the amount of loss in the client's account, the possibility of wrongdoing on the part of the employee of the Company, the total cost of defending the litigation, the likelihood of a successful defense against the claim, and the potential for fines and penalties from regulatory agencies. Results of litigation and arbitration are inherently uncertain, and management's assessment of risk associated therewith is subject to change as the proceedings evolve. After discussion with counsel, management, based on its understanding of the facts, accrues amounts they consider appropriate to provide loss allowances for certain claims, which is included in the condensed consolidated statements of financial condition under the caption "Accounts payable and accrued expenses."

#### ***Allowance for Doubtful Receivables from Former Employees***

The Company offers transition pay, principally in the form of upfront loans, to financial advisors and certain key revenue producers as part of the Company's 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, management considers 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 positions. The loan balance from former employees at September 30, 2008 and December 31, 2007 was \$2.6 million and \$2.5 million, respectively, with associated loss allowances of \$1.7 million and \$737,000, respectively.



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

The Company regularly reviews the bank loan portfolio of Stifel Bank & Trust and has established an allowance for loan losses in accordance with SFAS No. 5, *Accounting for Contingencies*. 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, management considers 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, the Company does 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 SFAS No. 114, *Accounting by Creditors for Impairment of a Loan*. 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. The Company determines 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 management believes the uncollectibility of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance.

### ***Valuation of Securities and Investments***

Securities for which there is no market or dealer price available are held for investment by the Company and certain subsidiaries and included in the condensed consolidated statements of financial condition under the caption "Investments". These investments of \$25.0 million and \$8.1 million at September 30, 2008 and December 31, 2007, respectively, consist primarily of investments in private equity partnerships, start-up companies and other venture capital investments, and are carried at fair value based upon management's estimates. Among the factors considered by management 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. 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.

In September 2006, the Financial Accounting Standards Board ("FASB") issued SFAS No. 157, *Fair Value Measurements* ("SFAS No. 157"). SFAS No. 157 is effective for annual statements for fiscal years beginning after November 15, 2007, and for interim reports prepared in that initial fiscal year. The Company has adopted SFAS No. 157 as of January 1, 2008.

SFAS No. 157 defines fair value 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 (i.e., the "exit price"). This statement applies under other accounting pronouncements that require or permit fair value measurements and does not require any new fair value measurements.

To differentiate between the basis of fair value measurements, SFAS No. 157 uses a three level hierarchy. The hierarchy is based on observable and unobservable inputs. Financial instrument fair values are ranked based on the significance of observable and unobservable inputs, with Level 1 reflecting the highest level of observable inputs and Level 3 reflecting the unobservable inputs.

Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the Company has the ability to access at the measurement date. An active market for the asset or liability is a market in which transactions for the asset or liability occur with sufficient frequency and volume to provide pricing information on an ongoing basis.

The Company generally includes the fair value measurements for the following financial instruments as Level 1:

Exchange-traded equity securities listed in active markets

U.S. Treasuries, and

Certain government obligations

Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. If the asset or liability has a specified (contractual) term, a Level 2 input must be observable for substantially the full term of the asset or liability. Level 2 inputs include the following:

1. Quoted prices for similar assets or liabilities in active markets;
2. Quoted prices for identical or similar assets or liabilities in markets that are not active, that is, markets in which there are few transactions for the asset or liability, the prices are not current, or price quotations vary substantially either over time or among market makers (for example, some brokered markets), or in which little information is released publicly (for example, a principal-to-principal market);
3. Inputs other than quoted prices that are observable for the asset or liability (for example, interest rates and yield curves observable at commonly quoted intervals, volatilities, prepayment speeds, loss severities, credit risks, and default rates); and
4. Inputs that are derived principally from or corroborated by observable market data by correlation or other means (market-corroborated inputs).

The Company generally includes the fair value measurements for the following financial instruments as Level 2:

Equity securities not actively traded

Corporate obligations infrequently traded

Certain government and municipal obligations

Certain bank notes

Interest rate swaps

Certain asset-backed securities consisting of collateral loan obligation ("CLO") securities, and

Certain mortgage-backed securities ("MBS")

Level 3 fair value measurements are based on unobservable inputs for the asset or liability. Unobservable inputs are used to measure fair value to the extent that observable inputs are not available, thereby allowing for situations in which there is little, if any, market activity for the asset or liability at the measurement date. Therefore, unobservable inputs reflect the Company's own assumptions about the inputs that market participants would use in pricing the asset or liability (including assumptions about risk).



The Company generally includes the fair value measurements for the following financial instruments as Level 3:

- Equity securities with unobservable inputs
- Certain corporate obligations with unobservable pricing inputs
- Auction rate securities
- Certain airplane trust certificates
- Limited partnerships, and
- Other Company investments

The Company's investments in ARS consist of ARS backed by state municipal student loan bonds and closed-end mutual fund owned corporate stocks and bonds. These auction rate securities have been deemed to be illiquid, and, as a result, have been valued using unobservable inputs.

The Company has common stock ownership in a holding company with no observable inputs or data, resulting in the Company's total investment in this holding company being classified as Level 3.

### **Valuation Techniques**

In valuing certain assets where there is little or no market activity or observable inputs, the Company uses techniques appropriate for each particular product to estimate fair value. These techniques require some degree of judgment. These techniques utilize assumptions that market participants would use in pricing the asset, including assumptions about the risk inherent in the valuation technique and the effect of a restriction on the sale or use of an asset. Valuation models may incorporate the use of discounted cash flow analysis or may utilize other techniques that take into consideration such factors as benchmarking to similar instruments, analysis of default and deferral rates, credit spreads, and implied volatilities. The Company utilizes an outside valuation firm to assist in the valuation of its asset-backed securities in its available-for-sale portfolio. The outside valuation firm utilizes comprehensive models to price the securities in a way that is consistent with the values that the market has for other debt securities on a relative or spread connected basis. The models may include the following methodologies, as appropriate, for each individual security: determine market value of each asset in portfolio; calculate default rates for each asset individually, create correlation structure for portfolio, simulate portfolio future (Monte-Carlo) numerous times; run samples through waterfall; diagram net present value of flows to Tranches in different scenarios; and determine the value of the Tranches. The Company validates the inputs and other information utilized, where possible, in valuations provided by third parties.

Equity securities (corporate stocks) - All equity securities that are publicly traded stocks with observable prices in active markets receive a Level 1 rating, the highest in the hierarchy. Any equity security not actively traded is given a Level 2 rating, as these are priced based on similar assets traded in active markets. Several preferred corporate equity securities are held in the form of auction rate securities and were classified as Level 3 as a result of their illiquidity and priced at par. Currently, the \$10,825 of illiquid preferred corporate equity securities are carried at par based on outside pricing service valuation at par; evidence of calling by certain issuers for redemption or for restructuring of these securities at par; and current weighted-average interest rates of 10.5%, which would not indicate a discount from par.

Corporate obligations - Corporate obligations that are actively traded on major exchanges receive a Level 1 rating. Corporate obligations that are not actively traded on major exchanges and are valued using market data for similar instruments are considered Level 2. Any corporate obligation not actively traded and valued with unobservable inputs is classified as Level 3 and priced using techniques previously described. Level 3 corporate obligations principally consist of airplane trust certificates held in the form of asset-backed securities and enhanced equipment trust certificates.

Government obligations - The fair value of government obligations are generally based on quoted prices in active markets and are classified as Level 1. There are instances where quoted prices are not available. In these instances, fair value is determined based on observable market data for similar obligations; therefore, these obligations are generally classified as Level 2.

Municipal obligations - Municipal obligations that are valued based on quoted prices and actively traded daily are classified as Level 1. The fair values of municipal obligations not priced daily, but measured frequently, are estimated using recently executed transactions and are categorized as Level 2. Several state and municipal bonds are held in the form of auction rate securities. These obligations were given Level 3 classification due to the illiquid markets for these securities previously discussed and priced at a six percent discount based upon recent tender of certain bonds at that price.

Bank notes - Bank notes generally have recurring fair value measurements using significant observable market data and are classified as Level 2.

MBS securities - MBS that are actively traded on major exchanges receive a Level 1 rating. MBS that are not actively traded on major exchanges and are valued using market data for similar instruments are considered Level 2.

Asset-backed CDO and CLO securities - Where possible, the Company uses quoted prices on similar securities actively traded to price the securities and classifies these securities as Level 2. When sufficient information is not available to determine fair value under Level, 2, the Company uses model pricing techniques and classifies the securities as Level 3.

### ***Income Tax Matters***

The provision for income taxes and related tax reserves is based on management's 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 the Company's tax return filings. Factors considered by management in estimating the Company's liability are results of tax audits, historical experience, and consultation with tax attorneys and other experts.

On January 1, 2007, the Company adopted the provisions of the FASB Interpretation No.48 ("FIN 48") *Accounting for Uncertainty in Income Taxes-An interpretation of FAS Statement No. 109*. FIN 48 clarified the accounting for uncertainty in income taxes recognized in an entity's financial statements in accordance with SFAS No. 109 and prescribed recognition threshold and measurement attributes for financial statement disclosure of tax positions taken or expected to be taken on a tax return. Under FIN 48, 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, FIN 48 provided guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. See Note P of the notes condensed consolidated financial statements contained herein for a further discussion on income taxes.

### **Goodwill and Intangible Assets**

The Company records all assets and liabilities acquired in purchase acquisitions, including goodwill and intangible assets, at fair value as required by SFAS No. 141, *Business Combinations*. Determining the fair value of assets and liabilities acquired requires certain management estimates. At September 30, 2008, the Company had goodwill of \$103.0 million and intangible assets of \$16.7 million.

The Company is required under SFAS No. 142, *Goodwill and Other Intangible Assets*, to perform impairment tests of our goodwill and intangible assets at least annually and more frequently if events or changes in circumstances indicate

that the carrying value of an asset or asset group may not be fully recoverable. If the impairment tests indicate that the carrying value of goodwill exceeds its fair value then an impairment loss would be required to be recognized in the condensed consolidated statements of operations in an amount equal to the excess carrying value.

Assumptions and estimates about future cash flows and discount rates are often subjective and can be affected by a variety of factors, including external and internal factors. Factors that may significantly affect the estimates include, 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. The Company has elected to perform its annual impairment test as of July 31. The results of the impairment tests performed as of July 31, 2008 did not indicate any impairment. We believe the assumptions used in performing our impairment tests are reasonable and appropriate; however, different assumptions and estimates could potentially affect the results of our impairment analysis.

In addition to those critical accounting policies referred to above, the Company's employee compensation and benefit expense for interim periods is impacted by estimates and assumptions. A substantial portion of the Company's employee compensation and benefits expense represents discretionary bonuses, generally determined and paid at year-end. The Company estimates the interim periods' discretionary bonus expenses based upon individual departmental profitability and total Company pre-tax profits and accrues accordingly.

### **Recent Accounting Pronouncements**

In December 2007, the FASB issued SFAS No. 141 (Revised 2007), *Business Combinations* ("SFAS No. 141R"). SFAS No. 141R retains the fundamental requirement in SFAS No. 141 that the acquisition method of accounting be used for all business combinations and for an acquirer to be identified for each business combination. SFAS No. 141R establishes principles and requirements for how the acquirer: a) recognizes and measures in its financial statement the identifiable assets acquired, the liabilities assumed, and any noncontrolling interest in the acquiree; b) recognizes and measures the goodwill acquired in the business combination or a gain from a bargain purchase; and c) determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination. SFAS No. 141R applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. The Company will evaluate the impact that the adoption of SFAS No. 141R will have on the Company's consolidated financial statements upon future acquisitions.

In December 2007, the FASB issued SFAS No. 160, *Noncontrolling interests in Consolidated Financial Statements - an amendment of ARB No. 51* ("SFAS No. 160"). SFAS No. 160 establishes accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. SFAS No. 160 changes the way the consolidated income statement is presented, establishes a single method of accounting for changes in a parent's ownership interest in a subsidiary that do not result in deconsolidation, requires that a parent recognize a gain or loss in net income when a subsidiary is deconsolidated, and requires expanded disclosures in the consolidated financial statements that clearly identify and distinguish between the interests of the parent's owners and the interests of the noncontrolling owners of a subsidiary. SFAS No. 160 is effective for fiscal years beginning on or after December 15, 2008 and shall be applied prospectively as of the beginning of the fiscal year in which the Statement is adopted, except that the presentation and disclosure requirements shall be applied retrospectively for all periods presented. The Company is evaluating the impact that the adoption of SFAS No. 160 will have on the Company's consolidated financial statements.

In February 2008, the FASB issued FASB Staff Position ("FSP") FAS No. 157-2, *Effective Date of FASB Statement No. 157* ("FSP No. 157-2"). FSP No. 157-2 defers the effective date of SFAS No. 157, *Fair Value Measurements*, to fiscal years beginning after November 15, 2008 for nonfinancial assets and nonfinancial liabilities, except for items that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). The

Company does not anticipate that the adoption of FSP No. 157-2 related to nonfinancial assets and nonfinancial liabilities will have a significant impact on the Company's consolidated financial statements.

In March 2008, the FASB issued SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities - an amendment of FASB Statement No. 133* ("SFAS No. 161"). SFAS No. 161 requires enhanced disclosures about (a) how and why an entity uses derivative instruments, (b) how derivative instruments and related hedged items are accounted for under SFAS No. 133 and its related interpretations, and (c) how derivative instruments and related hedged items affect an entity's financial position, financial performance, and cash flows. SFAS No. 161 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008, with early application encouraged. The Company is evaluating the impact that the adoption of SFAS No. 161 will have on the Company's consolidated financial statements.

In April 2008, the FASB issued FSP No. FAS 142-3, *Determination of the Useful Life of Intangible Assets* ("FSP No. 142-3"). FSP No. 142-3 amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under FASB Statement No. 142, *Goodwill and Other Intangible Assets* and requires additional disclosures to enable users of financial statements to assess the extent to which the expected future cash flows associated with the asset are affected by the entity's intent and/or ability to renew or extend the arrangement. FSP No. 142-3 is effective for fiscal years beginning after December 15, 2008 and interim periods within those fiscal years. The Company is evaluating the impact that the adoption of FSP No. 142-3 will have on the Company's consolidated financial statements.

In June 2008, the FASB issued FSP Emerging Issues Task Force ("EITF") No. 03-6-1, *Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities* ("FSP EITF No. 03-6-1"). FSP EITF No. 03-6-1 addresses whether instruments granted in share-based payment transactions are participating securities prior to vesting and, therefore, need to be included in the earnings allocation in computing earnings per share under the two-class method described in SFAS No. 128, *Earnings per Share*. FSP EITF No. 03-6-1 specifies that unvested share-based payment awards that contain nonforfeitable rights to dividends or dividend equivalents (whether paid or unpaid) are participating securities and shall be included in the computation of earnings per share pursuant to the two-class method. FSP EITF No. 03-6-1 is effective for fiscal years beginning after December 15, 2008, and interim periods within those years. Early application is not permitted. The Company does not expect the adoption of FSP EITF No. 03-6-1 to have a material effect on its results of operations or earnings per share.

#### **Off-balance Sheet Arrangements**

See Note O of the notes to condensed consolidated financial statements contained herein for a discussion of off-balance sheet arrangements.

#### **Contractual Obligations**

The Company's contractual obligations have not materially changed from those reported in the Company's Annual Report on Form 10-K for the year ended December 31, 2007.

**ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

Risks are an inherent part of the Company's business and activities. Management of these risks is critical to the Company's soundness and profitability. Risk management at the Company is a multi-faceted process that requires communication, judgment, and knowledge of financial products and markets. The Company's senior management 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 its business activities are: market (interest rates and equity prices), credit, liquidity, operational, and regulatory and legal. For a detailed description of the Company's risk's and risk management, see Item 7A. Quantitative and Qualitative Disclosures About Market Risk in the Company's Annual Report on Form 10-K for the year ended December 31, 2007.

The Company monitors, on a daily basis, the Value-at-Risk ("VaR") in its institutional Fixed Income Capital Markets trading portfolios using daily market data for the previous twelve months and reports 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 management believes that the assumptions and inputs it uses in its 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, based on the calculated dollar value of the VaR, for the Company's institutional Fixed Income Capital Markets trading portfolios during the nine months ended September 30, 2008 and the daily VaR at September 30, 2008 and December 31, 2007:

| (\$'s in thousands)                 | Nine Months Ended September<br>30, 2008 |           |               | VaR calculation at<br>September 30, 2008<br>December 31, 2007 |           |
|-------------------------------------|---|-----------|---------------|---|-----------|
|                                     | High                                    | Low       | Daily Average |   |           |
| Daily VaR                           | \$ 1,524                                | \$ 164    | \$ 503        | \$ 1,308  | \$ 865    |
| Related portfolio value             | \$ 80,293                               | \$ 31,307 | \$ 80,745     | \$ 106,603  | \$ 86,084 |
| VaR as a percent of portfolio value | 1.90%                                   | 0.52%     | 0.62%         | 1.23%   | 1.00%     |

Stifel Bank & Trust'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 the Company's broker-dealer subsidiaries and to the general public.

The Company's primary emphasis in interest rate risk management for Stifel Bank & Trust 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 rate movements and aids in stabilizing positive interest spreads. Stifel Bank & Trust has established limits for acceptable interest rate risk and acceptable portfolio value risk. To verify that Stifel Bank & Trust is within the limits established for interest margin, an analysis of net interest margin based on various shifts in interest rates is prepared each quarter and presented to Stifel Bank & Trust's Board of Directors for the three month period ending the month before the end of the Company's fiscal quarter end. Stifel Bank & Trust utilizes a third party vendor to analyze the available data.



The following table indicates Stifel Bank & Trust's interest rate sensitivity position at August 31, 2008. The following significant assumptions were utilized in the preparation of this table: 1) loans will repay at historic repayment rates; 2) interest-bearing demand accounts and savings accounts are interest sensitive due to immediate repricing; and 3) fixed maturity deposits will not be withdrawn prior to maturity. As a result, variance in actual results occurring from one or more of these assumptions could significantly affect the results reflected in the table.

| <i>(in thousands)</i>                     | <b>Repricing Opportunities</b> |             |           |           |
|---|--------------------------------|-------------|-----------|-----------|
|   | 0-6 Months                     | 7-12 Months | 1-5 Years | 5+ Years  |
| <b>Interest-Earning Assets:</b>           |                                |             |           |           |
| Loans                                     | \$ 115,153                     | \$ 32,423   | \$ 64,200 | \$ 6,751  |
| Securities and FHLB stock                 | 56,712                         | 1,510       | 26,748    | 2,305     |
| Fed funds sold and cash                   | 1,419                          | --          | --        | --        |
| <b>Total Interest-Earning Assets</b>      | 173,284                        | 33,933      | 90,948    | 9,056     |
| <b>Interest-Bearing Liabilities:</b>      |                                |             |           |           |
| Deposits                                  | 215,909                        | 11,967      | 25,841    | 5,473     |
| Borrowings                                | 7,109                          | 4,000       | 2,000     | --        |
| <b>Total Interest-Bearing Liabilities</b> | \$ 223,018                     | \$ 15,967   | \$ 27,841 | \$ 5,473  |
| <b>Liabilities</b>                        |                                |             |           |           |
| <b>GAP</b>                                | \$ (49,734)                    | \$ 17,966   | \$ 63,107 | \$ 3,583  |
| <b>Cumulative GAP</b>                     | \$ (49,734)                    | \$ (31,768) | \$ 31,339 | \$ 34,922 |

#### **ITEM 4. CONTROLS AND PROCEDURES**

As specified in Securities and Exchange Commission ("SEC") rules and forms, the Company's management, including Mr. Ronald J. Kruszewski as Chief Executive Officer and Mr. James M. Zemlyak as Chief Financial Officer, has evaluated the effectiveness of the Company's disclosure controls and procedures as of the end of the period covered by this quarterly report. Under rules promulgated by the SEC, disclosure controls and procedures are defined as those controls and other procedures of an issuer that are designed to ensure that information required to be disclosed by the issuer in the reports that it files or submits under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms and that such information is accumulated and communicated to the issuer's management, including its Chief Executive Officer and Chief Financial Officer, as appropriate, to allow for timely decisions regarding required disclosure. Under the supervision and with the participation of the Company's management, including Mr. Ronald J. Kruszewski as Chief Executive Officer and Mr. James M. Zemlyak as Chief Financial Officer, the Company evaluated the effectiveness of its disclosure controls and procedures pursuant to Exchange Act Rule 13a-15(b) as of the end of the period covered by this report. Based on that evaluation, Messrs. Kruszewski and Zemlyak have determined that these disclosure controls and procedures are effective.

Further, as required by the SEC's rules and forms, the Company's management, including the Company's Chief Executive Officer and Chief Financial Officer, evaluated the Company's internal control over financial reporting to determine whether any changes occurred during the quarter ended September 30, 2008 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting. Based on that evaluation, there have been no such changes during the quarter ended September 30, 2008.

## **PART II. OTHER INFORMATION**

### **ITEM 1. LEGAL PROCEEDINGS**

The Company and its subsidiaries are named in and subject to various proceedings and claims arising primarily from its securities business activities, including lawsuits, arbitration claims, class actions and regulatory matters. Some of these claims seek substantial compensatory, punitive or indeterminate damages. The Company is also involved in other reviews, investigations and proceedings by governmental and self-regulatory agencies regarding the Company's business, certain of which may result in adverse judgments, settlements, fines, penalties, injunctions or other relief.

The investigations include inquiries from the Securities and Exchange Commission ("SEC"), the Financial Industry Regulatory Authority ("FINRA") and several state regulatory authorities requesting information concerning the Company's activities with respect to auction rate securities, and inquiries from the SEC and a state regulatory authority requesting information relating to the Company's role in investments made by five Southeastern Wisconsin school districts in transactions involving collateralized debt obligations ("CDOs"). The Company intends to cooperate fully with the SEC, FINRA and the several states in these investigations.

Current claims include a civil lawsuit filed in the United States District Court for the Eastern District of Missouri on August 8, 2008 seeking class action status for investors who purchased and continue to hold auction rate securities offered for sale between June 11, 2003 and February 13, 2008, which alleges misrepresentation about the investment characteristics of auction rate securities and the auction markets. As of September 30, 2008 our clients held approximately \$226.4 million of auction rate securities, exclusive of approximately \$83.1 million of such securities that were either transferred to the Company or purchased after February 2008. The Company intends to vigorously defend this lawsuit.

Current claims also include a civil lawsuit filed in the Circuit Court of Milwaukee, Wisconsin on September 29, 2008 against the Company, Royal Bank of Canada Europe Ltd. ("RBC") and certain other RBC entities by the five school districts and the individual trustees for other post-employment benefit ("OPEB") trusts established by those school districts ("the Plaintiffs"). The suit was removed to the United States District Court for the Eastern District of Wisconsin on October 31, 2008. The suit arises out of the purchase of certain CDOs by the OPEB trusts. The RBC entities structured and served as "arranger" for the CDOs. The Company served as placement agent/broker in connection with the OPEB trusts purchase of the investments. 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. The recourse of the lender is the OPEB trust assets and the moral obligation of the school districts. The legal claims asserted include violation of the Wisconsin Securities Act, fraud and negligence. The Plaintiffs claim that the RBC entities and the Company either made misrepresentations in connection with the sale of the CDOs or failed to disclose material facts in connection with the sale of the CDOs. The Company believes the Plaintiffs reviewed and understood the relevant offering materials and that the investments were suitable based upon, among other things, its receipt of a written acknowledgement from Plaintiffs. The lawsuit seeks equitable relief, unspecified compensatory damages, treble damages, punitive damages and attorney's fees and costs. The Company intends to vigorously defend this lawsuit.

Because litigation is inherently unpredictable, particularly in cases where claimants seek substantial or indeterminate damages or when investigations and proceedings are in the early stages, the Company cannot predict with certainty the losses or range of losses related to such matters, how such matters will be resolved, when they will ultimately be resolved, or what the eventual settlement, fine, penalty or other relief might be. Consequently, the Company cannot estimate losses or ranges of losses for matters where there is only a reasonable possibility that a loss may have been incurred. However, if the Company were to purchase auction rate securities from some or all of its clients in order to

resolve the pending lawsuit and regulatory inquiries regarding auction rate securities, the purchases likely would have a material adverse effect on the Company's financial position, including its cash position. Therefore, before purchasing these securities, the Company would be required to assess whether it had sufficient regulatory capital or borrowing capacity to do so, and there is no assurance that it would have such capital or capacity. In addition, if the Company were to purchase these securities at their par value, it may have a market loss if the underlying value of securities is less than par, and any such loss may adversely effect the Company's results of operations and financial position.

Additionally, the Company has provided loss allowances for matters for which losses are probable in accordance with SFAS No. 5, Accounting for Contingencies. The ultimate resolution may differ materially from the amounts accrued. For the periods presented, the recording of legal accruals did not have a material impact on the condensed consolidated statements of operations.

#### **ITEM 1A. RISK FACTORS**

For information regarding risk factors, please refer to the updated risk factors that the Company filed on Form 8-K Current Report on September 23, 2008.

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

There were no unregistered sales of equity securities during the quarter. 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), of our common stock during the three months ended September 30, 2008. The Company has an ongoing authorization, as amended, from the Board of Directors to repurchase its common stock in the open market or in negotiated transactions. In May 2005, the Company's 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 September 30, 2008, the maximum number of shares that may yet be purchased under this plan was 2,010,831.

#### **ITEM 6. EXHIBITS**

(a) Exhibits:

- |      |  |
|------|--|
| 11   | Statement re computation of per share earnings (set forth in Note S - Earnings Per Share of the Notes to Condensed Consolidated Financial Statements (Unaudited)). |
| 31.1 | Rule 13a-14(a)/15d-14(a) Certification by the Chief Executive Officer.   |
| 31.2 | Rule 13a-14(a)/15d-14(a) Certification by the Chief Financial Officer.   |
| 32   | Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. This exhibit is furnished to the SEC.      |

**SIGNATURES**

Pursuant to the requirement 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.**

(Registrant)

Date: November 10, 2008

By: /s/ Ronald J. Kruszewski

Ronald J. Kruszewski  
(President and Chief Executive Officer)

Date: November 10, 2008

By: /s/ James M. Zemlyak

James M. Zemlyak  
(Principal Financial and Accounting Officer)

**EXHIBIT INDEX**

| <b>Exhibit No.</b> | <b>Description</b>  |
|--------------------|---|
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