

STIFEL FINANCIAL CORP
Form 10-Q
May 10, 2011

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

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the Quarterly Period Ended March 31, 2011

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from _____ to _____
Commission File No. 001-09305

STIFEL FINANCIAL CORP.

(Exact name of registrant as specified in its charter)

DELAWARE
(State or other jurisdiction of incorporation or organization)

43-1273600
(IRS Employer Identification No.)

501North Broadway
St. Louis, Missouri
(Address of principal executive offices)

63102
(Zip Code)

(314) 342-2000

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

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

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

Large accelerated filer: Accelerated filer: Non-accelerated filer: Smaller reporting company:
(Do not check if a smaller reporting company)

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

Edgar Filing: STIFEL FINANCIAL CORP - Form 10-Q

The number of shares outstanding of the registrant's common stock, \$0.15 par value per share, as of the close of business on April 30, 2011, was 53,720,031, which includes exchangeable shares of TWP Acquisition Company (Canada), Inc., a wholly owned subsidiary of the registrant. These shares are exchangeable at any time into an aggregate of 230,823 shares of common stock of the registrant; entitle the holder to dividend and other rights substantially economically equivalent to those of a share of common stock; and, through a voting trust, entitle the holder to a vote on matters presented to common shareholders.

STIFEL FINANCIAL CORP.

Form 10-Q

TABLE OF CONTENTS

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements	3
Condensed Consolidated Statements of Financial Condition as of March 31, 2011 (unaudited) and December 31, 2010	3
Condensed Consolidated Statements of Operations for the three months ended March 31, 2011 and March 31, 2010 (unaudited)	5
Condensed Consolidated Statements of Cash Flows for the three months ended March 31, 2011 and March 31, 2010 (unaudited)	6
Notes to Condensed Consolidated Financial Statements	8
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	41
Item 3. Quantitative and Qualitative Disclosures About Market Risk	64
Item 4. Controls and Procedures	68

PART II - OTHER INFORMATION

Item 1. Legal Proceedings	69
Item 1A. Risk Factors	70
Item 2. Unregistered Sales of Equity Securities and Use of Proceeds	70
Item 6. Exhibits	71
Signatures	72

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

<i>(in thousands)</i>	March 31, 2011 (Unaudited)	December 31, 2010
Assets		
Cash and cash equivalents	\$ 124,870	\$ 253,529
Restricted cash	6,871	6,868
Cash segregated for regulatory purposes	5,024	6,023
Receivables:		
Brokerage clients, net	484,330	477,514
Brokers, dealers, and clearing organizations	325,095	247,707
Securities purchased under agreements to resell	214,233	123,617
Trading securities owned, at fair value (includes securities pledged of \$487,282 and \$272,172, respectively)	561,410	444,170
Available-for-sale securities, at fair value	1,190,776	1,012,714
Held-to-maturity securities, at amortized cost	63,177	52,640
Loans held for sale	30,866	86,344
Bank loans, net	397,156	389,742
Bank foreclosed assets held for sale, net of estimated cost to sell	1,345	1,577
Investments	178,013	178,936
Fixed assets, net	83,743	71,498
Goodwill	302,022	301,919
Intangible assets, net	33,500	34,595
Loans and advances to financial advisors and other employees, net	181,511	181,357
Deferred tax assets, net	171,781	197,139
Other assets	181,482	145,226
Total Assets	\$ 4,537,205	\$ 4,213,115

See accompanying Notes to Consolidated Financial Statements.

STIFEL FINANCIAL CORP.

Consolidated Statements of Financial Condition (continued)

<i>(in thousands, except share and per share amounts)</i>	March 31, 2011 (Unaudited)	December 31, 2010
Liabilities and Shareholders' Equity		
Short-term borrowings from banks	\$ 299,700	\$ 109,600
Payables:		
Customers	206,006	212,642
Brokers, dealers, and clearing organizations	157,670	114,869
Drafts	55,286	73,248
Securities sold under agreements to repurchase	143,506	109,595
Bank deposits	1,625,890	1,623,568
Trading securities sold, but not yet purchased, at fair value	367,409	200,140
Accrued compensation	118,360	234,512
Accounts payable and accrued expenses	165,198	170,382
Debenture to Stifel Financial Capital Trust II	35,000	35,000
Debenture to Stifel Financial Capital Trust III	35,000	35,000
Debenture to Stifel Financial Capital Trust IV	12,500	12,500
Other	21,716	19,935
	3,243,241	2,950,991
Liabilities subordinated to claims of general creditors	6,957	8,241
Shareholders' Equity:		
Preferred stock - \$1 par value; authorized 3,000,000 shares; none issued	-	-
Exchangeable common stock - \$0.15 par value; issued 238,022 and 897,618 shares, respectively	36	135
Common stock - \$0.15 par value; authorized 97,000,000 shares; issued 53,487,849 and 52,822,428 shares, respectively	8,023	7,923
Additional paid-in-capital	1,082,806	1,117,668
Retained earnings	231,685	232,415
Accumulated other comprehensive income	4,914	381
	1,327,464	1,358,522
Treasury stock, at cost, 700,101 and 2,235,473 shares, respectively	(39,754)	(103,857)
Unearned employee stock ownership plan shares, at cost, 109,821 and 122,024 shares, respectively	(703)	(782)
	1,287,007	1,253,883
Total Liabilities and Shareholders' Equity	\$ 4,537,205	\$ 4,213,115

See accompanying Notes to Consolidated Financial Statements.

STIFEL FINANCIAL CORP.

Consolidated Statements of Operations

(Unaudited)

<i>(in thousands, except per share amounts)</i>	Three Months Ended March 31,	
	2011	2010
Revenues:		
Commissions	\$ 155,786	\$ 105,035
Principal transactions	92,859	117,420
Asset management and service fees	57,680	41,103
Investment banking	41,418	34,221
Interest	18,856	14,647
Other income	6,256	1,945
Total revenues	372,855	314,371
Interest expense	6,242	2,341
Net revenues	366,613	312,030
Non-interest expenses:		
Compensation and benefits	231,166	206,242
Occupancy and equipment rental	29,325	24,858
Communications and office supplies	18,845	14,418
Commissions and floor brokerage	6,649	5,744
Other operating expenses	29,944	21,203
Total non-interest expenses	315,929	272,465
Income before income tax expense	50,684	39,565
Provision for income taxes	19,286	15,825
Net income	\$ 31,398	\$ 23,740
Earnings per common share:		
Basic	\$ 0.60	\$ 0.52
Diluted	\$ 0.50	\$ 0.45
Weighted average number of common shares outstanding:		
Basic	52,534	46,080
Diluted	63,179	52,538

See accompanying Notes to Consolidated Financial Statements.

STIFEL FINANCIAL CORP.

Consolidated Statements of Cash Flows

(Unaudited)

<i>(in thousands)</i>	Three Months Ended March 31,	
	2011	2010
Cash Flows from Operating Activities:		
Net income	\$ 31,398	\$ 23,740
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation and amortization	5,606	5,342
Amortization of loans and advances to financial advisors and other employees	14,268	12,101
Amortization of premium on available-for-sale securities	3,602	1,889
Provision for loan losses and allowance for loans and advances to financial advisors and other employees	(259)	(425)
Amortization of intangible assets	1,064	764
Deferred income taxes	23,351	(3,476)
Excess tax benefits from stock-based compensation	(22,463)	(12,683)
Stock-based compensation	6,780	15,823
(Gains)/losses on investments	(3,317)	8
Other, net	633	(131)
Decrease/(increase) in operating assets, net:		
Cash segregated for regulatory purposes and restricted cash	996	-
Receivables:		
Brokerage clients	(6,756)	(29,667)
Brokers, dealers, and clearing organizations	(77,388)	55,480
Securities purchased under agreements to resell	(90,616)	(11,247)
Loans originated as held for sale	(179,834)	(166,143)
Proceeds from mortgages held for sale	234,725	184,882
Trading securities owned, including those pledged	(117,240)	(131,258)
Loans and advances to financial advisors and other employees	(14,029)	(7,943)
Other assets	(11,265)	19,530
Increase/(decrease) in operating liabilities, net:		
Payables:		
Customers	(6,636)	12,470
Brokers, dealers, and clearing organizations	(42,560)	(12,995)
Drafts	(17,962)	(11,474)
Trading securities sold, but not yet purchased	167,269	92,455
Other liabilities and accrued expenses	(151,611)	(116,432)
Net cash used in operating activities	\$ (252,244)	\$ (79,390)

See accompanying Notes to Consolidated Financial Statements.

STIFEL FINANCIAL CORP.

Consolidated Statements of Cash Flows (continued)

<i>(in thousands)</i>	Three Months Ended March 31,	
	2011	2010
Cash Flows from Investing Activities:		
Proceeds from:		
Maturities, calls, and principal paydowns on available-for-sale securities	\$ 71,512	\$ 32,855
Maturities, calls, and principal paydowns on held-to-maturity securities	500	-
Sale or maturity of investments	16,609	16,992
Sale of bank foreclosed assets held for sale	228	1,302
Increase in bank loans, net	(7,604)	(7,694)
Payments for:		
Purchase of available-for-sale securities	(251,409)	-
Purchase of held-to-maturity securities	(11,264)	-
Purchase of investments	(12,369)	(30,402)
Purchase of fixed assets	(18,118)	(6,183)
Acquisitions, net	-	(500)
Net cash (used in)/provided by investing activities	(211,915)	6,370
Cash Flows from Financing Activities:		
Net proceeds from short-term borrowings from banks	190,100	94,100
Increase/(decrease) in securities sold under agreements to repurchase	33,911	(15,916)
Increase/(decrease) in bank deposits, net	2,322	(58,948)
Increase in securities loaned	85,361	25,064
Excess tax benefits from stock-based compensation	22,463	12,683
Reissuance of treasury stock	2,093	242
Extinguishment of subordinated debt	(1,284)	(1,391)
Repurchase of stock for treasury	-	1,067
Net cash provided by financing activities	334,966	56,901
Effect of exchange rate changes on cash	534	-
Decrease in cash and cash equivalents	(128,659)	(16,119)
Cash and cash equivalents at beginning of year	253,529	161,820
Cash and cash equivalents at end of year	\$ 124,870	\$ 145,701
Supplemental disclosure of cash flow information:		
Cash paid for income taxes, net of refunds	\$ 4,323	\$ 19,473
Cash paid for interest	5,982	2,238
Noncash investing and financing activities:		
Units, net of forfeitures	84,193	44,979

See accompanying Notes to Consolidated Financial Statements.

STIFEL FINANCIAL CORP.

Notes to Consolidated Financial Statements

NOTE 1 - Nature of Operations and Basis of Presentation

Nature of Operations

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

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

Basis of Presentation

The consolidated financial statements include Stifel Financial Corp. and its wholly owned subsidiaries, principally Stifel Nicolaus and Stifel Bank. All material intercompany balances and transactions have been eliminated. Unless otherwise indicated, the terms "we," "us," "our," or "our company" in this report refer to Stifel Financial Corp. and its wholly owned subsidiaries.

We have prepared the accompanying unaudited consolidated financial statements pursuant to the rules and regulations of the Securities and Exchange Commission (the "SEC"). Pursuant to these rules and regulations, we have omitted certain information and footnote disclosures we normally include in our annual consolidated financial statements prepared in accordance with U.S. generally accepted accounting principles. In management's opinion, we have made all adjustments (consisting only of normal, recurring adjustments, except as otherwise noted) necessary to fairly present our financial position, results of operations and cash flows. Our interim period operating results do not necessarily indicate the results that may be expected for any other interim period or for the full fiscal year. These financial statements and accompanying notes should be read in conjunction with the consolidated financial statements and the notes thereto in our Annual Report on Form 10-K for the year ended December 31, 2010 on file with the SEC.

On April 5, 2011, we effected a three-for-two stock split to shareholders of record as of March 22, 2011. All share and per share information has been retroactively adjusted to reflect the stock split.

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

There have been no material changes in our significant accounting policies, as compared to the significant accounting policies described in our Annual Report on Form 10-K for the year ended December 31, 2010.

Consolidation Policies

The consolidated financial statements include the accounts of Stifel Financial Corp. and its subsidiaries. We also have investments or interests in other entities for which we must evaluate whether to consolidate by determining whether we have a controlling financial interest or are considered to be the primary beneficiary. In determining whether to consolidate these entities or not, we determine whether the entity is a voting interest entity or a variable interest entity ("VIE").

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. We consolidate voting interest entities when we determine that there is 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. We are required to consolidate VIEs in which we are deemed to be the primary beneficiary. The primary beneficiary is defined as the entity that has a variable interest, or a combination of variable interests, that maintains control and provides benefits or will either: (i) absorb a majority of the VIEs expected losses, (ii) receive a majority of the VIEs expected returns, or (iii) both.

We determine whether we are the primary beneficiary of a VIE by first performing a qualitative analysis of the VIE's control structure, expected losses and expected residual returns. This analysis includes a review of, among other factors, the VIE's capital structure, contractual terms, which interests create or absorb variability, related party relationships, and the design of the VIE. Where qualitative analysis is not conclusive, we perform a quantitative analysis. We reassess our initial evaluation of an entity as a VIE and our initial determination of whether we are the primary beneficiary of a VIE upon the occurrence of certain reconsideration events. See Note 25 for additional information on variable interest entities.

NOTE 2 - Recently Adopted Accounting Guidance*Allowance for Credit Losses*

In July 2010, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("Updated") No. 2010-20, "*Disclosures About the Credit Quality of Financing Receivables and the Allowance for Credit Losses*," which requires significant new disclosures about the allowance for credit losses and the credit quality of financing receivables. The requirements are intended to enhance transparency regarding credit losses and the credit quality of loan and lease receivables. Under this guidance, allowance for credit losses and fair value are to be disclosed by portfolio segment, while credit quality information, impaired financing receivables, and nonaccrual status are to be presented by class of financing receivable. Disclosure of the nature and extent, the financial impact, and segment information of troubled debt restructurings are required. The disclosures are to be presented at the level of disaggregation that management uses when assessing and monitoring the portfolio's risk and performance. This guidance is effective for interim and annual reporting periods after December 15, 2010 (December 31, 2010 for our company). In January 2011, the FASB issued Update 2011-01, *Receivables (Topic 310): Deferral of the Elective Date of Disclosures About Troubled Debt Restructurings in Update No. 2010-20*," which temporarily delays the effective date of the disclosures about troubled debt restructurings. Other than requiring additional disclosures, the adoption of this new guidance did not have a material impact on our consolidated financial statements. See Note 8 - Bank Loans.

Fair Value of Financial Instruments

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

NOTE 3 - Acquisitions*Thomas Weisel Partners Group, Inc.*

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

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

	Three Months Ended March 31, 2010 (Unaudited)	
Total net revenues	\$	364,448
Net income		21,392
Earnings per share:		

Basic	0.41
Diluted	0.34

Edgar Filing: STIFEL FINANCIAL CORP - Form 10-Q

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

Amounts receivable from brokers, dealers, and clearing organizations at March 31, 2011 and December 31, 2010, included *(in thousands)*:

	March 31 2011		December 31, 2010
Deposits paid for securities borrowed	\$ 205,916	\$	94,709
Receivable from clearing organizations	83,020		78,007
Securities failed to deliver	36,159		74,991
	\$ 325,095	\$	247,707

Amounts payable to brokers, dealers, and clearing organizations at March 31, 2011 and December 31, 2010, included *(in thousands)*:

	March 31 2011		December 31, 2010
Deposits received from securities loaned	\$ 112,633	\$	27,907
Securities failed to receive	41,536		78,499
Payable to clearing organizations	3,501		8,463
	\$ 157,670	\$	114,869

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

NOTE 5 - Fair Value of Financial Instruments

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

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

The following is a description of the valuation techniques used to measure fair value on a recurring basis:

Cash Equivalents

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

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

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

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

Level 3 financial instruments have little to no pricing observability as of the report date. These financial instruments do not have active two-way markets and are measured using management's best estimate of fair value, where the inputs into the determination of fair value require significant management judgment or estimation. We have identified Level 3 financial instruments to include certain corporate obligations with unobservable pricing inputs, airplane trust certificates, and certain municipal obligations, which include ARS. Investments in certain corporate obligations, airplane trust certificates and municipal obligations with unobservable inputs are valued using management's best estimate of fair value, where the inputs require significant management judgment. ARS are valued based upon our expectations of issuer redemptions and using internal discounted cash flow models that utilize unobservable inputs.

Investments

Investments valued at fair value include ARS, investments in mutual funds, U.S. treasury securities, investments in public companies, private equity securities, partnerships, ARS, and warrants of public or private companies.

Investments in public companies, mutual funds and U.S. treasury securities are valued based on quoted prices in active markets and reported in Level 1. Investments in certain private equity securities and partnerships with unobservable inputs and ARS for which the market has been dislocated and largely ceased to function are reported as Level 3 assets. Investments in certain equity securities with unobservable inputs are valued using management's best estimate of fair value, where the inputs require significant management judgment. ARS are valued based upon our expectations of issuer redemptions and using internal discounted cash flow models.

Investments in partnerships and other investments include our general and limited partnership interests in investment partnerships and direct investments in non-public companies. These interests are carried at estimated fair value. The net assets of investment partnerships consist primarily of investments in non-marketable securities. The underlying investments held by such partnerships and direct investments in non-public companies are valued based on the estimated fair value ultimately determined by us in our capacity as general partner or investor and, in the case of an investment in an unaffiliated investment partnership, are based on financial statements prepared by an unaffiliated general partner.

Edgar Filing: STIFEL FINANCIAL CORP - Form 10-Q

Warrants are valued based upon the Black-Scholes option-pricing model that uses discount rates and stock volatility factors of comparable companies as inputs. These inputs are subject to management judgment to account for differences between the measured investment and comparable companies and are reported as Level 3 assets.

The valuation of these investments requires significant management judgment due to the absence of quoted market prices, inherent lack of liquidity, and long-term nature of these assets. As a result, these values cannot be determined with precision and the calculated fair value estimates may not be realizable in a current sale or immediate settlement of the instrument.

Derivatives

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

Edgar Filing: STIFEL FINANCIAL CORP - Form 10-Q

The following table summarizes the valuation of our financial instruments by pricing observability levels as of March 31, 2011 and December 31, 2010 (*in thousands*):

	March 31, 2011			
	Total	Level 1	Level 2	Level 3
Assets:				
Cash equivalents	\$ 18,114	\$ 18,114	\$ -	\$ -
Trading securities owned:				
U.S. government agency securities	105,921	-	105,921	-
U.S. government securities	7,945	7,945	-	-
Corporate securities:				
Fixed income securities	308,318	97,977	195,786	14,555
Equity securities	47,350	46,864	486	-
State and municipal securities	91,876	-	91,876	-
Total trading securities owned	561,410	152,786	394,069	14,555
Available-for-sale securities:				
U.S. government agency securities	24,985	-	24,985	-
State and municipal securities	39,376	-	15,079	24,297
Mortgage-backed securities:				
Agency	669,944	-	669,944	-
Commercial	111,508	-	111,508	-
Non-agency	26,555	-	26,555	-
Corporate fixed income securities	290,356	123,220	167,136	-
Asset-backed securities	28,052	-	28,052	-
Total available-for-sale securities	1,190,776	123,220	1,043,259	24,297
Investments:				
Corporate equity securities	4,637	4,637	-	-
Mutual funds	33,407	33,407	-	-
U.S. government securities	8,752	8,752	-	-
Auction rate securities:				
Equity securities	72,204	-	-	72,204
Municipal securities	8,471	-	-	8,471
Other	50,542	10,130	1,806	38,606
Total investments	178,013	56,926	1,806	119,281
Total trading securities owned	1,948,313	351,046	1,439,134	158,133
Derivative contracts ⁽¹⁾	1,941	-	1,941	-
	\$ 1,950,254	\$ 351,046	\$ 1,441,075	\$ 158,133

(1) Included in other assets in the consolidated statements of financial condition.

	March 31, 2011			
	Total	Level 1	Level 2	Level 3
Liabilities:				
Trading securities sold, but not yet purchased:				
U.S. government securities	\$ 177,982	\$ 177,982	\$ -	\$ -
U.S. government agency securities	1,067	-	1,067	-

Edgar Filing: STIFEL FINANCIAL CORP - Form 10-Q

Corporate securities:					
Fixed income securities	140,338	62,412	77,926	-	
Equity securities	47,537	47,504	33	-	
State and municipal securities	485	-	485	-	
Total trading securities sold, but not yet purchased	367,409	287,898	79,511	-	
Securities sold, but not yet purchased					
(2)	21,716	21,716	-	-	
Derivative contracts					
(3)	6,660	-	6,660	-	
	\$ 395,785	\$ 309,614	\$ 86,171	\$ -	

(2) Included in other liabilities in the consolidated statements of financial condition.

(3) Included in accounts payable and accrued expenses in the consolidated statements of financial condition.

Edgar Filing: STIFEL FINANCIAL CORP - Form 10-Q

December 31, 2010

	Total	Level 1	Level 2	Level 3
Assets:				
Cash equivalents	\$ 15,675	\$ 15,675	\$ -	\$ -
Trading securities owned:				
U.S. government agency securities	86,882	-	86,882	-
U.S. government securities	9,038	9,038	-	-
Corporate securities:				
Fixed income securities	221,145	47,001	133,901	40,243
Equity securities	46,877	46,395	482	-
State and municipal securities	80,228	-	80,228	-
Total trading securities owned	444,170	102,434	301,493	40,243
Available-for-sale securities:				
U.S. government agency securities	25,030	-	25,030	-
State and municipal securities	26,343	-	14,907	11,436
Mortgage-backed securities:				
Agency	697,163	-	697,163	-
Commercial	67,996	-	67,996	-
Non-agency	29,273	-	29,273	-
Corporate fixed income securities	154,901	34,897	120,004	-
Asset-backed securities	12,008	-	12,008	-
Total available-for-sale securities	1,012,714	34,897	966,381	11,436
Investments:				
Corporate equity securities	3,335	3,335	-	-
Mutual funds	32,193	32,193	-	-
U.S. government securities	8,751	8,751	-	-
Auction rate securities:				
Equity securities	76,826	-	-	76,826
Municipal securities	6,533	-	-	6,533
Other	51,298	10,489	2,307	38,502
Total investments	178,936	54,768	2,307	121,861
	\$ 1,651,495	\$ 207,774	\$ 1,270,181	\$ 173,540
Liabilities:				
Trading securities sold, but not yet purchased:				
U.S. government securities	\$ 131,561	\$ 131,561	\$ -	\$ -
U.S. government agency securities	664	-	664	-

Edgar Filing: STIFEL FINANCIAL CORP - Form 10-Q

Corporate securities:

Fixed income securities	61,026	18,815	37,526	4,685
Equity securities	6,800	6,780	20	-
State and municipal securities	89	-	89	-
Total trading securities sold, but not yet purchased	200,140	157,156	38,299	4,685
Securities sold, but not yet purchased (1)	19,935	19,935	-	-
Derivative contracts (2)	9,259	-	9,259	-
	\$ 229,334	\$ 177,091	\$ 47,558	\$ 4,685

(1) Included in other liabilities in the consolidated statements of financial condition.

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

Edgar Filing: STIFEL FINANCIAL CORP - Form 10-Q

The following table summarizes the changes in fair value carrying values associated with Level 3 financial instruments during the quarter ended March 31, 2011 (*in thousands*):

	Three Months Ended March 31, 2011						Financial
	Financial Assets					Liabilities	
	Corporate Fixed Income Securities (1)	State and Municipal Securities (2)	Auction Rate Securities - Equity	Auction Rate Securities - Municipal	Investments Other	Corporate Fixed Income Securities (3)	
Balance at December 31, 2010	\$ 40,243	\$ 11,436	\$ 76,826	\$ 6,533	\$ 38,502	\$ 4,685	
Unrealized gains/(losses):							
Included in changes in net assets (4)	(422)	-	(147)	(167)	2,146	-	
Included in OCI (5)	-	(64)	-	-	-	-	
Realized gains/(losses) (4)	710	-	-	-	(188)	(36)	
Purchases	139,422	13,000	200	2,430	693	4,228	
Sales	(159,363)	-	-	-	-	(8,877)	
Redemptions	(193)	(75)	(4,675)	(325)	(2,547)	-	
Transfers:							
Into Level 3	-	-	-	-	-	-	
Out of Level 3	(5,842)	-	-	-	-	-	
Net change	(25,668)	12,861	(4,622)	1,938	104	(4,685)	
Balance at March 31, 2011	\$ 14,555	\$ 24,297	\$ 72,204	\$ 8,471	\$ 38,606	\$ -	

(1) Included in trading securities owned in the consolidated statements of financial condition.

(2) Included in available-for-sale securities in the consolidated statements of financial condition.

(3) Included in trading securities sold, but not yet purchased in the consolidated statements of financial condition.

(4) Realized and unrealized gains/(losses) related to trading securities and investments are reported in other income in the consolidated statements of operations.

(5) Unrealized gains/(losses) related to available-for-sale securities are reported in accumulated other comprehensive income in the consolidated statements of financial condition.

The results included in the table above are only a component of the overall investment strategies of our company. The table above does not present Level 1 or Level 2 valued assets or liabilities. The changes to our company's Level 3 classified instruments were principally a result of: purchases of ARS from our customers, unrealized gains and losses, and redemptions of ARS at par during the three months ended March 31, 2011. There were \$5.8 million of transfers from Level 3 to Level 2 during the three months ended March 31, 2011 related to securities for which market trades were observed that provided transparency into the valuation of these assets. There were no changes in unrealized gains/(losses) recorded in earnings for the year ended March 31, 2011 relating to Level 3 assets still held at March 31, 2011.

Transfers Within the Fair Value Hierarchy

We assess our financial instruments on a quarterly basis to determine the appropriate classification within the fair value hierarchy, as defined by Topic 820. Transfers between fair value classifications occur when there are changes in pricing observability levels. Transfers of financial instruments among the levels are deemed to occur at the beginning of the reporting period. There were \$12.0 million of transfers of financial assets from Level II to Level I during the three months ended March 31, 2011 related to tax-exempt securities and equity securities for which market trades were observed that provided transparency into the valuation of these assets.

Edgar Filing: STIFEL FINANCIAL CORP - Form 10-Q

Fair Value of Financial Instruments

The following reflects the fair value of financial instruments, as of March 31, 2011 and December 31, 2010, whether or not recognized in the consolidated statements of financial condition at fair value (*in thousands*).

	March 31, 2011		December 31, 2010	
	Carrying value	Estimated fair value	Carrying value	Estimated fair value
Financial assets:				
Cash and cash equivalents	\$ 124,870	\$ 124,870	\$ 253,529	\$ 253,529
Restricted cash	6,871	6,871	6,868	6,868
Cash segregated for regulatory purposes	5,024	5,024	6,023	6,023
Securities purchased under agreements to resell	214,233	214,233	123,617	123,617
Trading securities owned	561,410	561,410	444,170	444,170
Available-for-sale securities	1,190,776	1,190,776	1,012,714	1,012,714
Held-to-maturity securities	63,177	64,111	52,640	52,984
Loans held for sale	30,866	30,866	86,344	86,344
Bank loans	397,156	384,092	389,742	376,176
Investments	178,013	178,013	178,936	178,936
Derivative contracts ⁽¹⁾	1,941	1,941	-	-
Financial liabilities:				
Securities sold under agreements to repurchase	\$ 143,506	\$ 143,506	\$ 109,595	\$ 109,595
Non-interest-bearing deposits	7,295	7,122	8,197	7,980
Interest-bearing deposits	1,618,595	1,564,962	1,615,371	1,565,199
Trading securities sold, but not yet purchased	367,409	367,409	200,140	200,140
Securities sold, but not yet purchased ⁽²⁾	21,716	21,716	19,935	19,935
Derivative contracts ⁽³⁾	6,660	6,660	9,259	9,259
Liabilities subordinated to the claims of general creditors	6,957	6,510	8,241	7,739

(1) Included in other assets in the consolidated statements of financial condition.

(2) Included in other liabilities in the consolidated statements of financial condition.

(3) Included in accounts payable and accrued expenses in the consolidated statements of financial condition.

Edgar Filing: STIFEL FINANCIAL CORP - Form 10-Q

The following, as supplemented by the discussion above, describes the valuation techniques used in estimating the fair value of our financial instruments as of March 31, 2011 and December 31, 2010.

Financial Assets

Securities Purchased Under Agreements to Resell

Securities purchased under agreements to resell are collateralized financing transactions that are recorded at their contractual amounts plus accrued interest. The carrying values at March 31, 2011 and December 31, 2010 approximate fair value.

Held-to-Maturity Securities

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

The decrease in fair value below the carrying amount of our asset-backed security at March 31, 2011 and December 31, 2010 is primarily due to unrealized losses that were caused by: illiquid markets for collateralized debt obligations, global disruptions in the credit markets, increased supply of collateralized debt obligation secondary market securities from distressed sellers, and difficult times in the banking sector. The decrease in fair value below the carrying amount of our asset-backed security as of March 31, 2011 was offset by unrealized gains on our ARS.

Loans Held for Sale

Loans held for sale consist of fixed-rate and adjustable-rate residential real estate mortgage loans intended for sale. Loans held for sale are stated at lower of cost or fair value. Fair value is determined based on prevailing market prices for loans with similar characteristics or on sale contract prices. The carrying values at March 31, 2011 and December 31, 2010 approximate fair value.

Bank Loans

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

Financial Liabilities

Securities Sold Under Agreements to Repurchase

Securities sold under agreements to repurchase are collateralized financing transactions that are recorded at their contractual amounts plus accrued interest. The carrying values at March 31, 2011 and December 31, 2010 approximate fair value.

Non-Interest-Bearing Demand Deposits

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

Interest-Bearing Deposits

The fair value of money market and savings accounts represents the amounts payable on demand. The fair value of other interest-bearing deposits, including certificates of deposit, was calculated by discounting the future cash flows using discount rates based on the expected current market rates for similar products with similar remaining terms.

Liabilities Subordinated to Claims of General Creditors

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

These fair value disclosures represent our best estimates based on relevant market information and information about the financial instruments. Fair value estimates are based on judgments regarding future expected losses, current economic conditions, risk characteristics of the various instruments, and other factors. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and,

therefore, cannot be determined with precision. Changes in the above methodologies and assumptions could significantly affect the estimates.

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

The components of trading securities owned and trading securities sold, but not yet purchased, at March 31, 2011 and December 31, 2010, are as follows (*in thousands*):

	March 31, 2011	December 31, 2010
Trading securities owned:		
U.S. government agency securities	\$ 105,921	\$ 86,882
U.S. government securities	7,945	9,038
Corporate securities:		
Fixed income securities	308,318	221,145
Equity securities	47,350	46,877
State and municipal securities	91,876	80,228
	\$ 561,410	\$ 444,170
Trading securities sold, but not yet purchased:		
U.S. government securities	\$ 177,982	\$ 131,561
U.S. government agency securities	1,067	664
Corporate securities:		
Fixed income securities	140,338	61,026
Equity securities	47,537	6,800
State and municipal securities	485	89
	\$ 367,409	\$ 200,140

At March 31, 2011 and December 31, 2010, trading securities owned in the amount of \$487.3 million and \$272.2 million, respectively, were pledged as collateral for our repurchase agreements and short-term borrowings.

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

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

The following tables provide a summary of the amortized cost and fair values of the available-for-sale securities and held-to-maturity securities at March 31, 2011 and December 31, 2010 (*in thousands*):

	March 31, 2011			
	Amortized cost	Gross unrealized gains (1)	Gross unrealized losses (1)	Estimated fair value
Available-for-sale				
U.S. government securities	\$ 24,975	\$ 10	\$ -	\$ 24,985
State and municipal securities	39,633	633	(890)	39,376
Mortgage-backed securities:				
Agency	663,309	8,378	(1,743)	669,944
Commercial	110,997	1,159	(648)	111,508
Non-agency	26,335	741	(521)	26,555
Corporate fixed income securities	289,166	1,945	(755)	290,356
Asset-backed securities	27,359	713	(20)	28,052
	\$ 1,181,774	\$ 13,579	\$ (4,577)	\$ 1,190,776
Held-to-maturity (2)				
Municipal auction rate securities	\$ 46,481	\$ 3,693	\$ (2)	\$ 50,172
Asset-backed securities	16,696	583	(3,340)	13,939
	\$ 63,177	\$ 4,276	\$ (3,342)	\$ 64,111
		December 31, 2010		
	Amortized cost	Gross unrealized gains (1)	Gross unrealized losses (1)	Estimated fair value
Available-for-sale				
U.S. government securities	\$ 24,972	\$ 58	\$ -	\$ 25,030
State and municipal securities	26,678	727	(1,062)	26,343
Mortgage-backed securities:				
Agency	692,922	6,938	(2,697)	697,163
Commercial	66,912	1,212	(128)	67,996
Non-agency	29,319	744	(790)	29,273
Corporate fixed income securities	153,523	1,705	(327)	154,901
Asset-backed securities	11,331	677	-	12,008
	\$ 1,005,657	\$ 12,061	\$ (5,004)	\$ 1,012,714
Held-to-maturity (2)				
Municipal auction rate securities	\$ 43,719	\$ 3,803	\$ (171)	\$ 47,351
Asset-backed securities	8,921	198	(3,486)	5,633
	\$ 52,640	\$ 4,001	\$ (3,657)	\$ 52,984

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

(2) Held-to-maturity securities are carried in the consolidated statements of financial condition at amortized cost, and the changes in the value of these securities, other than impairment charges, are not reported on the consolidated financial statements.

Edgar Filing: STIFEL FINANCIAL CORP - Form 10-Q

For the three months ended March 31, 2011, available-for-sale securities with an aggregate par value of \$13.0 million were called by the issuing agencies or matured, resulting in no gains or losses recorded through the consolidated statement of operations. Additionally, for the three months ended March 31, 2011, Stifel Bank received principal payments on mortgage-backed securities of \$58.4 million. During the three months ended March 31, 2011 and 2010, unrealized gains, net of deferred taxes, of \$1.2 million and \$3.4 million, respectively, were recorded in accumulated other comprehensive income in the consolidated statements of financial condition.

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

	March 31, 2011			
	Available-for-sale		Held-to-maturity	
	Amortized cost	Estimated fair value	Amortized cost	Estimated fair value
Debt securities				
Within one year	\$ 19,150	\$ 19,225	\$ -	\$ -
After one year through three years	170,778	172,132	-	-
After three years through five years	101,093	100,854	-	-
After five years through ten years	50,453	51,127	-	-
After ten years	39,659	39,431	63,177	64,111
Mortgage-backed securities				
After three years through five years	9,756	10,056	-	-
After five years through ten years	91,666	91,831	-	-
After ten years	699,219	706,120	-	-
	\$ 1,181,774	\$ 1,190,776	\$ 63,177	\$ 64,111

The carrying value of securities pledged as collateral to secure public deposits and other purposes was \$123.5 million and \$111.6 million at March 31, 2011 and December 31, 2010, respectively.

Certain investments in the available-for-sale portfolio at March 31, 2011, are reported in the consolidated statements of financial condition at an amount less than their amortized cost. The total fair value of these investments at March 31, 2011, was \$537.9 million, which was 45.2% of our available-for-sale investment portfolio. The amortized cost basis of these investments was \$542.5 million at March 31, 2011. The declines in the available-for-sale portfolio primarily resulted from changes in interest rates and liquidity issues that have had a pervasive impact on the market.

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

Edgar Filing: STIFEL FINANCIAL CORP - Form 10-Q

The following table is a summary of the amount of gross unrealized losses and the estimated fair value by length of time that the available-for-sale securities have been in an unrealized loss position at March 31, 2011 (*in thousands*):

	Less than 12 months		12 months or more		Total	
	Gross unrealized losses	Estimated fair value	Gross unrealized losses	Estimated fair value	Gross unrealized losses	Estimated fair value
Available-for-sale						
State and municipal securities	\$ (890)	\$ 14,094	\$ -	\$ -	\$ (890)	\$ 14,094
Mortgage-backed securities:						
Agency	(1,743)	313,275	-	-	(1,743)	313,275
Commercial	(648)	59,485	-	-	(648)	59,485
Non-agency	-	-	(521)	9,109	(521)	9,109
Corporate fixed income securities	(755)	137,693	-	-	(755)	137,693
Asset-backed securities	(20)	4,263	-	-	(20)	4,263
	\$ (4,056)	\$ 528,810	\$ (521)	\$ 9,109	\$ (4,577)	\$ 537,919
Other-Than-Temporary Impairment						

We evaluate all securities in an unrealized loss position quarterly to assess whether the impairment is other-than-temporary. Our other-than-temporary impairment ("OTTI") assessment is a subjective process requiring the use of judgments and assumptions. Accordingly, we consider a number of qualitative and quantitative criteria in our assessment, including the extent and duration of the impairment; recent events specific to the issuer and/or industry to which the issuer belongs; the payment structure of the security; external credit ratings and the failure of the issuer to make scheduled interest or principal payments; the value of underlying collateral; and current market conditions.

If we determine that impairment on our debt securities is other-than-temporary and we have made the decision to sell the security or it is more likely than not that we will be required to sell the security prior to recovery of its amortized cost basis, we recognize the entire portion of the impairment in earnings. If we have not made a decision to sell the security and we do not expect that we will be required to sell the security prior to recovery of the amortized cost basis, we recognize only the credit component of OTTI in earnings. The remaining unrealized loss due to factors other than credit, or the non-credit component, is recorded in accumulated other comprehensive income. We determine the credit component based on the difference between the security's amortized cost basis and the present value of its expected future cash flows, discounted based on the purchase yield. The non-credit component represents the difference between the security's fair value and the present value of expected future cash flows.

Based on the evaluation, we recognized a credit-related other-than-temporary impairment of \$0.4 million through earnings for the three months ended March 31, 2011. The remaining balance of other comprehensive income related to this investment was written off during the year ended December 31, 2010; therefore, we reduced the amortized cost of the security. If certain loss thresholds are exceeded, this bond would experience an event of default that would allow the senior class to liquidate the collateral securing this investment, which could adversely impact our valuation.

We estimate the portion of loss attributable to credit using a discounted cash flow model. Key assumptions used in estimating the expected cash flows include default rates, loss severity and prepayment rates. Assumptions used can vary widely based on the collateral underlying the securities and are influenced by factors such as collateral type, loan interest rate, geographical location of the borrower, and borrower characteristics.

We believe the gross unrealized losses related to all other securities of \$4.6 million as of March 31, 2011 are attributable to issuer specific credit spreads and changes in market interest rates and asset spreads. We therefore do not expect to incur any credit losses related to these securities. In addition, we have no intent to sell these securities with unrealized losses and it is not more likely than not that we will be required to sell these securities prior to recovery of the amortized cost. Accordingly, we have concluded that the impairment on these securities is not other-than-temporary.

NOTE 8 - Bank Loans

The following table presents the balance and associated percentage of each major loan category in Stifel Bank's loan portfolio at March 31, 2011 and December 31, 2010 (*in thousands, except percentages*):

	March 31, 2011		December 31, 2010	
	Balance	Percent	Balance	Percent
Consumer ⁽¹⁾	\$ 258,199	64.6%	\$ 266,806	68.2%
Commercial and industrial	61,342	15.4	41,965	10.7
Residential real estate	49,779	12.5	49,550	12.7
Home equity lines of credit	27,983	7.0	30,966	7.9
Commercial real estate	1,576	0.4	1,637	0.4
Construction and land	524	0.1	524	0.1
	399,403	100.0%	391,448	100.0%
Unamortized loan origination costs, net of loan fees	270		392	
Loans in process	4		233	
Allowance for loan losses	(2,521)		(2,331)	
	\$ 397,156		\$ 389,742	

⁽¹⁾ Includes securities-based loans of \$257.8 million and \$266.1 million at March 31, 2011 and December 31, 2010, respectively.

Changes in the allowance for loan losses for the periods presented were as follows (*in thousands*):

	Three Months Ended March 31,			
	2011		2010	
Allowance for loan losses, beginning of period	\$	2,331	\$	1,702
Provision for loan losses		185		113
Charge-offs:				
Residential real estate		-		(149)
Recoveries		5		3
Allowance for loan losses, end of period	\$	2,521	\$	1,669

Edgar Filing: STIFEL FINANCIAL CORP - Form 10-Q

A loan is impaired when it is probable that interest and principal payments will not be made in accordance with the contractual terms of the loan agreement. At March 31, 2011, we had \$0.4 million of nonaccrual loans that were more than 90 days past due, for which there was a specific allowance of \$0.1 million. Further, we had \$0.4 million in troubled debt restructurings at March 31, 2011. At December 31, 2010, we had \$1.1 million of nonaccrual loans that were more than 90 days past due, for which there was a specific allowance of \$0.2 million. Further, we had \$0.4 million in troubled debt restructurings at December 31, 2010. The gross interest income related to impaired loans, which would have been recorded had these loans been current in accordance with their original terms, and the interest income recognized on these loans during the year, were insignificant to the consolidated financial statements.

In general, we are a secured lender. At March 31, 2011 and December 31, 2010 97.2% and 97.7% of our loan portfolio was collateralized, respectively. Collateral is required in accordance with the normal credit evaluation process based upon the creditworthiness of the customer and the credit risk associated with the particular transaction.

At March 31, 2011 and December 31, 2010, Stifel Bank had loans outstanding to its executive officers, directors, and their affiliates in the amount of \$0.8 million and \$0.9 million, respectively, and loans outstanding to other Stifel Financial Corp. executive officers, directors, and their affiliates in the amount of \$2.8 million and \$3.5 million, respectively. Such loans and other extensions of credit were made in the ordinary course of business and were made on substantially the same terms (including interest rates and collateral requirements) as those prevailing at the time for comparable transactions with other persons.

At March 31, 2011 and December 31, 2010, we had mortgage loans held for sale of \$30.9 million and \$86.3 million, respectively. For the three months ended March 31, 2011 and 2010, we recognized gains of \$2.0 million and \$1.1 million, respectively, from the sale of loans originated for sale, net of fees and costs to originate these loans.

NOTE 9 - Fixed Assets

The following is a summary of fixed assets as of March 31, 2011 and December 31, 2010 (*in thousands*):

	March 31,		December 31, 2010
	2011		
Furniture and equipment	\$ 133,878	\$	116,650
Building and leasehold improvements	51,226		51,046
Total	185,104		167,696
Less accumulated depreciation and amortization	(101,361)		(96,198)
	\$ 83,743	\$	71,498

For the three months ended March 31, 2011 and 2010, depreciation and amortization of furniture and equipment, and leasehold improvements totaled \$5.6 million and \$5.3 million, respectively, and are included in occupancy and equipment rental in the consolidated statements of operations.

NOTE 10 - Goodwill and Intangible Assets

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

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

	December 31, 2010	Net additions	Impairment losses	March 31, 2011
Goodwill				
Global Wealth Management	\$ 128,524	\$ 10	\$ -	\$ 128,534
Institutional Group	173,395	93	-	173,488
	\$ 301,919	\$ 103	\$ -	\$ 302,022

	December 31, 2010	Adjustments	Amortization	March 31, 2011
Intangible assets				
Global Wealth Management	\$ 21,463	\$ -	\$ (642)	\$ 20,821
Institutional Group	13,132	(31)	(422)	12,679
	\$ 34,595	\$ (31)	\$ (1,064)	\$ 33,500

Amortizable intangible assets consist of acquired customer relationships, trade name, non-compete agreements, and investment banking backlog that are amortized to expense over their contractual or determined useful lives. Intangible assets subject to amortization as of March 31, 2011 and December 31, 2010 were as follows (*in thousands*):

	March 31, 2011		December 31, 2010	
	Gross carrying value	Accumulated Amortization	Gross carrying value	Accumulated Amortization
Customer relationships	\$ 37,068	\$ 11,894	\$ 37,068	\$ 11,015
Trade name	7,981	495	7,981	364
Non-compete agreement	2,441	2,292	2,441	2,238
Investment banking backlog	2,199	1,508	2,230	1,508
	\$ 49,689	\$ 16,189	\$ 49,720	\$ 15,125

Amortization expense related to intangible assets was \$1.1 million and \$0.8 million for the three months ended March 31, 2011 and 2010, respectively.

Edgar Filing: STIFEL FINANCIAL CORP - Form 10-Q

The weighted-average remaining lives of the following intangible assets at March 31, 2011 are: customer relationships, 7.5 years; trade name, 14.3 years; and non-compete agreements, 0.7 years. The investment banking backlog will be amortized over their estimated lives, which we expect to be within the next three months. As of March 31, 2011, we expect amortization expense in future periods to be as follows (*in thousands*):

Fiscal year		
Remainder of 2011	\$	4,124
2012		3,909
2013		3,482
2014		3,185
2015		2,853
Thereafter		15,947
	\$	33,500

NOTE 11 - Short-Term Borrowings

Our short-term financing is generally obtained through short-term bank line financing on a secured basis, uncommitted short-term bank line financing on an unsecured basis and securities lending arrangements. We borrow from various banks on a demand basis with company-owned and customer securities pledged as collateral. The value of customer-owned securities used as collateral is not reflected in the consolidated statements of financial condition. We maintain available ongoing credit arrangements with banks that provided a peak daily borrowing of \$340.4 million during the three months ended March 31, 2011. There are no compensating balance requirements under these arrangements.

At March 31, 2011, short-term borrowings from banks were \$299.7 million at an average rate of 1.59%, which were collateralized by company-owned securities valued at \$343.8 million. At December 31, 2010, short-term borrowings from banks were \$109.6 million at an average rate of 1.05%, which were collateralized by company-owned securities valued at \$162.6 million. The average bank borrowing was \$168.5 million and \$106.4 million for the three months ended March 31, 2011 and 2010, respectively, at weighted average daily interest rates of 1.28% and 1.01%, respectively.

At March 31, 2011 and December 31, 2010, Stifel Nicolaus had a stock loan balance of \$112.6 million and \$27.9 million, respectively, at weighted average daily interest rates of 0.33% and 0.26%, respectively. The average outstanding securities lending arrangements utilized in financing activities were \$98.4 million and \$36.1 million during the three months ended March 31, 2011 and 2010, respectively, at weighted average daily effective interest rates of 1.34% and 1.89%, respectively. Customer-owned securities were utilized in these arrangements.

NOTE 12 - Bank Deposits

Deposits consist of money market and savings accounts, certificates of deposit, and demand deposits. Deposits at March 31, 2011 and December 31, 2010 were as follows (*in thousands*):

	March 31, 2011		December 31, 2010
Money market and savings accounts	\$ 1,598,681	\$	1,590,663
Demand deposits (interest-bearing)	17,174		22,031
Demand deposits (non-interest-bearing)	7,295		8,197
Certificates of deposit	2,740		2,677
	\$ 1,625,890	\$	1,623,568

The weighted average interest rate on deposits was 0.2% at March 31, 2011 and December 31, 2010, respectively.

Scheduled maturities of certificates of deposit at March 31, 2011 and December 31, 2010 were as follows (*in thousands*):

	March 31, 2011		December 31, 2010
Certificates of deposit, less than \$100:			
Within one year	\$ 337	\$	198
One to three years	507		577
Over three years	178		190
	\$ 1,022	\$	965
Certificates of deposit, \$100 and greater:			
Within one year	\$ 941	\$	692
One to three years	777		1,020
Over three years	-		-
	\$ 1,718	\$	1,712
	\$ 2,740	\$	2,677

At March 31, 2011 and December 31, 2010, the amount of deposits includes deposits of related parties, including \$1,600.0 million and \$1,609.7 million, respectively, of brokerage customers' deposits from Stifel Nicolaus, and interest-bearing and time deposits of executive officers, directors, and their affiliates of \$0.4 million, respectively. Such deposits were made in the ordinary course of business and were made on substantially the same terms (including interest rates) as those prevailing at the time for comparable transactions with other persons.

NOTE 13 - Derivative Instruments and Hedging Activities

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

The following table provides the notional values and fair values of Stifel Bank's derivative instruments as of March 31, 2011 and December 31, 2010 (*in thousands*):

	March 31, 2011				
	Notional Value	Asset derivatives		Liability derivatives	
		Balance sheet location	Positive fair value	Balance sheet location	Negative fair value
Derivatives designated as hedging instruments under Topic 815:					
Cash flow interest rate contracts	\$ 797,820	Other assets	\$ 1,941	Accounts payable and accrued expenses	\$ (6,660)

	December 31, 2010				
	Notional Value	Asset derivatives		Liability derivatives	
		Balance sheet location	Positive fair value	Balance sheet location	Negative fair value
Derivatives designated as hedging instruments under Topic 815:					
Cash flow interest rate contracts	\$ 491,807	Other assets	\$ -	Accounts payable and accrued expenses	\$ (9,259)

Cash Flow Hedges

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

Any unrealized gains or losses related to cash flow hedging instruments are reclassified from accumulated other comprehensive income into earnings in the same period or periods during which the hedged forecasted transaction affects earnings and are recorded in interest expense on the accompanying consolidated statements of operations. Adjustments related to the ineffective portion of the cash flow hedging instruments are recorded in other income or other operating expense. There was no ineffectiveness recognized during the three months ended March 31, 2011.

Amounts reported in accumulated other comprehensive income related to derivatives will be reclassified to interest expense as interest payments are made on our variable rate deposits. During the next twelve months, the Company estimates that \$13.0 million will be reclassified as an increase to interest expense.

Edgar Filing: STIFEL FINANCIAL CORP - Form 10-Q

The following table shows the effect of our company's derivative instruments in the consolidated statements of operations for the three months ended March 31, 2011 and 2010 (*in thousands*):

Three Months Ended March 31, 2011					
	(Gain)/loss recognized in OCI (effectiveness)	Location of loss reclassified from OCI into income	Loss reclassified from OCI into income	Location of loss recognized in OCI (ineffectiveness)	Loss recognized due to ineffectiveness
Cash flow interest rate contracts	\$ (1,135)	Interest expense	\$ 3,405	None	\$ -

Three Months Ended March 31, 2010					
	(Gain)/loss recognized in OCI (effectiveness)	Location of loss reclassified from OCI into income	Loss reclassified from OCI into income	Location of loss recognized in OCI (ineffectiveness)	Loss recognized due to ineffectiveness
Cash flow interest rate contracts	\$ 3,448	Interest expense	\$ 78	None	\$ -

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

Credit Risk-Related Contingency Features

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

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

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

Regulatory Capital-Related Contingency Features

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

As of March 31, 2011, the fair value of derivatives in a net liability position, which includes accrued interest but excludes any adjustment for nonperformance risk, related to these agreements was \$5.9 million. We have minimum collateral posting thresholds with certain of our derivative counterparties and have posted collateral of \$16.7 million against our obligations under these agreements. If we had breached any of these provisions at March 31, 2011, we would have been required to settle our obligations under the agreements at the termination value.

Counterparty Risk

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

NOTE 14 - Commitments, Guarantees, and Contingencies

Broker-Dealer Commitments and Guarantees

In the normal course of business, we enter into underwriting commitments. Settlement of transactions relating to such underwriting commitments, which were open at March 31, 2011, had no material effect in the consolidated financial statements.

In connection with margin deposit requirements of The Options Clearing Corporation, we pledged customer-owned securities valued at \$75.3 million to satisfy the minimum margin deposit requirement of \$53.7 million at March 31, 2011.

In connection with margin deposit requirements of the National Securities Clearing Corporation, we deposited \$16.4 million in cash at March 31, 2011, which satisfied the minimum margin deposit requirements of \$11.9 million.

We also provide guarantees to securities clearinghouses and exchanges under their standard membership agreement, which requires members to guarantee the performance of other members. Under the agreement, if another member becomes unable to satisfy its obligations to the clearinghouse, other members would be required to meet shortfalls. Our liability under these agreements is not quantifiable and may exceed the cash and securities we have posted as collateral. However, the potential requirement for us to make payments under these arrangements is considered remote. Accordingly, no liability has been recognized for these arrangements.

On December 28, 2009, we announced that Stifel Nicolaus had reached an agreement with the State of Missouri, the State of Indiana, the State of Colorado, and with an association of other State securities regulatory authorities regarding the repurchase of ARS from Eligible ARS investors. As part of the agreement, we have accelerated the previously announced repurchase plan. We have agreed to repurchase ARS from Eligible ARS investors in four phases starting in January 2010 and ending on December 31, 2011. At March 31, 2011, we estimate that our retail clients held \$62.2 million par value of eligible ARS after issuer redemptions of \$44.1 million par value and Stifel repurchases of \$90.0 million par value.

Phases two and three of the modified ARS repurchase plan were completed during the year ended December 31, 2010, in which we repurchased ARS of \$39.2 million par value. During the final phase, which will be completed by December 31, 2011, we estimate that we will repurchase ARS of \$62.0 million par value. The amount estimated for repurchase represents ARS held by our clients at March 31, 2011, and assumes no issuer redemptions.

Separately, TWP has entered into Settlement and Release Agreements ("Settlement Agreements") with certain customers, whereby it will purchase up to approximately \$50.0 million par value of ARS in exchange for a release from any future claims. The amount estimated for repurchase assumes no issuer redemptions.

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

Other Commitments

In the ordinary course of business, Stifel Bank has commitments to extend credit in the form of commitments to originate loans, standby letters of credit, and lines of credit. See Note 19 in the notes to our consolidated financial statements for further details.

Fund Capital Commitments

At March 31, 2011, our asset management subsidiaries had commitments to invest in affiliated and unaffiliated investment partnerships of \$4.4 million. These commitments are generally called as investment opportunities are identified by the underlying partnerships. These commitments may be called in full at any time.

Concentration of Credit Risk

We provide investment, capital-raising, and related services to a diverse group of domestic customers, including governments, corporations, and institutional and individual investors. Our exposure to credit risk associated with the non-performance of customers in fulfilling their contractual obligations pursuant to securities transactions can be directly impacted by volatile securities markets, credit markets, and regulatory changes. This exposure is measured on an individual customer basis and on a group basis for customers that share similar attributes. To reduce the potential for risk concentrations, counterparty credit limits have been implemented for certain products and are continually monitored in light of changing customer and market conditions. As of March 31, 2011 and December 31, 2010, we did not have significant concentrations of credit

risk with any one customer or counterparty, or any group of customers or counterparties.

Note 15 - Legal Proceedings

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

The regulatory investigations include inquiries from the SEC and a state regulatory authority relating to our role in investments made by five Southeastern Wisconsin school districts (the "school districts") in transactions involving collateralized debt obligations ("CDO"). We are fully cooperating with the SEC and the state regulatory authority in these investigations and have provided information and testimony. On April 1, 2011, we announced that the SEC has made a preliminary determination to recommend the filing of a civil or administrative enforcement action in connection with its investigation. This preliminary determination is neither a formal allegation nor evidence of wrongdoing. Stifel Nicolaus has submitted its response to the SEC.

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

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

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

NOTE 16 - Regulatory Capital Requirements

We operate in a highly regulated environment and are subject to capital requirements, which may limit distributions to our company from its subsidiaries. Distributions from our broker-dealer subsidiaries are subject to net capital rules. A broker-dealer that fails to comply with the SEC's Uniform Net Capital Rule (Rule 15c3-1) may be subject to disciplinary actions by the SEC and self-regulatory organizations, such as FINRA, including censures, fines, suspension, or expulsion. Stifel Nicolaus and TWP have chosen to calculate their net capital under the alternative method, which prescribes that their net capital shall not be less than the greater of \$1.0 million, or two percent of aggregate debit balances (primarily receivables from customers) computed in accordance with the SEC's Customer Protection Rule (Rule 15c3-3). CSA calculates its net capital under the aggregate indebtedness method, whereby its aggregate indebtedness may not be greater than fifteen times its net capital (as defined).

At March 31, 2011, Stifel Nicolaus had net capital of \$200.6 million, which was 34.0% of aggregate debit items and \$188.7 million in excess of its minimum required net capital. At March 31, 2011, CSA's and TWP's net capital exceeded the minimum net capital required under the SEC rule.

Our international subsidiaries, SN Ltd and TWPIIL, are subject to the regulatory supervision and requirements of the Financial Services Authority ("FSA") in the United Kingdom. At March 31, 2011, SN Ltd's and TWPIIL's capital and reserves were in excess of the financial resources requirement under the rules of the FSA.

Our Canadian subsidiary, SN Canada, is subject to the regulatory supervision and requirements of the Investment Industry Regulatory Organization of Canada ("IIROC"). At March 31, 2011, SN Canada's net capital and reserves was in excess of the financial resources requirement under the rules of the IIROC.

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

Edgar Filing: STIFEL FINANCIAL CORP - Form 10-Q

Quantitative measures established by regulation to ensure capital adequacy require our company, as a bank holding company, and Stifel Bank to maintain minimum amounts and ratios of total and Tier 1 capital (as defined in the regulations) to risk-weighted assets (as defined), and Tier 1 capital to average assets (as defined). Management believes, as of March 31, 2011, that our company and Stifel Bank meet all capital adequacy requirements to which they are subject and are considered to be categorized as "well capitalized" under the regulatory framework for prompt corrective action. To be categorized as "well capitalized," our company and Stifel Bank must maintain total risk-based, Tier 1 risk-based, and Tier 1 leverage ratios as set forth in the tables below.

Stifel Financial Corp. - Federal Reserve Capital Amounts

	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
Total capital to risk-weighted assets	\$ 860,983	27.6%	\$ 249,188	8.0%	\$ 311,485	10.0%
Tier 1 capital to risk-weighted assets	858,462	27.6	124,594	4.0	186,891	6.0
Tier 1 capital to adjusted average total assets	858,462	24.2	141,885	4.0	177,356	5.0

Stifel Bank - Federal Reserve Capital Amounts

	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
Total capital to risk-weighted assets	\$ 125,556	12.8%	\$ 78,236	8.0%	\$ 97,795	10.0%
Tier 1 capital to risk-weighted assets	123,035	12.6	39,118	4.0	58,677	6.0
Tier 1 capital to adjusted average total assets	123,035	7.0	70,573	4.0	88,216	5.0

NOTE 17 - Employee Incentive, Deferred Compensation, and Retirement Plans

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

All stock-based compensation plans are administered by the Compensation Committee of the Board of Directors ("Compensation Committee"), which has the authority to interpret the plans, determine to whom awards may be granted under the plans, and determine the terms of each award. According to these plans, we are authorized to grant an additional 4.7 million shares at March 31, 2011.

Stock-based compensation expense included in compensation and benefits expense in the consolidated statements of operations for our company's incentive stock award plans was \$9.1 million and \$15.5 million for the three months ended March 31, 2011 and 2010, respectively.

The tax benefit related to stock-based compensation recognized in shareholders' equity was \$22.5 million and \$12.7 million for the three months ended March 31, 2011 and 2010, respectively.

Stock Options

We have substantially eliminated the use of stock options as a form of compensation. During the three months ended March 31, 2011, no options were granted.

At March 31, 2011, there was \$0.1 million of unrecognized compensation expense related to non-vested options. The expense is expected to be recognized over a weighted-average period of 0.75 years. Cash proceeds from the exercise of stock options were \$0.5 million and \$1.1 million for the three months ended March 31, 2011 and 2010, respectively. Tax benefits realized from the exercise of stock options for the three months ended March 31, 2011 and 2010 were \$0.8 million and \$3.0 million, respectively.

Stock Units

A stock unit represents the right to receive a share of common stock from our company at a designated time in the future without cash payment by the employee and is issued in lieu of cash incentive, principally for deferred compensation and employee retention plans. At March 31, 2011, the total number of stock units outstanding was 13.8 million, of which 2.4 million were unvested.

At March 31, 2011, there was unrecognized compensation cost for stock units of \$94.5 million, which is expected to be recognized over a weighted-average period of 3.5 years.

Deferred Compensation Plans

The Stifel Nicolaus Wealth Accumulation Plan (the "SWAP Plan") is provided to certain revenue producers, officers, and key administrative employees, whereby a certain percentage of their incentive compensation is deferred as defined by the Plan into company stock units with a 25% matching contribution by our company. Participants may elect to defer up to an additional 15% of their incentive compensation with a 25% matching contribution. Units generally vest over a three- to five-year period and are distributable upon vesting or at future specified dates. Deferred compensation costs are amortized on a straight-line basis over the vesting period. Elective deferrals are 100% vested. As of March 31, 2011, there were 7.6 million units outstanding under the Plan.

Additionally, the SWAP Plan provides Stifel Nicolaus' financial advisors who achieve certain levels of production, whereby a certain percentage of their earnings are deferred as defined by the plan, of which 50% is deferred into company stock units with a 25% matching contribution and 50% is deferred in mutual funds, which earn a return based on the performance of index mutual funds as designated by our company or a fixed income option. Financial advisors may elect to defer an additional 1% of earnings into company stock units with a 25% matching contribution. Financial advisors have no ownership in the mutual funds. Included in the investments on the consolidated statements of financial condition are investments in mutual funds of \$33.4 million and \$32.2 million at March 31, 2011 and December 31, 2010, respectively, that were purchased by our company to economically hedge, on an after-tax basis, its liability to the financial advisors who choose to base the performance of their return on the index mutual fund option. At March 31, 2011 and December 31, 2010, the deferred compensation liability related to the mutual fund option of \$27.2 million and \$23.9 million, respectively, is included in accrued compensation in the consolidated statements of financial condition.

In addition, certain financial advisors, upon joining our company, may receive company stock units in lieu of transition cash payments. Deferred compensation related to these awards generally vests over a five- to eight-year period. Deferred compensation costs are amortized on a straight-line basis over the deferral period. As of March 31, 2011, there were 6.1 million units outstanding under the two plans.

NOTE 18 - Restructuring

As a result of the merger and integration of TWPG, we incurred certain restructuring charges. These charges relate to costs associated with contract and lease terminations, consolidation of facilities and infrastructure, and employee termination benefits, which represent one-time activities and do not represent ongoing costs to fully integrate TWPG. The charges were included in other operating expenses, occupancy and equipment rental, and compensations and benefits expense, respectively, on the consolidated statements of operations.

Contract termination fees are determined based on the provisions of ASC Topic 420, "*Exit or Disposal Cost Obligations*," which among other things, requires the recognition of a liability for contract termination under a cease-use date concept. Lease terminations represent costs associated with redundant office space disposed of as part of the restructuring plan. Payments related to terminated lease contracts continue through the original terms of the leases, which run for various periods, with the longest lease term running through 2011.

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

Balance at December 31, 2010		\$	6,295
Provision charged to operating expense			324
Cash outlays			(822)
Non-cash write-downs			(1,836)
Balance at March 31, 2011		\$	3,961

NOTE 19 - Off-Balance Sheet Credit Risk

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

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

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

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

We have accepted collateral in connection with resale agreements, securities borrowed transactions, and customer margin loans. Under many agreements, we are permitted to sell or repledge these securities held as collateral and use these securities to enter into securities lending arrangements or to deliver to counterparties to cover short positions. At March 31, 2010, the fair value of securities accepted as collateral where we are permitted to sell or repledge the securities was \$1.1 billion, and the fair value of the collateral that had been sold or repledged was \$143.5 million. At December 31, 2010, the fair value of securities accepted as collateral where we are permitted to sell or repledge the securities was \$864.7 million, and the fair value of the collateral that had been sold or repledged was \$109.6 million.

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

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

For a complete discussion of our activities related to derivative instruments, see Note 13 in the notes to our consolidated financial statements.

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

Edgar Filing: STIFEL FINANCIAL CORP - Form 10-Q

At March 31, 2011 and December 31, 2010, Stifel Bank had outstanding commitments to originate loans aggregating \$53.6 million and \$107.2 million, respectively. The commitments extended over varying periods of time, with all commitments at March 31, 2011 scheduled to be disbursed in the following two months.

Through Stifel Bank, in the normal course of business, we originate residential mortgage loans and sell them to investors. We may be required to repurchase mortgage loans that have been sold to investors in the event there are breaches of certain representations and warranties contained within the sales agreements. While we have yet to repurchase a loan sold to an investor, we may be required to repurchase mortgage loans that were sold to investors in the event that there was inadequate underwriting or fraud, or in the event that the loans become delinquent shortly after they are originated. We also may be required to indemnify certain purchasers and others against losses they incur in the event of breaches of representations and warranties and in various other circumstances, and the amount of such losses could exceed the repurchase amount of the related loans. Consequently, we may be exposed to credit risk associated with sold loans.

Standby letters of credit are irrevocable conditional commitments issued by Stifel Bank to guarantee the performance of a customer to a third party. Financial standby letters of credit are primarily issued to support public and private borrowing arrangements, including commercial paper, bond financing, and similar transactions. Performance standby letters of credit are issued to guarantee performance of certain customers under non-financial contractual obligations. The credit risk involved in issuing standby letters of credit is essentially the same as that involved in extending loans to customers. Should Stifel Bank be obligated to perform under the standby letters of credit, it may seek recourse from the customer for reimbursement of amounts paid. At March 31, 2011 and December 31, 2010, Stifel Bank had outstanding letters of credit totaling \$9.2 million, respectively. One of the standby letters of credit has an expiration of January 1, 2012. All of the remaining standby letters of credit commitments at March 31, 2011, have expiration terms that are less than one year.

Lines of credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Lines of credit generally have fixed expiration dates. Stifel Bank uses the same credit policies in granting lines of credit as it does for on-balance sheet instruments. At March 31, 2011 and December 31, 2010, Stifel Bank had granted unused lines of credit to commercial and consumer borrowers aggregating \$92.7 million and \$97.4 million, respectively.

NOTE 20 - Income Taxes

Our effective rate for the three months ended March 31, 2011 was 38.1%, compared to 40.0% for the three months ended March 31, 2010. The provision for income taxes for the three months ended March 31, 2011 was reduced primarily as a result of the release of the valuation allowance due to unrealized capital gains, which offset previously recorded unrealized capital losses.

NOTE 21 - Segment Reporting

We currently operate through the following three business segments: Global Wealth Management, Institutional Group, and various corporate activities combined in the Other segment.

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

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

The Other segment includes certain corporate activities of our company.

Information concerning operations in these segments of business for the three months ended March 31, 2011 and 2010 is as follows (*in thousands*):

	Three Months Ended March 31,	
	2011	2010
Net revenues: (1)		
Global Wealth Management	\$ 238,446	\$ 199,421
Institutional Group	126,994	113,292
Other	1,173	(683)
	\$ 366,613	\$ 312,030
Income before income taxes:		
Global Wealth Management	61,472	39,158
Institutional Group	21,393	27,456
Other	(32,181)	(27,049)
	\$ 50,684	\$ 39,565

(1) No individual client accounted for more than 10 percent of total net revenues for the three months ended March 31, 2011 or 2010.

Edgar Filing: STIFEL FINANCIAL CORP - Form 10-Q

The following table presents our company's total assets on a segment basis at March 31, 2011 and December 31, 2010 (*in thousands*):

	March 31, 2011	December 31, 2010
Total assets:		
Global Wealth Management	\$ 3,103,707	\$ 2,965,168
Institutional Group	1,097,329	883,235
Other	336,169	364,712
	\$ 4,537,205	\$ 4,213,115

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

Revenues, classified by the major geographic areas in which they are earned for the three months ended March 31, 2011 and 2010, were as follows (*in thousands*):

	Three Months Ended March 31, 2011	2010
Net revenues:		
United States	\$ 351,009	\$ 305,655
Canada	6,448	-
United Kingdom	6,049	3,891
Other European	3,107	2,484
	\$ 366,613	\$ 312,030

NOTE 22 - Other Comprehensive Income

The following table sets forth the components of other comprehensive income for the three months ended March 31, 2011 and 2010 (*in thousands*):

	Three Months Ended March 31, 2011	2010
Net income	\$ 31,398	\$ 23,740
Other comprehensive income/(loss):		
Unrealized gains on available-for-sale securities, net of tax	1,193	2,908
Unrealized (losses)/gains in cash flow hedging instruments, net of tax	2,806	(3,370)
Foreign currency translation adjustment, net of tax	534	-
	4,533	(462)
Comprehensive income	\$ 35,931	\$ 23,278

NOTE 23 - Earnings Per Share

Basic EPS is computed by dividing earnings available to common shareholders by the weighted-average number of common shares outstanding. Diluted EPS 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 following table sets forth the computation of basic and diluted earnings per share for the three months ended March 31, 2011 and 2010 (*in thousands, except per share data*):

	Three Months Ended March 31,	
	2011	2010
Net income	\$ 31,398	\$ 23,740
Shares for basic and diluted calculations:		
Average shares used in basic computation	52,534	46,080
Dilutive effect of stock options and units ⁽¹⁾	10,645	6,458
Average shares used in diluted computation	63,179	52,538
Net income per share:		
Basic	\$ 0.60	\$ 0.52
Diluted ⁽¹⁾	\$ 0.50	\$ 0.45

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

For the three months ended March 31, 2011 and 2010, the anti-dilutive effect from restricted stock units was immaterial.

NOTE 24 - Shareholders' Equity*Share Repurchase Program*

On August 3, 2010, the Board authorized the repurchase of 3.0 million shares. These purchases may be made on the open market or in privately negotiated transactions, depending upon market conditions and other factors. Repurchased shares may be used to meet obligations under our employee benefit plans and for general corporate purposes. During the three months ended March 31, 2011, we did not repurchase any shares of our common stock. Under existing Board authorizations at March 31, 2011, we are permitted to buy an additional 3.1 million shares. The repurchase program has no expiration date.

Issuance of Shares

During the three months ended March 31, 2011, we reissued 1.5 million shares from treasury for shares as a result of vesting and exercise transactions under our incentive stock award plans.

NOTE 25 - Variable Interest Entities

The determination as to whether an entity is a VIE is based on the structure and nature of the entity. We also consider other characteristics, such as the ability to influence the decision-making relative to the entity's activities and how the entity is financed. The determination as to whether we are the primary beneficiary for entities subject to the deferral is based on a qualitative analysis of the VIE's expected losses and expected residual returns. This analysis includes a review of, among other factors, the VIE's capital structure, contractual terms, which interests create or absorb variability, related party relationships, and the design of the VIE. For entities not subject to the deferral, the determination as to whether we are the primary beneficiary is based on an analysis of the power to direct the activities of the VIE as well as the obligation to absorb losses or benefits that could potentially be significant to the entity. Where qualitative analyses are not conclusive, we perform a quantitative analysis. Our company's involvement with VIEs is limited to entities used as investment vehicles and private equity funds, the establishment of Stifel Financial Capital Trusts, and our issuance of a convertible promissory note.

We have formed several non-consolidated investment funds with third-party investors that are typically organized as limited liability companies ("LLCs") or limited partnerships. These partnerships and LLCs have assets of approximately \$303.4 million at March 31, 2011. For those funds where we act as the general partner, our company's economic interest is generally limited to management fee arrangements as stipulated by the fund operating agreements. We have generally provided the third-party investors with rights to terminate the funds or to remove us as the general partner. In assessing whether or not we have control, we look to the relevant accounting guidance in determining whether a general partner controls a limited partnership. Management fee revenue earned by our company was insignificant during the three months ended March 31, 2011 and 2010, respectively. In addition, our direct investment interest in these entities is insignificant at March 31, 2011 and December 31, 2010, respectively.

Thomas Weisel Capital Management LLC, a subsidiary of our company, acts as the general partner of a series of investment funds in venture capital and fund of funds and manages investment funds that are active buyers of secondary interests in private equity funds, as well as portfolios of direct interests in venture-backed companies. These partnerships have combined assets of approximately \$187.6 million at March 31, 2011. We hold variable interests in these funds as a result of our company's rights to receive management fees. Our company's investment in and additional capital commitments to the private equity funds are also considered variable interests. The additional capital commitments are subject to call at a later date and are limited in amount. Our exposure to loss is limited to our investments in, advances and commitments to, and receivables due from these funds, and that exposure is \$1.7 million at March 31, 2011. Management fee revenue earned by our company was insignificant during the three months ended March 31, 2011.

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

Debenture to Stifel Financial Capital Trusts

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

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

Interest in FSI Group, LLC ("FSI")

We have provided financing of \$18.0 million in the form of a convertible promissory note to FSI, a limited liability company specializing in investing in banks, thrifts, insurance companies, and other financial services firms. The note is convertible at our election into a 49.9% interest in FSI at any time after the third anniversary or during the defined conversion period. The convertible promissory note has a minimum coupon rate equal to 10% per annum plus additional interest related to certain defined cash flows of the business, not to exceed 18% per annum. As we do not hold the power to direct the activities of FSI nor to absorb a majority of the expected losses, or receive a majority of the expected benefits, it was determined that we are not the primary beneficiary.

Our company's exposure to loss is limited to the carrying value of the note with FSI at March 31, 2011, of \$18.0 million, which is included in other assets in the consolidated statements of financial condition. Our company had no liabilities related to this entity at March 31, 2011. We have the discretion to make additional capital contributions. We have not provided financial or other support to FSI that we were not previously contractually required to provide as of March 31, 2011. Our company's involvement with FSI has not had a material effect on its consolidated financial position, operations, or cash flows.

NOTE 26 - Subsequent Events

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

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

The following discussion of the financial condition and results of operations of our company should be read in conjunction with the consolidated financial statements and notes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2010, and the accompanying consolidated financial statements and notes thereto contained in this Quarterly Report on Form 10-Q.

Certain statements in this report may be considered forward-looking. Statements that are not historical or current facts, including statements about beliefs and expectations, are forward-looking statements. These forward-looking statements cover, among other things, statements made about general economic and market conditions, the investment banking industry, our objectives and results, and also may include our belief regarding the effect of various legal proceedings, management expectations, our liquidity and funding sources, counterparty credit risk, or other similar matters. Forward-looking statements involve inherent risks and uncertainties, and important factors could cause actual results to differ materially from those anticipated, including those factors discussed below under "External Factors Impacting Our Business" as well as the factors identified under "Risk Factors" in Part I, Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2010, as updated in our subsequent reports filed with the SEC. These reports are available at our web site at www.stifel.com and at the SEC web site at www.sec.gov.

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

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

Executive Summary

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

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

We plan to maintain our focus on revenue growth with a continued focus on developing quality relationships with our clients. Within our private client business, our efforts will be focused on recruiting experienced financial advisors with established client relationships. Within our institutional group business, our focus continues to be on providing quality client management and product diversification. In executing our growth strategy, we take advantage of the consolidation among middle market firms, which we believe provides us opportunities in our Global Wealth Management and Institutional Group businesses.

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

Results for the three months ended March 31, 2011

For the three months ended March 31, 2011, our net revenues increased 17.5% to \$366.6 million compared to \$312.0 million during the comparable period in 2010. For the three months ended March 31, 2011, net income increased 32.3% to \$31.4 million compared to \$23.7 million during the comparable period in 2010.

Edgar Filing: STIFEL FINANCIAL CORP - Form 10-Q

Our revenue growth was primarily attributable to higher commission revenues as a result of increased client assets and higher productivity; growth in asset management and service fees as a result of an increase in assets under management through market performance and the merger with TWPG; and increased equity capital raising, which was primarily related to improved equity capital market conditions and the merger with TWPG. The increase in revenue growth was offset by a decline in fixed income institutional brokerage revenues, which was negatively impacted by the challenging market conditions present during the first quarter of 2011. Additionally, fixed income investment banking revenues were negatively impacted in the first quarter of 2011 by the historically low municipal underwriting levels seen industry-wide.

External Factors Impacting our Business

Performance in the financial services industry in which we operate is highly correlated to the overall strength of economic conditions and financial market activity. Overall market conditions are a product of many factors, which are beyond our control and mostly unpredictable. These factors may affect the financial decisions made by investors, including their level of participation in the financial markets. In turn, these decisions may affect our business results. With respect to financial market activity, our profitability is sensitive to a variety of factors, including the demand for investment banking services as reflected by the number and size of equity and debt financings and merger and acquisition transactions, the volatility of the equity and fixed income markets, the level and shape of various yield curves, the volume and value of trading in securities, and the value of our customers' assets under management. The municipal underwriting market is challenging as state and local governments reduce their debt levels. Additionally, fixed income institutional sales and trading revenues have been negatively impacted by reduced municipal sales and trading activity due to reduced investor demand and concerns about municipal-issuer credit quality. Investors are showing a lack of demand for longer-dated municipals and are reluctant to take on credit or liquidity risks.

Our overall financial results continue to be highly and directly correlated to the direction and activity levels of the United States equity and fixed income markets. At March 31, 2011, the key indicators of the markets' performance, the Dow Jones Industrial Average, the NASDAQ, and the S&P 500 closed 13.5%, 16.0%, and 13.4%, respectively, higher than their March 31, 2010 closing prices.

As a participant in the financial services industry, we are subject to complicated and extensive regulation of our business. The recent economic and political environment has led to legislative and regulatory initiatives, both enacted and proposed, that could substantially intensify the regulation of the financial services industry and may significantly impact us. This increased focus has resulted in the Dodd-Frank Act, which was signed into law during the third quarter of 2010. The Dodd-Frank Act will significantly restructure and increase regulation in the financial services industry, which could increase our cost of doing business, change certain business practices, and alter the competitive landscape.

RESULTS OF OPERATIONS*Three Months Ended March 31, 2011 Compared with Three Months Ended March 31, 2010*

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

	For the Three Months Ended March 31,			As a Percentage of Net Revenues For the Three Months Ended March 31,	
	2011	2010	% Change	2011	2010
Revenues:					
Commissions	\$ 155,786	\$ 105,035	48.3	42.5%	33.7%
Principal transactions	92,859	117,420	(20.9)	25.3	37.6
Asset management and service fees	57,680	41,103	40.3	15.7	13.2
Investment banking	41,418	34,221	21.0	11.3	11.0
Interest	18,856	14,647	28.7	5.1	4.7
Other income	6,256	1,945	221.6	1.8	0.6
Total revenues	372,855	314,371	18.6	101.7	100.8
Interest expense	6,242	2,341	166.6	1.7	0.8
Net revenues	366,613	312,030	17.5	100.0	100.0
Non-interest expenses:					
Compensation and benefits	231,166	206,242	12.1	63.1	66.1
Occupancy and equipment rental	29,325	24,858	18.0	8.0	8.0
Communication and office supplies	18,845	14,418	30.7	5.1	4.6
Commissions and floor brokerage	6,649	5,744	15.8	1.8	1.8
Other operating expenses	29,944	21,203	41.2	8.2	6.8
Total non-interest expenses	315,929	272,465	16.0	86.2	87.3
Income before income taxes	50,684	39,565	28.1	13.8	12.7
Provision for income taxes	19,286	15,825	21.9	5.2	5.1
Net income	\$ 31,398	\$ 23,740	32.3	8.6%	7.6%

For the three months ended March 31, 2011, net revenues (total revenues less interest expense) increased \$54.6 million to \$366.6 million; a 17.5% increase over the \$312.0 million recorded for the three months ended March 31, 2010. For the three months ended March 31, 2011, we reported net income of \$31.4 million compared to net income of \$23.7 million during the comparable period in 2010.

NET REVENUES

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

	Three Months Ended March 31,		
	2011	2010	% Change
Net revenues:			
Commissions	\$ 155,786	\$ 105,035	48.3
Principal transactions	92,859	117,420	(20.9)
Asset management and service fees	57,680	41,103	40.3
Investment banking:			
Capital raising	32,358	25,307	27.9
Strategic advisory fees	9,060	8,914	1.6
	41,418	34,221	21.0
Net interest	12,614	12,306	2.5
Other income	6,256	1,945	221.6
Total net revenues	\$ 366,613	\$ 312,030	17.5

Edgar Filing: STIFEL FINANCIAL CORP - Form 10-Q

Except as noted in the following discussion of variances, the underlying reasons for the increase in revenue can be attributed principally to the increased number of private client group offices and financial advisors in our Global Wealth Management segment, the increased number of revenue producers in our Institutional Group segment and the acquisition of TWPG on July 1, 2010. The operations of TWPG were integrated with Stifel Nicolaus immediately after the merger, therefore the results of the business, as acquired, does not exist as a discrete entity within our internal reporting structure.

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

For the three months ended March 31, 2011, commission revenues increased 48.3% to \$155.8 million from \$105.0 million in the comparable period in 2010. The increase is primarily attributable to an increase in client assets and higher productivity.

Principal transactions - For the three months ended March 31, 2011, principal transactions revenues decreased 20.9% to \$92.9 million from \$117.4 million in the comparable period in 2010. The decrease is primarily attributable to a decline in fixed income institutional brokerage revenues, which was negatively impacted by the challenging market conditions present during the first quarter of 2011.

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

For the three months ended March 31, 2011, asset management and service fee revenues increased 40.3% to \$57.7 million from \$41.1 million in the comparable period of 2010. The increase is primarily a result of an increase in the value of assets in fee-based accounts and the number of managed accounts from March 31, 2010, as a result of market performance and the merger with TWPG, offset by a reduction in fees for money-fund balances due to the waiving of fees by certain fund managers. See "Assets in fee-based accounts" included in the table in "Results of Operations - Global Wealth Management."

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

For the three months ended March 31, 2011, investment banking revenues increased 21.0%, to \$41.4 million from \$34.2 million in the comparable period in 2010. The increase was primarily attributable to an increase in equity capital raising as a result of improved equity capital market conditions and the merger with TWPG.

Capital raising revenues increased 27.9% to \$32.4 million for the three months ended March 31, 2011 from \$25.3 million in the comparable period in 2010. During the first quarter of 2010, equity capital raising and underwriting revenues were \$22.4 million and \$6.7 million, respectively, an increase of 51.6% and 83.9% from the comparable period in 2010. For the three months ended March 31, 2011, fixed income capital raising revenues were \$3.3 million, a decrease of 52.1% from the comparable period in 2010.

Strategic advisory fees increased 1.6% to \$9.1 million for the three months ended March 31, 2011 from \$8.9 million in the comparable period in 2010. The increase is primarily attributable to an increase in the number of completed equity transactions and the aggregate transaction value over the comparable periods in 2010.

Other income - For the three months ended March 31, 2011, other income increased \$4.4 million to \$6.3 million from \$1.9 million during the comparable period in 2010. The increase is primarily attributable to an increase in investment gains, including gains on our private equity investments, which were acquired from TWPG and an increase in mortgage fees due to the increase in loan originations at Stifel Bank.

NET INTEREST INCOME

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

	Three Months Ended					
	March 31, 2011			March 31, 2010		
	Average Balance	Interest Income/ Expense	Average Interest Rate	Average Balance	Interest Income/ Expense	Average Interest Rate
Interest-earning assets:						
Margin balances (Stifel Nicolaus)	\$ 444,443	\$ 4,587	4.13%	\$ 357,294	\$ 3,793	4.25%
Interest-earning assets (Stifel Bank)	1,734,407	11,203	2.58	1,094,156	8,087	2.96
Stock borrow (Stifel Nicolaus)	96,861	5	0.02	71,047	10	0.06
Other (Stifel Nicolaus)		3,061			2,757	
Total interest revenue		\$ 18,856			\$ 14,647	
Interest-bearing liabilities:						
Short-term borrowings (Stifel Nicolaus)	\$ 168,502	\$ 541	1.28%	\$ 106,356	\$ 269	1.01%
Interest-bearing liabilities (Stifel Bank)	1,615,049	4,238	1.05	1,006,638	447	0.18
Stock loan (Stifel Nicolaus)	98,394	330	1.34	36,140	171	1.89
Interest-bearing liabilities (Capital Trusts)	82,500	977	4.73	82,500	1,348	6.53
Other (Stifel Nicolaus)		156			106	
Total interest expense		6,242			2,341	
Net interest income		\$ 12,614			\$ 12,306	

Net interest income - Net interest income is the difference between interest earned on interest-earning assets and interest paid on funding sources. Net interest income is affected by changes in the volume and mix of these assets and liabilities, as well as by fluctuations in interest rates and portfolio management strategies. For the three months ended March 31, 2011, net interest income increased to \$12.6 million from \$12.3 million during the comparable period in 2010.

For the three months ended March 31, 2011, interest revenue increased 28.7% to \$18.9 million from \$14.6 million in the comparable period in 2010, principally as a result of a \$3.1 million increase in interest revenue generated from the interest-earning assets of Stifel Bank and a \$0.8 million increase in interest revenue from customer margin borrowing. The average interest-earning assets of Stifel Bank increased to \$1.7 billion during the three months ended March 31, 2011 compared to \$1.1 billion during the comparable period in 2010 at weighted average interest rates of 2.58% and 2.96%, respectively. The average margin balances of Stifel Nicolaus increased to \$444.4 million during the three months ended March 31, 2011 compared to \$357.3 million during the comparable period in 2010 at weighted average interest rates of 4.13% and 4.25%, respectively.

For the three months ended March 31, 2011, interest expense increased \$3.9 million to \$6.2 million from \$2.3 million during the comparable period in 2010. The increase is primarily attributable to increased interest expense paid on borrowings from our unsecured line of credit during the three months ended March 31, 2011 and an increase in interest expense on interest-bearing liabilities of Stifel Bank, offset by a reduction in interest expense on Stifel Financial Capital Trust II whose interest rate switched from fixed to floating on September 30, 2010. See "Net Interest Income" table above for more details. For a further discussion of interest expense see "Net Interest Income - Stifel Bank" below.

NON-INTEREST EXPENSES

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

	For the Three Months Ended March 31,		
	2011	2010	% Change
Non-interest expenses:			
Compensation and benefits	\$ 231,166	\$ 206,242	12.1
Occupancy and equipment rental	29,325	24,858	18.0
Communications and office supplies	18,845	14,418	30.7
Commissions and floor brokerage	6,649	5,744	15.8
Other operating expenses	29,944	21,203	41.2
Total non-interest expenses	\$ 315,929	\$ 272,465	16.0

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

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

For the three months ended March 31, 2011, compensation and benefits expense increased 12.1%, or \$25.0 million, to \$231.2 million from \$206.2 million during the comparable period in 2010. The increase is principally due to increased variable compensation as a result of increased revenue production and profitability and fixed compensation for the additional administrative support staff, offset by the reduction of deferred compensation expense. As a result of the modification to our deferred compensation plan, we were required to accelerate all unvested deferred compensation during the third quarter of 2010. Compensation and benefits expense as a percentage of net revenues was 63.1% for the three months ended March 31, 2011, compared to 66.1% for the three months ended March 31, 2010.

A portion of compensation and benefits expenses includes transition pay, principally in the form of upfront notes, signing bonuses and retention awards in connection with our continuing expansion efforts, of \$18.8 million (5.1% of net revenues) for the three months ended March 31, 2011, compared to \$19.3 million (6.2% of net revenues) for the comparable period in 2010. The upfront notes are amortized over a five to ten year period.

Occupancy and equipment rental - For the three months ended March 31, 2011, occupancy and equipment rental expense increased 18.0% to \$29.3 million from \$24.9 million during the three months ended March 31, 2010. The increase is primarily due to the increase in rent and depreciation expense due primarily to an increase in office locations. As of March 31, 2011, we have 311 locations compared to 294 at March 31, 2010.

Communications and office supplies - Communications expense includes costs for telecommunication and data communication, primarily for obtaining third-party market data information. For the three months ended March 31, 2011, communications and office supplies expense increased 30.7% to \$18.8 million from \$14.4 million during the first quarter of 2010. The increase is primarily attributable to our continued expansion as we sustained our growth initiatives throughout 2010 by adding additional revenue producers and support staff.

Commissions and floor brokerage - For the three months ended March 31, 2011, commissions and floor brokerage expense increased 15.8% to \$6.6 million from \$5.7 million during the comparable period in 2010. The increase is primarily attributable to the continued growth of our company.

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

For the three months ended March 31, 2011, other operating expenses increased 41.2% to \$29.9 million from \$21.2 million during the three months ended March 31, 2010.

Edgar Filing: STIFEL FINANCIAL CORP - Form 10-Q

The increase is primarily attributable to the continued growth in all segments from the first quarter of 2010, which included increased professional fees, travel and promotion, conference and legal expenses. The increase in legal expenses is attributable to an increase in the number of customer claims, as well as litigation costs to defend industry recruiting claims. We are subject to various proceedings and claims arising primarily from our securities business activities, including lawsuits, arbitration claims, class actions, and regulatory matters.

Provision for income taxes - For the three months ended March 31, 2011, our provision for income taxes was \$19.3 million, representing an effective tax rate of 38.1%, compared to expense of \$15.8 million for the comparable period in 2010, representing an effective tax rate of 40.0%. The provision for income taxes for the three months ended March 31, 2011 was reduced primarily as a result of the release of the valuation allowance due to unrealized capital gains, which offset previously recorded unrealized capital losses.

SEGMENT ANALYSIS

Our reportable segments include Global Wealth Management, Institutional Group, and Other.

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

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

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

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

Edgar Filing: STIFEL FINANCIAL CORP - Form 10-Q

Results of Operations - Global Wealth Management

Three Months Ended March 31, 2011 Compared with Three Months Ended March 31, 2010

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

	For the Three Months Ended March 31,			As a Percentage of Net Revenues For the Three Months Ended March 31,	
	2011	2010	% Change	2011	2010
Revenues:					
Commissions	\$ 101,762	\$ 79,587	27.9	42.7%	39.9%
Principal transactions	56,163	59,871	(6.2)	23.6	30.0
Asset management and service fees	57,530	40,894	40.7	24.1	20.5
Investment banking	6,312	5,302	19.0	2.6	2.7
Interest	16,703	12,558	33.0	7.0	6.3
Other income	5,510	2,733	101.6	2.3	1.4
Total revenues	243,980	200,945	21.4	102.3	100.8
Interest expense	5,534	1,524	263.1	2.3	0.8
Net revenues	238,446	199,421	19.6	100.0	100.0
Non-interest expenses:					
Compensation and benefits	142,586	124,738	14.3	59.8	62.6
Occupancy and equipment rental	15,198	14,731	3.2	6.4	7.4
Communication and office supplies	8,139	7,479	8.8	3.4	3.7
Commissions and floor brokerage	2,793	2,803	(0.4)	1.2	1.4
Other operating expenses	8,258	10,512	(21.4)	3.4	5.3
Total non-interest expenses	176,974	160,263	10.4	74.2	80.4
Income before income taxes	\$ 61,472	\$ 39,158	57.0	25.8%	19.6%

	March 31, 2011	December 31, 2010	March 31, 2010
Branch offices	285	285	272
Financial advisors	1,787	1,775	1,732
Independent contractors	160	160	168
Assets in fee-based accounts:			
Value (in thousands)	16,717,112	14,800,052	11,054,565
Number of accounts	61,529	57,269	52,758

NET REVENUES

For the three months ended March 31, 2011, Global Wealth Management net revenues increased 19.6% to a record \$238.4 million from \$199.4 million for the comparable period in 2010. The increase in net revenues for the three months ended March 31, 2011 over the comparable period in 2010 is attributable to higher commission revenues as a result of increased client assets and higher productivity; and growth in asset management and service fees as a result of an increase in assets under management through market performance and the merger with TWPG. The increase in revenue growth was offset by a decline in fixed income institutional brokerage revenues, which was negatively impacted by the challenging market conditions present during the first quarter of 2011. The operations of TWPG were integrated with Stifel Nicolaus immediately after the merger, therefore the results of the business, as acquired, does not exist as a discrete entity within our internal reporting structure.

Commissions - For the three months ended March 31, 2011, commission revenues increased 27.9% to \$101.8 million from \$79.6 million in the comparable period in 2010. The increase is primarily attributable to an increase in agency transactions in equities, mutual funds and insurance products. The increase is primarily attributable to an increase in the number of financial advisors, client assets and higher productivity.

Principal transactions - For the three months ended March 31, 2011, principal transactions revenues decreased 6.2% to \$56.2 million from \$59.9 million in the comparable period in 2010. The decrease is primarily attributable to decreased principal transactions, primarily in corporate equity from the first quarter of 2010.

Asset management and service fees - For the three months ended March 31, 2011, asset management and service fees increased 40.7% to \$57.5 million from \$40.9 million in the comparable period in 2010. The increase is primarily a result of a 51.2% increase in the value of assets in fee-based accounts from March 31, 2010 and a 16.6% increase in the number of managed accounts attributable principally to the continued growth of the private client group and the impact of the addition of the TWPG asset management business, offset by a reduction in fees for money-fund balances due to the waiving of fees by certain fund managers. See "Assets in fee-based accounts" included in the table above for further details.

Investment banking - Investment banking, which represents sales credits for investment banking underwritings, increased 19.0% to \$6.3 million for the three months ended March 31, 2011 from \$5.3 million during the comparable period in 2010. See "Investment banking" in the Institutional Group segment discussion for information on the changes in net revenues.

Interest revenue - For the three months ended March 31, 2011, interest revenue increased 33.0% to \$16.7 million from \$12.6 million in the comparable period in 2010. The increase is primarily due to the growth of the interest-earning assets of Stifel Bank, offset by lower interest rates. See "Net Interest Income - Stifel Bank" below for a further discussion of the changes in net revenues. The increase is also attributable to an increase in interest revenue from customer margin borrowing to finance trading activity.

Other income - For the three months ended March 31, 2011, other income increased \$2.8 million to \$5.5 million from \$2.7 million during the comparable period in 2010. The increase is primarily attributable to an increase in investment gains on our private equity investments, which were acquired from TWPG and an increase in mortgage fees due to the increase in loan originations at Stifel Bank.

Interest expense - For the three months ended March 31, 2011, interest expense increased \$4.0 million to \$5.5 million from \$1.5 million in the comparable period in 2010. The increase is primarily due to the growth of the interest-bearing liabilities of Stifel Bank and higher interest rates on borrowings from our unsecured line of credit, offset by a reduction in interest expense on Stifel Financial Capital Trust II whose interest rate switched from fixed to floating on September 30, 2010. See "Net Interest Income - Stifel Bank" below for a further discussion of the changes in net revenues.

Edgar Filing: STIFEL FINANCIAL CORP - Form 10-Q

NET INTEREST INCOME - STIFEL BANK

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

	Three Months Ended March 31, 2011			Three Months Ended March 31, 2010		
	Average Balance	Interest Income/ Expense	Average Interest Rate	Average Balance	Interest Income/ Expense	Average Interest Rate
Assets:						
Federal funds sold	\$ 160,570	\$ 104	0.26%	\$ 116,219	\$ 71	0.24%
U.S. government agencies	24,973	90	1.44	793	10	5.04
State and political subdivisions:						
Taxable	77,437	625	3.23	-	-	-
Non-taxable (1)	2,944	25	3.40	960	10	4.17
Mortgage-backed securities	798,949	5,046	2.53	505,124	3,572	2.83
Corporate bonds	185,887	1,189	2.56	40,085	465	4.64
Asset-backed securities	22,538	193	3.43	11,719	75	2.56
Federal Home Loan Bank ("FHLB") and other capital stock	1,545	10	2.59	655	3	1.83
Loans (2)	405,253	3,451	3.41	346,267	3,009	3.48
Loans held for sale	54,311	470	3.46	72,334	872	4.82
Total interest-earning assets (3)	\$ 1,734,407	\$ 11,203	2.58%	\$ 1,094,156	\$ 8,087	2.96%
Cash and due from banks	6,811			6,286		
Other non interest-earning assets	38,941			33,048		
Total assets	\$ 1,780,159			\$ 1,133,490		
Liabilities and stockholders' equity:						
Deposits:						
Money market	\$ 1,591,577	\$ 4,211	1.06%	\$ 970,704	\$ 298	0.12%
Demand deposits	20,750	11	0.20	17,348	3	0.07
Time deposits	2,697	16	2.37	16,349	130	3.18
Savings	25	-	-	237	-	-
FHLB advances	-	-	-	2,000	16	3.20
Federal funds and repurchase agreements	-	-	-	-	-	-
Total interest-bearing liabilities (3)	\$ 1,615,049	\$ 4,238	1.05%	\$ 1,006,638	\$ 447	0.18%
Non interest-bearing deposits	9,337			15,774		
Other non interest-bearing liabilities	17,344			5,182		
Total liabilities	1,641,730			1,027,594		
Stockholders' equity	138,429			105,896		
Total liabilities and stockholders' equity	\$ 1,780,159			\$ 1,133,490		
Net interest margin		\$ 6,965	1.61%		\$ 7,640	2.79%

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

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

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

Edgar Filing: STIFEL FINANCIAL CORP - Form 10-Q

The following table sets forth an analysis of the effect on net interest income of volume and rate changes for the three month period ended March 31, 2011 compared to the three month period ended March 31, 2010 (in thousands):

Three Months Ended March 31, 2011 Compared to Three Months Ended March 31, 2010					
Increase (decrease) due to:					
	Volume		Rate		Total
Interest income:					
Federal funds sold	\$ 174		\$ (141)		\$ 33
U.S. government agencies	82		(2)		80
State and political subdivisions:					
Taxable	625		-		625
Non-taxable	16		(1)		15
Mortgage-backed securities	1,806		(332)		1,474
Corporate bonds	826		(102)		724
Asset-backed securities	86		32		118
FHLB and other capital stock	6		1		7
Loans	498		(56)		442
Loans held for sale	(185)		(217)		(402)
	\$ 3,934		\$ (818)		\$ 3,116

Increase (decrease) due to:					
	Volume		Rate		Total
Interest expense:					
Deposits:					
Money market	\$ 303		\$ 3,610		\$ 3,913
Demand deposits	1		7		8
Time deposits	(87)		(27)		(114)
Savings	-		-		-
FHLB advances	(8)		(8)		(16)
Federal funds and repurchase agreements	-		-		-
	\$ 209		\$ 3,582		\$ 3,791

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

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

For the three months ended March 31, 2011, interest revenue of \$11.2 million was generated from weighted average interest-earning assets of \$1.7 billion at a weighted average interest rate of 2.58%. Interest revenue of \$8.1 million for the comparable period in 2010 was generated from weighted average interest-earning assets of \$1.1 billion at a weighted average interest rate of 2.96%. Interest-earning assets principally consist of residential, consumer, and commercial loans, securities, and federal funds sold.

Interest expense represents interest on customer money market accounts, interest on time deposits and other interest expense. The weighted average balance of interest-bearing liabilities during the three months ended March 31, 2011 was \$1.6 billion at a weighted average interest rate of 1.05%. The weighted average balance of interest-bearing liabilities for the comparable period in 2010 was \$1.0 billion at a weighted average interest rate of 0.18%. The increase in interest expense during the three months ended March 31, 2011 from the comparable period in 2010 is primarily due to a change in the classification of interest expense on our cash flow hedges during 2011. During the first quarter of 2010, as a result of a principal and notional mismatch unrelated to ineffectiveness, we were required to report the interest expense associated with the cash

Edgar Filing: STIFEL FINANCIAL CORP - Form 10-Q

flow hedges as operating expenses. During the first quarter of 2011, the interest was recorded as interest expense.

The growth in Stifel Bank has been primarily driven by the growth in deposits associated with brokerage customers of Stifel Nicolaus. At March 31, 2011, the balance of Stifel Nicolaus brokerage customer deposits at Stifel Bank was \$1.6 billion compared to \$957.8 million at March 31, 2010. See "Net Interest Income - Stifel Bank" above for more information regarding average balances, interest income and expense, and average interest rate yields.

NON-INTEREST EXPENSES

For the three months ended March 31, 2011, Global Wealth Management non-interest expenses increased 10.4% to \$177.0 million from \$160.3 million for the comparable period in 2010.

The fluctuations in non-interest expenses, discussed below, were primarily attributable to the continued growth of our Private Client Group. Our expansion efforts include organic growth, as well as the acquisition of TWPG. As of March 31, 2011, we have 285 branch offices compared to 272 at March 31, 2010. In addition, since March 31, 2010, we have added approximately 390 revenue producers and support staff.

Compensation and benefits - For the three months ended March 31, 2011, compensation and benefits expense increased 14.3% to \$142.6 million from \$124.7 million during the three months ended March 31, 2010. The increase is principally due to increased variable compensation as a result of increased production due to the growth in financial advisors and fixed compensation for the additional administrative support staff, offset by a reduction of deferred compensation expense as a result of the modification to our deferred compensation plan, as previously discussed. Compensation and benefits expense as a percentage of net revenues decreased to 59.8% for the three months ended March 31, 2011, compared to 62.6% for the comparable period in 2010.

A portion of compensation and benefits expenses includes transition pay, principally in the form of upfront notes, signing bonuses and retention awards in connection with our continuing expansion efforts, of \$16.2 million (6.8% of net revenues) for the three months ended March 31, 2011, compared to \$14.9 million (7.5% of net revenues) for the three months ended March 31, 2010. The upfront notes are amortized over a five to ten year period.

Occupancy and equipment rental - For the three months ended March 31, 2011, occupancy and equipment rental expense increased 3.2% to \$15.2 million from \$14.7 million during the comparable period in 2010.

Communications and office supplies - For the three months ended March 31, 2011, communications and office supplies expense increased 8.8% to \$8.1 million from \$7.5 million during the first quarter of 2010.

Commissions and floor brokerage - For the three months ended March 31, 2011, commissions and floor brokerage expense of \$2.8 million remained consistent with the first quarter of 2010.

Other operating expenses - For the three months ended March 31, 2011, other operating expenses decreased 21.4% to \$8.3 million from \$10.5 million during the comparable period in 2010. The decrease in other operating expenses is primarily attributable to a reduction in legal expenses, ACAT reimbursement and travel from the first quarter of 2010.

INCOME BEFORE INCOME TAXES

For the three months ended March 31, 2011, income before income taxes increased \$22.3 million, or 57.0%, to \$61.5 million from \$39.2 million during the comparable period in 2010. Profit margins have improved as a result of the increase in revenue growth, improved productivity and a reduction in deferred compensation expense.

Edgar Filing: STIFEL FINANCIAL CORP - Form 10-Q

Results of Operations - Institutional Group

Three Months Ended March 31, 2011 Compared with Three Months Ended March 31, 2010

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

	For the Three Months Ended March 31,			As a Percentage of Net Revenues For the Three Months Ended March 31,	
	2011	2010	% Change	2011	2010
Revenues:					
Commissions	\$ 54,025	\$ 25,448	112.3	42.5%	22.5
Principal transactions	36,696	57,549	(36.2)	28.9	50.8
Capital raising	26,046	20,004	30.2	20.5	17.6
Advisory	9,060	8,914	1.6	7.1	7.9
Investment banking	35,106	28,918	21.4	27.6	25.5
Interest	1,793	1,959	(8.5)	1.4	1.7
Other income	462	422	9.5	0.5	0.4
Total revenues	128,082	114,296	12.1	100.9	100.9
Interest expense	1,088	1,004	8.4	0.9	0.9
Net revenues	126,994	113,292	12.1	100.0	100.0
Non-interest expenses:					
Compensation and benefits	77,187	66,304	16.4	60.8	58.5
Occupancy and equipment rental	4,924	4,066	21.1	3.9	3.6
Communication and office supplies	7,302	4,880	49.6	5.8	4.3
Commissions and floor brokerage	3,857	2,941	31.1	3.0	2.6
Other operating expenses	12,331	7,645	61.3	9.7	6.8
Total non-interest expenses	105,601	85,836	23.0	83.2	75.8
Income before income taxes	\$ 21,393	\$ 27,456	(22.1)	16.8%	24.2%

NET REVENUES

For the three months ended March 31, 2011, Institutional Group net revenues increased 12.1% to \$127.0 million from \$113.3 million for the comparable period in 2010. The increase in net revenues for the three months ended March 31, 2011 over the comparable periods in 2010 is primarily attributable to the acquisition of TWPG during the third quarter of 2010.

Commissions - For the three months ended March 31, 2011, commission revenues increased 112.3% to \$54.0 million from \$25.4 million in the comparable period in 2010.

Principal transactions - For the three months ended March 31, 2011, principal transactions revenues decreased 36.2%, to \$36.7 million from \$57.5 million in the comparable period in 2010.

The change in the mix between commission revenues and principal transactions is primarily attributable to a change in classification of certain equity trades that were recorded as principal transactions during the quarter ended March 31, 2010 that are now being recorded as commission revenues as a result of regulatory changes.

For the three months ended March 31, 2011, equity institutional brokerage revenues increased 35.6% to \$52.4 million from \$38.6 million during the comparable period in 2010.

During the first quarter of 2011, lower fixed income trading volumes led to a decline in institutional brokerage revenues from the comparable periods in 2010. For the three months ended March 31, 2011, fixed income institutional brokerage revenues decreased 13.6% to \$38.3 million from \$44.3 million in the first quarter of 2010.

Investment banking - For the three months ended March 31, 2011, investment banking revenues increased 21.4% to \$35.1 million from \$28.9 million in the comparable period in 2010. The increase is attributable to an increase in equity financing revenues and advisory fee revenues over the comparable periods in 2010 and the acquisition of TWPG, which closed on July 1, 2010.

For the three months ended March 31, 2011, capital raising revenues increased 30.2% to \$26.0 million from \$20.0 million in the comparable period in 2010.

For the three months ended March 31, 2011, equity capital raising revenues increased 63.3% to \$23.0 million from \$14.1 million during the first quarter of 2010. The increases were primarily attributable to an increase in the number of transactions over the comparable periods in 2010. During the three months ended March 31, 2011, we were involved, as manager or co-manager, in 34 equity underwritings, compared to 24 equity underwritings, during the comparable period in 2010.

For the three months ended March 31, 2011, fixed income capital raising revenues decreased 48.6%, to \$3.0 million from \$5.9 million during the first quarter of 2010. The decrease is primarily attributable to a decline in the municipal bond origination business, which has been negatively impacted by the financial condition of many large municipalities.

For the three months ended March 31, 2011, strategic advisory fees increased 1.6% to \$9.1 million from \$8.9 million in the comparable period in 2010. The increase is primarily attributable to an increase in the number of completed equity transactions and the aggregate transaction value over the comparable periods in 2010.

Interest revenue - For the three months ended March 31, 2011, interest revenue decreased 8.5% to \$1.8 million from \$2.0 million in the comparable period in 2010.

Interest expense - For the three months ended March 31, 2011, interest expense increased 8.4% to \$1.1 million from \$1.0 million in the comparable period in 2010.

NON-INTEREST EXPENSES

For the three months ended March 31, 2011, Institutional Group non-interest expenses increased 23.0% to \$105.6 million from \$85.8 million for the comparable period in 2010.

Unless specifically discussed below, the fluctuations in non-interest expenses were primarily attributable to the continued growth of our Institutional Group segment, both organically and through the acquisition of TWPG on July 1, 2010. We have added approximately 395 revenue producers and support staff, including approximately 220 from the TWPG acquisition, since March 31, 2010.

Compensation and benefits - For the three months ended March 31, 2011, compensation and benefits expense increased 16.4% to \$77.2 million from \$66.3 million during the comparable period in 2010. The increase is principally due to increased compensation as a result of the growth of the business, the acquisition of TWPG on July 1, 2010 and fixed compensation for the additional administrative support staff, offset by the reduction of deferred compensation expense as a result of the modification to our deferred compensation plan, as previously discussed. Compensation and benefits expense as a percentage of net revenues increased to 60.8% for the three months ended March 31, 2011, compared to 58.5% for the comparable period in 2010.

Occupancy and equipment rental - For the three months ended March 31, 2011, occupancy and equipment rental expense increased 21.1% to \$4.9 million from \$4.1 million during the comparable period in 2010. The increase is primarily due to the increase in rent and depreciation expense as a result of the merger with TWPG.

Communications and office supplies - For the three months ended March 31, 2011, communications and office supplies expense increased 49.6% to \$7.3 million from \$4.9 million during the first quarter of 2010. The increase is primarily attributable to an increase in communication and quote equipment as a result of the growth of the business.

Commissions and floor brokerage - For the three months ended March 31, 2011, commissions and floor brokerage expense increased 31.1% to \$3.9 million from \$2.9 million during the first quarter of 2010. The increase is primarily attributable to the growth of the business as a result of the merger with TWPG.

Other operating expenses - For the three months ended March 31, 2011, other operating expenses increased 61.3% to \$12.3 million from \$7.6 million during the comparable period in 2010. The increase is primarily attributable to increased professional fees, travel and promotion, and conference expenses, as a result of the growth of the segment.

INCOME BEFORE INCOME TAXES

For the three months ended March 31, 2011, income before income taxes for the Institutional Group segment decreased 22.1% to \$21.4 million from \$27.5 million during the comparable period in 2010. Profit margins have diminished as a result of the increase in non-interest expenses, which is primarily attributable to our merger with TWPG. While our revenues in the first quarter were up over the comparable period in 2010, our margins were negatively impacted by lower than expected equity and fixed income origination volumes and advisory services activity, as well as the decline in fixed income institutional brokerage revenues, which was negatively impacted by the challenging market conditions present during the first quarter of 2011.

Results of Operations - Other Segment

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

	For the Three Months Ended		
	March 31,		
	2011	2010	[%] Change
Net revenues			
\$			1,173
\$			(683
)			
			*

Non-interest expenses:

Compensation and benefits

11,393

15,200

(25.0

)

Other operating expenses

21,961

11,166

96.7

Total non-interest expenses

33,354

26,366

26.5

Loss before income taxes

\$

(32,181)

)

\$

(27,049)

)

19.0

* Percentage is not meaningful.

Net revenues - For the three month period ended March 31, 2011, net revenues increased \$1.9 million from the comparable period in 2010. The increase in net revenues for the three months ended March 31, 2011 is primarily attributable to an increase in investment gains from the comparable period in 2010, offset by an impairment charge of \$0.4 million on our held-to-maturity investment during the first quarter due to an other-than-temporary decline in value.

Compensation and benefits - For the three months ended March 31, 2011, compensation and benefits expense decreased 25.0% to \$11.4 million from \$15.2 million for the comparable period in 2010. The decrease is primarily attributable to a reduction of deferred compensation expense as a result of the modification to our deferred compensation plan, as previously discussed.

Other operating expenses - For the three months ended March 31, 2011, other operating expenses increased 96.7% to \$22.0 million from \$11.2 million for the comparable period in 2010. The increases were primarily attributable to the continued growth in all segments from the first quarter of 2010, which included increased administrative support expense, rent, professional fees and legal expenses. The increase in legal expenses is attributable to an increase in the number of customer claims, as well as litigation costs to defend industry recruiting claims. We are subject to various proceedings and claims arising primarily from our securities business activities, including lawsuits, arbitration claims, class actions, and regulatory matters.

Analysis of Financial Condition

Our company's consolidated statements of financial condition consist primarily of cash and cash equivalents, receivables, trading inventory, bank loans, investments, goodwill, loans and advances to financial advisors, bank deposits, and payables. Total assets of \$4.5 billion at March 31, 2011 were up 7.7% over December 31, 2010. The increase is primarily attributable to increased receivables, trading inventory, available-for-sale and held-to-maturity securities, offset by decreases in cash and cash equivalents and bank loans. Our broker-dealer subsidiary's gross assets and liabilities, including trading inventory, stock loan/borrow, receivables and payables from/to brokers, dealers and clearing organizations and clients, fluctuate with our business levels and overall market conditions.

As of March 31, 2011, our liabilities were comprised primarily of short-term borrowings of \$299.7 million, deposits of \$1.6 billion at Stifel Bank and payables to brokerage clients, brokers, dealers and clearing organizations of \$206.0 million and \$157.7 million, respectively, at our broker-dealer subsidiaries, as well as accounts payable and accrued expenses and accrued employee compensation of \$283.6 million. To meet our obligations to clients and operating needs, we have \$124.9 million in cash. We also have client brokerage receivables of \$484.3 million and \$428.0 million in loans (including loans held for sale) at Stifel Bank.

Liquidity and Capital Resources

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

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

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

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

We have an ongoing authorization, as amended, from the Board of Directors to repurchase our common stock in the open market or in negotiated transactions. On August 3, 2010, the Board of Directors authorized the repurchase of an additional 3.0 million shares under our existing repurchase program. The share repurchase program will manage our equity capital relative to the growth of our business and help to meet obligations under our employee benefit plans. Under existing Board authorizations at May 1, 2011, we are permitted to buy an additional 3.1 million shares.

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

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

Cash Flow

Cash and cash equivalents decreased \$128.6 million to \$124.9 million at March 31, 2011 from \$253.5 million at December 31, 2010. Operating activities used cash of \$252.2 million primarily due to an increase in operating assets and a decrease in operating liabilities, offset by the net effect of non-cash expenses and net income. Investing activities used cash of \$211.9 million primarily due to purchases of available for sale securities and purchases of eligible ARS from our customers as part of our repurchase plan, increase in bank loans, and fixed asset purchases, offset by proceeds from maturities, calls and principal payments of our available-for-sale securities and the sale of proprietary investments. During the three months ended March 31, 2011, we purchased \$18.1 million in fixed assets, consisting primarily of information technology equipment, leasehold improvements and furniture and fixtures. Financing activities provided cash of \$335.0 million primarily due to an increase in short-term borrowings from banks, securities loaned and securities sold under agreements to repurchase.

Edgar Filing: STIFEL FINANCIAL CORP - Form 10-Q

Funding Sources

Our short-term financing is generally obtained through short-term bank line financing on a secured basis, uncommitted short-term bank line financing on an unsecured basis and securities lending arrangements. We borrow from various banks on a demand basis with company-owned and customer securities pledged as collateral. The value of customer-owned securities used as collateral is not reflected in the consolidated statements of financial condition. We maintain available ongoing credit arrangements with banks that provided a peak daily borrowing of \$340.4 million during the three months ended March 31, 2011. There are no compensating balance requirements under these arrangements.

At March 31, 2011, short-term borrowings from banks were \$299.7 million at an average rate of 1.59%, which were collateralized by company-owned securities valued at \$343.8 million. At December 31, 2010, short-term borrowings from banks were \$109.6 million at an average rate of 1.05%, which were collateralized by company-owned securities valued at \$162.6 million. The average bank borrowing was \$168.5 million and \$106.4 million for the three months ended March 31, 2011 and 2010, respectively, at weighted average daily interest rates of 1.28% and 1.01%, respectively.

At March 31, 2011 and December 31, 2010, Stifel Nicolaus had a stock loan balance of \$112.6 million and \$27.9 million, respectively, at weighted average daily interest rates of 0.33% and 0.26%, respectively. The average outstanding securities lending arrangements utilized in financing activities were \$98.4 million and \$36.1 million during the three months ended March 31, 2011 and 2010, respectively, at weighted average daily effective interest rates of 1.34% and 1.89%, respectively. Customer-owned securities were utilized in these arrangements.

On September 8, 2010, we entered into an unsecured line of credit with two lenders totaling \$50.0 million. We can draw upon this line, as long as certain restrictive covenants are maintained. At March 31, 2011, we had \$30.0 million outstanding under the line of credit. At March 31, 2011, we were in compliance with all covenants.

Stifel Bank has borrowing capacity with the Federal Home Loan Bank of \$136.1 million at March 31, 2011, all of which was unused, and a \$5.0 million federal funds agreement for the purpose of purchasing short-term funds should additional liquidity be needed. Stifel Bank receives overnight funds from excess cash held in Stifel Nicolaus brokerage accounts, which are deposited into a money market account. These balances totaled \$1.6 billion at March 31, 2011.

Our liquidity requirements may change in the event we need to raise more funds than anticipated to increase inventory positions, support more rapid expansion, develop new or enhanced services and products, acquire technologies, or respond to other unanticipated liquidity requirements. We rely exclusively on financing activities and distributions from our subsidiaries for funds to implement our business and growth strategies, and repurchase our shares. Net capital rules, restrictions under our borrowing arrangements of our subsidiaries, as well as the earnings, financial condition, and cash requirements of our subsidiaries, may each limit distributions to us from our subsidiaries.

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

Use of Capital Resources

On December 28, 2009, pursuant to an agreement with state securities authorities, we announced the modification of the previously announced ARS repurchase plan which provides, among other things, for ARS repurchases to be completed by December 31, 2011. At March 31, 2011, we estimate that our retail clients held \$62.2 million par value of eligible ARS after issuer redemptions of \$44.1 million par value and Stifel repurchases of \$90.0 million par value.

Separately, TWP has entered into Settlement and Release Agreements ("Settlement Agreements") with certain customers, whereby it will purchase up to approximately \$50.0 million par value of ARS in exchange for a release from any future claims. The amount estimated for repurchase assumes no issuer redemptions.

We have paid \$15.7 million in the form of upfront notes to investment executives for transition pay during the period from January 1, 2011 through April 30, 2011. As we continue to take advantage of the opportunities created by market displacement and as competition for skilled professionals in the industry increases, we may have to devote more significant resources to attracting and retaining qualified personnel.

We utilize transition pay, principally in the form of upfront demand notes, to aid financial advisors, who have elected to join our firm, to supplement their lost compensation while transitioning their customers' accounts to the Stifel platform. The initial value of the notes is

Edgar Filing: STIFEL FINANCIAL CORP - Form 10-Q

determined primarily by the financial advisors trailing production and assets under management. These notes are generally forgiven over a five to ten year period based on production. The future estimated amortization expense of the upfront notes, assuming current year production levels and static growth for the remaining nine months of 2011 and the years ended December 31, 2012, 2013, 2014, 2015, 2016 and thereafter are \$40.9 million, \$43.4 million, \$32.5 million, \$21.9 million, \$13.7 million and \$27.6 million, respectively. These estimates could change if we continue to grow our business through expansion or experience increased production levels.

Net Capital Requirements

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

At March 31, 2011, Stifel Nicolaus had net capital of \$200.6 million, which was 34.0% of its aggregate debit items and \$188.7 million in excess of its minimum required net capital. At March 31, 2011, CSA's and TWP's net capital exceeded the minimum net capital required under the SEC rule. At March 31, 2011, SN Ltd's and TWPI's net capital and reserves were in excess of the financial resources requirement under the rules of the FSA. At March 31, 2011, SN Canada's net capital and reserves was in excess of the financial resources requirement under the rules of the IROC. At March 31, 2011, Stifel Bank was considered well capitalized under the regulatory framework for prompt corrective action. See Note 16 of the Notes to Consolidated Financial Statements for details of our regulatory capital requirements.

Critical Accounting Policies and Estimates

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

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

For a full description of these and other accounting policies, see Note 1 of the Notes to Consolidated Financial Statements included in our Annual Report on Form 10-K for the year ended December 31, 2010.

Valuation of Financial Instruments

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

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

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

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

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

For investments in illiquid or privately held securities that do not have readily determinable fair values, the determination of fair value requires us to estimate the value of the securities using the best information available. Among the factors we consider in determining the fair value of investments are the cost of the investment, terms and liquidity, developments since the acquisition of the investment, the sales price of recently issued securities, the financial condition and operating results of the issuer, earnings trends and consistency of operating cash flows, the long-term business potential of the issuer, the quoted market price of securities with similar quality and yield that are publicly traded, and other factors generally pertinent to the valuation of investments. In instances where a security is subject to transfer restrictions, the value of the security is based primarily on the quoted price of a similar security without restriction but may be reduced by an amount estimated to reflect such restrictions. The fair value of these investments is subject to a high degree of volatility and may be susceptible to significant fluctuation in the near term and the differences could be material.

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

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

At March 31, 2011, Level 3 assets for which we bear economic exposure were \$158.1 million or 8.1% of the total assets measured at fair value. During the three months ended March 31, 2011, we recorded purchases of \$155.6 million and sales and redemptions of \$167.2 million of Level 3 assets. We transferred \$5.8 million out of Level 3 during the three months ended March 31, 2011. Our valuation adjustments (realized and unrealized) increased the value of our Level 3 assets by \$1.9 million.

At March 31, 2011, Level 3 assets included the following: \$92.0 million of auction rate securities and \$66.1 million of private equity and other fixed income securities.

Contingencies

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

Allowance for Loan Losses

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

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

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

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

Derivative Instruments and Hedging Activities

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

Income Taxes

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

tax audits, historical experience, and consultation with tax attorneys and other experts.

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

Goodwill and Intangible Assets

Under the provisions of Topic 805, "Business Combinations," we record all assets and liabilities acquired in purchase acquisitions, including goodwill and other intangible assets, at fair value. Determining the fair value of assets and liabilities requires certain estimates. At March 31, 2011, we had goodwill of \$302.0 million and intangible assets of \$33.5 million.

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

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

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

Recent Accounting Pronouncements

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

Off-balance Sheet Arrangements

Information concerning our off-balance sheet arrangements is included in Note 19 of the Notes to Consolidated Financial Statements. Such information is hereby incorporated by reference.

Contractual Obligations

Our contractual obligations have not materially changed from those reported in our Annual Report on Form 10-K for the year ended December 31, 2010.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Risk Management

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

Market Risk

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

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

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

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

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

Interest Rate Risk

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

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

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

Edgar Filing: STIFEL FINANCIAL CORP - Form 10-Q

The following table sets forth the high, low, and daily average VaR for our trading portfolios during the nine months ended March 31, 2011 and the daily VaR at March 31, 2011 and December 31, 2010 (*in thousands*):

	Three Months Ended March 31, 2011			VaR calculation at	
	High	Low	Daily Average	March 31, 2011	December 31, 2010
Daily VaR	\$ 13,264	\$ 4,130	\$ 7,474	\$ 8,300	\$ 8,043

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

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

The following table illustrates the estimated change in net interest margin at March 31, 2011 based on shifts in interest rates of up to positive 200 basis points and negative 200 basis points:

Hypothetical change in interest rates	Projected change in net interest margin
+200	40.2%
+100	20.6%
0	-%
-50	(14.7)%
-100	(17.8)%

Edgar Filing: STIFEL FINANCIAL CORP - Form 10-Q

The following GAP Analysis table indicates Stifel Bank's interest rate sensitivity position at March 31, 2011 (*in thousands*):

	Repricing Opportunities			
	0-6 Months	7-12 Months	1-5 Years	5+ Years
Interest-earning assets:				
Loans	\$ 382,348	\$ 13,796	\$ 44,450	\$ 5,010
Securities	329,340	79,551	540,017	288,830
Interest-bearing cash	66,080	-	-	-
	\$ 777,768	\$ 93,347	\$ 584,467	\$ 293,840
Interest-bearing liabilities:				
Transaction accounts and savings	\$ 111,765	\$ 198,116	\$ 981,035	\$ 64,756
Certificates of deposit	294	984	1,462	-
	112,059	199,100	982,497	64,756
GAP	665,709	(105,753)	(398,030)	229,084
Cumulative GAP	\$ 665,709	\$ 559,956	\$ 161,926	\$ 391,010

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

Equity Price Risk

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

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

Credit Risk

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

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

We have accepted collateral in connection with resale agreements, securities borrowed transactions, and customer margin loans. Under many agreements, we are permitted to sell or repledge these securities held as collateral and use these securities to enter into securities lending arrangements or to deliver to counterparties to cover short positions. At March 31, 2011, the fair value of securities accepted as collateral where we are permitted to sell or repledge the securities was \$1.1 billion, and the fair value of the collateral that had been sold or repledged was \$487.3 million.

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

Stifel Bank extends credit to individual and commercial borrowers through a variety of loan products, including residential and commercial mortgage loans, home equity loans, construction loans and non-real-estate commercial and consumer loans. Bank loans are generally collateralized by real estate, real property, or other assets of the borrower. Stifel Bank's loan policy includes criteria to adequately underwrite, document, monitor, and manage credit risk. Underwriting requires reviewing and documenting the fundamental characteristics of credit including character, capacity to service the debt, capital, conditions, and collateral. Benchmark capital and coverage ratios are utilized, which include liquidity, debt service coverage, credit, working capital, and capital to asset ratios. Lending limits are established to include individual, collective, committee, and board authority. Monitoring credit risk is accomplished through defined loan review procedures including frequency and scope.

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

Operational Risk

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

Regulatory and Legal Risk

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

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

ITEM 4. CONTROLS AND PROCEDURES

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

PART II OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

The following supplements and amends our discussion set forth under Item 3. "Legal Proceedings" in our Annual Report on Form 10-K for the year ended December 31, 2010.

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

The regulatory investigations include inquiries from the SEC and a state regulatory authority relating to our role in investments made by five Southeastern Wisconsin school districts (the "school districts") in transactions involving collateralized debt obligations ("CDO"). We are fully cooperating with the SEC and the state regulatory authority in these investigations and have provided information and testimony. On April 1, 2011, we announced that the SEC has made a preliminary determination to recommend the filing of a civil or administrative enforcement action in connection with its investigation. This preliminary determination is neither a formal allegation nor evidence of wrongdoing. Stifel Nicolaus has submitted its response to the SEC.

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

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

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

ITEM 1A. RISK FACTORS

The discussion of our business and operations should be read together with the risk factors contained in Part I, Item 1A of our Annual Report on Form 10-K for the fiscal year ended December 31, 2010 filed with the SEC. These risk factors describe various risks and uncertainties to which we are or may become subject. These risks and uncertainties have the potential to affect our business, financial condition, results of operations, cash flows, strategies or prospects in a material and adverse manner.

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

There were no unregistered sales of equity securities during the quarter ended March 31, 2011. There were also no purchases made by or on behalf of Stifel Financial Corp. or any "affiliated purchaser" (as defined in Rule 10b-18(a)(3) under the Securities Exchange Act of 1934, as amended), of our common stock during the quarter ended March 31, 2011.

We have an ongoing authorization, as amended, from the Board of Directors to repurchase our common stock in the open market or in negotiated transactions. On August 3, 2010, the Board authorized the repurchase of an additional 3.0 million shares under our existing share repurchase program. At March 31, 2011, the maximum number of shares that may yet be purchased under this plan was 3.1 million.

ITEM 6. EXHIBITS

Exhibit No.	Description
11.1	Statement Re: Computation of per Share Earnings (The calculation of per share earnings is included in Part I, Item 1 in the Notes to Consolidated Financial Statements (Earnings Per Share) and is omitted here in accordance with Section (b)(11) of Item 601 of Regulation S-K).
31.1	Rule 13a-14(a) Certification of Chief Executive Officer.
31.2	Rule 13a-14(a) Certification of Chief Financial Officer.
32.1	Section 1350 Certification of Chief Executive Officer.*
32.2	Section 1350 Certification of Chief Financial Officer.*
101.INS	Interactive Data Files Pursuant to Rule 405 of Regulation S-T: (i) Consolidated Statements of Financial Condition as of March 31, 2011 and December 31, 2010; (ii) Consolidated Statements of Operations for the three months ended March 31, 2011 and March 31, 2010; (iii) Consolidated Statements of Cash Flows for the three months ended March 31, 2011 and March 31, 2010; and (v) Notes to Consolidated Financial Statements. *

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

SIGNATURES

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

STIFEL FINANCIAL CORP.

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

/s/ James M. Zemlyak
James M. Zemlyak
*Senior Vice President, Treasurer, and
Chief Financial Officer*
Date: May 10, 2011