STIFEL FINANCIAL CORP
Form 10-Q
May 10, 2011

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 March 31, 2011

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

STIFEL FINANCIAL CORP.

Form 10-Q

TABLE OF CONTENTS

PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

STIFEL FINANCIAL CORP.

Consolidated Statements of Financial Condition

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

See accompanying Notes to Consolidated Financial Statements.

STIFEL FINANCIAL CORP.

Consolidated Statements of Financial Condition (continued)

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

See accompanying Notes to Consolidated Financial Statements.

STIFEL FINANCIAL CORP.

Consolidated Statements of Operations

(Unaudited)

(in thousands, except per share amounts)	**Three Months Ended March 31, 2011**	2010
Revenues:		
Commissions	**$ 155,786**	$ 105,035
Principal transactions	**92,859**	117,420
Asset management and service fees	**57,680**	41,103
Investment banking	**41,418**	34,221
Interest	**18,856**	14,647
Other income	**6,256**	1,945
Total revenues	**372,855**	314,371
Interest expense	**6,242**	2,341
Net revenues	**366,613**	312,030
Non-interest expenses:		
Compensation and benefits	**231,166**	206,242
Occupancy and equipment rental	**29,325**	24,858
Communications and office supplies	**18,845**	14,418
Commissions and floor brokerage	**6,649**	5,744
Other operating expenses	**29,944**	21,203
Total non-interest expenses	**315,929**	272.465
Income before income tax expense	**50,684**	39,565
Provision for income taxes	**19,286**	15,825
Net income	**$ 31,398**	$ 23,740
Earnings per common share:		
Basic	**$ 0.60**	$ 0.52
Diluted	**$ 0.50**	$ 0.45
Weighted average number of common shares outstanding:		
Basic	**52,534**	46,080
Diluted	**63,179**	52,538

See accompanying Notes to Consolidated Financial Statements.

STIFEL FINANCIAL CORP.

Consolidated Statements of Cash Flows

(Unaudited)

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

See accompanying Notes to Consolidated Financial Statements.

STIFEL FINANCIAL CORP.

Consolidated Statements of Cash Flows (continued)

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

See accompanying Notes to Consolidated Financial Statements.

STIFEL FINANCIAL CORP.

Notes to Consolidated Financial Statements

NOTE 1 - Nature of Operations and Basis of Presentation

Nature of Operations

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

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

Basis of Presentation

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

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

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

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

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

Consolidation Policies

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

Voting Interest Entity. Voting interest entities are entities that have (i) total equity investment at risk sufficient to fund expected future operations independently, and (ii) equity holders who have the obligation to absorb losses or receive residual returns and the right to make decisions about the entity's activities. We consolidate voting interest entities when we determine that there is a controlling financial interest, usually ownership of all, or a majority of, the voting interest.

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

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

NOTE 2 - Recently Adopted Accounting Guidance

Allowance for Credit Losses

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

Fair Value of Financial Instruments

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

NOTE 3 - Acquisitions

Thomas Weisel Partners Group, Inc.

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

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

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

Basic	**0.41**
Diluted	**0.34**

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

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

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

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

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

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

NOTE 5 - Fair Value of Financial Instruments

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

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

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

Cash Equivalents

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

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

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

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

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

Investments

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

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

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

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

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

Derivatives

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

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

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

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

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

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

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

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

	December 31, 2010			
	Total	**Level 1**	**Level 2**	**Level 3**
Assets:				
Cash equivalents	**$ 15,675**	$ 15,675	$ -	$ -
Trading securities owned:				
U.S. government agency securities	**86,882**	-	86,882	-
U.S. government securities	**9,038**	9,038	-	-
Corporate securities:				
Fixed income securities	**221,145**	47,001	133,901	40,243
Equity securities	**46,877**	46,395	482	-
State and municipal securities	**80,228**	-	80,228	-
Total trading securities owned	**444,170**	102,434	301,493	40,243
Available-for-sale securities:				
U.S. government agency securities	**25,030**	-	25,030	-
State and municipal securities	**26,343**	-	14,907	11,436
Mortgage-backed securities:				
Agency	**697,163**	-	697,163	-
Commercial	**67,996**	-	67,996	-
Non-agency	**29,273**	-	29,273	-
Corporate fixed income securities	**154,901**	34,897	120,004	-
Asset-backed securities	**12,008**	-	12,008	-
Total available-for-sale securities	**1,012,714**	34,897	966,381	11,436
Investments:				
Corporate equity securities	**3,335**	3,335	-	-
Mutual funds	**32,193**	32,193	-	-
U.S. government securities	**8,751**	8,751	-	-
Auction rate securities:				
Equity securities	**76,826**	-	-	76,826
Municipal securities	**6,533**	-	-	6,533
Other	**51,298**	10,489	2,307	38,502
Total investments	**178,936**	54,768	2,307	121,861
	$ 1,651,495	$ 207,774	$ 1,270,181	$ 173,540
Liabilities:				
Trading securities sold, but not yet purchased:				
U.S. government securities	**$ 131,561**	$ 131,561	$ -	$ -
U.S. government agency securities	**664**	-	664	-

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

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

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

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

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

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

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

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

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

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

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

Transfers Within the Fair Value Hierarchy

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

Fair Value of Financial Instruments

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

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

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

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

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

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

Financial Assets

Securities Purchased Under Agreements to Resell

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

Held-to-Maturity Securities

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

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

Loans Held for Sale

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

Bank Loans

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

Financial Liabilities

Securities Sold Under Agreements to Repurchase

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

Non-Interest-Bearing Demand Deposits

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

Interest-Bearing Deposits

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

Liabilities Subordinated to Claims of General Creditors

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

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

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

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

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

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

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

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

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

	March 31, 2011			
	Amortized cost	**Gross unrealized gains** (1)	**Gross unrealized losses** (1)	**Estimated fair value**
Available-for-sale				
U.S. government securities	**$ 24,975**	$ 10	$ -	**$ 24,985**
State and municipal securities	**39,633**	633	(890)	**39,376**
Mortgage-backed securities:				
Agency	**663,309**	8,378	(1,743)	**669,944**
Commercial	**110,997**	1,159	(648)	**111,508**
Non-agency	**26,335**	741	(521)	**26,555**
Corporate fixed income securities	**289,166**	1,945	(755)	**290,356**
Asset-backed securities	**27,359**	713	(20)	**28,052**
	$ 1,181,774	$ 13,579	$ (4,577)	**$ 1,190,776**
Held-to-maturity (2)				
Municipal auction rate securities	**$ 46,481**	$ 3,693	$ (2)	**$ 50,172**
Asset-backed securities	**16,696**	583	(3,340)	**13,939**
	$ 63,177	$ 4,276	$ (3,342)	**$ 64,111**

	December 31, 2010			
	Amortized cost	**Gross unrealized gains** (1)	**Gross unrealized losses** (1)	**Estimated fair value**
Available-for-sale				
U.S. government securities	$ 24,972	$ 58	$ -	$ 25,030
State and municipal securities	26,678	727	(1,062)	26,343
Mortgage-backed securities:				
Agency	692,922	6,938	(2,697)	697,163
Commercial	66,912	1,212	(128)	67,996
Non-agency	29,319	744	(790)	29,273
Corporate fixed income securities	153,523	1,705	(327)	154,901
Asset-backed securities	11,331	677	-	12,008
	$ 1,005,657	$ 12,061	$ (5,004)	$ 1,012,714
Held-to-maturity (2)				
Municipal auction rate securities	**$ 43,719**	$ 3,803	$ (171)	**$ 47,351**
Asset-backed securities	**8,921**	198	(3,486)	**5,633**
	$ 52,640	$ 4,001	$ (3,657)	**$ 52,984**

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

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

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

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

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

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

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

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

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

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

Other-Than-Temporary Impairment

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

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

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

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

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

NOTE 8 - **Bank Loans**

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

	March 31, 2011		December 31, 2010	
	Balance	**Percent**	Balance	Percent
Consumer (1)	**$ 258,199**	**64.6%**	$ 266,806	68.2