STIFEL FINANCIAL CORP
Form 10-Q
May 11, 2009

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

[x] **Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
For the quarterly period ended March 31, 2009

OR

[ ] **Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
For the transition period from _________ to _________

Commission File Number: 1-9305

STIFEL FINANCIAL CORP.

(Exact name of registrant as specified in its charter)

Delaware	**43-1273600**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

501 N. Broadway, St. Louis, Missouri 63102-2188
(Address of principal executive offices and 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 ("the Exchange Act") 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 [x] 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 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 (as defined in Rule 12b-2 of the Exchange Act (Check one):

Large accelerated filer [x] Accelerated filer [ ] Non-accelerated filer [ ] (Do not check if smaller reporting company) Smaller reporting company [ ]

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

The number of shares outstanding of the registrant's common stock as of April 30, 2009 was 27,380,219.

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PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

STIFEL FINANCIAL CORP.
Condensed Consolidated Statements of Financial Condition

	March 31, 2009	December 31, 2008
(in thousands)	**(Unaudited)**	
Assets		
Cash and cash equivalents	**$ 286,658**	$ 239,725
Cash segregated under federal and other regulations	**40**	40
Securities purchased under agreements to resell	**69,593**	17,723
Receivable from brokers and dealers:		
Securities failed to deliver	**19,973**	3,837
Deposits paid for securities borrowed	**75,815**	49,784
Clearing organizations	**84,186**	55,793
Receivable from brokerage customers, net of allowance for doubtful receivables of $966 and $582, respectively	**270,754**	280,143
Trading securities owned, at fair value	**217,910**	141,085
Trading securities owned and pledged, at fair value	**209,185**	--
Total trading securities owned and pledged, at fair value	**427,095**	141,085
Available-for-sale securities, at fair value	**53,627**	50,397
Held-to-maturity securities, at amortized cost	**7,574**	7,574
Mortgages held for sale	**31,108**	31,246
Bank loans, net of allowance for loan losses of $2,710 and $2,448, respectively	**171,384**	181,269
Bank foreclosed assets held for sale, net of estimated cost to sell	**4,384**	2,326
Investments	**62,471**	74,898
Office equipment and leasehold improvements, at cost, net of accumulated depreciation and amortization of $57,888 and $54,075, respectively	**47,547**	47,765
Goodwill	**131,412**	128,278
Intangible assets, net of accumulated amortization of $9,024 and $8,290, respectively	**16,926**	15,984
Loans and advances to financial advisors and other employees, net of allowance for doubtful receivables from former employees of $1,117 and $1,186, respectively	**114,237**	105,767
Deferred tax assets, net	**43,828**	47,337

Other assets	**96,086**	77,174
Total assets	**$ 2,014,698**	$ 1,558,145

See accompanying Notes to Condensed Consolidated Financial Statements.

STIFEL FINANCIAL CORP.
Condensed Consolidated Statements of Financial Condition (continued)

	March 31, 2009	December 31, 2008
(in thousands, except share amounts)	(Unaudited)	
Liabilities and Stockholders' Equity		
Short-term borrowings from banks	$ 163,500	$ --
Drafts payable	35,059	49,401
Securities sold under agreements to repurchase	763	2,216
Payable to brokers and dealers:		
Securities failed to receive	25,566	8,811
Deposits received from securities loaned	29,658	16,987
Clearing organizations	903	3,893
Payable to customers	146,006	156,495
Bank deposits	459,305	284,798
Federal Home Loan Bank advances and other secured financing	6,035	6,000
Trading securities sold, but not yet purchased, at fair value	260,684	98,934
Accrued employee compensation	71,360	130,037
Accounts payable and accrued expenses	89,525	100,528
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	9,398	19,998
	1,380,262	960,598
Liabilities subordinated to claims of general creditors	3,634	4,362
Stockholders' Equity:		
Preferred stock - $1 par value; authorized 3,000,000 shares; none issued	--	--
Common stock - $0.15 par value; authorized 30,000,000 shares; issued 27,340,886 and 26,300,135 shares, respectively	4,101	3,945
Additional paid-in capital	450,045	427,480
Retained earnings	182,450	168,993
Accumulated other comprehensive loss	(4,908)	(6,295)
	631,688	594,123
Unearned employee stock ownership plan shares, at cost, 138,287 and 146,421 shares, respectively	(886)	(938)
	630,802	593,185
Total liabilities and stockholders' equity	$ 2,014,698	$ 1,558,145

See accompanying Notes to Condensed Consolidated Financial Statements.

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

	Three Months Ended March 31,	
(in thousands, except per share amounts)	**2009**	2008
Revenues:		
Commissions	**$ 74,610**	$ 85,701
Principal transactions	**97,278**	66,937
Investment banking	**15,504**	21,844
Asset management and service fees	**24,933**	30,278
Interest	**9,892**	13,689
Other income/(loss)	**115**	(1,207)
Total revenues	**222,332**	217,242
Interest expense	**2,351**	5,765
Net revenues	**219,981**	211,477
Non-interest expenses:		
Employee compensation and benefits	**147,840**	146,030
Occupancy and equipment rental	**17,867**	15,716
Communication and office supplies	**11,845**	11,947
Commissions and floor brokerage	**4,360**	481
Other operating expenses	**15,914**	13,378
Total non-interest expenses	**197,826**	187,552
Income before income taxes	**22,155**	23,925
Provision for income taxes	**8,978**	9,578
Net income	**$ 13,177**	$ 14,347
Net income per share - basic*	**$ 0.49**	$ 0.61
Net income per share - diluted*	**$ 0.44**	$ 0.54
Weighted average common shares outstanding - basic*	**26,772**	23,276
Weighted average common shares outstanding - diluted*	**30,198**	26,645

* *All share and earnings per share amounts for the three months ended March 31, 2008 have been adjusted for the June 12, 2008 three-for-two stock split.*

See accompanying Notes to Condensed Consolidated Financial Statements.

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

	Three Months Ended March 31,	
(in thousands)	**2009**	2008
Operating Activities:		
Net income	**$ 13,177**	$ 14,347
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	**4,753**	3,568
Loans and advances amortization	**6,341**	4,472
Accretion of discounts on available-for-sale securities	**(75)**	(145)
Provision for loan losses and allowances for loans and advances to financial advisors and other employees	**663**	(189)
Deferred taxes and other	**3,115**	1,328
Excess tax benefit associated with stock based awards	**(9,597)**	(5,957)
Stock-based compensation	**13,077**	12,074
Loss on the sale of investments	**2,409**	3,796
Loss on sale of bank foreclosed assets	**107**	--
Decrease (increase) in assets:		
Operating receivables	**(61,171)**	(49,373)
Cash segregated under federal and other regulations	**--**	(4,998)
Securities purchased under agreements to resell	**(51,870)**	(83)
Loans originated as mortgages held for sale	**(240,131)**	(75,896)
Proceeds from mortgages held for sale	**240,270**	61,929
Trading securities owned, including those pledged	**(286,010)**	(26,244)
Loans and advancements to financial advisors and other employees	**(15,161)**	(6,448)
Other assets	**(14,574)**	23,988
Increase (decrease) in liabilities:		
Operating payables	**3,377**	52,366
Trading securities sold, but not yet purchased	**161,750**	91,456
Other liabilities	**(104,064)**	(80,578)
Net Cash Provided by (Used in) Operating Activities	**(333,614)**	19,413

See accompanying Notes to Condensed Consolidated Financial Statements.

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

	Three Months Ended March 31,	
(in thousands)	**2009**	2008
Investing Activities:		
Proceeds from:		
Sale or maturity of investments	**$ 24,848**	$ 8,758
Maturities, calls and principal paydowns on available-for-sale securities	**9,515**	9,923
Sale of property	**--**	766
Bank customer loan repayments	**250,603**	39,646
Sale of bank foreclosed assets held for sale	**353**	--
Payments for:		
Bank customer loan originations	**(240,578)**	(46,462)
Purchase of available-for-sale securities	**(10,521)**	--
Purchase of bank foreclosed assets held for sale	**(2,523)**	(1,142)
Office equipment and leasehold improvements	**(3,847)**	(4,630)
Purchase of investments	**(14,831)**	(9,488)
Net Cash Provided by (Used in) Investing Activities	**13,019**	(2,629)
Financing Activities:		
Increase in bank deposits, net	**174,507**	37,179
Net proceeds from short-term borrowings from banks	**163,500**	10,550
Securities loaned, net	**12,570**	(17,003)
Decrease in securities sold under agreements to repurchase	**(1,453)**	--
Reissuance of treasury stock	**--**	319
Issuance of stock	**10,072**	80
Excess tax benefits associated with stock-based awards	**9,597**	5,957
Federal Home Loan Bank advances and other secured financing	**35**	--
Payments for:		
Repurchase agreements	**--**	(9)
Purchases of stock for treasury	**--**	(12,141)
Reduction of subordinated debt	**(1,300)**	(914)
Net Cash Provided by Financing Activities	**367,528**	24,018
Increase in cash and cash equivalents	**46,933**	40,802
Cash and cash equivalents at beginning of period	**239,725**	47,963
Cash and cash equivalents at end of period	**$ 286,658**	$ 88,765

See accompanying Notes to Condensed Consolidated Financial Statements.

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

	Three Months Ended March 31,	
(in thousands)	**2009**	2008
Supplemental disclosure of cash flow information:		
Cash paid for interest	**$ 2,264**	$ 5,831
Cash paid for income taxes, net of refunds	**497**	657
Noncash investing and financing activities:		
Units, net of forfeitures	**$ 35,157**	$ 27,238
Payment of Ryan Beck contingent earn-out	**9,807**	--

See accompanying Notes to Condensed Consolidated Financial Statements.

STIFEL FINANCIAL CORP.
Notes to Condensed Consolidated Financial Statements
(in thousands, except share and per share amounts)
(Unaudited)

NOTE 1 - Nature of Operation and Basis of Presentation

Nature of Operations

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

Basis of Presentation

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

We have prepared the accompanying unaudited condensed consolidated financial statements pursuant to the rules and regulations of the Securities and Exchange Commission (the "SEC"). Pursuant to these rules and regulations, we have condensed or omitted certain information and footnote disclosures we normally include in our annual consolidated financial statements prepared in accordance with U.S. generally accepted accounting principles. In management's opinion, we have made all adjustments (consisting only of normal, recurring adjustments, except as otherwise noted) necessary to fairly present our financial position, results of operations and cash flows. Our interim period operating results do not necessarily indicate the results that may be expected for any other interim period or for the full fiscal year. These financial statements and accompanying notes should be read in conjunction with the consolidated financial statements and the notes thereto in our Annual Report on Form 10-K for the year ended December 31, 2008 on file with the SEC.

Certain amounts from prior years have been reclassified to conform to the current year 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, 2008.

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

Recently Adopted Accounting Pronouncements

With the exception of those discussed below, there have been no recent accounting pronouncements or changes in accounting pronouncements during the three months ended March 31, 2009, as compared to the recent accounting pronouncements described in our Annual Report on Form 10-K for the year ended December 31, 2008, that are of significance, or potential significance, to our company's consolidated financial statements.

In November 2008, the Emerging Issues Task Force ("EITF") reached a consensus on Issue No. 08-7 ("EITF 08-7"), "Accounting for Defensive Intangible Assets," which requires that a defensive intangible asset be accounted for as a separate unit of accounting and should not be included as part of the cost of the acquirer's existing intangible assets. In addition, EITF 08-7 requires that a defensive intangible asset be assigned a useful life that reflects the entity's consumption of the expected benefits related to the asset. EITF 08-7 is to be applied to all business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. We adopted the provisions of EITF 08-7 in the first quarter of 2009. Since this guidance will be applied prospectively, on adoption, there was no impact to our consolidated financial statements.

In September 2008, the Financial Accounting Standards Board ("FASB") issued FASB Staff Position ("FSP") No. 133-1 and FASB Interpretation ("FIN") FIN 45-4 ("FSP FAS 133-1 and FIN 45-4"), "Disclosures about Credit Derivatives and Certain Guarantees: An Amendment of FASB Statement No. 133 and FASB Interpretation No. 45; and Clarification of the Effective Date of FASB Statement No. 161." FSP FAS 133-1 and FIN 45-4 amend FASB Statement No. 133 ("SFAS 133"), "Accounting for Derivative Instruments and Hedging Activities," to require disclosures by sellers of credit derivatives, including credit derivatives embedded in hybrid instruments. FSP FAS 133-1 and FIN 45-4 also amend FIN No. 45 ("FIN 45"), "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness to Others," to require additional disclosure about the current status of the payment/performance risk of a guarantee. We adopted the provisions of FSP FAS 113-1 and FIN 45-4 in the first quarter of 2009. FSP FAS 133-1 and FIN 45-4 also clarify the effective date in FASB Statement No. 161 ("SFAS 161"), "Disclosures about Derivative Instruments and Hedging Activities." Since FSP FAS 133-1 and FIN 45-4 only required additional disclosures, the adoption did not impact our consolidated financial statements.

In June 2008, the FASB issued FSP EITF No. 03-6-1 ("FSP EITF 03-06-1"), "Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities," which addresses whether instruments granted in share-based payment transactions are participating securities prior to vesting and, therefore, need to be included in the earnings allocation in computing earnings per share under the two-class method described in FASB Statement No. 128, "Earnings per Share." FSP EITF 03-6-1 specifies that unvested share-based payment awards that contain nonforfeitable rights to dividends or dividend equivalents (whether paid or unpaid) are participating securities and shall be included in the computation of earnings per share pursuant to the two-class method. We adopted FSP EITF 03-06-1 in the first quarter of 2009. The adoption did not impact our calculation of earnings per share for the three months ended March 31, 2009.

In April 2008, the FASB issued FSP No. 142-3 ("FSP 142-3"), "Determination of the Useful Life of Intangible Assets." FSP 142-3 amends the factors an entity should consider in developing renewal or extension assumptions used in determining the useful life of recognized intangible assets under FASB Statement No. 142, "Goodwill and Other Intangible Assets." This new guidance applies prospectively to intangible assets that are acquired individually or with a group of other assets in business combinations and asset acquisitions. We adopted FSP 142-3 in the first quarter of 2009. FSP 142-3 will be applied prospectively to business combinations and asset acquisitions that occur on or after January 1, 2009. We will evaluate the impact of FSP 142-3 on any potential future business combinations and asset acquisitions that may occur after the effective date.

In March 2008, the FASB issued SFAS 161, "Disclosures about Derivative Instruments and Hedging Activities - an amendment of FASB Statement No. 133," which requires companies with derivative instruments to disclose information that should enable financial statement users to understand how and why a company uses derivative instruments, how derivative instruments and related hedged items are accounted for under SFAS 133 and how derivative instruments and related hedged items affect a company's financial position, financial performance and cash flows. We adopted SFAS 161 in the first quarter of 2009. Since SFAS 161 only required additional disclosure, the adoption did not impact our consolidated financial statements.

In December 2007, the FASB issued SFAS No. 141 (revised 2007) ("SFAS 141R"), "Business Combinations" and SFAS No. 160 ("SFAS 160"), "Noncontrolling Interests in Consolidated Financial Statements - an amendment of Accounting Research Bulletin No. 51." SFAS 141R will change how business acquisitions are accounted for and will impact financial statements both on the acquisition date and in subsequent periods. SFAS 160 will change the accounting and reporting for minority interests, which will be recharacterized as noncontrolling interests and classified as a component of equity. We adopted SFAS 141R and SFAS 160 in the first quarter of 2009. The adoption of SFAS 141R and SFAS 160 did not have a material impact on our consolidated financial statements.

In September 2006, the FASB issued FASB Statement No. 157 ("SFAS 157"), "Fair Value Measurements," which defines fair value, establishes guidelines for measuring fair value and expands disclosures regarding fair value measurements. SFAS 157 does not require any new fair value measurements but rather eliminates inconsistencies in guidance found in various prior accounting pronouncements and is effective for fiscal years beginning after November 15, 2007. We adopted SFAS 157 for all nonfinancial assets and nonfinancial liabilities on January 1, 2009. These nonfinancial items include assets and liabilities such as reporting units measured at fair value in a goodwill impairment test and nonfinancial assets acquired and liabilities assumed in a business combination. The adoption of SFAS 157 for nonfinancial assets and liabilities did not have a material impact on our consolidated financial statements.

Recently Issued Accounting Pronouncements

In April 2009, the FASB issued FSP No. FAS 107-1 and APB 28-1 ("FSP FAS 107-1 and APB 28-1"), "Interim Disclosures about Fair Value of Financial Instruments," which require disclosures about fair value of financial instruments for interim reporting periods. FSP FAS 107-1 and APB 28-1 relate to fair value disclosures for any financial instruments that are not currently reflected on the balance sheet of companies at fair value. Prior to adoption, we were required to disclose the fair values for these assets and liabilities in our annual audited financial statements. FSP FAS 107-1 and APB 28-1 are effective for interim periods ending after June 15, 2009. Early adoption is permitted. The adoption will expand our disclosures regarding the use of fair value in interim periods and is not expected to have a material impact on our consolidated financial statements.

In April 2009, the FASB issued FSP No. FAS 115-2 and FAS 124-2 ("FSP FAS 115-2 and FAS 124-2"), "Recognition and Presentation of Other-Than-Temporary-Impairments." FSP FAS 115-2 and FAS 124-2 amend existing guidance to improve the presentation and disclosure of other-than-temporary impairments on debt and equity securities in the financial statements. FSP FAS 115-2 and FAS 124-2 require separate display of losses related to credit deterioration and losses related to other market factors. When an entity does not intend to sell the security and it is more likely than not that an entity will not have to sell the security before recovery of its cost basis, it must recognize the credit component of an other-than-temporary impairment in earnings and the remaining portion in other comprehensive income. FSP FAS 115-2 and FAS 124-2 are effective for interim and annual periods ending after June 15, 2009. Early adoption is permitted. We are currently evaluating the impact that FSP FAS 115-2 and FAS 124-2 will have on our consolidated financial statements.

In April 2009, the FASB issued FSP No. 157-4 ("FSP FAS 157-4"), "Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly," which provides additional guidance for estimating fair value in accordance with SFAS 157 when the volume and level of activity for the asset or liability have significantly decreased. FSP FAS 157-4 also includes guidance on identifying circumstances that indicate a transaction is distressed. FSP FAS 157-4 is effective for interim and annual periods ending after June 15, 2009. Early adoption is permitted. The adoption of FAP FAS 157-4 will be applied prospectively, and is not expected to have a material impact on our consolidated financial statements.

NOTE 2 - Acquisitions

On March 23, 2009, we entered into a definitive agreement with UBS Financial Services Inc. ("UBS"), which was amended May 4, 2009, to acquire up to 58 branches from the UBS Wealth Management Americas branch network. The transaction is structured as an asset purchase for cash at a premium over certain balance sheet items, subject to adjustment. The total consideration includes: (1) an upfront cash payment of up to approximately $29,000 based on the actual number of branches and financial advisors acquired; and (2) aggregate payments of up to approximately $21,100 for net fixed assets and employee loans. In addition, we will issue transition pay in the form of upfront payments of up to $37,100. Of the upfront payments issued to UBS financial advisors, we expect to pay 70% in cash and the remaining in our company's stock units. A contingent earn-out payment is payable based on the performance of UBS financial advisors who become our employees, over the two-year period following the closing. The closing of the acquisition is subject to customary conditions and the approval of all required governmental and other regulatory entities and is expected to occur during the third quarter of 2009.

On December 31, 2008, we closed on the acquisition of Butler Wick, a privately-held broker-dealer that provides financial advice to individuals, municipalities, and corporate clients. We acquired 100% of the voting interests of Butler Wick from United Community Financial Corp. This acquisition extends our company's geographic reach in the Ohio Valley region. The purchase price of $12,000 was funded from cash generated from operations. Under the purchase method of accounting, the assets and liabilities of Butler Wick are recorded as of the acquisition date, at their respective fair values and consolidated in our company's financial statements. Revisions to the allocation will be reported as changes to various assets and liabilities, including goodwill and other intangible assets. Pro forma information is not presented because the acquisition is not considered to be material.

On February 28, 2007, we completed the acquisition of Ryan Beck & Company, Inc. ("Ryan Beck"), a full-service brokerage and investment banking firm and wholly-owned subsidiary of BankAtlantic Bancorp, Inc. Pursuant to the stock purchase agreement, an additional earn-out payment was payable based on the achievement of defined revenues over the two year period following the closing. We paid the final earn-out payment of $9,807 related to the two-year private client contingent earn-out in 271,353 shares of our company's common stock at an average price of $34.30 per share in the first quarter of 2009, with partial shares paid in cash.

NOTE 3 - 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 and pledged, available-for-sale securities, investments and trading securities sold, but not yet purchased.

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

The following table summarizes the valuation of our financial instruments by SFAS 157 pricing observability levels as of March 31, 2009 (in thousands):

		Fair Value Measurements at Reporting Date Using		
	Total	**Quoted Prices in Active Markets for Identical Assets (Level I)**	**Significant Other Observable Inputs (Level II)**	**Significant Unobservable Inputs (Level III)**
Assets:				
Cash equivalents	**$ 132,456**	$ 132,456	$ --	$ --
Trading securities owned and pledged:				
U.S. government and agency securities	**83,217**	12,855	70,362	--
State and municipal bonds	**55,722**	18,495	28,929	8,298
Corporate obligations	**270,552**	73,902	192,288	4,362
Corporate stocks	**17,604**	5,864	--	11,740
Total trading securities owned and pledged	**427,095**	111,116	291,579	24,400
Available-for-sale securities:				
U.S. government agencies	**2,047**	--	2,047	--
State and political subdivisions	**1,538**	--	1,538	--
Mortgage-backed securities- agency collateralized	**12,362**	--	12,362	--
Mortgage-backed securities- non-agency collateralized	**18,985**	--	18,985	--
Corporate bonds	**10,360**	10,360	--	--
Asset-backed securities	**8,335**	--	--	8,335
Total available-for-sale securities	**53,627**	10,360	34,932	8,335
Investments:				
Marketable equity securities	**2,254**	2,254	--	--
Mutual funds	**21,599**	21,599	--	--
		7,131	--	--

U.S. government obligations	**7,131**			
Other investments	**5,528**	80	417	5,031
Total investments	**36,512**	31,064	417	5,031
Total	**$ 649,690**	$ 284,996	$ 326,928	$ 37,766
Liabilities:				
Trading securities sold, but not yet purchased:				
U.S. government and agency securities	**$ 92,707**	$ 86,674	$ 6,033	$ --
State and municipal bonds	**305**	130	175	--
Corporate obligations	**163,572**	52,128	111,444	--
Corporate stocks	**4,100**	4,100	--	--
Total	**$ 260,684**	$ 143,032	$ 117,652	$ --

The following table summarizes the valuation of our financial instruments by SFAS 157 pricing observability levels as of December 31, 2008 (in thousands):

		Fair Value Measurements at Reporting Date Using		
	Total	**Quoted Prices in Active Markets for Identical Assets (Level I)**	**Significant Other Observable Inputs (Level II)**	**Significant Unobservable Inputs (Level III)**
Assets:				
Cash equivalents	$ 172,589	$ 172,589	$ --	$ --
Trading securities owned and pledged:				
U.S. government and agency securities	40,401	13,876	26,525	--
State and municipal bonds	32,093	4,397	20,553	7,143
Corporate obligations	43,131	11,820	27,150	4,161
Corporate stocks	25,460	14,094	--	11,366
Total trading securities owned and pledged	141,085	44,187	74,228	22,670
Available-for-sale securities:				
U.S. government agencies	8,591	--	8,591	--
State and political subdivisions	1,531	--	1,531	--
Mortgage-backed securities- agency collateralized	12,430	--	12,430	--
Mortgage-backed securities- non-agency collateralized	17,422	--	17,422	--
Asset-backed securities	10,423	--	--	10,423
Total available-for-sale securities	50,397	--	39,974	10,423
Investments:				
Marketable equity securities	2,668	2,668	--	--
Mutual funds	23,082	23,082	--	--
U.S. government obligations	7,132	9	7,123	--
Other investments		90	419	5,169

	5,678			
Total investments	38,560	25,849	7,542	5,169
Total	$ 402,631	$ 242,625	$ 121,744	$ 38,262
Liabilities:				
Trading securities sold, but not yet purchased:				
U.S. government and agency securities	$ 33,279	$ 33,279	$ --	$ --
State and municipal bonds	154	--	154	--
Corporate obligations	62,012	24,081	37,931	--
Corporate stocks	3,489	3,489	--	--
Total	$ 98,934	$ 60,849	$ 38,085	$ --

Our company's investment in a convertible promissory note issued by FSI Group, LLC ("FSI") and U.S. government securities used to fund our venture capital activities in qualified Missouri business are classified as held-to-maturity and included in "Investments" in the condensed consolidated statements of financial condition and therefore are not included in the above analysis of fair value at March 31, 2009 and December 31, 2008. See Note 19 for details regarding our investment in FSI.

A reconciliation of the beginning and ending balances for trading securities owned and pledged, available-for-sale securities and investments using significant unobservable inputs as of March 31, 2009 was as follows: (in thousands):

	Trading Securities Owned and Pledged	Available-for-Sale Securities	Investments	Total
Balance at December 31, 2008	**$ 22,670**	**$ 10,423**	**$ 5,169**	**$ 38,262**
Unrealized losses				
Included in net income relating to instruments still held at the reporting date	(1,105)	--	(387)	(1,492)
Included in other comprehensive income	--	279	--	279
Realized gains (losses)	10	--	--	10
Purchases, sales, issuances, and settlements	2,825	(2,367)	268	726
Transfers out of Level III	--	--	(19)	(19)
Balance at March 31, 2009	**$ 24,400**	**$ 8,335**	**$ 5,031**	**$ 37,766**

The results included in the table above are only a component of the overall trading strategies of our company. The table above does not present Level I or Level II valued assets or liabilities. We did not have any Level III liabilities at March 31, 2009 or December 31, 2008. The changes to our company's Level III classified instruments were principally a result of: purchases of auction rate securities ("ARS") from our customers; principal pay-downs of our available-for-sale securities, unrealized gains and losses; and redemptions of ARS at par during the first quarter. Investment gains and losses of our trading securities owned and pledged and our investments are included in our condensed consolidated statements of income as a component of other income/(loss).

NOTE 4 - 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, 2009 and December 31, 2008, are as follows (in thousands):

	2009		2008	
Securities, at fair value	**Owned**	**Sold, But Not Yet Purchased**	**Owned**	**Sold, But Not Yet Purchased**
U.S. government obligations	**$ 83,217**	**$ 92,707**	$ 40,401	$ 33,279
State and municipal bonds	**55,722**	**305**	32,093	154

Corporate obligations	**270,552**	**163,572**	43,131	62,012
Corporate stocks	**17,604**	**4,100**	25,460	3,489
	$ 427,095	**$ 260,684**	$ 141,085	$ 98,934

We pledge securities owned as collateral to counterparties who have the ability to repledge the collateral, therefore, we have reported the pledged securities under the caption "Trading securities owned and pledged, at fair value" in the condensed consolidated statements of financial condition.

NOTE 5 - Available-for-Sale Securities and Held-to-Maturity Securities

The following tables provide a summary of the amortized cost and fair values of Stifel Bank's available-for-sale securities and held-to-maturity securities at March 31, 2009 and December 31, 2008 (in thousands):

	March 31, 2009			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available-for-sale:				
U.S. government agencies	$ 1,994	$ 53	$ --	$ 2,047
State and political subdivisions	1,511	27	--	1,538
Mortgage-backed securities-agency collateralized	12,589	--	(227)	12,362
Mortgage-backed securities-non-agency collateralized	22,679	--	(3,694)	18,985
Corporate bonds	10,481	4	(125)	10,360
Asset-backed securities	9,097	9	(771)	8,335
	$ 58,351	**$ 93**	**$ (4,817)**	**$ 53,627**
Held-to-maturity:				
Asset-backed securities	**$ 7,574**	**--**	**--**	**$ 7,574**

	December 31, 2008			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available-for-sale:				
U.S. government agencies	$ 8,447	$ 144	$ --	$ 8,591
State and political subdivisions	1,513	19	(1)	1,531
Mortgage-backed securities-agency collateralized	12,821	--	(391)	12,430
Mortgage-backed securities-non-agency collateralized	23,091	--	(5,669)	17422
Asset-backed securities	11,400	--	(977)	10,423
	$ 57,272	$ 163	$ (7,038)	

				$ 50,397
Held-to-maturity:				
Asset-backed securities	$ 7,574	--	--	$ 7,574

During the three months ended March 31, 2009, available-for-sale securities with an aggregate par value of $6,500 were called by the issuing agencies or matured resulting in no gains or losses recorded through the condensed consolidated statement of operations. Additionally, during the three months ended March 31, 2009, Stifel Bank received principal payments on asset-backed and mortgage-backed securities of $3,015. During the three months ended March 31, 2009, unrealized gains, net of taxes, of $1,372 were recorded in accumulated other comprehensive income. During the three months ended March 31, 2008, unrealized losses, net of deferred tax benefits, of $1,332, were recorded in accumulated other comprehensive income.

On June 30, 2008, Stifel Bank transferred $10,000 par value asset backed security, consisting of investment-grade trust preferred securities related primarily to banks, with an amortized cost basis of $10,069 from its available-for-sale securities portfolio to its held-to-maturity portfolio. This security was transferred at the estimated fair value of $7,574. The gross unrealized loss of $2,495 included in accumulated other comprehensive income is being amortized as an adjustment of yield over the remaining life of the security. Amortization of $15, net of tax, related to the unrealized loss was recorded as an adjustment of yield during the first quarter of 2009. The estimated fair value of this held-to-maturity security at March 31, 2009 was $6,045. The estimated fair value was determined using several factors; however, primary weight was given to discounted cash flow modeling techniques that incorporated an estimated discount rate based upon recent observable debt security issuances with similar characteristics. Based upon the results of this analysis and Stifel Bank's intent and ability to hold this investment to maturity, we do not consider this security to be other-than-temporarily impaired as of March 31, 2009.

The amortized cost and fair value of available-for-sale and held-to-maturity securities at March 31, 2009 by contractual maturity, is shown below (in thousands). Expected maturities will differ from contractual maturities because issuers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Available-for-Sale		**Held-to-Maturity**	
	Amortized Cost	**Fair Value**	**Amortized Cost**	**Fair Value**
U.S. government and state and political agencies and other non-mortgage debt securities:				
Within one year	$ 4,306	$ 4,096	$ --	$ --
One to three years	15,776	15,143	--	--
Three to five years	2,001	2,027	--	--
Five to ten years	1,000	1,014	--	--
Over ten years	--	--	7,574	6,045
Mortgage-backed securities:				
Five to ten years	9,968	9,102	--	--
Over twenty-five years	25,300	22,245	--	--
	$ 58,351	**$ 53,627**	**$ 7,574**	**$ 6,045**

The carrying value of securities pledged as collateral to secure public deposits and other purposes was $34,129 and $39,570 at March 31, 2009 and December 31, 2008, respectively.

Certain investments in the available-for-sale portfolio at March 31, 2009 are reported in the condensed consolidated statements of financial condition at an amount less than their amortized cost. The total fair value of these investments at March 31, 2009 was $47,595, which was 89% of our company's available-for-sale investment portfolio. The amortized cost basis of these investments was $52,409 at March 31, 2009. The declines in the available-for-sale portfolio primarily resulted from changes in interest rates, the widening of credit spreads and liquidity issues that have had a pervasive impact on the market.

The following table is a summary of the amount of gross unrealized losses and the estimated fair value by length of time that the securities have been in an unrealized loss position at March 31, 2009 (in thousands):

	Less than 12 months		**12 months or more**		**Total**	
	Gross Unrealized Losses	**Fair Value**	**Gross Unrealized Losses**	**Fair Value**	**Gross Unrealized Losses**	**Fair Value**
Available-for-sale						
Mortgage-backed securities-agency collateralized	$ --	$ --	$ (227)	$ 12,362	$ (227)	$ 12,362
Mortgage-backed securities-non-agency collateralized	(2,828)	9,883	(866)	9,102	(3,694)	18,985
Corporate bonds	(125)	10,360	--	--	(125)	10,360
Asset-backed securities	--	--	(771)	6,915	(771)	6,915
	$ (2,953)	**$ 20,243**	**$ (1,864)**	**$ 28,379**	**$ (4,817)**	**$ 48,622**

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

Stifel Bank's available-for-sale securities and held-to-maturity security are reviewed quarterly in accordance with its accounting policy for other-than-temporary impairment and since the decline in fair value of the securities presented in the table above is attributable to changes in interest rates and the widening of credit spreads, and the liquidity issues that have had a pervasive impact on the market and not credit quality and because we have the ability and intent to hold these investments until a fair value recovery or maturity, we do not consider these securities to be other-than-temporarily impaired as of March 31, 2009.

NOTE 6 - 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, 2009 and December 31, 2008 (in thousands, except percentages):

	2009		2008	
	Balance	**%**	**Balance**	**%**
Commercial real estate	**$ 43,059**	**25%**	$ 41,563	22%
Construction and land	**5,977**	**3%**	13,968	8%
Commercial (1)	**20,041**	**12%**	27,538	15%
Residential real estate	**52,460**	**30%**	55,661	30%
Home equity lines of credit	**29,781**	**17%**	28,612	15%
Consumer (2)	**22,146**	**13%**	19,628	10%

Other	**22**	**--%**	52	--%
	173,486	**100%**	187,022	100%
Unamortized loan origination costs, net of loan fees	**536**		591	
Loans in process	**72**		(3,896)	
Allowance for loan losses	**(2,710)**		(2,448)	
	$ 171,384		$ 181,269	

(1) Includes stock-secured loans of $1,073 and $1,770 at March 31, 2009 and December 31, 2008, respectively.

(2) Includes stock-secured loans of $21,568 and $18,861 at March 31, 2009 and December 31, 2008, respectively.

Changes in the allowance for loan losses at Stifel Bank for the three months ended March 31, 2009 and 2008 were as follows (in thousands):

	2009	2008
Allowance for loan losses, beginning of period	**$ 2,448**	**$ 1,685**
Provision for loan loss charged to operations	533	135
Charge-offs:		
Commercial real estate	(219)	(253)
Real estate construction loans	(21)	--
Construction and land	(31)	--
Total charge-offs	(271)	(253)
Recoveries	--	--
Allowances for loan losses, end of period	**$ 2,710**	**$ 1,567**
Net charge-offs to average bank loans, net outstanding	**0.12%**	0.19%

At March 31, 2009, Stifel Bank had $31,108 in mortgage loans held for sale. For the three months ended March 31, 2009, Stifel Bank recognized a gain of $933 from the sale of loans originated for sale, net of fees and costs to originate these loans.

Included in the loan portfolio at March 31, 2009 and December 31, 2008 are impaired loans totaling $2,519 and $573, respectively, for which there are specific loss allowances of $697 and $189, respectively. At March 31, 2009, Stifel Bank had $2,075 of nonperforming loans, which was comprised of $1,982 in non-accruing loans that were less than 90 days past due and $93 in non-accruing loans that were more than 90 days past due, for which there was a specific allowance of $986. There were no non-accruing loans and there were no accruing loans delinquent 90 days or more at December 31, 2008. Stifel Bank has no exposure to sub-prime mortgages. The gross interest income related to impaired loans, which would have been recorded had these loans been current in accordance with their original terms, and the interest income recognized on these loans during the year, were immaterial to the condensed consolidated financial statements.

At March 31, 2009 and December 31, 2008, Stifel Bank had loans outstanding to its executive officers, directors and significant stockholders and their affiliates in the amount of $0 and $1,578, respectively, and loans outstanding to other Stifel Financial Corp. executive officers, directors and significant stockholders and their affiliates in the amount of $1,014 and $48, respectively. Such loans and other extensions of credit were made in the ordinary course of business and were made on substantially the same terms (including interest rates and collateral) as those prevailing at the time for comparable transactions with other persons.

NOTE 7 - Goodwill and Intangible Assets

The carrying amount of goodwill and intangible assets attributable to each of our company's reportable segments is presented in the following table (in thousands):

	Private Client Group	Equity Capital Markets	Fixed Income Capital Markets	Stifel Bank	Total
Goodwill					
Balance at December 31, 2008	**$ 58,373**	**$ 41,868**	**$ 11,352**	**$ 16,685**	**$ 128,278**
Purchase price adjustments	2,049	868	217	--	3,134
Balance at March 31, 2009	**60,422**	**42,736**	**11,569**	**16,685**	**131,412**
Intangible Assets					
Balance at December 31, 2008	**10,888**	**2,657**	**1,085**	**1,354**	**15,984**
Net additions	1,676	--	--	--	1,676
Amortization of intangible assets	(511)	(92)	(34)	(97)	(734)
Balance at March 31, 2009	**12,053**	**2,565**	**1,051**	**1,257**	**16,926**
Total goodwill and intangible assets	**$ 72,475**	**$ 45,301**	**$ 12,620**	**$ 17,942**	**$ 148,338**

The changes in goodwill during the three months ended March 31, 2009 primarily consist of payments for the contingent earn-out of $4,338 for the Ryan Beck acquisition and purchase price adjustments related to our acquisition of Butler Wick on December 31, 2008.

Intangible assets consist of acquired customer lists, core deposits, and non-compete agreements that are amortized to expense over their contractual or determined useful lives, as well as backlog, which is amortized against revenue as specific transactions are closed. Intangible assets subject to amortization as of March 31, 2009 were as follows (in thousands):

	Cost	Accumulated Amortization	Net
Amortized intangible assets			
Customer lists	$ 21,004	$ 5,918	$ 15,086
Core deposits	2,157	901	1,256
Other	2,789	2,205	584
	$ 25,950	**$ 9,024**	**$ 16,926**

Intangible assets subject to amortization as of December 31, 2008 were as follows (in thousands):

	Cost	Accumulated Amortization	Net
Amortized intangible assets			
Customer lists	$ 19,533	$ 5,371	$ 14,162
Core deposits	2,157	804	1,353
Other	2,584	2,115	469
	$ 24,274	$ 8,290	$ 15,984

Amortization expense related to intangible assets was $734 and $825 for the three months ended March 31, 2009 and 2008, respectively.

The weighted-average remaining lives of the following intangible assets at March 31, 2009 are: customer lists 6.2 years; core deposits 6.1 years; and non-compete agreements 0.9 years. As of March 31, 2009, we expect amortization expense in future periods to be as follows (in thousands):

Fiscal Year	
Remainder of 2009	$ 1,996
2010	2,317
2011	2,104
2012	1,743
2013	1,575
Thereafter	7,191
	$ 16,926

NOTE 8 - Bank Deposits

Deposits consist of customer bank deposits, savings accounts and time deposits. Deposits at March 31, 2009 and December 31, 2008 were as follows (in thousands):

	2009	2008
Demand deposits-non-interest bearing	**$ 12,765**	$ 23,162
Demand deposits-interest bearing	**4,492**	4,258
Money market accounts	**421,288**	232,935
Savings accounts	**344**	341
Certificates of deposit, less than $100	**11,498**	13,436