STIFEL FINANCIAL CORP
Form 10-Q
November 10, 2008

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2008

or

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

For the transition period from ____________ to ____________

Commission file number 1-9305

STIFEL FINANCIAL CORP.
(Exact name of registrant as specified in its charter)

DELAWARE	43-1273600
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
501 N. Broadway, St. Louis, Missouri	63102-2188
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code 314-342-2000

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

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

Large accelerated filer x Accelerated filer

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

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

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

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PART I. FINANCIAL INFORMATION

PART II. OTHER INFORMATION

PART I. FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS

STIFEL FINANCIAL CORP.
CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

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

See Notes to Condensed Consolidated Financial Statements (unaudited).

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

	(in thousands, except share amounts)	**September 30, 2008 (Unaudited)**	**December 31, 2007 (Audited)**
Liabilities and Stockholders' Equity	**Liabilities:**		
	Short-term borrowings from banks	$ 265,300	$ 127,850
	Drafts payable	43,841	51,482
	Payable to brokers and dealers:		
	Securities failed to receive	110,302	12,588
	Deposits received from securities loaned	39,714	138,475
	Clearing organizations	10,473	11,436
	Payable to customers	220,401	159,740
	Bank deposits	261,018	192,481
	Federal Home Loan Bank advances and other secured financing	10,250	- -
	Trading securities sold, but not yet purchased, at fair value	209,299	36,613
	Accrued employee compensation	119,972	147,161
	Accounts payable and accrued expenses	65,570	72,735
	Debenture to Stifel Financial Capital Trust II	35,000	35,000
	Debenture to Stifel Financial Capital Trust III	35,000	35,000
	Debenture to Stifel Financial Capital Trust IV	25,000	25,000
	Other	19,998	24,598
		1,471,138	1,070,159
	Liabilities (affiliated) subordinated to claims of general creditors	4,043	4,644
	Stockholders' equity:		
	Preferred stock -- $1 par value; authorized 3,000,000 shares; none issued	- -	- -
	Common stock -- $.15 par value; authorized 30,000,000 shares; issued 25,608,186 and 23,319,876 shares, respectively	3,841	3,498
	Additional paid-in capital	413,396	298,092
	Retained earnings	152,992	125,303
	Accumulated other comprehensive loss	(3,851)	(660)
		566,378	426,233
	Less:		
	Treasury stock, at cost, 0 and 13,880 shares, respectively	- -	450
	Unearned employee stock ownership plan shares, at cost, 154,555 and 178,958 shares, respectively	990	1,146
		565,388	424,637
	TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$2,040,569	$1,499,440

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

See Notes to Condensed Consolidated Financial Statements (unaudited).

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

(in thousands, except per share amounts)		**Three Months Ended September 30, 2008**	**Three Months Ended September 30, 2007**	**Nine Months Ended September 30, 2008**	**Nine Months Ended September 30, 2007**
Revenues	Commissions	$ 88,727	$ 82,917	$ 257,491	$ 224,930
	Principal transactions	68,182	31,711	200,793	91,578
	Investment banking	25,156	30,966	67,935	137,964
	Asset management and service fees	30,336	27,108	90,580	72,018
	Interest	12,819	15,972	39,175	43,371
	Other	(1,391)	2,165	(883)	4,107
	Total revenues	223,829	190,839	655,091	573,968
	Less: Interest expense	4,906	7,856	15,740	23,089
	Net revenues	218,923	182,983	639,351	550,879
Non-interest Expenses	Employee compensation and benefits	150,203	126,652	441,028	401,263
	Occupancy and equipment rental	17,286	14,492	49,012	40,767
	Communications and office supplies	11,192	11,528	32,887	31,303
	Commissions and floor brokerage	4,348	2,527	8,315	7,246
	Other operating expenses	14,800	14,512	42,940	39,547
	Total non-interest expenses	197,829	169,711	574,182	520,126
	Income before income taxes	21,094	13,272	65,169	30,753
	Provision for income taxes	8,317	5,214	25,713	12,418
	Net income	$ 12,777	$ 8,058	$ 39,456	$ 18,335
Earnings Per Common Share and Share Equivalents*	Net income per share:				
	Basic earnings per share	$ 0.54	$ 0.36	$ 1.68	$ 0.85
	Diluted earnings per share	$ 0.46	$ 0.30	$ 1.44	$ 0.73
	Average common shares and share equivalents used in determining earnings per share:				
	Basic shares outstanding	23,830	22,394	23,520	21,456
	Diluted shares outstanding	28,045	26,815	27,335	25,264

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

See Notes to Condensed Consolidated Financial Statements (unaudited).

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

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

See Notes to Condensed Consolidated Financial Statements (unaudited).

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

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

See Notes to Condensed Consolidated Financial Statements (unaudited).

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

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

See Notes to Condensed Consolidated Financial Statements (unaudited).

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

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

See Notes to Condensed Consolidated Financial Statements (unaudited).

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

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING AND REPORTING POLICIES

Nature of Operations

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

Basis of Presentation

The condensed consolidated financial statements include the accounts of Stifel Financial Corp. and its subsidiaries. The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles ("GAAP") for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three and nine months ended September 30, 2008 are not necessarily indicative of the results that may be expected for the year ending December 31, 2008. For further information, refer to the consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2007.

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

Use of Estimates

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

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Consolidation Policies

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

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

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

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

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

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

Cash and Cash Equivalents

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

Security Transactions

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

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

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

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

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

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

Securities Borrowing and Lending Activities

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

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

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

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

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

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

Investments

Investments on the condensed consolidated statements of financial condition contain the Company's investments in securities that are marketable and securities that are not readily marketable. These investments are not included in the Company's broker-dealer trading inventory or Stifel Bank & Trust's available-for-sale portfolio and represent the acquiring and disposing of debt or equity instruments for the Company's benefit. Marketable securities are carried at fair value, based on either quoted market or dealer prices, or accreted cost that approximates fair value, with gains or losses recorded in "Other revenues" on the condensed consolidated statements of operations. The fair value of investments for which a quoted market or dealer price is not readily available is based on management's estimates. Among the factors considered by management in determining the fair value of investments are the cost of the investment, terms and liquidity, developments since the acquisition of the investment, the sales price of recently issued securities, the financial condition and operating results of the issuer, earnings trends and consistency of operating cash flows, the long-term business potential of the issuer, the quoted market price of securities with similar quality and yield that are publicly traded, and other factors generally pertinent to the valuation of investments. The fair value of these investments is subject to a high degree of volatility and may be susceptible to significant fluctuation in the near term. These investments were valued at $24,950 and $8,101 at September 30, 2008 and December 31, 2007, respectively. The marketable investments carried at fair value were $37,472 and $42,609 at September 30, 2008 and December 31, 2007, respectively. Investments carried at accreted cost, which approximates fair value, were $18,072 and $21,772 at September 30, 2008 and December 31, 2007, respectively.

Fair Value

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

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

SFAS No. 157 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (i.e., the "exit price"). This statement applies under other accounting pronouncements that require or permit fair value measurements and does not require any new fair value measurements.

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

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

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

Exchange-traded equity securities listed in active markets

U.S. Treasuries, and

Certain government obligations

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

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

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

Equity securities not actively traded

Corporate obligations infrequently traded

Certain government and municipal obligations

Certain bank notes

Interest rate swaps

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

Certain mortgage-backed securities ("MBS")

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

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

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

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

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

Valuation Techniques

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

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

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

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

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

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

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

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

Mortgages Held for Sale

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

Bank Loans and Allowance for Loan Losses

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

The Company regularly reviews the loan portfolio and has established an allowance for loan losses in accordance with SFAS No. 5, *Accounting for Contingencies.* The allowance for loan losses is established as losses are estimated to have occurred through a provision for loan losses charged to income. In providing for the allowance for loan losses, management considers historical loss experience, the nature and volume of the loan portfolio, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral and prevailing economic conditions. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available. Large groups of smaller balance homogenous loans are collectively evaluated for impairment. Accordingly, the Company does not separately identify individual consumer and residential loans for impairment measurements.

In addition, impairment is measured on a loan-by-loan basis for commercial and construction loans and a specific allowance is established for individual loans determined to be impaired in accordance with SFAS No. 114, *Accounting by Creditors for Impairment of a Loan*. Impairment is measured using the present value of the impaired loan's expected cash flow discounted at the loan's effective interest rate, the loan's observable market price, or the fair value of the collateral if the loan is collateral dependent.

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

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

Bank Foreclosed Assets Held for Sale

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

Concentration Risk

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

Office Equipment and Leasehold Improvements

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

Goodwill and Intangible Assets

Goodwill represents the cost of acquired businesses in excess of the fair value of the related net assets acquired. The Company does not amortize goodwill. In accordance with SFAS No. 142, *Goodwill and Other Intangible Assets*, goodwill is tested for impairment at least annually or whenever indications of impairment exist. In testing for the potential impairment of goodwill, management estimates the fair value of each of the Company's reporting units (generally defined as the Company's businesses for which financial information is available and reviewed regularly by management), and compares it to their carrying value. If the estimated fair value of a reporting unit is less than its carrying value, management is required to estimate the fair value of all assets and liabilities of the reporting unit, including goodwill. If the carrying value of the reporting unit's goodwill is greater than the estimated fair value, an impairment charge is recognized for the excess. The Company has elected July 31st as its annual impairment testing date.

Identifiable intangible assets, which are amortized over their estimated useful lives, are tested for potential impairment whenever events or changes in circumstances suggest that the carrying value of an asset or asset group may not be fully recoverable in accordance with SFAS No. 144.

Loans and Advances

The Company offers transition pay, principally in the form of upfront loans, to financial advisors and certain key revenue producers as part of the Company's overall growth strategy. These loans are generally forgiven by a charge to "Employee compensation and benefits" over a five- to ten-year period if the individual satisfies certain conditions, usually based on continued employment and certain performance standards. Management monitors and compares individual financial advisor production to each loan issued to ensure future recoverability. If the individual leaves before the term of the loan expires or fails to meet certain performance standards, the individual is required to repay the balance. In determining the allowance for doubtful receivables from former employees, management considers the facts and circumstances surrounding each receivable, including the amount of the unforgiven balance, the reasons for the terminated employment relationship, and the former employees' overall financial positions. The loan balance from former employees at September 30, 2008 and December 31, 2007 was $2,611 and $2,516, respectively, with associated loss allowances of $1,656 and $737, respectively.

Federal Home Loan Bank Stocks

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

Bank Deposits

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

Legal Loss Allowances

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

Federal Home Loan Bank Advances and Other Secured Financing

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

Investment Banking

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

Asset Management and Service Fees

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

Stock-Based Compensation

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

Income Taxes

The Company utilizes the asset and liability approach defined in SFAS No. 109, *Accounting for Income Taxes* ("SFAS No. 109"). The provision for income taxes and related tax accruals are based on management's consideration of known liabilities and tax contingencies for multiple taxing authorities. Known liabilities are amounts that will appear on current tax returns, amounts that have been agreed to in revenue agent revisions as the result of examinations by the taxing authorities, and amounts that will follow from such examinations but affect years other than those being examined. Tax contingencies are liabilities that might arise from a successful challenge by the taxing authorities taking a contrary position or interpretation regarding the application of tax law to the Company's tax return filings. Factors considered by management in estimating the Company's liability are results of tax audits, historical experience, and consultation with tax attorneys and other experts. Deferred income taxes are recognized for the future tax consequences attributable to differences between the financial reporting and income tax bases of assets and liabilities. Valuation allowances are established when necessary to reduce deferred taxes to amounts expected to be realized.

On January 1, 2007, the Company adopted the provisions of FASB Interpretation No.48, *Accounting for Uncertainty in Income Taxes-An interpretation of FAS Statement No. 109* ("FIN 48"). FIN 48 clarified the accounting for uncertainty in income taxes recognized in an entity's financial statements in accordance with SFAS No. 109 and prescribed recognition threshold and measurement attributes for financial statement disclosure of tax positions taken or expected to be taken on a tax return. Under FIN 48, the impact of an uncertain income tax position on the income tax return must be recognized at the largest amount that is more-likely-than-not to be sustained upon audit by the relevant taxing authority. An uncertain income tax position will not be recognized if it has less than a 50% likelihood of being sustained.

Additionally, FIN 48 provided guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. The adoption of FIN 48 did not have a material impact on the Company's condensed consolidated financial statements. See Note P to these condensed consolidated financial statements for a further discussion on income taxes.

Comprehensive Income

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

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

Derivative Financial Instruments

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

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

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

Recent Accounting Pronouncements

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

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

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

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

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

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

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

NOTE B - ACQUISITIONS

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

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

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

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

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

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

(in thousands, except per share data)	***Nine Months Ended September 30, 2007(unaudited)***
Total revenues	$ 587,731
Net income	$ 13,629
Diluted earnings per share	$ 0.52
Diluted weighted average shares outstanding	26,169

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

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

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

NOTE C - FAIR VALUE MEASUREMENTS

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

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

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

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

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

(in thousands)			**(Level 3)**	**2008**
Liabilities				
Trading securities sold, but not yet purchased:				
U.S. government and agency securities	$ 48,363	$ - -	$ - -	$ 48,363
State and municipal bonds	- -	344	- -	344
Corporate obligations	- -	136,790	- -	136,790
Corporate stocks	16,188	7,614	- -	23,802
Total trading securities sold, but not yet purchased	64,551	144,748	- -	209,299
Total liabilities measured at fair value on a recurring basis	$ 64,551	$ 144,748	$ - -	$ 209,299

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

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

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

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

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

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

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

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