

Con-way Inc.  
Form 4  
April 30, 2008

**FORM 4**

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

OMB APPROVAL

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**STATEMENT OF CHANGES IN BENEFICIAL OWNERSHIP OF SECURITIES**

Filed pursuant to Section 16(a) of the Securities Exchange Act of 1934, Section 17(a) of the Public Utility Holding Company Act of 1935 or Section 30(h) of the Investment Company Act of 1940

(Print or Type Responses)

1. Name and Address of Reporting Person \*  
**WHITE CHELSEA C III**

(Last) (First) (Middle)

2855 CAMPUS DRIVE, SUITE 300

(Street)

SAN MATEO, CA 94403

(City) (State) (Zip)

2. Issuer Name and Ticker or Trading Symbol  
**Con-way Inc. [CNW]**

3. Date of Earliest Transaction  
(Month/Day/Year)

04/28/2008

4. If Amendment, Date Original Filed(Month/Day/Year)

5. Relationship of Reporting Person(s) to Issuer

(Check all applicable)

Director  10% Owner  
 Officer (give title below)  Other (specify below)

6. Individual or Joint/Group Filing(Check Applicable Line)

Form filed by One Reporting Person  
 Form filed by More than One Reporting Person

**Table I - Non-Derivative Securities Acquired, Disposed of, or Beneficially Owned**

1. Title of Security (Instr. 3)	2. Transaction Date (Month/Day/Year)	2A. Deemed Execution Date, if any (Month/Day/Year)	3. Transaction Code (Instr. 8)	4. Securities Acquired (A) or Disposed of (D) (Instr. 3, 4 and 5)	5. Amount of Securities Beneficially Owned Following Reported Transaction(s) (Instr. 3 and 4)	6. Ownership Form: Direct (D) or Indirect (I) (Instr. 4)	7. Nature of Ownership (Instr. 4)
Common Stock	04/28/2008		A	5,570 A	\$ 0 11,177	D	

Reminder: Report on a separate line for each class of securities beneficially owned directly or indirectly.

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SEC 1474 (9-02)

**Table II - Derivative Securities Acquired, Disposed of, or Beneficially Owned (e.g., puts, calls, warrants, options, convertible securities)**

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1. Title of Derivative Security (Instr. 3)	2. Conversion or Exercise Price of Derivative Security	3. Transaction Date (Month/Day/Year)	3A. Deemed Execution Date, if any (Month/Day/Year)	4. Transaction Code (Instr. 8)	5. Number of Derivative Securities Acquired (A) or Disposed of (D) (Instr. 3, 4, and 5)	6. Date Exercisable and Expiration Date (Month/Day/Year)	7. Title and Amount of Underlying Securities (Instr. 3 and 4)	8. Price of Derivative Security (Instr. 5)	9. Number of Derivative Securities Owned Beneficially (Instr. 5)
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## Reporting Owners

Reporting Owner Name / Address	Relationships			
	Director	10% Owner	Officer	Other
WHITE CHELSEA C III 2855 CAMPUS DRIVE, SUITE 300 SAN MATEO, CA 94403		X		

## Signatures

By: Gary S. Cullen, Attorney-in-Fact For: Chelsea C. White III

04/30/2008

\_\_Signature of Reporting Person

Date

## Explanation of Responses:

\* If the form is filed by more than one reporting person, *see* Instruction 4(b)(v).

\*\* Intentional misstatements or omissions of facts constitute Federal Criminal Violations. *See* 18 U.S.C. 1001 and 15 U.S.C. 78ff(a).

Note: File three copies of this Form, one of which must be manually signed. If space is insufficient, *see* Instruction 6 for procedure.

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**Income before income taxes**

**79,100**

65,169

21.4

**10.3**

Provision for income taxes

**27,970**

25,713

8.8

**3.6**

4.0

**Net income**

\$

**51,130**

\$

39,456

Explanation of Responses:

%	29.6
%	<b>6.7</b>
%	6.2

\* Percentage is not meaningful.

For the nine months ended September 30, 2009, net revenues (total revenues less interest expense) increased \$131.8 million to a record \$771.2 million; a 20.6% increase over the \$639.4 million recorded for the nine months ended September 30, 2008. Net income increased 29.6% to a record \$51.1 million for the nine months ended September 30, 2009 compared to \$39.4 million during the comparable period in 2008.

**NET REVENUES**

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

	For the Three Months Ended September 30,			For the Nine Months Ended September 30,		
	2009	2008	% Change	2009	2008	% Change
<b>Net revenues:</b>						
Principal transactions	\$ 123,238	\$ 68,182	80.7%	\$ 341,777	\$ 200,793	70.2%
Commissions	90,905	88,727	2.5	246,236	257,491	(4.4)
Investment banking:						
Capital raising	22,332	11,104	101.1	42,065	35,946	17.0
Strategic advisory fees	12,724	14,052	(9.4)	33,197	31,989	3.8
	35,056	25,156	39.4	75,262	67,935	10.8
Asset management and service fees	25,498	30,336	(15.9)	74,974	90,580	(17.2)
Net interest	8,400	7,913	6.2	23,480	23,435	0.2
Other income/(loss)	6,586	(1,391)	*	9,440	(883)	*
<b>Total net revenues</b>	\$ 289,683	\$ 218,923	32.3%	\$ 771,169	\$ 639,351	20.6%

\* Percentage is not meaningful.

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, the increased number of revenue producers in our Capital Markets segment, the acquisition of Butler Wick on December 31, 2008, and the closing of the first three waves of the UBS acquisition during the third quarter of 2009. Butler Wick's results of operations are included in our results of operations prospectively from December 31, 2008, the date of acquisition. The results of operations for the acquired UBS branches are included in our results prospectively from the date of their respective conversion.

For the three and nine month periods ended September 30, 2009, these business acquisitions generated net revenues of \$9.8 million and \$21.2 million, respectively.

**Principal transactions** - For the three months ended September 30, 2009, principal transactions revenue increased 80.7% to \$123.3 million from \$68.2 million in the comparable period in 2008. For the nine months ended September 30, 2009, principal transactions revenue increased 70.2% to \$341.8 million from \$200.8 million in the comparable period in 2008. The increases are primarily attributable to increased principal transactions, primarily in over-the-counter ("OTC") equity, corporate and municipal debt and mortgage-backed bonds due to turbulent markets and customers returning to traditional fixed income products. The change in the mix from commissions-based revenues to principal transactions revenue has created an increase in our trading inventory levels primarily related to fixed income products.

**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, 2009, commission revenues increased 2.5% to \$90.9 million from \$88.7 million in the comparable period in 2008 primarily due to higher revenues from insurance sales and mutual funds. For the nine months ended September 30, 2009, commission revenues decreased 4.4% to \$246.2 million from \$257.5 million in the comparable period in 2008. While the equity markets began showing signs of improvement during the

Explanation of Responses:



third quarter, the volatility in capital markets during the first half of 2009 has resulted in lower revenues for the nine months ended September 30, 2009 due to a decrease in trading volumes, as customers returned to traditional fixed income products.

**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, 2009, investment banking revenues increased 39.4% to \$35.1 million from \$25.2 million in the comparable period in 2008. For the nine months ended September 30, 2009, investment banking revenues increased 10.8% to \$75.3 million from \$67.9 million in the comparable period in 2008.

Capital raising revenues increased \$11.3 million, or 101.1%, to \$22.4 million for the three months ended September 30, 2009 from \$11.1 million in the comparable period in 2008. During the third quarter of 2009, equity and fixed income capital raising revenues were \$15.9 million and \$5.2 million, respectively, an increase of \$9.4 million and \$2.2 million, respectively, from the comparable period in 2008. Capital raising revenues increased 17.0% to \$42.1 million for the nine months ended September 30, 2009 from \$35.9 million in the comparable period in 2008. Equity and fixed income capital raising revenues were \$26.5 million and \$13.8 million, respectively, an increase of \$2.1 million, or 8.5%, and \$6.2 million, or 81.0%, respectively, from the comparable period in 2008. During the third quarter of 2009, capital market conditions continued to build upon the improvement that began in the second quarter for both equity and fixed income, and we raised capital for our clients in a number of successful corporate and public finance underwritings. The significant rebound in equity and fixed income financings during the second and third quarters were offset by the challenging market conditions that began during the second half of 2008 and continued into the first quarter of 2009.

Strategic advisory fees decreased 9.4% to \$12.7 million for the three months ended September 30, 2009 from \$14.1 million in the comparable period in 2008. Strategic advisory fees increased 3.8% to \$33.2 million for the nine months ended September 30, 2009 from \$32.0 million in the comparable period in 2008. The increase is primarily attributable to an increase in the number of completed equity transactions and the aggregate transaction value, as well as the average revenue per transaction, over the comparable periods in 2008.

**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, 2009, asset management and service fee revenues decreased 15.9% to \$25.5 million from \$30.3 million in the comparable period of 2008. For the nine months ended September 30, 2009, asset management and service fee revenues decreased 17.2% to \$75.0 million from \$90.6 million in the comparable period of 2008. The decrease is primarily a result of a reduction in fees for money-fund balances due to the waiving of fees by certain fund managers and lower assets under management as a result of market depreciation, offset by an increase in the number of managed accounts attributable principally to the continued growth of the private client group. See Assets in Fee-based Accounts included in the table in "Results of Operations - Global Wealth Management."

**Other income** - For the three months ended September 30, 2009, other income increased \$8.0 million to \$6.6 million from a loss of \$1.4 million during the comparable period in 2008. For the nine months ended September 30, 2009, other income increased \$10.3 million to \$9.4 million from a loss of \$0.9 million during the comparable period in 2008.

The increases are primarily attributable to the reduction of investment losses during the three and nine months ended September 30, 2009.



**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*):

	September 30, 2009			Three Months Ended		
	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)	\$ 301,697	\$ 3,277	4.34%	\$ 389,272	\$ 5,173	5.32%
Interest-earning assets (Stifel Bank)	687,211	4,961	2.89	296,296	4,129	5.57
Stock borrow (Stifel Nicolaus)	64,009	6	0.04	86,772	272	1.25
Other (Stifel Nicolaus)		3,062			3,245	
<b>Total interest revenue</b>		\$ 11,306			\$ 12,819	
<b>Interest-bearing liabilities:</b>						
Short-term borrowings (Stifel Nicolaus)	\$ 107,826	\$ 287	1.07%	\$ 162,732	\$ 980	2.41%
Interest-bearing liabilities (Stifel Bank)	633,259	911	0.58	247,859	1,447	2.34
Stock loan (Stifel Nicolaus)	78,898	221	1.12	105,273	539	2.05
Interest-bearing liabilities (Capital Trusts)	82,500	1,373	6.66	95,000	1,587	6.68
Other (Stifel Nicolaus)		114			353	
<b>Total interest expense</b>		2,906			4,906	
<b>Net interest income</b>		\$ 8,400			\$ 7,913	

	September 30, 2009			Nine Months Ended		
	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)	\$ 273,845	\$ 8,820	4.29%	\$ 416,297	\$ 17,413	5.58%
Interest-earning assets (Stifel Bank)	555,153	12,395	2.98	269,551	11,491	5.68
Stock borrow (Stifel Nicolaus)	25,855	32	0.16	63,273	726	1.53
Other (Stifel Nicolaus)		10,535			9,545	
<b>Total interest revenue</b>		\$ 31,782			\$ 39,175	
<b>Interest-bearing liabilities:</b>						
Short-term borrowings (Stifel Nicolaus)	\$ 119,381	\$ 870	0.97%	\$ 153,053	\$ 2,656	2.31%
Interest-bearing liabilities (Stifel Bank)	505,545	2,605	0.69	220,341	4,599	2.78
Stock loan (Stifel Nicolaus)	54,820	416	1.01	131,562	2,549	2.58
Interest-bearing liabilities (Capital Trusts)	82,500	4,102	6.63	95,000	4,783	6.71
Other (Stifel Nicolaus)		309			1,153	
<b>Total interest expense</b>		8,302			15,740	

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<b>Net interest income</b>	\$	<b>23,480</b>	\$	23,435
		42		

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**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 quarter ended September 30, 2009, net interest income increased to \$8.4 million from \$7.9 million during the comparable period in 2008. For the nine months ended September 30, 2009, net interest income of \$23.5 million remained consistent with the comparable period in 2008.

or the three months ended September 30, 2009, interest revenue decreased 11.8%, or \$1.5 million, to \$11.3 million from \$12.8 million in the comparable period in 2008, principally as a result of a \$1.9 million decrease in interest revenue from customer margin borrowing. The average margin balances of Stifel Nicolaus decreased to \$301.7 million during the three months ended September 30, 2009 compared to \$389.3 million during the comparable period in 2008 at weighted average interest rates of 4.34% and 5.32%, respectively.

For the nine months ended September 30, 2009, interest revenue decreased 18.9%, or \$7.4 million, to \$31.8 million from \$39.2 million in the comparable period in 2008, principally as a result of an \$8.6 million decrease in interest revenue from customer margin borrowing. The average margin balances of Stifel Nicolaus decreased to \$273.8 million during the first nine months of 2009 compared to \$416.3 million during the comparable period in 2008 at weighted average interest rates of 4.29% and 5.58%, respectively.

For the three months ended September 30, 2009, interest expense decreased 40.8%, or \$2.0 million, to \$2.9 million from \$4.9 million in the comparable period in 2008. For the nine months ended September 30, 2009, interest expense decreased 47.3%, or \$7.4 million, to \$8.3 million from \$15.7 million in the comparable period in 2008. The decreases are due to decreased interest rates charged by banks on lower levels of borrowings to finance customer borrowing and firm inventory, decreased interest rates on stock loan borrowings and the extinguishment of \$12.5 million of 6.78% Stifel Financial Capital Trust IV Cumulative Preferred Securities in November 2008. See "Net Interest Income" table above for more details.

## NON-INTEREST EXPENSES

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

	For the Three Months Ended September 30,			For the Nine Months Ended September 30,		
	2009	2008	% Change	2009	2008	% Change
<b>Non-interest expenses:</b>						
Compensation and benefits	\$ 193,131	\$ 150,203	28.6%	\$ 516,852	\$ 441,028	17.2%
Occupancy and equipment rental	24,730	17,286	43.1	63,311	49,012	29.2
Communications and office supplies	14,429	11,192	28.9	39,403	32,887	19.8
Commissions and floor brokerage	6,486	4,348	49.2	17,167	8,315	106.5
Other operating expenses	20,071	14,800	35.6	55,336	42,940	28.9
<b>Total non-interest expenses</b>	\$ 258,847	\$ 197,829	30.8%	\$ 692,069	\$ 574,182	20.5%

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, increased administrative overhead to support the growth in our segments and the transaction costs associated with the UBS acquisition.

**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, 2009, compensation and benefits expense increased 28.6%, or \$42.9 million, to \$193.1 million from \$150.2 million during the comparable period in 2008. For the nine months ended September 30, 2009, compensation and benefits expense increased 17.2%, or \$75.9 million, to \$516.9 million from \$441.0 million during the comparable period in 2008. The increase in compensation and benefits expense over the prior year periods is primarily attributable to increased headcount and higher production-based variable compensation.

Compensation and benefits expense as a percentage of net revenues decreased to 66.7% for the three months ended September 30, 2009, compared to 68.6% for the comparable period in 2008. Compensation and benefits expense as a percentage of net revenues decreased to 67.0% for the nine months ended September 30, 2009, compared to 69.0% for the comparable period in 2008. The decrease in compensation and benefits expense as a percent of net revenues is primarily attributable to increased net revenues as compared to the three and nine month periods ended September 30, 2008, offset by an increase in transition pay and base salaries.

A portion of 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 \$14.8 million (5.1% of net revenues) and \$40.9 million (5.3% of net revenues) for the three and nine month periods ended September 30, 2009, respectively, compared to \$9.7 million (4.4% of net revenues) and \$25.5 million (4.0% of net revenues) for the three and nine month periods ended September 30, 2008, respectively. The upfront notes are amortized over a five to ten year period. In addition, for the three and nine month periods ended September 30, 2008, compensation and benefits expense includes \$6.5 million and \$19.1 million, respectively, for amortization of units awarded to Legg Mason ("LM Capital Markets") associates, which were fully amortized as of December 31, 2008.

**Occupancy and equipment rental** - For the three months ended September 30, 2009, occupancy and equipment rental expense increased 43.1% to \$24.7 million from \$17.3 million during the three months ended September 30, 2008. For the nine months ended September 30, 2009, occupancy and equipment rental expense increased 29.2% to \$63.3 million from \$49.0 million during the nine months ended September 30, 2008. The increase is primarily due to the increase in rent and depreciation expense. As of September 30, 2009, we have 256 branch offices compared to 166 at September 30, 2008.

**Communications and office supplies** - Communications expense include costs for telecommunication and data communication, primarily for obtaining third-party market data information. For the three months ended September 30, 2009, communications and office supplies expense increased 28.9% to \$14.4 million from \$11.2 million during the second quarter of 2008. For the nine months ended September 30, 2009, communications and office supplies expense increased 19.8% to \$39.4 million from \$32.9 million during the comparable period in 2008. The increases were primarily attributable to our continued expansion as we sustained our growth initiatives throughout the first nine months of 2009 by adding additional revenue producers and support staff.

**Commissions and floor brokerage** - For the three months ended September 30, 2009, commissions and floor brokerage expense increased to \$6.5 million from \$4.3 million during the comparable period in 2008. For the nine months ended September 30, 2009, commissions and floor brokerage expense increased to \$17.2 million from \$8.3 million during the comparable period in 2008. The increases were primarily attributable to increased business activity. The increase over the comparable nine month period in 2008 is also attributable to a rebate of \$1.5 million received during the first quarter of 2008 related to 2007 clearing fees. We received no such rebates in 2009.

**Other operating expenses** - Other operating expenses primarily include license and registration fees, litigation-related expenses, which consist of amounts we reserve and/or pay out related to legal and regulatory matters, travel and entertainment, promotional expenses and expenses for professional services.

For the three months ended September 30, 2009, other operating expenses increased 35.6% to \$20.1 million from \$14.8 million during the three months ended September 30, 2008. For the nine months ended September 30, 2009, other operating expenses increased 28.9% to \$55.3 million from \$42.9 million during the nine months ended September 30, 2008.

The increases were primarily attributable to the continued growth in all segments during the first nine months of 2009, which included increased license and registration fees, SIPC assessments, securities processing fees, travel and promotion, and legal expenses. The increase in legal expenses is attributable to an increase in litigation associated with the ongoing investigations in connection with ARS, and litigation costs to defend industry recruitment claims.



***Provision for income taxes*** - For the three months ended September 30, 2009, our provision for income taxes was \$8.7 million, representing an effective tax rate of 28.2%, compared to \$8.3 million for the comparable period in 2008, representing an effective tax rate of 39.4%. For the nine months ended September 30, 2009, our provision for income taxes was \$28.0 million, representing an effective tax rate of 35.4%, compared to \$25.7 million for the comparable period in 2008, representing an effective tax rate of 39.5%. Our current year third quarter and year-to-date effective tax rates were reduced due to the recognition of a tax benefit of \$3.4 million during the third quarter related to an investment and jobs creation tax credit.

## SEGMENT ANALYSIS

Our reportable segments include Global Wealth Management, Capital Markets, and Other. The UBS branch acquisition and related customer account conversion to our platform has enabled us to leverage our customers' assets which allows us the ability to provide a full array of financial products to both our Private Client Group and Stifel Bank customers. As a result, we have changed how we manage these reporting units and consequently they were combined to form the Global Wealth Management segment. Previously reported segment information has been revised to reflect this change.

As a result of organizational changes in the second quarter of 2009, which included a change in the management reporting structure of our company, the segments formerly reported as Equity Capital Markets and Fixed Income Capital Markets have been combined into a single segment called Capital Markets. Previously reported segment information has been revised to reflect this change.

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 Capital Markets 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, 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; acquisition charges related to the LM Capital Markets and Ryan Beck & Company, Inc. ("Ryan Beck") acquisitions, 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.

**Results of Operations - Global Wealth Management****Three Months Ended September 30, 2009 Compared with Three Months Ended September 30, 2008**

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,	
	2009	2008	% Change	2009	2008
<b>Revenues:</b>					
Commissions	\$ 63,161	\$ 49,563	27.4%	40.2%	42.3%
Principal transactions	53,052	28,468	86.4	33.8	24.3
Asset management and service fees	25,406	30,111	(15.6)	16.2	25.7
Investment banking	4,263	3,371	26.4	2.7	2.9
Interest	8,997	9,672	(7.0)	5.7	8.3
Other income	4,077	241	*	2.6	0.2
<b>Total revenues</b>	<b>158,956</b>	<b>121,426</b>	<b>30.9</b>	<b>101.2</b>	<b>103.7</b>
Interest expense	1,811	4,275	(57.6)	1.2	3.7
<b>Net revenues</b>	<b>157,145</b>	<b>117,151</b>	<b>34.1</b>	<b>100.0</b>	<b>100.0</b>
<b>Non-interest expenses:</b>					
Compensation and benefits	96,711	71,388	35.5	61.5	60.9
Occupancy and equipment rental	13,447	9,466	42.1	8.6	8.1
Communication and office supplies	7,295	4,930	48.0	4.6	4.2
Commissions and floor brokerage	1,875	1,815	3.3	1.2	1.6
Other operating expenses	10,277	6,019	70.7	6.6	5.1
<b>Total non-interest expenses</b>	<b>129,605</b>	<b>93,618</b>	<b>38.4</b>	<b>82.5</b>	<b>79.9</b>
<b>Income before income taxes</b>	<b>\$ 27,540</b>	<b>\$ 23,533</b>	<b>17.0%</b>	<b>17.5%</b>	<b>20.1%</b>

\* Percentage is not meaningful.

	September 30, 2009	December 31, 2008	September 30, 2008
Branch offices (actual)	256	196	166
Financial advisors (actual)	1,640	1,142	1,043
Independent contractors (actual)	183	173	185
<b>Assets in fee-based accounts:</b>			
Value (in thousands)	5,699,311	5,775,565	6,319,028
Number of accounts (actual)	27,593	24,177	23,569

***Nine Months Ended September 30, 2009 Compared with Nine Months Ended September 30, 2008***

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,	
	2009	2008	% Change	2009	2008
<b>Revenues:</b>					
Commissions	\$ 158,468	\$ 146,860	7.9%	38.9%	41.0%
Principal transactions	140,248	90,663	54.7	34.5	25.3
Asset management and service fees	74,689	90,199	(17.2)	18.4	25.2
Investment banking	9,176	13,690	(33.0)	2.3	3.8
Interest	23,190	30,318	(23.5)	5.7	8.5
Other income	5,914	1,100	*	1.4	0.3
<b>Total revenues</b>	<b>411,685</b>	<b>372,830</b>	<b>10.4</b>	<b>101.2</b>	<b>104.1</b>
Interest expense	5,066	14,508	(65.1)	1.2	4.1
<b>Net revenues</b>	<b>406,619</b>	<b>358,322</b>	<b>13.5</b>	<b>100.0</b>	<b>100.0</b>
<b>Non-interest expenses:</b>					
Compensation and benefits	253,169	218,661	15.8	62.3	61.0
Occupancy and equipment rental	35,441	26,329	34.6	8.7	7.4
Communication and office supplies	18,515	13,604	36.1	4.5	3.8
Commissions and floor brokerage	5,580	3,308	68.7	1.4	0.9
Other operating expenses	26,833	16,695	60.7	6.6	4.7
<b>Total non-interest expenses</b>	<b>339,538</b>	<b>278,597</b>	<b>21.9</b>	<b>83.5</b>	<b>77.8</b>
<b>Income before income taxes</b>	<b>\$ 67,081</b>	<b>\$ 79,725</b>	<b>(15.9)%</b>	<b>16.5%</b>	<b>22.2%</b>

\* Percentage is not meaningful.

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, the acquisition of Butler Wick on December 31, 2008, and the first three closings of the UBS acquisition during the third quarter of 2009.

**NET REVENUES**

For the three months ended September 30, 2009, Global Wealth Management net revenues increased 34.1% to \$157.1 million from \$117.2 million for the comparable period in 2008. For the nine months ended September 30, 2009, Global Wealth Management net revenues increased 13.5% to \$406.6 million from \$358.3 million for the comparable period in 2008.

The increase in net revenues for the three and nine month periods ended September 30, 2009 over the comparable periods in 2008 are primarily attributable to an increase in principal transactions and net interest revenues offset by decreases in asset management and service fees, and investment banking.

**Commissions** - For the three months ended September 30, 2009, commission revenues increased 27.4% to \$63.2 million from \$49.6 million in the comparable period in 2008. For the nine months ended September 30, 2009, commission revenues increased 7.9% to \$158.5 million from \$146.9 million in the comparable period in 2008. The increase is primarily attributable to an increase in agency transactions in OTC and listed equity securities, and

insurance products. In addition, mutual fund revenue has increased over the comparable period in 2008.

**Principal transactions** - For the three months ended September 30, 2009, principal transactions revenue increased 86.4% to \$53.1 million from \$28.5 million in the comparable period in 2008. For the nine months ended September 30, 2009, principal transactions revenue increased 54.7% to \$140.2 million from \$90.7 million in the comparable period in 2008. The increases are primarily attributable to increased principal transactions, primarily in OTC equity, corporate and municipal debt and mortgage-backed bonds due to turbulent markets and customers returning to traditional fixed income products. The change in the mix from commissions-based revenues to principal transactions revenue has created an increase in our trading inventory levels primarily related to fixed income products.

**Asset management and service fees** - For the three months ended September 30, 2009, asset management and service fees decreased 15.6% to \$25.4 million from \$30.1 million in the comparable period in 2008. For the nine months ended September 30, 2009, asset management and service fees decreased 17.2% to \$74.7 million from \$90.2 million in the comparable period in 2008. The decrease is primarily a result of a reduction in fees for money-fund balances due to the waiving of fees by certain fund managers and a 9.8% decrease in the value of assets in fee-based accounts from September 30, 2008, offset by a 17.1% increase in the number of managed accounts attributable principally to the continued growth of the private client group. See Assets in Fee-based Accounts included in the table above for further details.

**Investment banking** - Investment banking, which represents sales credits for investment banking underwritings, increased 26.4% to \$4.3 million for the three months ended September 30, 2009 from \$3.4 million during the comparable period in 2008. For the nine months ended September 30, 2009, investment banking decreased 33.0% to \$9.2 million from \$13.7 million during the comparable period in 2008. During the third quarter of 2009, capital market conditions continued to build upon the improvement that began in the second quarter and we raised capital for our clients in a number of successful transactions. While there has been a significant rebound in investment banking activity during the second and third quarter, our nine month results were negatively impacted by the challenging market conditions that began during the second half of 2008 and continued into the first quarter of 2009. See further discussion of investment banking activities in the Capital Markets segment section.

**Interest revenue** - For the three months ended September 30, 2009, interest revenue decreased 7.0% to \$9.0 million from \$9.7 million in the comparable period in 2008. For the nine months ended September 30, 2009, interest revenue decreased 23.5% to \$23.2 million from \$30.3 million in the comparable period in 2008. The decreases are primarily due to a decrease in interest revenue from customer margin borrowing to finance trading activity and lower average customer margin balances. See "Net Interest Income - Stifel Bank" below for a further discussion of the changes in net revenues.

**Interest expense** - For the three months ended September 30, 2009, interest expense decreased 57.6% to \$1.8 million from \$4.3 million in the comparable period in 2008. For the nine months ended September 30, 2009, interest expense decreased 65.1% to \$5.1 million from \$14.5 million in the comparable period in 2008. The decreases are primarily due to decreased interest rates charged by banks on lower levels of borrowings to finance customer borrowing. See "Net Interest Income - Stifel Bank" below for a further discussion of the changes in net revenues.

**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, 2009			Three Months Ended September 30, 2008		
	Average Balance	Interest Income/ Expense	Average Interest Rate	Average Balance	Interest Income/ Expense	Average Interest Rate
<b>Assets:</b>						
Federal funds sold	\$ 225,562	\$ 163	0.29%	\$ 5,623	\$ 26	1.85%
U.S. government agencies	1,126	14	5.16	9,792	185	7.56
State and political subdivisions:						
Taxable	-	-	-	10,191	86	3.38
Non-taxable <sup>(1)</sup>	961	9	4.02	1,527	15	3.93
Mortgage-backed securities	147,557	1,477	4.00	35,014	453	5.18
Corporate bonds	41,276	484	4.70	-	-	-
Asset-backed securities	15,692	162	4.13	21,364	410	7.68
Federal Home Loan Bank ("FHLB") and other capital stock	783	3	1.68	1,707	11	2.58
Loans <sup>(2)</sup>	224,375	2,340	4.17	197,330	2,771	5.62
Loans held for sale	29,879	309	4.12	13,748	172	5.00
<b>Total interest-earning assets <sup>(3)</sup></b>	<b>\$ 687,211</b>	<b>\$ 4,961</b>	<b>2.89%</b>	<b>\$ 296,296</b>	<b>\$ 4,129</b>	<b>5.57%</b>
Cash and due from banks	5,940			1,858		
Other non interest-earning assets	23,395			22,097		
<b>Total assets</b>	<b>\$ 716,546</b>			<b>\$ 320,251</b>		
<b>Liabilities and stockholders' equity:</b>						
Deposits:						
Demand deposits	\$ 11,145	\$ 7	0.25%	\$ 3,055	\$ 13	1.70%
Money market	600,536	727	0.48	188,205	934	1.99
Savings	286	-	-	304	1	1.32
Time deposits	19,292	160	3.32	32,797	344	4.20
FHLB advances	2,000	17	3.27	21,692	145	2.67
Federal funds and repurchase agreements	-	-	-	1,806	10	2.21
<b>Total interest-bearing liabilities (3)</b>	<b>\$ 633,259</b>	<b>\$ 911</b>	<b>0.58%</b>	<b>\$ 247,859</b>	<b>\$ 1,447</b>	<b>2.34%</b>
Non interest-bearing deposits	12,228			16,342		
Other non interest-bearing liabilities	2,073			1,859		
<b>Total liabilities</b>	<b>647,560</b>			<b>266,060</b>		
Stockholders' equity	68,986			54,191		
<b>Total liabilities and stockholders' equity</b>	<b>\$ 716,546</b>			<b>\$ 320,251</b>		
Net interest margin		\$ 4,050	2.36%		\$ 2,682	3.63%

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

<sup>(2)</sup> Loans on non-accrual status are included in average balances.

<sup>(3)</sup> 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, 2009			Nine Months Ended September 30, 2008		
	Average Balance	Interest Income/ Expense	Average Interest Rate	Average Balance	Interest Income/ Expense	Average Interest Rate
<b>Assets:</b>						
Federal funds sold	\$ 201,396	\$ 653	0.43%	\$ 10,203	\$ 201	2.63%
U.S. government agencies	2,037	85	5.57	14,974	699	6.22
State and political subdivisions:						
Taxable	-	-	-	10,939	316	3.85
Non-taxable (1)	1,142	35	4.10	1,533	43	3.74
Mortgage-backed securities	77,593	2,404	4.13	33,262	1,288	5.16
Corporate bonds	23,202	799	4.59	1,237	57	6.14
Asset-backed securities	12,928	579	5.97	20,119	1,226	8.12
FHLB and other capital stock	756	5	0.89	1,012	19	2.50
Loans (2)	198,599	6,670	4.48	160,815	7,089	5.88
Loans held for sale	37,500	1,165	4.14	15,457	553	4.77
<b>Total interest-earning assets (3)</b>	<b>\$ 555,153</b>	<b>\$ 12,395</b>	<b>2.98%</b>	<b>\$ 269,551</b>	<b>\$ 11,491</b>	<b>5.68%</b>
Cash and due from banks	4,867			1,848		
Other non interest-earning assets	26,105			21,395		
<b>Total assets</b>	<b>\$ 586,125</b>			<b>\$ 292,794</b>		
<b>Liabilities and stockholders' equity:</b>						
Deposits:						
Demand deposits	\$ 9,108	\$ 22	0.31%	\$ 2,689	\$ 39	1.93%
Money market	471,997	1,975	0.56	164,825	2,962	2.40
Savings	321	-	-	342	3	1.17
Time deposits	20,361	521	3.14	39,792	1,350	4.52
FHLB advances	3,744	87	3.09	11,527	225	2.60
Federal funds and repurchase agreements	14	-	-	1,166	20	2.29
<b>Total interest-bearing liabilities (3)</b>	<b>\$ 505,545</b>	<b>\$ 2,605</b>	<b>0.69%</b>	<b>\$ 220,341</b>	<b>\$ 4,599</b>	<b>2.78%</b>
Non interest-bearing deposits	14,801			15,620		
Other non interest-bearing liabilities	1,989			1,532		
<b>Total liabilities</b>	<b>522,335</b>			<b>237,493</b>		
Stockholders' equity	63,790			55,301		
<b>Total liabilities and stockholders' equity</b>	<b>\$ 586,125</b>			<b>\$ 292,794</b>		
Net interest margin		\$ 9,790	2.35%		\$ 6,892	3.41%

(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.





For the nine months ended September 30, 2009, interest revenue of \$12.4 million was generated from weighted average interest-earning assets of \$555.2 million at a weighted average interest rate of 2.98%. Interest revenue of \$11.5 million for the comparable period in 2008 was generated from weighted average interest-earning assets of \$269.6 million at a weighted average interest rate of 5.68%. Interest-earning assets principally consist of residential, consumer, and commercial loans, securities, and federal funds sold.

Interest expense represents interest on customer money market and savings accounts, interest on time deposits and other interest expense. The weighted average balance of interest-bearing liabilities during the three months ended September 30, 2009 was \$633.3 million at a weighted average interest rate of 0.58%. The weighted average balance of interest-bearing liabilities for the comparable period in 2008 was \$247.9 million at a weighted average interest rate of 2.34%.

The weighted average balance of interest-bearing liabilities during the nine months ended September 30, 2009 was \$505.5 million at a weighted average interest rate of 0.69%. The weighted average balance of interest-bearing liabilities for the comparable period in 2008 was \$220.3 million at a weighted average interest rate of 2.78%.

The growth in Stifel Bank has been primarily driven by (i) the conversion of UBS branches to the Stifel Nicolaus platform with money market funds and FDIC-insured balances of \$1.7 billion and (ii) the growth in deposits associated with brokerage customers of Stifel Nicolaus. At September 30, 2009, the balance of Stifel Nicolaus brokerage customer deposits at Stifel Bank was \$834.8 million compared to \$197.5 million at September 30, 2008.

See the average balances and interest rates for Stifel Bank presented 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, 2009, Global Wealth Management non-interest expenses increased 38.4% to \$129.6 million from \$93.6 million for the comparable period in 2008. For the nine months ended September 30, 2009, Global Wealth Management non-interest expenses increased 21.9% to \$339.5 million from \$278.6 million for the comparable period in 2008.

Unless specifically discussed below, the fluctuations in non-interest expenses were primarily attributable to the continued growth of our Private Client Group during the three and nine month period ended September 30, 2009. Our expansion efforts include the acquisitions of UBS and Butler Wick, as well as organic growth. As of September 30, 2009, we have 256 branch offices compared to 166 at September 20, 2008. In addition, since September 30, 2008, we have added 960 revenue producers and support staff.

**Compensation and benefits** - For the three months ended September 30, 2009, compensation and benefits expense increased 35.5% to \$96.7 million from \$71.4 million during the three months ended September 30, 2008. For the nine months ended September 30, 2009, compensation and benefits expense increased 15.8% to \$253.2 million from \$218.7 million during the comparable period in 2008. The increase is principally due to increased variable compensation as a result of increased production and fixed compensation.

Compensation and benefits expense as a percentage of net revenues increased to 61.5% for the three months ended September 30, 2009, compared to 60.9% for the comparable period in 2008. Compensation and benefits expense as a percentage of net revenues increased to 62.3% for the nine months ended September 30, 2009, compared to 61.0% for the comparable period in 2008. The increase in compensation and benefits expense as a percent of net revenues is primarily attributable to increased transition pay, which consists of the amortization of upfront notes, signing bonuses and retention awards, and increased overhead in connection with our continued expansion efforts.

A portion of 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 \$10.8 million (6.9% of net revenues) and \$28.7 million (7.1% of net revenues) for the three and nine month periods ended September 30, 2009, respectively, compared to \$7.3 million (6.3% of net revenues) and \$20.8 million (5.8% of net revenues) for the three and nine month periods ended September 30, 2008, respectively. The upfront notes are amortized over a five to ten year period.

**Occupancy and equipment rental** - For the three months ended September 30, 2009, occupancy and equipment rental expense increased 42.1% to \$13.4 million from \$9.5 million during the comparable period in 2008. For the nine months ended September 30, 2009, occupancy and equipment rental expense increased 34.6% to \$35.4 million from \$26.3 million during the comparable period in 2008.

**Communications and office supplies** - For the three months ended September 30, 2009, communications and office supplies expense increased 48.0% to \$7.3 million from \$4.9 million during the third quarter of 2008. For the nine months ended September 30, 2009, communications and office supplies expense increased 36.1% to \$18.5 million from \$13.6 million during the comparable period in 2008.

**Commissions and floor brokerage** - For the three months ended September 30, 2009, commissions and floor brokerage expense increased 3.3% to \$1.9 million from \$1.8 million during the third quarter of 2008. For the nine months ended September 30, 2009, commissions and floor brokerage expense increased \$2.3 million, or 68.7%, to \$5.6 million from \$3.3 million during the comparable period in 2008.

**Other operating expenses** - For the three months ended September 30, 2009, other operating expenses increased 70.7% to \$10.3 million from \$6.0 million during the comparable period in 2008. For the nine months ended September 30, 2009, other operating expenses increased 60.7% to \$26.8 million from \$16.7 million during the comparable period in 2008. As a result of the growth of our Private Client Group segment during the nine months ended September 30, 2009, there has been an increase in license and registration fees, securities processing fees, and travel-related expenses associated with our acquisition of UBS, as well as litigation costs to defend industry recruiting claims.

#### **INCOME BEFORE INCOME TAXES**

For the three months ended September 30, 2009, income before income taxes increased 17.0% to \$27.5 million from \$23.5 million during the comparable period in 2008. For the nine months ended September 30, 2009, income before income taxes decreased 15.9% to \$67.1 million from \$79.7 million during the comparable period in 2008. Profit margins have diminished resulting from start-up costs associated with branch office openings and the transaction costs associated with the UBS acquisition, as we took advantage of the opportunities created by market displacement.

**Results of Operations - Capital Markets****Three Months Ended September 30, 2009 Compared with Three Months Ended September 30, 2008**

The following table presents consolidated financial information for the Capital Markets 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,	
	2009	2008	% Change	2009	2008
<b>Revenues:</b>					
Principal transactions	\$ 70,186	\$ 39,713	76.7%	53.9%	39.1%
Commissions	27,743	39,164	(29.2)	21.3	38.6
Capital raising	18,070	7,733	133.7	13.9	7.6
Advisory	12,724	14,052	(9.5)	9.8	13.8
Investment banking	30,794	21,785	41.4	23.7	21.4
Interest	2,256	2,382	(5.3)	1.7	2.3
Other income	306	354	(13.6)	0.2	0.4
<b>Total revenues</b>	<b>131,285</b>	<b>103,398</b>	<b>27.0</b>	<b>100.8</b>	<b>101.8</b>
Interest expense	1,106	1,800	(38.6)	0.8	1.8
<b>Net revenues</b>	<b>130,179</b>	<b>101,598</b>	<b>28.1</b>	<b>100.0</b>	<b>100.0</b>
<b>Non-interest expenses:</b>					
Compensation and benefits	77,483	62,030	24.9	59.5	61.0
Occupancy and equipment rental	4,697	3,734	25.8	3.6	3.7
Communication and office supplies	4,490	4,160	7.9	3.5	4.1
Commissions and floor brokerage	4,564	2,533	80.2	3.5	2.5
Other operating expenses	5,512	5,352	3.0	4.2	5.3
<b>Total non-interest expenses</b>	<b>96,746</b>	<b>77,809</b>	<b>24.3</b>	<b>74.3</b>	<b>76.6</b>
<b>Income before income taxes</b>	<b>\$ 33,433</b>	<b>\$ 23,789</b>	<b>40.5%</b>	<b>25.7%</b>	<b>23.4%</b>

***Nine Months Ended September 30, 2009 Compared with Nine Months Ended September 30, 2008***

The following table presents consolidated financial information for the Capital Markets 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,	
	2009	2008	% Change	2009	2008
<b>Revenues:</b>					
Principal transactions	\$ 201,529	\$ 110,129	83.0%	55.9	39.7%
Commissions	87,767	\$ 110,631	(20.7)	24.3	39.9
Capital raising	32,890	22,257	47.8	9.1	8.0
Advisory	33,197	31,988	3.8	9.2	11.5
Investment banking	66,087	54,245	21.8	18.3	19.5
Interest	6,973	6,790	2.7	1.9	2.5
Other income	895	920	(2.7)	0.3	0.3
<b>Total revenues</b>	<b>363,251</b>	282,715	32.7	<b>100.7</b>	101.9
Interest expense	2,464	5,167	(52.3)	0.7	1.9
<b>Net revenues</b>	<b>360,787</b>	277,548	30.0	<b>100.0</b>	100.0
<b>Non-interest expenses:</b>					
Compensation and benefits	214,251	171,875	24.7	59.4	61.9
Occupancy and equipment rental	12,201	10,026	21.7	3.4	3.6
Communication and office supplies	13,767	14,253	(3.4)	3.8	5.1
Commissions and floor brokerage	11,537	5,007	130.4	3.2	1.8
Other operating expenses	17,714	15,388	15.1	4.9	5.6
<b>Total non-interest expenses</b>	<b>269,470</b>	216,549	24.4	<b>74.7</b>	78.0
<b>Income before income taxes</b>	<b>\$ 91,317</b>	\$ 60,999	49.7%	<b>25.3%</b>	22.0%
<b>NET REVENUES</b>					

For the three months ended September 30, 2009, Capital Markets net revenues increased 28.1% to \$130.2 million from \$101.6 million for the comparable period in 2008. For the nine months ended September 30, 2009, Capital Markets net revenues increased 30.0% to \$360.8 million from \$277.5 million for the comparable period in 2008.

The increase in net revenues for the three and nine month periods ended September 30, 2009 over the comparable periods in 2008 are primarily attributable to an increase in principal transactions, investment banking and net interest revenues offset by a decrease in commissions.

**Principal transactions** - For the three months ended September 30, 2009, principal transactions revenue increased \$30.5 million, or 76.7%, to \$70.2 million from \$39.7 million in the comparable period in 2008. For the nine months ended September 30, 2009, principal transactions revenue increased \$91.4 million, or 83.0%, to \$201.5 million from \$110.1 million in the comparable period in 2008. The increases are primarily attributable to increased principal transactions, primarily in OTC equity, corporate and municipal debt and mortgage-backed bonds due to turbulent markets and institutional customers returning to traditional fixed income products. The change in the mix from commissions-based revenues to principal transactions revenue has created an increase in our trading inventory levels primarily related to fixed income products.



**Commissions** - For the three months ended September 30, 2009, commission revenues decreased 29.2% to \$27.7 million from \$39.2 million in the comparable period in 2008. For the nine months ended September 30, 2009, commission revenues decreased 20.7% to \$87.8 million from \$110.6 million in the comparable period in 2008. The volatility in capital markets has resulted in a decrease in trading volumes, as customers have returned to traditional fixed income products.

**Investment banking** - For the three months ended September 30, 2009, investment banking revenues increased 41.4% to \$30.8 million from \$21.8 million in the comparable period in 2008. For the nine months ended September 30, 2009, investment banking revenues increased 21.8% to \$66.1 million from \$54.2 million in the comparable period in 2008.

For the three months ended September 30, 2009, capital raising revenues increased \$10.4 million to \$18.1 million from \$7.7 million in the comparable period in 2008. For the nine months ended September 30, 2009, capital raising revenues increased \$10.6 million, or 47.8%, to \$32.9 million from \$22.3 million in the comparable period in 2008.

For the three months ended September 30, 2009, fixed income capital raising revenues increased \$1.8 million to \$3.8 million from \$2.0 million during the third quarter of 2008. For the nine months ended September 30, 2009, fixed income capital raising revenues increased \$4.1 million to \$8.1 million from \$4.0 million during the comparable period in 2008.

During the second and third quarters of 2009, capital market conditions began to improve, and we raised capital for our clients in a number of successful public finance underwritings. In addition, our revenues were positively impacted by our investment in public finance offices and professional staff during the second half of 2008. For the nine months ended September 30, 2009, we were involved, as manager or co-manager, in 251 tax-exempt issues with a total par value of \$13.9 billion compared to 97 issues with a total par value of \$5.7 billion during the comparable period in 2008.

For the three months ended September 30, 2009, equity capital raising revenues increased \$8.5 million to \$12.9 million from \$4.4 million during the third quarter of 2008. For the nine months ended September 30, 2009, equity capital raising revenues increased \$7.9 million to \$23.0 million from \$15.1 million during the comparable period in 2008. During the quarter ended September 30, 2009, we were involved, as manager or co-manger, in 27 equity underwritings which raised a total of \$3.5 billion, an increase of 80.0% in the number of underwritings over the comparable period in 2008. For the nine months ended September 30, 2009, we were involved, as manager or co-manager in 52 equity underwritings which raised a total of \$16.9 billion, compared to 42 during the comparable period in 2008, an increase of 23.8% in the number of underwritings over the comparable period in 2008.

For the three months ended September 30, 2009, strategic advisory fees decreased 9.5% to \$12.7 million from \$14.1 million in the comparable period in 2008. For the nine months ended September 30, 2009, strategic advisory fees increased 3.8% to \$33.2 million from \$32.0 million in the comparable period in 2008. The increases are primarily due to an increase in the number of completed transactions and the aggregate transaction value, as well as the average revenue per transaction, over the comparable periods in 2008.

**Interest revenue** - For the three months ended September 30, 2009, interest revenue decreased 5.3% to \$2.3 million from \$2.4 million in the comparable period in 2008. For the nine months ended September 30, 2009, interest revenue increased 2.7% to \$7.0 million from \$6.8 million in the comparable period in 2008. The increase in interest revenues is primarily attributable to increased interest earned on our trading inventory. The change in the mix from commissions-based revenues to principal transactions revenue has created an increase in our trading inventory levels primarily related to fixed income products.

**Interest expense** - For the three months ended September 30, 2009, interest expense decreased 38.6%, or \$0.7 million, to \$1.1 million from \$1.8 million in the comparable period in 2008. For the nine months ended September 30, 2009, interest expense decreased 52.3%, or \$2.7 million, to \$2.5 million from \$5.2 million in the comparable period in 2008. The decreases are due to decreased interest rates charged by banks on lower levels of borrowings to finance firm inventory.

**NON-INTEREST EXPENSES**

For the three months ended September 30, 2009, Capital Markets non-interest expenses increased 24.3% to \$96.7 million from \$77.8 million for the comparable period in 2008. For the nine months ended September 30, 2009, Capital Markets non-interest expenses increased 24.4% to \$269.5 million from \$216.5 million for the comparable period in 2008.

Unless specifically discussed below, the fluctuations in non-interest expenses were primarily attributable to the continued growth of our Capital Markets segment during the three and nine month period ended September 30, 2009. We have added 38 revenue producers and support staff since September 30, 2008.

**Compensation and benefits** - For the three months ended September 30, 2009, compensation and benefits expense increased 24.9% to \$77.5 million from \$62.0 million during the comparable period in 2008. For the nine months ended September 30, 2009, compensation and benefits expense increased 24.7% to \$214.3 million from \$171.9 million during the comparable period in 2008. The increase is primarily due to increased fixed compensation and higher production-based variable compensation due to higher production as compared to the prior year.

Compensation and benefits expense as a percentage of net revenues decreased to 59.5% for the three months ended September 30, 2009, compared to 61.0% for the comparable period in 2008. Compensation and benefits expense as a percentage of net revenues decreased to 59.4% for the nine months ended September 30, 2009, compared to 61.9% for the comparable period in 2008. The decrease in compensation and benefits expense as a percent of net revenues is primarily attributable to increased net revenues.

**Occupancy and equipment rental** - For the three months ended September 30, 2009, occupancy and equipment rental expense increased 25.8% to \$4.7 million from \$3.7 million during the comparable period in 2008. For the nine months ended September 30, 2009, occupancy and equipment rental expense increased 21.7% to \$12.2 million from \$10.0 million during the comparable period in 2008.

**Communications and office supplies** - For the three months ended September 30, 2009, communications and office supplies expense increased 7.9% to \$4.5 million from \$4.2 million during the third quarter of 2008. For the nine months ended September 30, 2009, communications and office supplies expense decreased 3.4% to \$13.8 million from \$14.3 million during the first nine months of 2008.

**Commissions and floor brokerage** - For the three months ended September 30, 2009, commissions and floor brokerage expense increased \$2.1 million to \$4.6 million from \$2.5 million during the third quarter of 2008. For the nine months ended September 30, 2009, commissions and floor brokerage expense increased \$6.5 million to \$11.5 million from \$5.0 million during the first nine months of 2008.

**Other operating expenses** - For the three months ended September 30, 2009, other operating expenses increased 3.0% to \$5.5 million from \$5.4 million during the comparable period in 2008. For the nine months ended September 30, 2009, other operating expenses increased 15.1% to \$17.7 million from \$15.4 million during the comparable period in 2008.

**INCOME BEFORE INCOME TAXES**

For the three months ended September 30, 2009, income before income taxes for the Capital Markets segment increased \$9.6 million, or 40.5%, to \$33.4 million from \$23.8 million during the comparable period in 2008. For the nine months ended September 30, 2009, income before income taxes for the Capital Markets segment increased \$30.3 million, or 49.7%, to \$91.3 million from \$61.0 million during the comparable period in 2008. The increase is primarily attributable to increased revenues and the scalability of increased production as a result of our continued expansion of the Capital Markets segment during the first nine months of 2009.



*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,		
	2009	2008	% Change	2009	2008	% Change
<b>Net revenues</b>	\$ 2,359	\$ 174	*%	\$ 3,763	\$ 3,481	8.1%
<b>Non-interest expenses:</b>						
Compensation and benefits	18,937	16,785	12.8	49,432	50,492	(2.1)
Other operating expenses	13,559	9,617	41.0	33,629	28,544	17.8
<b>Total non-interest expenses</b>	<b>32,496</b>	26,402	23.1	<b>83,061</b>	79,036	5.1
<b>Loss before income taxes</b>	\$ (30,137)	\$ (26,228)	14.9%	\$ (79,298)	\$ (75,555)	5.0%

\* Percentage is not meaningful.

**Net revenues** - For the three months ended September 30, 2009, net revenues increased \$2.2 million to \$2.4 million from \$0.2 million for the comparable period in 2008. For the nine months ended September 30, 2009, net revenues increased 8.1% to \$3.8 million from \$3.5 million for the comparable period in 2008. The increase in net revenues is primarily attributable to the reduction of investment losses during the three and nine months ended September 30, 2009, offset by declining net interest revenues.

**Compensation and benefits** - For the three months ended September 30, 2009, compensation and benefits expense increased 12.8% to \$18.9 million from \$16.8 million for the comparable period in 2008. For the nine months ended September 30, 2009, compensation and benefits expense decreased 2.1% to \$49.4 million from \$50.5 million for the comparable period in 2008.

The increases in compensation and benefits expense during the nine months ended September 30, 2009 were related to an increase in support personnel as we continued our growth initiatives. For the three and nine month periods ended September 30, 2009, the increases were offset by compensation charges of \$6.5 million and \$19.1 million, respectively, related to the amortization of units awarded to LM Capital Markets associates, which were fully amortized as of December 31, 2008.

**Other operating expenses** - For the three months ended September 30, 2009, other operating expenses increased 41.0% to \$13.6 million from \$9.6 million for the comparable period in 2008. For the nine months ended September 30, 2009, other operating expenses increased 17.8% to \$33.6 million from \$28.5 million for the comparable period in 2008.

The increases were primarily attributable to the continued growth in all segments during the first nine months of 2009, which included increased SIPC assessments, securities processing fees, travel and promotion, and legal expenses. The increase in legal expenses is attributable to an increase in litigation associated with the ongoing investigations in connection with ARS and an increase in the number of claims and litigation costs to defend industry recruitment claims.

### ***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. Total assets of \$2.9 billion at September 30, 2009 were up 85.5% over December 31, 2008. The increase is primarily attributable to increased receivables, trading inventory, financial instruments, loans and advances to financial advisors and the recognition of goodwill associated with our acquisition of UBS, which is based on preliminary estimates and is subject to change upon the final valuation. 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. The increase in assets is primarily attributable to the growth of our company, both organically and through the acquisition of UBS.

As of September 30, 2009, our liabilities were comprised primarily of short-term borrowings of \$165.2 million, deposits of \$875.0 million at Stifel Bank and payables to brokerage clients and broker, dealers and clearing organizations of \$196.4 million and \$133.3 million, respectively, at our broker-dealer subsidiaries, as well as accounts payable and accrued expenses, including accrued employee compensation of \$220.8 million. To meet our obligations to clients and operating needs, we have \$346.0 million in cash. We also have client brokerage receivables of \$367.4 million and \$329.5 million in loans at Stifel Bank.

### ***Liquidity and Capital Resources***

Liquidity is essential to our business. We regularly monitor our liquidity position, including our cash and net capital positions, and we have implemented a liquidity strategy designed to enable our business to continue to operate even under adverse circumstances, although there can be no assurance that our strategy will be successful under all circumstances.

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, 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 and securities lending, 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 retained loans, available-for-sale securities, 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.

We rely exclusively on financing activities and distributions from our subsidiaries for funds to implement our business and growth strategies. Net capital rules, restrictions under the 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.

We have an ongoing authorization, as amended, from the Board of Directors to repurchase our common stock in the open market or in negotiated transactions. In May 2005, the Board of Directors authorized the repurchase of an additional 3,000,000 shares, for a total authorization to repurchase up to 4,500,000 shares (as adjusted for the three-for-two stock split in June 2008). The share repurchase program will manage our equity capital relative to the growth of our business and help to meet obligations under our employee benefit plans. Under existing Board authorizations at September 30, 2009, we are permitted to buy an additional 2,010,831 shares.

We currently do not pay cash dividends on our common stock.

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.

*Cash Flow*

Cash and cash equivalents increased \$106.3 million to \$346.0 million at September 30, 2009 from \$239.7 million at December 31, 2008. Operating activities used \$362.8 million of cash primarily due to an increase in operating assets and liabilities offset by the net effect of non-cash expenses and cash from earnings. Investing activities used cash of \$511.9 million due to cash used for our acquisition of the UBS branches, bank customer loan originations, purchases of eligible ARS from our customers as part of our voluntary repurchase plan, purchases of available-for-sale securities as part of our investment strategy at Stifel Bank, and fixed asset purchases, offset by proceeds from the sale of proprietary investments and bank customer loan repayments. During the nine months ended September 30, 2009, we purchased \$21.2 million in fixed assets, consisting primarily of information technology equipment, leasehold improvements and furniture and fixtures. Financing activities provided cash of \$981.0 million due to an increase in bank deposits due to the growth of our bank principally due to the increase in affiliated deposits as a result of organic growth and the acquisition of UBS, proceeds received from borrowings from banks, net proceeds of \$43.9 million from an "at-the-market" public offering of 1.0 million shares of our common stock in June 2009, and net proceeds of \$91.8 million from a public offering of 1.7 million shares of our common stock in September 2009.

*Funding Sources*

Our short-term financing is generally obtained through the use of bank loans 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 the customer-owned securities is not reflected in the condensed consolidated statements of financial condition. We maintain available ongoing credit arrangements with banks that provided a peak daily borrowing of \$379.3 million during the nine months ended September 30, 2009. There are no compensating balance requirements under these arrangements. At September 30, 2009, short-term borrowings from banks were \$165.2 million at an average rate of 1.02%, which were collateralized by company-owned securities valued at \$216.6 million. At December 31, 2008, there were no short-term borrowings from banks. The average bank borrowing was \$107.8 million and \$162.7 million during the three months ended September 30, 2009 and 2008, respectively, at weighted average daily interest rates of 1.07%, and 2.41%, respectively. The average bank borrowing was \$119.4 million and \$153.1 million during the nine months ended September 30, 2009 and 2008, respectively, at weighted average daily interest rates of 0.97%, and 2.31%, respectively. At September 30, 2009 and December 31, 2008, Stifel Nicolaus had a stock loan balance of \$47.8 million and \$17.0 million, respectively, at weighted average daily interest rates of 0.69% and 0.52%, respectively. The average outstanding securities lending arrangements utilized in financing activities were \$78.9 million and \$105.3 million during the three months ended September 30, 2009 and 2008, respectively, at weighted average daily effective interest rates of 1.12%, and 2.05%, respectively. The average outstanding securities lending arrangements utilized in financing activities were \$54.8 million and \$131.6 million during the nine months ended September 30, 2009 and 2008, respectively, at weighted average daily effective interest rates of 1.01%, and 2.58%, respectively. Customer-owned securities were utilized in these arrangements.

The impact of the tightened credit markets has resulted in decreased financing through stock loan as our counterparties sought liquidity. As a result, bank loan financing used to finance trading inventories increased.

Stifel Bank has borrowing capacity with the Federal Home Loan Bank of \$127.8 million at September 30, 2009, of which \$125.8 million was unused, and a \$13.2 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 \$834.8 million at September 30, 2009.

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 rely exclusively 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.

In the event existing internal and external financial resources do not satisfy our needs, we may have to seek additional outside financing. The availability of outside financing will depend 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 industry, credit ratings, and credit capacity, as well as the possibility that lenders could develop a negative perception of our long-term or short-term financial prospects if we incurred large trading losses or if the level of our business activity decreased due to a market downturn or otherwise. We currently do not have a credit rating, which could adversely affect our liquidity and competitive position by increasing our borrowing costs and limiting access to sources of liquidity that require a credit rating as a condition to providing funds.

### *Use of Capital Resources*

On June 23, 2009, we announced that Stifel Nicolaus had received acceptance from approximately 95 percent of its clients that are eligible to participate in its voluntary plan to repurchase 100 percent of their ARS. The eligible ARS were purchased by our retail clients before the collapse of the ARS market in February 2008. At September 30, 2009, we estimate that our retail clients held \$114.8 million of eligible ARS after issuer redemptions of \$24.6 million and Stifel purchases of \$40.6 million. See "Contractual Obligations," in this section of the report for a discussion of our voluntary plan to repurchase ARS.

On March 23, 2009, we announced that Stifel Nicolaus had entered into a definitive agreement with UBS Financial Services Inc. ("UBS") to acquire certain specified branches from the UBS Wealth Management Americas branch network. As subsequently amended, we agreed to acquire 56 branches (the "Acquired Locations") from UBS in four separate closings pursuant to this agreement. We completed three of the closings on the following dates during the third quarter: August 14, 2009, September 11, 2009, and September 25, 2009. The final closing was completed on October 16, 2009. This acquisition further expands our private client footprint.

The transaction was structured as an asset purchase for cash at a premium over certain balance sheet items, subject to adjustment. The payments to UBS in conjunction with all four closings of \$248.5 million included: (i) an upfront cash payment of \$29.0 million based on the actual number of branches and financial advisors acquired by Stifel Nicolaus; and (ii) aggregate payment of \$15.0 million for net fixed assets, employee forgivable loans and other assets, and (iii) Reg U and Reg T loans of \$204.4 million that were collateralized by securities included in customer accounts converted to the Stifel platform. In addition, a contingent earn-out payment is payable based on the performance of those UBS financial advisors who joined Stifel Nicolaus, over the two-year period following the closing.

We have paid \$108.8 million in the form of upfront notes to investment executives for transition pay during the period from January 1, 2009 through October 31, 2009, which includes \$14.6 million of upfront notes issued to UBS financial advisors as a form of transition pay. 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 have to devote more significant resources to attracting and retaining qualified personnel.

We paid a contingent earn-out of \$25.5 million related to our acquisition of the LM Capital Markets business from Citigroup Inc. during the second quarter of 2009.

### *Net Capital Requirements*

We operate in a highly regulated environment and are subject to net capital requirements, which may limit distributions to our company from our broker-dealer 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.

At September 30, 2009, Stifel Nicolaus had net capital of \$167.2 million, which was 33.7% of its aggregate debit items, and \$157.3 million in excess of its minimum required net capital; CSA had net capital of \$3.0 million, which was \$2.8 million in excess of its minimum required net capital. At September 30, 2009, SN Ltd had capital and reserves of \$6.3 million, which was \$5.7 million in excess of the financial resources requirement under the rules of the FSA. At September 30, 2009, Stifel Bank was considered well capitalized under the regulatory framework for prompt corrective action. See Note 14 of the Notes to Condensed Consolidated Financial Statements for details of our

regulatory capital requirements.

### ***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 1 of the Notes to Consolidated Financial Statements included in our Annual Report on Form 10-K for the year ended December 31, 2008.

### ***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 and trading securities sold, but not yet purchased.

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 in the condensed 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.

We have categorized our financial instruments measured at fair value into a three-level classification in accordance with ASC 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 I, and fair value measurements of financial instruments that have no direct observable levels are generally categorized as Level III. All other fair value measurements of financial instruments that do not fall within the Level I or Level III classification are considered Level II. 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 III 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 III cash instruments to include certain asset-backed securities, consisting of collateral loan obligation securities, that have experienced low volumes of executed transactions; and certain corporate bonds where there was less frequent or nominal market activity. Our Level III asset-backed securities are valued using cash flow models that utilize unobservable inputs. Level III corporate bonds are valued using prices from comparable securities.

At September 30, 2009, Level III assets for which we bear economic exposure were \$73.3 million or 7.4% of the total assets measured at fair value. During the nine months ended September 30, 2009, we recorded net purchases of \$40.3 million of Level III assets. Our valuation adjustments (realized and unrealized) reduced the value of our Level III assets by \$4.7 million. In June 2009, we began repurchasing eligible ARS from our customers as part of our voluntary repurchase plan, which have been classified as Level III assets at September 30, 2009.

During the three months ended September 30, 2009, we recorded net purchases of \$3.8 million of Level III assets. Our valuation adjustments (realized and unrealized) reduced the value of our Level III assets by \$1.4 million.

At September 30, 2009, Level III assets included the following: \$55.8 million of auction rate securities, of which the auctions have failed, \$6.5 million of asset-backed securities, \$5.2 million of mortgage-backed securities, and \$5.8 million of private equity and other fixed income securities.

### ***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 ASC 450 ("ASC 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 1, "Legal Proceedings," in Part II of this report for information on our legal, regulatory and arbitration proceedings.

***Allowance for Doubtful Receivables from Former Employees***

We offer transition pay, principally in the form of upfront loans, to financial advisors and certain key revenue producers as part of our overall growth strategy. These loans are generally forgiven over a five- to ten-year period if the individual satisfies certain conditions, usually based on continued employment and certain performance standards. If the individual leaves before the term of the loan expires or fails to meet certain performance standards, the individual is required to repay the balance. In determining the allowance for doubtful receivables from former employees, we consider the facts and circumstances surrounding each receivable, including the amount of the unforgiven balance, the reasons for the terminated employment relationship, and the former employees' overall financial position. The loan balance from former employees at September 30, 2009 and December 31, 2008 was \$2.6 million and \$2.4 million, respectively, with associated loss allowances of \$1.1 million and \$1.2 million, respectively.

***Allowance for Loan Losses***

We regularly review the loan portfolio of Stifel Bank and have established an allowance for loan losses in accordance with ASC 450. The allowance for loan losses is established as losses are estimated to have occurred through a provision for loan losses charged to income. In providing for the allowance for loan losses, 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. 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.

In addition, impairment is measured on a loan-by loan basis for commercial and construction loans and a specific allowance established for individual loans determined to be impaired in accordance with ASC 310 "Receivables." Impairment is measured using the present value of the impaired loan's expected cash flow discounted at the loan's effective interest rate, the loan's observable market price, or the fair value of the collateral if the loan is collateral dependent.

A loan is considered impaired when, based on current information and events, it is probable that the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement will not be collectible. Factors considered in determining impairment include payment status, collateral value and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. 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, usually when principal or interest becomes 90 days past due or when collection becomes uncertain, the accrual of interest and amortization of deferred loan origination fees is discontinued ("non-accrual status"), and any accrued and unpaid interest income is written off. Loans placed on non-accrual status are returned to accrual status when all delinquent principal and interest payments are collected and the collectibility of future principal and interest payments is reasonably assured. Loan losses are charged against the allowance when we believe the uncollectibility of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance.

***Derivative Instruments and Hedging Activities***

Stifel Bank utilizes certain 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 ASC 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.

ASC 740 ("ASC 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, ASC 740 provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition.

### ***Goodwill and Intangible Assets***

Under the provisions of ASC 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, 2009, we had goodwill of \$159.2 million and intangible assets of \$15.6 million.

In accordance with ASC 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, 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. The results of the impairment test performed as of July 31, 2009, our last annual measurement date, did not indicate any impairment.

The goodwill impairment test is a two-step process, which 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 1 of the Notes to Condensed 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 16 of the Notes to Condensed Consolidated Financial Statements. Such information is hereby incorporated by reference.

### ***Contractual Obligations***

The following item constitutes a material change in our contractual obligations outside the ordinary course of business from those reported in our Annual Report on Form 10-K for the year ended December 31, 2008:

On June 23, 2009, we announced that Stifel Nicolaus had received acceptance from approximately 95 percent of its clients that are eligible to participate in its voluntary plan to repurchase 100 percent of their ARS. The eligible ARS were purchased by our retail clients before the collapse of the ARS market in February 2008. At September 30, 2009, we estimate that our retail clients held \$114.8 million of eligible ARS after issuer redemptions of \$24.6 million and Stifel purchases of \$40.6 million.

As part of the first phase, we repurchased at par the greater of ten percent or twenty-five thousand dollars of eligible ARS. After the initial repurchases, the voluntary plan provides for additional repurchases from eligible investors during each of the next three years. During phases, two, three and four, we estimate that we will repurchase \$21.2 million, \$15.3 million and \$78.3 million, which will be completed by each June 30, of 2010, 2011 and 2012, respectively.

We have recorded a liability for our estimated exposure to the voluntary repurchase plan based upon a net present value calculation, which is subject to change and future events, including redemptions. ARS redemptions have been at par and we believe will continue to be at par over the voluntary repurchase period. Future periods' results may be affected by changes in estimated redemption rates or changes in the fair value of ARS. See Item 1, "Legal Proceedings," in Part II of this report for further details regarding our voluntary repurchase plan of eligible ARS.

### ***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.

#### ***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 condensed 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, and inventories) and our funding sources (including client cash balances, stock lending activities, bank borrowings, and resale 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 institutional Capital Markets trading portfolios using daily market data for the previous twelve months and report VaR at a 95% 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 unusual 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.

The following table sets forth the high, low, and daily average VaR for our institutional Capital Markets trading portfolios during the nine months ended September 30, 2009 and the daily VaR at September 30, 2009 and December 31, 2008 (*in thousands, except rates*):

	Nine Months Ended September 30, 2009			VaR calculation at	
	High	Low	Daily Average	September 30, 2009	December 31, 2008
Daily VaR	\$ 5,849	\$ 278	\$ 1,204	\$ 649	\$ 467
Related portfolio value	\$ 127,620	\$ 91,566	\$ 119,984	\$ 161,551	\$ 19,157
VaR as a percentage of portfolio value	4.58%	0.30%	1.00%	0.40%	2.44%

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 re-pricing 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 vendor to analyze the available data.

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The following table illustrates the estimated change in net interest margin at September 30, 2009 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	n/a
+100	n/a
0	0.00%
-100	4.11%
-200	7.70%

The following GAP Analysis table indicates Stifel Bank's interest rate sensitivity position at September 30, 2009 (*in thousands*):

	Repricing Opportunities			
	0-6 Months	7-12 Months	1-5 Years	5+ Years
<b>Interest-earning assets:</b>				
Loans	\$ 305,572	\$ 19,133	\$ 34,892	\$ 11,426
Securities	66,161	19,160	99,968	112,620
Interest-bearing cash	271,255	-	-	-
	\$ 642,988	\$ 38,293	\$ 134,860	\$ 124,046
<b>Interest-bearing liabilities:</b>				
Transaction accounts and savings	\$ 632,861	\$ 15,040	\$ 193,992	\$ 14,017
Certificates of deposit	5,910	6,427	6,780	-
Borrowings	2,000	-	-	-
	\$ 640,771	\$ 21,467	\$ 200,772	\$ 14,017
GAP	2,217	16,826	(65,912)	110,029
Cumulative GAP	\$ 2,217	\$ 19,043	\$ (46,869)	\$ 63,160

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, 2009, the fair value of securities accepted as collateral where we are permitted to sell or repledge the securities was \$638.8 million, and the fair value of the collateral that had been sold or repledged was \$277.2 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 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 2 and "Legal Proceedings" in Item 1, Part II 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. 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.

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

As of the end of the period covered by this report, an evaluation was carried out by Stifel Financial Corps' 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.

## **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, 2008.

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. 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, the ultimate resolution of these matters will not have a material adverse impact on our financial position. 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.

The regulatory investigations include inquiries from the SEC, FINRA and several state regulatory authorities requesting information concerning our activities with respect to auction rate securities ("ARS"), and inquiries from the SEC and a state regulatory authority requesting information relating to our role in investments made by five Southeastern Wisconsin school districts (the "school districts") in transactions involving collateralized debt obligations ("CDOs"). We intend to cooperate fully with the SEC, FINRA and the several states in these investigations.

Current claims include a civil lawsuit filed in the United States District Court for the Eastern District of Missouri (the "Missouri Federal Court") on August 8, 2008 seeking class action status for investors who purchased and continue to hold ARS offered for sale between June 11, 2003 and February 13, 2008, the date when most auctions began to fail and the auction market froze, which alleges misrepresentation about the investment characteristics of ARS and the auction markets (the "ARS Class Action"). We believe that, based upon currently available information and review with outside counsel, we have meritorious defenses to this lawsuit, and intend to vigorously defend all claims asserted therein.

We are also named in an action filed in the Circuit Court of Franklin County, Missouri, on March 12, 2009, by the Missouri Secretary of State concerning sales of ARS to our customers. The Secretary of State seeks relief, which includes requiring us to pay restitution with interest to those customers who purchased ARS from Stifel Nicolaus and continue to hold ARS, disgorgement of commissions and fees earned on the ARS sales and financial penalties. The case was removed to the United States District Court for the Eastern District of Missouri on April 13, 2009 and remanded to the Circuit Court of Franklin County, Missouri on July 21, 2009. On October 1, 2009, the State of Colorado filed a Notice of Charges and the State of Indiana filed an Administrative Complaint against Stifel Nicolaus alleging violation of state securities laws in Colorado and Indiana, respectively, relating to the sale of ARS to Colorado and Indiana residents, respectively. These actions each seek, among other things, statutory remedies and penalties. Stifel Nicolaus has denied the allegations in these actions in its responses to each of these matters. We believe that, based upon currently available information and review with outside counsel, we have meritorious defenses to these matters and intend to vigorously defend the claims made by the Missouri Secretary of State, the State of Colorado and the State of Indiana.

Furthermore, on May 7, 2009, the State Corporation Commission of the Commonwealth of Virginia (the "Commission") filed a Rule to Show Cause against Stifel Nicolaus with the Virginia State Corporation Commission concerning sales of ARS to Virginia residents seeking various remedies under the Virginia statutes, including penalties, assessments and injunctive relief. On June 17, 2009, Stifel Nicolaus filed its Response to the Rule to Show Cause which denied the allegations on a number of legal and factual bases. On September 18, 2009, a Settlement Order was entered by the Commission which resulted in the dismissal of the Rule to Show Cause against Stifel Nicolaus and undertakings by Stifel Nicolaus, among other things, to pay the Commonwealth of Virginia seventeen thousand five hundred dollars in penalties; to pay the Commission twenty two thousand five hundred dollars to defray the costs of the Commission's investigation; and to fully comply with the terms and conditions of the "Offer to Repurchase Eligible Auction Rate Securities at Par" made to Virginia residents dated April 9, 2009 and supplemented April 30, 2009 (the "ARS repurchase offer").

Each of the clients that are eligible to participate and that have accepted the ARS repurchase offer have executed covenants not to file suit against our company and have released us from all claims relating to the ARS which we repurchase. One hundred percent of the eligible Virginia residents have accepted the ARS repurchase offer. Furthermore, the ARS repurchase offer has been accepted by approximately 96% of eligible Missouri residents and by 100% of eligible Colorado and Indiana residents.

Several large banks and brokerage firms, most of which were the primary underwriters of, and supported the auctions for, ARS have announced agreements, usually as part of a regulatory settlement, to repurchase ARS at par from some of their clients. Other brokerage firms have entered into similar agreements. We are, in conjunction with other industry participants, actively seeking solutions to ARS' illiquidity, which may include the restructuring and refinancing of those ARS. Should issuer redemptions and refinancings continue, our clients' holdings could be reduced further; however, there can be no assurance these events will continue.

Additionally, we are named in a civil lawsuit filed in the Circuit Court of Milwaukee, Wisconsin (the "Wisconsin State Court") on September 29, 2008. The lawsuit has been filed against our company and Stifel Nicolaus, Royal Bank of Canada Europe Ltd. ("RBC") and certain other RBC entities by the school districts and the individual trustees for other post-employment benefit ("OPEB") trusts established by those school districts (the "Plaintiffs"). The suit was

removed to the United States District Court for the Eastern District of Wisconsin (the "Wisconsin Federal Court") on October 31, 2008, which remanded the case to the Wisconsin State Court on April 10, 2009.

The suit arises out of the purchase of certain CDOs by the OPEB trusts. The RBC entities structured and served as "arranger" for the CDOs. We served as placement agent/broker in connection with the OPEB trusts purchase of the investments. The total amount of the investments made by the OPEB trusts was \$200.0 million. Plaintiffs assert that the school districts contributed \$37.5 million to the OPEB trusts to purchase the investments. The balance of \$162.5 million used to purchase the investments was borrowed by the OPEB trusts. The recourse of the lender is the OPEB trust assets and the moral obligation of the school districts. The legal claims asserted include violation of the Wisconsin Securities Act, fraud and negligence. The lawsuit seeks equitable relief, unspecified compensatory damages, treble damages, punitive damages and attorney's fees and costs. The Plaintiffs claim that the RBC entities and our company either made misrepresentations or failed to disclose material facts in connection with the sale of the CDOs in violation of the Wisconsin Securities Act. We believe the Plaintiffs reviewed and understood the relevant offering materials and that the investments were suitable based upon, among other things, our receipt of a written acknowledgement of risks from the Plaintiffs. We believe, based upon currently available information and review with outside counsel, that we have meritorious defenses to this lawsuit, and intend to vigorously defend all of the Plaintiffs' claims.

***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, 2008 filed with the SEC, as updated in our subsequent reports on Form 10-Q 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, 2009. 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, 2009.

We have an ongoing authorization, as amended, from the Board of Directors to repurchase our common stock in the open market or in negotiated transactions. In May 2005, the Board of Directors authorized the repurchase of an additional 3,000,000 shares, for a total authorization to repurchase up to 4,500,000 shares (as adjusted for the three-for-two stock split in June 2008). At September 30, 2009, the maximum number of shares that may yet be purchased under this plan was 2,010,831.

**ITEM 6. EXHIBITS**

<b>Exhibit No.</b>	<b>Description</b>
10. (aa)	Amendment No. 2 to Asset Purchase Agreement, dated June 1, 2009, by and between Stifel, Nicolaus & Company, Incorporated and UBS Financial Services, Inc. filed herewith.*
(bb)	Amendment No. 3 to Asset Purchase Agreement, dated August 12, 2009, by and between Stifel, Nicolaus & Company, Incorporated and UBS Financial Services, Inc. incorporated herein by reference to Exhibit 2.1 to Stifel Financial Corp.'s Current Report on Form 8-K (date of earliest event reported August 12, 2009) filed on August 18, 2009.
(cc)	Amendment No. 4 to Asset Purchase Agreement, dated September 11, 2009, by and between Stifel, Nicolaus & Company, Incorporated and UBS Financial Services, Inc. filed herewith.*
(dd)	Office Sublease Agreement by and between The Bear Stearns Companies LLC (Landlord) and Stifel, Nicolaus & Company, Incorporated (Tenant), filed herewith.*
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 Condensed 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.**

\* The appendices, exhibits and similar attachments to this agreement have been omitted pursuant to Item 601(b)(2) of Regulation S-K. We will furnish supplementally a copy of any omitted appendix, exhibit or similar attachment to the SEC upon request.

\*\* The certifications attached as Exhibits 32.1 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.



***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, President, and Chief Executive Officer

/s/ James M.  
Zemlyak  
James M. Zemlyak  
Senior Vice President, Treasurer, and Chief  
Financial Officer  
Date: November 9, 2009