STIFEL FINANCIAL CORP
Form 10-Q
August 09, 2010

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

Form 10-Q

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

For the Quarterly Period Ended June 30, 2010

OR

o **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	**43-1273600**
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)
501North Broadway St. Louis, Missouri	**63102**
(Address of principal executive offices)	(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 þ No o

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 þ No o

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

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

The number of shares outstanding of the registrant's common stock as of July 30, 2010 was 35,817,247, which includes 780,118 exchangeable shares of TWP Acquisition Company (Canada), Inc., a wholly-owned subsidiary of the registrant. These shares are exchangeable at any time into a share of common stock of the registrant; entitle the holder to dividend and other rights substantially economically equivalent to those of a share of common stock; and, through a voting trust, entitle the holder to a vote on matters presented to common shareholders.

STIFEL FINANCIAL CORP.

Form 10-Q

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PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

STIFEL FINANCIAL CORP.

Consolidated Statements of Financial Condition

(in thousands)		**June 30, 2010 (Unaudited)**		December 31, 2009
Assets				
Cash and cash equivalents	**$**	**262,702**	$	161,820
Cash segregated for regulatory purposes		**19**		19
Receivables:				
Brokerage clients, net		**441,854**		383,222
Broker, dealers and clearing organizations		**196,231**		309,609
Securities purchased under agreements to resell		**88,668**		124,854
Trading securities owned, at fair value (includes securities pledged of $253,835 and $287,683, respectively)		**476,498**		454,891
Available-for-sale securities, at fair value		**740,121**		578,488
Held-to-maturity securities, at amortized cost		**7,574**		7,574
Loans held for sale		**60,154**		91,117
Bank loans, net		**367,819**		335,157
Bank foreclosed assets held for sale, net of estimated cost to sell		**1,345**		3,143
Investments		**126,205**		109,403
Fixed assets, net of accumulated depreciation and amortization of $81,477 and $71,445, respectively		**63,124**		62,115
Goodwill		**166,725**		166,725
Intangible assets, net		**22,508**		24,648
Loans and advances to financial advisors and other employees, net		**180,912**		185,123
Deferred tax assets, net		**58,314**		53,462
Other assets		**109,934**		115,986
Total Assets	**$**	**3,370,707**	$	3,167,356

See accompanying Notes to Consolidated Financial Statements.

STIFEL FINANCIAL CORP.

Consolidated Statements of Financial Condition (continued)

(in thousands, except share and per share amounts)	**June 30, 2010 (Unaudited)**	December 31, 2009
Liabilities and Shareholders' Equity		
Short-term borrowings from banks	**$ 163,900**	$ 90,800
Payables:		
Customers	**218,647**	214,883
Brokers, dealers and clearing organizations	**111,364**	90,460
Drafts	**47,235**	66,964
Securities sold under agreements to repurchase	**58,584**	122,533
Bank deposits	**1,255,292**	1,047,211
Federal Home Loan Bank advances	**-**	2,000
Trading securities sold, but not yet purchased, at fair value	**253,463**	277,370
Accrued compensation	**119,215**	166,346
Accounts payable and accrued expenses	**124,197**	113,364
Debenture to Stifel Financial Capital Trust II	**35,000**	35,000
Debenture to Stifel Financial Capital Trust III	**35,000**	35,000
Debenture to Stifel Financial Capital Trust IV	**12,500**	12,500
Other	**982**	9,398
	2,435,379	2,283,829
Liabilities subordinated to claims of general creditors	**8,241**	10,081
Shareholders' Equity:		
Preferred stock - $1 par value; authorized 3,000,000 shares; none issued	**-**	-
Common stock - $0.15 par value; authorized 97,000,000 shares; issued 31,379,884 and 30,388,270 shares, respectively	**4,707**	4,558
Additional paid-in-capital	**656,402**	623,943
Retained earnings	**285,257**	244,615
Accumulated other comprehensive income	**1,860**	1,302
	948,226	874,418
Treasury stock, at cost, 399,075 and 4,221 shares, respectively	**(20,514)**	(242)
Unearned employee stock ownership plan shares, at cost, 97,617 and 113,885 shares, respectively	**(625)**	(730)
	927,087	873,446
Total Liabilities and Shareholders' Equity	**$ 3,370,707**	$ 3,167,356

See accompanying Notes to Consolidated Financial Statements.

STIFEL FINANCIAL CORP.

Consolidated Statements of Operations

(Unaudited)

(in thousands, except per share amounts)	**Three Months Ended June 30, 2010**	Three Months Ended June 30, 2009	**Six Months Ended June 30, 2010**	Six Months Ended June 30, 2009
Revenues:				
Principal transactions	**$ 122,923**	$ 121,261	**$ 240,343**	$ 218,539
Commissions	**103,634**	80,721	**208,669**	155,331
Asset management and service fees	**44,138**	25,433	**85,241**	51,254
Investment banking	**41,252**	24,702	**75,473**	40,206
Interest	**14,654**	10,584	**29,301**	20,476
Other income	**3,757**	1,849	**5,702**	1,076
Total revenues	**330,358**	264,550	**644,729**	486,882
Interest expense	**2,349**	3,045	**4,690**	5,396
Net revenues	**328,009**	261,505	**640,039**	481,486
Non-interest expenses:				
Compensation and benefits	**216,907**	175,881	**423,149**	323,721
Occupancy and equipment rental	**26,595**	20,714	**51,453**	38,581
Communications and office supplies	**15,925**	13,129	**30,343**	24,974
Commissions and floor brokerage	**5,272**	6,321	**11,016**	10,681
Other operating expenses	**27,365**	19,351	**48,568**	35,265
Total non-interest expenses	**292,064**	235,396	**564,529**	433,222
Income before income tax expense	**35,945**	26,109	**75,510**	48,264
Provision for income taxes	**14,836**	10,294	**30,661**	19,272
Net income	**$ 21,109**	$ 15,815	**$ 44,849**	$ 28,992
Earnings per common share:				
Basic	**$ 0.68**	$ 0.58	**$ 1.46**	$ 1.07
Diluted	**$ 0.60**	$ 0.51	**$ 1.28**	$ 0.94
Weighted average number of common shares outstanding:				
Basic	**30,838**	27,455	**30,779**	27,116
Diluted	**34,901**	31,270	**34,973**	30,752

See accompanying Notes to Consolidated Financial Statements.

STIFEL FINANCIAL CORP.

Consolidated Statements of Cash Flows

(Unaudited)

	Six Months Ended June 30,	
(in thousands)	**2010**	2009
Operating Activities:		
Net income	**$ 44,849**	$ 28,992
Adjustments to reconcile net income to net cash provided by/(used in) operating activities:		
Depreciation and amortization	**11,579**	8,086
Amortization of loans and advances to financial advisors and other employees	**23,528**	11,936
Accretion of discounts on available-for-sale securities	**3,213**	(123)
Provision for loan losses and allowance for loans and advances to financial advisors and other employees	**(914)**	1,384
Amortization of intangible assets	**1,472**	1,399
Deferred income taxes	**(5,869)**	(1,150)
Stock-based compensation	**32,429**	24,019
Excess tax benefits from stock-based compensation	**(13,122)**	(10,546)
(Gain)/loss on the sale of investments	**(26)**	2,142
Other, net	**(961)**	257
Decrease/(increase) in operating assets:		
Receivables:		
Brokerage clients	**(58,089)**	(59,139)
Brokers, dealers and clearing organizations	**113,378**	(299,766)
Securities purchased under agreements to resell	**36,186**	(80,421)
Trading securities owned, including those pledged	**(21,607)**	(167,469)
Loans originated as mortgages held for sale	**(386,444)**	(534,217)
Proceeds from mortgages held for sale	**386,647**	522,143
Loans and advances to financial advisors and other employees	**(18,711)**	(52,637)
Other assets	**19,712**	(10,926)
Increase/(decrease) in operating liabilities:		
Payables:		
Customers	**3,764**	36,699
Brokers, dealers and clearing organizations	**(34,177)**	91,021
Drafts	**(19,729)**	(11,472)
Trading securities sold, but not yet purchased	**(23,907)**	90,185
Other liabilities and accrued expenses	**(69,550)**	(83,493)
Net cash provided by/(used) in operating activities	**23,651**	(493,096)

See accompanying Notes to Consolidated Financial Statements.

STIFEL FINANCIAL CORP.

Consolidated Statements of Cash Flows (continued)

(Unaudited)

	Six Months Ended June 30,	
(in thousands)	**2010**	2009
Investing Activities:		
Proceeds from:		
Maturities, calls and principal paydowns on available-for sale securities	**$ 63,078**	$ 12,649
Sale or maturity of investments	**38,180**	39,703
Sale of bank branch	**13,905**	-
Sale of bank foreclosed assets held for sale	**1,934**	2,845
Decrease/(increase) in bank loans, net	**(32,897)**	8,096
Payments for:		
Purchase of available-for-sale securities	**(215,828)**	(92,209)
Purchase of investments	**(54,896)**	(68,683)
Purchase of fixed assets	**(11,808)**	(11,005)
Acquisitions	**(500)**	-
Purchase of bank foreclosed assets held for sale	**(97)**	(2,719)
Net cash used in investing activities	**(198,929)**	(111,323)
Financing Activities:		
Increase in bank deposits, net	**225,701**	185,632
Net proceeds from short-term borrowings from banks	**73,100**	212,300
(Decrease)/increase in securities sold under agreements to repurchase	**(63,949)**	52,665
Increase in securities loaned	**55,081**	39,230
Excess tax benefits from stock-based compensation	**13,122**	10,546
Issuance of common stock	**865**	53,903
Repurchase of common stock	**(24,428)**	-
Reissuance of treasury stock	**508**	-
Payment of Federal Home Loan Bank advances	**(2,000)**	(4,000)
Extinguishment of subordinated debt	**(1,840)**	(1,300)
Net cash provided by financing activities	**276,160**	548,976
Increase/(decrease) in cash and cash equivalents	**100,882**	(55,443)
Cash and cash equivalents at beginning of period	**161,820**	239,725
Cash and cash equivalents at end of period	**$ 262,702**	$ 184,282
Supplemental disclosure of cash flow information:		
Cash paid for interest	**$ 4,654**	$ 5,277
Cash paid for income taxes, net of refunds	**$ 25,107**	$ 435
Noncash investing and financing activities:		
Units, net of forfeitures	**$ 54,524**	$ 50,609
Payment of Ryan Beck contingent earn-out	**$ -**	$ 9,301

See accompanying Notes to Consolidated Financial Statements.

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STIFEL FINANCIAL CORP.

Notes to Consolidated Financial Statements

(in thousands, except share and per share amounts)

(Unaudited)

NOTE 1 - Nature of Operations and Basis of Presentation

Nature of Operations

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

On April 26, 2010, Stifel Financial Corp. and Thomas Weisel Partners Group, Inc. ("TWPG") entered into a definitive agreement for our company to acquire 100% of the outstanding shares of TWPG common stock. Under the terms of the agreement, TWPG shareholders would receive 0.1364 of Stifel Financial Corp.'s shares for each TWPG share they own. The merger closed on July 1, 2010. TWPG is an investment bank focused principally on the growth sectors of the economy, 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. See Note 24 - Subsequent Events for a discussion of the merger with TWPG.

Basis of Presentation

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

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

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

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

Recently Adopted Accounting Guidance

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

Consolidation

In February 2010, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("Update") No. 2010-10, "*Consolidation (Topic 810): Amendments for Certain Investment Funds*," which provides for a deferral of the consolidation requirements of Topic 810 resulting from the issuance of FASB Statement No. 167 ("Statement 167"), *Amendments to FASB Interpretation No. 46R*," for a reporting entity's interest in an entity that has all the attributes of an investment company; or for which it is industry practice to apply measurement principles for financial reporting purposes that are consistent with those followed by investment companies (the "deferral"). The deferral does not apply in situations in which a reporting entity has the explicit or implicit obligation to fund losses of an entity that could potentially be significant to the entity. The deferral also does not apply to interests in securitization entities, asset-backed financing entities, or entities formerly considered qualifying special purpose entities. An entity that qualifies for the deferral will continue to be assessed under the overall guidance on the consolidation of variable interest entities in Subtopic 810-10 (before the Statement 167 amendments) or other applicable consolidation guidance, such as the guidance for the consolidation of partnerships in Subtopic 810-20. This guidance does not defer the disclosure requirements of Topic 810, as amended. The amendments in this Update are effective as of the beginning of the first annual reporting period that begins after November 15, 2009 and for interim periods within the first annual reporting period (January 1, 2010 for our company). The adoption of this guidance permits us to defer the consolidation requirements of Topic 810 resulting from the issuance of Statement 167 for certain of these entities. See Note 23 - Variable Interest Entities.

Subsequent Events

In February 2010, the FASB issued Update No. 2010-09, "*Subsequent Events (Topic 855): Amendments to Certain Recognition and Disclosure Requirements*," which amends certain provisions of the current guidance, including the elimination of the requirement for disclosure of the date through which an evaluation of subsequent events was performed in issued and revised financial statements. This guidance was effective for the first interim and annual reporting periods beginning after issuance (March 31, 2010 for our company). The adoption of this new guidance did not have a material impact on our consolidated financial statements. See Note 24 - Subsequent Events.

Fair Value of Financial Instruments

In January 2010, the FASB issued Update No. 2010-06, "*Fair Value Measurements and Disclosures (Topic 820): Improving Disclosures about Fair Value Measurements*," which amends the disclosure requirements related to recurring and nonrecurring fair value measurements. The guidance requires new disclosures on the transfers of assets and liabilities between Level 1 (quoted prices in active market for identical assets or liabilities) and Level 2 (significant other observable inputs) of the fair value measurement hierarchy, including the reasons and the timing of the transfers. Additionally, the guidance requires a rollforward of activities on purchases, sales, issuance, and settlements of the assets and liabilities measured using significant unobservable inputs (Level 3 fair value measurements). The guidance became effective for us with the reporting period beginning January 1, 2010, except for the disclosure on the roll forward activities for Level 3 fair value measurements, which will become effective for us with the reporting period beginning January 1, 2011. Other than requiring additional disclosures, the adoption of this new guidance did not have a material impact on our consolidated financial statements. See Note 4 - Fair Value of Financial Instruments.

Accounting for Transfers of Financial Assets

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

Recently Issued Accounting Guidance

Deterioration of Credit Quality for Acquired Loans

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

Allowance for Credit Losses

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

NOTE 2 - Sale of Bank Branch

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

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

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

		June 30, 2010		December 31, 2009
Deposits paid for securities borrowed	**$**	**117,922**	$	147,325
Securities failed to deliver		**53,773**		64,626
Receivable from clearing organizations		**24,536**		97,658
	$	**196,231**	$	309,609

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

		June 30, 2010		December 31, 2009
Deposits received from securities loaned	**$**	**71,110**	$	16,667
Securities failed to receive		**36,415**		73,793
Payable to clearing organizations		**3,839**		-
	$	**111,364**	$	90,460

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

NOTE 4 - Fair Value of Financial Instruments

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

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

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

Cash equivalents

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

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

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

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

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

Investments

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

Trading securities sold but not yet purchased

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

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

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

Derivative contracts

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

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

	June 30, 2010			
	Total	**Level I**	**Level II**	**Level III**
Assets:				
Cash equivalents	**$ 63,838**	$ 63,838	$ -	$ -
Trading securities owned:				
U.S. government agency securities	**116,197**	-	116,197	-
U.S. government securities	**15,044**	15,044	-	-
Corporate securities:				
Fixed income securities	**255,263**	128,387	117,752	9,124
Equity securities	**15,536**	15,160	376	-
State and municipal securities	**74,458**	-	74,458	-
Total trading securities owned	**476,498**	158,591	308,763	9,124
Available-for-sale securities:				
U.S. government agency securities	**98,970**	-	98,970	-
State and municipal securities	**13,990**	-	13,990	-
Mortgage-backed securities:				
Agency	**491,641**	-	491,641	-
Non-agency	**34,683**	-	34,683	-
Commercial	**47,841**	-	47,841	-
Corporate fixed income securities	**41,003**	30,347	10,656	-
Asset-backed securities	**11,993**	-	11,993	-
Total available-for-sale securities	**740,121**	30,347	709,744	-
Investments:				
Corporate equity securities	**7,727**	7,727	-	-
Mutual funds	**28,256**	28,256	-	-
U.S. government securities	**9,237**	9,237	-	-
Auction rate securities:				
Equity securities	**62,846**	-	-	62,846
Municipal securities	**10,788**	-	-	10,788
Other	**7,351**	70	346	6,935
Total investments	**126,205**	45,290	346	80,569
	$ 1,406,662	$ 298,066	$ 1,018,903	$ 89,693
Liabilities:				
Trading securities sold, but not yet purchased:				
U.S. government securities	**$ 133,911**	$ 133,911	$ -	$ -
Corporate securities:				
Fixed income securities	**109,115**	74,476	31,284	2,355
Equity securities	**10,130**	9,631	499	-
State and municipal securities	**307**	-	307	-
Total trading securities sold, but not yet purchased	**253,463**	219,018	32,090	2,355
Derivative contracts	**10,521**	-	10,521	-

$

263,984

$	219,018
$	42,611
$	2,355

	December 31, 2009			
	Total	**Level I**	**Level II**	**Level III**
Assets:				
Cash equivalents	**$ 3,824**	$ 3,824	$ -	$ -
Trading securities owned:				
U.S. government agency securities	**158,724**	-	158,724	-
U.S. government securities	**20,254**	20,254	-	-
Corporate securities:				
Fixed income securities	**209,950**	36,541	172,166	1,243
Equity securities	**18,505**	18,505	-	-
State and municipal securities	**47,458**	-	47,458	-
Total trading securities owned	**454,891**	75,300	378,348	1,243
Available-for-sale securities:				
U.S. government agency securities	**1,011**	-	1,011	-
State and municipal securities	**992**	-	992	-
Mortgage-backed securities:				
Agency	**433,019**	-	433,019	-
Non-agency	**38,466**	-	38,466	-
Commercial	**47,640**	-	47,640	-
Corporate fixed income securities	**42,890**	32,204	10,686	-
Asset-backed securities	**14,470**	-	11,777	2,693
Total available-for-sale securities	**578,488**	32,204	543,591	2,693
Investments:				
Corporate equity securities	**2,671**	2,671	-	-
Mutual funds	**28,597**	28,597	-	-
U.S. government securities	**7,266**	7,266	-	-
Auction rate securities:				
Equity securities	**46,297**	-	-	46,297
Municipal securities	**9,706**	-	-	9,706
Other	**6,536**	672	438	5,426
Total investments	**101,073**	39,206	438	61,429
	$ 1,138,276	$ 150,534	$ 922,377	$ 65,365
Liabilities:				
Trading securities sold, but not yet purchased:				
U.S. government securities	**$ 127,953**	$ 127,953	$ -	$ -
U.S. government agency securities	**1,537**	-	1,537	-
Corporate securities:				
Fixed income securities	**122,491**	11,744	110,747	-
Equity securities	**25,057**	25,057	-	-
State and municipal securities	**332**	-	332	-
Total trading securities sold, but not yet purchased	**277,370**	164,754	112,616	-
Derivative contracts	**78**	-	78	-
	$ 277,448	$ 164,754	$ 112,694	$ -

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

	Three Months Ended June 30, 2010					
	Financial Assets					Financial Liabilities**
	Corporate Fixed Income Securities*	Asset-backed Securities	Auction Rate Securities - Equity	Investments Auction Rate Securities - Municipal	Other	Corporate Fixed Income Securities
Balance at March 31, 2010	**$ 7,042**	**$ -**	**$ 64,735**	**$ 10,956**	**$ 5,418**	**$ 4,255**
Unrealized gains/(losses):						
Included in changes in net assets	112	-	111	2	183	-
Included in OCI	-	-	-	-	-	-
Realized gains/(losses)	808	-	-	5	-	83
Purchases, issuances, settlements, net	1,137	-	(2,000)	(175)	1,334	(1,983)
Level III transfers:						
Into level III	26	-	-	-	-	-
Out of level III	(1)	-	-	-	-	-
Net change	2,082	-	(1,889)	(168)	1,517	(1,900)
Balance at June 30, 2010	**$ 9,124**	**$ -**	**$ 62,846**	**$ 10,788**	**$ 6,935**	**$ 2,355**

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

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

	Six Months Ended June 30, 2010					
	Financial Assets					Financial Liabilities**
	Corporate Fixed Income Securities*	Asset-backed Securities	Auction Rate Securities - Equity	Investments Auction Rate Securities - Municipal	Other	Corporate Fixed Income Securities
Balance at December 31, 2009	**$ 1,243**	**$ 2,693**	**$ 46,297**	**$ 9,706**	**$ 5,426**	**$ -**
Unrealized gains/(losses):						
Included in changes in net assets	94	-	(976)	(73)	1	50
Included in OCI	-	887	-	-	-	-
Realized gains/(losses)	1,038	-	-	5	-	83
Purchases, issuances, settlements, net	6,615	(3,580)	17,525	1,150	1,508	1,332
Level III transfers:						
Into level III	135	-	-	-	-	890
Out of level III	(1)	-	-	-	-	-
Net change	7,881	(2,693)	16,549	1,082	1,509	2,355
Balance at June 30, 2010	**$ 9,124**	**$ -**	**$ 62,846**	**$ 10,788**	**$ 6,935**	**$ 2,355**

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

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

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

Transfers within the Fair Value Hierarchy

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

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

	June 30, 2010		December 31, 2009	
	Carrying value	**Estimated fair value**	Carrying value	Estimated fair value
Financial assets:				
Cash and cash equivalents	**$ 262,702**	**$ 262,702**	$ 161,820	$ 161,820
Cash segregated for regulatory purposes *	**19**	**19**	19	19
Securities purchased under agreements to resell *	**88,668**	**88,668**	124,854	124,854
Trading securities owned	**476,498**	**476,498**	454,891	454,891
Available-for-sale securities	**740,121**	**740,121**	578,488	578,488
Held-to-maturity securities	**7,574**	**4,015**	7,574	4,276
Loans held for sale *	**60,154**	**60,154**	91,117	91,117
Bank loans	**367,819**	**356,442**	335,157	332,437
Investments	**126,205**	**126,205**	109,403	109,403
Financial liabilities:				
Non-interest-bearing deposits	**$ 15,631**	**$ 15,824**	$ 19,521	$ 19,013
Interest-bearing deposits	**1,239,661**	**1,261,472**	1,027,690	1,027,403
Securities sold under agreements to repurchase *	**58,584**	**58,584**	122,533	122,533
Federal Home Loan Bank advances *	**-**	**-**	2,000	2,000
Trading securities sold but not yet purchased	**253,463**	**253,463**	277,370	277,370
Derivative contracts**	**10,521**	**10,521**	78	78
Liabilities subordinated to the claims of general creditors	**8,241**	**7,614**	10,081	9,299

* Carrying value approximates fair value.

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

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

Financial Assets

Securities purchased under agreements to resell

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

Held-to-maturity securities

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

The decrease in fair value below the carrying amount at June 30, 2010 and December 31, 2009 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, which has lead to a significant amount of bank failures.

Loans held for sale

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

Bank Loans

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

Financial liabilities

Non-interest bearing deposits

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

Interest bearing deposits

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

Securities sold under agreements to repurchase

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

Liabilities subordinated to claims of general creditors

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

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

NOTE 5 - Trading Securities Owned and Trading Securities Sold, But Not Yet Purchased

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

		June 30, 2010		December 31, 2009
Trading securities owned:				
U.S. government agency securities	$	**116,197**	$	158,724
U.S. government securities		**15,044**		20,254
Corporate securities:				
Fixed income securities		**255,263**		209,950
Equity securities		**15,536**		18,505
State and municipal securities		**74,458**		47,458
	$	**476,498**	$	454,891
Trading securities sold, but not yet purchased:				
U.S. government securities	**$**	**133,911**	$	127,953
U.S. government agency securities		**-**		1,537
Corporate securities:				
Fixed income securities		**109,115**		122,491
Equity securities		**10,130**		25,057
State and municipal securities		**307**		332
	$	**253,463**	$	277,370

At June 30, 2010 and December 31, 2009, trading securities owned in the amount of $253,835 and $287,683, respectively, were pledged as collateral for our repurchase agreements and short-term borrowings from banks.

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

NOTE 6 - Available-for-Sale Securities and Held-to-Maturity Securities

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

	June 30, 2010			
	Amortized cost	**Gross unrealized gains (1)**	**Gross unrealized losses (1)**	**Estimated fair value**
Available-for-sale				
U.S. government securities	**$ 98,942**	$ 28	$ -	**$ 98,970**
State and municipal securities	**13,959**	31	-	**13,990**
Mortgage-backed securities:				
Agency	**481,048**	10,638	(45)	**491,641**
Non-agency	**35,623**	810	(1,750)	**34,683**
Commercial	**46,489**	1,352	-	**47,841**
Corporate fixed income securities	**38,943**	2,060	-	**41,003**
Asset-backed securities	**11,213**	780	-	**11,993**
	$ 726,217	$ 15,699	$ (1,795)	**$ 740,121**
Held-to-maturity				
Asset-backed securities	**$ 7,574**	-	(3,559)	**$ 4,015**

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

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

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

During the three and six months ended June 30, 2010, available-for-sale securities with an aggregate par value of $2,915 and $5,868, respectively, were called by the issuing agencies or matured resulting in no gains or losses recorded through the consolidated statement of operations. Additionally, during the three and six months ended June 30, 2010, Stifel Bank received principal payments on mortgage-backed securities of $28,695 and $57,210, respectively. During the three months ended June 30, 2010 and 2009, unrealized gains, net of deferred taxes, of $4,150 and $629, respectively, were recorded in "Accumulated other comprehensive income." During the six months ended June 30, 2010 and 2009, unrealized gains, net of deferred taxes, of $7,532 and $2,001, respectively, were recorded in "Accumulated other comprehensive income."

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

	June 30, 2010			
	Available-for-sale		Held-to-maturity	
	Amortized cost	Estimated fair value	Amortized cost	Estimated fair value
Debt securities				
Within one year	$ 25,864	$ 26,115	$ -	$ -
After one year through three years	108,013	109,079	-	-
After three years through five years	10,802	11,665	-	-
After five years through ten years	5,378	6,097	-	-
After ten years	13,000	13,000	7,574	4,015
Mortgage-backed securities				
After three years through five years	9,924	10,204	-	-
After five years through ten years	23,241	23,450	-	-
After ten years	529,995	540,511	-	-
	$ 726,217	**$ 740,121**	**$ 7,574**	**$ 4,015**

The carrying value of securities pledged as collateral to secure public deposits and other purposes was $67,491 and $76,502 at June 30, 2010 and December 31, 2009, respectively.

Certain investments in the available-for-sale portfolio at June 30, 2010 are reported in the consolidated statements of financial condition at an amount less than their amortized cost. The total fair value of these investments at June 30, 2010 was $33,235, which was 4.5% of our company's available-for-sale investment portfolio. The amortized cost basis of these investments was $35,030 at June 30, 2010. The declines in the available-for-sale portfolio primarily resulted from changes in interest rates and liquidity issues that have had a pervasive impact on the market.

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

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

	Less than 12 months		12 months or more		Total	
	Gross unrealized losses	**Estimated fair value**	**Gross unrealized losses**	**Estimated fair value**	**Gross unrealized losses**	**Estimated fair value**
Available-for-sale						
Mortgage-backed securities:						
Agency	$ -	$ -	$ (45)	$ 9,847	$ (45)	$ 9,847
Non-agency	(86)	11,651	(1,664)	11,737	(1,750)	23,388
	$ (86)	$ 11,651	$ (1,709)	$ 21,584	$ (1,795)	$ 33,235

Other-Than-Temporary Impairment

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

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

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

Based on the evaluation, we recognized other-than-temporary impairment of $0 and $166 related to credit through earnings for the three and six months ended June 30, 2010, respectively. For the impaired security, unrealized losses not related to credit and therefore recognized in other comprehensive income was $1,267 ($769 net of tax) as of June 30, 2010.

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

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

NOTE 7 - Bank Loans

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

	June 30, 2010		December 31, 2009	
	Balance	**Percent**	Balance	Percent
Consumer (1)	**$ 236,509**	**64.1%**	$ 227,436	67.8%
Residential real estate	**52,566**	**14.3**	52,086	15.5
Commercial	**34,720**	**9.4**	11,294	3.4
Home equity lines of credit	**34,105**	**9.2**	33,369	10.0
Commercial real estate	**10,395**	**2.8**	10,152	3.0
Construction and land	**574**	**0.2**	952	0.3

368,869

100.0

%

335,289

100.0

%

Unamortized loan origination costs, net of loan fees

886

1,556

Loans in process	**-**
	14
Allowance for loan losses	**(1,936**
)	

(1,702

)

$

367,819

$

335,157

(1) Includes stock-secured loans of $235,666 and $226,527 at June 30, 2010 and December 31, 2009, respectively.

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

	Three Months Ended		Six Months Ended	
	June 30, 2010	June 30, 2009	**June 30, 2010**	June 30, 2009
Allowance for loan losses, beginning of period	**$ 1,669**	$ 2,710	**$ 1,702**	$ 2,448
Provision for loan losses	**154**	374	**267**	907
Charge-offs:				
Residential real estate	**-**	-	**(149)**	-
Construction and land	**-**	-	-	(31)
Commercial real estate	**-**	-	-	(106)
Real estate construction loans	**-**	-	-	(134)
Other	**(2)**	(24)	**(2)**	(24)
Total charge-offs	**(2)**	(24)	**(151)**	(295)
Recoveries	**115**	-	**118**	-
Allowance for loan losses, end of period	**$ 1,936**	$ 3,060	**$ 1,936**	$ 3,060

At June 30, 2010 and December 31, 2009, Stifel Bank had mortgage loans held for sale of $60,154 and $91,117, respectively. For the three months ended June 30, 2010 and 2009, Stifel Bank recognized a gain of $1,397 and $1,302, respectively, from the sale of loans originated for sale, net of fees and costs to originate these loans. For the six months ended June 30, 2010 and 2009, Stifel Bank recognized a gain of $2,471 and $2,235, respectively, from the sale of loans originated for sale, net of fees and costs to originate these loans.

A loan is impaired when it is probable that interest and principal payments will not be made in accordance with the contractual terms of the loan agreement. At June 30, 2010, Stifel Bank had $913 of nonaccrual loans that were more than 90 days past due, for which there was a specific allowance of $170. Further, Stifel Bank had $392 in troubled debt restructurings at June 30, 2010. At December 31, 2009, Stifel Bank had $1,368 of nonaccrual loans that were more than 90 days past due, for which there was a specific reserve of $47. In addition, there were $533 in troubled debt restructurings at December 31, 2009. The gross interest income related to impaired loans, which would have been recorded had these loans been current in accordance with their original terms, and the interest income recognized on these loans during the year, were immaterial to the consolidated financial statements.

At June 30, 2010 and December 31, 2009, Stifel Bank had loans outstanding to its executive officers, directors and significant stockholders and their affiliates in the amount of $794 and $590, respectively, and loans outstanding to other Stifel Financial Corp. executive officers, directors and significant stockholders and their affiliates in the amount of $3,573 and $994, respectively. Such loans and other extensions of credit were made in the ordinary course of business and were made on substantially the same terms (including interest rates and collateral requirements) as those prevailing at the time for comparable transactions with other persons.

NOTE 8 - Goodwill and Intangible Assets

Goodwill impairment is tested at the reporting unit level, which is an operating segment or one level below an operating segment on an annual basis. Our reporting units are Private Client Group, Fixed Income Capital Markets, Equity Capital Markets, and Stifel Bank. The goodwill impairment analysis is a two-step test. The first step, used to identify potential impairment, involves comparing each reporting unit's fair value to its carrying value including goodwill. If the fair value of a reporting unit exceeds its carrying value, applicable goodwill is considered not to be impaired. If the carrying value exceeds fair value, there is an indication of impairment and the second step is performed to measure the amount of impairment. No indicators of impairment were identified during our annual impairment testing as of July 31, 2009.

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

	December 31, 2009	Net additions	Impairment losses	June 30, 2010
Goodwill				
Global Wealth Management	**$ 112,420**	$ -	$ -	**$ 112,420**
Institutional Group	**54,305**	-	-	**54,305**
	$ 166,725	$ -	$ -	**$ 166,725**

	December 31, 2009	Net additions	Net deductions	Amortization	June 30, 2010
Intangible assets					
Global Wealth Management	**$ 21,356**	$ -	$ (1,060)	$ (1,220)	**$ 19,076**
Institutional Group	**3,292**	391	-	(251)	**3,432**
	$ 24,648	$ 391	$ (1,060)	$ (1,471)	**$ 22,508**

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

	June 30, 2010		December 31, 2009	
	Gross carrying value	**Accumulated Amortization**	Gross carrying value	Accumulated Amortization
Customer lists	**$ 31,145**	**$ 8,948**	$ 30,754	$ 7,584
Non-compete agreement	**2,789**	**2,478**	2,789	2,371
Core deposits*	**-**	**-**	2,157	1,097
	$ 33,934	**$ 11,426**	$ 35,700	$ 11,052

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

Amortization expense related to intangible assets was $707 and $665 for the three months ended June 30, 2010 and 2009, respectively. Amortization expense related to intangible assets was $1,471 and $1,399 for the six months ended June 30, 2010 and 2009, respectively.

The weighted-average remaining lives of the following intangible assets at June 30, 2010 are: customer lists 7.9 years; and non-compete agreements 1.4 years. As of June 30, 2010, we expect amortization expense in future periods to be as follows *(in thousands)*:

Fiscal year		
Remainder of 2010	$	1,628
2011		2,826
2012		2,448
2013		2,184
2014		2,022
Thereafter		11,400
	$	22,508

NOTE 9 - Short-Term Borrowings

Our short-term financing is generally obtained through the use of bank loans and securities lending arrangements. We borrow from various banks on a demand basis with company-owned and customer securities pledged as collateral. The value of the customer-owned securities used as collateral is not reflected in the consolidated statements of financial condition. We maintain available ongoing credit arrangements with banks that provided a peak daily borrowing of $303,800 during the six months ended June 30, 2010. There are no compensating balance requirements under these arrangements. At June 30, 2010, short-term borrowings from banks were $163,900 at an average rate of 1.05%, which were collateralized by company-owned securities valued at $186,669. At December 31, 2009, short-term borrowings from banks were $90,800 at an average rate of 1.04%, which were collateralized by company-owned securities valued at $165,150. The average bank borrowing was $126,759 and $185,887 during the three months ended June 30, 2010 and 2009, respectively, at weighted average daily interest rates of 1.03%, and 0.98%, respectively. The average bank borrowing was $116,614 and $125,254 during the six months ended June 30, 2010 and 2009, respectively, at weighted average daily interest rates of 1.02%, and 0.93%, respectively.

At June 30, 2010 and December 31, 2009, Stifel Nicolaus had a stock loan balance of $71,110 and $16,667, respectively, at weighted average daily interest rates of 0.57% and 0.33%, respectively. The average outstanding securities lending arrangements utilized in financing activities were $62,614 and $40,896 during the three months ended June 30, 2010 and 2009, respectively, at weighted average daily effective interest rates of 1.53%, and 1.00%, respectively. The average outstanding securities lending arrangements utilized in financing activities were $49,450 and $42,581 during the six months ended June 30, 2010 and 2009, respectively, at weighted average daily effective interest rates of 1.66%, and 0.92%, respectively. Customer-owned securities were utilized in these arrangements.

NOTE 10 - Bank Deposits

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

		June 30, 2010		December 31, 2009
Money market and savings accounts	**$**	**1,216,911**	$	993,264
Demand deposits (interest bearing)		**19,495**		16,181
Demand deposits (non-interest bearing)		**15,631**		19,521
Certificates of deposit		**3,255**		18,245
	$	**1,255,292**	$	1,047,211

The weighted average interest rate on deposits was 0.1% and 0.5% at June 30, 2010 and December 31, 2009, respectively.

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

		June 30, 2010		December 31, 2009
Certificates of deposit, less than $100:				
Within one year	**$**	**283**	$	9,775
One to three years		**553**		514
Over three years		**268**		250
	$	**1,104**	$	10,539
Certificates of deposit, $100 and greater:				
Within one year	**$**	**648**	$	5,936
One to three years		**1,271**		1,217
Over three years		**232**		553
	$	**2,151**	$	7,706
	$	**3,255**	$	18,245

At June 30, 2010 and December 31, 2009, the amount of deposits includes deposits of related parties, including $1,235,670 and $1,008,593, respectively, of brokerage customer's deposits from Stifel Nicolaus, and interest-bearing and time deposits of executive officers, directors and significant stockholders and their affiliates of $365 and $391, respectively. Such deposits were made in the ordinary course of business and were made on substantially the same terms (including interest rates) as those prevailing at the time for comparable transactions with other persons.

NOTE 11 - Derivative Instruments and Hedging Activities

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

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

	June 30, 2010				
		Asset derivatives		Liability derivatives	
	Notional Value	Balance sheet location	Positive fair value	Balance sheet location	Negative fair value
Derivatives designated as hedging instruments under Topic 815:					
Cash flow interest rate contracts	$ 511,327	Other assets	$ -	Accounts payable and accrued expenses	$ (10,521)

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

Cash Flow Hedges

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

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

At June 30, 2010, we expect to reclassify $7,510 of net losses, net of tax benefits, on derivative instruments from cumulative other comprehensive income/(loss) to earnings during the next 12 months as interest payments on derivative instruments occur.

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

	Three Months Ended June 30, 2010				
	Loss recognized in OCI (effectiveness)	**Location of loss reclassified from OCI into income**	**Loss reclassified from OCI into income**	**Location of loss recognized in OCI (ineffectiveness)**	**Loss recognized due to ineffectiveness**
Cash flow interest rate contracts	$ 7,229	Interest expense	$ -	None	$ -

	Six Months Ended June 30, 2010				
	Loss recognized in OCI (effectiveness)	**Location of loss reclassified from OCI into income**	**Loss reclassified from OCI into income**	**Location of loss recognized in OCI (ineffectiveness)**	**Loss recognized due to ineffectiveness**
Cash flow interest rate contracts	$ 10,677	Interest expense	$ 78	None	$ -

We maintain a risk management strategy that incorporates the use of derivative instruments to minimize significant unplanned fluctuations in earnings caused by interest rate volatility. Our goal is to manage sensitivity to changes in rates by hedging the maturity characteristics of Fed-funds based affiliated deposits, thereby limiting the impact on earnings. By using derivative instruments, we are exposed to credit and market risk on those derivative positions. We manage the market risk associated with interest rate contracts by establishing and monitoring limits as to the types and degree of risk that may be undertaken. Credit risk is equal to the extent of the fair value gain in a derivative, if the counterparty fails to perform. When the fair value of a derivative contract is positive, this generally indicates that the counterparty owes our company and, therefore, creates a repayment risk for our company. When the fair value of a derivative contract is negative, we owe the counterparty and therefore, have no repayment risk. See Note 4 for further discussion on how we determine the fair value of our financial instruments. We minimize the credit (or repayment) risk in derivative instruments by entering into transactions with high-quality counterparties that are reviewed periodically by senior management.

Credit Risk-Related Contingency Features

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

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

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

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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 June 30, 2010 the fair value of derivatives in a net liability position, which includes accrued interest but excludes any adjustment for nonperformance risk, related to these agreements was $11,485. We have minimum collateral posting thresholds with certain of our derivative counterparties, and have posted collateral of $13,270 against our obligations under these agreements. If we had breached any of these provisions at June 30, 2010, we would have been required to settle our obligations under the agreements at the termination value.

Counterparty Risk

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

NOTE 12 - Commitments and Contingencies

Concentration of Credit Risk

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

Other Commitments

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

In connection with margin deposit requirements of The Options Clearing Corporation, we pledged customer-owned securities valued at $69,909 to satisfy the minimum margin deposit requirement of $33,640 at June 30, 2010.

In connection with margin deposit requirements of the National Securities Clearing Corporation, we deposited $21,900 in cash at June 30, 2010, which satisfied the minimum margin deposit requirements of $20,675.

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

On December 28, 2009, we announced that Stifel Nicolaus had reached an agreement between the State of Missouri, the State of Indiana, the State of Colorado and with an association of other State securities regulatory authorities regarding the repurchase of ARS from Eligible ARS investors. As part of the modified ARS repurchase offer we have accelerated the previously announced repurchase plan. We have agreed to repurchase ARS from Eligible ARS investors in four phases starting in January 2010 and ending on December 31, 2011. At June 30, 2010, we estimate that our retail clients held $87,750 of eligible ARS after issuer redemptions of $29,945 and Stifel repurchases of $78,655.

The first phase of the modified ARS repurchase offer was completed in January 2010. The remaining three phases of the modified ARS repurchase offer will be completed by December 31, 2011. During phases two and three, which will be completed by December 31, 2010, we estimate that we will repurchase ARS of $20,050. During phase four, we estimate that we will repurchase ARS of $67,200, which will be completed by December 31, 2011.

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

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 17 for further details.

Note 13 - Legal Proceedings

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

The regulatory investigations include inquiries from the SEC, FINRA and several state regulatory authorities requesting information concerning our activities with respect to ARS and other matters, and inquiries from the SEC and a state regulatory authority requesting information relating to our role in investments made by five Southeastern Wisconsin school districts (the "school districts") in transactions involving CDOs. We intend to cooperate fully with the SEC, FINRA and the several states in these investigations.

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

The suit arises out of purchases of certain CDOs by the OPEB trusts. The RBC entities structured and served as "arranger" for the CDOs. We served as the placement agent/broker in connection with the transactions. The school districts each formed trusts that made investments designed to address their OPEB liabilities. The total amount of the investments made by the OPEB trusts was $200,000. Plaintiffs assert that the school districts contributed $37,500 to the OPEB trusts to purchase the investments. The balance of $162,500 used to purchase the investments was borrowed by the OPEB trusts from Depfa Bank. The recourse of the lender is each of the OPEB trusts' respective assets and the moral obligation of each school district. The legal claims asserted include violation of the Wisconsin Securities Act, fraud and negligence. The lawsuit seeks equitable relief, unspecified compensatory damages, treble damages, punitive damages and attorney's fees and costs. The Plaintiffs claim that the RBC entities and our company either made misrepresentations or failed to disclose material facts in connection with the sale of the CDOs, and thus allegedly violated the Wisconsin Securities Act. We believe the Plaintiffs reviewed and understood the relevant offering materials and that the investments were suitable based upon, among other things, our receipt of written acknowledgement of risks from each of the Plaintiffs. The Wisconsin State Court denied the Defendants' motions to dismiss, and the Defendants have responded to the allegations of the Second Amended Complaint. We believe, based upon currently available information and review with outside counsel, that we have meritorious defenses to this lawsuit, and intend to vigorously defend all of the Plaintiffs' claims.

NOTE 14 - Regulatory Capital Requirements

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

At June 30, 2010, Stifel Nicolaus had net capital of $243,828, which was 49.2% of aggregate debit items and $233,925 in excess of its minimum required net capital. CSA had net capital of $3,332, which was $3,062 in excess of minimum required net capital.

Our international subsidiary, SN Ltd, is subject to the regulatory supervision and requirements of the Financial Services Authority ("FSA") in the United Kingdom. At June 30, 2010, SN Ltd's capital and reserves were $9,541, which was $8,941 in excess of the financial resources requirement under the rules of the FSA.

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

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

Stifel Financial Corp. - Federal Reserve Capital Amounts

	Actual		For Capital Adequacy Purposes		To be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	**Ratio**	**Amount**	**Ratio**	**Amount**	**Ratio**
Total capital to risk-weighted assets	$ 769,579	39.4%	$ 156,299	8.0%	$ 195,374	10.0%
Tier 1 capital to risk-weighted assets	767,643	39.3	78,150	4.0	117,224	6.0
Tier 1 capital to adjusted average total assets	767,643	26.2	117,061	4.0	146,326	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	$ 99,775	15.7%	$ 50,798	8.0%	$ 63,498	10.0%
Tier 1 capital to risk-weighted assets	97,839	15.4	25,399	4.0	38,099	6.0
Tier 1 capital to adjusted	97,839	8.6	45,669	4.0	57,087	5.0

average total
assets

NOTE 15 - Stock-Based Compensation Plans

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

All stock-based compensation plans are administered by the Compensation Committee of the Board of Directors of the Parent, which has the authority to interpret the plans, determine to whom awards may be granted under the plans, and determine the terms of each award. According to these plans, we are authorized to grant an additional 3,711,868 shares at June 30, 2010.

Stock-based compensation expense included in "Compensation and benefits" in the consolidated statements of operations for our company's incentive stock award plans was $16,224 and $10,586 for the three months ended June 30, 2010 and 2009, respectively. The related income tax benefit recognized in income was $439 and $949 for the three months ended June 30, 2010 and 2009, respectively.

Stock-based compensation expense included in "Compensation and benefits" in the consolidated statements of operations for our company's incentive stock award plans was $31,768 and $23,294 for the six months ended June 30, 2010 and 2009, respectively. The related income tax benefit recognized in income was $13,122 and $10,546 for the six months ended June 30, 2010 and 2009, respectively.

Stock Options

We have substantially eliminated the use of stock options as a form of compensation. During the three and six months ended June 30, 2010, no options were granted. As of June 30, 2010, there were 811,907 options outstanding at a weighted-average exercise price of $9.04 and a weighted-average contractual life of 2.67 years. As of June 30, 2010, there was $235 of unrecognized compensation cost related to non-vested option awards. The cost is expected to be recognized over a weighted-average period of 0.98 years. We received $76 and $1,152 in cash from the exercise of stock options during the three and six months ended June 30, 2010, 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 June 30, 2010, the total number of stock units outstanding was 7,431,278, of which 5,295,738 were unvested. At June 30, 2010, there was unrecognized compensation cost for stock units of $151,544, which is expected to be recognized over a weighted-average period of 2.87 years. On August 3, 2010, the Board of Directors (the "Board") approved the modification of our deferred compensation plans, whereby we modified outstanding awards such that employees who terminate their employment or are terminated without cause may continue to vest, so long as the awards are not forfeited as a result of a violation of non-compete and non-solicitation provisions of the plan. See Note 24 - Subsequent Events for further information regarding the modification.

Deferred Compensation Plans

Our company's Deferred Compensation Plan (the "Plan") is provided to certain revenue producers, officers, and key administrative employees, whereby a certain percentage of their incentive compensation is deferred as defined by the Plan into company stock units with a 25% matching contribution by our company. Participants may elect to defer up to an additional 15% of their incentive compensation with a 25% matching contribution. Units generally vest over a three- to five-year period and are distributable upon vesting or at future specified dates. Deferred compensation costs are amortized on a straight-line basis over the vesting period. Elective deferrals are 100% vested. We charged $10,125 and $5,954 to "Compensation and benefits" for the three months ended June 30, 2010 and 2009, respectively, relating to units granted under the Plan. We charged $20,629 and $15,009 to "Compensation and benefits" for the six months ended June 30, 2010 and 2009, respectively, relating to units granted under the Plan. As of June 30, 2010, there were 3,188,946 units outstanding under the Plan.

Additionally, Stifel Nicolaus maintains a deferred compensation plan for its financial advisors who achieve certain levels of production, whereby a certain percentage of their earnings are deferred as defined by the plan, of which 50% is deferred into company stock units with a 25% matching contribution and 50% is deferred in mutual funds which earn a return based on the performance of index mutual funds as designated by our company or a fixed income option. Financial advisors may elect to defer an additional 1% of earnings into company stock units with a 25% matching contribution. Financial advisors have no ownership in the mutual funds. Included on the consolidated statements of financial condition under the caption "Investments" are $28,256 and $28,597 at June 30, 2010 and December 31, 2009, respectively, in mutual funds that were purchased by our company to economically hedge, on an after-tax basis, its liability to the financial advisors who choose to base the performance of their return on the index mutual fund option. At June 30, 2010 and December 31, 2009, the deferred compensation liability of $25,031 and $26,728, respectively, is included in "Accrued employee compensation" on the consolidated statements of financial condition.

In addition, certain financial advisors, upon joining our company, may receive company stock units in lieu of transition cash payments. Deferred compensation related to this plan generally cliff vests over a five to eight-year period. Deferred compensation costs are amortized on a straight-line basis over the deferral period.

Charges to "Compensation and benefits" related to these two plans were $5,787 and $4,347 for the three months ended June 30, 2010 and 2009, respectively. Charges to "Compensation and benefits" related to these two plans were $10,540 and $7,738 for the six months ended June 30, 2010 and 2009, respectively. As of June 30, 2010, there were 3,396,080 units outstanding under the two plans.

NOTE 16 - Restructuring

During the quarter ended June 30, 2010, we recorded certain restructuring charges associated with the merger and integration of TWPG. Expenses for employee termination benefits represent one-time activities and do not represent ongoing costs to fully integrate TWPG. As of June 30, 2010, the restructuring accrual of $3,119 is included in the caption "Accrued compensation" on the consolidated statements of financial condition. We did not pay any of the restructuring charges during the three months ended June 30, 2010. We also expect to incur costs associated with contract and lease terminations and consolidation of facilities and infrastructure.

NOTE 17 - 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 June 30, 2010, the fair value of securities accepted as collateral where we are permitted to sell or repledge the securities was $764,800, and the fair value of the collateral that had been sold or repledged was $67,166. At December 31, 2009, the fair value of securities accepted as collateral where we are permitted to sell or repledge the securities was $792,094, and the fair value of the collateral that had been sold or repledged was $122,533.

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

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

For a complete discussion of our activities related to derivative instruments, see Note 11 in the notes to our consolidated financial statements.

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

At June 30, 2010 and December 31, 2009, Stifel Bank had outstanding commitments to originate loans aggregating $124,526 and $91,670, respectively. The commitments extended over varying periods of time with all commitments at June 30, 2010 scheduled to be disbursed in the following two months.

Standby letters of credit are irrevocable conditional commitments issued by Stifel Bank to guarantee the performance of a customer to a third-party. Financial standby letters of credit are primarily issued to support public and private borrowing arrangements, including commercial paper, bond financing and similar transactions. Performance standby letters of credit are issued to guarantee performance of certain customers under non-financial contractual obligations. The credit risk involved in issuing standby letters of credit is essentially the same as that involved in extending loans to customers. Should Stifel Bank be obligated to perform under the standby letters of credit, it may seek recourse from the customer for reimbursement of amounts paid. At June 30, 2010 and December 31, 2009, Stifel Bank had outstanding letters of credit totaling $8,682 and $1,047, respectively. For all of the standby letters of credit commitments at June 30, 2010, the expiration terms are less than one year.

Lines of credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Lines of credit generally have fixed expiration dates. Since a portion of the line may expire without being drawn upon, the total unused lines do not necessarily represent future cash requirements. Each customer's creditworthiness is evaluated on a case-by-case basis. The amount of collateral obtained, if necessary, is based on the credit evaluation of the counterparty. Collateral held varies but may include accounts receivable, inventory, property, plant and equipment, commercial real estate and residential real estate. Stifel Bank uses the same credit policies in granting lines of credit as it does for on-balance sheet instruments. At June 30, 2010 and December 31, 2009, Stifel Bank had granted unused lines of credit to commercial and consumer borrowers aggregating $33,459 and $27,148, respectively.

NOTE 18 - Income Taxes

The liability for unrecognized tax benefits was $2,090 and $2,046 as of June 30, 2010 and December 31, 2009, respectively, that if recognized would affect the effective tax rate for income before taxes.

We recognize the accrual of interest and penalties related to income tax matters in the "Provision for income taxes" on the consolidated statements of operations. As of June 30, 2010 and December 31, 2009, accrued interest and penalties included in the unrecognized tax benefits liability were $463 and $422, respectively.

We file income tax returns in the U.S. federal jurisdiction and various states, and foreign jurisdictions with varying statutes of limitation. We are subject to examination for various years by federal and state tax jurisdictions. For the U.S. and most state and foreign jurisdictions, the years 2006 through 2009 remain subject to examination by their respective authorities. It is possible that these examinations will be resolved in the next twelve months. We do not anticipate that payments made during the next twelve month period for these examinations will be material, nor do we expect that the reduction to unrecognized tax benefits as a result of a lapse of applicable statue of limitations will be significant. Our company's foreign jurisdictions are generally fully taxable by the United States.

NOTE 19 - Segment Reporting

We currently operate through the following three business segments: Global Wealth Management; Institutional Group (formerly Capital Markets); and various corporate activities combined in the Other segment. The UBS branch acquisition and related customer account conversion to our platform has enabled us to leverage our customers' assets, which allows us the ability to provide a full array of financial products to both our Private Client Group and Stifel Bank customers. As a result, we have changed how we manage these reporting units and consequently they were combined to form the Global Wealth Management segment. Previously reported segment information has been revised to reflect this change.

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

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

The Other segment includes certain corporate activities of our company.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	**2010**	2009
Net revenues: [(1)]				
Global Wealth Management	**$ 199,940**	$ 136,200	**$ 399,361**	$ 251,252
Institutional Group	**124,602**	125,136	**237,894**	230,608
Other	**3,467**	169	**2,784**	(374)
	$ 328,009	$ 261,505	**$ 640,039**	$ 481,486
Income/(loss) before income taxes:				
Global Wealth Management	**$ 40,441**	$ 23,197	**$ 79,599**	$ 41,319
Institutional Group	**30,769**	31,850	**58,225**	57,884
Other	**(35,265)**	(28,938)	**(62,314)**	(50,939)
	$ 35,945	$ 26,109	**$ 75,510**	$ 48,264

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

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

	June 30, 2010	December 31, 2009
Total assets:		
Global Wealth Management	**$ 2,516,751**	$ 2,226,050
Institutional Group	**576,814**	701,213
Other	**277,142**	240,093
	$ 3,370,707	$ 3,167,356

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	**2010**	2009
Net revenues:				
United States	**$ 320,933**	$ 256,329	**$ 626,588**	$ 471,781
United Kingdom	**4,826**	3,495	**8,717**	6,569
Other European	**2,250**	1,681	**4,734**	3,136
	$ 328,009	$ 261,505	**$ 640,039**	$ 481,486

NOTE 20 - Other Comprehensive income

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	**2010**	2009
Net income	**$ 21,109**	$ 15,815	**$ 44,849**	$ 28,992
Other comprehensive income:				
Unrealized gains on available-for-sale securities, net of tax	**4,047**	629	**6,955**	2,001
Unrealized losses in cash flow hedging instruments, net of tax	**(3,027)**	-	**(6,397)**	-
	1,020	629	**558**	