STIFEL FINANCIAL CORP
Form 10-Q
May 10, 2013
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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 March 31, 2013

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: 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)	**(I.R.S. Employer Identification No.)**

501 N. Broadway, St. Louis, Missouri 63102-2188

(Address of principal executive offices and zip code)

(314) 342-2000

(Registrant s telephone number, including area code)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes 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 (as defined 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

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, 2013, was 63,570,932.

STIFEL FINANCIAL CORP.

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PART I FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

STIFEL FINANCIAL CORP.

Consolidated Statements of Financial Condition

(in thousands)	**March 31, 2013 (Unaudited)**	December 31, 2012
Assets		
Cash and cash equivalents	**$ 573,664**	$ 403,941
Restricted cash	**4,415**	4,414
Cash segregated for regulatory purposes	**32**	128,031
Receivables:		
Brokerage clients, net	**543,316**	487,761
Brokers, dealers, and clearing organizations	**528,187**	276,224
Securities purchased under agreements to resell	**156,341**	158,695
Trading securities owned, at fair value (includes securities pledged of $706,761 and $607,586, respectively)	**923,452**	763,608
Available-for-sale securities, at fair value	**1,729,837**	1,625,168
Held-to-maturity securities, at amortized cost	**716,273**	708,008
Loans held for sale	**165,698**	214,531
Bank loans, net of allowance	**886,647**	815,937
Other real estate owned	**373**	373
Investments, at fair value	**268,082**	236,434
Fixed assets, net	**148,886**	141,403
Goodwill	**730,006**	419,393
Intangible assets, net	**31,085**	28,967
Loans and advances to financial advisors and other employees, net	**175,711**	179,284
Deferred tax assets, net	**181,885**	124,576
Other assets	**369,865**	249,392
Total Assets	**$ 8,133,755**	$ 6,966,140

See accompanying Notes to Consolidated Financial Statements.

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STIFEL FINANCIAL CORP.

Consolidated Statements of Financial Condition (continued)

(in thousands, except share and per share amounts)	**March 31, 2013 (Unaudited)**	December 31, 2012
Liabilities and Shareholders Equity		
Short-term borrowings from banks	**$ 569,800**	$ 304,700
Payables:		
Brokerage clients	**325,691**	295,509
Brokers, dealers, and clearing organizations	**109,947**	33,211
Drafts	**58,315**	90,433
Securities sold under agreements to repurchase	**108,529**	140,346
Bank deposits	**3,556,568**	3,346,133
Trading securities sold, but not yet purchased, at fair value	**588,922**	319,742
Securities sold, but not yet purchased, at fair value	**24,550**	22,966
Accrued compensation	**154,882**	187,466
Accounts payable and accrued expenses	**266,320**	259,163
Corporate debt	**380,934**	383,992
Debentures to Stifel Financial Capital Trusts	**82,500**	82,500
	6,226,958	5,466,161
Liabilities subordinated to claims of general creditors	**3,131**	5,318
Shareholders Equity:		
Preferred stock - $1 par value; authorized 3,000,000 shares; none issued		
Common stock - $0.15 par value; authorized 97,000,000 shares; issued 63,246,221 and 54,967,858 shares, respectively	**9,487**	8,245
Additional paid-in-capital	**1,496,909**	1,100,137
Retained earnings	**397,932**	383,970
Accumulated other comprehensive income	**782**	4,918
	1,905,110	1,497,270
Treasury stock, at cost, 41,727 and 77,577 shares, respectively	**(1,392)**	(2,505)
Unearned employee stock ownership plan shares, at cost, 12,202 and 24,405 shares, respectively	**(52)**	(104)
	1,903,666	1,494,661
Total Liabilities and Shareholders Equity	**$ 8,133,755**	$ 6,966,140

See accompanying Notes to Consolidated Financial Statements.

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STIFEL FINANCIAL CORP.

Consolidated Statements of Operations

(Unaudited)

(in thousands, except per share amounts)	Three Months Ended March 31, 2013	2012
Revenues:		
Commissions	**$ 148,648**	$ 123,303
Principal transactions	**107,244**	116,233
Investment banking	**78,379**	70,438
Asset management and service fees	**68,912**	60,818
Interest	**29,845**	25,257
Other income	**20,212**	13,294
Total revenues	**453,240**	409,343
Interest expense	**11,460**	9,010
Net revenues	**441,780**	400,333
Non-interest expenses:		
Compensation and benefits	**315,727**	254,704
Occupancy and equipment rental	**34,048**	30,791
Communications and office supplies	**22,979**	20,373
Commissions and floor brokerage	**9,058**	7,612
Other operating expenses	**36,622**	27,599
Total non-interest expenses	**418,434**	341,079
Income before income tax expense	**23,346**	59,254
Provision for income taxes	**8,727**	24,481
Net income	**$ 14,619**	$ 34,773
Earnings per common share:		
Basic	**$ 0.24**	$ 0.65
Diluted	**$ 0.21**	**$** 0.55
Weighted average number of common shares outstanding:		
Basic	**60,054**	53,243
Diluted	**69,189**	62,669

See accompanying Notes to Consolidated Financial Statements.

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STIFEL FINANCIAL CORP.

Consolidated Statements of Comprehensive Income

(Unaudited)

(in thousands)	**Three Months Ended March 31, 2013**	2012
Net income	**$ 14,619**	$ 34,773
Other comprehensive income:		
Changes in unrealized gains/(losses) on available-for-sale securities, net of tax [(1)]	**(4,586)**	4,850
Changes in unrealized gains on cash flow hedging instruments, net of tax [(2)]	**1,519**	2,364
Foreign currency translation adjustment, net of tax	**(1,069)**	535
	(4,136)	7,749
Comprehensive income	**$ 10,483**	$ 42,522

(1) Amounts are net of reclassifications to earnings of realized gains of $0.4 million for the three months ended March 31, 2013. We had no significant reclassifications out of accumulated other comprehensive income for the three months ended March 31, 2012.

(2) Amounts are net of reclassifications to earnings of losses of $2.3 million and $3.2 million for the three months ended March 31, 2013 and 2012, respectively.

See accompanying Notes to Consolidated Financial Statements.

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STIFEL FINANCIAL CORP.

Consolidated Statements of Cash Flows

(Unaudited)

(in thousands)	Three Months Ended March 31, 2013	2012
Cash Flows from Operating Activities:		
Net income	**$ 14,619**	$ 34,773
Adjustments to reconcile net income to net cash provided by/(used in) operating activities:		
Depreciation and amortization	**7,876**	7,189
Amortization of loans and advances to financial advisors and other employees	**15,553**	13,931
Amortization of premium/(accretion of discount) on investment portfolio	**(2,989)**	2,886
Provision for loan losses and allowance for loans and advances to financial advisors and other employees	**1,294**	955
Amortization of intangible assets	**1,138**	1,329
Deferred income taxes	**14,846**	31,514
Excess tax benefits from stock-based compensation	**(8,237)**	(12,438)
Stock-based compensation	**70,184**	6,963
(Gains)/losses on investments	**3,530**	(7,952)
Other, net	**403**	(308)
Decrease/(increase) in operating assets, net of assets acquired:		
Cash segregated for regulatory purposes and restricted cash	**127,998**	299
Receivables:		
Brokerage clients	**(55,519)**	(9,270)
Brokers, dealers, and clearing organizations	**(177,699)**	15,378
Securities purchased under agreements to resell	**2,354**	(28,503)
Loans originated as held for sale	**(437,539)**	(356,192)
Proceeds from mortgages held for sale	**476,999**	346,809
Trading securities owned, including those pledged	**(39,304)**	(100,773)
Loans and advances to financial advisors and other employees	**(12,049)**	(25,203)
Other assets	**(66,088)**	(35,119)
Increase/(decrease) in operating liabilities, net of liabilities assumed:		
Payables:		
Brokerage clients	**30,182**	45,431
Brokers, dealers, and clearing organizations	**30,056**	13,590
Drafts	**(32,118)**	(19,274)
Trading securities sold, but not yet purchased	**217,385**	3,574
Other liabilities and accrued expenses	**(126,444)**	(119,349)
Net cash provided by/(used in) operating activities	**$ 56,431**	$ (189,760)

See accompanying Notes to Consolidated Financial Statements.

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STIFEL FINANCIAL CORP.

Consolidated Statements of Cash Flows (continued)

(in thousands)	Three Months Ended March 31, 2013	2012
Cash Flows from Investing Activities:		
Proceeds from:		
Maturities, calls, sales, and principal paydowns of available-for-sale securities	**$ 68,678**	$ 63,783
Calls and principal paydowns of held-to-maturity securities	**16,289**	
Sale or maturity of investments	**22,380**	15,534
Sale of other real estate owned		75
Increase in bank loans, net	**(67,585)**	(25,534)
Payments for:		
Purchase of available-for-sale securities	**(185,892)**	(192,536)
Purchase of held-to-maturity securities	**(16,438)**	(136,854)
Purchase of investments	**(57,558)**	(12,480)
Purchase of fixed assets	**(4,931)**	(3,902)
Acquisitions, net of cash acquired	**(154,283)**	
Net cash used in investing activities	**(379,340)**	(291,914)
Cash Flows from Financing Activities:		
(Repayments of)/proceeds from short-term borrowings from banks	**265,100**	(12,000)
Proceeds from issuance of senior notes, net		170,291
Increase/(decrease) in securities sold under agreements to repurchase	**(31,817)**	61,943
Increase in bank deposits, net	**210,435**	286,174
Increase in securities loaned	**46,680**	15,936
Excess tax benefits from stock-based compensation	**8,237**	12,438
Issuance of common stock	**15**	
Reissuance of treasury stock	**297**	6,783
Repayment of non-recourse debt	**(3,058)**	
Extinguishment of subordinated debt	**(2,187)**	(1,639)
Net cash provided by financing activities	**493,702**	539,926
Effect of exchange rate changes on cash	**(1,070)**	535
Increase/(decrease) in cash and cash equivalents	**169,723**	58,787
Cash and cash equivalents at beginning of period	**403,941**	167,671
Cash and cash equivalents at end of period	**$ 573,664**	$ 226,458
Supplemental disclosure of cash flow information:		
Cash paid for income taxes, net of refunds/(refunds, net of taxes paid)	**$ 15,264**	$ (885)
Cash paid for interest	**10,407**	6,712
Noncash investing and financing activities:		
Stock units granted, net of forfeitures	**137,694**	68,159
Issuance of common stock for acquisitions	**265,918**	

See accompanying Notes to Consolidated Financial Statements.

STIFEL FINANCIAL CORP.

Notes to Consolidated Financial Statements

(Unaudited)

NOTE 1 Nature of Operations and Basis of Presentation

Nature of Operations

Stifel Financial Corp. (the Parent), through its wholly owned subsidiaries, principally Stifel, Nicolaus & Company, Incorporated (Stifel Nicolaus), Stifel Bank & Trust (Stifel Bank), Stifel Nicolaus Europe Limited (SNEL), Century Securities Associates, Inc. (CSA), Keefe, Bruyette & Woods, Inc. (KBW), Keefe, Bruyette & Woods Limited (KBW Limited), Stifel Nicolaus Canada, Inc. (SN Canada) and Miller Buckfire & Co. LLC (Miller Buckfire), is principally engaged in retail brokerage; securities trading; investment banking; investment advisory; retail, consumer, and commercial banking; and related financial services. We have offices throughout the United States, two Canadian cities, and three European cities. Our major geographic area of concentration is the Midwest and Mid-Atlantic regions, with a growing presence in the Northeast, Southeast and Western United States. Our company s principal customers are individual investors, corporations, municipalities, and institutions.

Basis of Presentation

The 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, 2012 on file with the SEC.

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

There have been no material changes in our significant accounting policies, as compared to the significant accounting policies described in our Annual Report on Form 10-K for the year ended December 31, 2012.

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, we evaluate 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 certain VIEs in which we have the power to direct the activities of the entity and the obligation to absorb significant losses or receive significant benefits. In other cases, we consolidate VIEs when 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 receives benefits or will absorb losses that are not pro rata with its ownership interests. See Note 25 for additional information on VIEs.

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NOTE 2 Recently Adopted Accounting Guidance

Indefinite-Lived Assets Impairment Testing

In July 2012, the FASB issued Update No. 2012-02, *Testing Indefinite-Lived Intangible Assets for Impairment,* which permits entities to make a qualitative assessment of whether it is more likely than not that an indefinite-lived asset is impaired. If an entity concludes that it is more likely than not that the fair value of an indefinite-lived intangible asset is less than its carrying amount, it would not be required to perform a quantitative assessment. The update also allows an entity the option to bypass the qualitative assessment for any indefinite-lived intangible asset in any period and proceed directly to performing the quantitative impairment test. This guidance is effective for annual and interim impairment tests performed for fiscal years beginning after September 15, 2012 (January 1, 2013 for our company) with early adoption permitted. The adoption of this new guidance did not have a material impact on our consolidated financial statements.

Disclosures about Offsetting Assets and Liabilities

In December 2011, the FASB issued Update No. 2011-11, *Disclosures about Offsetting Assets and Liabilities* (Update No. 2011-11), which enhance disclosures by requiring improved information about financial and derivative instruments that are either 1) offset (netting assets and liabilities) in accordance with Topic 210 *Balance Sheet*, and Topic 815, *Derivatives and Hedging* or 2) subject to an enforceable master netting arrangement or similar agreement. This guidance is effective for interim and annual reporting periods beginning on or after January 1, 2013, and requires retrospective disclosures for comparative periods presented.

In January 2013, the FASB issued Update No. 2013-01, *Clarifying the Scope of Disclosures about Offsetting Assets and Liabilities,* which clarifies the scope of Update No. 2011-11 to include derivatives accounted for in accordance with Topic 815, *Derivatives and Hedging* , including bifurcated embedded derivatives, repurchase agreements and reverse repurchase agreements, and securities borrowing and securities lending transactions that are either offset or subject to an enforceable master netting arrangement or similar agreement. This guidance is effective for interim and annual reporting periods beginning on or after January 1, 2013, and requires retrospective disclosures for comparative periods presented. Other than requiring additional disclosures regarding offsetting assets and liabilities, the adoption of this new guidance did not have an impact on our consolidated financial statements. See Note 16 Disclosures About Offsetting Assets and Liabilities.

Comprehensive Income

In February 2013, the FASB issued Update No. 2013-02, *Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income*, which require an entity to provide information about the amounts reclassified out of accumulated other comprehensive income by component. In addition, an entity is required to present, either on the face of the statement where net income is presented or in the notes, significant amounts reclassified out of accumulated other comprehensive income by the respective line items of net income but only if the amount reclassified is required under U.S. GAAP to be reclassified to net income in its entirety in the same reporting period. For other amounts that are not required under U.S. GAAP to be reclassified in their entirety to net income, an entity is required to cross-reference to other disclosures required under U.S. GAAP that provide additional detail about those amounts. This guidance is effective for interim and annual reporting periods beginning after December 15, 2012 (January 1, 2013 for our company). Other than requiring additional disclosures regarding other comprehensive income, the adoption of this new guidance did not have an impact on our consolidated financial statements.

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NOTE 3 Acquisition of KBW, Inc.

On February 15, 2013, we completed the purchase of all of the outstanding shares of common stock of KBW, Inc. (KBW, Inc.), a full-service investment bank specializing in the financial services industry based in New York, New York. The purchase was completed pursuant to the merger agreement dated November 5, 2012. Under the terms of the merger agreement, each share of common stock, including certain restricted stock, of KBW, Inc. issued and outstanding immediately prior to the effective time of the merger was cancelled and converted into the right to receive a combination of (i) cash consideration of $8.00 ($10.00 less the extraordinary dividend amount of $2.00) and (ii) stock consideration of 0.2143 a share of our common stock.

In conjunction with the close of the merger, we issued 6.7 million shares of common stock to holders of KBW, Inc. common stock, issued 2.2 million restricted stock awards to KBW, Inc. employees, and paid $253.0 million in cash.

The following summarizes the aggregate merger consideration payable for all outstanding shares and restricted stock awards of KBW, Inc. (*in thousands*):

Cash paid to KBW, Inc. shareholders	$ 253,039
Common stock issued to KBW, Inc. shareholders	262,653
Fair value of outstanding KBW, Inc. restricted stock awards exchanged for Stifel restricted stock awards	86,221
Purchase price to be allocated	**$ 601,913**

The acquisition was accounted for under the acquisition method of accounting in accordance with ASC 805 (Topic 805), Business Combinations. Accordingly, goodwill was measured as the excess of the acquisition-date fair value of the consideration transferred over the amount of acquisition-date identifiable assets acquired net of assumed liabilities. We recorded $307.9 million of goodwill as an asset in the consolidated statement of financial condition, which has been allocated to our company s Institutional Group segment. The allocation of the purchase price is preliminary and will be finalized upon completion of the analysis of the fair values of the net assets of KBW, Inc. on February 15, 2013 and the identified intangible assets. The final goodwill and intangible assets recorded on the consolidated statement of financial condition may differ from that reflected herein as a result of future measurement period adjustments. In management s opinion, the goodwill represents the value expected from the synergies created through the operational enhancement benefits that will result from the integration of KBW, Inc. s business and the reputation and expertise of KBW, Inc. in the financial services sector.

Under Topic 805, merger-related transaction costs (such as advisory, legal, valuation and other professional fees) are not included as components of consideration transferred but are accounted for as expenses in the periods in which the costs are incurred. Transaction costs of $9.8 million were incurred during the three months ended March 31, 2013, respectively, and are included in other operating expenses in the consolidated statement of operations.

In addition, on February 15, 2013, certain employees were granted restricted stock or restricted stock units of our company as retention. The fair value of the awards issued as retention was $30.6 million. There are no continuing service requirements associated with these restricted stock units, and accordingly were expensed at date of grant. This charge is included in compensation and benefits in the consolidated statement of operations for the three months ended March 31, 2013.

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The following table summarizes the preliminary fair value of assets acquired and liabilities assumed at the date of the acquisition (*in thousands*):

Assets:	
Cash and cash equivalents	$ 98,756
Receivables from clearing organizations	74,264
Financial instruments owned, at fair value	120,540
Fixed assets, net	10,629
Deferred tax assets, net	76,763
Other assets	34,987
Total assets acquired	**$ 415,939**
Liabilities:	
Financial instruments sold, but not yet purchased, at fair value	$ 53,379
Accrued compensation	18,468
Accounts payable and accrued expenses	50,104
Total liabilities assumed	**121,951**
Net assets acquired	**$ 293,988**

The following unaudited pro forma financial information presents the combined results of operations as if the merger had occurred on January 1, 2012. The pro forma financial information does not reflect the costs of any integration activities. The pro forma results include estimates and assumptions, which management believes are reasonable. The unaudited pro forma financial information below is not necessarily indicative of either future results of operations or results that might have been achieved had KBW, Inc. been combined with us as of the beginning of 2012.

	Three Months Ended March 31,	
(000s, except per share amounts, unaudited)	**2013**	2012
Total net revenues	$ 467,213	$ 469,382
Net income/(loss)	(61,688)	35,185
Earnings/(loss) per share:		
Basic	**$** (1.03)	**$** 0.59
Diluted	$ (1.03)	$ 0.51

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

Amounts receivable from brokers, dealers, and clearing organizations at March 31, 2013 and December 31, 2012, included *(in thousands)*:

	March 31, 2013	December 31, 2012
Deposits paid for securities borrowed	**$ 333,371**	$ 153,819
Receivable from clearing organizations	**179,442**	115,996
Securities failed to deliver	**15,374**	6,409
	$ 528,187	$ 276,224

Amounts payable to brokers, dealers, and clearing organizations at March 31, 2013 and December 31, 2012, included *(in thousands)*:

	March 31, 2013	December 31, 2012
Deposits received from securities loaned	**$ 65,955**	$ 19,218
Securities failed to receive	**29,600**	4,747
Payable to clearing organizations	**14,392**	9,246
	$ 109,947	$ 33,211

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 Measurements

We measure certain 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, 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.

We generally utilize third-party pricing services to value Level 1 and Level 2 available-for-sale investment securities, as well as certain derivatives designated as cash flow hedges. We review the methodologies and assumptions used by the third-party pricing services and evaluate the values provided, principally by comparison with other available market quotes for similar instruments and/or analysis based on internal models using available third-party market data. We may occasionally adjust certain values provided by the third-party pricing service when we believe, as the result of our review, that the adjusted price most appropriately reflects the fair value of the particular security.

Following are descriptions of the valuation methodologies and key inputs used to measure financial assets and liabilities recorded at fair value. The descriptions include an indication of the level of the fair value hierarchy in which the assets or liabilities are classified.

Cash and Cash Equivalents

Cash equivalents include highly liquid investments with original maturities of three months or less. Due to their short-term nature, the carrying amount of these instruments approximates the estimated fair value. Actively traded money market funds are measured at their reported net asset value, which approximates fair value. As such, we classify the estimated fair value of these instruments 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.

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Level 2 financial instruments generally include U.S. government securities, mortgage-backed securities, corporate obligations infrequently traded, certain government and municipal obligations, asset-backed securities, and certain equity securities not actively traded.

Securities classified as Level 3, of which the substantial majority is auction rate securities (ARS), represent securities in less liquid markets requiring significant management assumptions when determining fair value. Due to the lack of a robust secondary auction-rate securities market with active fair value indicators, fair value for all periods presented was determined using an income approach based on an internally developed discounted cash flow model. In addition to ARS, we have classified certain corporate obligations with unobservable pricing inputs and airplane trust certificates as Level 3. The methods used to value these securities are the same as the methods used to value ARS, discussed above.

Investments

Investments carried at fair value primarily include ARS, investments in mutual funds, U.S. treasury securities, investments in public companies, private equity securities, and partnerships.

Investments in certain 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. The methods used to value ARS are discussed above.

Investments in partnerships and other investments include our general and limited partnership interests in investment partnerships and direct investments in non-public companies. The net assets of investment partnerships consist primarily of investments in non-marketable securities. The value of these investments is at risk to changes in equity markets, general economic conditions and a variety of other factors. We estimate fair value for private equity investments based on our percentage ownership in the net asset value of the entire fund, as reported by the fund or on behalf of the fund, after indication that the fund adheres to applicable fair value measurement guidance. For those funds where the net asset value is not reported by the fund, we derive the fair value of the fund by estimating the fair value of each underlying investment in the fund. In addition to using qualitative information about each underlying investment, as provided by the fund, we give consideration to information pertinent to the specific nature of the debt or equity investment, such as relevant market conditions, offering prices, operating results, financial conditions, exit strategy and other qualitative information, as available. The lack of an independent source to validate fair value estimates, including the impact of future capital calls and transfer restrictions, is an inherent limitation in the valuation process. Commitments to fund additional investments in nonmarketable equity securities recorded at fair value were $13.8 million and $3.0 million at March 31, 2013 and December 31, 2012, respectively.

Securities Sold, But Not Yet Purchased

Equity securities that are valued based on quoted prices in active markets and reported in Level 1.

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. We manage credit risk for our derivative positions on a counterparty-by-counterparty basis and calculate credit valuation adjustments, included in the fair value of these instruments, on the basis of our relationships at the counterparty portfolio/master netting agreement level. These credit valuation adjustments are determined by applying a credit spread for the counterparty to the total expected exposure of the derivative after considering collateral and other master netting arrangements. We have classified our interest rate swaps as Level 2.

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Assets and liabilities measured at fair value on a recurring basis as of March 31, 2013 and December 31, 2012 are presented below:

	March 31, 2013			
	Total	**Level 1**	**Level 2**	**Level 3**
Assets:				
Cash equivalents	**$ 171,890**	171,890		
Trading securities owned:				
U.S. government agency securities	**204,162**		204,162	
U.S. government securities	**27,703**	27,703		
Corporate securities:				
Fixed income securities	**426,046**	49,761	368,811	7,474
Equity securities	**123,044**	106,333	4,177	12,534
State and municipal securities	**142,497**		142,497	
Total trading securities owned	**923,452**	183,797	719,647	20,008
Available-for-sale securities:				
U.S. government agency securities	**1,217**		1,217	
State and municipal securities	**186,777**		91,819	94,958
Mortgage-backed securities:				
Agency	**726,796**		726,796	
Commercial	**247,980**		247,980	
Non-agency	**6,294**		6,294	
Corporate fixed income securities	**500,609**	313,327	187,282	
Asset-backed securities	**60,164**		60,164	
Total available-for-sale securities	**1,729,837**	313,327	1,321,552	94,958
Investments:				
Corporate equity securities	**70,995**	70,995		
Mutual funds	**19,408**	19,408		
U.S. government securities	**7,069**	7,069		
Auction rate securities:				
Equity securities	**63,401**			63,401
Municipal securities	**13,999**			13,999
Other	**93,210**	5,953	4,999	82,258
Total investments	**268,082**	103,425	4,999	159,658
	$ 3,092,261	$ 772,439	$ 2,046,198	$ 274,624
Liabilities:				
Trading securities sold, but not yet purchased:				
U.S. government securities	**$ 187,253**	$ 187,253	$	$
U.S. government agency securities	**5,256**		5,256	
Corporate securities:				
Fixed income securities	**313,191**	132,239	180,952	
Equity securities	**83,135**	78,376	4,759	
State and municipal securities	**87**		87	
Total trading securities sold, but not yet purchased	**588,922**	397,868	191,054	
Securities sold, but not yet purchased	**24,550**	24,550		
Derivative contracts [(1)]	**17,459**		17,459	
	$ 630,931	$ 422,418	$ 208,513	$

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

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	December 31, 2012			
	Total	**Level 1**	**Level 2**	**Level 3**
Assets:				
Cash equivalents	**$ 72,596**	$ 72,596	$	$
Trading securities owned:				
U.S. government agency securities	**123,758**		123,758	
U.S. government securities	**3,573**	3,573		
Corporate securities:				
Fixed income securities	**396,878**	66,795	329,500	583
Equity securities	**35,472**	33,650	1,822	
State and municipal securities	**203,927**		203,927	
Total trading securities owned	**763,608**	104,018	659,007	583
Available-for-sale securities:				
U.S. government agency securities	**1,113**		1,113	
State and municipal securities	**157,420**		66,933	90,487
Mortgage-backed securities:				
Agency	**684,848**		684,848	
Commercial	**260,974**		260,974	
Non-agency	**13,878**		13,878	
Corporate fixed income securities	**480,182**	263,017	217,165	
Asset-backed securities	**26,753**		26,753	
Total available-for-sale securities	**1,625,168**	263,017	1,271,664	90,487
Investments:				
Corporate equity securities	**32,162**	32,162		
Corporate preferred securities	**56,970**		56,970	
Mutual funds	**18,021**	18,021		
U.S. government securities	**7,069**	7,069		
Auction rate securities:				
Equity securities	**64,397**			64,397
Municipal securities	**14,067**			14,067
Other	**43,748**	1,620	4,831	37,297
Total investments	**236,434**	58,872	61,801	115,761
	$ 2,697,806	$ 498,503	$ 1,992,472	$ 206,831
Liabilities:				
Trading securities sold, but not yet purchased:				
U.S. government securities	**$ 162,661**	$ 162,661	$	$
U.S. government agency securities	**15**		15	
Corporate securities:				
Fixed income securities	**150,698**	46,274	104,424	
Equity securities	**6,281**	5,936	345	
State and municipal securities	**87**		87	
Total trading securities sold, but not yet purchased	**319,742**	214,871	104,871	
Securities sold, but not yet purchased	**22,966**	22,966		
Derivative contracts [1]	**19,934**		19,934	
	$ 362,642	$ 237,837	$ 124,805	$

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

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The following table summarizes the changes in fair value carrying values associated with Level 3 financial instruments during the three months ended March 31, 2013 *(in thousands)*:

	Three Months Ended March 31, 2013					
	Trading Securities Owned		Investments			
	Corporate Fixed Income Securities	Equity Securities	State & Municipal Securities [1]	Auction Rate Securities Equity	Auction Rate Securities Municipal	Other
Balance at December 31, 2012	**$ 583**	**$**	**$ 90,487**	**$ 64,397**	**$ 14,067**	**$ 37,297**
Unrealized gains/(losses):						
Included in changes in net assets [2]	216	1,168		304	32	3,661
Included in OCI [3]			(235)			
Realized gains/(losses) [2]			6			(208)
Purchases	7,494	11,476	5,000	75		42,925
Sales	(257)	(110)				(1,286)
Redemptions	(562)		(300)	(1,375)	(100)	(131)
Transfers:						
Into Level 3						
Out of Level 3						
Net change	6,891	12,534	4,471	(996)	(68)	44,961
Balance at March 31, 2013	**$ 7,474**	**$ 12,534**	**$ 94,958**	**$ 63,401**	**$ 13,999**	**$ 82,258**

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

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

(3) 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: our acquisition of KBW, Inc, unrealized gains and losses, and redemptions of ARS at par during the three months ended March 31, 2013. During the three months ended March 31, 2013, trading securities owned and investments purchased as part of the KBW, Inc. acquisition that are classified as Level 3 totaled $54.1 million, of which $0.9 million were sold during the three months ended March 31, 2013. The changes in unrealized gains/(losses) recorded in earnings for the three months ended March 31, 2013 relating to Level 3 assets still held at March 31, 2013 were immaterial.

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The following table summarizes quantitative information related to the significant unobservable inputs utilized in our company s Level 3 recurring fair value measurements as of March 31, 2013.

	Valuation technique	Unobservable input	Range	Weighted average
Available-for-sale securities:				
State and municipal securities	Discounted cash flow	Discount rate	1.8% of par - 9.7% of par	5.5% of par
		Workout period	2 4 years	3.4 years
Investments:				
Auction rate securities:				
Equity securities	Discounted cash flow	Discount rate	2.0% of par 11.7% of par	6.9% of par
		Workout period	1 3 years	2.8 years
Municipal securities	Discounted cash flow	Discount rate	0.0% of par 10.0% of par	5.6% of par
		Workout period	1 4 years	2.6 years
Other				
Investments in partnerships	Market approach	Revenue multiple	1.3 3.9	2.7
		EBITDA multiple	7.0 14.3	9.1
Private equity investments	Market approach	Revenue multiple	0.5 3.3	2.2
		EBITDA multiple	4.3 17.6	10.0

The fair value of certain Level 3 assets was determined using various methodologies as appropriate, including net asset values (NAVs) of underlying investments, third-party pricing vendors, broker quotes and market and income approaches. These inputs are evaluated for reasonableness through various procedures, including due diligence reviews of third-party pricing vendors, variance analyses, consideration of current market environment and other analytical procedures.

The fair value for our auction-rate securities was determined using an income approach based on an internally developed discounted cash flow model. The discounted cash flow model utilizes two significant unobservable inputs: discount rate and workout period. The discount rate was calculated using credit spreads of the underlying collateral or similar securities. The workout period was based on an assessment of publicly available information on efforts to re-establish functioning markets for these securities and our company s own redemption experience. Significant increases in any of these inputs in isolation would result in a significantly lower fair value. On an on-going basis, management verifies the fair value by reviewing the appropriateness of the discounted cash flow model and its significant inputs.

General and limited partnership interests in investment partnerships totaled $57.7 million at March 31, 2013. The general and limited partnership interests in investment partnerships were primarily valued based upon NAVs received from third-party fund managers. The various partnerships are investment companies, which record their underlying investments at fair value based on fair value policies established by management of the underlying fund. Fair value policies at the underlying fund generally require the funds to utilize pricing/valuation information, including independent appraisals, from third-party sources. However, in some instances, current valuation information for illiquid securities or securities in markets that are not active may not be available from any third-party source or fund management may conclude that the valuations that are available from third-party sources are not reliable. In these instances, fund management may perform model-based analytical valuations that may be used as an input to value these investments.

Direct investments in private equity companies totaled $13.5 million at March 31, 2013. Direct investments in private equity companies may be valued using the market approach or the income approach, or a combination thereof, and were valued based on an assessment of each underlying investment, incorporating evaluation of

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additional significant third-party financing, changes in valuations of comparable peer companies, the business environment of the companies, market indices, assumptions relating to appropriate risk adjustments for nonperformance and legal restrictions on disposition, among other factors. The fair value derived from the methods used are evaluated and weighted, as appropriate, considering the reasonableness of the range of values indicated. Under the market approach, fair value may be determined by reference to multiples of market-comparable companies or transactions, including earnings before interest, taxes, depreciation and amortization (EBITDA) multiples. Under the income approach, fair value may be determined by discounting the cash flows to a single present amount using current market expectations about those future amounts. Unobservable inputs used in a discounted cash flow model may include projections of operating performance generally covering a five-year period and a terminal value of the private equity direct investment. For securities utilizing the discounted cash flow valuation technique, a significant increase (decrease) in the discount rate, risk premium or discount for lack of marketability in isolation could result in a significantly lower (higher) fair value measurement. For securities utilizing the market comparable companies valuation technique, a significant increase (decrease) in the EBITDA multiple in isolation could result in a significantly higher (lower) fair value measurement.

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. 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 $56.3 million of transfers of financial assets from Level 2 to Level 1 during the three months ended March 31, 2013 primarily related to corporate preferred securities that were converted to common stock, which is actively traded and fixed income and equity securities for which market trades were observed that provided transparency into the valuation of these assets. There were $0.7 million of transfers of financial assets from Level 1 to Level 2 during the three months ended March 31, 2013 primarily related to corporate fixed income securities for which there were low volumes of recent trade activity observed.

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Fair Value of Financial Instruments

The following reflects the fair value of financial instruments, as of March 31, 2013 and December 31, 2012, whether or not recognized in the consolidated statements of financial condition at fair value *(in thousands)*.

	March 31, 2013		December 31, 2012	
	Carrying value	Estimated fair value	Carrying value	Estimated fair value
Financial assets:				
Cash and cash equivalents	**$ 573,644**	**$ 573,644**	$ 403,941	$ 403,941
Restricted cash	**4,415**	**4,415**	4,414	4,414
Cash segregated for regulatory purposes	**32**	**32**	128,031	128,031
Securities purchased under agreements to resell	**156,341**	**156,341**	158,695	158,695
Trading securities owned	**923,452**	**923,452**	763,608	763,608
Available-for-sale securities	**1,729,837**	**1,729,837**	1,625,168	1,625,168
Held-to-maturity securities	**716,273**	**725,843**	708,008	715,274
Loans held for sale	**165,698**	**165,698**	214,531	214,531
Bank loans	**886,647**	**909,115**	815,937	834,188
Investments	**268,082**	**268,082**	236,434	236,434
Financial liabilities:				
Securities sold under agreements to repurchase	**$ 108,529**	**$ 108,529**	$ 140,346	$ 140,346
Bank deposits	**3,556,568**	**3,581,155**	3,346,133	3,368,643
Trading securities sold, but not yet purchased	**588,922**	**588,922**	319,742	319,742
Securities sold, but not yet purchased	**24,550**	**24,550**	22,966	22,966
Derivative contracts [(1)]	**17,459**	**17,459**	19,934	19,934
Senior notes [(2)]	**325,000**	**349,242**	325,000	338,475
Non-recourse debt [(2)]	**55,934**	**57,069**	58,992	58,992
Debentures to Stifel Financial Capital Trusts	**82,500**	**68,113**	82,500	66,545
Liabilities subordinated to claims of general creditors	**3,131**	**3,048**	5,318	5,204

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

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The following table presents the estimated fair values of financial instruments not measured at fair value on a recurring basis as of March 31, 2013 and December 31, 2012 *(in thousands)*:

	March 31, 2013			
	Total	**Level 1**	**Level 2**	**Level 3**
Financial assets:				
Cash	**$ 401,774**	$ 401,774	$	$
Restricted cash	**4,415**	4,415		
Cash segregated for regulatory purposes	**32**	32		
Securities purchased under agreements to resell	**156,341**	155,927	414	
Held-to-maturity securities	**725,843**		490,054	235,790
Loans held for sale	**165,698**		165,698	
Bank loans	**909,115**		909,115	
Financial liabilities:				
Securities sold under agreements to repurchase	$ **108,529**	$ 108,529	$	$
Bank deposits	**3,581,155**		3,581,155	
Senior notes	**349,242**	349,242		
Non-recourse debt	**57,069**		57,069	
Debentures to Stifel Financial Capital Trusts	**68,113**			68,113
Liabilities subordinated to claims of general creditors	**3,048**			3,048

	December 31, 2012			
	Total	**Level 1**	**Level 2**	**Level 3**
Financial assets:				
Cash	**$ 331,345**	$ 331,345	$	$
Restricted cash	**4,414**	4,414		
Cash segregated for regulatory purposes	**128,031**	128,031		
Securities purchased under agreements to resell	**158,695**	154,688	4,007	
Held-to-maturity securities	**715,274**		487,775	227,499
Loans held for sale	**214,531**		214,531	
Bank loans	**834,188**		834,188	
Financial liabilities:				
Securities sold under agreements to repurchase	$ **140,346**	$ 140,346	$	$
Bank deposits	**3,368,643**		3,368,643	
Senior notes	**338,475**	338,475		
Non-recourse debt	**58,992**		58,992	
Debentures to Stifel Financial Capital Trusts	**66,545**			66,545
Liabilities subordinated to claims of general creditors	**5,204**			5,204

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, 2013 and December 31, 2012.

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, 2013 and December 31, 2012 approximate fair value due to the short-term nature.

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 corporate obligations, collateralized debt obligation securities and ARS. The estimated fair value, included in the above table, 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.

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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.

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, 2013 and December 31, 2012 approximate fair value due to the short-term nature.

Bank Deposits

The fair value for demand deposits is equal to the amount payable on demand at the reporting date (that is, their carrying amounts). The carrying amounts of variable-rate money-market and savings accounts approximate their fair values at the reporting date as these are short-term in nature. 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.

Senior Notes

The fair value of our senior notes is estimated based upon quoted market prices.

Non-recourse debt

The fair value of our non-recourse debt is based on the discounted value of contractual cash flows. We have assumed a discount rate based on the coupon achieved in our 6.7% senior notes due 2022.

Debentures to Stifel Financial Capital Trusts

The fair value of our trust preferred securities is based on the discounted value of contractual cash flows. We have assumed a discount rate based on the coupon achieved in our 6.7% senior notes due 2022.

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.

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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, 2013 and December 31, 2012, are as follows *(in thousands)*:

	March 31, 2013	December 31, 2012
Trading securities owned:		
U.S. government agency securities	**$ 204,162**	$ 123,758
U.S. government securities	**27,703**	3,573
Corporate securities:		
Fixed income securities	**426,046**	396,878
Equity securities	**123,044**	35,472
State and municipal securities	**142,497**	203,927
	$ 923,452	$ 763,608
Trading securities sold, but not yet purchased:		
U.S. government securities	**$ 187,253**	$ 162,661
U.S. government agency securities	**5,256**	15
Corporate securities:		
Fixed income securities	**313,191**	150,698
Equity securities	**83,135**	6,281
State and municipal securities	**87**	87
	$ 588,922	$ 319,742

At March 31, 2013 and December 31, 2012, trading securities owned in the amount of $706.8 million and $607.6 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 in future periods. We are obligated to acquire the securities sold short at prevailing market prices in future periods, which may exceed the amount reflected in the consolidated statements of financial condition.

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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, 2013 and December 31, 2012 *(in thousands)*:

	March 31, 2013			
	Amortized cost	Gross unrealized gains (1)	Gross unrealized losses (1)	Estimated fair value
Available-for-sale securities				
U.S. government securities	**$ 1,217**	$ 1	$ (1)	**$ 1,217**
State and municipal securities	**185,400**	4,015	(2,638)	**186,777**
Mortgage-backed securities:				
Agency	**723,399**	5,833	(2,436)	**726,796**
Commercial	**243,192**	4,817	(29)	**247,980**
Non-agency	**6,158**	136		**6,294**
Corporate fixed income securities	**493,887**	7,453	(731)	**500,609**
Asset-backed securities	**59,934**	298	(68)	**60,164**
	$ 1,713,187	$ 22,553	$ (5,903)	**$ 1,729,837**
Held-to-maturity securities (2)				
Asset-backed securities	**$ 638,673**	$ 10,504	$ (2,191)	**$ 646,986**
Corporate fixed income securities	**55,398**	177	(295)	**55,280**
Municipal auction rate securities	**22,202**	1,393	(18)	**23,577**
	$ 716,273	$ 12,074	$ (2,504)	**$ 725,843**

	December 31, 2012			
	Amortized cost	Gross unrealized gains (1)	Gross unrealized losses (1)	Estimated fair value
Available-for-sale securities				
U.S. government securities	**$ 1,114**	$ 1	$ (2)	**$ 1,113**
State and municipal securities	**153,885**	4,648	(1,113)	**157,420**
Mortgage-backed securities:				
Agency	**676,861**	8,140	(153)	**684,848**
Commercial	**255,255**	5,902	(183)	**260,974**
Non-agency	**13,077**	801		**13,878**
Corporate fixed income securities	**474,338**	7,590	(1,746)	**480,182**
Asset-backed securities	**26,572**	378	(197)	**26,753**
	$ 1,601,102	$ 27,460	$ (3,394)	**$ 1,625,168**
Held-to-maturity securities (2)				
Asset-backed securities	**$ 630,279**	$ 9,364	$ (2,971)	**$ 636,672**
Corporate fixed income securities	**55,420**	36	(519)	**54,937**
Municipal auction rate securities	**22,309**	1,376	(20)	**23,665**
	$ 708,008	$ 10,776	$ (3,510)	**$ 715,274**

(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.

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For the three months ended March 31, 2013, we received proceeds of $18.2 million from the sale of available-for-sale securities, which resulted in realized gains of $0.7 million. For the three months ended March 31, 2012, we received proceeds of $2.7 million from the sale of available-for-sale securities, which resulted in an immaterial amount of realized gains.

During the three months ended March 31, 2013, unrealized losses, net of deferred tax benefits, of $4.6 million were recorded in accumulated other comprehensive income in the consolidated statements of financial condition. During the three months ended March 31, 2012, unrealized gains, net of deferred taxes, of $4.9 million 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, 2013			
	Available-for-sale securities		Held-to-maturity securities	
	Amortized cost	Estimated fair value	Amortized cost	Estimated fair value
Debt securities				
Within one year	$ 130,020	$ 130,899	$	$
After one year through three years	290,906	296,597	16,154	16,251
After three years through five years	31,259	31,718	46,934	46,775
After five years through ten years	53,451	53,480	251,641	253,556
After ten years	234,802	236,073	401,544	409,261
Mortgage-backed securities				
After three years through five years	349	359		
After five years through ten years	16,736	17,452		
After ten years	955,664	963,259		
	$ 1,713,187	**$ 1,729,837**	**$ 716,273**	**$ 725,843**

At March 31, 2013 and December 31, 2012, securities of $563.1 million and $613.8 million, respectively, were pledged at the Federal Home Loan Bank as collateral for borrowings and letters of credit obtained to secure public deposits.

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, 2013 *(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 securities						
U.S. government securities	$ (1)	$ 509	$	$	$ (1)	$ 509
State and municipal securities	(1,977)	78,533	(661)	32,554	(2,638)	111,087
Mortgage-backed securities:						
Agency	(2,436)	373,671			(2,436)	373,671
Commercial	(1)	12,933	(28)	17,378	(29)	30,311
Corporate fixed income securities	(479)	41,688	(252)			