

STIFEL FINANCIAL CORP  
Form 10-Q  
November 12, 2013  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
**Washington, D.C. 20549**

**FORM 10-Q**

(Mark One)

☒ **Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**  
**For the quarterly period ended September 30, 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**  
**(State or other jurisdiction of**  
**incorporation or organization)**  
**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)**

**43-1273600**  
**(I.R.S. Employer**  
**Identification No.)**

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 ☒ 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 ☒ 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 ☒ 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 ☒

The number of shares outstanding of the registrant's common stock, \$0.15 par value per share, as of the close of business on October 31, 2013, was 63,573,335.

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**STIFEL FINANCIAL CORP.**

Form 10-Q

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**Table of Contents****PART I FINANCIAL INFORMATION****ITEM 1. FINANCIAL STATEMENTS****STIFEL FINANCIAL CORP.****Consolidated Statements of Financial Condition**

<i>(in thousands)</i>	<b>September 30, 2013 (Unaudited)</b>	<b>December 31, 2012</b>
<b>Assets</b>		
Cash and cash equivalents	<b>\$ 649,244</b>	<b>\$ 403,941</b>
Restricted cash	<b>4,419</b>	<b>4,414</b>
Cash segregated for regulatory purposes	<b>33</b>	<b>128,031</b>
Receivables:		
Brokerage clients, net	<b>523,516</b>	<b>487,761</b>
Brokers, dealers, and clearing organizations	<b>547,636</b>	<b>276,224</b>
Securities purchased under agreements to resell	<b>168,182</b>	<b>158,695</b>
Trading securities owned, at fair value (includes securities pledged of \$648,111 and \$607,586, respectively)	<b>847,652</b>	<b>763,608</b>
Available-for-sale securities, at fair value	<b>1,231,571</b>	<b>1,625,168</b>
Held-to-maturity securities, at amortized cost	<b>1,723,482</b>	<b>708,008</b>
Loans held for sale	<b>75,440</b>	<b>214,531</b>
Bank loans, net of allowance	<b>1,061,150</b>	<b>815,937</b>
Investments, at fair value	<b>233,778</b>	<b>236,434</b>
Fixed assets, net	<b>124,765</b>	<b>141,403</b>
Goodwill	<b>742,654</b>	<b>419,393</b>
Intangible assets, net	<b>28,078</b>	<b>28,967</b>
Loans and advances to financial advisors and other employees, net	<b>189,769</b>	<b>179,284</b>
Deferred tax assets, net	<b>291,566</b>	<b>124,576</b>
Other assets	<b>266,524</b>	<b>249,765</b>
<b>Total Assets</b>	<b>\$ 8,709,459</b>	<b>\$ 6,966,140</b>

*See accompanying Notes to Consolidated Financial Statements.*

**Table of Contents****STIFEL FINANCIAL CORP.****Consolidated Statements of Financial Condition (continued)**

<i>(in thousands, except share and per share amounts)</i>	<b>September 30, 2013 (Unaudited)</b>	<b>December 31, 2012</b>
<b>Liabilities and Shareholders' Equity</b>		
Short-term borrowings from banks	\$ 133,100	\$ 304,700
Payables:		
Brokerage clients	333,872	295,509
Brokers, dealers, and clearing organizations	205,758	33,211
Drafts	55,151	90,433
Securities sold under agreements to repurchase	255,451	140,346
Bank deposits	4,228,405	3,346,133
Trading securities sold, but not yet purchased, at fair value	495,658	319,742
Securities sold, but not yet purchased, at fair value	28,598	22,966
Accrued compensation	247,168	187,466
Accounts payable and accrued expenses	289,067	259,163
Corporate debt	357,111	383,992
Debentures to Stifel Financial Capital Trusts	82,500	82,500
	<b>6,711,839</b>	<b>5,466,161</b>
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 63,573,335 and 54,967,858 shares, respectively	9,536	8,245
Additional paid-in-capital	1,533,849	1,100,137
Retained earnings	493,029	383,970
Accumulated other comprehensive income/(loss)	(36,427)	4,918
	<b>1,999,987</b>	<b>1,497,270</b>
Treasury stock, at cost, 167,748 and 77,577 shares, respectively	(5,498)	(2,505)
Unearned employee stock ownership plan shares, at cost, 0 and 24,405 shares, respectively		(104)
	<b>1,994,489</b>	<b>1,494,661</b>
<b>Total Liabilities and Shareholders' Equity</b>	<b>\$ 8,709,459</b>	<b>\$ 6,966,140</b>

*See accompanying Notes to Consolidated Financial Statements.*

Table of Contents**STIFEL FINANCIAL CORP.****Consolidated Statements of Operations****(Unaudited)**

<i>(in thousands, except per share amounts)</i>	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2013</b>	<b>2012</b>	<b>2013</b>	<b>2012</b>
<b>Revenues:</b>				
Commissions	\$ 145,837	\$ 125,509	\$ 446,498	\$ 370,107
Principal transactions	122,583	102,474	341,153	311,420
Investment banking	92,851	71,743	289,199	208,342
Asset management and service fees	76,710	62,881	221,711	189,010
Interest	39,130	26,360	101,829	78,728
Other income	13,063	31,094	45,269	49,991
Total revenues	490,174	420,061	1,445,659	1,207,598
Interest expense	11,535	5,904	34,738	24,768
Net revenues	478,639	414,157	1,410,921	1,182,830
<b>Non-interest expenses:</b>				
Compensation and benefits	326,020	264,458	958,179	751,992
Occupancy and equipment rental	41,288	32,596	116,090	94,776
Communications and office supplies	26,122	19,561	74,034	60,115
Commissions and floor brokerage	10,150	7,842	28,777	22,339
Other operating expenses	44,051	28,526	126,600	84,212
Total non-interest expenses	447,631	352,983	1,303,680	1,013,434
<b>Income from continuing operations before income tax expense</b>	<b>31,008</b>	<b>61,174</b>	<b>107,241</b>	<b>169,396</b>
Provision for income taxes	(43,921)	23,740	(13,541)	67,384
<b>Income from continuing operations</b>	<b>\$ 74,929</b>	<b>\$ 37,434</b>	<b>\$ 120,782</b>	<b>\$ 102,012</b>
<b>Discontinued operations:</b>				
Income/(loss) from discontinued operations, net of tax	(5,239)	276	(7,037)	(3,393)
<b>Net income</b>	<b>\$ 69,690</b>	<b>\$ 37,710</b>	<b>\$ 113,745</b>	<b>\$ 98,619</b>
<b>Earnings per basic common share</b>				
Income from continuing operations	\$ 1.16	\$ 0.70	\$ 1.91	\$ 1.91
Income/(loss) from discontinued operations	(0.08)		(0.11)	(0.07)
<b>Earnings per basic common share</b>	<b>\$ 1.08</b>	<b>\$ 0.70</b>	<b>\$ 1.80</b>	<b>\$ 1.84</b>

**Earnings per diluted common share**

Income from continuing operations	\$	<b>1.00</b>	\$	0.60	\$	<b>1.66</b>	\$	1.62
Income/(loss) from discontinued operations		<b>(0.07)</b>				<b>(0.10)</b>		(0.05)

Earnings per diluted common share	\$	<b>0.93</b>	\$	0.60	\$	<b>1.56</b>	\$	1.57
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**Weighted average number of common shares outstanding:**

Basic	<b>64,706</b>	53,601	<b>63,133</b>	53,471
Diluted	<b>75,191</b>	63,054	<b>72,851</b>	62,817

*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 September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Net income	\$ 69,690	\$ 37,710	\$ 113,745	\$ 98,619
Other comprehensive income/(loss):				
Changes in unrealized gains/(losses) on available-for-sale securities <sup>(1) (2)</sup>	(8,160)	8,356	(48,158)	12,714
Changes in unrealized gains on cash flow hedging instruments, net of tax <sup>(3)</sup>	473	463	5,420	1,492
Foreign currency translation adjustment, net of tax	2,669	1,049	1,393	1,439
	(5,018)	9,868	(41,345)	15,645
Comprehensive income	\$ 64,672	\$ 47,578	\$ 72,400	\$ 114,264

- (1) Net of taxes of \$5.4 million and \$5.2 million for the three months ended September 30, 2013 and 2012, respectively, and \$29.6 million and \$7.9 million for the nine months ended September 30, 2013 and 2012, respectively
- (2) Amounts are net of reclassifications to earnings of realized gains of \$0.2 million and \$0.4 million for the three months ended September 30, 2013 and 2012, respectively. Amounts are net of reclassifications to earnings of realized gains of \$1.1 million and \$1.6 million for the nine months ended September 30, 2013 and 2012, respectively.
- (3) Amounts are net of reclassifications to earnings of losses of \$2.1 million and \$2.8 million for the three months ended September 30, 2013 and 2012, respectively. Amounts are net of reclassifications to earnings of losses of \$6.7 million and \$9.0 million for the nine months ended September 30, 2013 and 2012, respectively.

*See accompanying Notes to Consolidated Financial Statements.*



**Table of Contents****STIFEL FINANCIAL CORP.****Consolidated Statements of Cash Flows****(Unaudited)**

	<b>Nine Months Ended September 30,</b>	
<i>(in thousands)</i>	<b>2013</b>	<b>2012</b>
<b>Cash Flows from Operating Activities:</b>		
Net income	\$ 113,745	\$ 98,619
Adjustments to reconcile net income to net cash provided by/(used in) operating activities:		
Depreciation and amortization	25,162	21,958
Amortization of loans and advances to financial advisors and other employees	48,368	42,687
Amortization of premium on investment portfolio	5,568	11,215
Provision for loan losses and allowance for loans and advances to financial advisors and other employees	6,395	1,685
Amortization of intangible assets	4,145	3,713
Deferred income taxes	(70,687)	53,872
Excess tax benefits from stock-based compensation	(10,446)	(14,510)
Stock-based compensation	124,835	29,213
(Gains)/losses on investments	11,636	(29,272)
Other, net	23,792	143
Decrease/(increase) in operating assets, net of assets acquired:		
Cash segregated for regulatory purposes and restricted cash	127,993	292
Receivables:		
Brokerage clients	(35,741)	41,000
Brokers, dealers, and clearing organizations	(197,148)	39,889
Securities purchased under agreements to resell	(9,487)	(66,509)
Loans originated as held for sale	(1,069,168)	(1,156,692)
Proceeds from mortgages held for sale	1,197,539	1,075,487
Trading securities owned, including those pledged	23,895	(271,262)
Loans and advances to financial advisors and other employees	(59,751)	(53,351)
Other assets	37,855	(21,360)
Increase/(decrease) in operating liabilities, net of liabilities assumed:		
Payables:		
Brokerage clients	38,363	84,040
Brokers, dealers, and clearing organizations	23,379	19,272
Drafts	(35,282)	(12,504)
Trading securities sold, but not yet purchased	128,169	106,024
Other liabilities and accrued expenses	(20,012)	(54,341)
Net cash provided by/(used in) operating activities	\$ 433,117	\$ (50,692)

*See accompanying Notes to Consolidated Financial Statements.*



**Table of Contents****STIFEL FINANCIAL CORP.****Consolidated Statements of Cash Flows (continued)**

	<b>Nine Months Ended September 30,</b>	
<i>(in thousands)</i>	<b>2013</b>	<b>2012</b>
<b>Cash Flows from Investing Activities:</b>		
Proceeds from:		
Maturities, calls, sales, and principal paydowns of available-for-sale securities	\$ 376,104	\$ 353,324
Calls and principal paydowns of held-to-maturity securities	60,385	10,500
Sale or maturity of investments	74,271	84,718
Sale of other real estate owned	373	137
Increase in bank loans, net	(244,838)	(112,687)
Payments for:		
Purchase of available-for-sale securities	(1,125,644)	(607,579)
Purchase of held-to-maturity securities	(16,438)	(477,117)
Purchase of investments	(70,650)	(58,912)
Purchase of fixed assets	(21,077)	(13,823)
Acquisitions, net of cash acquired	(165,300)	
Net cash used in investing activities	(1,132,814)	(821,439)
<b>Cash Flows from Financing Activities:</b>		
Repayments of short-term borrowings from banks	(171,600)	(101,500)
Proceeds from issuance of senior notes, net		170,291
Increase/(decrease) in securities sold under agreements to repurchase	115,105	(1,739)
Increase in bank deposits, net	882,272	851,933
Increase/(decrease) in securities loaned	149,168	(35,102)
Excess tax benefits from stock-based compensation	10,446	14,510
Issuance of common stock	15	
Repurchase of common stock	(13,670)	(9,163)
Reissuance of treasury stock	951	8,829
Repayment of non-recourse debt	(26,881)	
Extinguishment of subordinated debt	(2,187)	(1,639)
Net cash provided by financing activities	943,619	896,420
Effect of exchange rate changes on cash	1,381	1,373
Increase in cash and cash equivalents	245,303	25,662
Cash and cash equivalents at beginning of period	403,941	167,671
Cash and cash equivalents at end of period	\$ 649,244	\$ 193,333
<b>Supplemental disclosure of cash flow information:</b>		
Cash paid for income taxes, net of refunds	\$ 8,594	\$ 2,940

Cash paid for interest	<b>34,196</b>	22,567
<b>Noncash investing and financing activities:</b>		
Stock units granted, net of forfeitures	<b>205,520</b>	106,404
Issuance of common stock for acquisitions	<b>265,918</b>	

*See accompanying Notes to Consolidated Financial Statements.*

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**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"), 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 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.

Our Canadian subsidiary, Stifel Nicolaus Canada, Inc. ("SN Canada") has ceased business operations as of September 30, 2013. The results of SN Canada, previously reported in the Institutional Group segment, are classified as discontinued operations for all periods presented. See Note 4 to our consolidated financial statements for further discussion of our discontinued operations.

***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.

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**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 28 for additional information on VIEs.

**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 17 *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 requires 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.



**Table of Contents****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	 <b>\$ 601,913</b>

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 \$309.7 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 nine months ended September 30, 2013 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 nine months ended September 30, 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*):

<b>Assets:</b>	
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
<b>Total assets acquired</b>	<b>\$ 415,939</b>
<b>Liabilities:</b>	
Financial instruments sold, but not yet purchased, at fair value	\$ 53,379
Accrued compensation	18,468
Accounts payable and accrued expenses	50,104
<b>Total liabilities assumed</b>	<b>121,951</b>
<b>Net assets acquired</b>	<b>\$ 293,988</b>

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.

	<b>Three Months Ended</b>		
	<b>September 30,</b>	<b>September 30,</b>	<b>September 30,</b>
(000s, except per share amounts, unaudited)	<b>2012</b>	<b>2013</b>	<b>2012</b>
Total net revenues	\$ 470,536	\$ 1,436,354	\$ 1,369,556
Net income/(loss)	33,296	(16,464)	89,502
<b>Earnings/(loss) per share:</b>			
Basic	\$ 0.55	\$ (0.26)	\$ 1.47
Diluted	\$ 0.46	\$ (0.26)	\$ 1.23

**Table of Contents****NOTE 4 Discontinued Operations**

Our Canadian subsidiary, SN Canada has ceased business operations as of September 30, 2013. The results of SN Canada, previously reported in the Institutional Group segment, are classified as discontinued operations for all periods presented. In accordance with the provisions of FASB Accounting Standards Codification Topic 205-20,

Discontinued Operations, the results from this business, previously reported in the Institutional Group segment, have been classified as discontinued operations for all periods presented.

The components of discontinued operations are as follows (*in thousands*):

	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2013</b>	<b>2012</b>	<b>2013</b>	<b>2012</b>
Net revenues	<b>\$ 4,696</b>	\$ 5,923	<b>\$ 12,930</b>	\$ 11,990
Restructuring expense	<b>5,516</b>		<b>5,516</b>	
Operating expenses	<b>4,418</b>	5,420	<b>14,341</b>	16,581
Total non-interest expenses	<b>9,934</b>	5,420	<b>19,857</b>	16,581
Income/(loss) from discontinued operations before income tax expense/(benefit)	<b>(5,238)</b>	503	<b>(6,927)</b>	(4,591)
Income tax expense/(benefit)	<b>1</b>	227	<b>110</b>	(1,198)
Income/(loss) from discontinued operations, net of tax	<b>\$ (5,239)</b>	\$ 276	<b>\$ (7,037)</b>	\$ (3,393)

**NOTE 5 Receivables From and Payables to Brokers, Dealers and Clearing Organizations**

Amounts receivable from brokers, dealers, and clearing organizations at September 30, 2013 and December 31, 2012, included (*in thousands*):

	<b>September 30, 2013</b>	<b>December 31, 2012</b>
Deposits paid for securities borrowed	<b>\$ 331,784</b>	\$ 153,819
Receivable from clearing organizations	<b>206,321</b>	115,996
Securities failed to deliver	<b>9,531</b>	6,409
	<b>\$ 547,636</b>	\$ 276,224

Amounts payable to brokers, dealers, and clearing organizations at September 30, 2013 and December 31, 2012, included (*in thousands*):

	<b>September 30, 2013</b>	December 31, 2012
Deposits received from securities loaned	<b>\$ 169,283</b>	\$ 19,218
Payable to clearing organizations	<b>23,112</b>	9,246
Securities failed to receive	<b>13,363</b>	4,747
	<b>\$ 205,758</b>	\$ 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.

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**NOTE 6 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 for identical instruments and reported in Level 1. Level 1 financial instruments include highly liquid instruments with quoted prices, such as equity securities listed in active markets, certain fixed income securities, and U.S. government securities.

If quoted prices are not available for identical instruments, 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 U.S. government agency securities, mortgage-backed securities, corporate fixed income securities infrequently traded, certain state 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 fixed income securities and state and municipal securities with unobservable pricing inputs as Level 3. The methods used to value these securities are the same as the methods used to value ARS, discussed above.

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*Investments*

Investments carried at fair value primarily include corporate equity securities, ARS, investments in mutual funds, U.S. government securities, and investments in public companies, private equity securities, and partnerships, which are classified as other in the following tables.

Corporate equity securities, mutual funds and U.S. government securities are valued based on quoted prices in active markets for identical instruments and reported in Level 1.

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.

Private equity securities and partnership interests with unobservable inputs are reported as Level 3 assets. 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 \$12.6 million and \$3.0 million at September 30, 2013 and December 31, 2012, respectively.

*Securities Sold, But Not Yet Purchased*

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

*Derivatives*

Derivatives are valued using quoted market prices for identical instruments 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 September 30, 2013 and December 31, 2012 are presented below:

	Total	September 30, 2013		Level 3
		Level 1	Level 2	
<b>Assets:</b>				
Cash equivalents	\$ 138,833	138,833		
<b>Trading securities owned:</b>				
U.S. government agency securities	121,136		121,136	
U.S. government securities	13,627	13,627		
Corporate securities:				
Fixed income securities	519,180	46,644	471,739	797
Equity securities	85,183	84,138	1,045	
State and municipal securities	108,526		108,526	
Total trading securities owned	847,652	144,409	702,446	797
<b>Available-for-sale securities:</b>				
U.S. government agency securities	1,226		1,226	
State and municipal securities <sup>(1)</sup>	163,414		84,979	78,435
Mortgage-backed securities:				
Agency	176,933		176,933	
Commercial	231,709		231,709	
Non-agency	4,838		4,838	
Corporate fixed income securities	499,966	62,743	437,223	
Asset-backed securities	153,485		153,485	
Total available-for-sale securities	1,231,571	62,743	1,090,393	78,435
<b>Investments:</b>				
Corporate equity securities	39,212	39,212		
Mutual funds	15,805	15,805		
Auction rate securities:				
Equity securities	59,728			59,728
Municipal securities	12,409			12,409
Other	106,624	881	4,837	100,906
Total investments	233,778	55,898	4,837	173,043
	\$ 2,451,834	\$ 401,883	\$ 1,797,676	\$ 252,275
<b>Liabilities:</b>				
<b>Trading securities sold, but not yet purchased:</b>				
U.S. government securities	\$ 174,688	\$ 174,688	\$	\$
U.S. government agency securities	23,248		23,248	
Corporate securities:				
Fixed income securities	213,757	6,150	207,607	
Equity securities	83,881	83,424	457	

State and municipal securities	<b>84</b>		84	
Total trading securities sold, but not yet purchased	<b>495,658</b>	264,262	231,396	
Securities sold, but not yet purchased	<b>28,598</b>	28,598		
Derivative contracts <sup>(2)</sup>	<b>11,101</b>		11,101	
	<b>\$ 535,357</b>	\$ 292,860	\$ 242,497	\$

(1) Includes \$72.3 million of municipal ARS at September 30, 2013.

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

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	Total	December 31, 2012		
		Level 1	Level 2	Level 3
<b>Assets:</b>				
Cash equivalents	\$ 72,596	\$ 72,596	\$	\$
<b>Trading securities owned:</b>				
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
<b>Available-for-sale securities:</b>				
U.S. government agency securities	1,113		1,113	
State and municipal securities <sup>(1)</sup>	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
<b>Investments:</b>				
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
<b>Liabilities:</b>				
<b>Trading securities sold, but not yet purchased:</b>				
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	<b>22,966</b>	22,966		
Derivative contracts <sup>(2)</sup>	<b>19,934</b>		19,934	
	<b>\$ 362,642</b>	\$ 237,837	\$ 124,805	\$

(1) Includes \$84.6 million of municipal ARS at December 31, 2012.

(2) 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 and nine months ended September 30, 2013 (*in thousands*):

<b>Three Months Ended September 30, 2013</b>							
	<b>Trading Securities Owned</b>			<b>Investments</b>			<b>Other</b>
	<b>Corporate Fixed Income Securities</b>	<b>Equity Securities</b>	<b>State &amp; Municipal Securities <sup>(1)</sup></b>	<b>Auction Rate Securities Equity</b>	<b>Auction Rate Securities Municipal</b>		
<b>Balance at June 30, 2013</b>	<b>\$ 5,057</b>	<b>\$ 12,601</b>	<b>\$ 81,930</b>	<b>\$ 62,109</b>	<b>\$ 13,330</b>	<b>\$</b>	<b>\$ 86,994</b>
Unrealized gains/(losses):							
Included in changes in net assets <sup>(2)</sup>	(29)			519	31		3,514
Included in OCI <sup>(3)</sup>			329				
Realized gains/(losses) <sup>(2)</sup>	101		383				(632)
Purchases	398						2,127
Sales	(2,707)						(2,602)
Redemptions	(259)		(5,000)	(2,900)	(952)		(1,096)
Transfers:							
Into Level 3	2		6,201				12,601
Out of Level 3	(1,766)	(12,601)	(5,408)				
Net change	(4,260)	(12,601)	(3,495)	(2,381)	(921)		13,912
<b>Balance at September 30, 2013</b>	<b>\$ 797</b>	<b>\$</b>	<b>\$ 78,435</b>	<b>\$ 59,728</b>	<b>\$ 12,409</b>	<b>\$</b>	<b>\$ 100,906</b>
<b>Nine Months Ended September 30, 2013</b>							
	<b>Trading Securities Owned</b>			<b>Investments</b>			<b>Other</b>
	<b>Corporate Fixed Income Securities</b>	<b>Equity Securities</b>	<b>State &amp; Municipal Securities <sup>(1)</sup></b>	<b>Auction Rate Securities Equity</b>	<b>Auction Rate Securities Municipal</b>		
<b>Balance at December 31, 2012</b>	<b>\$ 583</b>	<b>\$</b>	<b>\$ 90,487</b>	<b>\$ 64,397</b>	<b>\$ 14,067</b>	<b>\$</b>	<b>\$ 37,297</b>

Unrealized gains/(losses):						
Included in changes in net assets <sup>(2)</sup>	434	1,333		206	(6)	9,245
Included in OCI <sup>(3)</sup>			(1,840)			
Realized gains/(losses) <sup>(2)</sup>	281		895			(129)
Purchases	9,362	11,476	5,000	75		50,804
Sales	(6,888)	(208)				(6,801)
Redemptions	(1,347)		(16,900)	(4,950)	(1,652)	(2,111)
Transfers:						
Into Level 3	139		6,201			12,601
Out of Level 3	(1,767)	(12,601)	(5,408)			
Net change	214		(12,052)	(4,669)	(1,658)	63,609
<b>Balance at September 30, 2013</b>	<b>\$ 797</b>	<b>\$</b>	<b>\$ 78,435</b>	<b>\$ 59,728</b>	<b>\$ 12,409</b>	<b>\$ 100,906</b>

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

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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 and nine months ended September 30, 2013. During the nine months ended September 30, 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 \$6.3 million were sold during the nine months ended September 30, 2013. The changes in unrealized gains/(losses) recorded in earnings for the three and nine months ended September 30, 2013 relating to Level 3 assets still held at September 30, 2013 were immaterial.

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 September 30, 2013.

	Valuation technique	Unobservable input	Range		Weighted average
Available-for-sale securities:					
State and municipal securities	Discounted cash flow	Discount rate	5.6%	11.0%	7.5%
		Workout period	1	4 years	3.4 years
Investments:					
Auction rate securities:					
Equity securities	Discounted cash flow	Discount rate	2.3%	12.7%	7.4%
Workout period			1	3 years	2.6 years
Municipal securities	Discounted cash flow	Discount rate	0.1%	11.0%	6.5%
		Workout period	1	4 years	2.6 years
Other					
Investments in partnerships	Market approach	Revenue multiple	1.7	4.0	2.6
		EBITDA multiple	4.5	9.9	7.7
Private equity investments	Market approach	Revenue multiple	0.5	3.0	1.8
		EBITDA multiple	4.3	11.3	7.8

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 with other available market data for similar instruments.

General and limited partnership interests in investment partnerships totaled \$56.2 million and \$21.5 million at September 30, 2013 and December 31, 2012, respectively. 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



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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 \$10.8 million and \$13.5 million at September 30, 2013 and December 31, 2012, respectively. 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 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 \$10.6 million and \$72.0 million of transfers of financial assets from Level 2 to Level 1 during the three and nine months ended September 30, 2013, respectively, 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 \$27.2 million and \$32.6 million of transfers of financial assets from Level 1 to Level 2 during the three and nine months ended September 30, 2013, respectively, primarily related to corporate fixed income securities for which there were low volumes of recent trade activity observed. There were an immaterial amount of transfers into Level 3 during the three and nine months ended September 30, 2013.

**Table of Contents***Fair Value of Financial Instruments*

The following reflects the fair value of financial instruments, as of September 30, 2013 and December 31, 2012, whether or not recognized in the consolidated statements of financial condition at fair value (*in thousands*).

	September 30, 2013		December 31, 2012	
	Carrying value	Estimated fair value	Carrying value	Estimated fair value
<b>Financial assets:</b>				
Cash and cash equivalents	\$ 649,244	\$ 649,244	\$ 403,941	\$ 403,941
Restricted cash	4,419	4,419	4,414	4,414
Cash segregated for regulatory purposes	33	33	128,031	128,031
Securities purchased under agreements to resell	168,182	168,182	158,695	158,695
Trading securities owned	847,652	847,652	763,608	763,608
Available-for-sale securities	1,231,571	1,231,571	1,625,168	1,625,168
Held-to-maturity securities	1,723,482	1,732,534	708,008	715,274
Loans held for sale	75,440	75,440	214,531	214,531
Bank loans	1,061,150	1,076,079	815,937	834,188
Investments	233,778	233,778	236,434	236,434
<b>Financial liabilities:</b>				
Securities sold under agreements to repurchase	\$ 255,451	\$ 255,451	\$ 140,346	\$ 140,346
Bank deposits	4,228,405	3,659,589	3,346,133	3,368,643
Trading securities sold, but not yet purchased	495,658	495,658	319,742	319,742
Securities sold, but not yet purchased	28,598	28,598	22,966	22,966
Derivative contracts <sup>(1)</sup>	11,101	11,101	19,934	19,934
Senior notes <sup>(2)</sup>	325,000	335,986	325,000	338,475
Non-recourse debt <sup>(2)</sup>	32,111	32,541	58,992	58,992
Debentures to Stifel Financial Capital Trusts	82,500	74,313	82,500	66,545
Liabilities subordinated to claims of general creditors	3,131	3,097	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 September 30, 2013 and December 31, 2012 (*in thousands*):

	Total	September 30, 2013		
		Level 1	Level 2	Level 3
<b>Financial assets:</b>				
Cash	\$ 510,411	\$ 510,411	\$	\$
Restricted cash	4,419	4,419		
Cash segregated for regulatory purposes	33	33		
Securities purchased under agreements to resell	168,182	144,171	24,011	
Held-to-maturity securities	1,732,534		1,500,738	231,796
Loans held for sale	75,440		75,440	
Bank loans	1,076,079		1,076,079	
<b>Financial liabilities:</b>				
Securities sold under agreements to repurchase	\$ 255,451	\$ 4,131	\$ 251,320	\$
Bank deposits	3,659,589		3,659,589	
Senior notes	335,986	335,986		
Non-recourse debt	32,541		32,541	
Debentures to Stifel Financial Capital Trusts	74,313			74,313
Liabilities subordinated to claims of general creditors	3,097			3,097

	Total	December 31, 2012		
		Level 1	Level 2	Level 3
<b>Financial assets:</b>				
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	
<b>Financial liabilities:</b>				
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 September 30, 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 September 30, 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 September 30, 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.

**Table of Contents****NOTE 7 Trading Securities Owned and Trading Securities Sold, But Not Yet Purchased**

The components of trading securities owned and trading securities sold, but not yet purchased, at September 30, 2013 and December 31, 2012, are as follows (*in thousands*):

	September 30, 2013	December 31, 2012
<b>Trading securities owned:</b>		
U.S. government agency securities	\$ 121,136	\$ 123,758
U.S. government securities	13,627	3,573
Corporate securities:		
Fixed income securities	519,180	396,878
Equity securities	85,183	35,472
State and municipal securities	108,526	203,927
	\$ 847,652	\$ 763,608
<b>Trading securities sold, but not yet purchased:</b>		
U.S. government securities	\$ 174,688	\$ 162,661
U.S. government agency securities	23,248	15
Corporate securities:		
Fixed income securities	213,757	150,698
Equity securities	83,881	6,281
State and municipal securities	84	87
	\$ 495,658	\$ 319,742

At September 30, 2013 and December 31, 2012, trading securities owned in the amount of \$648.1 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.

**Table of Contents****NOTE 8 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 September 30, 2013 and December 31, 2012 (*in thousands*):

	Amortized cost	September 30, 2013 Gross unrealized gains <sup>(1)</sup>	Gross unrealized losses <sup>(1)</sup>	Estimated fair value
<b>Available-for-sale securities</b>				
U.S. government agency securities	\$ 1,229	\$	\$ (3)	\$ 1,226
State and municipal securities	169,799	1,939	(8,324)	163,414
Mortgage-backed securities:				
Agency	176,024	2,976	(2,067)	176,933
Commercial	229,962	3,273	(1,526)	231,709
Non-agency	4,746	92		4,838
Corporate fixed income securities	498,966	5,088	(4,088)	499,966
Asset-backed securities	155,384	240	(2,139)	153,485
	<b>\$ 1,236,110</b>	<b>\$ 13,608</b>	<b>\$ (18,147)</b>	<b>\$ 1,231,571</b>

<b>Held-to-maturity securities <sup>(2)</sup></b>				
Mortgage-backed securities:				
Agency	\$ 977,514	\$ 8,006	\$ (420)	\$ 985,100
Commercial	59,390	87		59,477
Asset-backed securities	609,978	6,704	(3,646)	613,036
Corporate fixed income securities	55,352		(2,702)	52,650
Municipal auction rate securities	21,248	1,023		22,271
	<b>\$ 1,723,482</b>	<b>\$ 15,820</b>	<b>\$ (6,768)</b>	<b>\$ 1,732,534</b>

	Amortized cost	December 31, 2012 Gross unrealized gains <sup>(1)</sup>	Gross unrealized losses <sup>(1)</sup>	Estimated fair value
<b>Available-for-sale securities</b>				
U.S. government agency 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
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**Held-to-maturity securities <sup>(2)</sup>**

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 at historical cost or at fair value at the time of transfer from the available-for-sale to held-to-maturity category, adjusted for amortization of premiums and accretion of discounts and credit-related other-than-temporary impairment.

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During the third quarter of 2013, we transferred \$1.1 billion of mortgage-backed securities from our available-for-sale portfolio to the held-to-maturity category reflecting our company's intent to hold those securities to maturity.

For the three and nine months ended September 30, 2013, we received proceeds of \$4.5 million and \$194.1 million, respectively, from the sale of available-for-sale securities, which resulted in realized gains of \$0.2 million and \$1.7 million, respectively. For the three and nine months ended September 30, 2012, we received proceeds of \$92.4 million and \$186.5 million, respectively, from the sale of available-for-sale securities, which resulted in realized gains of \$1.0 million and \$3.1 million, respectively.

During the three and nine months ended September 30, 2013, unrealized losses, net of deferred tax benefits, of \$8.6 million and \$48.6 million, respectively, were recorded in accumulated other comprehensive income in the consolidated statements of financial condition. During the three and nine months ended September 30, 2012, unrealized gains, net of deferred taxes, of \$8.4 million and \$12.8 million, respectively, were recorded in accumulated other comprehensive income in the consolidated statements of financial condition.

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

	September 30, 2013			
	Available-for-sale securities		Held-to-maturity securities	
	Amortized cost	Estimated fair value	Amortized cost	Estimated fair value
<b>Debt securities</b>				
Within one year	\$ 156,780	\$ 158,397	\$	\$
After one year through three years	190,728	193,606	15,057	14,669
After three years through five years	123,055	121,942	41,609	39,306
After five years through ten years	40,262	37,896	384,547	385,347
After ten years	314,553	306,250	1,282,269	1,293,212
<b>Mortgage-backed securities</b>				
After one year through three years	9,154	9,355		
After three years through five years	967	991		
After five years through ten years	66,438	66,131		
After ten years	334,173	337,003		
	<b>\$ 1,236,110</b>	<b>\$ 1,231,571</b>	<b>\$ 1,723,482</b>	<b>\$ 1,732,534</b>

At September 30, 2013 and December 31, 2012, securities of \$539.9 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.

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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 September 30, 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
<b>Available-for-sale securities</b>						
U.S. government securities	\$ (3)	\$ 734	\$	\$	\$ (3)	\$ 734
State and municipal securities	(7,170)	87,428	(1,154)	32,096	(8,324)	119,524
Mortgage-backed securities:						
Agency	(2,067)	83,099			(2,067)	83,099
Commercial	(1,526)	40,136			(1,526)	40,136
Corporate fixed income securities	(3,258)	134,888	(830)	44,455	(4,088)	179,343
Asset-backed securities	(2,139)	133,915			(2,139)	133,915
	\$ (16,163)	\$ 480,200	\$ (1,984)	\$ 76,551	\$ (18,147)	\$ 556,751

The gross unrealized losses on our available-for-sale securities of \$18.1 million as of September 30, 2013 relate to 79 individual securities.

Certain investments in the available-for-sale portfolio at September 30, 2013, are reported in the consolidated statements of financial condition at an amount less than their amortized cost. The total fair value of these investments at September 30, 2013, was \$556.8 million, which was 45.2% of our available-for-sale investment portfolio. The amortized cost basis of these investments was \$574.9 million at September 30, 2013. As discussed in more detail below, we conduct periodic reviews of all securities with unrealized losses to assess whether the impairment is other-than-temporary.

**Other-Than-Temporary Impairment**

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

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

between the security's fair value and the present value of expected future cash flows. There were no credit-related OTTI charges during the three and nine months ended September 30, 2013.

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

We believe the gross unrealized losses related to all other securities of \$18.1 million as of September 30, 2013 are attributable to issuer specific credit spreads and changes in market interest rates and asset spreads. We, therefore, do not expect to incur any credit losses related to these securities. In addition, we have no intent to sell these securities with unrealized losses and it is not more likely than not that we will be required to sell these securities prior to recovery of the amortized cost. Accordingly, we have concluded that the impairment on these securities is not other-than-temporary.

**Table of Contents****NOTE 9 Bank Loans**

The following table presents the balance and associated percentage of each major loan category in our loan portfolio at September 30, 2013 and December 31, 2012 (*in thousands, except percentages*):

	<b>September 30, 2013</b>		<b>December 31, 2012</b>	
	<b>Balance</b>	<b>Percent</b>	<b>Balance</b>	<b>Percent</b>
Consumer <sup>(1)</sup>	\$ 489,867	45.5%	\$ 425,382	51.6%
Commercial and industrial	481,336	44.7	300,034	36.4
Residential real estate	75,233	7.0	65,657	8.0
Home equity lines of credit	16,856	1.6	19,531	2.4
Commercial real estate	12,516	1.2	12,805	1.5
Construction and land	490		510	0.1
	<b>1,076,298</b>	<b>100.0%</b>	<b>823,919</b>	<b>100.0%</b>
Unamortized loan fees, net of origination costs	(1,752)		(1,207)	
Loans in process	(163)		1,370	
Allowance for loan losses	(13,233)		(8,145)	
	<b>\$ 1,061,150</b>		<b>\$ 815,937</b>	

<sup>(1)</sup> Includes securities-based loans of \$489.8 million and \$425.3 million at September 30, 2013 and December 31, 2012, respectively.

Changes in the allowance for loan losses for the periods presented were as follows (*in thousands*):

	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>September 30, 2013</b>	<b>2012</b>	<b>September 30, 2013</b>	<b>2012</b>
<b>Allowance for loan losses, beginning of period</b>	<b>\$ 10,919</b>	<b>\$ 6,292</b>	<b>\$ 8,145</b>	<b>\$ 5,300</b>
Provision for loan losses	2,297	161	5,537	1,300
Charge-offs:				
Residential real estate		(59)	(501)	(254)
Recoveries	17		52	48
<b>Allowance for loan losses, end of period</b>	<b>\$ 13,233</b>	<b>\$ 6,394</b>	<b>\$ 13,233</b>	<b>\$ 6,394</b>

A loan is determined to be impaired, when principal or interest becomes 90 days past due or when collection becomes uncertain. At the time a loan is determined to be impaired, the accrual of interest and amortization of deferred loan origination fees is discontinued ( non-accrual status ), and any accrued and unpaid interest income is reversed. At September 30, 2013, we had \$14.8 million of non-accrual loans, which included \$0.4 million in troubled debt

restructurings, for which there was a specific allowance of \$2.3 million. At December 31, 2012, we had \$1.8 million of non-accrual loans, which included \$1.6 million in troubled debt restructurings, for which there was a specific allowance of \$0.6 million. The gross interest income related to impaired loans, which would have been recorded had these loans been current in accordance with their original terms, and the interest income recognized on these loans during the three and nine months ended September 30, 2013 and 2012 were insignificant to the consolidated financial statements.

#### *Credit Quality*

We closely monitor economic conditions and loan performance trends to manage and evaluate our exposure to credit risk. Trends in delinquency ratios are an indicator, among other considerations, of credit risk within our loan portfolios. The level of nonperforming assets represents another indicator of the potential for future credit losses. Accordingly, key metrics we track and use in evaluating the credit quality of our loan portfolio include delinquency and nonperforming asset rates, as well as charge-off rates and our internal risk ratings of the loan portfolio. In general, we are a secured lender. At September 30, 2013 and December 31, 2012, 96.5% and 96.1% of our loan portfolio was collateralized, respectively. Collateral is required in accordance with the normal credit evaluation process based upon the creditworthiness of the customer and the credit risk associated with the particular transaction.

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The following is a breakdown of the allowance for loan losses by type for as of September 30, 2013 and December 31, 2012 (*in thousands, except rates*):

	September 30, 2013		December 31, 2012	
	Balance	Percent <sup>(1)</sup>	Balance	Percent <sup>(1)</sup>
Commercial and industrial	\$ 10,344	44.7%	\$ 5,450	36.4%
Consumer	735	45.5	647	51.6
Residential real estate	578	7.0	408	8.0
Commercial real estate	202	1.2	691	1.5
Home equity lines of credit	159	1.6	195	2.4
Construction and land	12		13	0.1
Qualitative	1,203		741	
	\$ 13,233	100.0%	\$ 8,145	100.0%

<sup>(1)</sup> Loan category as a percentage of total loan portfolio.

At September 30, 2013 and December 31, 2012, Stifel Bank had loans outstanding to its executive officers, directors, and their affiliates in the amount of \$0.6 million and \$0.6 million, respectively, and loans outstanding to other Stifel Financial Corp. executive officers, directors, and their affiliates in the amount of \$5.8 million and \$7.2 million, respectively. Such loans and other extensions of credit were made in the ordinary course of business and were made on substantially the same terms (including interest rates and collateral requirements) as those prevailing at the time for comparable transactions with other persons.

At September 30, 2013 and December 31, 2012, we had mortgage loans held for sale of \$75.4 million and \$214.5 million, respectively. For the three months ended September 30, 2013 and 2012, we recognized gains of \$2.2 million and \$3.6 million, respectively, from the sale of originated loans, net of fees and costs. For the nine months ended September 30, 2013 and 2012, we recognized gains of \$10.1 million and \$9.6 million, respectively, from the sale of originated loans, net of fees and costs.

**NOTE 10 Fixed Assets**

The following is a summary of fixed assets as of September 30, 2013 and December 31, 2012 (*in thousands*):

	September 30, 2013	December 31, 2012
Furniture and equipment	\$ 169,363	\$ 157,974
Building and leasehold improvements	95,623	82,234
Property on operating leases	21,049	46,500
Total	286,035	286,708
Less accumulated depreciation and amortization	(161,270)	(145,305)

\$ 124,765 \$ 141,403

For the three months ended September 30, 2013 and 2012, depreciation and amortization of furniture and equipment, and leasehold improvements totaled \$8.6 million and \$7.4 million, respectively. For the nine months ended September 30, 2013 and 2012, depreciation and amortization of furniture and equipment, and leasehold improvements totaled \$25.2 million and \$22.0 million, respectively.

#### **NOTE 11 Goodwill and Intangible Assets**

We test goodwill for impairment on an annual basis and on an interim basis when certain events or circumstances exist. We test for impairment at the reporting unit level, which is generally at the level of or one level below our company's business segments. For both the annual and interim tests, we have the option to first assess qualitative factors to determine whether the existence of events or circumstances leads to a determination that it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If after assessing the



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totality of events or circumstances, we determine it is more likely than not that the fair value of a reporting unit is greater than its carrying amount, then performing the two-step impairment test is not required. However, if we conclude otherwise, we are then required to perform the first step of the two-step impairment test. Goodwill impairment is determined by comparing the estimated fair value of a reporting unit with its respective carrying value. If the estimated fair value exceeds the carrying value, goodwill at the reporting unit level is not deemed to be impaired. If the estimated fair value is below carrying value, however, further analysis is required to determine the amount of the impairment. Additionally, if the carrying value of a reporting unit is zero or a negative value and it is determined that it is more likely than not the goodwill is impaired, further analysis is required. The estimated fair values of the reporting units are derived based on valuation techniques we believe market participants would use for each of the reporting units. Our annual goodwill impairment testing was completed as of July 31, 2013, with no impairment identified.

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

	December 31, 2012	Net additions	Impairment losses	September 30, 2013
<b>Goodwill</b>				
Global Wealth Management	\$ 144,377	\$ 10,868	\$	\$ 155,245
Institutional Group	275,016	312,393		587,409
	\$ 419,393	\$ 323,261	\$	\$ 742,654

	December 31, 2012	Net additions	Amortization	September 30, 2013
<b>Intangible assets</b>				
Global Wealth Management	\$ 16,377	\$	\$ (1,697)	\$ 14,680
Institutional Group	12,590	3,256	(2,448)	13,398
	\$ 28,967	\$ 3,256	\$ (4,145)	\$ 28,078

The adjustments to goodwill and intangible assets during the nine months ended September 30, 2013 are primarily attributable to our acquisitions of KBW, Inc. and Miller Buckfire. The allocation of the purchase price of KBW, Inc. is preliminary and will be finalized upon completion of the analysis of the fair values of the net assets of KBW, Inc. as of the acquisition date and the identified intangible assets. The final goodwill recorded on the consolidated statement of financial condition may differ from that reflected herein as a result of future measurement period adjustments and the recording of identified intangible assets. See Note 3 in the notes to our consolidated financial statements for additional information regarding the acquisition of KBW, Inc.

Amortizable intangible assets consist of acquired customer relationships, trade name, and investment banking backlog that are amortized over their contractual or determined useful lives. Intangible assets subject to amortization as of September 30, 2013 and December 31, 2012 were as follows (*in thousands*):

	September 30, 2013		December 31, 2012	
	Gross carrying value	Accumulated amortization	Gross carrying value	Accumulated amortization
Customer relationships	\$ 40,166	\$ 21,138	\$ 40,166	\$ 18,648
Trade name	11,560	2,782	9,442	2,023
Investment banking backlog	3,388	3,116	2,250	2,220
	\$ 55,114	\$ 27,036	\$ 51,858	\$ 22,891

Amortization expense related to intangible assets was \$1.3 million and \$1.2 million for the three months ended September 30, 2013 and 2012, respectively. Amortization expense related to intangible assets was \$4.1 million and \$3.7 million for the nine months ended September 30, 2013 and 2012, respectively.

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The weighted-average remaining lives of the following intangible assets at September 30, 2013 are: customer relationships, 5.4 years; and trade name, 6.6 years. The investment banking backlog will be amortized over its estimated life, which we expect to be within the next 12 months. As of September 30, 2013, we expect amortization expense in future periods to be as follows (*in thousands*):

<b>Fiscal year</b>	
Remainder of 2013	\$ 2,038
2014	4,562
2015	3,835
2016	2,829
2017	2,447
Thereafter	12,367
	<b>\$ 28,078</b>

**NOTE 12 Short-Term Borrowings**

Our short-term financing is generally obtained through short-term bank line financing on an uncommitted secured basis, committed short-term bank line financing on an unsecured basis and securities lending arrangements. We borrow from various banks on a demand basis with company-owned and customer securities pledged as collateral. The value of customer-owned securities used as collateral is not reflected in the consolidated statements of financial condition. Our uncommitted secured lines of credit at September 30, 2013 totaled \$680.0 million with four banks and are dependent on having appropriate collateral, as determined by the bank agreements, to secure an advance under the line. The availability of our uncommitted lines are subject to approval by the individual banks each time an advance is requested and may be denied. Our peak daily borrowing was \$561.2 million during the nine months ended September 30, 2013. There are no compensating balance requirements under these arrangements.

Our committed short-term bank line financing at September 30, 2013 consisted of a \$100.0 million revolving credit facility. The credit facility expires in December 2013. The applicable interest rate under the revolving credit facility is calculated as a per annum rate equal to the one-month Eurocurrency rate plus 1.00%, as defined in the revolving credit facility. At September 30, 2013, we had no advances on our revolving credit facility and were in compliance with all covenants.

At September 30, 2013, short-term borrowings from banks were \$133.1 million at an average rate of 1.11%, which were collateralized by company-owned securities valued at \$411.8 million. At December 31, 2012, short-term borrowings from banks were \$304.7 million at an average rate of 1.14%, which were collateralized by company-owned securities valued at \$530.7 million. The average bank borrowing was \$246.8 million and \$151.3 million for the three months ended September 30, 2013 and 2012, respectively, at average daily effective interest rates of 1.33% and 1.15%, respectively. The average bank borrowing was \$290.4 million and \$201.0 million for the nine months ended September 30, 2013 and 2012, respectively, at average daily effective interest rates of 1.28% and 1.15%, respectively.

At September 30, 2013 and December 31, 2012, Stifel Nicolaus had a stock loan balance of \$169.3 million and \$19.2 million, respectively, at average daily interest rates of 0.33% and 0.24%, respectively. The average outstanding securities lending arrangements utilized in financing activities were \$120.7 million and \$150.6 million during the three months ended September 30, 2013 and 2012, respectively, at average daily effective interest rates of 0.23% and

0.14%, respectively. The average outstanding securities lending arrangements utilized in financing activities were \$89.0 million and \$150.0 million during the nine months ended September 30, 2013 and 2012, respectively, at average daily effective interest rates of 0.16% and 0.13%, respectively. Customer-owned securities were utilized in these arrangements.

**Table of Contents****NOTE 13 Corporate Debt**

The following table summarizes our corporate debt as of September 30, 2013 and December 31, 2012 (*in thousands*):

	September 30, 2013	December 31, 2012
6.70% senior notes, due 2022 <sup>(1)</sup>	\$ 175,000	\$ 175,000
5.375% senior notes, due 2022 <sup>(2)</sup>	150,000	150,000
Non-recourse debt, 6.75%, due 2016 <sup>(3)</sup>	32,111	58,992
	\$ 357,111	\$ 383,992

- (1) In January 2012, we sold in a registered underwritten public offering, \$175.0 million in aggregate principal amount of 6.70% senior notes due January 2022. Interest on these senior notes is payable quarterly in arrears. On or after January 15, 2015, we may redeem some or all of the senior notes at any time at a redemption price equal to 100% of the principal amount of the notes being redeemed plus accrued interest thereon to the redemption date.
- (2) In December 2012, we sold in a registered underwritten public offering, \$150.0 million in aggregate principal amount of 5.375% senior notes due December 2022. Interest on these senior notes is payable quarterly in arrears. On or after December 31, 2015, we may redeem some or all of the senior notes at any time at a redemption price equal to 100% of the principal amount of the notes being redeemed plus accrued interest thereon to the redemption date.
- (3) On December 17, 2012, we issued \$60.0 million principal in non-recourse debt for the purpose of acquiring East Shore Aircraft LLC. Interest on the non-recourse debt is payable monthly. We are required to redeem some of the non-recourse debt as each aircraft is sold at the various lease expiration dates. We will collect 100% of the monthly lease payments with approximately 65% allocated to pay interest first then principal on non-recourse debt. In addition, as each aircraft is sold at the various lease expiration dates a portion of the proceeds will be applied to the principal balance of the non-recourse debt.

Our corporate debt matures as follows, based upon its contractual terms:

	Non-recourse debt	Senior notes
2013	\$ 2,038	
2014	8,506	
2015	20,588	
2016	979	
2017		
Thereafter		325,000
	\$ 32,111	325,000

**NOTE 14 Bank Deposits**

Deposits consist of money market and savings accounts, certificates of deposit, and demand deposits. Deposits at September 30, 2013 and December 31, 2012 were as follows (*in thousands*):

	<b>September 30, 2013</b>	December 31, 2012
Money market and savings accounts	<b>\$ 4,151,990</b>	\$ 3,271,929
Demand deposits (interest-bearing)	<b>69,956</b>	64,926
Demand deposits (non-interest-bearing)	<b>5,819</b>	8,648
Certificates of deposit	<b>640</b>	630
	<b>\$ 4,228,405</b>	\$ 3,346,133

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The weighted average interest rate on deposits was 0.06% and 0.13% at September 30, 2013 and December 31, 2012, respectively.

Scheduled maturities of certificates of deposit at September 30, 2013 and December 31, 2012 were as follows (*in thousands*):

	September 30, 2013	December 31, 2012
<b>Certificates of deposit, less than \$100:</b>		
Within one year	\$ 111	\$ 182
One to three years	192	203
Over three years	88	
	\$ 391	\$ 385
<b>Certificates of deposit, \$100 and greater:</b>		
Within one year	\$ 249	\$ 245
One to three years		
	249	245
	\$ 640	\$ 630

At September 30, 2013 and December 31, 2012, the amount of deposits includes related party deposits, primarily brokerage customers' deposits from Stifel Nicolaus of \$4.2 billion and \$3.3 billion, respectively, and interest-bearing and time deposits of executive officers, directors, and their affiliates of \$0.2 million and \$0.2 million, respectively. Such deposits were made in the ordinary course of business and were made on substantially the same terms (including interest rates) as those prevailing at the time for comparable transactions with other persons.

**NOTE 15 Derivative Instruments and Hedging Activities**

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

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The following table provides the notional values and fair values of our derivative instruments as of September 30, 2013 and December 31, 2012 (*in thousands*):

September 30, 2013					
	Notional value	Asset derivatives		Liability derivatives	
		Balance sheet		Balance sheet	
		location	Positive fair value	location	Negative fair value
Derivatives designated as hedging instruments under Topic 815:					
Cash flow interest rate contracts	\$ 431,385	Other assets	\$	Accounts payable and accrued expenses	\$ (11,101)
December 31, 2012					
	Notional value	Asset derivatives		Liability derivatives	
		Balance sheet		Balance sheet	
		location	Positive fair value	location	Negative fair value
Derivatives designated as hedging instruments under Topic 815:					
Cash flow interest rate contracts	\$ 550,127	Other assets	\$	Accounts payable and accrued expenses	\$ (19,934)
Cash Flow Hedges					

We have entered into interest rate swap agreements that effectively modify our exposure to interest rate risk by converting floating rate debt to a fixed rate debt over the next ten years.

Any unrealized gains or losses related to cash flow hedging instruments are reclassified from accumulated other comprehensive loss into earnings in the same period the hedged forecasted transaction affects earnings and are recorded in interest expense on the accompanying consolidated statements of operations. The ineffective portion of the cash flow hedging instruments is recorded in other income or other operating expense. The losses recognized during the three and nine months ended September 30, 2013 related to ineffectiveness were insignificant.

Amounts reported in accumulated other comprehensive loss related to derivatives will be reclassified to interest expense as interest payments are made on our variable rate deposits. During the next twelve months, we estimate that \$6.4 million will be reclassified as an increase to interest expense.



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The following table shows the effect of our company's derivative instruments in the consolidated statements of operations for the three and nine months ended September 30, 2013 and 2012 (*in thousands*):

<b>Three Months Ended September 30, 2013</b>					
	<b>Gain/(Loss) recognized in OCI (effectiveness)</b>	<b>Location of loss reclassified from OCI into income</b>	<b>Loss reclassified from OCI into income</b>	<b>Location of loss recognized in OCI (ineffectiveness)</b>	<b>Loss recognized due to ineffectiveness</b>
Cash flow interest rate contracts	\$ (1,320)	Interest expense	\$ 2,092	None	\$

<b>Three Months Ended September 30, 2012</b>					
	<b>Gain/(Loss) recognized in OCI (effectiveness)</b>	<b>Location of loss reclassified from OCI into income</b>	<b>Loss reclassified from OCI into income</b>	<b>Location of loss recognized in OCI (ineffectiveness)</b>	<b>Loss recognized due to ineffectiveness</b>
Cash flow interest rate contracts	\$ (2,032)	Interest expense	\$ 2,784	None	\$

<b>Nine Months Ended September 30, 2013</b>					
	<b>Gain/(Loss) recognized in OCI (effectiveness)</b>	<b>Location of loss reclassified from OCI into income</b>	<b>Loss reclassified from OCI into income</b>	<b>Location of loss recognized in OCI (ineffectiveness)</b>	<b>Loss recognized due to ineffectiveness</b>
Cash flow interest rate contracts	\$ 2,087	Interest expense	\$ 6,716	None	\$

<b>Nine Months Ended September 30, 2012</b>					
	<b>Gain/(Loss) recognized in OCI (effectiveness)</b>	<b>Location of loss reclassified from OCI into income</b>	<b>Loss reclassified from OCI into income</b>	<b>Location of loss recognized in OCI (ineffectiveness)</b>	<b>Loss recognized due to ineffectiveness</b>
Cash flow interest rate contracts	\$ (6,537)	Interest expense	\$ 8,958	None	\$

We maintain a risk management strategy that incorporates the use of derivative instruments to minimize significant unplanned fluctuations in earnings caused by interest rate volatility. Our goal is to manage sensitivity to changes in rates by hedging the maturity characteristics of variable rate affiliated deposits, thereby limiting the impact on

earnings. By using derivative instruments, we are exposed to credit and market risk on those derivative positions. We manage the market risk associated with interest rate contracts by establishing and monitoring limits as to the types and degree of risk that may be undertaken. Credit risk is equal to the extent of the fair value gain in a derivative if the counterparty fails to perform. When the fair value of a derivative contract is positive, this generally indicates that the counterparty owes our company and, therefore, creates a repayment risk for our company. When the fair value of a derivative contract is negative, we owe the counterparty and, therefore, have no repayment risk. See Note 6 in the notes to our consolidated financial statements for further discussion on how we determine the fair value of our financial instruments. We minimize the credit (or repayment) risk in derivative instruments by entering into transactions with high-quality counterparties that are reviewed periodically by senior management.

**Table of Contents*****Credit Risk-Related Contingency Features***

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

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

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

***Regulatory Capital-Related Contingency Features***

Certain of our derivative instruments contain provisions that require us to maintain our capital adequacy requirements. If we were to lose our status as adequately capitalized, we would be in violation of those provisions, and the counterparties of the derivative instruments could request immediate payment or demand immediate and ongoing full overnight collateralization on derivative instruments in net liability positions.

As of September 30, 2013, the fair value of derivatives in a net liability position, which includes accrued interest but excludes any adjustment for nonperformance risk, related to these agreements was \$11.8 million (termination value). We have minimum collateral posting thresholds with certain of our derivative counterparties and have posted cash collateral of \$24.0 million against our obligations under these agreements. If we had breached any of these provisions at September 30, 2013, we would have been required to settle our obligations under the agreements at the termination value.

***Counterparty Risk***

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

**NOTE 16 Debentures to Stifel Financial Capital Trusts**

The following table summarizes our debentures to Stifel Financial Capital Trusts as of September 30, 2013 and December 31, 2012 (*in thousands*):

	September 30, 2013	December 31, 2012
Debenture to Stifel Financial Capital Trust II <sup>(1)</sup>	\$ 35,000	\$ 35,000
Debenture to Stifel Financial Capital Trust III <sup>(2)</sup>	35,000	35,000

Debenture to Stifel Financial Capital Trust IV <sup>(3)</sup>	<b>12,500</b>	12,500
	<b>\$ 82,500</b>	<b>\$ 82,500</b>

- (1) On August 12, 2005, we completed a private placement of \$35.0 million of 6.38% Cumulative Trust Preferred Securities. The trust preferred securities were offered by Stifel Financial Capital Trust II (the Trust II), a non-consolidated wholly owned subsidiary of our company. The trust preferred securities mature on September 30, 2035, but may be redeemed by our company, and in turn, the Trust II would call the debenture beginning September 30, 2010. The Trust II requires quarterly distributions of interest to the holders of the trust preferred securities. Distributions will be payable at a floating interest rate equal to three-month London Interbank Offered Rate ( LIBOR ) plus 1.70% per annum.
- (2) On March 30, 2007, we completed a private placement of \$35.0 million of 6.79% Cumulative Trust Preferred Securities. The trust preferred securities were offered by Stifel Financial Capital Trust III (the Trust III), a non-consolidated wholly owned subsidiary of our company. The trust preferred securities mature on June 6, 2037, but may be redeemed by our company, and in turn, Trust III would call the debenture beginning June 6, 2012. Trust III requires quarterly distributions of interest to the holders of the trust preferred securities. Distributions will be payable at a floating interest rate equal to three-month LIBOR plus 1.85% per annum.

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- (3) On June 28, 2007, we completed a private placement of \$35.0 million of 6.78% Cumulative Trust Preferred Securities. The trust preferred securities were offered by Stifel Financial Capital Trust IV (the Trust IV), a non-consolidated wholly owned subsidiary of our company. The trust preferred securities mature on September 6, 2037, but may be redeemed by our company, and in turn, Trust IV would call the debenture beginning September 6, 2012. Trust IV requires quarterly distributions of interest to the holders of the trust preferred securities. Distributions will be payable at a floating interest rate equal to three-month LIBOR plus 1.85% per annum.

**NOTE 17 Disclosures About Offsetting Assets and Liabilities**

The following table provides information about financial assets and derivative assets that are subject to offset as of September 30, 2013 and December 31, 2012 (*in thousands*):

	Gross amounts of recognized assets	Gross amounts offset in the Statement of Financial Condition	Net amounts presented in the Statement of Financial Condition	Gross amounts not offset in the Statement of Financial Condition	Collateral received	Net amount
<b>As of September 30, 2013:</b>						
Securities borrowing <sup>(1)</sup>	\$ 331,784	\$	\$ 331,784	\$	\$ (331,784)	\$
Reverse repurchase agreements <sup>(2)</sup>	168,182	\$	168,182		(168,182)	
	\$ 499,966	\$	\$ 499,966	\$	\$ (499,966)	\$
<b>As of December 31, 2012:</b>						
Securities borrowing <sup>(1)</sup>	\$ 153,819	\$	\$ 153,819	\$	\$ (153,819)	\$
Reverse repurchase agreements <sup>(2)</sup>	158,695		158,695		(158,695)	
	\$ 312,514	\$	\$ 312,514	\$	\$ (312,514)	\$

- (1) Securities borrowing transactions are included in receivables from brokers, dealers, and clearing organizations on the consolidated statements of financial condition. See Note 5 in the notes to our consolidated financial statements for additional information on receivables from brokers, dealers, and clearing organizations.
- (2) Collateral received includes securities received by our company from the counterparty. These securities are not included on the consolidated statements of financial condition unless there is an event of default.

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The following table provides information about financial liabilities and derivative liabilities that are subject to offset as of September 30, 2013 and December 31, 2012:

	Gross amounts of recognized liabilities	Gross amounts offset in the Statement of Financial Condition	Net amounts presented in the Statement of Financial Condition	Gross amounts not offset in the Statement of Financial Condition	Financial instruments	Collateral pledged	Net amount
<b>As of September 30, 2013:</b>							
Securities lending <sup>(3)</sup>	\$ 169,283	\$	\$ 169,283	\$	\$	(169,283)	\$
Repurchase agreements <sup>(4)</sup>	255,451		255,451			(255,451)	
Cash flow interest rate contracts	11,101		11,101			(11,101)	
	\$ 435,835	\$	\$ 435,835	\$	\$	(435,835)	\$
<b>As of December 31, 2012:</b>							
Securities lending <sup>(3)</sup>	\$ 19,218	\$	\$ 19,218	\$	\$	(19,218)	\$
Repurchase agreements <sup>(4)</sup>	140,346		140,346			(140,346)	
Cash flow interest rate contracts	19,934		19,934			(19,934)	
	\$ 179,498	\$	\$ 179,498	\$	\$	(179,498)	\$

(3) Securities lending transactions are included in payables to from brokers, dealers, and clearing organizations on the consolidated statements of financial condition. See Note 5 in the notes to our consolidated financial statements for additional information on payables to brokers, dealers, and clearing organizations.

(4) Collateral pledged includes the fair value of securities pledged by our company to the counter party. These securities are included on the consolidated statements of financial condition unless we default.

**NOTE 18 Commitments, Guarantees, and Contingencies***Broker-Dealer Commitments and Guarantees*

In the normal course of business, we enter into underwriting commitments. Settlement of transactions relating to such underwriting commitments, which were open at September 30, 2013, had no material effect on the consolidated financial statements.

In connection with margin deposit requirements of The Options Clearing Corporation, we pledged customer-owned securities valued at \$103.7 million to satisfy the minimum margin deposit requirement of \$34.4 million at September 30, 2013.

In connection with margin deposit requirements of the National Securities Clearing Corporation, we deposited \$27.4 million in cash at September 30, 2013, which satisfied the minimum margin deposit requirements of \$20.9 million.

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

Thomas Weisel Partners LLC ( TWP ) has entered into settlement and release agreements ( Settlement Agreements ) with certain customers, whereby it will purchase their ARS, at par, in exchange for a release from any future claims. At September 30, 2013, we estimate that TWP customers held \$18.3 million par value of ARS, which may be repurchased over the next 3 years. The amount estimated for repurchase assumes no issuer redemptions.

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*Other Commitments*

In the ordinary course of business, Stifel Bank has commitments to extend credit in the form of commitments to originate loans, standby letters of credit, and lines of credit. See Note 23 in the notes to our consolidated financial statements for further details.

We have committed capital to certain entities and these commitments generally have no specified call dates. We had \$76.0 million of commitments outstanding at September 30, 2013, of which \$63.3 million relate to commitments to certain strategic relationships with Business Development Corporations.

*Concentration of Credit Risk*

We provide investment, capital-raising, and related services to a diverse group of domestic customers, including governments, corporations, and institutional and individual investors. Our exposure to credit risk associated with the non-performance of customers in fulfilling their contractual obligations pursuant to securities transactions can be directly impacted by volatile securities markets, credit markets, and regulatory changes. This exposure is measured on an individual customer basis and on a group basis for customers that share similar attributes. To reduce the potential for risk concentrations, counterparty credit limits have been implemented for certain products and are continually monitored in light of changing customer and market conditions. As of September 30, 2013 and December 31, 2012, we did not have significant concentrations of credit risk with any one customer or counterparty, or any group of customers or counterparties.

**NOTE 19 Legal Proceedings**

Our company and its subsidiaries are named in and subject to various proceedings and claims arising primarily from our securities business activities, including lawsuits, arbitration claims, class actions, and regulatory matters. Some of these claims seek substantial compensatory, punitive, or indeterminate damages. Our company and its subsidiaries are also involved in other reviews, investigations, and proceedings by governmental and self-regulatory organizations regarding our business, which may result in adverse judgments, settlements, fines, penalties, injunctions, and other relief. We are contesting the allegations in these claims, and we believe that there are meritorious defenses in each of these lawsuits, arbitrations, and regulatory investigations. In view of the number and diversity of claims against the company, the number of jurisdictions in which litigation is pending, and the inherent difficulty of predicting the outcome of litigation and other claims, we cannot state with certainty what the eventual outcome of pending litigation or other claims will be.

We have established reserves for potential losses that are probable and reasonably estimable that may result from pending and potential legal actions, investigations and regulatory proceedings. In many cases, however, it is inherently difficult to determine whether any loss is probable or even possible or to estimate the amount or range of any potential loss, particularly where proceedings may be in relatively early stages or where plaintiffs are seeking substantial or indeterminate damages. Matters frequently need to be more developed before a loss or range of loss can reasonably be estimated.

In our opinion, based on currently available information, review with outside legal counsel, and consideration of amounts provided for in our consolidated financial statements with respect to these matters, including the matters described below, the ultimate resolution of these matters will not have a material adverse impact on our financial position and results of operations. However, resolution of one or more of these matters may have a material effect on the results of operations in any future period, depending upon the ultimate resolution of those matters and depending upon the level of income for such period. For matters where a reserve has not been established and for which we



believe a loss is reasonably possible, as well as for matters where a reserve has been recorded but for which an exposure to loss in excess of the amount accrued is reasonably possible, based on currently available information, we believe that such losses will not have a material effect on our consolidated financial statements.

*SEC/Wisconsin Lawsuit*

The SEC filed a civil lawsuit against our company in U.S. District Court for the Eastern District of Wisconsin on August 10, 2011. The action arises out of our role in investments made by five Southeastern Wisconsin school districts (the "school districts") in transactions involving collateralized debt obligations ("CDOs"). These transactions are described in more detail below in connection with the civil lawsuit filed by the school districts. The SEC has asserted claims under Section 15c(1)(A), Section 10b and Rule 10b-5 of the Exchange Act and Sections 17a(1), 17a(2) and 17a(3) of the Securities Act. The claims are based upon both alleged misrepresentations and omissions in connection with the sale of the CDOs to the school districts, as well as the allegedly unsuitable nature of the CDOs. On October 31, 2011, we filed a motion to dismiss the action for failure to state a claim. The District

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Court granted in part and denied in part our motion to dismiss, and as a result the SEC has amended its complaint. We answered, denied the substantive allegations of the amended complaint and asserted various affirmative defenses. We believe, based upon currently available information and review with outside counsel, that we have meritorious defenses to the SEC's lawsuit and intend to vigorously defend the SEC's claims.

We were named in a civil lawsuit filed in the Circuit Court of Milwaukee, Wisconsin (the Wisconsin State Court) on September 29, 2008. The lawsuit was filed against our company, Stifel Nicolaus, as well as Royal Bank of Canada Europe Ltd. (RBC), and certain other RBC entities (collectively the RBC entities) by the school districts and the individual trustees for other post-employment benefit (OPEB) trusts established by those school districts (collectively the Plaintiffs). This lawsuit relates to the same transactions that are the subject of the SEC action noted above. As we previously disclosed, we entered into a settlement of the Plaintiffs' lawsuit against our company and Stifel Nicolaus in March, 2012. The settlement provides the potential for the Plaintiffs to obtain significant additional damages from the RBC entities. The school districts are continuing their lawsuit against RBC, and we are pursuing claims against the RBC entities to recover payments we have made to the school districts and for amounts owed to the OPEB trusts. Subsequent to the settlement, RBC asserted claims against the school districts, and our company and Stifel Nicolaus for fraud, negligent misrepresentation, strict liability misrepresentation and information negligently provided for the guidance of others based upon our role in connection with the school districts' purchase of the CDOs. RBC has also asserted claims against our company and Stifel Nicolaus for civil conspiracy and conspiracy to injure its business based upon the settlement by our company and Stifel Nicolaus with the school districts and pursuit of claims against the RBC entities. We moved to dismiss RBC's claims against us that are based on the settlement agreement with the school districts. The Motion to Dismiss was denied by the court, and we have filed our Answer to RBC's claims and discovery continues in the case. We believe we have meritorious legal and factual defenses to the claims asserted by RBC and we intend to vigorously defend those claims.

### *EDC Bond Issuance Matter*

In January 2008, our company was the initial purchaser of a \$50.0 million bond offering under Rule 144A. The bonds were issued by the Lake of the Torches Economic Development Corporation (EDC) in connection with certain new financing for the construction of a proposed new casino, as well as refinancing of indebtedness involving Lac Du Flambeau Band of Lake Superior Chippewa Indians (the Tribe). In 2009, Saybrook Tax Exempt Investors LLC, a qualified institutional buyer and the sole bondholder through its special purpose vehicle LDF Acquisition LLC (collectively, Saybrook), and Wells Fargo Bank, NA (Wells Fargo), indenture trustee for the bonds, brought an action in a Wisconsin federal court against EDC and the Tribe to enforce the bonds after a default by EDC. Our company was not named as a party in that action. In the 2009 action, EDC was successful in its assertion that the bond indenture was void as an unapproved management contract under National Indian Gaming Commission regulations, and that accordingly the Tribe's waiver of sovereign immunity contained in the indenture was void. Although the Wisconsin federal court dismissed the entire 2009 action, the Seventh Circuit Court of Appeals modified the judgment and remanded the case for further proceedings as to enforceability of the bond documents other than the bond indenture against EDC.

On January 16, 2012, after the remand from the Seventh Circuit Court of Appeals, Saybrook filed a new action in Wisconsin state court naming our company and Stifel Nicolaus as defendants with respect to Stifel Nicolaus' role as initial purchaser. Saybrook also named as defendants: the Tribe, EDC, and the law firm of Godfrey & Kahn, S.C. (G&K) which served as both issuer's counsel and bond counsel in the transaction. The Wisconsin state-court action seeks to enforce the bonds against EDC and the Tribe and also asserts claims against the defendants based on alleged misrepresentations about the enforceability of the indenture and the bonds and the waiver of sovereign immunity by EDC and the Tribe. In April 2012 Saybrook dismissed the 2009 federal action and filed a new action in Wisconsin federal court alleging nearly identical claims against the same defendants named in the Wisconsin state court action.

The parties agreed to stay the state court action until the federal court ruled on whether it had jurisdiction over the 2012 federal action, and in April 2013 the federal court determined it did not have jurisdiction over the action. That decision by the federal court reactivated the Wisconsin state court action filed in 2012.

As plaintiff in the state court action, Saybrook alleges that G&K represented in various legal opinions issued in the transaction, as well as in other documents associated with the transaction, that (i) the bonds and indenture were legally enforceable obligations of EDC and (ii) EDC's waivers of sovereign immunity were valid. The claims asserted against us are for breaches of implied warranties of validity and title, securities fraud and statutory misrepresentation under Wisconsin state law, and intentional and negligent misrepresentations relating to the validity of the bond documents and the Tribe's waiver of its sovereign immunity. To the extent EDC does not fully perform its obligations to Saybrook pursuant to the bonds, Saybrook seeks a judgment for rescission, restitutionary damages, including the amounts paid by Saybrook for the bonds, and costs; alternatively, Saybrook seeks to recover damages, costs and attorneys' fees from us.

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After the federal court declined to exercise jurisdiction over the 2012 federal court action and with the state court action reactivated, on April 25, 2013 the Tribe and EDC filed a new lawsuit against Saybrook, our company, Stifel Nicolaus, G&K, and Wells Fargo in the Lac du Flambeau Tribal Court. The Tribal Court action seeks a declaratory judgment that all of the bond documents are void. This new lawsuit created a jurisdictional conflict between the Tribal Court and the Wisconsin state court that may be resolved by those courts or by the Federal Court in the Federal Action described below. We filed a Motion to Dismiss the Tribal Court action, which was denied on August 27, 2013, and we have filed our Answer to the lawsuit in the Tribal Court. On April 29, 2013, we filed a motion to dismiss all of the claims alleged against our company and Stifel Nicolaus brought by Saybrook in the state court action. That Motion was denied by the State Court on October 15, 2013, and we will file our Answer to the state court Complaint in early November. On May 24, 2013 we, together with Saybrook, Wells Fargo and G&K, filed an action in a Wisconsin federal court (the Federal Action) seeking to enjoin the Tribal Court action. The Tribe and EDC (the Tribal Parties) have filed a motion to dismiss or stay the Federal Action. The Tribal Parties' motion to dismiss or stay was denied on October 29, 2013. The court in the Federal Action has scheduled a hearing on our motion for preliminary injunction for November 26, 2013. While there can be no assurance that we will be successful, based upon currently available information and review with outside counsel, we believe that we have meritorious legal and factual defenses to the matter, and we intend to vigorously defend the substantive claims and the procedural attempt to move the litigation to the Lac du Flambeau Tribal Court.

### *Lac Courte Oreilles Tribal Lawsuit*

On December 13, 2012, the Lac Courte Oreilles Band of Lake Superior Chippewa Indians of Wisconsin (the Tribe) filed a civil lawsuit against Stifel Nicolaus in the Tribe's Tribal Court (the Tribal Lawsuit). In December 2006, the Tribe issued two series of taxable municipal bonds as a means of raising revenue to fund various projects (the 2006 Bond Transaction), including the refinancing of two series of bonds the Tribe issued in 2003. The Complaint alleges that we undertook to advise the Tribe regarding its financing options in 2006 but failed to disclose certain information before the 2006 Bond Transaction. On February 19, 2013 we filed a declaratory judgment action in a Wisconsin federal court seeking to establish that the Tribal Court lacks jurisdiction over the Tribal Lawsuit (the Federal Action). On February 20, 2013, we filed a motion to dismiss the Tribal Lawsuit, challenging the jurisdiction of the Tribal Court, which motion was denied by the Tribal Court. The Tribe filed a motion to dismiss the Federal Action. Shortly thereafter, the Tribe agreed to withdraw its motion to dismiss the Federal Action and agreed to stay the Tribal Lawsuit pending a determination by the Wisconsin federal court as to whether the Tribal Court has jurisdiction over the claims. Discovery is now beginning in the Federal Action, and a court trial is scheduled for June 23, 2014 to determine whether the Tribal Court has jurisdiction over the claims brought by the Tribe. While there can be no assurance that we will be successful, based upon currently available information and review with outside counsel, we believe that we have meritorious defenses to the Tribe's claims and we intend to vigorously defend the allegations.

### *Stetson Oil & Gas Ltd. Matter*

In October 2008, Stetson Oil & Gas Ltd. named Thomas Weisel Partners Canada, Inc. (n/k/a Stifel Nicolaus Canada, Inc.) as a defendant in a statement of claim filed in the Ontario Superior Court of Justice. On March 1, 2013, Stifel Nicolaus Canada received an adverse decision from the Ontario Superior Court of Justice that it had breached an engagement letter with Stetson, dated July 13, 2008. The decision awarded Stetson approximately \$16.0 million plus interest and costs incurred by Stetson in connection with the litigation. Stifel Nicolaus Canada disagrees with the Court's decision and is appealing that decision. Stifel Nicolaus Canada believes it has adequate reserves for what it believes will be the ultimate resolution of this matter.

## **NOTE 20 Regulatory Capital Requirements**

We operate in a highly regulated environment and are subject to capital requirements, which may limit distributions to our company from its subsidiaries. Distributions from our broker-dealer subsidiaries are subject to net capital rules. A broker-dealer that fails to comply with the SEC's Uniform Net Capital Rule (Rule 15c3-1) may be subject to disciplinary actions by the SEC and self-regulatory organizations, such as FINRA, including censures, fines, suspension, or expulsion. Stifel Nicolaus has chosen to calculate its net capital under the alternative method, which prescribes that their net capital shall not be less than the greater of \$1.0 million or two percent of aggregate debit balances (primarily receivables from customers) computed in accordance with the SEC's Customer Protection Rule (Rule 15c3-3). KBW, CSA, and Miller Buckfire calculate their net capital under the aggregate indebtedness method, whereby their aggregate indebtedness may not be greater than fifteen times their net capital (as defined).

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At September 30, 2013, Stifel Nicolaus had net capital of \$396.3 million, which was 63.2% of aggregate debit items and \$383.8 million in excess of its minimum required net capital. At September 30, 2013, KBW's, CSA's, and Miller Buckfire's net capital exceeded the minimum net capital required under the SEC rule.

Our international subsidiaries, SNEL and KBW Limited, are subject to the regulatory supervision and requirements of the Financial Conduct Authority (FCA) in the United Kingdom. At September 30, 2013, SNEL's and KBW Limited's capital and reserves were in excess of the financial resources requirement under the rules of the FCA.

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

Quantitative measures established by regulation to ensure capital adequacy require our company, as a bank holding company, and Stifel Bank to maintain minimum amounts and ratios of total and Tier 1 capital (as defined in the regulations) to risk-weighted assets (as defined), and Tier 1 capital to average assets (as defined). To be categorized as well capitalized, our company and Stifel Bank must maintain total risk-based, Tier 1 risk-based, and Tier 1 leverage ratios as set forth in the tables below (*in thousands, except ratios*).

**Stifel Financial Corp. Federal Reserve Capital Amounts****September 30, 2013**

	<b>Actual</b>		<b>For Capital Adequacy Purposes</b>		<b>To Be Well Capitalized Under Prompt Corrective Action Provisions</b>	
	<b>Amount</b>	<b>Ratio</b>	<b>Amount</b>	<b>Ratio</b>	<b>Amount</b>	<b>Ratio</b>
Total capital to risk-weighted assets	\$ 1,173,218	24.0%	\$ 391,432	8.0%	\$ 489,291	10.0%
Tier 1 capital to risk-weighted assets	1,159,823	23.7	195,716	4.0	293,574	6.0
Tier 1 capital to adjusted average total assets	1,159,823	14.8	314,160	4.0	392,700	5.0

**Stifel Bank Federal Reserve Capital Amounts****September 30, 2013**

	<b>Actual</b>		<b>For Capital Adequacy Purposes</b>		<b>To Be Well Capitalized Under Prompt Corrective Action Provisions</b>	
	<b>Amount</b>	<b>Ratio</b>	<b>Amount</b>	<b>Ratio</b>	<b>Amount</b>	<b>Ratio</b>
Total capital to risk-weighted assets	\$ 329,763	13.4%	\$ 197,462	8.0%	\$ 246,828	10.0%

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Tier 1 capital to risk-weighted assets	316,530	12.8	98,731	4.0	148,097	6.0
Tier 1 capital to adjusted average total assets	316,530	7.2	176,992	4.0	221,240	5.0

**Table of Contents****NOTE 21 Interest Income and Interest Expense**

The components of interest income and interest expense are as follows (*in thousands*):

	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2013</b>	<b>2012</b>	<b>2013</b>	<b>2012</b>
<b>Interest income:</b>				
Investment securities	<b>\$ 17,514</b>	\$ 11,718	<b>\$ 44,046</b>	\$ 33,657
Bank loans, net of unearned income	<b>8,819</b>	7,329	<b>26,489</b>	20,755
Margin balances	<b>4,722</b>	4,781	<b>13,521</b>	14,587
Other	<b>8,075</b>	2,532	<b>17,773</b>	9,729
	<b>\$ 39,130</b>	\$ 26,360	<b>\$ 101,829</b>	\$ 78,728
<b>Interest expense:</b>				
Senior notes	<b>\$ 5,164</b>	\$ 3,048	<b>\$ 15,484</b>	\$ 8,388
Bank deposits	<b>2,636</b>	3,606	<b>8,365</b>	11,951
Other	<b>3,735</b>	(750)	<b>10,889</b>	4,429
	<b>\$ 11,535</b>	\$ 5,904	<b>\$ 34,738</b>	\$ 24,768

**NOTE 22 Employee Incentive, Deferred Compensation, and Retirement Plans**

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

All stock-based compensation plans are administered by the Compensation Committee of the Board of Directors (Compensation Committee), which has the authority to interpret the plans, determine to whom awards may be granted under the plans, and determine the terms of each award. According to these plans, we are authorized to grant an additional 5.2 million shares at September 30, 2013.

Stock-based compensation expense included in compensation and benefits expense in the consolidated statements of operations for our company's incentive stock award plans was \$39.2 million and \$11.6 million for the three months ended September 30, 2013 and 2012, respectively. The tax benefit related to stock-based compensation recognized in shareholders' equity was \$0.8 million and \$1.1 million for the three months ended September 30, 2013 and 2012, respectively.

Stock-based compensation expense included in compensation and benefits expense in the consolidated statements of operations for our company's incentive stock award plans was \$109.5 million and \$37.7 million for the nine months ended September 30, 2013 and 2012, respectively. The tax benefit related to stock-based compensation recognized in shareholders' equity was \$10.4 million and \$14.5 million for the nine months ended September 30, 2013 and 2012,



respectively.

On closing date of our acquisition of KBW, Inc., certain employees of KBW, Inc. and our company were granted restricted stock or restricted stock units of Stifel 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 nine months ended September 30, 2013.

On the closing date of the acquisition of the Knight Capital Fixed Income business, we granted restricted stock units to certain employees as retention. The fair value of the awards issued as retention was \$18.7 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 and nine months ended September 30, 2013.

#### *Stock Options*

We have substantially eliminated the use of stock options as a form of compensation. During the three and nine months ended September 30, 2013, no options were granted. At September 30, 2013, all outstanding options were exercisable. Cash proceeds from the exercise of stock options for the three and nine months ended September 30, 2013 and 2012, respectively, were insignificant.

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### *Stock Units*

A stock unit represents the right to receive a share of common stock from our company at a designated time in the future without cash payment by the employee and is issued in lieu of cash incentive, principally for deferred compensation and employee retention plans. The restricted stock units vest on an annual basis over the next three to eight years and are distributable, if vested, at future specified dates. At September 30, 2013, the total number of stock units outstanding was 17.9 million, of which 9.2 million were unvested.

At September 30, 2013, there was unrecognized compensation cost for stock units of \$253.3 million, which is expected to be recognized over a weighted-average period of 2.9 years.

### *Deferred Compensation Plans*

The Stifel Nicolaus Wealth Accumulation Plan (the SWAP Plan) is provided to certain revenue producers, officers, and key administrative employees, whereby a certain percentage of their incentive compensation is deferred as defined by the Plan into company stock units with a 25% matching contribution by our company. Participants may elect to defer up to an additional 15% of their incentive compensation with a 25% matching contribution. Units generally vest over a three- to seven-year period and are distributable upon vesting or at future specified dates. Deferred compensation costs are amortized on a straight-line basis over the vesting period. Elective deferrals are 100% vested. As of September 30, 2013, there were 16.9 million units outstanding under the SWAP Plan.

Additionally, the SWAP Plan allows Stifel Nicolaus financial advisors who achieve certain levels of production, the option to defer a certain percentage of their gross commissions. As stipulated by the SWAP Plan, the financial advisors have the option to: 1) defer 4% of their gross commissions into company stock units with a 25% matching contribution and may elect to defer an additional 1% of gross commissions into company stock units with a 25% matching contribution, or 2) defer up to 2% in mutual funds, which earn a return based on the performance of index mutual funds as designated by our company or a fixed income option. The mutual fund deferral option does not include a company match. Financial advisors have no ownership in the mutual funds. Included in the investments in the consolidated statements of financial condition are investments in mutual funds of \$15.8 million and \$18.0 million at September 30, 2013 and December 31, 2012, respectively, that were purchased by our company to economically hedge, on an after-tax basis, its liability to the financial advisors who choose to base the performance of their return on the index mutual fund option. At September 30, 2013 and December 31, 2012, the deferred compensation liability related to the mutual fund option of \$13.0 million and \$16.6 million, respectively, is included in accrued compensation in the consolidated statements of financial condition.

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

### **NOTE 23 Off-Balance Sheet Credit Risk**

In the normal course of business, we execute, settle, and finance customer and proprietary securities transactions. These activities expose our company to off-balance sheet risk in the event that customers or other parties fail to satisfy their obligations.

In accordance with industry practice, securities transactions generally settle within three business days after trade date. Should a customer or broker fail to deliver cash or securities as agreed, we may be required to purchase or sell securities at unfavorable market prices.

We borrow and lend securities to facilitate the settlement process and finance transactions, utilizing customer margin securities held as collateral. We monitor the adequacy of collateral levels on a daily basis. We periodically borrow from banks on a collateralized basis, utilizing firm and customer margin securities in compliance with SEC rules. Should the counterparty fail to return customer securities pledged, we are subject to the risk of acquiring the securities at prevailing market prices in order to satisfy our customer obligations. We control our exposure to credit risk by continually monitoring our counterparties' positions, and where deemed necessary, we may require a deposit of additional collateral and/or a reduction or diversification of positions. Our company sells securities it does not currently own (short sales) and is obligated to subsequently purchase such securities at prevailing market prices. We are exposed to risk of loss if securities prices increase prior to closing the transactions. We control our exposure to price risk from short sales through daily review and setting position and trading limits.

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We manage our risks associated with the aforementioned transactions through position and credit limits and the continuous monitoring of collateral. Additional collateral is required from customers and other counterparties when appropriate.

We have accepted collateral in connection with resale agreements, securities borrowed transactions, and customer margin loans. Under many agreements, we are permitted to sell or repledge these securities held as collateral and use these securities to enter into securities lending arrangements or to deliver to counterparties to cover short positions. At September 30, 2013, the fair value of securities accepted as collateral where we are permitted to sell or repledge the securities was \$1.1 billion and the fair value of the collateral that had been sold or repledged was \$255.5 million. At December 31, 2012, the fair value of securities accepted as collateral where we are permitted to sell or repledge the securities was \$965.8 million and the fair value of the collateral that had been sold or repledged was \$140.3 million.

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

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

For a complete discussion of our activities related to derivative instruments, see Note 15 in the notes to our consolidated financial statements.

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

At September 30, 2013 and December 31, 2012, Stifel Bank had outstanding commitments to originate loans aggregating \$67.9 million and \$241.5 million, respectively. The commitments extended over varying periods of time, with all commitments at September 30, 2013 scheduled to be disbursed in the following three months.

Through Stifel Bank, in the normal course of business, we originate residential mortgage loans and sell them to investors. We may be required to repurchase mortgage loans that have been sold to investors in the event there are breaches of certain representations and warranties contained within the sales agreements. We may be required to repurchase mortgage loans that were sold to investors in the event that there was inadequate underwriting or fraud, or in the event that the loans become delinquent shortly after they are originated. We also may be required to indemnify certain purchasers and others against losses they incur in the event of breaches of representations and warranties and in various other circumstances, and the amount of such losses could exceed the repurchase amount of the related loans. Consequently, we may be exposed to credit risk associated with sold loans.

Standby letters of credit are irrevocable conditional commitments issued by Stifel Bank to guarantee the performance of a customer to a third party. Financial standby letters of credit are primarily issued to support public and private borrowing arrangements, including commercial paper, bond financing, and similar transactions. Performance standby letters of credit are issued to guarantee performance of certain customers under non-financial contractual obligations. The credit risk involved in issuing standby letters of credit is essentially the same as that involved in extending loans to customers. Should Stifel Bank be obligated to perform under the standby letters of credit, it may seek recourse from the customer for reimbursement of amounts paid. At September 30, 2013 and December 31, 2012, Stifel Bank had outstanding letters of credit totaling \$5.3 million and \$10.5 million, respectively. All of the standby letters of credit commitments at September 30, 2013 have expiration terms that are less than one year.

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Lines of credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Lines of credit generally have fixed expiration dates. Stifel Bank uses the same credit policies in granting lines of credit as it does for on-balance sheet instruments. At September 30, 2013 and December 31, 2012, Stifel Bank had granted unused lines of credit to commercial and consumer borrowers aggregating \$306.0 million and \$220.1 million, respectively.

**NOTE 24 Income Taxes**

In connection with discontinuing the business operations of SN Canada during the current quarter, we realized a \$58.2 million U.S. tax benefit due to a realized loss on our investment in SN Canada. The reduction in the financial statement carrying amount, which was recorded in 2008, became realizable for U.S. tax purposes in the foreseeable future as a result of our decision to exit the Canadian market. The tax benefit was the excess of the tax basis of our investment in the subsidiary over the financial statement carrying amount (the deductible outside basis difference).

Excluding the tax benefit, the effective tax rate was 52.3% and 43.5% % for the three and nine months ended September 30, 2013, respectively, compared to 38.8% and 39.8% for the three and nine months ended September 30, 2012, respectively. The effective rate for the three and nine months ended September 30, 2013 was impacted by losses incurred in foreign jurisdictions at a lower tax rate.

**NOTE 25 Segment Reporting**

We currently operate through the following three business segments: Global Wealth Management, Institutional Group, and various corporate activities combined in the Other segment.

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

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

The Other segment includes certain corporate activities of our company.

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Information concerning operations in these segments of business for the three and nine months ended September 30, 2013 and 2012 is as follows (*in thousands*):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
<b>Net revenues: <sup>(1)</sup></b>				
Global Wealth Management	\$ 274,669	\$ 250,914	\$ 824,344	\$ 737,822
Institutional Group	205,132	164,611	593,875	443,961
Other	(1,162)	(1,368)	(7,298)	1,047
	<b>\$ 478,639</b>	<b>\$ 414,157</b>	<b>\$ 1,410,921</b>	<b>\$ 1,182,830</b>
<b>Income/(loss) before income taxes:</b>				
Global Wealth Management	\$ 72,128	\$ 68,020	\$ 220,551	\$ 197,933
Institutional Group	34,986	33,201	94,298	79,809
Other	(76,106)	(40,047)	(207,608)	(108,346)
	<b>\$ 31,008</b>	<b>\$ 61,174</b>	<b>\$ 107,241</b>	<b>\$ 169,396</b>

<sup>(1)</sup> No individual client accounted for more than 10 percent of total net revenues for the three and nine months ended September 30, 2013 or 2012.

The following table presents our company's total assets on a segment basis at September 30, 2013 and December 31, 2012 (*in thousands*):

	September 30, 2013	December 31, 2012
Global Wealth Management	\$ 6,091,937	\$ 5,116,487
Institutional Group	2,138,678	1,447,484
Other	478,844	402,169
	<b>\$ 8,709,459</b>	<b>\$ 6,966,140</b>

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

Revenues, classified by the major geographic areas in which they are earned for the three and nine months ended September 30, 2013 and 2012, were as follows (*in thousands*):

	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2013</b>	2012	<b>2013</b>	2012
United States	<b>\$ 472,268</b>	\$ 408,120	<b>\$ 1,382,377</b>	\$ 1,165,223
United Kingdom	<b>3,496</b>	3,892	<b>20,681</b>	10,723
Other European	<b>2,875</b>	2,145	<b>7,863</b>	6,884
	<b>\$ 478,639</b>	\$ 414,157	<b>\$ 1,410,921</b>	\$ 1,182,830



**Table of Contents****NOTE 26 Earnings Per Share ( EPS )**

Basic EPS is computed by dividing earnings available to common shareholders by the weighted-average number of common shares outstanding. Diluted EPS reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock that then shared in the earnings of the entity. Diluted earnings per share include dilutive stock options and stock units under the treasury stock method.

The following table sets forth the computation of basic and diluted earnings per share for the three and nine months ended September 30, 2013 and 2012 (*in thousands, except per share data*):

	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2013</b>	<b>2012</b>	<b>2013</b>	<b>2012</b>
Net income from continuing operations	<b>\$ 74,929</b>	\$ 37,434	<b>\$ 120,782</b>	\$ 102,012
Net income/(loss) from discontinued operations	<b>(5,239)</b>	276	<b>(7,037)</b>	(3,393)
Net income	<b>\$ 69,690</b>	\$ 37,710	<b>\$ 113,745</b>	\$ 98,619
Shares for basic and diluted calculations:				
Average shares used in basic computation	<b>64,706</b>	53,601	<b>63,133</b>	53,471
Dilutive effect of stock options and units <sup>(1)</sup>	<b>10,485</b>	9,453	<b>9,718</b>	9,346
Average shares used in diluted computation	<b>75,191</b>	63,054	<b>72,851</b>	62,817
Earnings per basic common share				
Income from continuing operations	<b>\$ 1.16</b>	\$ 0.70	<b>\$ 1.91</b>	\$ 1.91
Income/(loss) from discontinued operations	<b>(0.08)</b>		<b>(0.11)</b>	(0.07)
Earnings per basic common share	<b>\$ 1.08</b>	\$ 0.70	<b>\$ 1.80</b>	\$ 1.84
Earnings per diluted common share				
Income from continuing operations	<b>\$ 1.00</b>	\$ 0.60	<b>\$ 1.66</b>	\$ 1.62
Income/(loss) from discontinued operations	<b>(0.07)</b>		<b>(0.10)</b>	(0.05)
Earnings per diluted common share	<b>\$ 0.93</b>	\$ 0.60	<b>\$ 1.56</b>	\$ 1.57

- <sup>(1)</sup> Diluted earnings per share is computed on the basis of the weighted average number of shares of common stock plus the effect of dilutive potential common shares outstanding during the period using the treasury stock method. Diluted earnings per share include stock options and units.

For the three and nine months ended September 30, 2013 and 2012, the anti-dilutive effect from restricted stock units was immaterial.

**NOTE 27 Shareholders Equity***Share Repurchase Program*

We have an ongoing authorization from the Board of Directors to repurchase our common stock in the open market or in negotiated transactions. At September 30, 2013, the maximum number of shares that may yet be purchased under this plan was 3.5 million. The repurchase program has no expiration date. These purchases may be made on the open market or in privately negotiated transactions, depending upon market conditions and other factors. Repurchased shares may be used to meet obligations under our employee benefit plans and for general corporate purposes. During the nine months ended September 30, 2013, we repurchased \$13.7 million, or 0.4 million shares, using existing Board authorizations at an average price of \$31.75 per share to meet obligations under our company's employee benefit plans and for general corporate purposes.

#### *Issuance of Shares*

During the nine months ended September 30, 2013, we issued 6.7 million shares related to the purchase of KBW, Inc. See Note 3 in the notes to our consolidated financial statements for additional information regarding the acquisition of KBW, Inc.

**Table of Contents****NOTE 28 Variable Interest Entities**

The determination as to whether an entity is a VIE is based on the structure and nature of the entity. We also consider other characteristics, such as the ability to influence the decision-making relative to the entity's activities and how the entity is financed. The determination as to whether we must consolidate a VIE is based on whether we are the primary beneficiary for certain entities. The primary beneficiary determination is based on a qualitative analysis of the VIE's expected losses and expected residual returns. This analysis includes a review of, among other factors, the VIE's capital structure, contractual terms, which interests create or absorb variability, related party relationships, and the design of the VIE. For other entities, the determination as to whether we must consolidate the VIE is based on an analysis of the power to direct the activities of the VIE as well as the obligation to absorb losses or benefits that could potentially be significant to the entity. Where qualitative analyses are not conclusive, we perform a quantitative analysis. Our company's involvement with VIEs is limited to entities used as investment vehicles and private equity funds, the establishment of Stifel Financial Capital Trusts, and our issuance of a convertible promissory note.

We have formed several non-consolidated investment funds with third-party investors that are typically organized as limited liability companies (LLCs) or limited partnerships. These partnerships and LLCs have net assets of \$246.7 million at September 30, 2013. For those funds where we act as the general partner, our company's economic interest is generally limited to management fee arrangements as stipulated by the fund operating agreements. We have generally provided the third-party investors with rights to terminate the funds or to remove us as the general partner. Management fee revenue earned by our company was insignificant during the three and nine months ended September 30, 2013 and 2012. In addition, our direct investment interest in these entities is insignificant at September 30, 2013 and December 31, 2012.

Thomas Weisel Capital Management LLC, a subsidiary of our company, acts as the general partner of a series of investment funds in venture capital and fund of funds and manages investment funds that are active buyers of secondary interests in private equity funds, as well as portfolios of direct interests in venture-backed companies. These partnerships have combined net assets of \$245.5 million at September 30, 2013. We hold variable interests in these funds as a result of our company's rights to receive management fees. Our company's investment in and additional capital commitments to the private equity funds are also considered variable interests. The additional capital commitments are subject to call at a later date and are limited in amount. Our exposure to loss is limited to our investments in, advances and commitments to, and receivables due from these funds, and that exposure is \$2.0 million at September 30, 2013. Management fee revenue earned by our company was insignificant during the three and nine months ended September 30, 2013 and 2012.

For the entities noted above that were determined to be VIEs, we have concluded that we are not the primary beneficiary and therefore we are not required to consolidate these entities. Additionally, for certain other entities we reviewed other relevant accounting guidance, which states the general partner in a limited partnership is presumed to control that limited partnership. The presumption may be overcome if the limited partners have either: (1) the substantive ability to dissolve the limited partnership or otherwise remove the general partner without cause, or (2) substantive participating rights, which provide the limited partners with the ability to effectively participate in significant decisions that would be expected to be made in the ordinary course of the limited partnership's business and thereby preclude the general partner from exercising unilateral control over the partnership. If the criteria are not met, the consolidation of the partnership or limited liability company is required. Based on our evaluation of these entities, we determined that these entities do not require consolidation.

*Debenture to Stifel Financial Capital Trusts*

We have completed private placements of cumulative trust preferred securities through Stifel Financial Capital Trust II, Stifel Financial Capital Trust III, and Stifel Financial Capital Trust IV (collectively, the Trusts ). The Trusts are non-consolidated wholly owned business trust subsidiaries of our company and were established for the limited purpose of issuing trust securities to third parties and lending the proceeds to our company.

The trust preferred securities represent an indirect interest in junior subordinated debentures purchased from our company by the Trusts, and we effectively provide for the full and unconditional guarantee of the securities issued by the Trusts. We make timely payments of interest to the Trusts as required by contractual obligations, which are sufficient to cover payments due on the securities issued by the Trusts, and believe that it is unlikely that any circumstances would occur that would make it necessary for our company to make payments related to these Trusts other than those required under the terms of the debenture agreements and the trust preferred securities agreements. The Trusts were determined to be VIEs because the holders of the equity investment at risk do not have adequate decision-making ability over the Trust s activities. Our investment in the Trusts is not a variable interest, because equity interests are variable interests only to the extent that the investment is considered to be at risk. Because our investment was funded by the Trusts, it is not considered to be at risk.

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*Interest in FSI Group, LLC ( FSI )*

We have provided financing of \$18.0 million in the form of a convertible promissory note to FSI, a limited liability company specializing in investing in banks, thrifts, insurance companies, and other financial services firms. In February 2013, the convertible promissory note was amended and restated. The convertible promissory note matures in April 2018; however, FSI has three 5 year extension options. The note is convertible at our election into a 49.9% interest in FSI only after the last extension option. The convertible promissory note has a minimum coupon rate equal to 8% per annum plus additional interest related to certain defined cash flows of the business, not to exceed 18% per annum. As we do not hold the power to direct the activities of FSI nor to absorb a majority of the expected losses, or receive a majority of the expected benefits, it was determined that we are not required to consolidate this entity.

Our company's exposure to loss is limited to the carrying value of the note with FSI at September 30, 2013, of \$18.0 million, which is included in other assets in the consolidated statements of financial condition. Our company had no liabilities related to this entity at September 30, 2013. We have the discretion to make additional capital contributions. We have not provided financial or other support to FSI that we were not previously contractually required to provide as of September 30, 2013. Our company's involvement with FSI has not had a material effect on our consolidated financial position, operations, or cash flows.

**NOTE 29 Subsequent Events**

We evaluate subsequent events that have occurred after the balance sheet date but before the financial statements are issued. There are two types of subsequent events: (1) recognized, or those that provide additional evidence about conditions that existed at the date of the balance sheet, including the estimates inherent in the process of preparing financial statements, and (2) non-recognized, or those that provide evidence about conditions that did not exist at the date of the balance sheet but arose after that date. Based on the evaluation, we identified the following as a non-recognized subsequent event:

*Acquisition of Acacia Federal Savings Bank ( Acacia Federal )*

On October 31, 2013, Stifel Bank completed its acquisition of Acacia Federal, a one-branch community bank with approximately \$585.0 million in total assets. Established in 1985, Acacia Federal is a federally chartered savings institution with one retail branch located in Falls Church, Virginia. Over 80% of Acacia Federal's loan portfolio is originated single-family residential mortgages.

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***ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS***

The following discussion of the financial condition and results of operations of our company should be read in conjunction with the consolidated financial statements and notes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2012, and the accompanying consolidated financial statements and notes thereto contained in this Quarterly Report on Form 10-Q.

Certain statements in this report may be considered forward-looking. Statements that are not historical or current facts, including statements about beliefs and expectations, are forward-looking statements. These forward-looking statements cover, among other things, statements made about general economic and market conditions, the investment banking industry, our objectives and results, and also may include our belief regarding the effect of various legal proceedings, management expectations, our liquidity and funding sources, counterparty credit risk, or other similar matters. Forward-looking statements involve inherent risks and uncertainties, and important factors could cause actual results to differ materially from those anticipated, including those factors discussed below under **External Factors Impacting Our Business** as well as the factors identified under **Risk Factors** in Part I, Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2012, as updated in our subsequent reports filed with the SEC. These reports are available at our web site at [www.stifel.com](http://www.stifel.com) and at the SEC web site at [www.sec.gov](http://www.sec.gov).

Because of these and other uncertainties, our actual future results may be materially different from the results indicated by these forward-looking statements. In addition, our past results of operations do not necessarily indicate our future results. Forward-looking statements speak only as of the date they are made, and we undertake no obligation to update them in light of new information or future events, unless we are obligated to do so under federal securities laws.

Unless otherwise indicated, the terms **we**, **us**, **our** or **our company** in this report refer to Stifel Financial Corp. and its wholly owned subsidiaries.

***Executive Summary***

We operate as a financial services and bank holding company. We have built a diversified business serving private clients, institutional investors, and investment banking clients located across the country. Our principal activities are: (i) private client services, including securities transaction and financial planning services; (ii) institutional equity and fixed income sales, trading and research, and municipal finance; (iii) investment banking services, including mergers and acquisitions, public offerings, and private placements; and (iv) retail and commercial banking, including personal and commercial lending programs.

Our core philosophy is based upon a tradition of trust, understanding, and studied advice. We attract and retain experienced professionals by fostering a culture of entrepreneurial, long-term thinking. We provide our private, institutional and corporate clients quality, personalized service, with the theory that if we place clients' needs first, both our clients and our company will prosper. Our unwavering client and employee focus have earned us a reputation as one of the leading brokerage and investment banking firms off Wall Street. We have grown our business both organically and through opportunistic acquisitions.

We plan to maintain our focus on revenue growth with a continued appreciation for the development of quality client relationships. Within our private client business, our efforts will be focused on recruiting experienced financial advisors with established client relationships. Within our capital markets business, our focus continues to be on providing quality client management and product diversification. In executing our growth strategy, we will continue to

seek out opportunities that allow us to take advantage of the consolidation among middle-market firms, whereby allowing us to increase market share in our Global Wealth Management and Institutional Group businesses.

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 ), 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 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.

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Our ability to attract and retain highly skilled and productive employees is critical to the success of our business. Accordingly, compensation and benefits comprise the largest component of our expenses, and our performance is dependent upon our ability to attract, develop and retain highly skilled employees who are motivated and committed to providing the highest quality of service and guidance to our clients.

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.

On the closing date of the acquisition of KBW, Inc., we granted restricted stock or restricted stock units to certain employees of KBW, Inc and our company as retention. There are no continuing service requirements associated with these restricted stock awards, and accordingly were expensed on the date of grant.

On July 1, 2013, we completed the acquisition of the U.S. institutional fixed income sales and trading business and the hiring of the European institutional fixed income sales and trading team from Knight Capital Group, Inc. The combined teams comprise approximately 90 sales and trading professionals in the U.S. and Europe, covering high-yield and investment-grade corporate bonds, asset-backed and mortgage-backed securities, loan trading, and emerging markets, as well as fixed income research in selected sectors and companies.

On the closing date of the acquisition of the Knight Capital Fixed Income business, we granted restricted stock units to certain employees as retention. There are no continuing service requirements associated with these restricted stock awards, and accordingly were expensed on the date of grant.

Our Canadian subsidiary, Stifel Nicolaus Canada, Inc. ( SN Canada ) has ceased business operations as of September 30, 2013. The results of SN Canada, previously reported in the Institutional Group segment, are classified as discontinued operations for all periods presented. See Note 4 to our consolidated financial statements for further discussion of our discontinued operations.

On October 31, 2013, Stifel Bank completed its acquisition of Acacia Federal Savings Bank ( Acacia Federal ), a one-branch community bank with approximately \$585.0 million in total assets. Established in 1985, Acacia Federal is a federally chartered savings institution with one retail branch located in Falls Church, Virginia. Over 80% of Acacia Federal's loan portfolio is originated single-family residential mortgages.

### ***Results for the three and nine months ended September 30, 2013***

For the three months ended September 30, 2013, net revenues from continuing operations increased 15.6% to \$478.6 million compared to \$414.2 million during the comparable period in 2012. Net income, including continuing and discontinued operations, increased 84.8% to \$69.7 million, or \$0.93 per diluted common share for the three months ended September 30, 2013, compared to \$37.7 million, or \$0.60 per diluted common share during the comparable period in 2012. Net income from continuing operations increased 100.2% to \$74.9 million, or \$1.00 per diluted common share for the three months ended September 30, 2013 compared to \$37.4 million, or \$0.60 per diluted



common share during the comparable period in 2012.

For the nine months ended September 30, 2013, net revenues from continuing operations increased 19.3% to a record \$1.41 billion compared to \$1.18 billion during the comparable period in 2012. Net income, including continuing and discontinued operations, increased 15.3% to \$113.7 million, or \$1.56 per diluted common share for the nine months ended September 30, 2013, compared to \$98.6 million, or \$1.57 per diluted common share during the comparable period in 2012. Net income from continuing operations increased 18.4% to \$120.8 million, or \$1.66 per diluted common share for the nine months ended September 30, 2013 compared to \$102.0 million, or \$1.62 per diluted common share during the comparable period in 2012.

Our revenue growth was primarily attributable to higher investment banking revenues as a result of improved M&A activity; an increase in commission revenue; growth in asset management and service fees as a result of an increase in investment advisory revenues; and increased net interest revenues as a result of the growth of net interest-earning assets at Stifel Bank. The revenue growth was offset by a decrease in other income as a result of gains recognized on our investment in Knight Capital Group, Inc. in the third quarter of 2012. Our revenue growth was impacted by our recent acquisitions of KBW, Inc., Miller Buckfire, and the Knight Capital Fixed Income business.

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The results from continuing operations for the three months ended September 30, 2013 were significantly impacted by the expensing of stock awards issued as retention as part of the acquisition of the Knight Capital Fixed Income business, and certain non-recurring and merger-related expenses. The aggregate impact of these items was a reduction to net income of \$19.5 million (after-tax) or \$0.26 per diluted share. The aggregate impact of these items for the nine months ended September 30, 2013 was a reduction to net income of \$58.8 million (after-tax) or \$0.81 per diluted share.

In connection with discontinuing the business operations of SN Canada during the current quarter, we realized a \$58.2 million U.S. tax benefit due to a realized loss on our investment in SN Canada. The reduction in the financial statement carrying amount, which was recorded in 2008, became realizable for U.S. tax purposes in the foreseeable future as a result of our decision to exit the Canadian market. The tax benefit was the excess of the tax basis of our investment in the subsidiary over the financial statement carrying amount (the deductible outside basis difference).

### ***External Factors Impacting our Business***

Performance in the financial services industry in which we operate is highly correlated to the overall strength of economic conditions and financial market activity. Overall market conditions are a product of many factors, which are beyond our control and mostly unpredictable. These factors may affect the financial decisions made by investors, including their level of participation in the financial markets. In turn, these decisions may affect our business results. With respect to financial market activity, our profitability is sensitive to a variety of factors, including the demand for investment banking services as reflected by the number and size of equity and debt financings and merger and acquisition transactions, the volatility of the equity and fixed income markets, the level and shape of various yield curves, the volume and value of trading in securities, and the value of our customers' assets under management. The municipal underwriting market is challenging as state and local governments reduce their debt levels. Investors are showing a lack of demand for longer-dated municipals and are reluctant to take on credit or liquidity risks. Investor confidence has been dampened by continued uncertainty surrounding the U.S. fiscal and debt ceiling, the debt concerns in Europe, and sluggish employment growth.

Our overall financial results continue to be highly and directly correlated to the direction and activity levels of the United States equity and fixed income markets. At September 30, 2013, the key indicators of the markets performance, the Dow Jones Industrial Average, S&P 500, and the NASDAQ closed 15.5%, 17.9%, and 24.9% higher than their December 31, 2012 closing prices, respectively.

As a participant in the financial services industry, we are subject to complicated and extensive regulation of our business. The recent economic and political environment has led to legislative and regulatory initiatives, both enacted and proposed, that could substantially intensify the regulation of the financial services industry and may significantly impact us. On July 21, 2010, the Dodd-Frank Act was signed into law. The Dodd-Frank Act will have a broad impact on the financial services industry and will impose significant new regulatory and compliance requirements, including the designation of certain financial companies as systemically significant, the imposition of increased capital, leverage, and liquidity requirements, and numerous other provisions designed to improve supervision and oversight of, and strengthen safety and soundness within, the financial services sector. The expectation is that this new legislation will significantly restructure and increase regulation in the financial services industry, which could increase our cost of doing business, change certain business practices, and alter the competitive landscape.

Table of Contents**RESULTS OF OPERATIONS*****Three Months Ended September 30, 2013 Compared with Three Months Ended September 30, 2012***

The following table presents consolidated financial information for the periods indicated (*in thousands, except percentages*):

	<b>For the Three Months Ended September 30,</b>			<b>As a Percentage of Net Revenues For the Three Months Ended September 30,</b>	
	<b>2013</b>	<b>2012</b>	<b>% Change</b>	<b>2013</b>	<b>2012</b>
<b>Revenues:</b>					
Commissions	\$ 145,837	\$ 125,509	16.2	30.5%	30.3%
Principal transactions	122,583	102,474	19.6	25.6	24.7
Investment banking	92,851	71,743	29.4	19.4	17.3
Asset management and service fees	76,710	62,881	22.0	16.0	15.2
Interest	39,130	26,360	48.4	8.2	6.4
Other income	13,063	31,094	(58.0)	2.7	7.5
<b>Total revenues</b>	<b>490,174</b>	<b>420,061</b>	<b>16.7</b>	<b>102.4</b>	<b>101.4</b>
Interest expense	11,535	5,904	95.4	2.4	1.4
<b>Net revenues</b>	<b>478,639</b>	<b>414,157</b>	<b>15.6</b>	<b>100.0</b>	<b>100.0</b>
<b>Non-interest expenses:</b>					
Compensation and benefits	326,020	264,458	23.3	68.1	63.8
Occupancy and equipment rental	41,288	32,596	26.7	8.6	7.9
Communication and office supplies	26,122	19,561	33.5	5.5	4.7
Commissions and floor brokerage	10,150	7,842	29.4	2.1	1.9
Other operating expenses	44,051	28,526	54.4	9.2	6.9
<b>Total non-interest expenses</b>	<b>447,631</b>	<b>352,983</b>	<b>26.8</b>	<b>93.5</b>	<b>85.2</b>
<b>Income from continuing operations before income taxes</b>					
	31,008	61,174	(49.3)	6.5	14.8
Provision for income taxes	(43,921)	23,740	*	(9.2)	5.8
<b>Income from continuing operations</b>	<b>74,929</b>	<b>37,434</b>	<b>100.2</b>	<b>15.7</b>	<b>9.0</b>
<b>Discontinued operations:</b>					
Income/(loss) from discontinued operations, net of tax	(5,239)	276	*	(1.1)	
<b>Net income</b>	<b>\$ 69,690</b>	<b>\$ 37,710</b>	<b>84.8</b>	<b>14.6%</b>	<b>9.0%</b>

\* Percentage not meaningful.

**Table of Contents*****Nine Months Ended September 30, 2013 Compared with Nine Months Ended September 30, 2012***

The following table presents consolidated financial information for the periods indicated (*in thousands, except percentages*):

	For the Nine Months Ended September 30,			As a Percentage of Net Revenues For the Nine Months Ended September 30,	
	2013	2012	% Change	2013	2012
<b>Revenues:</b>					
Commissions	\$ 446,498	\$ 370,107	20.6	31.7%	31.3%
Principal transactions	341,153	311,420	9.5	24.2	26.3
Investment banking	289,199	208,342	38.8	20.5	17.6
Asset management and service fees	221,711	189,010	17.3	15.7	16.0
Interest	101,829	78,728	29.3	7.2	6.7
Other income	45,269	49,991	(9.4)	3.2	4.2
<b>Total revenues</b>	<b>1,445,659</b>	<b>1,207,598</b>	<b>19.7</b>	<b>102.5</b>	<b>102.1</b>
Interest expense	34,738	24,768	40.3	2.5	2.1
<b>Net revenues</b>	<b>1,410,921</b>	<b>1,182,830</b>	<b>19.3</b>	<b>100.0</b>	<b>100.0</b>
<b>Non-interest expenses:</b>					
Compensation and benefits	958,179	751,992	27.4	67.9	63.6
Occupancy and equipment rental	116,090	94,776	22.5	8.2	8.0
Communication and office supplies	74,034	60,115	23.2	5.3	5.1
Commissions and floor brokerage	28,777	22,339	28.8	2.0	1.9
Other operating expenses	126,600	84,212	50.3	9.0	7.1
<b>Total non-interest expenses</b>	<b>1,303,680</b>	<b>1,013,434</b>	<b>28.6</b>	<b>92.4</b>	<b>85.7</b>
<b>Income from continuing operations before income taxes</b>					
	107,241	169,396	(36.7)	7.6	14.3
Provision for income taxes	(13,541)	67,384	*	(1.0)	5.7
<b>Income from continuing operations</b>	<b>120,782</b>	<b>102,012</b>	<b>18.4</b>	<b>8.6</b>	<b>8.6</b>
<b>Discontinued operations:</b>					
Income/(loss) from discontinued operations, net of tax	(7,037)	(3,393)	107.4	(0.5)	(0.3)
<b>Net income</b>	<b>\$ 113,745</b>	<b>\$ 98,619</b>	<b>15.3</b>	<b>8.1%</b>	<b>8.3%</b>

\* Percentage not meaningful.

**Table of Contents****NET REVENUES**

The following table presents consolidated net revenues from continuing operations for the periods indicated (*in thousands, except percentages*):

	For the Three Months Ended September 30,			For the Nine Months Ended September 30,		
	2013	2012	% Change	2013	2012	% Change
<b>Net revenues:</b>						
Commissions	\$ 145,837	\$ 125,509	16.2	\$ 446,498	\$ 370,107	20.6
Principal transactions	122,583	102,474	19.6	341,153	311,420	9.5
Investment banking:						
Capital raising	53,665	44,563	20.4	175,252	139,441	25.7
Strategic advisory fees	39,186	27,180	44.2	113,947	68,901	65.4
	92,851	71,743	29.4	289,199	208,342	38.8
Asset management and service fees	76,710	62,881	22.0	221,711	189,010	17.3
Net interest	27,595	20,456	34.9	67,091	53,960	24.3
Other income	13,063	31,094	(58.0)	45,269	49,991	(9.4)
<b>Total net revenues</b>	<b>\$ 478,639</b>	<b>\$ 414,157</b>	<b>15.6</b>	<b>\$ 1,410,921</b>	<b>\$ 1,182,830</b>	<b>19.3</b>

Except as noted in the following discussion of variances, the underlying reasons for the increase in revenue can be attributed principally to the increased number of private client group offices and financial advisors in our Global Wealth Management segment and the increased number of revenue producers in our Institutional Group segment and the acquisitions of the Knight Capital Fixed Income business on July 1, 2013, KBW, Inc. on February 15, 2013, and Miller Buckfire on December 20, 2012. The results of operations for the Knight Capital Fixed Income business, KBW, Inc., and Miller Buckfire are included in our results prospectively from the date of their respective acquisitions.

**Commissions** Commission revenues are primarily generated from agency transactions in OTC and listed equity securities, insurance products and options. In addition, commission revenues also include distribution fees for promoting and distributing mutual funds.

For the three months ended September 30, 2013, commission revenues increased 16.2% to \$145.8 million from \$125.5 million in the comparable period in 2012. For the nine months ended September 30, 2013, commission revenues increased 20.6% to \$446.5 million from \$370.1 million in the comparable period in 2012. The increase is primarily attributable to an increase in OTC transactions from the comparable period in 2012.

**Principal transactions** For the three months ended September 30, 2013, principal transactions revenues increased 19.6% to \$122.6 million from \$102.5 million in the comparable period in 2012. For the nine months ended September 30, 2013, principal transactions revenues increased 9.5% to \$341.2 million from \$311.4 million in the comparable period in 2012. The increase is primarily attributable to an increase in equity institutional brokerage revenues as a result of higher trading volumes.

**Investment banking** Investment banking revenues include: (i) capital raising revenues representing fees earned from the underwriting of debt and equity securities, and (ii) strategic advisory fees related to corporate debt and equity offerings, municipal debt offerings, merger and acquisitions, private placements and other investment banking advisory fees.

For the three months ended September 30, 2013, investment banking revenues increased 29.4%, to \$92.9 million from \$71.7 million in the comparable period in 2012. For the nine months ended September 30, 2013, investment banking revenues increased 38.8%, to \$289.2 million from \$208.3 million in the comparable period in 2012. The increase was primarily attributable to an increase in equity capital raising revenues and an increase in strategic advisory fees. Our investment banking revenues were positively impacted by our acquisition of KBW, Inc. and Miller Buckfire, offset by sluggish equity capital market conditions during the quarter.



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Capital raising revenues increased 20.4% to \$53.7 million for the three months ended September 30, 2013 from \$44.6 million in the comparable period in 2012. During the second quarter of 2013, equity capital raising revenues increased 50.3% to \$36.4 million from \$24.2 million in the comparable period in 2012. For the three months ended September 30, 2013, fixed income capital raising revenues decreased 7.8% to \$13.1 million from \$14.2 million in the comparable period in 2012. Capital raising revenues increased 25.7% to \$175.3 million for the nine months ended September 30, 2013 from \$139.4 million in the comparable period in 2012. During the nine months ended September 30, 2013, equity capital raising revenues increased 23.7% to \$111.5 million from \$90.1 million in the comparable period in 2012. For the nine months ended September 30, 2013, fixed income capital raising revenues increased 23.3% to \$49.1 million from \$39.8 million in the comparable period in 2012.

Strategic advisory fees increased 44.2% to \$39.2 million for the three months ended September 30, 2013 from \$27.2 million in the comparable period in 2012. Strategic advisory fees increased 65.4% to \$113.9 million for the nine months ended September 30, 2013 from \$68.9 million in the comparable period in 2012. The increase is primarily attributable to an increase in the number of completed equity transactions over the comparable period in 2012.

***Asset management and service fees*** Asset management and service fees include fees for asset-based financial services provided to individuals and institutional clients. Investment advisory fees are charged based on the value of assets in fee-based accounts. Asset management and service fees are affected by changes in the balances of client assets due to market fluctuations and levels of net new client assets.

For the three months ended September 30, 2013, asset management and service fee revenues increased 22.0% to \$76.7 million from \$62.9 million in the comparable period of 2012. For the nine months ended September 30, 2013, asset management and service fee revenues increased 17.3% to \$221.7 million from \$189.0 million in the comparable period of 2012. The increase is primarily a result of an increase in the value of fee-based accounts.

***Other income*** For the three months ended September 30, 2013, other income decreased 58.0% to \$13.1 million from \$31.1 million during the comparable period in 2012. For the nine months ended September 30, 2013, other income decreased 9.4% to \$45.3 million from \$50.0 million during the comparable period in 2012. Other income includes investment gains/(losses) on our private equity investments, and loan originations fees from Stifel Bank.

**Table of Contents****NET INTEREST INCOME**

The following tables present average balance data and operating interest revenue and expense data, as well as related interest yields for the periods indicated (*in thousands, except rates*):

	Three Months Ended					
	September 30, 2013			September 30, 2012		
	Average Balance	Interest Income/ Expense	Average Interest Rate	Average Balance	Interest Income/ Expense	Average Interest Rate
<b>Interest-earning assets:</b>						
Margin balances (Stifel Nicolaus)	\$ 478,442	\$ 4,722	3.95%	\$ 485,669	\$ 4,781	3.94%
Interest-earning assets (Stifel Bank)	4,396,590	26,458	2.41	3,040,652	19,143	2.52
Other (Stifel Nicolaus)		7,950			2,436	
<b>Total interest revenue</b>		<b>\$ 39,130</b>			<b>\$ 26,360</b>	
<b>Interest-bearing liabilities:</b>						
Short-term borrowings (Stifel Nicolaus)	\$ 246,751	\$ 3,286	1.33%	\$ 151,271	\$ 1,740	1.15%
Interest-bearing liabilities (Stifel Bank)	4,132,681	2,636	0.25	2,835,544	3,606	0.51
Stock loan (Stifel Nicolaus)	120,681	279	0.23	150,630	211	0.14
Senior notes (Stifel Financial)	325,000	5,164	6.36	175,000	3,048	6.97
Interest-bearing liabilities (Capital Trusts)	82,500	387	1.88	82,500	496	2.40
Other (Stifel Nicolaus)		(217)			(3,197)	
<b>Total interest expense</b>		<b>11,535</b>			<b>5,904</b>	
<b>Net interest income</b>		<b>\$ 27,595</b>			<b>\$ 20,456</b>	

	Nine Months Ended					
	September 30, 2013			September 30, 2012		
	Average Balance	Interest Income/ Expense	Average Interest Rate	Average Balance	Interest Income/ Expense	Average Interest Rate
<b>Interest-earning assets:</b>						
Margin balances (Stifel Nicolaus)	\$ 459,197	\$ 13,521	3.93%	\$ 500,118	\$ 14,587	3.89%
Interest-earning assets (Stifel Bank)	4,020,236	71,043	2.36	2,717,101	54,705	2.68
Other (Stifel Nicolaus)		17,265			9,436	
<b>Total interest revenue</b>		<b>\$ 101,829</b>			<b>\$ 78,728</b>	
<b>Interest-bearing liabilities:</b>						
	\$ 290,417	\$ 3,716	1.28%	\$ 200,970	\$ 2,311	1.15%

Short-term borrowings (Stifel Nicolaus)						
Interest-bearing liabilities (Stifel Bank)	3,770,097	8,365	0.30	2,524,178	11,951	0.63
Stock loan (Stifel Nicolaus)	88,992	144	0.16	150,016	198	0.13
Senior notes (Stifel Financial)	325,000	15,484	6.35	160,949	8,388	6.95
Interest-bearing liabilities (Capital Trusts)	82,500	1,301	2.10	82,500	2,507	4.05
Other (Stifel Nicolaus)		5,728			(587)	
<b>Total interest expense</b>		<b>34,738</b>			<b>24,768</b>	
<b>Net interest income</b>		<b>\$ 67,091</b>			<b>\$ 53,960</b>	

**Net interest income** Net interest income is the difference between interest earned on interest-earning assets and interest paid on funding sources. Net interest income is affected by changes in the volume and mix of these assets and liabilities, as well as by fluctuations in interest rates and portfolio management strategies. For the three months ended September 30, 2013, net interest income increased to \$27.6 million from \$20.5 million during the comparable period in 2012.

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For the nine months ended September 30, 2013, net interest income increased to \$67.1 million from \$54.0 million during the comparable period in 2012.

For the three months ended September 30, 2013, interest revenue increased 48.4% to \$39.1 million from \$26.4 million in the comparable period in 2012, principally as a result of a \$7.3 million increase in interest revenue generated from the interest-earning assets of Stifel Bank. The average interest-earning assets of Stifel Bank increased to \$4.4 billion during the three months ended September 30, 2013 compared to \$3.0 billion during the comparable period in 2012 at average interest rates of 2.41% and 2.52%, respectively.

For the nine months ended September 30, 2013, interest revenue increased 29.3% to \$101.8 million from \$78.7 million in the comparable period in 2012, principally as a result of a \$16.3 million increase in interest revenue generated from the interest-earning assets of Stifel Bank. The average interest-earning assets of Stifel Bank increased to \$4.0 billion during the nine months ended September 30, 2013 compared to \$2.7 billion during the comparable period in 2012 at average interest rates of 2.36% and 2.68%, respectively.

For the three months ended September 30, 2013, interest expense increased 95.4% to \$11.5 million from \$5.9 million during the comparable period in 2012. For the nine months ended September 30, 2013, interest expense increased 40.3% to \$34.7 million from \$24.8 million during the comparable period in 2012. The increase is primarily attributable to the interest expense associated with our December 2012 issuance of \$150.0 million of 5.375% senior notes.

**NON-INTEREST EXPENSES**

The following table presents consolidated non-interest expenses from continuing operations for the periods indicated (in thousands, except percentages):

	For the Three Months Ended September 30,			For the Nine Months Ended September 30,		
	2013	2012	% Change	2013	2012	% Change
<b>Non-interest expenses:</b>						
Compensation and benefits	\$ 326,020	\$ 264,458	23.3	\$ 958,179	\$ 751,992	27.4
Occupancy and equipment rental	41,288	32,596	26.7	116,090	94,776	22.5
Communications and office supplies	26,122	19,561	33.5	74,034	60,115	23.2
Commissions and floor brokerage	10,150	7,842	29.4	28,777	22,339	28.8
Other operating expenses	44,051	28,526	54.4	126,600	84,212	50.3
<b>Total non-interest expenses</b>	<b>\$ 447,631</b>	<b>\$ 352,983</b>	<b>26.8</b>	<b>\$ 1,303,680</b>	<b>\$ 1,013,434</b>	<b>28.6</b>

Except as noted in the following discussion of variances, the underlying reasons for the increase in non-interest expenses can be attributed principally to our continued expansion, both organically and through our acquisitions of the Knight Capital Fixed Income business on July 1, 2013, KBW, Inc. on February 15, 2013, and Miller Buckfire on December 20, 2012, and increased administrative overhead to support the growth in our segments.

**Compensation and benefits** Compensation and benefits expenses, which are the largest component of our expenses, include salaries, bonuses, transition pay, benefits, amortization of stock-based compensation, employment taxes and

other employee-related costs. A significant portion of compensation expense is comprised of production-based variable compensation, including discretionary bonuses, which fluctuates in proportion to the level of business activity, increasing with higher revenues and operating profits. Other compensation costs, including base salaries, stock-based compensation amortization, and benefits, are more fixed in nature.

For the three months ended September 30, 2013, compensation and benefits expense increased 23.3%, or \$61.5 million, to \$326.0 million from \$264.5 million during the comparable period in 2012. For the nine months ended September 30, 2013, compensation and benefits expense increased 27.4%, or \$206.2 million, to \$958.2 million from \$752.0 million during the comparable period in 2012. The increase is principally due to the following: 1) increased variable compensation as a result of increased revenue production and profitability; 2) an increase in fixed compensation for the additional administrative support staff; and 3) the expensing of stock awards issued as retention as part of the acquisitions of the Knight Capital Fixed Income business and KBW, Inc.

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On the respective closing dates of the acquisitions of the Knight Capital Fixed Income business and KBW, Inc., we granted restricted stock or restricted stock units to certain employees as retention. There are no continuing service requirements associated with these restricted stock awards, and accordingly were expensed on the date of grant. The expensing of the awards resulted in a non-cash charge (pre-tax) during the three and nine months ended September 30, 2013 of \$18.7 million and \$49.3 million, respectively.

Compensation and benefits expense as a percentage of net revenues was 68.1% and 67.9% for the three and nine months ended September 30, 2013, respectively, compared to 63.8% and 63.6% for the three and nine months ended September 30, 2012, respectively. Excluding the expensing of the awards and merger-related expenses, compensation and benefits expense as a percentage of net revenues was 62.0% and 62.9% for the three and nine months ended September 30, 2013, respectively.

Compensation and benefits expenses includes transition pay, principally in the form of upfront notes, signing bonuses and retention awards in connection with our continuing expansion efforts, of \$24.0 million (5.0% of net revenues) and \$67.0 million (4.7% of net revenues) for the three and nine months ended September 30, 2013, respectively, compared to \$17.7 million (4.3% of net revenues) and \$52.4 million (4.4% of net revenues) for the comparable periods in 2012, respectively. The upfront notes are amortized over a five to ten year period.

***Occupancy and equipment rental*** For the three months ended September 30, 2013, occupancy and equipment rental expense increased 26.7% to \$41.3 million from \$32.6 million during the comparable period in 2012. For the nine months ended September 30, 2013, occupancy and equipment rental expense increased 22.5% to \$116.1 million from \$94.8 million during the comparable period in 2012. The increase is primarily due to an increase in office locations. As of September 30, 2013, we have 355 locations compared to 332 at September 30, 2012.

***Communications and office supplies*** Communications expense includes costs for telecommunication and data communication, primarily for obtaining third-party market data information. For the three months ended September 30, 2013, communications and office supplies expense increased 33.5% to \$26.1 million from \$19.6 million during the third quarter of 2012. For the nine months ended September 30, 2013, communications and office supplies expense increased 23.2% to \$74.0 million from \$60.1 million during the comparable period in 2012. The increase is primarily attributable to our continued expansion through our acquisitions and the addition of revenue producers and support staff.

***Commissions and floor brokerage*** For the three months ended September 30, 2013, commissions and floor brokerage expense increased 29.4% to \$10.2 million from \$7.8 million during the comparable period in 2012. For the nine months ended September 30, 2013, commissions and floor brokerage expense increased 28.8% to \$28.8 million from \$22.3 million during the comparable period in 2012. The increase is primarily attributable to an increase in clearing fees as a result of an increase in trading activity.

***Other operating expenses*** Other operating expenses primarily include license and registration fees, litigation-related expenses, which consist of charges for legal and regulatory matters, travel and entertainment, promotional expenses and expenses for professional services.

For the three months ended September 30, 2013, other operating expenses increased 54.4% to \$44.1 million from \$28.5 million during the comparable period in 2012. For the nine months ended September 30, 2013, other operating expenses increased 50.3% to \$126.6 million from \$84.2 million during the comparable period in 2012. The increase is primarily attributable to an increase in legal expenses, travel and promotion, professional service fees in connection with our acquisitions and subscriptions expenses.

***Provision for income taxes*** In connection with discontinuing the business operations of SN Canada during the current quarter, we realized a \$58.2 million U.S. tax benefit due to a realized loss on our investment in SN Canada. The reduction in the financial statement carrying amount, which was recorded in 2008, became realizable for U.S. tax purposes in the foreseeable future as a result of our decision to exit the Canadian market. The tax benefit was the excess of the tax basis of our investment in the subsidiary over the financial statement carrying amount (the deductible outside basis difference).

Excluding the tax benefit, the effective tax rate would have been 52.3% and 43.5% % for the three and nine months ended September 30, 2013, respectively, compared to 38.8% and 39.8% for the three and nine months ended September 30, 2012, respectively. The effective rate for the three and nine months ended September 30, 2013 was impacted by losses incurred in foreign jurisdictions at a lower tax rate.

Table of Contents**DISCONTINUED OPERATIONS**

Our Canadian subsidiary, Stifel Nicolaus Canada, Inc. ( SN Canada ) has ceased business operations as of September 30, 2013. The results of SN Canada, previously reported in the Institutional Group segment, are classified as discontinued operations for all periods presented. For the three and nine months ended September 30, 2013, loss from discontinued operations, net of tax, was \$5.2 million and \$7.0 million, respectively, compared with income of \$0.3 million and a loss of \$3.4 million during the comparable periods in 2012. The \$5.6 million of pre-tax restructuring expense recorded in the third quarter of 2013 consisted primarily of costs incurred for severance benefits.

	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>September 30,</b>		<b>September 30,</b>	
	<b>2013</b>	<b>2012</b>	<b>2013</b>	<b>2012</b>
Net revenues	\$ 4,696	\$ 5,923	\$ 12,930	\$ 11,990
Restructuring expense	5,516		5,516	
Operating expenses	4,418	5,420	14,341	16,581
Total non-interest expenses	9,934	5,420	19,857	16,581
Income/(loss) from discontinued operations before income tax expense/(benefit)	(5,238)	503	(6,927)	(4,591)
Income tax expense/(benefit)	1	227	110	(1,198)
Income/(loss) from discontinued operations, net of tax	\$ (5,239)	\$ 276	\$ (7,037)	\$ (3,393)

See Note 4 to our consolidated financial statements for further discussion of our discontinued operations.



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**SEGMENT PERFORMANCE FROM CONTINUING OPERATIONS**

Our reportable segments include Global Wealth Management, Institutional Group, and Other.

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

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

The Other segment includes interest income from stock borrow activities, unallocated interest expense, interest income and gains and losses from investments held, and all unallocated overhead cost associated with the execution of orders; processing of securities transactions; custody of client securities; receipt, identification, and delivery of funds and securities; compliance with regulatory and legal requirements; internal financial accounting and controls; and general administration.

We evaluate the performance of our segments and allocate resources to them based on various factors, including prospects for growth, return on investment, and return on revenues.

**Table of Contents****Results of Operations Global Wealth Management****Three Months Ended September 30, 2013 Compared with Three Months Ended September 30, 2012**

The following table presents consolidated financial information for the Global Wealth Management segment for the periods indicated (*in thousands, except percentages*):

	For the Three Months Ended September 30,			As a Percentage of Net Revenues For the Three Months Ended September 30,	
	2013	2012	% Change	2013	2012
<b>Revenues:</b>					
Commissions	\$ 99,427	\$ 89,390	11.2	36.2%	35.6%
Principal transactions	58,658	58,027	1.1	21.4	23.1
Asset management and service fees	76,667	62,871	21.9	27.9	25.1
Investment banking	9,394	13,315	(29.4)	3.4	5.3
Interest	31,829	24,584	29.5	11.6	9.8
Other income	2,858	5,034	(43.2)	1.0	2.0
<b>Total revenues</b>	<b>278,833</b>	<b>253,221</b>	<b>10.1</b>	<b>101.5</b>	<b>100.9</b>
Interest expense	4,164	2,307	80.5	1.5	0.9
<b>Net revenues</b>	<b>274,669</b>	<b>250,914</b>	<b>9.5</b>	<b>100.0</b>	<b>100.0</b>
<b>Non-interest expenses:</b>					
Compensation and benefits	159,949	146,452	9.2	58.2	58.4
Occupancy and equipment rental	16,549	15,620	5.9	6.0	6.2
Communication and office supplies	9,620	9,532	0.9	3.5	3.8
Commissions and floor brokerage	3,962	3,320	19.3	1.5	1.3
Other operating expenses	12,461	7,970	56.4	4.5	3.2
<b>Total non-interest expenses</b>	<b>202,541</b>	<b>182,894</b>	<b>10.7</b>	<b>73.7</b>	<b>72.9</b>
<b>Income before income taxes</b>	<b>\$ 72,128</b>	<b>\$ 68,020</b>	<b>6.0</b>	<b>26.3%</b>	<b>27.1%</b>

	September 30, 2013	September 30, 2012
Branch offices	316	306
Financial advisors	1,930	1,888
Independent contractors	145	154



**Table of Contents*****Nine Months Ended September 30, 2013 Compared with Nine Months Ended September 30, 2012***

The following table presents consolidated financial information for the Global Wealth Management segment for the periods indicated (*in thousands, except percentages*):

	For the Nine Months Ended September 30,			As a Percentage of Net Revenues For the Nine Months Ended September 30,	
	2013	2012	% Change	2013	2012
<b>Revenues:</b>					
Commissions	\$ 306,089	\$ 268,827	13.9	37.1%	36.4%
Principal transactions	171,278	171,466	(0.1)	20.8	23.2
Asset management and service fees	221,577	188,626	17.5	26.9	25.6
Investment banking	35,832	34,101	5.1	4.4	4.6
Interest	86,620	71,557	21.1	10.5	9.7
Other income	15,911	16,656	(4.5)	1.9	2.3
<b>Total revenues</b>	<b>837,307</b>	<b>751,233</b>	<b>11.5</b>	<b>101.6</b>	<b>101.8</b>
Interest expense	12,963	13,411	(3.3)	1.6	1.8
<b>Net revenues</b>	<b>824,344</b>	<b>737,822</b>	<b>11.7</b>	<b>100.0</b>	<b>100.0</b>
<b>Non-interest expenses:</b>					
Compensation and benefits	480,701	430,432	11.7	58.3	58.3
Occupancy and equipment rental	48,244	47,466	1.6	5.8	6.4
Communication and office supplies	27,840	27,343	1.8	3.4	3.7
Commissions and floor brokerage	11,637	10,276	13.3	1.4	1.4
Other operating expenses	35,371	24,372	45.1	4.3	3.4
<b>Total non-interest expenses</b>	<b>603,793</b>	<b>539,889</b>	<b>11.8</b>	<b>73.2</b>	<b>73.2</b>
<b>Income before income taxes</b>	<b>\$ 220,551</b>	<b>\$ 197,933</b>	<b>11.4</b>	<b>26.8%</b>	<b>26.8%</b>

**NET REVENUES**

For the three months ended September 30, 2013, Global Wealth Management net revenues increased 9.5% to \$274.7 million from \$250.9 million for the comparable period in 2012. For the nine months ended September 30, 2013, Global Wealth Management net revenues increased 11.7% to \$824.3 million from \$737.8 million for the comparable period in 2012. The increase in net revenues for the three and nine months ended September 30, 2013 over the comparable periods in 2012 is attributable to an increase in commission revenues; growth in asset management and service fees as a result of an increase in assets under management through market performance and increase in client assets; increased net interest revenues as a result of the growth of net interest-earning assets at Stifel Bank.

**Commissions** For the three months ended September 30, 2013, commission revenues increased 11.2% to \$99.4 million from \$89.4 million in the comparable period in 2012. For the nine months ended September 30, 2013, commission revenues increased 13.9% to \$306.1 million from \$268.8 million in the comparable period in 2012. The increase is primarily attributable to an increase in agency transactions in mutual funds, equities and insurance products.

**Principal transactions** For the three months ended September 30, 2013, principal transactions revenues increased 1.1% to \$58.7 million from \$58.0 million in the comparable period in 2012. For the nine months ended September 30, 2013, principal transactions revenues decreased 0.1% to \$171.3 million from \$171.5 million in the comparable period in 2012. The increase from the second quarter of 2012 is primarily attributable to higher trading volumes.

**Asset management and service fees** For the three months ended September 30, 2013, asset management and service fees increased 21.9% to \$76.7 million from \$62.9 million in the comparable period in 2012. For the nine months ended September 30, 2013, asset management and service fees increased 17.5% to \$221.6 million from \$188.6 million in the comparable period in 2012. The increase is primarily a result of an increase in investment

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advisory revenues. The value of assets in fee-based accounts increased 6.8% from September 30, 2012, of which 44.0% is attributable to net inflows and 56.0% is attributable to market appreciation. Fee-based account revenues for the three months ended September 30, 2013 are billed in arrears based on values as of June 30, 2013.

The following table summarizes the changes in our assets in fee-based accounts for the three months ended June 30, 2013 (*in thousands*):

<b>Assets in fee-based accounts:</b>	
<b>Balance at March 31, 2013</b>	<b>\$ 21,594,072</b>
Inflows	1,178,517
Market appreciation	1,501,739
<b>Balance at June 30, 2013</b>	<b>\$ 24,274,328</b>

**Investment banking** Investment banking, which represents sales credits for investment banking underwritings, decreased 29.4% to \$9.4 million for the three months ended September 30, 2013 from \$13.3 million during the comparable period in 2012. For the nine months ended September 30, 2013, investment banking revenues increased 5.1% to \$35.8 million from \$34.1 million during the comparable period in 2012. See Investment banking in the Institutional Group segment discussion for information on the changes in investment banking revenues.

**Interest revenue** For the three months ended September 30, 2013, interest revenue increased 29.5% to \$31.8 million from \$24.6 million in the comparable period in 2012. For the nine months ended September 30, 2013, interest revenue increased 21.1% to \$86.6 million from \$71.6 million in the comparable period in 2012. The increase is primarily due to the growth of the interest-earning assets of Stifel Bank and increased interest rates on our investment portfolio. See Net Interest Income Stifel Bank below for a further discussion of the changes in interest revenues.

**Other income** For the three months ended September 30, 2013, other income decreased 43.2% to \$2.9 million from \$5.0 million during the comparable period in 2012. For the nine months ended September 30, 2013, other income decreased 4.5% to \$15.9 million from \$16.7 million during the comparable period in 2012. The decrease is primarily attributable to a decrease in investment gains on our private equity investments and a decrease in mortgage fees due to the decrease in loan originations at Stifel Bank.

**Interest expense** For the three months ended September 30, 2013, interest expense increased 80.5% to \$4.2 million from \$2.3 million during the comparable period in 2012. For the nine months ended September 30, 2013, interest expense decreased 3.3% to \$13.0 million from \$13.4 million during the comparable period in 2012. See Net Interest Income Stifel Bank below for a further discussion of the changes in interest expenses.

**Table of Contents****NET INTEREST INCOME STIFEL BANK**

The following tables present average balance data and operating interest revenue and expense data for Stifel Bank, as well as related interest yields for the periods indicated (*in thousands, except rates*):

	Three Months Ended September 30, 2013			Three Months Ended September 30, 2012		
	Average Balance	Interest Income/ Expense	Average Interest Rate	Average Balance	Interest Income/ Expense	Average Interest Rate
<b>Assets:</b>						
Federal funds sold	\$ 192,726	\$ 119	0.74%	\$ 143,971	\$ 90	0.25%
State and political subdivisions:						
Taxable	115,839	789	2.72	118,530	1,084	3.66
Non-taxable <sup>(1)</sup>	78,982	460	2.33	4,131	29	2.81
Mortgage-backed securities	1,485,051	9,333	2.51	800,351	4,723	2.36
Corporate bonds	573,233	3,166	2.21	544,489	2,990	2.20
Asset-backed securities	751,821	3,766	2.00	540,186	2,892	2.14
Federal Home Loan Bank ( FHLB ) and other capital stock	4,560	6	0.53	3,202	6	0.75
Loans <sup>(2)</sup>	1,138,207	8,325	2.93	740,841	6,016	3.25
Loans held for sale	56,171	494	3.51	144,951	1,313	3.62
<b>Total interest-earning assets <sup>(3)</sup></b>	<b>\$ 4,396,590</b>	<b>\$ 26,458</b>	<b>2.41%</b>	<b>\$ 3,040,652</b>	<b>\$ 19,143</b>	<b>2.52%</b>
Cash and due from banks	2,910			6,274		
Other non interest-earning assets	24,772			93,128		
<b>Total assets</b>	<b>\$ 4,424,272</b>			<b>\$ 3,140,054</b>		
<b>Liabilities and stockholders equity:</b>						
Deposits:						
Money market	\$ 4,065,173	\$ 2,623	0.26%	\$ 2,774,312	\$ 3,572	0.52%
Demand deposits	65,731	9	0.05	49,356	14	0.11
Time deposits	639	3	2.17	1,583	12	3.03
Savings	51		0.04	5,963	1	0.07
FHLB advances	1,087	1	0.32	4,330	7	0.65
<b>Total interest-bearing liabilities <sup>(3)</sup></b>	<b>\$ 4,132,681</b>	<b>\$ 2,636</b>	<b>0.25%</b>	<b>\$ 2,835,544</b>	<b>3,606</b>	<b>0.51%</b>
Non interest-bearing deposits	7,604			21,200		
Other non interest-bearing liabilities	2,664			44,754		
<b>Total liabilities</b>	<b>4,142,949</b>			<b>2,901,498</b>		
Stockholders equity	281,323			238,556		
<b>Total liabilities and stockholders equity</b>	<b>\$ 4,424,272</b>			<b>\$ 3,140,054</b>		

Net interest margin	<b>\$ 23,822</b>	<b>2.17%</b>	\$ 15,537	2.04%
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- (1) Due to immaterial amount of income recognized on tax-exempt securities, yields were not calculated on a tax equivalent basis.
- (2) Loans on non-accrual status are included in average balances.
- (3) See Net Interest Income table included in Results of Operations for additional information on our company's average balances and operating interest and expenses.



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	Nine Months Ended September 30, 2013			Nine Months Ended September 30, 2012		
	Average Balance	Interest Income/ Expense	Average Interest Rate	Average Balance	Interest Income/ Expense	Average Interest Rate
<b>Assets:</b>						
Federal funds sold	\$ 253,678	\$ 490	0.26%	\$ 144,571	\$ 259	0.24%
State and political subdivisions:						
Taxable	122,539	3,238	3.52	115,300	3,361	3.89
Non-taxable <sup>(1)</sup>	73,773	1,277	2.31	3,091	70	3.02
Mortgage-backed securities	1,184,041	19,555	2.20	743,308	15,554	2.79
Corporate bonds	550,349	9,113	2.21	515,747	9,083	2.35
Asset-backed securities	704,145	10,863	2.06	363,536	5,589	2.05
FHLB and other capital stock	4,092	18	0.59	2,836	34	1.60
Loans <sup>(2)</sup>	1,030,210	24,059	3.11	698,976	17,339	3.31
Loans held for sale	97,409	2,430	3.33	129,736	3,416	3.51
<b>Total interest-earning assets <sup>(3)</sup></b>	<b>\$ 4,020,236</b>	<b>\$ 71,043</b>	<b>2.36%</b>	<b>\$ 2,717,101</b>	<b>\$ 54,705</b>	<b>2.68%</b>
Cash and due from banks	9,405			6,320		
Other non interest-earning assets	60,146			71,315		
<b>Total assets</b>	<b>\$ 4,089,787</b>			<b>\$ 2,794,736</b>		
<b>Liabilities and stockholders equity:</b>						
Deposits:						
Money market	\$ 3,700,584	\$ 8,312	0.30%	\$ 2,469,836	\$ 11,852	0.64%
Demand deposits	63,005	27	0.06	42,827	50	0.16
Time deposits	635	11	2.24	1,686	36	2.85
Savings	49		0.05	5,876	2	0.07
FHLB advances	5,824	15	0.34	3,953	11	0.37
<b>Total interest-bearing liabilities <sup>(3)</sup></b>	<b>\$ 3,770,097</b>	<b>\$ 8,365</b>	<b>0.30%</b>	<b>\$ 2,524,178</b>	<b>11,951</b>	<b>0.63%</b>
Non interest-bearing deposits	12,237			21,068		
Other non interest-bearing liabilities	25,432			41,349		
<b>Total liabilities</b>	<b>3,807,766</b>			<b>2,586,595</b>		
Stockholders equity	282,021			208,141		
<b>Total liabilities and stockholders equity</b>	<b>\$ 4,089,787</b>			<b>\$ 2,794,736</b>		
Net interest margin		\$ 62,678	2.08%		\$ 42,754	2.10%

(1) Due to immaterial amount of income recognized on tax-exempt securities, yields were not calculated on a tax equivalent basis.

(2) Loans on non-accrual status are included in average balances.

- (3) See Net Interest Income table included in Results of Operations for additional information on our company's average balances and operating interest and expenses.

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The following table sets forth an analysis of the effect on net interest income of volume and rate changes for the three and nine month periods ended September 30, 2013 compared to the three and nine month periods ended September 30, 2012 (*in thousands*):

	<b>Three Months Ended September 30, 2013 Compared to Three Months Ended September 30, 2012</b>			<b>Nine Months Ended September 30, 2013 Compared to Nine Months Ended September 30, 2012</b>		
	<b>Increase (decrease) due to:</b>			<b>Increase (decrease) due to:</b>		
	<b>Volume</b>	<b>Rate</b>	<b>Total</b>	<b>Volume</b>	<b>Rate</b>	<b>Total</b>
<b>Interest income:</b>						
Federal funds sold	\$ 30	\$ (1)	\$ 29	\$ 59	\$ 172	\$ 231
State and political subdivisions:						
Taxable	(24)	(271)	(295)	(4)	(119)	(123)
Non-taxable	436	(5)	431	1,142	65	1,207
Mortgage-backed securities	2,326	2,284	4,610	40,351	(36,350)	4,001
Corporate bonds	163	13	176	1	29	30
Asset-backed securities	1,043	(169)	874	1,677	3,597	5,274
FHLB and other capital stock	8	(8)		(31)	15	(16)
Loans	6,000	(3,691)	2,309	27,273	(20,553)	6,720
Loans held for sale	(534)	(285)	(819)	(2,117)	1,131	986
	\$ 9,448	\$ (2,133)	\$ 7,315	\$ 68,351	\$ (52,013)	\$ 16,338
<b>Interest expense:</b>						
Deposits:						
Money market	\$ 6,745	\$ (7,694)	\$ (949)	\$ 22,693	\$ (26,233)	\$ (3,540)
Demand deposits	19	(24)	(5)	99	(122)	(23)
Time deposits	(4)	(5)	(9)	(19)	(6)	(25)
Savings		(1)	(1)	(2)		(2)
FHLB advances	52	(58)	(6)	15	(11)	4
	\$ 6,812	\$ (7,782)	\$ (970)	\$ 22,786	\$ (26,372)	\$ (3,586)

Increases and decreases in interest revenue and interest expense result from changes in average balances (volume) of interest-earning bank assets and liabilities, as well as changes in average interest rates. The effect of changes in volume is determined by multiplying the change in volume by the previous year's average yield/cost. Similarly, the effect of rate changes is calculated by multiplying the change in average yield/cost by the previous year's volume. Changes applicable to both volume and rate have been allocated proportionately.

**Net interest income** Net interest income is the difference between interest earned on interest-earning assets and interest paid on funding sources. Net interest income is affected by changes in the volume and mix of these assets and liabilities, as well as by fluctuations in interest rates and portfolio management strategies.

For the three months ended September 30, 2013, interest revenue of \$26.5 million was generated from average interest-earning assets of \$4.4 billion at an average interest rate of 2.41%. Interest revenue of \$19.1 million for the comparable period in 2012 was generated from average interest-earning assets of \$3.0 billion at an average interest

rate of 2.52%.

For the nine months ended September 30, 2013, interest revenue of \$71.0 million was generated from average interest-earning assets of \$4.0 billion at an average interest rate of 2.36%. Interest revenue of \$54.7 million for the comparable period in 2012 was generated from average interest-earning assets of \$2.7 billion at a average interest rate of 2.68%. Interest-earning assets principally consist of residential, consumer, and commercial loans, securities, and federal funds sold.

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Interest expense primarily represents interest on customer money market accounts. The average balance of interest-bearing liabilities during the three months ended September 30, 2013 was \$4.1 billion at a average interest rate of 0.25%. The average balance of interest-bearing liabilities for the comparable period in 2012 was \$2.8 billion at a average interest rate of 0.51%. The weighted average balance of interest-bearing liabilities during the nine months ended September 30, 2013 was \$3.8 billion at a weighted average interest rate of 0.89%. The weighted average balance of interest-bearing liabilities for the comparable period in 2012 was \$2.5 billion at a weighted average interest rate of 0.63%.

The growth in Stifel Bank has been primarily driven by the growth in money market deposits associated with brokerage customers of Stifel Nicolaus. At September 30, 2013, the balance of Stifel Nicolaus brokerage customer deposits at Stifel Bank was \$4.2 billion compared to \$2.9 billion at September 30, 2012.

See Net Interest Income Stifel Bank tables above for more information regarding average balances, interest income and expense, and average interest rate yields.

**NON-INTEREST EXPENSES**

For the three months ended September 30, 2013, Global Wealth Management non-interest expenses increased 10.7% to \$202.5 million from \$182.9 million for the comparable period in 2012. For the nine months ended September 30, 2013, Global Wealth Management non-interest expenses increased 11.8% to \$603.8 million from \$539.9 million for the comparable period in 2012.

The fluctuations in non-interest expenses, discussed below, were primarily attributable to the continued growth of our Private Client Group. As of September 30, 2013, we have 316 branch offices compared to 306 at September 30, 2012. In addition, since September 30, 2012, we have added 344 revenue producers and support staff.

***Compensation and benefits*** For the three months ended September 30, 2013, compensation and benefits expense increased 9.2% to \$159.9 million from \$146.5 million during the comparable period in 2012. For the nine months ended September 30, 2013, compensation and benefits expense increased 11.7% to \$480.7 million from \$430.4 million during the comparable period in 2012. The increase is principally due to increased variable compensation as a result of increased production due to the growth in financial advisors and fixed compensation for the additional administrative support staff.

Compensation and benefits expense as a percentage of net revenues was 58.2% and 58.3% for the three and nine months ended September 30, 2013, respectively, compared to 58.4% and 58.3% for the three and nine months ended September 30, 2012, respectively.

Compensation and benefits expenses includes transition pay, principally in the form of upfront notes, signing bonuses and retention awards in connection with our continuing expansion efforts, of \$16.3 million (5.9% of net revenues) and \$48.6 million (5.9% of net revenues) for the three and nine months ended September 30, 2013, compared to \$15.6 million (6.2% of net revenues) and \$46.1 million (6.2% of net revenues) for the three and nine months ended September 30, 2012. The upfront notes are amortized over a five to ten year period.

***Occupancy and equipment rental*** For the three months ended September 30, 2013, occupancy and equipment rental expense increased 5.9% to \$16.5 million from \$15.6 million during the comparable period in 2012. For the nine months ended September 30, 2013, occupancy and equipment rental expense increased 1.6% to \$48.2 million from \$47.5 million during the comparable period in 2012.

***Communications and office supplies*** For the three months ended September 30, 2013, communications and office supplies expense increased 0.9% to \$9.6 million from \$9.5 million during the comparable period in 2012. For the nine months ended September 30, 2013, communications and office supplies expense increased 1.8% to \$27.8 million from \$27.3 million during the comparable period in 2012. The increase is attributable to an increase in financial advisors.

***Commissions and floor brokerage*** For the three months ended September 30, 2013, commissions and floor brokerage expense increased 19.3% to \$4.0 million from \$3.3 million during the comparable period in 2012. For the nine months ended September 30, 2013, commissions and floor brokerage expense increased 13.3% to \$11.6 million from \$10.3 million during the comparable period in 2012. The increase is primarily attributable to an increase in trading activity.

***Other operating expenses*** For the three months ended September 30, 2013, other operating expenses increased 56.4% to \$12.5 million from \$8.0 million during the comparable period in 2012. For the nine months ended September 30, 2013, other operating expenses increased 45.1% to \$35.4 million from \$24.4 million during the comparable period in 2012. The increase in other operating expenses is primarily attributable to an increase in legal expenses and the provision for loan losses.

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**INCOME BEFORE INCOME TAXES**

For the three months ended September 30, 2013, income before income taxes increased 6.0% to \$72.1 million from \$68.0 million during the comparable period in 2012. For the nine months ended September 30, 2013, income before income taxes increased 11.4% to \$220.6 million from \$197.9 million during the comparable period in 2012. Profit margins (income before income taxes as a percentage of net revenues) for the three months ended September 30, 2013 were negatively impacted by an increase in other operating expenses offset by revenue growth.

**Table of Contents*****Results of Operations Institutional Group******Three Months Ended September 30, 2013 Compared with Three Months Ended September 30, 2012***

The following table presents consolidated financial information for the Institutional Group segment for the periods indicated (*in thousands, except percentages*):

	For the Three Months Ended September 30,			As a Percentage of Net Revenues For the Three Months Ended September 30,	
	2013	2012	% Change	2013	2012
<b>Revenues:</b>					
Commissions	\$ 46,410	\$ 36,119	28.5	22.6%	21.9%
Principal transactions	63,925	44,447	43.8	31.2	27.0
Capital raising	44,270	31,247	41.7	21.6	19.0
Advisory	39,186	27,180	44.2	19.1	16.5
Investment banking	83,456	58,427	42.8	40.7	35.5
Interest	6,985	1,507	363.7	3.4	0.9
Other income	7,895	25,652	*	3.8	15.6
<b>Total revenues</b>	<b>208,671</b>	<b>166,152</b>	<b>25.6</b>	<b>101.7</b>	<b>100.9</b>
Interest expense	3,539	1,541	129.6	1.7	0.9
<b>Net revenues</b>	<b>205,132</b>	<b>164,611</b>	<b>24.6</b>	<b>100.0</b>	<b>100.0</b>
<b>Non-interest expenses:</b>					
Compensation and benefits	119,874	102,148	17.4	58.4	62.1
Occupancy and equipment rental	12,609	5,982	110.8	6.2	3.6
Communication and office supplies	12,777	7,007	82.3	6.2	4.3
Commissions and floor brokerage	6,188	4,522	36.9	3.0	2.8
Other operating expenses	18,698	11,751	59.1	9.1	7.1
<b>Total non-interest expenses</b>	<b>170,146</b>	<b>131,410</b>	<b>29.5</b>	<b>82.9</b>	<b>79.9</b>
<b>Income before income taxes</b>	<b>\$ 34,986</b>	<b>\$ 33,201</b>	<b>5.4</b>	<b>17.1%</b>	<b>20.1%</b>

\* Percentage is not meaningful.



**Table of Contents*****Nine Months Ended September 30, 2013 Compared with Nine Months Ended September 30, 2012***

The following table presents consolidated financial information for the Institutional Group segment for the periods indicated (*in thousands, except percentages*):

	For the Nine Months Ended September 30,			As a Percentage of Net Revenues For the Nine Months Ended September 30,	
	2013	2012	% Change	2013	2012
<b>Revenues:</b>					
Commissions	\$ 140,409	\$ 101,280	38.6	23.6%	22.8%
Principal transactions	169,875	139,954	21.4	28.6	31.5
Capital raising	139,420	105,339	32.5	23.5	23.7
Advisory	113,947	68,902	65.4	19.2	15.5
Investment banking	253,367	174,241	45.5	42.7	39.2
Interest	15,036	6,228	141.4	2.5	1.4
Other income	24,398	26,405	(7.6)	4.2	6.0
<b>Total revenues</b>	<b>603,085</b>	<b>448,108</b>	<b>34.6</b>	<b>101.6</b>	<b>100.9</b>
Interest expense	9,210	4,147	122.1	1.6	0.9
<b>Net revenues</b>	<b>593,875</b>	<b>443,961</b>	<b>33.8</b>	<b>100.0</b>	<b>100.0</b>
<b>Non-interest expenses:</b>					
Compensation and benefits	359,091	275,159	30.5	60.5	62.0
Occupancy and equipment rental	34,144	18,731	82.3	5.7	4.2
Communication and office supplies	35,385	23,383	51.3	5.9	5.3
Commissions and floor brokerage	17,140	12,064	42.1	2.9	2.7
Other operating expenses	53,817	34,815	54.6	9.1	7.8
<b>Total non-interest expenses</b>	<b>499,577</b>	<b>364,152</b>	<b>37.2</b>	<b>84.1</b>	<b>82.0</b>
<b>Income before income taxes</b>	<b>\$ 94,298</b>	<b>\$ 79,809</b>	<b>18.2</b>	<b>15.9%</b>	<b>18.0%</b>

**NET REVENUES**

For the three months ended September 30, 2013, Institutional Group net revenues from continuing operations increased 24.6% to \$205.1 million from \$164.6 million for the comparable period in 2012. For the nine months ended September 30, 2013, Institutional Group net revenues from continuing operations increased 33.8% to \$593.9 million from \$444.0 million for the comparable period in 2012. The increase in net revenues for the three and nine months ended September 30, 2012 over the comparable periods in 2012 is primarily attributable to an increase in advisory fees; higher equity institutional brokerage revenues; an increase in equity capital raising revenues; and higher fixed

income institutional brokerage revenues. The increase for the nine months ended September 30, 2013 over the comparable period in 2012 is also attributable to the gains recognized on our investment in Knight Capital Group. The increases are also attributable to our acquisitions of the Knight Capital Fixed Income business, which was completed on July 1, 2013, KBW, Inc., which was completed on February 15, 2013, and Miller Buckfire, which was completed on December 20, 2012.

**Commissions** For the three months ended September 30, 2013, commission revenues increased 28.5% to \$46.4 million from \$36.1 million in the comparable period in 2012. For the nine months ended September 30, 2013, commission revenues increased 38.6% to \$140.4 million from \$101.3 million in the comparable period in 2012.

**Principal transactions** For the three months ended September 30, 2013, principal transactions revenues increased 43.8% to \$63.9 million from \$44.4 million in the comparable period in 2012. For the nine months ended September 30, 2013, principal transactions revenues increased 21.4% to \$169.9 million from \$140.0 million in the comparable period in 2012.

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For the three months ended September 30, 2013, equity institutional brokerage revenues increased 67.7% to \$58.7 million from \$35.0 million during the comparable period in 2012. For the nine months ended September 30, 2013, equity institutional brokerage revenues increased 52.9% to \$172.2 million from \$112.6 million during the comparable period in 2012. The increase is primarily attributable to an increase in trading activity as a result of market volatility.

For the three months ended September 30, 2013, fixed income institutional brokerage revenues increased 13.4% to \$51.7 million from \$45.6 million during the comparable period in 2012. For the nine months ended September 30, 2013, fixed income institutional brokerage revenues increased 7.4% to \$138.1 million from \$128.6 million during the comparable period in 2012. The increase is primarily attributable to an increase in fixed income trading volumes over the comparable period in 2012.

**Investment banking** For the three months ended September 30, 2013, investment banking revenues increased 42.8% to \$83.5 million from \$59.0 million during the comparable period in 2012. For the nine months ended September 30, 2013, investment banking revenues increased 42.7% to \$253.4 million from \$174.2 million during the comparable period in 2012. The increase is attributable to an increase in advisory fee revenues over the comparable period in 2012. Our investment banking revenues were positively impacted by our acquisition of KBW, Inc. and Miller Buckfire, offset by sluggish equity capital market conditions.

For the three months ended September 30, 2013, capital raising revenues increased 41.7% to \$44.3 million from \$31.2 million during the comparable period in 2012. For the nine months ended September 30, 2013, capital raising revenues increased 32.4% to \$139.4 million from \$105.3 million during the comparable period in 2012.

For the three months ended September 30, 2013, equity capital raising revenues increased 87.9% to \$30.7 million from \$16.4 million during the comparable period in 2012. For the nine months ended September 30, 2013, equity capital raising revenues increased 48.0% to \$96.0 million from \$64.8 million during the comparable period in 2012. The increase was primarily attributable to an increase in the number of transactions over the comparable period in 2012.

For the three months ended September 30, 2013, fixed income capital raising revenues decreased 9.1% to \$13.5 million from \$14.9 million during the comparable period in 2012. For the nine months ended September 30, 2013, fixed income capital raising revenues increased 7.3% to \$43.4 million from \$40.5 million during the comparable period in 2012. The increase for the nine months ended September 30, 2013 over the comparable period in 2012 is primarily attributable to an increase in the municipal bond origination business.

For the three months ended September 30, 2013, strategic advisory fees increased 44.2% to \$39.2 million from \$27.2 million in the comparable period in 2012. For the nine months ended September 30, 2013, strategic advisory fees increased 65.4% to \$113.9 million from \$68.9 million in the comparable period in 2012. The increase is primarily attributable to an increase in the number of completed equity transactions and the aggregate transaction value over the comparable period in 2012.

**Other income** For the three months ended September 30, 2013, other income decreased \$17.8 million to \$7.9 million from \$25.7 million in the comparable period in 2012. For the nine months ended September 30, 2013, other income decreased 7.6% to \$24.4 million from \$26.4 million in the comparable period in 2012. The decrease in other income is primarily attributable to gains recognized on our investment in Knight Capital Group, Inc. during the third quarter of 2012, offset by gains recorded on the sale of certain aircraft and lease revenue from the operations of East Shore Aircraft LLC.

## **NON-INTEREST EXPENSES**

For the three months ended September 30, 2013, Institutional Group non-interest expenses from continuing operations increased 29.5% to \$170.1 million from \$131.4 million during the comparable period in 2012. For the nine months ended September 30, 2013, Institutional Group non-interest expenses from continuing operations increased 37.2% to \$499.6 million from \$364.2 million during the comparable period in 2012.

Unless specifically discussed below, the fluctuations in non-interest expenses were primarily attributable to the continued growth of our Institutional Group segment. We have added 599 revenue producers and support staff since September 30, 2012, including 483 from our acquisitions of the Knight Capital Fixed Income business, KBW, Inc. and Miller Buckfire.

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***Compensation and benefits*** For the three months ended September 30, 2013, compensation and benefits expense increased 17.4% to \$119.9 million from \$102.1 million during the comparable period in 2012. For the nine months ended September 30, 2013, compensation and benefits expense increased 30.5% to \$359.1 million from \$275.2 million during the comparable period in 2012. The increase is principally due to increased compensation as a result of the growth of the business and fixed compensation for the additional administrative support staff.

Compensation and benefits expense as a percentage of net revenues was 58.4% and 60.5% for the three and nine months ended September 30, 2013, respectively, compared to 62.1% and 62.0% for the three and nine months ended September 30, 2012, respectively.

***Occupancy and equipment rental*** For the three months ended September 30, 2013, occupancy and equipment rental expense increased 110.8% to \$12.6 million from \$6.0 million during the comparable period in 2012. For the nine months ended September 30, 2013, occupancy and equipment rental expense increased 82.3% to \$34.1 million from \$18.7 million during the comparable period in 2012. The increase is primarily due to the increase in office locations.

***Communications and office supplies*** For the three months ended September 30, 2013, communications and office supplies expense increased 82.3% to \$12.8 million from \$7.0 million during the comparable period in 2012. For the nine months ended September 30, 2013, communications and office supplies expense increased 51.3% to \$35.4 million from \$23.4 million during the comparable period in 2012. The increase is primarily attributable to an increase in communication and quote equipment as a result of the growth of the business.

***Commissions and floor brokerage*** For the three months ended September 30, 2013, commissions and floor brokerage expense increased 36.9% to \$6.2 million from \$4.5 million during the comparable period in 2012. For the nine months ended September 30, 2013, commissions and floor brokerage expense increased 42.1% to \$17.1 million from \$12.1 million during the comparable period in 2012. The increase is primarily attributable to an increase in trading activity.

***Other operating expenses*** For the three months ended September 30, 2013, other operating expenses increased 59.1% to \$18.7 million from \$11.8 million during the comparable period in 2012. For the nine months ended September 30, 2013, other operating expenses increased 54.6% to \$53.8 million from \$34.8 million during the comparable period in 2012. The increase is primarily attributable to an increase in travel and promotion expenses, professional service fees, dues and subscriptions, and legal expenses resulting from our acquisitions.

## **INCOME BEFORE INCOME TAXES**

For the three months ended September 30, 2013, income before income taxes for the Institutional Group segment increased 5.4% to \$35.0 million from \$33.2 million during the comparable period in 2012. For the nine months ended September 30, 2013, income before income taxes for the Institutional Group segment increased 18.2% to \$94.3 million from \$79.8 million during the comparable period in 2012. Profit margins (income before income taxes as a percentage of net revenues) for the three and nine months ended September 30, 2013 were negatively impacted by an increase in non-compensation operating expenses.

**Table of Contents****Results of Operations Other Segment**

The following table presents consolidated financial information for the Other segment for the periods presented (*in thousands, except percentages*):

	For the Three Months Ended September 30,			For the Nine Months Ended September 30,		
	2013	2012	% Change	2013	2012	% Change
<b>Net revenues</b>	<b>\$ (1,162)</b>	<b>\$ (1,368)</b>	<b>(15.1)</b>	<b>\$ (7,298)</b>	<b>\$ 1,047</b>	<b>*</b>
<b>Non-interest expenses:</b>						
Compensation and benefits	<b>46,198</b>	15,857	191.3	<b>118,387</b>	46,400	155.1
Other operating expenses	<b>28,746</b>	22,822	26.0	<b>81,923</b>	62,993	30.0
<b>Total non-interest expenses</b>	<b>74,944</b>	38,679	93.8	<b>200,310</b>	109,393	83.1
<b>Loss before income taxes</b>	<b>\$ (76,106)</b>	<b>\$ (40,047)</b>	<b>90.0</b>	<b>\$ (207,608)</b>	<b>\$ (108,346)</b>	<b>91.6</b>

\* Percentage not meaningful.

**Net revenues** For the three month period ended September 30, 2013, net revenues decreased 15.1% from the comparable period in 2012. For the nine month period ended September 30, 2013, net revenues decreased \$8.3 million from the comparable period in 2012. Net revenues for the three and nine months ended September 30, 2013 was negatively impacted by the interest expense associated with our December 2012 issuance of \$150.0 million of 5.375% senior notes, offset by an increase in investment gains over the comparable periods in 2013.

**Compensation and benefits** For the three months ended September 30, 2013, compensation and benefits expense increased 191.3% to \$46.2 million from \$15.9 million during the comparable period in 2012. For the nine months ended September 30, 2013, compensation and benefits expense increased 155.1% to \$118.4 million from \$46.4 million during the comparable period in 2012. The increase is principally due to the following: 1) an increase in fixed compensation for the additional administrative support staff; and 2) the expensing of stock awards issued as retention as part of the acquisitions of the Knight Capital Fixed Income business and KBW, Inc.

On the respective closing dates of the acquisitions of the Knight Capital Fixed Income business and KBW, Inc., we granted restricted stock units to certain employees as retention. There are no continuing service requirements associated with these restricted stock awards, and accordingly were expensed on the date of grant. The expensing of the awards resulted in a non-cash charge (pre-tax) during the three and nine months ended September 30, 2013 of \$18.7 million and \$49.3 million, respectively.

**Other operating expenses** For the three months ended September 30, 2013, other operating expenses increased 26.0% to \$28.7 million from \$22.8 million during the comparable period in 2012. For the nine months ended September 30, 2013, other operating expenses increased 30.0% to \$81.9 million from \$63.0 million during the comparable period in 2012. The increase is primarily attributable to non-recurring non-compensation operating expenses (including merger-related expenses) associated with our acquisitions of the Knight Capital Fixed Income business, KBW, Inc., and Miller Buckfire.

***Analysis of Financial Condition***

Our company's consolidated statements of financial condition consist primarily of cash and cash equivalents, receivables, trading inventory, bank loans, investments, goodwill, loans and advances to financial advisors, bank deposits, and payables. As of September 30, 2013, our total assets increased 25.0% to \$8.7 billion from \$7.0 billion at December 31, 2012. The increase is primarily attributable to (1) the recognition of goodwill associated with our acquisition of KBW, Inc.; and increases in (2) our investment portfolio, which consists of available-for-sale and held-to-maturity securities, and (5) bank loans. Our broker-dealer subsidiary's gross assets and liabilities, including trading inventory, stock loan/borrow, receivables and payables from/to brokers, dealers, and clearing organizations and clients, fluctuate with our business levels and overall market conditions.

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As of September 30, 2013, our liabilities were comprised primarily of short-term borrowings of \$133.1 million, senior notes of \$325.0 million, non-recourse debt of \$32.1 million, trust preferred securities of \$82.5 million, deposits of \$4.2 billion at Stifel Bank, and payables to customers of \$333.9 million at our broker-dealer subsidiaries, as well as accounts payable, accrued expenses, and accrued employee compensation of \$536.2 million. To meet our obligations to clients and operating needs, we had \$649.2 million in cash and cash equivalents at September 30, 2013. We also had client brokerage receivables of \$523.5 million at Stifel Nicolaus and \$1.14 billion in loans at Stifel Bank.

**Cash Flow**

Cash and cash equivalents increased \$245.3 million to \$649.2 million at September 30, 2013, from \$403.9 million at December 31, 2012. Operating activities provided \$433.1 million of cash primarily due to the net effect of non-cash items, net income recognized during the first nine months of 2013, and an increase in operating liabilities, offset by an decrease in operating assets. Investing activities used cash of \$1.13 billion due to purchases of available-for-sale and held-to-maturity securities as part of our investment strategy at Stifel Bank, the acquisition of KBW, Inc., and fixed asset purchases, offset by proceeds from the maturity of available-for-sale securities, and sale of investments. Financing activities provided cash of \$943.6 million principally due to an increase in affiliated deposits, offset by repayments of our short-term borrowings and repurchases of our common stock.

**Liquidity and Capital Resources**

The Company's senior management establishes the liquidity and capital policies of the Company. The Company's senior management reviews business performance relative to these policies, monitors the availability of alternative sources of financing, and oversees the liquidity and interest rate sensitivity of the Company's asset and liability position.

Our assets, consisting mainly of cash or assets readily convertible into cash, are our principal source of liquidity. The liquid nature of these assets provides for flexibility in managing and financing the projected operating needs of the business. These assets are financed primarily by our equity capital, corporate debt, debentures to trusts, client credit balances, short-term bank loans, proceeds from securities lending, and other payables. We currently finance our client accounts and firm trading positions through ordinary course borrowings at floating interest rates from various banks on a demand basis, securities lending, and repurchase agreements, with company-owned and client securities pledged as collateral. Changes in securities market volumes, related client borrowing demands, underwriting activity, and levels of securities inventory affect the amount of our financing requirements.

Our bank assets consist principally of available-for-sale and held-to-maturity securities, retained loans, and cash and cash equivalents. Stifel Bank's current liquidity needs are generally met through deposits from bank clients and equity capital. We monitor the liquidity of Stifel Bank daily to ensure its ability to meet customer deposit withdrawals, maintain reserve requirements, and support asset growth.

As of September 30, 2013, we had \$8.0 billion in assets, \$5.3 billion of which consisted of cash or assets readily convertible into cash as follows (*in thousands, except average days to conversion*):

	<b>September 30, 2013</b>	<b>December 31, 2012</b>	<b>Avg. Conversion</b>
Cash and cash equivalents	<b>\$ 649,244</b>	<b>\$ 403,941</b>	
	<b>547,636</b>	<b>276,224</b>	<b>3 days</b>



Receivables from brokers, dealers, and  
clearing organizations

Securities purchased under agreements to resell	<b>168,182</b>	158,695	1 day
Trading securities owned at fair value	<b>846,855</b>	763,025	5 days
Available-for-sale securities at fair value	<b>1,231,571</b>	1,625,168	3 days
Held-to-maturity securities at amortized cost	<b>1,723,482</b>	708,008	10 days
Investments	<b>127,154</b>	192,686	5 days

Total cash and assets readily convertible to  
cash

**\$ 5,294,124**      \$ 4,127,747

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As of September 30, 2013 and December 31, 2012, the amount of collateral by asset class is as follows (*in thousands*):

	<b>September 30, 2013</b>		<b>December 31, 2012</b>	
	<b>Contractual</b>	<b>Contingent</b>	<b>Contractual</b>	<b>Contingent</b>
Cash and cash equivalents	\$ 51,464	\$	\$ 45,929	\$
Trading securities owned at fair value	255,451	648,111	140,346	607,586
Available-for-sale securities at fair value		539,900		613,795
Investments		54,403		63,430
	\$ 306,855	\$ 1,242,414	\$ 186,275	\$ 1,284,811

**Capital Management**

We have an ongoing authorization from the Board of Directors to repurchase our common stock in the open market or in negotiated transactions. At September 30, 2013, the maximum number of shares that may yet be purchased under this plan was 3.5 million. We utilize the share repurchase program to manage our equity capital relative to the growth of our business and help to meet obligations under our employee benefit plans. We currently do not pay cash dividends on our common stock.

**Liquidity Risk Management**

Our businesses are diverse, and our liquidity needs are determined by many factors, including market movements, collateral requirements and client commitments, all of which can change dramatically in a difficult funding environment. During a liquidity crisis, credit-sensitive funding, including unsecured debt and some types of secured financing agreements, may be unavailable, and the terms (e.g., interest rates, collateral provisions and tenor) or availability of other types of secured financing may change. We manage liquidity risk by diversifying our funding sources across products and among individual counterparties within those products.

As a holding company, whereby all of our operations are conducted through our subsidiaries, our cash flow and our ability to service our debt, including the notes, depend upon the earnings of our subsidiaries. Our subsidiaries are separate and distinct legal entities. Our subsidiaries have no obligation to pay any amounts due on the notes or to provide us with funds to pay our obligations, whether by dividends, distributions, loans or other payments.

Our liquidity requirements may change in the event we need to raise more funds than anticipated to increase inventory positions, support more rapid expansion, develop new or enhanced services and products, acquire technologies, or respond to other unanticipated liquidity requirements. We primarily rely on financing activities and distributions from our subsidiaries for funds to implement our business and growth strategies, and repurchase our shares. Net capital rules, restrictions under our borrowing arrangements of our subsidiaries, as well as the earnings, financial condition, and cash requirements of our subsidiaries, may each limit distributions to us from our subsidiaries.

The availability of outside financing, including access to the capital markets and bank lending, depends on a variety of factors, such as market conditions, the general availability of credit, the volume of trading activities, the overall availability of credit to the financial services sector and our credit rating. Our cost and availability of funding may be adversely affected by illiquid credit markets and wider credit spreads. As a result of any future concerns about the stability of the markets generally and the strength of counterparties specifically, lenders may from time to time curtail, or even cease, to provide funding to borrowers.

Our liquidity management policies are designed to mitigate the potential risk that we may be unable to access adequate financing to service our financial obligations without material business impact. The principal elements of our liquidity management framework are: (a) daily monitoring of our liquidity needs at the holding company and significant subsidiary level; (b) stress testing the liquidity position at Stifel Bank; and (c) diversification of our funding sources.

*Monitoring of liquidity*

Senior management establishes our liquidity and capital policies. These policies include senior management's review of short and long-term cash flow forecasts, review of monthly capital expenditures, the monitoring of the availability of alternative sources of financing, and the daily monitoring of liquidity in our significant subsidiaries. Our decisions on the allocation of capital to our business units consider, among other factors, projected profitability and cash flow, risk and impact on future liquidity needs. Our treasury department assists in evaluating, monitoring and controlling the impact that our business activities have on our financial condition, liquidity and capital structure as well as maintains our relationships with various lenders. The objectives of these policies are to support the successful execution of our business strategies while ensuring ongoing and sufficient liquidity.

**Table of Contents***Liquidity stress testing (Stifel Bank)*

Stifel Bank performs two primary stress tests on its liquidity position. These stress tests are based on the following company-specific stresses: (1) the amount of deposit run-off that Stifel Bank could withstand over a one month period of time based on its on-balance sheet liquidity and available credit; and (2) Stifel Bank's ability to fund operations if all available credit were to be drawn immediately, with no additional available credit. The goal of these stress tests is to determine Stifel Bank's ability to fund continuing operations under significant pressures on both assets and liabilities.

Under both stress tests, Stifel Bank considers cash and highly liquid investments as available to meet liquidity needs. In its analysis, Stifel Bank considers Agency MBS, Corporate Bonds, and CMBS as highly liquid. In addition to being able to be readily financed at modest haircut levels, Stifel Bank estimates that each of the individual securities within each of the asset classes described above could be sold into the market and converted into cash within three business days under normal market conditions, assuming that the entire portfolio of a given asset class was not simultaneously liquidated. At September 30, 2013, available cash and highly liquid investments comprised 50.1% of Stifel Bank's assets, which was well in excess of its internal target.

In addition to these stress tests, Stifel Bank management performs a daily liquidity review. The daily analysis provides Stifel Bank management with all major fluctuations in liquidity. The analysis also tracks the proportion of deposits that Stifel Bank is sweeping from its affiliated broker-dealer, Stifel Nicolaus. On a monthly basis, liquidity key performance indicators and compliance with liquidity policy limits are reported to the Board of Directors. Stifel Bank has not violated any internal liquidity policy limits.

*Funding Sources*

The Company pursues a strategy of diversification of secured and unsecured funding sources (by product and by investor) and attempts to ensure that the tenor of the Company's liabilities equals or exceeds the expected holding period of the assets being financed. The Company funds its balance sheet through diverse sources. These sources may include the Company's equity capital, long-term debt, repurchase agreements, securities lending, deposits, committed and uncommitted credit facilities, FHLB advances, and federal funds agreements. At September 30, 2013, we have \$144.4 million of ARS. Any redemptions by issuers of the ARS will create liquidity during the period in which the redemption occurs. ARS redemptions have been at par, and we believe will continue to be at par.

In connection with discontinuing the business operations of SN Canada during the current quarter, we realized a \$58.2 million U.S. tax benefit due to a realized loss on our investment in SN Canada. The reduction in the financial statement carrying amount, which was recorded in 2008, became realizable for U.S. tax purposes in the foreseeable future as a result of our decision to exit the Canadian market. The tax benefit was the excess of the tax basis of our investment in the subsidiary over the financial statement carrying amount (the deductible outside basis difference). This tax benefit will be used to offset future federal tax payments to the extent we have taxable income or applied against tax payments due for those years in which our Federal tax return has not been filed.

**Cash and Cash Equivalents.** We held \$649.2 million of cash and cash equivalents at September 30, 2013, compared to \$403.9 million at December 31, 2012. Cash and cash equivalents provide immediate sources of funds to meet our liquidity needs.

**Securities Available-for-Sale.** We held \$1.2 billion in available-for-sale investment securities at September 30, 2013, compared to \$1.6 billion at December 31, 2012. As of September 30, 2013, the weighted average life of the investment securities portfolio was 4.0 years. These investment securities provide increased liquidity and flexibility to support our company's funding requirements. During the third quarter of 2013, we transferred \$1.1 billion of

mortgage-backed securities from our available-for-sale portfolio to the held-to-maturity category reflecting our company's intent to hold those securities to maturity.

We monitor the available-for-sale investment portfolio for other-than-temporary impairment based on a number of criteria, including the size of the unrealized loss position, the duration for which the security has been in a loss position, credit rating, the nature of the investments, and current market conditions. For debt securities, we also consider any intent to sell the security and the likelihood we will be required to sell the security before its anticipated recovery. We continually monitor the ratings of our security holdings and conduct regular reviews of our credit sensitive assets.

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**Deposits.** Deposits have become one of our largest funding sources. Deposits provide a stable, low-cost source of funds that we utilize to fund loan and asset growth and to diversify funding sources. We have continued to expand our deposit-gathering efforts through our existing private client network and through expansion. These channels offer a broad set of deposit products that include demand deposits, money market deposits, and certificates of deposit ( CDs ).

As of September 30, 2013, we had \$4.2 billion in deposits compared to \$3.3 billion at December 31, 2012. The growth in deposits is primarily attributable to the increase in brokerage deposits held by the bank. Our core deposits are comprised of non-interest-bearing deposits, money market deposit accounts, savings accounts, and CDs.

**Short-term borrowings.** Our short-term financing is generally obtained through short-term bank line financing on an uncommitted secured basis, committed short-term bank line financing on an unsecured basis and securities lending arrangements. We borrow from various banks on a demand basis with company-owned and customer securities pledged as collateral. The value of customer-owned securities used as collateral is not reflected in the consolidated statements of financial condition. Our uncommitted secured lines of credit at September 30, 2013 totaled \$680.0 million with four banks and are dependent on having appropriate collateral, as determined by the bank agreements, to secure an advance under the line. The availability of our uncommitted lines are subject to approval by the individual banks each time an advance is requested and may be denied. Our peak daily borrowing was \$561.2 million during the nine months ended September 30, 2013. There are no compensating balance requirements under these arrangements.

Our committed short-term bank line financing at September 30, 2013 consisted of a \$100.0 million revolving credit facility. The credit facility expires in December 2013. The applicable interest rate under the revolving credit facility is calculated as a per annum rate equal to the one-month Eurocurrency rate plus 1.00%, as defined in the revolving credit facility. At September 30, 2013, we had no advances on our revolving credit facility and were in compliance with all covenants.

At September 30, 2013, short-term borrowings from banks were \$133.1 million at an average rate of 1.11%, which were collateralized by company-owned securities valued at \$411.8 million. At December 31, 2012, short-term borrowings from banks were \$304.7 million at an average rate of 1.14%, which were collateralized by company-owned securities valued at \$530.7 million. The average bank borrowing was \$246.8 million and \$151.3 million for the three months ended September 30, 2013 and 2012, respectively, at average daily effective interest rates of 1.33% and 1.15%, respectively. The average bank borrowing was \$290.4 million and \$201.0 million for the nine months ended September 30, 2013 and 2012, respectively, at average daily effective interest rates of 1.28% and 1.15%, respectively.

At September 30, 2013 and December 31, 2012, Stifel Nicolaus had a stock loan balance of \$169.3 million and \$19.2 million, respectively, at average daily interest rates of 0.33% and 0.24%, respectively. The average outstanding securities lending arrangements utilized in financing activities were \$120.7 million and \$150.6 million during the three months ended September 30, 2013 and 2012, respectively, at average daily effective interest rates of 0.23% and 0.14%, respectively. The average outstanding securities lending arrangements utilized in financing activities were \$89.0 million and \$150.0 million during the nine months ended September 30, 2013 and 2012, respectively, at average daily effective interest rates of 0.16% and 0.13%, respectively. Customer-owned securities were utilized in these arrangements.

**Unsecured short-term borrowings.** Our committed short-term bank line financing at September 30, 2013 consisted of a \$100.0 million committed revolving credit facility. The credit facility expires in December 2013. The applicable interest rate under the revolving credit facility is calculated as a per annum rate equal to the one-month Eurocurrency rate plus 1.00%, as defined in the revolving credit facility.

We can draw upon this line, as long as certain restrictive covenants are maintained. Under our revolving credit facility, we are also required to maintain compliance with a minimum consolidated tangible net worth covenant under which we are required to have at all times a consolidated tangible net worth, as defined in the revolving credit facility, of not less than the greater of (x) \$625.0 million or (y) 80% of the consolidated tangible net worth as of the last day of the previous fiscal year and a maximum consolidated total capitalization ratio covenant under which we are required to have at all times a consolidated total capitalization ratio, as defined in the revolving credit facility, of not more than 25%. In addition, Stifel Nicolaus, our broker-dealer subsidiary, is required to maintain compliance with a minimum regulatory net capital covenant of not less than 10% of aggregate debits, as defined in the revolving credit facility.

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At September 30, 2013, we had no advances on our revolving credit facility and were in compliance with all covenants. Our revolving credit facility contains customary events of default, including, without limitation, payment defaults, breaches of representations and warranties, covenant defaults, cross-defaults to similar obligations, certain events of bankruptcy and insolvency and judgment defaults.

***Federal Home Loan Bank Advances and other secured financing.*** Stifel Bank has borrowing capacity with the Federal Home Loan Bank of \$544.2 million at September 30, 2013, all of which was unused, and a \$25.0 million federal funds agreement for the purpose of purchasing short-term funds should additional liquidity be needed. Stifel Bank receives overnight funds from excess cash held in Stifel Nicolaus brokerage accounts, which are deposited into a money market account. These balances totaled \$4.2 billion at September 30, 2013.

***Public Offering of Senior Notes.*** On January 18, 2012, we issued \$175.0 million principal amount of 6.70% Senior Notes due 2022 (the "notes"). Interest on the notes accrue from January 23, 2012 and will be paid quarterly in arrears on January 15, April 15, July 15 and October 15 of each year, commencing on April 15, 2012. The notes will mature on January 15, 2022. We may redeem the notes in whole or in part on or after January 15, 2015 at our option at a redemption price equal to 100% of their principal amount, plus accrued and unpaid interest to the date of redemption. Proceeds from the notes issuance of \$169.3 million, after discounts, commissions and expenses, will be used for general corporate purposes. In January 2012, we received an initial credit rating from Standard & Poor's Financial Services LLC of BBB-, along with a BBB- rating on the notes.

On December 18, 2012, we issued \$150.0 million principal amount of 5.375% Senior Notes due 2022 (the "December 2012 Notes"). Interest on the December 2012 Notes accrue from December 21, 2012 and will be paid quarterly in arrears on January 15, April 15, July 15 and October 15 of each year, commencing on April 15, 2013. The December 2012 Notes will mature on December 31, 2022. We may redeem the December 2012 Notes in whole or in part on or after December 31, 2015 at our option at a redemption price equal to 100% of their principal amount, plus accrued and unpaid interest to the date of redemption. Proceeds from the December 2012 Notes issuance of \$146.1 million, after discounts, commissions and expenses, will be used for general corporate purposes. In January 2013, we received a BBB- rating on the December 2012 Notes.

***Non-Recourse Debt.*** On December 17, 2012, we issued \$60.0 million principal in non-recourse debt for the purpose of acquiring East Shore Aircraft LLC. Interest on the non-recourse debt is payable monthly. We are required to redeem some of the non-recourse debt as each aircraft is sold at the various lease expiration dates. We will collect 100% of the monthly lease payments with approximately 65% allocated to pay interest first then principal on non-recourse debt. In addition, as each aircraft is sold at the various lease expiration dates a portion of the proceeds will be applied to the principal balance of the non-recourse debt. The remaining principal due on our non-recourse debt at September 30, 2013 was \$32.1 million. The principal was paid down through the sale of certain aircraft during the three months ended September 30, 2013.

***Credit Rating***

We believe our current rating depends upon a number of factors including industry dynamics, operating and economic environment, operating results, operating margins, earnings trends and volatility, balance sheet composition, liquidity and liquidity management, our capital structure, our overall risk management, business diversification and our market share and competitive position in the markets in which we operate. Deteriorations in any of these factors could impact our credit rating. A reduction in our credit rating could adversely affect our liquidity and competitive position, increase our incremental borrowing costs, limit our access to the capital markets or trigger our obligations under certain financial agreements. As such, we may not be able to successfully obtain additional outside financing to fund our operations on favorable terms, or at all.



We believe our existing assets, most of which are liquid in nature, together with the funds from operations, available informal short-term credit arrangements, and our ability to raise additional capital will provide sufficient resources to meet our present and anticipated financing needs.

*Use of Capital Resources*

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.

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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.

TWP has entered into settlement and release agreements ( Settlement Agreements ) with certain customers, whereby it will purchase their ARS, at par, in exchange for a release from any future claims. At September 30, 2013, we estimate that TWP customers held \$18.3 million par value of ARS, which may be repurchased over the next 3 years. The amount estimated for repurchase assumes no issuer redemptions.

We have paid \$41.9 million in the form of upfront notes to financial advisors for transition pay during the period from January 1, 2013 through October 31, 2013. As we continue to take advantage of the opportunities created by market displacement and as competition for skilled professionals in the industry increases, we may decide to devote more significant resources to attracting and retaining qualified personnel.

We utilize transition pay, principally in the form of upfront demand notes, to aid financial advisors, who have elected to join our firm, to supplement their lost compensation while transitioning their customers' accounts to the Stifel platform. The initial value of the notes is determined primarily by the financial advisors trailing production and assets under management. These notes are generally forgiven over a five to ten year period based on production. The future estimated amortization expense of the upfront notes, assuming current year production levels and static growth for the remaining three months of 2013 and the years ended December 31, 2014, 2015, 2016, 2017, and thereafter are \$15.1 million, \$50.4 million, \$40.6 million, \$30.1 million, \$18.6 million and \$29.7 million, respectively. These estimates could change if we continue to grow our business through expansion or experience increased production levels.

We maintain several incentive stock award plans that provide for the granting of stock options, stock appreciation rights, restricted stock, performance awards, and stock units to our employees. Historically, we have granted stock units to our employees as part of our retention program. A stock unit represents the right to receive a share of common stock from our company at a designated time in the future without cash payment by the employee and is issued in lieu of cash incentive, principally for deferred compensation and employee retention plans. The restricted stock units vest on an annual basis over the next three to eight years and are distributable, if vested, at future specified dates. At September 30, 2013, the total number of stock units outstanding was 17.9 million, of which 9.2 million were unvested. At September 30, 2013, there was unrecognized compensation cost for stock units of \$253.3 million, which is expected to be recognized over a weighted-average period of 2.9 years.

The future estimated compensation expense of the unvested units, assuming current year forfeiture levels and static growth for the remaining three months of 2013 and the years ended December 31, 2014, 2015, 2016, 2017, and thereafter are \$12.5 million, \$59.4 million, \$58.2 million, \$45.9 million, \$33.9 million and \$43.4 million, respectively. These estimates could change if our forfeitures change from historical levels.

### *Net Capital Requirements*

We operate in a highly regulated environment and are subject to capital requirements, which may limit distributions to our company from our subsidiaries. Distributions from our broker-dealer subsidiaries are subject to net capital rules. These subsidiaries have historically operated in excess of minimum net capital requirements. However, if distributions were to be limited in the future due to the failure of our subsidiaries to comply with the net capital rules or a change in the net capital rules, it could have a material and adverse affect to our company by limiting our operations that require intensive use of capital, such as underwriting or trading activities, or limit our ability to implement our business and growth strategies, pay interest on and repay the principal of our debt, and/or repurchase our common stock. Our non broker-dealer subsidiary, Stifel Bank is also subject to various regulatory capital requirements administered by the federal banking agencies. Our broker-dealer subsidiaries and Stifel Bank have consistently operated in excess of their

capital adequacy requirements.

At September 30, 2013, Stifel Nicolaus had net capital of \$396.3 million, which was 63.2% of aggregate debit items and \$383.8 million in excess of its minimum required net capital. At September 30, 2013, KBW's, CSA's, and Miller Buckfire's net capital exceeded the minimum net capital required under the SEC rule. At September 30, 2013, SNE's and KBW Limited's net capital and reserves were in excess of the financial resources requirement under the rules of the FCA. At September 30, 2013, Stifel Bank was considered well capitalized under the regulatory framework for prompt corrective action. See Note 20 of the Notes to Consolidated Financial Statements for details of our regulatory capital requirements.

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**Table of Contents*****Critical Accounting Policies and Estimates***

In preparing our consolidated financial statements in accordance with U.S. generally accepted accounting principles and pursuant to the rules and regulations of the SEC, we make assumptions, judgments, and estimates that affect the reported amounts of assets, liabilities, revenues, and expenses, and related disclosures of contingent assets and liabilities. We base our assumptions, judgments, and estimates on historical experience and various other factors that we believe to be reasonable under the circumstances. Actual results could differ materially from these estimates under different assumptions or conditions. On a regular basis, we evaluate our assumptions, judgments, and estimates. We also discuss our critical accounting policies and estimates with the Audit Committee of the Board of Directors.

We believe that the assumptions, judgments, and estimates involved in the accounting policies described below have the greatest potential impact on our consolidated financial statements. These areas are key components of our results of operations and are based on complex rules that require us to make assumptions, judgments, and estimates, so we consider these to be our critical accounting policies. Historically, our assumptions, judgments, and estimates relative to our critical accounting policies and estimates have not differed materially from actual results.

For a full description of these and other accounting policies, see Note 2 of the Notes to Consolidated Financial Statements included in our Annual Report on Form 10-K for the year ended December 31, 2012.

***Valuation of Financial Instruments***

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

Trading securities owned and pledged and trading securities sold, but not yet purchased, are carried at fair value on the consolidated statements of financial condition, with unrealized gains and losses reflected on the consolidated statements of operations.

The fair value of a financial instrument is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, or an exit price. The degree of judgment used in measuring the fair value of financial instruments generally correlates to the level of pricing observability. Financial instruments with readily available active quoted prices or for which fair value can be measured from actively quoted prices in active markets generally have more pricing observability and less judgment used in measuring fair value. Conversely, financial instruments rarely traded or not quoted have less pricing observability and are measured at fair value using valuation models that require more judgment. 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, the characteristics specific to the transaction, and overall market conditions generally.

When available, we use observable market prices, observable market parameters, or broker or dealer quotes (bid and ask prices) to derive the fair value of financial instruments. In the case of financial instruments transacted on recognized exchanges, the observable market prices represent quotations for completed transactions from the exchange on which the financial instrument is principally traded.

A substantial percentage of the fair value of our trading securities and other investments owned, trading securities pledged as collateral, and trading securities sold, but not yet purchased, are based on observable market prices, observable market parameters, or derived from broker or dealer prices. The availability of observable market prices

and pricing parameters can vary from product to product. Where available, observable market prices and pricing or market parameters in a product may be used to derive a price without requiring significant judgment. In certain markets, observable market prices or market parameters are not available for all products, and fair value is determined using techniques appropriate for each particular product. These techniques involve some degree of judgment.

For investments in illiquid or privately held securities that do not have readily determinable fair values, the determination of fair value requires us to estimate the value of the securities using the best information available. Among the factors we consider in determining the fair value of investments are the cost of the investment, terms and liquidity, developments since the acquisition of the investment, the sales price of recently issued securities, the financial condition and operating results of the issuer, earnings trends and consistency of operating cash flows, the long-term business potential of the issuer, the quoted market price of securities with similar quality and yield that are publicly traded, and other factors generally pertinent to the valuation of investments. In instances where a security is subject to transfer restrictions, the value of the security is based primarily on the quoted price of a similar security without restriction but may be reduced by an amount estimated to reflect such restrictions. The fair value of these investments is subject to a high degree of volatility and may be susceptible to significant fluctuation in the near term, and the differences could be material.

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We have categorized our financial instruments measured at fair value into a three-level classification in accordance with Topic 820, *Fair Value Measurement and Disclosures*. Fair value measurements of financial instruments that use quoted prices in active markets for identical assets or liabilities are generally categorized as Level 1, and fair value measurements of financial instruments that have no direct observable levels are generally categorized as Level 3. All other fair value measurements of financial instruments that do not fall within the Level 1 or Level 3 classification are considered Level 2. The lowest level input that is significant to the fair value measurement of a financial instrument is used to categorize the instrument and reflects the judgment of management.

Level 3 financial instruments have little to no pricing observability as of the report date. These financial instruments do not have active two-way markets and are measured using management's best estimate of fair value, where the inputs into the determination of fair value require significant management judgment or estimation. We have identified Level 3 financial instruments to include certain asset-backed securities, consisting of collateral loan obligation securities, that have experienced low volumes of executed transactions, certain corporate bonds and equity securities where there was less frequent or nominal market activity, investments in private equity funds, and auction rate securities for which the market has been dislocated and largely ceased to function. Our Level 3 asset-backed securities are valued using cash flow models that utilize unobservable inputs. Level 3 corporate bonds are valued using prices from comparable securities. Equity securities with unobservable inputs are valued using management's best estimate of fair value, where the inputs require significant management judgment. Auction rate securities are valued based upon our expectations of issuer redemptions and using internal models.

At September 30, 2013, Level 3 assets for which we bear economic exposure were \$252.3 million or 10.3% of the total assets measured at fair value. During the three months ended September 30, 2013, we recorded purchases of \$2.5 million, sales and redemptions of \$15.5 million and net transfers out of Level 3 assets of \$1.0 million. Our valuation adjustments (realized and unrealized) increased the value of our Level 3 assets by \$4.2 million. During the nine months ended September 30, 2013, we recorded purchases of \$76.7 million, sales and redemptions of \$40.9 million, and net transfers out of Level 3 assets of \$0.8 million. Our valuation adjustments (realized and unrealized) increased the value of our Level 3 assets by \$10.4 million.

At September 30, 2013, Level 3 assets included the following: \$144.4 million of auction rate securities and \$107.9 million of private equity, municipal securities, and other fixed income securities.

***Investments in Partnerships***

Investments in partnerships and other investments include our general and limited partnership interests in investment partnerships and direct investments in non-public companies. These interests are carried at estimated fair value. The net assets of investment partnerships consist primarily of investments in non-marketable securities. The underlying investments held by such partnerships and direct investments in non-public companies are valued based on estimated fair value ultimately determined by us in our capacity as general partner or investor and, in the case of an investment in an unaffiliated investment partnership, are based on financial statements prepared by an unaffiliated general partner. Due to the inherent uncertainty of valuation, fair values of these non-marketable investments may differ from the values that would have been used had a ready market existed for these investments, and the differences could be material. Increases and decreases in estimated fair value are recorded based on underlying information of these non-public company investments, including third-party transactions evidencing a change in value, market comparables, operating cash flows and financial performance of the companies, trends within sectors and/or regions, underlying business models, expected exit timing and strategy, and specific rights or terms associated with the investment, such as conversion features and liquidation preferences. In cases where an estimate of fair value is determined based on financial statements prepared by an unaffiliated general partner, such financial statements are generally unaudited other than audited year-end financial statements. Upon receipt of audited financial statements

from an investment partnership, we adjust the fair value of the investments to reflect the audited partnership results if they differ from initial estimates. We also perform procedures to evaluate fair value estimates provided by unaffiliated general partners. At September 30, 2013, we had commitments to invest in affiliated and unaffiliated investment partnerships of \$12.6 million. These commitments are generally called as investment opportunities are identified by the underlying partnerships. These commitments may be called in full at any time.

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The investment partnerships in which we are general partner may allocate carried interest and make carried interest distributions, which represent an additional allocation of net realized and unrealized gains to the general partner if the partnerships' investment performance reaches a threshold as defined in the respective partnership agreements. These allocations are recognized in revenue as realized and unrealized gains and losses on investments in partnerships. Our recognition of allocations of carried interest gains and losses from the investment partnerships in revenue is not adjusted to reflect expectations about future performance of the partnerships.

As the investment partnerships realize proceeds from the sale of their investments, they may make cash distributions as provided for in the partnership agreements. Distributions that result from carried interest may subsequently become subject to claw back if the fair value of private equity partnership assets subsequently decreases in fair value. To the extent these decreases in fair value and allocated losses exceed our capital account balance, a liability is recorded by us. These liabilities for claw back obligations are not required to be paid to the investment partnerships until the dissolution of such partnerships, and are only required to be paid if the cumulative amounts actually distributed exceed the amount due based on the cumulative operating results of the partnerships.

We earn fees from the investment partnerships that we manage or of which we are a general partner. Such management fees are generally based on the net assets or committed capital of the underlying partnerships. We have agreed, in certain cases, to waive management fees, in lieu of making a cash contribution, in satisfaction of our general partner investment commitments to the investment partnerships. In these cases, we generally recognize our management fee revenues at the time when we are allocated a special profit interest in realized gains from these partnerships.

## ***Contingencies***

We are involved in various pending and potential legal proceedings related to our business, including litigation, arbitration, and regulatory proceedings. Some of these matters involve claims for substantial amounts, including claims for punitive damages. We have, after consultation with outside legal counsel and consideration of facts currently known by management, recorded estimated losses in accordance with Topic 450 ( *Topic 450* ), *Contingencies*, to the extent that claims are probable of loss and the amount of the loss can be reasonably estimated. The determination of these reserve amounts requires us to use significant judgment, and our final liabilities may ultimately be materially different. This determination is inherently subjective, as it requires estimates that are subject to potentially significant revision as more information becomes available and due to subsequent events. In making these determinations, we consider many factors, including, but not limited to, the loss and damages sought by the plaintiff or claimant, the basis and validity of the claim, the likelihood of a successful defense against the claim, and the potential for, and magnitude of, damages or settlements from such pending and potential litigation and arbitration proceedings, and fines and penalties or orders from regulatory agencies. See Item 3, *Legal Proceedings*, in Part I of this report for information on our legal, regulatory, and arbitration proceedings.

## ***Allowance for Loan Losses***

We regularly review the loan portfolio and have established an allowance for loan losses for inherent losses estimated to have occurred in the loan portfolio through a provision for loan losses charged to income. In providing for the allowance for loan losses, we consider historical loss experience, the nature and volume of the loan portfolio, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral, and prevailing economic conditions. This evaluation is inherently subjective, as it requires estimates that are susceptible to significant revision as more information becomes available.



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

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

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Large groups of smaller balance homogenous loans are collectively evaluated for impairment. Accordingly, we do not separately identify individual consumer and residential loans for impairment measurements. Impairment is measured on a loan-by-loan basis for non-homogeneous loans and a specific allowance is established for individual loans determined to be impaired. Impairment is measured by comparing the carrying value of the impaired loan to the present value of its expected cash flow discounted at the loan's effective interest rate, the loan's observable market price, or the fair value of the collateral if the loan is collateral dependent.

***Derivative Instruments and Hedging Activities***

Our derivative instruments are carried on the consolidated statement of financial condition at fair value. We utilize these derivative instruments to minimize significant unplanned fluctuations in earnings caused by interest rate volatility. Our company's goal is to manage sensitivity to changes in rates by offsetting the repricing or maturity characteristics of certain assets and liabilities, thereby limiting the impact on earnings. The use of derivative instruments does expose our company to credit and market risk. We manage credit risk through strict counterparty credit risk limits and/or collateralization agreements. At inception, we determine if a derivative instrument meets the criteria for hedge accounting under Topic 815, *Derivatives and Hedging*. Ongoing effectiveness evaluations are made for instruments that are designated and qualify as hedges. If the derivative does not qualify for hedge accounting, no assessment of effectiveness is needed.

***Income Taxes***

The provision for income taxes and related tax reserves is based on our consideration of known liabilities and tax contingencies for multiple taxing authorities. Known liabilities are amounts that will appear on current tax returns, amounts that have been agreed to in revenue agent revisions as the result of examinations by the taxing authorities, and amounts that will follow from such examinations but affect years other than those being examined. Tax contingencies are liabilities that might arise from a successful challenge by the taxing authorities taking a contrary position or interpretation regarding the application of tax law to our tax return filings. Factors considered in estimating our liability are results of tax audits, historical experience, and consultation with tax attorneys and other experts.

In connection with discontinuing the business operations of SN Canada during the current quarter, we realized a \$58.2 million U.S. tax benefit due to a realized loss on our investment in SN Canada. The reduction in the financial statement carrying amount, which was recorded in 2008, became realizable for U.S. tax purposes in the foreseeable future as a result of our decision to exit the Canadian market. The tax benefit was the excess of the tax basis of our investment in the subsidiary over the financial statement carrying amount (the deductible outside basis difference).

Topic 740 ( *Topic 740* ), *Income Taxes*, clarifies the accounting for uncertainty in income taxes recognized in an entity's financial statements and prescribed recognition threshold and measurement attributes for financial statement disclosure of tax positions taken or expected to be taken on a tax return. The impact of an uncertain income tax position on the income tax return must be recognized at the largest amount that is more-likely-than-not to be sustained upon audit by the relevant taxing authority. An uncertain income tax position will not be recognized if it has less than a 50% likelihood of being sustained. Additionally, Topic 740 provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition.

***Goodwill and Intangible Assets***

Under the provisions of Topic 805, *Business Combinations*, we record all assets and liabilities acquired in purchase acquisitions, including goodwill and other intangible assets, at fair value. Determining the fair value of assets and liabilities requires certain estimates. At September 30, 2013, we had goodwill of \$742.7 million and intangible assets

of \$28.1 million.

In accordance with Topic 350, *Intangibles – Goodwill and Other*, indefinite-life intangible assets and goodwill are not amortized. Rather, they are subject to impairment testing on an annual basis, or more often if events or circumstances indicate there may be impairment. This test involves assigning tangible assets and liabilities as well as identified intangible assets and goodwill to reporting units and comparing the fair value of each reporting unit to its carrying amount. If the fair value is less than the carrying amount, a further test is required to measure the amount of the impairment. We have elected to test for goodwill impairment in the third quarter of each calendar year.

We test goodwill for impairment on an annual basis and on an interim basis when certain events or circumstances exist. We test for impairment at the reporting unit level, which is generally at the level of or one level below our company's business segments. For both the annual and interim tests, we have the option to first assess qualitative factors to determine whether the existence of events or circumstances leads to a determination that it is

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more likely than not that the fair value of a reporting unit is less than its carrying amount. If after assessing the totality of events or circumstances, we determine it is more likely than not that the fair value of a reporting unit is greater than its carrying amount, then performing the two-step impairment test is not required. However, if we conclude otherwise, we are then required to perform the first step of the two-step impairment test. Goodwill impairment is determined by comparing the estimated fair value of a reporting unit with its respective carrying value. If the estimated fair value exceeds the carrying value, goodwill at the reporting unit level is not deemed to be impaired. If the estimated fair value is below carrying value, however, further analysis is required to determine the amount of the impairment. Additionally, if the carrying value of a reporting unit is zero or a negative value and it is determined that it is more likely than not the goodwill is impaired, further analysis is required. The estimated fair values of the reporting units are derived based on valuation techniques we believe market participants would use for each of the reporting units. Our annual goodwill impairment testing was completed as of July 31, 2013, with no impairment identified.

The goodwill impairment test requires us to make judgments in determining what assumptions to use in the calculation. Assumptions, judgments, and estimates about future cash flows and discount rates are complex and often subjective. They can be affected by a variety of factors, including, among others, economic trends and market conditions, changes in revenue growth trends or business strategies, unanticipated competition, discount rates, technology, or government regulations. In assessing the fair value of our reporting units, the volatile nature of the securities markets and industry requires us to consider the business and market cycle and assess the stage of the cycle in estimating the timing and extent of future cash flows. In addition to discounted cash flows, we consider other information, such as public market comparables and multiples of recent mergers and acquisitions of similar businesses. Although we believe the assumptions, judgments, and estimates we have made in the past have been reasonable and appropriate, different assumptions, judgments, and estimates could materially affect our reported financial results.

Identifiable intangible assets, which are amortized over their estimated useful lives, are tested for potential impairment whenever events or changes in circumstances suggest that the carrying value of an asset or asset group may not be fully recoverable.

***Recent Accounting Pronouncements***

See Note 2 of the Notes to Consolidated Financial Statements for information regarding the effect of new accounting pronouncements on our consolidated financial statements.

***Off-Balance Sheet Arrangements***

Information concerning our off-balance sheet arrangements is included in Note 23 of the Notes to Consolidated Financial Statements. Such information is hereby incorporated by reference.

***Contractual Obligations***

Our contractual obligations have not materially changed from those reported in our Annual Report on Form 10-K for the year ended December 31, 2012.

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**Table of Contents*****ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK******Risk Management***

Risks are an inherent part of our business and activities. Management of these risks is critical to our soundness and profitability. Risk management at our company is a multi-faceted process that requires communication, judgment, and knowledge of financial products and markets. Our senior management group takes an active role in the risk management process and requires specific administrative and business functions to assist in the identification, assessment, monitoring, and control of various risks. The principal risks involved in our business activities are: market (interest rates and equity prices), credit, operational, and regulatory and legal. We have adopted policies and procedures concerning risk management, and our Board of Directors, in exercising its oversight of management's activities, conducts periodic reviews and discussions with management regarding the guidelines and policies governing the processes by which risk assessment and risk management are handled.

***Market Risk***

The potential for changes in the value of financial instruments owned by our company resulting from changes in interest rates and equity prices is referred to as market risk. Market risk is inherent to financial instruments, and accordingly, the scope of our market risk management procedures includes all market risk-sensitive financial instruments.

We trade tax-exempt and taxable debt obligations, including U.S. treasury bills, notes, and bonds; U.S. government agency and municipal notes and bonds; bank certificates of deposit; mortgage-backed securities; and corporate obligations. We are also an active market maker in over-the-counter equity securities. In connection with these activities, we may maintain inventories in order to ensure availability and to facilitate customer transactions.

Changes in value of our financial instruments may result from fluctuations in interest rates, credit ratings, equity prices, and the correlation among these factors, along with the level of volatility.

We manage our trading businesses by product and have established trading departments that have responsibility for each product. The trading inventories are managed with a view toward facilitating client transactions, considering the risk and profitability of each inventory position. Position limits in trading inventory accounts are established and monitored on a daily basis. We monitor inventory levels and results of the trading departments, as well as inventory aging, pricing, concentration, and securities ratings.

We are also exposed to market risk based on our other investing activities. These investments consist of investments in private equity partnerships, start-up companies, venture capital investments, and zero coupon U.S. government securities and are included under the caption Investments on the consolidated statements of financial condition.

***Interest Rate Risk***

We are exposed to interest rate risk as a result of maintaining inventories of interest rate-sensitive financial instruments and from changes in the interest rates on our interest-earning assets (including client loans, stock borrow activities, investments, inventories, and resale agreements) and our funding sources (including client cash balances, stock lending activities, bank borrowings, and repurchase agreements), which finance these assets. The collateral underlying financial instruments at the broker-dealer is repriced daily, thus requiring collateral to be delivered as necessary. Interest rates on client balances and stock borrow and lending produce a positive spread to our company, with the rates generally fluctuating in parallel.

We manage our inventory exposure to interest rate risk by setting and monitoring limits and, where feasible, hedging with offsetting positions in securities with similar interest rate risk characteristics. While a significant portion of our securities inventories have contractual maturities in excess of five years, these inventories, on average, turn over several times per year.

Additionally, we monitor, on a daily basis, the Value-at-Risk ( VaR ) in our trading portfolios using a ten-day horizon and report VaR at a 99% confidence level. VaR is a statistical technique used to estimate the probability of portfolio losses based on the statistical analysis of historical price trends and volatility. This model assumes that historical changes in market conditions are representative of future changes, and trading losses on any given day could exceed the reported VaR by significant amounts in unusually volatile markets. Further, the model involves a number of assumptions and inputs. While we believe that the assumptions and inputs we use in our risk model are reasonable, different assumptions and inputs could produce materially different VaR estimates.

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The following table sets forth the high, low, and daily average VaR for our trading portfolios during the nine months ended September 30, 2013, and the daily VaR at September 30, 2013 and December 31, 2012 (*in thousands*):

	Nine Months Ended September 30, 2013			VAR Calculation at	
	High	Low	Daily Average	September 30, 2013	December 31, 2012
Daily VaR	\$ 11,863	\$ 2,574	\$ 5,953	\$ 2,574	\$ 4,653

Stifel Bank's interest rate risk is principally associated with changes in market interest rates related to residential, consumer, and commercial lending activities, as well as FDIC-insured deposit accounts to customers of our broker-dealer subsidiaries and to the general public.

Our primary emphasis in interest rate risk management for Stifel Bank is the matching of assets and liabilities of similar cash flow and repricing time frames. This matching of assets and liabilities reduces exposure to interest rate movements and aids in stabilizing positive interest spreads. Stifel Bank has established limits for acceptable interest rate risk and acceptable portfolio value risk. To ensure that Stifel Bank is within the limits established for net interest margin, an analysis of net interest margin based on various shifts in interest rates is prepared each quarter and presented to Stifel Bank's Board of Directors. Stifel Bank utilizes a third-party model to analyze the available data.

The following table illustrates the estimated change in net interest margin at September 30, 2013, based on shifts in interest rates of up to positive 200 basis points and negative 200 basis points:

Hypothetical change in interest rates	Projected change in net interest margin
+200	14.9%
+100	4.9%
0	0.00%
-100	n/a
-200	n/a

The following GAP Analysis table indicates Stifel Bank's interest rate sensitivity position at September 30, 2013 (*in thousands*):

	Repricing Opportunities			
	0-6 Months	7-12 Months	1-5 Years	5+ Years
<b>Interest-earning assets:</b>				
Loans	\$ 1,138,919	\$ 218,938	\$ 912,959	\$ 690,820
Securities	919,474	216,546	16,106	16,411
Interest-bearing cash	349,137			
	\$ 2,407,530	\$ 435,484	\$ 929,065	\$ 707,231

**Interest-bearing liabilities:**

Transaction accounts and savings	\$ 362,810	\$ 249,811	\$ 1,712,225	\$ 1,904,723
Certificates of deposit	265	95	280	
Borrowings				16,792
	\$ 363,075	\$ 249,906	\$ 1,712,505	\$ 1,921,515
GAP	2,044,455	185,578	(783,440)	(1,214,284)
Cumulative GAP	<b>\$ 2,044,455</b>	<b>\$ 2,230,033</b>	<b>\$ 1,446,593</b>	<b>\$ 232,309</b>



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We maintain a risk management strategy that incorporates the use of derivative instruments to minimize significant unplanned fluctuations in earnings caused by interest rate volatility. Our goal is to manage sensitivity to changes in rates by hedging the maturity characteristics of Fed funds-based affiliated deposits, thereby limiting the impact on earnings. By using derivative instruments, we are exposed to credit and market risk on those derivative positions. We manage the market risk associated with interest rate contracts by establishing and monitoring limits as to the types and degree of risk that may be undertaken. Our interest rate hedging strategies may not work in all market environments and, as a result, may not be effective in mitigating interest rate risk.

***Equity Price Risk***

We are exposed to equity price risk as a consequence of making markets in equity securities. We attempt to reduce the risk of loss inherent in our inventory of equity securities by monitoring those security positions constantly throughout each day.

Our equity securities inventories are repriced on a regular basis, and there are no unrecorded gains or losses. Our activities as a dealer are client-driven, with the objective of meeting clients' needs while earning a positive spread.

***Credit Risk***

We are engaged in various trading and brokerage activities, with the counterparties primarily being broker-dealers. In the event counterparties do not fulfill their obligations, we may be exposed to risk. The risk of default depends on the creditworthiness of the counterparty or issuer of the instrument. We manage this risk by imposing and monitoring position limits for each counterparty, monitoring trading counterparties, conducting regular credit reviews of financial counterparties, reviewing security concentrations, holding and marking to market collateral on certain transactions, and conducting business through clearing organizations, which guarantee performance.

Our client activities involve the execution, settlement, and financing of various transactions on behalf of our clients. Client activities are transacted on either a cash or margin basis. Credit exposure associated with our private client business consists primarily of customer margin accounts, which are monitored daily and are collateralized. We monitor exposure to industry sectors and individual securities and perform analyses on a regular basis in connection with our margin lending activities. We adjust our margin requirements if we believe our risk exposure is not appropriate based on market conditions.

We have accepted collateral in connection with resale agreements, securities borrowed transactions, and customer margin loans. Under many agreements, we are permitted to sell or repledge these securities held as collateral and use these securities to enter into securities lending arrangements or to deliver to counterparties to cover short positions. At September 30, 2013, the fair value of securities accepted as collateral where we are permitted to sell or repledge the securities was \$1.1 billion and the fair value of the collateral that had been sold or repledged was \$255.5 million.

By using derivative instruments, we are exposed to credit and market risk on those derivative positions. Credit risk is equal to the fair value gain in a derivative, if the counterparty fails to perform. When the fair value of a derivative contract is positive, this generally indicates that the counterparty owes our company and, therefore, creates a repayment risk for our company. When the fair value of a derivative contract is negative, we owe the counterparty and, therefore, have no repayment risk. We minimize the credit (or repayment) risk in derivative instruments by entering into transactions with high-quality counterparties that are reviewed periodically by senior management.

Stifel Bank extends credit to individual and commercial borrowers through a variety of loan products, including residential and commercial mortgage loans, home equity loans, construction loans, and non-real-estate commercial

and consumer loans. Bank loans are generally collateralized by real estate, real property, or other assets of the borrower. Stifel Bank's loan policy includes criteria to adequately underwrite, document, monitor, and manage credit risk. Underwriting requires reviewing and documenting the fundamental characteristics of credit, including character, capacity to service the debt, capital, conditions, and collateral. Benchmark capital and coverage ratios are utilized, which include liquidity, debt service coverage, credit, working capital, and capital to asset ratios. Lending limits are established to include individual, collective, committee, and board authority. Monitoring credit risk is accomplished through defined loan review procedures, including frequency and scope.

We are subject to concentration risk if we hold large positions, extend large loans to, or have large commitments with a single counterparty, borrower, or group of similar counterparties or borrowers (i.e., in the same industry). Securities purchased under agreements to resell consist of securities issued by the U.S. government or its

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agencies. Receivables from and payables to clients and stock borrow and lending activities, both with a large number of clients and counterparties, and any potential concentration is carefully monitored. Stock borrow and lending activities are executed under master netting agreements, which gives our company right of offset in the event of counterparty default. Inventory and investment positions taken and commitments made, including underwritings, may involve exposure to individual issuers and businesses. We seek to limit this risk through careful review of counterparties and borrowers and the use of limits established by our senior management group, taking into consideration factors including the financial strength of the counterparty, the size of the position or commitment, the expected duration of the position or commitment, and other positions or commitments outstanding.

***Operational Risk***

Operational risk generally refers to the risk of loss resulting from our operations, including, but not limited to, improper or unauthorized execution and processing of transactions, deficiencies in our technology or financial operating systems, and inadequacies or breaches in our control processes. We operate different businesses in diverse markets and are reliant on the ability of our employees and systems to process a large number of transactions. These risks are less direct than credit and market risk, but managing them is critical, particularly in a rapidly changing environment with increasing transaction volumes. In the event of a breakdown or improper operation of systems or improper action by employees, we could suffer financial loss, regulatory sanctions, and damage to our reputation. In order to mitigate and control operational risk, we have developed and continue to enhance specific policies and procedures that are designed to identify and manage operational risk at appropriate levels throughout the organization and within such departments as Accounting, Operations, Information Technology, Legal, Compliance, and Internal Audit. These control mechanisms attempt to ensure that operational policies and procedures are being followed and that our various businesses are operating within established corporate policies and limits. Business continuity plans exist for critical systems, and redundancies are built into the systems as deemed appropriate.

***Regulatory and Legal Risk***

Legal risk includes the risk of large numbers of private client group customer claims for sales practice violations. While these claims may not be the result of any wrongdoing, we do, at a minimum, incur costs associated with investigating and defending against such claims. See further discussion on our legal reserves policy under Critical Accounting Policies and Estimates in Item 7, Part II and Legal Proceedings in Item 3, Part I of this report. In addition, we are subject to potentially sizable adverse legal judgments or arbitration awards, and fines, penalties, and other sanctions for non-compliance with applicable legal and regulatory requirements. We are generally subject to extensive regulation by the SEC, FINRA, and state securities regulators in the different jurisdictions in which we conduct business. As a bank holding company, we are subject to regulation by the Federal Reserve. Stifel Bank is subject to regulation by the FDIC. As a result, we are subject to a risk of loss resulting from failure to comply with banking laws. We have comprehensive procedures addressing issues such as regulatory capital requirements, sales and trading practices, use of and safekeeping of customer funds, the extension of credit, including margin loans, collection activities, money laundering, and record keeping. We act as an underwriter or selling group member in both equity and fixed income product offerings. Particularly when acting as lead or co-lead manager, we have potential legal exposure to claims relating to these securities offerings. To manage this exposure, a committee of senior executives review proposed underwriting commitments to assess the quality of the offering and the adequacy of due diligence investigation.

Our company, as a bank and financial holding company, is subject to regulation, including capital requirements, by the Federal Reserve. Stifel Bank is subject to various regulatory capital requirements administered by the Federal Deposit Insurance Corporation ( FDIC ) and state banking authorities. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could

have a direct material effect on our company's and Stifel Bank's financial statements.

***ITEM 4. CONTROLS AND PROCEDURES***

As of the end of the period covered by this report, an evaluation was carried out by Stifel Financial Corp.'s management with the participation of our Chief Executive Officer and Chief Financial Officer, of the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934). Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that these disclosure controls and procedures were effective as of the end of the period covered by this report. In addition, no change in our internal control over financial reporting (as defined in Rule 13a-15(f) under the Securities Exchange Act of 1934, as amended) occurred during our most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

**Table of Contents****PART II OTHER INFORMATION*****ITEM 1. LEGAL PROCEEDINGS***

The following supplements and amends our discussion set forth under Item 3. Legal Proceedings in our Annual Report on Form 10-K for the year ended December 31, 2012.

Our company and its subsidiaries are named in and subject to various proceedings and claims arising primarily from our securities business activities, including lawsuits, arbitration claims, class actions, and regulatory matters. Some of these claims seek substantial compensatory, punitive, or indeterminate damages. Our company and its subsidiaries are also involved in other reviews, investigations, and proceedings by governmental and self-regulatory organizations regarding our business, which may result in adverse judgments, settlements, fines, penalties, injunctions, and other relief. We are contesting the allegations in these claims, and we believe that there are meritorious defenses in each of these lawsuits, arbitrations, and regulatory investigations. In view of the number and diversity of claims against the company, the number of jurisdictions in which litigation is pending, and the inherent difficulty of predicting the outcome of litigation and other claims, we cannot state with certainty what the eventual outcome of pending litigation or other claims will be.

We have established reserves for potential losses that are probable and reasonably estimable that may result from pending and potential legal actions, investigations and regulatory proceedings. In many cases, however, it is inherently difficult to determine whether any loss is probable or even possible or to estimate the amount or range of any potential loss, particularly where proceedings may be in relatively early stages or where plaintiffs are seeking substantial or indeterminate damages. Matters frequently need to be more developed before a loss or range of loss can reasonably be estimated.

In our opinion, based on currently available information, review with outside legal counsel, and consideration of amounts provided for in our consolidated financial statements with respect to these matters, including the matters described below, the ultimate resolution of these matters will not have a material adverse impact on our financial position and results of operations. However, resolution of one or more of these matters may have a material effect on the results of operations in any future period, depending upon the ultimate resolution of those matters and depending upon the level of income for such period. For matters where a reserve has not been established and for which we believe a loss is reasonably possible, as well as for matters where a reserve has been recorded but for which an exposure to loss in excess of the amount accrued is reasonably possible, based on currently available information, we believe that such losses will not have a material effect on our consolidated financial statements.

***SEC/Wisconsin Lawsuit***

The SEC filed a civil lawsuit against our company in U.S. District Court for the Eastern District of Wisconsin on August 10, 2011. The action arises out of our role in investments made by five Southeastern Wisconsin school districts (the school districts) in transactions involving collateralized debt obligations (CDOs). These transactions are described in more detail below in connection with the civil lawsuit filed by the school districts. The SEC has asserted claims under Section 15c(1)(A), Section 10b and Rule 10b-5 of the Exchange Act and Sections 17a(1), 17a(2) and 17a(3) of the Securities Act. The claims are based upon both alleged misrepresentations and omissions in connection with the sale of the CDOs to the school districts, as well as the allegedly unsuitable nature of the CDOs. On October 31, 2011, we filed a motion to dismiss the action for failure to state a claim. The District Court granted in part and denied in part our motion to dismiss, and as a result the SEC has amended its complaint. We answered, denied the substantive allegations of the amended complaint and asserted various affirmative defenses. We believe, based upon currently available information and review with outside counsel, that we have meritorious defenses to the SEC's

lawsuit and intend to vigorously defend the SEC's claims.

We were named in a civil lawsuit filed in the Circuit Court of Milwaukee, Wisconsin (the Wisconsin State Court) on September 29, 2008. The lawsuit was filed against our company, Stifel Nicolaus, as well as Royal Bank of Canada Europe Ltd. (RBC), and certain other RBC entities (collectively the RBC entities) by the school districts and the individual trustees for other post-employment benefit (OPEB) trusts established by those school districts (collectively the Plaintiffs). This lawsuit relates to the same transactions that are the subject of the SEC action noted above. As we previously disclosed, we entered into a settlement of the Plaintiffs' lawsuit against our company and Stifel Nicolaus in March, 2012. The settlement provides the potential for the Plaintiffs to obtain significant additional damages from the RBC entities. The school districts are continuing their lawsuit against RBC, and we are pursuing claims against the RBC entities to recover payments we have made to the school districts and for amounts owed to the OPEB trusts. Subsequent to the settlement, RBC asserted claims against the school districts, and our company and Stifel Nicolaus for fraud, negligent misrepresentation, strict liability

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misrepresentation and information negligently provided for the guidance of others based upon our role in connection with the school districts' purchase of the CDOs. RBC has also asserted claims against our company and Stifel Nicolaus for civil conspiracy and conspiracy to injure its business based upon the settlement by our company and Stifel Nicolaus with the school districts and pursuit of claims against the RBC entities. We moved to dismiss RBC's claims against us that are based on the settlement agreement with the school districts. The Motion to Dismiss was denied by the court, and we have filed our Answer to RBC's claims and discovery continues in the case. We believe we have meritorious legal and factual defenses to the claims asserted by RBC and we intend to vigorously defend those claims.

*EDC Bond Issuance Matter*

In January 2008, our company was the initial purchaser of a \$50.0 million bond offering under Rule 144A. The bonds were issued by the Lake of the Torches Economic Development Corporation (EDC) in connection with certain new financing for the construction of a proposed new casino, as well as refinancing of indebtedness involving Lac Du Flambeau Band of Lake Superior Chippewa Indians (the Tribe). In 2009, Saybrook Tax Exempt Investors LLC, a qualified institutional buyer and the sole bondholder through its special purpose vehicle LDF Acquisition LLC (collectively, Saybrook), and Wells Fargo Bank, NA (Wells Fargo), indenture trustee for the bonds, brought an action in a Wisconsin federal court against EDC and the Tribe to enforce the bonds after a default by EDC. Our company was not named as a party in that action. In the 2009 action, EDC was successful in its assertion that the bond indenture was void as an unapproved management contract under National Indian Gaming Commission regulations, and that accordingly the Tribe's waiver of sovereign immunity contained in the indenture was void. Although the Wisconsin federal court dismissed the entire 2009 action, the Seventh Circuit Court of Appeals modified the judgment and remanded the case for further proceedings as to enforceability of the bond documents other than the bond indenture against EDC.

On January 16, 2012, after the remand from the Seventh Circuit Court of Appeals, Saybrook filed a new action in Wisconsin state court naming our company and Stifel Nicolaus as defendants with respect to Stifel Nicolaus' role as initial purchaser. Saybrook also named as defendants: the Tribe, EDC, and the law firm of Godfrey & Kahn, S.C. (G&K) which served as both issuer's counsel and bond counsel in the transaction. The Wisconsin state-court action seeks to enforce the bonds against EDC and the Tribe and also asserts claims against the defendants based on alleged misrepresentations about the enforceability of the indenture and the bonds and the waiver of sovereign immunity by EDC and the Tribe. In April 2012 Saybrook dismissed the 2009 federal action and filed a new action in Wisconsin federal court alleging nearly identical claims against the same defendants named in the Wisconsin state court action. The parties agreed to stay the state court action until the federal court ruled on whether it had jurisdiction over the 2012 federal action, and in April 2013 the federal court determined it did not have jurisdiction over the action. That decision by the federal court reactivated the Wisconsin state court action filed in 2012.

As plaintiff in the state court action, Saybrook alleges that G&K represented in various legal opinions issued in the transaction, as well as in other documents associated with the transaction, that (i) the bonds and indenture were legally enforceable obligations of EDC and (ii) EDC's waivers of sovereign immunity were valid. The claims asserted against us are for breaches of implied warranties of validity and title, securities fraud and statutory misrepresentation under Wisconsin state law, and intentional and negligent misrepresentations relating to the validity of the bond documents and the Tribe's waiver of its sovereign immunity. To the extent EDC does not fully perform its obligations to Saybrook pursuant to the bonds, Saybrook seeks a judgment for rescission, restitutionary damages, including the amounts paid by Saybrook for the bonds, and costs; alternatively, Saybrook seeks to recover damages, costs and attorneys' fees from us.

After the federal court declined to exercise jurisdiction over the 2012 federal court action and with the state court action reactivated, on April 25, 2013 the Tribe and EDC filed a new lawsuit against Saybrook, our company, Stifel

Nicolaus, G&K, and Wells Fargo in the Lac du Flambeau Tribal Court. The Tribal Court action seeks a declaratory judgment that all of the bond documents are void. This new lawsuit created a jurisdictional conflict between the Tribal Court and the Wisconsin state court that may be resolved by those courts or by the Federal Court in the Federal Action described below. We filed a Motion to Dismiss the Tribal Court action, which was denied on August 27, 2013, and we have filed our Answer to the lawsuit in the Tribal Court. On April 29, 2013, we filed a motion to dismiss all of the claims alleged against our company and Stifel Nicolaus brought by Saybrook in the state court action. That Motion was denied by the State Court on October 15, 2013, and we will file our Answer to the state court Complaint in early November. On May 24, 2013 we, together with Saybrook, Wells Fargo and G&K, filed an action in a Wisconsin federal court (the Federal Action) seeking to enjoin the Tribal Court action. The Tribe and EDC (the Tribal Parties) have filed a motion to dismiss or stay the Federal Action. The Tribal Parties' motion to dismiss or stay was denied on October 29, 2013. The court in the Federal Action has scheduled a hearing



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on our motion for preliminary injunction for November 26, 2013. While there can be no assurance that we will be successful, based upon currently available information and review with outside counsel, we believe that we have meritorious legal and factual defenses to the matter, and we intend to vigorously defend the substantive claims and the procedural attempt to move the litigation to the Lac du Flambeau Tribal Court.

### *Lac Courte Oreilles Tribal Lawsuit*

On December 13, 2012, the Lac Courte Oreilles Band of Lake Superior Chippewa Indians of Wisconsin (the "Tribe") filed a civil lawsuit against Stifel Nicolaus in the Tribe's Tribal Court (the "Tribal Lawsuit"). In December 2006, the Tribe issued two series of taxable municipal bonds as a means of raising revenue to fund various projects (the "2006 Bond Transaction"), including the refinancing of two series of bonds the Tribe issued in 2003. The Complaint alleges that we undertook to advise the Tribe regarding its financing options in 2006 but failed to disclose certain information before the 2006 Bond Transaction. On February 19, 2013 we filed a declaratory judgment action in a Wisconsin federal court seeking to establish that the Tribal Court lacks jurisdiction over the Tribal Lawsuit (the "Federal Action"). On February 20, 2013, we filed a motion to dismiss the Tribal Lawsuit, challenging the jurisdiction of the Tribal Court, which motion was denied by the Tribal Court. The Tribe filed a motion to dismiss the Federal Action. Shortly thereafter, the Tribe agreed to withdraw its motion to dismiss the Federal Action and agreed to stay the Tribal Lawsuit pending a determination by the Wisconsin federal court as to whether the Tribal Court has jurisdiction over the claims. Discovery is now beginning in the Federal Action, and a court trial is scheduled for June 23, 2014 to determine whether the Tribal Court has jurisdiction over the claims brought by the Tribe. While there can be no assurance that we will be successful, based upon currently available information and review with outside counsel, we believe that we have meritorious defenses to the Tribe's claims and we intend to vigorously defend the allegations.

### *Stetson Oil & Gas Ltd. Matter*

In October 2008, Stetson Oil & Gas Ltd. named Thomas Weisel Partners Canada, Inc. (n/k/a Stifel Nicolaus Canada, Inc.) as a defendant in a statement of claim filed in the Ontario Superior Court of Justice. On March 1, 2013, Stifel Nicolaus Canada received an adverse decision from the Ontario Superior Court of Justice that it had breached an engagement letter with Stetson, dated July 13, 2008. The decision awarded Stetson approximately \$16.0 million plus interest and costs incurred by Stetson in connection with the litigation. Stifel Nicolaus Canada disagrees with the Court's decision and is appealing that decision. Stifel Nicolaus Canada believes it has adequate reserves for what it believes will be the ultimate resolution of this matter.

## **ITEM 1A. RISK FACTORS**

The discussion of our business and operations should be read together with the risk factors contained in Part I, Item 1A of our Annual Report on Form 10-K for the fiscal year ended December 31, 2012 filed with the SEC. These risk factors describe various risks and uncertainties to which we are or may become subject. These risks and uncertainties have the potential to affect our business, financial condition, results of operations, cash flows, strategies or prospects in a material and adverse manner.

## **ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS**

There were no unregistered sales of equity securities during the quarter ended September 30, 2013. There were also no purchases made by or on behalf of Stifel Financial Corp. or any affiliated purchaser (as defined in Rule 10b-18(a)(3) under the Securities Exchange Act of 1934, as amended), of our common stock during the quarter ended September 30, 2013.

We have an ongoing authorization from the Board of Directors to repurchase our common stock in the open market or in negotiated transactions. At September 30, 2013, the maximum number of shares that may yet be purchased under this plan was 3.5 million.

**Table of Contents****ITEM 6. EXHIBITS**

<b>Exhibit No.</b>	<b>Description</b>
11.1	Statement Re: Computation of per Share Earnings (The calculation of per share earnings is included in Part I, Item 1 in the Notes to Consolidated Financial Statements (Earnings Per Share) and is omitted here in accordance with Section (b)(11) of Item 601 of Regulation S-K).
31.1	Rule 13a-14(a) Certification of Chief Executive Officer.
31.2	Rule 13a-14(a) Certification of Chief Financial Officer.
32.1	Section 1350 Certification of Chief Executive Officer.*
32.2	Section 1350 Certification of Chief Financial Officer.*
101.INS	Interactive Data Files Pursuant to Rule 405 of Regulation S-T: (i) Consolidated Statements of Financial Condition as of September 30, 2013 and December 31, 2012; (ii) Consolidated Statements of Operations for the three and nine months ended September 30, 2013 and 2012; (iii) Consolidated Statements of Comprehensive Income for the three and nine months ended September 30, 2013 and 2012; (v) Consolidated Statements of Cash Flows for the nine months ended September 30, 2013 and 2012; and (vi) Notes to Consolidated Financial Statements.

\* The certifications attached as Exhibits 32.1 and 32.2 that accompany this Quarterly Report on Form 10-Q, are not deemed filed with the Securities and Exchange Commission and are not to be incorporated by reference into any filing of Stifel Financial Corp. under the Securities Act of 1933, as amended, or the Securities Act of 1934, as amended, whether made before or after the date of this Form 10-Q, irrespective of any general incorporation language contained in such filing.

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***SIGNATURES***

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

STIFEL FINANCIAL CORP.

/s/ Ronald J. Kruszewski  
Ronald J. Kruszewski

*Chairman of the Board, President, and  
Chief Executive Officer*

/s/ James M. Zemlyak  
James M. Zemlyak

*Senior Vice President and  
Chief Financial Officer*

Date: November 12, 2013