STIFEL FINANCIAL CORP
Form 10-Q
November 10, 2010

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

Form 10-Q

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

For the Quarterly Period Ended September 30, 2010

OR

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

For the transition period from __________ to __________

Commission File No. 001-09305

STIFEL FINANCIAL CORP.

(Exact name of registrant as specified in its charter)

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

(314) 342-2000

(Registrant s telephone number, including area code)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes þ No o

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

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

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

The number of shares outstanding of the registrant's common stock as of October 31, 2010 was 35,188,116, which includes 636,226 exchangeable shares of TWP Acquisition Company (Canada), Inc., a wholly-owned subsidiary of the registrant. These shares are exchangeable at any time into a share of common stock of the registrant; entitle the holder to dividend and other rights substantially economically equivalent to those of a share of common stock; and, through a voting trust, entitle the holder to a vote on matters presented to common shareholders.

STIFEL FINANCIAL CORP.

Form 10-Q

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PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

STIFEL FINANCIAL CORP.

Consolidated Statements of Financial Condition

(in thousands)	**September 30, 2010 (Unaudited)**	December 31, 2009
Assets		
Cash and cash equivalents	**$ 206,884**	$ 161,820
Restricted cash (including $20 and $19 of cash segregated for regulatory purposes, respectively)	**6,888**	19
Receivables:		
Brokerage clients, net	**504,160**	383,222
Broker, dealers and clearing organizations	**237,512**	309,609
Securities purchased under agreements to resell	**136,075**	124,854
Trading securities owned, at fair value (includes securities pledged of $406,930 and $287,683, respectively)	**645,560**	454,891
Available-for-sale securities, at fair value	**830,127**	578,488
Held-to-maturity securities, at amortized cost	**50,176**	7,574
Loans held for sale	**106,788**	91,117
Bank loans, net	**362,567**	335,157
Bank foreclosed assets held for sale, net of estimated cost to sell	**1,312**	3,143
Investments, at fair value	**166,789**	109,403
Fixed assets, net of accumulated depreciation and amortization of $86,627 and $71,445, respectively	**76,267**	62,115
Goodwill	**290,850**	166,725
Intangible assets, net	**45,081**	24,648
Loans and advances to financial advisors and other employees, net	**179,487**	185,123
Deferred tax assets, net	**192,551**	53,462
Other assets	**144,769**	115,986
Total Assets	**$ 4,183,843**	$ 3,167,356

See accompanying Notes to Consolidated Financial Statements.

STIFEL FINANCIAL CORP.

Consolidated Statements of Financial Condition (continued)

(in thousands, except share and per share amounts)	**September 30, 2010 (Unaudited)**	December 31, 2009
Liabilities and Shareholders' Equity		
Short-term borrowings from banks	**$ 207,100**	$ 90,800
Payables:		
Customers	**218,539**	214,883
Brokers, dealers and clearing organizations	**248,649**	90,460
Drafts	**60,981**	66,964
Securities sold under agreements to repurchase	**98,945**	122,533
Bank deposits	**1,375,984**	1,047,211
Federal Home Loan Bank advances	**-**	2,000
Trading securities sold, but not yet purchased, at fair value	**318,293**	277,370
Accrued compensation	**184,196**	166,346
Accounts payable and accrued expenses	**166,919**	113,364
Debenture to Stifel Financial Capital Trust II	**35,000**	35,000
Debenture to Stifel Financial Capital Trust III	**35,000**	35,000
Debenture to Stifel Financial Capital Trust IV	**12,500**	12,500
Other	**982**	9,398
	2,963,088	2,283,829
Liabilities subordinated to claims of general creditors	**8,241**	10,081
Shareholders' Equity:		
Preferred stock - $1 par value; authorized 3,000,000 shares; none issued	**-**	-
Exchangeable common stock - $0.15 par value; issued 636,226 and zero shares, respectively	**95**	-
Common stock - $0.15 par value; authorized 97,000,000 shares; issued 35,181,014 and 30,388,270 shares, respectively	**5,281**	4,558
Additional paid-in-capital	**1,071,790**	623,943
Retained earnings	**200,941**	244,615
Accumulated other comprehensive income	**8,589**	1,302
	1,286,696	874,418
Treasury stock, at cost, 1,595,472 and 4,221 shares, respectively	**(73,609)**	(242)
Unearned employee stock ownership plan shares, at cost, 89,483 and 113,885 shares, respectively	**(573)**	(730)
	1,212,514	873,446
Total Liabilities and Shareholders' Equity	**$ 4,183,843**	$ 3,167,356

See accompanying Notes to Consolidated Financial Statements.

STIFEL FINANCIAL CORP.

Consolidated Statements of Operations

(Unaudited)

(in thousands, except per share amounts)	Three Months Ended September 30, **2010**	Three Months Ended September 30, 2009	Nine Months Ended September 30, **2010**	Nine Months Ended September 30, 2009
Revenues:				
Principal transactions	**$ 123,194**	$ 123,238	**$ 363,537**	$ 341,777
Commissions	**96,986**	90,905	**305,655**	246,236
Asset management and service fees	**50,876**	27,012	**136,117**	78,266
Investment banking	**51,656**	35,056	**127,129**	75,262
Interest	**17,718**	11,306	**47,019**	31,782
Other income	**3,656**	5,072	**9,358**	6,148
Total revenues	**344,086**	292,589	**988,815**	779,471
Interest expense	**3,698**	2,906	**8,388**	8,302
Net revenues	**340,388**	289,683	**980,427**	771,169
Non-interest expenses:				
Compensation and benefits	**395,936**	193,131	**819,085**	516,852
Occupancy and equipment rental	**29,559**	24,730	**81,012**	63,311
Communications and office supplies	**19,877**	14,429	**50,220**	39,403
Commissions and floor brokerage	**7,972**	6,486	**18,988**	17,167
Other operating expenses	**29,600**	20,071	**78,168**	55,336
Total non-interest expenses	**482,944**	258,847	**1,047,473**	692,069
Income/(loss) before income tax expense	**(142,556)**	30,836	**(67,046)**	79,100
Provision for income taxes/(benefit)	**(58,220)**	8,698	**(27,559)**	27,970
Net income/(loss)	**$ (84,336)**	$ 22,138	**$ (39,487)**	$ 51,130
Earnings per common share:				
Basic	**$ (2.47)**	$ 0.77	**$ (1.24)**	$ 1.85
Diluted (1)	**$ (2.47)**	$ 0.67	**$ (1.24)**	$ 1.62
Weighted average number of common shares outstanding:				
Basic	**34,134**	28,708	**31,910**	27,652
Diluted (1)	**41,223**	32,817	**37,062**	31,468

(1) In accordance with Topic 260, "Earnings Per Share," earnings per diluted common share is calculated using the basic weighted average number of common shares outstanding in periods a loss is incurred.

See accompanying Notes to Consolidated Financial Statements.

STIFEL FINANCIAL CORP.

Consolidated Statements of Cash Flows

(Unaudited)

(in thousands)	Nine Months Ended September 30, 2010	2009
Operating Activities:		
Net income/(loss)	$ **(39,487)**	$ 51,130
Adjustments to reconcile net income/(loss) to net cash used in operating activities:		
Depreciation and amortization	**17,965**	16,777
Amortization of loans and advances to financial advisors and other employees	**35,486**	20,910
Accretion of discounts on available-for-sale securities	**5,349**	(174)
Provision for loan losses and allowance for loans and advances to financial advisors and other employees	**(916)**	861
Amortization of intangible assets	**3,480**	2,060
Deferred income taxes	**(60,586)**	(4,925)
Stock-based compensation	**183,602**	35,454
Excess tax benefits from stock-based compensation	**(14,280)**	(12,788)
(Gain)/loss on the sale of investments	**(1,234)**	16,576
Other, net	**(5,537)**	506
Decrease/(increase) in operating assets, net of assets acquired:		
Receivables:		
Brokerage clients	**(120,389)**	(69,262)
Brokers, dealers and clearing organizations	**73,327**	(168,471)
Securities purchased under agreements to resell	**(11,221)**	(73,822)
Trading securities owned, including those pledged	**(176,664)**	(326,832)
Loans originated as mortgages held for sale	**(761,075)**	(677,851)
Proceeds from mortgages held for sale	**715,151**	678,150
Loans and advances to financial advisors and other employees	**(29,362)**	(88,077)
Other assets	**32,851**	(10,685)
Increase/(decrease) in operating liabilities, net of liabilities assumed:		
Payables:		
Customers	**3,656**	39,873
Brokers, dealers and clearing organizations	**72,098**	73,068
Drafts	**40,923**	(9,427)
Trading securities sold, but not yet purchased	**(5,983)**	179,695
Other liabilities and accrued expenses	**(3,061)**	(35,569)
Net cash used in operating activities	**(45,907)**	(362,823)

See accompanying Notes to Consolidated Financial Statements.

STIFEL FINANCIAL CORP.

Consolidated Statements of Cash Flows (continued)

(Unaudited)

	Nine Months Ended September 30,	
(in thousands)	**2010**	2009
Investing Activities:		
Proceeds from:		
Maturities, calls and principal paydowns on available-for sale securities	**$ 150,931**	$ 24,526
Sale or maturity of investments	**79,195**	45,238
Sale of bank branch	**13,905**	-
Sale of bank foreclosed assets held for sale	**2,096**	3,108
Decrease/(increase) in bank loans, net	**(27,531)**	(7,437)
Payments for:		
Purchase of available-for-sale securities	**(395,646)**	(264,285)
Purchase of investments	**(98,794)**	(91,922)
Purchase of held-to-maturity securities	**(42,931)**	-
Purchase of fixed assets	**(21,886)**	(21,210)
Acquisitions	**(500)**	(196,046)
Purchase of bank foreclosed assets held for sale	**(344)**	(3,854)
Net cash used in investing activities	**(341,505)**	(511,882)
Financing Activities:		
Increase in bank deposits, net	**346,393**	590,230
Net proceeds from short-term borrowings from banks	**116,300**	165,200
(Decrease)/increase in securities sold under agreements to repurchase	**(23,588)**	41,733
Increase in securities loaned	**86,091**	30,562
Excess tax benefits from stock-based compensation	**14,280**	12,788
Proceeds from offering of common stock	**-**	135,645
Issuance of common stock	**865**	10,092
Repurchase of common stock	**(91,769)**	-
Reissuance of treasury stock	**2,055**	-
Extinguishment of senior notes	**(23,000)**	-
Payment of Federal Home Loan Bank advances	**(2,000)**	(4,000)
Extinguishment of subordinated debt	**(1,840)**	(1,300)
Net cash provided by financing activities	**423,787**	980,950
Effect of exchange rate changes on cash	**8,689**	-
Increase in cash and cash equivalents	**45,064**	106,245
Cash and cash equivalents at beginning of period	**161,820**	239,725
Cash and cash equivalents at end of period	**$ 206,884**	$ 345,970
Supplemental disclosure of cash flow information:		
Cash paid for interest	**$ 8,539**	$ 8,121
Cash paid for income taxes, net of refunds	**$ 51,896**	$ 4,692

Noncash investing and financing activities:				
Issuance of common stock for acquisition of Thomas Weisel Partners Group, Inc.	**$**	**273,964**	$	-
Units, net of forfeitures	**$**	**137,158**	$	67,383
Payment of Ryan Beck contingent earn-out	**$**	**-**	$	9,301

See accompanying Notes to Consolidated Financial Statements.

STIFEL FINANCIAL CORP.

Notes to Consolidated Financial Statements

(in thousands, except share and per share amounts)

(Unaudited)

NOTE 1 - Nature of Operations and Basis of Presentation

Nature of Operations

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

On July 1, 2010, we acquired Thomas Weisel Partners Group, Inc. ("TWPG"), an investment bank focused principally on the growth sectors of the economy, which generates revenues from three principal sources: investment banking, brokerage and asset management. The investment banking group is comprised of two primary categories of services: corporate finance and strategic advisory. The brokerage group provides equity sales and trading services to institutional investors, and offers brokerage, advisory services to high-net-worth individuals and corporate clients. The asset management group consists of: private investment funds, public equity investment products and distribution management. The employees of the investment banking, research and institutional brokerage businesses of Thomas Weisel Partners, LLC ("TWP"), a wholly-owned subsidiary of TWPG, were merged into Stifel Nicolaus during the third quarter of 2010. TWP will remain a wholly-owned broker-dealer subsidiary of the Parent. See Note 3 - Acquisition of Thomas Weisel Partners Group, Inc. for a discussion of the merger with TWPG.

Basis of Presentation

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

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

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

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

Recently Adopted Accounting Guidance

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

Deterioration of Credit Quality for Acquired Loans

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

Consolidation

In February 2010, the FASB issued Update No. 2010-10, "*Consolidation (Topic 810): Amendments for Certain Investment Funds*," which provides for a deferral of the consolidation requirements of Topic 810 resulting from the issuance of FASB Statement No. 167 ("Statement 167"), "*Amendments to FASB Interpretation No. 46R*," for a reporting entity's interest in an entity that has all the attributes of an investment company; or for which it is industry practice to apply measurement principles for financial reporting purposes that are consistent with those followed by investment companies (the "deferral"). The deferral does not apply in situations in which a reporting entity has the explicit or implicit obligation to fund losses of an entity that could potentially be significant to the entity. The deferral also does not apply to interests in securitization entities, asset-backed financing entities, or entities formerly considered qualifying special purpose entities. An entity that qualifies for the deferral will continue to be assessed under the overall guidance on the consolidation of variable interest entities in Subtopic 810-10 (before the Statement 167 amendments) or other applicable consolidation guidance, such as the guidance for the consolidation of partnerships in Subtopic 810-20. This guidance does not defer the disclosure requirements of Topic 810, as amended. The amendments in this Update are effective as of the beginning of the first annual reporting period that begins after November 15, 2009 and for interim periods within the first annual reporting period (January 1, 2010 for our company). The adoption of this guidance permits us to defer the consolidation requirements of Topic 810 resulting from the issuance of Statement 167 for certain of these entities. See Note 24 - Variable Interest Entities.

Subsequent Events

In February 2010, the FASB issued Update No. 2010-09, "*Subsequent Events (Topic 855): Amendments to Certain Recognition and Disclosure Requirements*," which amends certain provisions of the current guidance, including the elimination of the requirement for disclosure of the date through which an evaluation of subsequent events was performed in issued and revised financial statements. This guidance was effective for the first interim and annual reporting periods beginning after issuance (March 31, 2010 for our company). The adoption of this new guidance did not have a material impact on our consolidated financial statements. See Note 25 - Subsequent Events.

Fair Value of Financial Instruments

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

Accounting for Transfers of Financial Assets

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

Recently Issued Accounting Guidance

Allowance for Credit Losses

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

NOTE 2 - Sale of Bank Branch

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

NOTE 3 - Acquisition of Thomas Weisel Partners Group, Inc.

On July 1, 2010, we completed the purchase of all the outstanding shares of common stock of TWPG, an investment banking firm based in San Francisco, California. The purchase was completed pursuant to the merger agreement dated April 25, 2010. As consideration, at the close of the merger, we issued approximately 3,719,000 shares, including approximately 780,000 exchangeable shares to the holders of TWPG common stock and approximately 1,905,000 restricted stock units to employees of TWPG, which resulted in purchase consideration of approximately $274,000. The fair value of the common stock and restricted stock units was determined using the market price of our common stock on the date of the merger. The merger furthers our company's mission of building the premier middle-market investment bank with significantly enhanced investment banking, research, and wealth management capabilities.

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 $124,125 of goodwill as an asset in the consolidated statement of financial condition, which has been allocated to our company's Global Wealth Management and Institutional Group segments. 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 TWPG on July 1, 2010 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 TWPG's business and the reputation and expertise of TWPG in the investment banking business.

We have preliminarily identified $24,580 of intangible assets, consisting of customer relationships, investment banking backlog and trade name. 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 approximately $500 and $2,400 were incurred during the three and nine months ended September 30, 2010, respectively, and are included in "other operating expenses" on the consolidated statement of operations.

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

Assets:		
Cash and cash equivalents	$	80,642
Securities purchased under agreements to resell		14,005
Investments		45,395
Fixed assets		12,955
Goodwill		124,125
Intangible assets		24,580
Deferred tax asset, net		77,928
Other assets		39,702
Total assets acquired		419,332

Liabilities:		
Notes payable		23,000
Accrued compensation		44,899
Accounts payable and accrued expenses		77,469
Total liabilities assumed		145,368
Net assets acquired	**$**	273,964

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

(in thousands)	**Three Months Ended September 30, 2009**	**Nine Months Ended September 30, 2010**	**Nine Months Ended September 30, 2009**
	(Unaudited)	**(Unaudited)**	**(Unaudited)**
Total net revenues	**$** 333,507	$ 1,071,036	$ 905,567
Net income/(loss)	11,604	(107,023)	23,343
Earnings/(loss) per share:			
Basic	0.34	(3.35)	0.73
Diluted	0.28	(3.35)	0.63

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

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

	September 30, 2010	December 31, 2009
Deposits paid for securities borrowed	**$ 164,833**	$ 147,325
Securities failed to deliver	**68,916**	64,626
Receivable from clearing organizations	**3,763**	97,658
	$ 237,512	$ 309,609

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

	September 30, 2010	December 31, 2009
Securities failed to receive	**$ 108,803**	$ 73,793
Deposits received from securities loaned	**101,907**	16,667
Payable to clearing organizations	**37,939**	-
	$ 248,649	$ 90,460

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

NOTE 5 - Fair Value of Financial Instruments

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

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

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

Cash equivalents

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

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

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

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

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

Investments

Assets included in this category generally include investments in public companies, general and limited partnership interests in private equity funds, and auction-rate securities ("ARS") for which the market has been dislocated and largely ceased to function. Investments in public companies are valued based on quoted prices in active markets and reported in Level 1. ARS with unobservable inputs are reported as Level 3 assets. Investments in such securities are valued using certain observable inputs and represent management's best estimate of fair value, where the inputs require significant management judgment.

Fair value of limited and general partnership interests, classified as Level 3, was determined by using net asset values or capital statements provided by the general partner, updated for capital contributions and distributions and changes in market conditions up to the reporting date. Private equity securities and limited and general partnership interests generally trade infrequently.

Trading securities sold but not yet purchased

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

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

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

Securities sold but not yet purchased

Securities sold but not purchased are recorded at fair value based on quoted prices in active markets and other observable market data are reported as Level 1. Securities owned include corporate equity securities listed in active markets.

Derivative contracts

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

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

	September 30, 2010			
	Total	**Level 1**	**Level 2**	**Level 3**
Assets:				
Cash equivalents	**$ 27,217**	$ 27,217	$ -	$ -
Trading securities owned:				
U.S. government agency securities	**100,495**	-	100,495	-
U.S. government securities	**15,369**	15,369	-	-
Corporate securities:				
Fixed income securities	**372,980**	142,945	215,065	14,970
Equity securities	**42,144**	41,997	147	-
State and municipal securities	**114,572**	-	114,572	-
Total trading securities owned	**645,560**	200,311	430,279	14,970
Available-for-sale securities:				
U.S. government agency securities	**115,165**	-	115,165	-
State and municipal securities	**14,223**	-	14,223	-
Mortgage-backed securities:				
Agency	**530,151**	-	530,151	-
Non-agency	**32,698**	-	32,698	-
Commercial	**47,892**	-	47,892	-
Corporate fixed income securities	**77,973**	67,414	10,559	-
Asset-backed securities	**12,025**	-	12,025	-
Total available-for-sale securities	**830,127**	67,414	762,713	-
Investments:				
Corporate equity securities	**3,492**	3,492	-	-
Mutual funds	**30,344**	30,344	-	-
U.S. government securities	**7,016**	7,016	-	-
Auction rate securities:				
Equity securities	**62,044**	-	-	62,044
Municipal securities	**23,499**	-	-	23,499
Other	**40,394**	1,788	2,047	36,559
Total investments	**166,789**	42,640	2,047	122,102
	$ 1,669,693	$ 337,582	$ 1,195,039	$ 137,072
Liabilities:				
Trading securities sold, but not yet purchased:				
U.S. government agency securities	**$ 1,291**	$ -	$ 1,291	$ -
U.S. government securities	**150,260**	150,260	-	-
Corporate securities:				
Fixed income securities	**144,894**	75,473	69,421	-
Equity securities	**21,533**	21,533	-	-
State and municipal securities	**315**	-	315	-
Total trading securities sold, but not yet purchased	**318,293**	247,266	71,027	-
Securities sold, but not yet purchased (1)	**17,086**	17,086	-	-

Derivative contracts [1]	**14,251**	-